Deals

Paul Tudor Jones Buys Bitcoin as a Hedg Against Inflation

By Erik Schatzker
7 mai 2020 18:55 UTC+2 *Updated on 7 mai 2020 21:46 UTC+2*

- Becomes one of first big-name investors to embrace crypto
- Macro investor sees Bitcoin as hedge against inflation

Paul Tudor Jones *Photographer: Michael Nagle/Bloomberg*

In this article

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Gold
1,729.80 USD/t oz.
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Macro investor Paul Tudor Jones is buying Bitcoin as a hedge against the inflation he sees coming from central bank money-printing, telling clients it reminds him of the role gold played in the 1970s.

"The best profit-maximizing strategy is to own the fastest horse," Jones, the founder and chief executive officer of Tudor Investment Corp., said in a market outlook note he entitled 'The Great Monetary Inflation.' "If I am forced to forecast, my bet is it will be Bitcoin."

Jones, who said his Tudor BVI fund may hold as much as a low single-digit percentage of its assets in Bitcoin futures, becomes one of the first big hedge fund managers to embrace what until now has largely been snubbed by mainstream advocates. He was motivated to take a hard look at Bitcoin after considering the implications of massive fiscal spending and bond-buying by central banks to combat the coronavirus pandemic, he said.

By his calculation, $3.9 trillion of money, the equivalent of 6.6% of global economic output, has been printed since February.

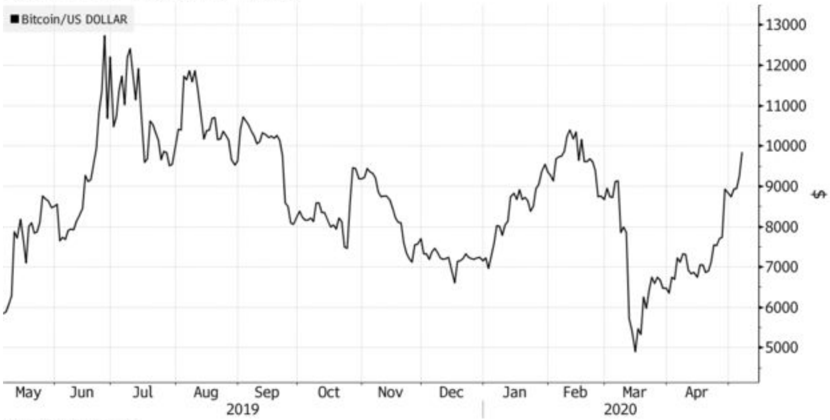
"It has happened globally with such speed that even a market veteran like myself was left speechless," Jones, 65, wrote. "We are witnessing the Great Monetary Inflation -- an unprecedented expansion of every form of money unlike anything the developed world has ever seen."

The question for a macro investor like Jones was how to hedge. He said he considered various bets on gold, Treasuries, certain types of stocks, currencies and commodities before recognizing a "growing role for Bitcoin."

An outside spokesman for Jones declined to comment.

At the same time, Bitcoin has been on a tear, doubling from its recent low in mid-March.

Bitcoin's Volatile Road



Source: Bloomberg

Jones first dabbled in Bitcoin in 2017, doubling his money before exiting the trade near its peak at almost $20,000. This time, he said he evaluated Bitcoin as a store of value and decided it passes the test based on four characteristics: purchasing power, trustworthiness, liquidity and portability.

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"I am not a hard-money nor a crypto nut," he wrote. "The most compelling argument for owning Bitcoin is the coming digitization of currency everywhere, accelerated by Covid-19."

According to Jones, investors need to throw away the financial playbook of the past decade and return to the monetarist theories of Milton Friedman and old-school indicators such as the M2 money supply.

The post-pandemic recovery will be different from what happened after the last financial crisis, he argues, partly because bank balance sheets are stronger now and the Federal Reserve is allowing them to lend aggressively.

While the current collapse in demand will keep prices of goods and services from rising in the short run, Jones doubts that the Fed can prevent that from happening over the longer term.

"How reasonable is it to expect that in the recovery phase the Fed will be able to deliver an increase in interest rates of a magnitude sufficient to suck back the money it so easily printed during the downswing?" he asked.

Government and corporate debt levels are exploding, making it harder for the economy to “digest” increases in borrowing costs, he said. That, and the possibility -- “no longer a sacred cow” -- that the Fed chairman becomes a political tool of the administration in power raises the likelihood that rate hikes will be slow to come and smaller than needed, he added.

Jones started his financial career trading cotton futures in the mid-1970s as a recent University of Virginia graduate in economics. It was a time of stagflation and bear markets in stocks.

“Bitcoin reminds me of gold when I first got into the business in 1976,” he wrote.

Jones said he remains a fan of gold and predicted it could rally to $2,400 and possibly to $6,700 “if we went back to the 1980 extremes.”

(Adds Jones’s comments after 10th paragraph)