

[Markets](#)[Equity Markets](#)[Global economy](#)

# Top investors call end to 'free money'

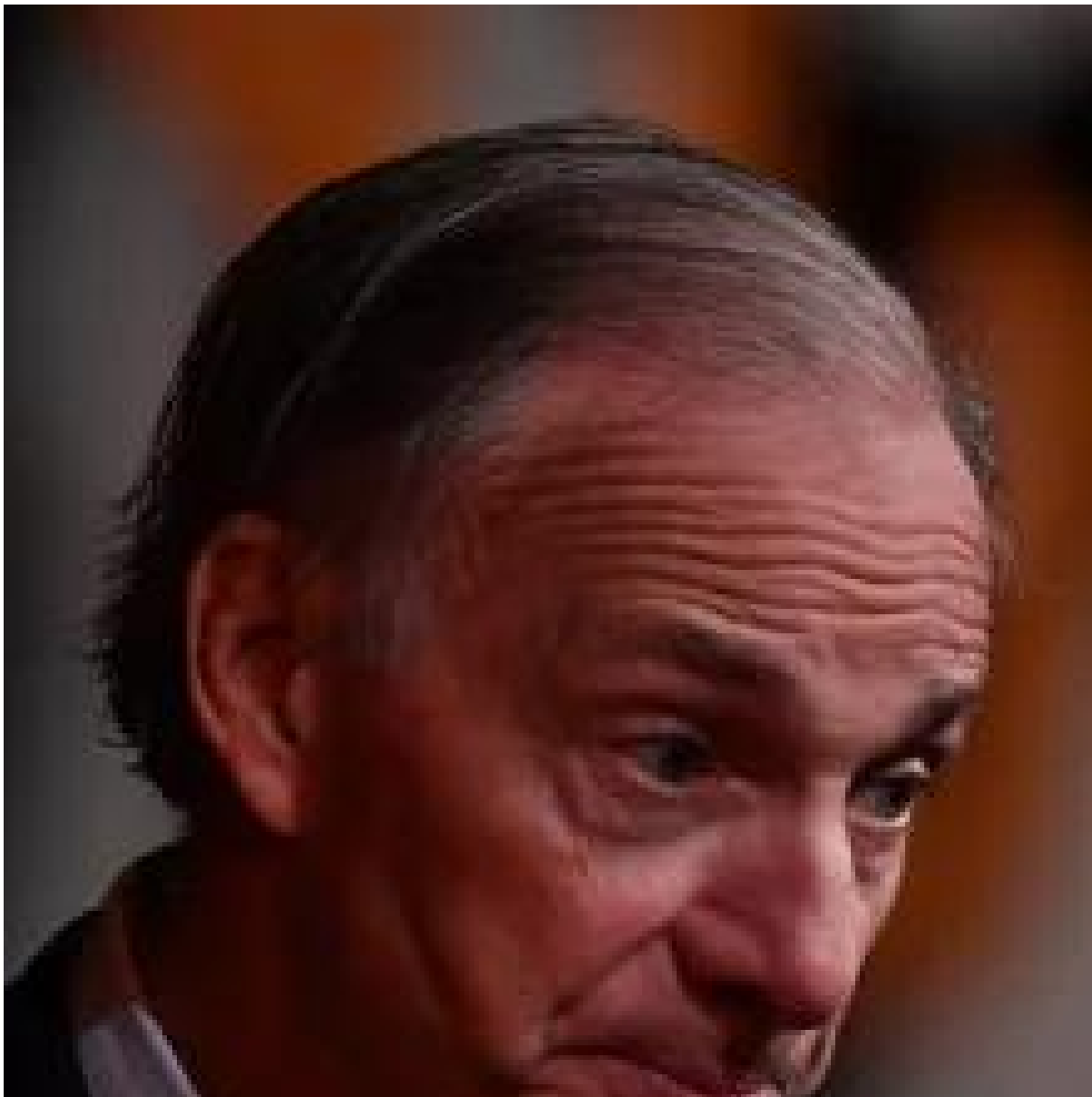
**Jonathan Shapiro** *Senior reporter*



Nov 22, 2019 – 7.10pm



The world's top investors say “free money” policies have reached their limits and they fear central banks and governments could resort to printing money to finance spending, triggering currency instability across the developed world.





Ray Dalio at the Sohn Hearts and Minds conference in Sydney on Friday. **Sam Mooy**

"We are coming into an environment where the return of money is becoming more important than the return on money," Ray Dalio, the billionaire [founder of \\$235 billion US hedge fund Bridgewater](#) told some of Australia's wealthiest and most powerful investors at a charity conference in Sydney.

Mr Dalio said the world [was entering a "risky environment"](#) as "mature, developed world" currencies, such as the US dollar, yen and euro, were at risk of devaluation while growing tensions between major economies raised the additional threat of capital being trapped.

"We'll have large deficits and then there will be more monetisation of that," Mr Dalio said.

He said investors had to be cautious and "diversify themselves well" from the major currencies, which were "at the end of their cycles".

Mr Dalio said it was time to consider investing in "different countries," without specifying which ones. He later told Australia's top fund manager, Hamish Douglass of Magellan, that gold had historically proved a reliable instrument of diversification.

[Howard Marks, the co-founder of \\$122 billion debt fund Oaktree Capital and](#) another of the world's most celebrated fund managers, said it was time for investors to "play defence" after a decade of falling interest rates had pushed up asset prices.

"We're living in an uncertain, risky, low-return world," Mr Marks said.

## Miners could benefit

## MARKETS SHOULD BEHOLD

"I'm afraid to be invested of late but I'm also a little afraid not to be invested."

Australia's top stock pickers told the [Sohn Hearts & Minds Conference](#) that the mining sector stood to benefit as governments turned to infrastructure spending to spur economic growth because low interest rates were losing their power.

A prolonged period of low interest rates is proving a challenge for investors who have been forced to take more risk to maintain their investment returns.

Mr Dalio said these policies had widened the wealth gap between those who had financial assets and those who did not. That, in turn, had resulted in increased populism and political instability.

"Today we have the largest wealth gap, and the largest political gap," Mr Dalio said.

Magellan's Hamish Douglass plans to explore gold as an alternative to holding cash in currencies. **Dominic Lorrimer**

Not all top investors delivered a cautious tale, however. Robert Kapito, co-founder of funds management titan Blackrock, said too many investors were out of the market sitting on cash.

“We have investors scared to sit in cash and miss another year of good returns.”

Mr Kapito said volatility was low, earnings were strong, unemployment was low and “fundamentals were good”.

“The case for expansion remains intact.”

The Reserve Bank of Australia is expected to outline its blueprint for quantitative easing after cutting the cash rate to below 1 per cent for the first time.

While central banks have resorted to quantitative easing to buy bonds and other assets as a form of stimulus, they have yet to directly “print money” to finance government spending.

But the prospect has prompted Magellan's Mr Douglass to explore gold as an alternative to cash being held in currencies such as the US dollar, which could be at risk of devaluation.

“You have to look at the histories of currencies,” Mr Dalio told Mr Douglass during a panel discussion.

“Then you have to look at what the marginal benefits of diversification are as you add gold to a portfolio relative to what you have.”

## **If you've ever had a teenager in the house, they're chaotic and tempestuous ... but you also know the teenager's best decades lie ahead.**

— Howard Marks, Oaktree Capital

Mr Marks said he was a “value investor” and had avoided gold because it did not produce any cash flows and it was therefore hard to determine whether an investment was cheap or expensive.

“What’s good about gold? Well, it always has worked. It’s worked as a store of value and protection against chaos,” Mr Marks said.

While Mr Dalio and Mr Marks feared the risks to financial assets were increasing, local and international stockpickers were still finding opportunities in technology and through exposure to Chinese consumers.

Mr Marks likened China to a teenager in a world where Europe and Japan were economic senior citizens and the US was a mature adult.

"If you've ever had a teenager in the house, they're chaotic and tempestuous ... but you also know the teenager's best decades lie ahead."

The potential shift of policymakers away from lowering interest rates and towards increased spending is providing an opportunity for some of Australia’s shrewdest hedge fund managers.

Regal Funds Management’s Phil King told the conference mining stocks were the perfect hedge for investors because they would perform well if central banks succeed in engineering a breakout in inflation.



### **RELATED**

**Sohn's focus on Australia, China and gold**

---

“We think increased infrastructure spending around the world will be very positive for mining stocks,” he said.

Mining companies are not so much investing in new mines or expansions, they're actually returning cash to shareholders," Mr King said.

"The demand side looks weak at the moment, but that's the opportunity," he said.

Mr King, who has a reputation as an astute short seller, said there was a bubble in the Australian biotech sector.

"Mark Twain once said a mining company is a hole in the ground with a liar on top," he said.

"An Australian biotech is a medical lab with a good salesperson on top."

Airlie Funds Management's Emma Fischer also pitched an investment in mining company Mineral Resources as her best investment idea.



#### RELATED

**Dalio warns investors face a 'risky environment'**

**Jonathan Shapiro** writes about banking and finance, specialising in hedge funds, corporate debt, private equity and investment banking. He is based in Sydney. *Connect with Jonathan on [Twitter](#). Email Jonathan at [jonathan.shapiro@afrc.com](mailto:jonathan.shapiro@afrc.com)*

 Save

 Share

License article

#### READ MORE

Global economy

Hedge funds

Managed funds

Interest rates

RBA

Investing

Monetary policy

#### LATEST STORIES

**Opinion** [Property investment](#)

**HomeBuilder grant unlikely to pay off for opportunists**

3 mins ago

---

**Street Talk****Big writedowns pressure REIT balance sheets: Morgan Stanley**9 mins ago

---

**Opinion** [Sharemarket](#)**Why bank shares are not a risk-free trade**22 mins ago

---

**Spending****Two in three women will not return to pre-virus spending**44 mins ago

---

---

**MOST VIEWED IN MARKETS**

- 1 Why retail investors are exposed to a second market crash**
  - 2 Live / ASX surges past 6000 as \$A forges ahead on recovery hopes**
  - 3 ASX to rise in wake of extended US rally**
  - 4 How to avoid being stung in the equities market**
  - 5 Nasdaq hits record close, confirms bull market**
- 

**THE AUSTRALIAN**  
**Financial Review Magazine****Why even the rich don't want to spend after the pandemic**

Michael Smith



---

**What Glenn Stevens thinks we can learn from coronavirus crisis**

---

**Nine-to-five doesn't work in a digital world, says Scott Farquhar**

---

## **BOSS**

### **Video brings a new normal into play at the workplace**

Natasha Boddy



---

### **The secret history behind the great class action showdown**

---

### **Cuts to penalty rates will boost jobs: Woolworths**

---

## Life & Leisure

### **Let's get this trans-Tasman party started**

40 mins ago | Fiona Carruthers



---

### **Porsche raises the roof with return of the Targa**

---

### **Chanel unveils its first ever digital fashion show**

---

---

## LUXURY

### **'Welcome to iso island': Qld luxury's new pitch**

Fiona Carruthers and Mark Ludlow



---

### **Anna Thomas was Australian fashion's quiet achiever**

---

### **High-end watchmakers home in on women**



## The Daily Habit of Successful People

**MY ACCOUNT** 

---

**SUBSCRIBE** 

---

**ABOUT US** 

---

**CONTACT** 

---

**MAGAZINES** 

---

**COLUMNS** 

---

**MARKETS DATA** 

---

**LISTS** 

---

**EVENTS** 

---

**OUR NETWORK** 

---

**TERMS AND CONDITIONS** 

---

© Copyright 2020 The Australian Financial Review

Site Map