

# Why Kyle Bass Hoards Nickels

Kyle Bass, who runs a hedge fund called Hayman Capital Management in Texas, is gaining notoriety as an investor with the foresight to anticipate today's growing sovereign debt crisis. If eurozone governments ultimately write down their debt because the weight of supporting their banks becomes too great, Kyle Bass will go down as one of the earliest to recognize and position for that. His worldview is dire, and it's apparently prompted him to take some strange precautions such as acquiring \$1 million nickels (20 million coins) because their 6.8 cents value as scrap metal exceeds their monetary worth. I listened to an interview yesterday on [BBC Radio HardTalk](#) in which he defended his views. The UK media tends to take a more populist stance with regard to hedge fund managers. It's now 14 years since George Soros's bet against Sterling preceded their leaving the European Monetary Union and ultimately declining to join the €. How fortunate that decision looks today, but at the time UK tabloids blared that George Soros had "broken the Bank of England" and financiers have never been fully trusted in the UK ever since. So the BBC's interviewer adopted a combative stance, for instance accusing Bass of causing the collapse in Greek bonds through his bets on credit default swaps. Her attempts to portray him as a manipulating hedge fund manager exploiting opportunities for no benefit but his own were deftly handled with facts and figures. Kyle Bass has a point of view worth considering.

I went back and reread Bass's investor letter from February, ["The Cognitive Dissonance of it All"](#). He reaches a similar conclusion to [Jim Millstein](#) in Tuesday's FT, although he focuses more on government revenues, debt and interest expense. Japan, given its shrinking and aging population combined with high levels of debt could not afford to borrow at the levels of other AAA-rated nations (such as France) because their total interest expense would exceed their

revenue. As Bass says, "The ZIRP trap snaps shut." (ZIRP is Zero Interest Rate Policy, pretty much what we have in the U.S. currently). I know people have been betting on a disaster in Japanese bonds for literally twenty years, and it has so far been a disastrous bet. But it does increasingly look as if it still is just a matter of time before we reach the tipping point. After reading what Kyle Bass has to say it's hard to feel comfortable owning long-term government bonds issued anywhere in the world.