Betting on Bitcoin? You should know the story of the Hunt brothers and the silver market

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It was arguably the biggest business story of 1980. Two of the world’s richest men, Texans Bunker and Herbert Hunt—along with Saudi partners—had bought or amassed contracts to purchase over three-quarters of the world’s silver in private hands. Speculators jumped on the news, driving the price to never-before-seen peaks. Then the commodities exchanges panicked and banned selling, the Fed pushed the banks to call the Hunts’ gigantic loans, and strip mall storefronts lured folks to sell their bracelets and silverware to be melted into bullion, flooding the market with the precious metal.

In just five months, silver’s price cratered 80%, scorching the billionaire brothers’ fortunes. Seldom in financial history has America witnessed a craze where so much wealth mushroomed then disappeared in such a brief span,
The Hunt silver debacle bears interesting similarities to the recent price explosion in Bitcoin, and the ethos of new rivals that battle for its status as crypto gold.

This writer takes a special interest in the possible parallels between the Bitcoin phenomenon and the Hunt silver saga. That’s because, as a sidekick doing reporting for *Fortune* legend Roy Rowan, I had the privilege of being present at the only time the Hunts spoke to reporters in depth during the aftermath of the debacle. In fact, I haven’t heard of any other instances when they granted interviews on their motives for buying, and how the gambit came to grief. In August of 1980, Rowan and I spent a weekend quizzing the two brothers in a kind of movable journalistic feast that segued from a local Mexican eatery to Rowan’s taking a morning jog alongside Herbert to Herbert’s house, where the heavyweight, affable Bunker, quaffing Coke from a quart bottle, asked me, “Shawn, you wouldn’t be an Irishman?”

The Hunt family’s fabled history and the brothers’ gigantic losses in the silver disaster were well known when we arrived in Dallas. Bunker and Herbert’s father, H.L. Hunt, was a card shark-turned-oil tycoon, who purchased the world’s richest pool of black gold outside Saudi Arabia in East Texas. At the time of his death in 1974, H.L. ranked among the world’s richest men. Sons Bunker and Herbert were great financial gamblers as well, and in 1974 when inflation raged following the OPEC embargo, they bought futures contracts for 55 million ounces of silver at around $6 each. The pair then astounded the markets by taking delivery of the actual bullion and flying the load to Switzerland, clear of U.S. authorities, for safekeeping.

In mid-1979, as inflation surged to over 20% during the second oil crisis, the Hunts bought contracts on another 43 million ounces. At first, their timing seemed quicksilver. News of the Hunts’ big bet attracted a horde of speculators, driving the price to $50.50 in January of 1980. The Hunt group held $4.5 billion in silver, of which $3.5 billion, equivalent to $10 billion in today’s dollars, was profit. As the exchanges tightened rules on buying and selling, prices started to cascade, a trend that gained momentum as families facing tough times sold their silver heirlooms to pocket extra cash. Those warning signs didn’t deter the Hunts. Certain that prices would rebound, Bunker bought another $500 million in contracts at around $17.

Fed chair Paul Volcker landed the haymaker by demanding that banks call loans to heavily leveraged clients, a move targeting the Hunts. Faced with billions of dollars in margin calls, the brothers started dumping their holdings. The banks secured everything from their houses to their Rolex watches as collateral. Between January and May of 1980, the price of silver suffered one of the most sudden collapses in the annals of commodity markets, plummeting from over $50 to $11.
Despite their misfortunes, the Hunts hadn’t yet suffered the blows that would push them in bankruptcy, and proved lively company. Herbert was calm and personable, a fellow of simple tastes who often bought paintings because he liked the frames. Bunker was a Texas-sized hoot. When I asked if he was still a billionaire despite the silver rout, Bunker responded, “I don’t know. But I do know that a billion dollars isn’t what it used to be.”

He’d just returned from a family vacation in Paris, where the cuisine was pleasing but the prices a shock. “Sure is tough to get a bad meal over in Paris,” Bunker intoned. “Sure is tough to get a cheap one, too.” And the baroque splendor of the Ritz Paris proved less dazzling than the francs charged: “When I paid my bill at the Ritz, I thought I bought the place!” Bunker declared.

It was immediately clear that the Hunts were zealots who believed that the easy money policies of the U.S. and other major nations would swamp the globe with inflation. They were convinced that silver was in a class by itself as a scarce asset, the ultimate shelter from the brewing storm. They didn’t go into details on why they so prized silver, but the implication was that underground reserves were so rare and expensive to mine that high prices would elicit little new supply. For Bunker, silver offered much better protection than gold. Although gold had long sold at 50 to 100 times the price of silver (and the gap remains in that range today), Bunker opined: “Shawn, it says in the Bible that silver will be worth the same as gold. And that day is coming.”

A conviction for market manipulation and big fines forced Bunker and Herbert to declare bankruptcy in 1986. It’s possibly a lesson that they enjoyed great success returning to what they knew best, the oil business. By the time of his passing in 2014, Bunker had restored his billionaire status via his brilliance in the family business, and Herbert secured a big score in 2013 by selling his take in a fracking enterprise, exiting for $1.4 billion near the peak of the market.

**Silver vs. Bitcoin**

Both silver at the 1980 mountaintop and Bitcoin today have ridden a fivefold jump in six months. The Hunts were reckless to risk such an overwhelming share of their wealth on silver. “There are individuals who are doing that,” says Campbell Harvey, a professor at Duke University. “I think of Michael Saylor of MicroStrategy. But it’s a different mentality from the Hunts’ episode. Lots of institutions are also adding Bitcoin exposure.” He notes that Elon Musk’s purchase of $1.5 billion in Bitcoin for Tesla risks only a small portion of its cash trove.

Harvey adds that the Bitcoin investor base is now far more diverse than when libertarian rebels who mistrusted governments were dominant. “Now you have an asset that’s widely regarded as a store of value,” he says. “Bitcoin has a market cryptocurrencies of $2 trillion, not far below Apple’s. The argument goes, how could you exclude an asset worth almost as much as Apple from a well-diversified portfolio?” Bitcoin, he says, has a short history, but that history is moving in a positive direction. Hence, for investors whose portfolios include such bulwarks against rocky times as farmland, commodities, and TIPS (Treasury Inflation-Protected Securities), Bitcoin is becoming an increasingly respectable choice.

**The appeal of scarcity**

Silver and Bitcoin both appeal to safety-seeking investors because their supply is limited. They share the advantage that the new amounts reaching the market each year are independent of moves by central banks. But silver serves industrial uses in tech components and jewelry. Private mining companies are determining how much to increase or decrease production based on the quantities the end users order. If demand for silver-rich products jumps, and mines are slow to catch up, prices can rise rapidly. On the other hand, high prices in and of themselves can open new mines and flood the market with supply, driving prices rapidly lower.

In contrast, Bitcoin serves no commercial uses, so its supply isn’t influenced by companies making products. “Its supply isn’t dependent on decisions by any private enterprise,” says Harvey. The amount of Bitcoin released every year is mainly foreordained by an algorithm that limits the total number of coins ever minted to 21 million, a
number that should be reached around 2140. Hence, the hard cap on Bitcoin could theoretically provide even a stronger shield against looming inflation than a commodity such as silver.

As Harvey points out, Bitcoin doesn’t have tangible or fundamental functions, either in commerce or as a currency. But it’s become highly coveted as an *intangible* asset. In large part, that’s specifically because it’s something new. Bitcoin is a store of value whose supply doesn’t fluctuate like currencies controlled by central banks do, or the flow of silver, gold, or copper from mines around the globe whose owners are constantly gauging production to the meet the needs of their industrial customers.

**But what if competing cryptos steal Bitcoin’s allure?**

At a market cap of over $2 trillion, Bitcoin accounts for well over half the value of all cryptocurrencies. Its appeal lies in providing an alternative to traditional stalwart gold whose quantities are even more fixed. But the amount of cryptocurrencies that could vie for the mantle of the new digital safeguard is not limited. As Bitcoin’s price has soared, so has the introduction of competition tokens. “We saw the same thing during the boom of 2017 and into 2018, when there were many initial coin offerings,” says Harvey.

A major competitor is Ether. Since the start of 2021, its price has tripled to $2,148, raising its valuation to $250 million and beating the twofold jump in Bitcoin. The trend recalls how new silver sprouted when the price hit $50 during the Hunt saga, as shuttered mines reopened and folks rushed to the malls with serving dishes and bags of old coins.

**Is Bitcoin really a hedge against inflation and hard times? No one knows**

“Bitcoin may be good for diversification against inflation or a recession; it’s hard to tell,” says Harvey. “We haven’t had a severe downturn or inflationary episode in the life of Bitcoin.” The problem with Bitcoin is that it’s much more volatile than any other asset that’s now popular for protection from either threat. Harvey observes that gold shows random swings in price comparable to those of the S&P 500. In comparison, Bitcoin’s suffered three major crashes in its brief history, including the one in late 2017 and early 2018 that sent its price from $19,000 to $6,000 in a mere four months.

Harvey has studied the history of gold as an inflation shield and concluded that it’s just too volatile to be a reliable hedge. “Bitcoin is unreliable for the same reason, because its volatility is too high,” he says. Its fever chart contains far more sharp spikes and deep valleys than gold’s, so if gold doesn’t give adequate protection in tough times, Bitcoin is even certain to stand tall when markets are crumbling.

Although the Hunt silver saga and today’s Bitcoin boom differ in important respects, the market mindsets that drove both are comparable. I’ll call process the "popularity-price flywheel." The wheel start spinning when famous investors buy an asset that offers a compelling "story." In each case, brilliant, successful people in other fields anoint the savior that will prosper best in times of trouble—–in Bitcoin’s case, the marquee endorsements came from Musk and Saylor.

The newfound popularity with this illustrious crowd pumps the price. That takeoff convinces a new bunch of investors that the earliest enthusiasts are right, and they jump in. In the case of the Hunts, it was the Saudis; for Bitcoin, the recent second wave encompasses a gilded roster of celebrities and athletes. Their entrance pushes the price still higher. The new surge makes silver or Bitcoin still more popular because it appears to support that the famous names and early follow-on crowd unearthed a great buy. That enthusiasm feeds higher prices that feed higher popularity until some unforeseen shock starts the flywheel shining backwards, so that the falling price spawns a collapse in popularity.

Many investors bet alongside the Hunts because silver was soaring. That surge in itself seemed to provide proof that it was the ultimate bulletproof store of value. In the end, it was all about momentum, not securing a harbor
from coming storms. Endorsements from smart people and rising prices were a false signal in 1980 for silver, and they may be leading believers astray once again in the Bitcoin craze of 2021.

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