



There are several people who have lost over \$1 billion in the markets, with two people, Bruno Iksil and Howie Hubler alleged to have lost \$9 billion, but I know of only one person who managed to lose over \$1 billion twice. The winner of this award is Nelson Bunker Hunt who lost his first billion in oil and his second billion in silver. And in each case, it wasn't just one billion dollars that he lost, but several billion. And in both cases, Hunt blamed the government, rightfully so, for the losses he incurred. Nelson Bunker Hunt was the son of oil wildcatter H.L. Hunt, who was a gambler in life and in oil. H.L. Hunt was a math prodigy who allegedly succeeded in turning \$100 into \$100,000 gambling in New Orleans in the early 1900s. With this money, he purchased oil properties in Arkansas to try his luck at bigger stakes. Hunt's strategy was to drill in already known areas, buying leases wherever a new discovery was made, and drilling until he struck oil. In November 1930, Hunt heard about a large oil strike in Texas made by Columbus "Dad" Joiner, H.L. negotiated the purchase of Dad's properties for \$1,340,000, paying Joiner only \$30,000 down and the rest to be paid out of future revenues. Hunt also guaranteed Joiner legal protection against his many fraudulent transactions. Hunt succeeded and made one of the biggest oil strikes in the history of Texas. By 1936, Hunt was able to incorporate the Hunt Oil Co. worth \$20 million and use his profits to move on to more drilling. H.L. Hunt soon became one of the richest men in the world, and was the inspiration for J.R. Ewing's character in the TV series Dallas. H.L. Hunt was as prodigious in producing children as he was in making money. He had fifteen children through three women, one of whom he paid off to avoid a bigamy lawsuit. Appropriately enough, one of his sons, Nelson Bunker Hunt was born in El Dorado, Arkansas. His son, Lamar founded the American Football League and owned the Kansas City Chiefs. Nelson Bunker and William Herbert went into the oil business. H.L. Hunt owned Placid Oil and Penrod Drilling and Hunt left control of these companies to his sons. Once in control, they started drilling outside of the United States to strike it big as their dad had.

## Losing the First Billion

Nelson Bunker Hunt wanted to make his millions on his own, not just inherit the money from his dad, and went looking for oil outside of the United States. Hunt first drilled for oil in Pakistan which failed to deliver. Then he went to Libya where Nelson Bunker Hunt found the huge Sarir oil field in 1961 that made him a billionaire and one of the richest men in the world virtually overnight. Nelson signed an agreement to produce oil with King Idris, but on September 1, 1969 Nelson Bunker discovered that his fortune was at the mercy of government politics. While King Idris was on sick leave in Turkey, Muammar Gaddafi led a coup in Libya that overthrew King Idris. Gaddafi nationalized Nelson's 50% ownership in the Sarir oil field on June 11, 1973 without providing compensation to Hunt. Nelson Bunker Hunt lost his first billions as a result of government intervention. Overnight, Hunt went from being one of the richest billionaires in the world to being a mere millionaire. Who doesn't want to be a millionaire? A billionaire. Gaddafi's seizure of Hunt's assets deepened his distrust of government and the paper money it created. From then on, Hunt would put his money in hard assets, such as silver, which couldn't be stolen from him by government fiat. Or so he thought. Nelson had three loves, horses, silver and Jesus. Nelson had a stable of over 500 horses and his thoroughbreds won almost every major race in the world. H.L. Hunt was a member of the First Baptist Church in Dallas and supported conservative causes all of his life. Nelson Bunker Hunt followed in his dad's footsteps, was a member of the John Birch Society and believed that the apocalypse would soon occur and that paper money would become worthless. Nelson was the chairman of the Texas Bible Society, the head of Campus Crusade for Christ International and funded the film Jesus which has allegedly been seen by three billion people worldwide. Nelson learned from his Libyan losses that governments could not be trusted. Since he no longer trusted paper money, Hunt decided to pour his money into silver. Trading in gold was forbidden by the U.S. government after the United States went off the gold standard in 1933, and it was only in 1974 that trading in gold in the United States was allowed once again. Nelson Hunt purchased 40 million ounces of silver in 1973 and flew his hoard to Switzerland for safekeeping. 15 million ounces also went to Chicago and New Jersey increasing his hoard to 55 million ounces. Texas imposed a 5% state tax on silver, so Hunt found it cheaper to fly his millions of ounces in silver to Switzerland than to keep the silver safe in Texas. Nelson knew that he could "buy" silver through the futures market, though few people did. Whenever someone purchases a futures contract in the silver market, there is certifiable silver that is tied to each contract. Silver producers can lock in the price of silver to obtain a fixed price for the silver in the future. If the contract is at \$10 for an ounce of silver and the price closes at \$9, the silver producer will make a \$1 profit on the contract and add that profit to the \$9 the silver is selling for to net \$10. If the contract price is at \$11, they lose \$1 on the futures contract, but receive \$11 for the silver netting them \$10. No matter what happens to the price of silver, the producer has locked in their price. The primary risk to the silver producer is that if there are large fluctuations in the price of silver, for example, if the price went from \$10 to \$20, the producer would have to put up additional margin to cover their anticipated losses since the producer is short silver and will lose money on the contract when it expires. Under normal circumstances, this is not an issue, but 1979 and 1980 were not normal times in the silver market. Futures contracts are typically for a period of three months, and when the contract expires, most silver producers and speculators sell their contract and collect or pay the difference between the strike price on the contract and the price the contract settles at. Hunt, however, took delivery of the silver.

## **The Hunt Family Tries to Corner Soybeans**

In 1977, Nelson made his first attempt at cornering a market, i.e. having control over the supply in the market so he could fix the price of the commodity. When a seller has to go to the market to cover their position, they can only go to the person who has cornered the market and pay whatever price they demand to close out their positions. Nelson bought a substantial number of soybean contracts attempting to profit from the ensuing rise in the price of soybeans. In 1977, the legal limit on soybean contracts was 3 million bushels which was equal to about 5% of the market. He and William Herbert both bought contracts controlling 3 million bushels. Then Nelson created dummy accounts for five of brother Herbert's children. The Commodity Futures Trading Commission (CFTC) easily saw through the ruse. When the CFTC realized all the accounts used the same address, they realized someone was trying to corner the soybean market. As one CFTC member put it, the only member of the family who didn't have an account to trade soybeans was the family dog. The family's control rose to 24 million bushels, about 40% of the soybean market, and eight times the legal limit for one person. The Hunts represented about half of the trading in soybeans in 1977 and the price of soybeans rose from \$5.15 to \$10.30 as is illustrated below.

The CFTC alleged that Nelson, his brother and his brother's children were trying to manipulate the price of soybeans, but Nelson alleged they were all acting independently of one another and the only reason their trades were similar was because they had access to the same information.

The Chicago Board of Trade had encountered a similar situation when Tony de Angelis had tried to corner the soybean market several years before, but de Angelis was a member of the exchange and did not face limits on the amount he traded. The Hunts were complete outsiders and did face limits. The CFTC took the Hunts to court in April 1977 and forced the Hunts to divest themselves of their positions, but it is estimated that the Hunts made tens of millions of dollars in their attempt at a corner. As the chart of soybeans above shows, the price of the commodity rose from under \$5 in 1976 to over \$10 in 1977, but quickly fell back after the Hunts were forced to divest themselves of their holdings. In 1981, the Hunts had to pay a \$500,000 fine for exceeding the position limits, which compared to the tens of millions in profit they probably made was little more than a speeding ticket. Nelson Bunker Hunt's distrust of government officials only deepened.

## **The Silver Corner Begins**

Nelson Bunker Hunt had bought millions of ounces of silver in 1973, but had generally ignored the precious metal for the next few years. In 1978, following his success in the soybean market, Nelson decided to take control of the silver market. Nelson's idea was to "buy" millions of ounces of silver through the futures markets and corner the amount of certifiable silver that was available, driving up the value of his holdings and making billions in the process. Nelson had seen the price of oil go from \$3 to \$30 during the 1970s and with inflation raging throughout the world, he saw no reason why silver shouldn't permanently rise in price as well. Silver had been used as money for thousands of years. Hunt believed paper money was a false creation of the government that would ultimately collapse. If OPEC could create a cartel that drove up the price of oil, why couldn't Nelson create a cartel to buy up the supply of silver and profit from it? As in the case of soybeans, Nelson got fellow family members involved in the corner as well as several Saudi sheikhs and other speculators who agreed with Nelson's evaluation of the silver market. On July 1, 1979, the Hunts formed the International Metals Investment Co. (IMIC) with Prince Fahd who ran the Saudi Central bank to buy silver and drive the price up. IMIC bought 43 million ounces which added to the 55 million ounces the Hunts already owned. The attempt to corner the silver market had begun. However, as I have shown in similar blogs on the Piggly Crisis and Stutz Automobile, the problem with executing a corner successfully is that you have to borrow money to drive the price up and you can create a huge profit on paper once you corner the market, but inevitably, you must sell the underlying stock or commodity to someone else, and when this happens, the price of the good will collapse and the accumulated debt will drive most speculators into bankruptcy. This is why selling the underlying commodity after a corner is completed is called "burying the corpse" because it is probably the corpse of the person who cornered the market that will be buried. Throughout the silver fiasco, the Hunts alleged that they were not trying to corner the silver market, but that they were simply trying to hedge against the voracious inflation that engulfed the world in the 1970s. But did the Hunts need to own three-fourths of the world's privately-owned silver to achieve that? As I detailed in the case of Eddie Gilbert, there is no clear line between speculation and manipulation. Attempts to manipulate the price of a commodity is illegal in the United States and if the weight of the market doesn't overwhelm the person trying to corner the market, the government and the commodity exchanges will.

## **The Exchanges Change the Rules**

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The house makes the rules and they can be changed. The first change occurred on January 7, 1980, when the CBOT limited buying to 3 million ounces of silver and COMEX limited buying to 10 million ounces of silver. Nelson Bunker responded by promising to reduce his involvement in the silver market, but secretly bought an additional 32 million ounces of silver. One thing you have to admire about the Hunts is that they never did anything half way. When they went into silver in 1979, they pulled no punches. In January 1979, the actual silver owned by the Hunts and their futures contracts amounted to 75 million ounces. By January 1980, this amount had grown to 375 million ounces, and the Hunts were short an additional 100 million ounces in straddles (buying long and short positions simultaneously). This gave the Hunts and their fellow traders a net position of almost 300 million ounces of silver and control over 70% of all contracts listed on the futures exchanges. Every \$1 increase in the price of silver netted them \$300 million and at the height of the silver squeeze, the silver bars they owned were worth about \$6.6 billion. In addition to actual silver they owned, they had an equal amount in silver contracts. As the price of silver rose, producers who were short silver had to put up additional margin against their positions. These deposits were transferred to the Hunts who used their profits from the rising price of silver to increase their silver holdings even more. When the price of silver rocketed up from \$5 at the beginning of 1979 to \$51 at its peak, not only were the silver markets thoroughly disrupted, but financial markets throughout the world were affected. Photograph companies like Kodak which used silver to develop pictures as well as dentists and jewelers like Tiffany's were forced to buy silver at ten times the price it had been at just one year before. Tiffany & Co. took out an ad in The New York Times condemning the Hunts for their manipulation of the silver market. But to the average American, the silver rush was on. Moms and pops throughout the country took their silverware to local metal dealers to sell their heirlooms at a profit. Millions of dollars of silver coins, which the government had stopped producing in 1964, were sold to coin shops. This brought tens of millions of dollars of silver onto the market. The silver was purchased by Englehard Silver who converted the coins and silverware into certificated silver, adding to the hoards the Hunts had already accumulated. If you read Mark Cymot's account of the trial of the Hunts over their attempts to manipulate the price of silver, entitled Squeezing Silver, you can see that the Hunts had running battles with COMEX and the CFTC during 1979 and 1980 with the commodity regulators demanding that the Hunts reduce their positions in silver, the Hunts promising they would, and then adding to their positions instead. One ploy the Hunts used was that they wanted to delay the tax impact of selling their contracts at a profit in 1979. The Hunts wanted to wait until January 1980 to sell their contracts so the profits would be in 1980 and not in 1979 and delay the amount of taxes they had to pay the IRS. The exchanges gave the Hunts to January to sell their silver, but instead the Hunts loaded up even more. On January 18, 1980, the price of silver peaked at \$50.35, up tenfold from the price a year before. The Hunts had billions in unrealized profits.

After the first of the year, COMEX got serious in limiting the Hunts' speculation in the silver market. On January 7, COMEX adopted Silver Rule 7 which capped the size of silver futures exposure to 3 million ounces. When this didn't stop the Hunt's greed, on January 21, the Chicago Board of Trade pulled their trump card and suspended the issue of ANY new futures contracts in silver. Buying silver was effectively banned on the exchange. Traders were only allowed to close out existing contracts, not create new contracts. In other words, you could only sell silver, you could not buy it. The Hunts accused the CBOT of "changing the rules of the game" since they had turned a market where people could buy and sell into a market where people could only sell. No doubt, on this point the Hunts were right. Gadaffi had changed the rules on oil in Libya and the CBOT had changed the rules on silver in the United States. The impact was immediate, and the price of silver fell \$10 in one day. Silver had traded over 300,000 contracts on January 3, 1980, but only 12,000 contracts on January 25. On March 14, 1980, Paul Volker, head of the Federal Reserve, demanded that banks limit lending for speculative purposes, in part, to constrain borrowing by the Hunts to cover their losses. Since the banks wouldn't loan the Hunts more money, the Hunts had problems meeting their margin calls. The Hunts owed Englehard Silver \$665 million for delivery of 19 million ounces of silver due March 31. The Hunts did not have the money to meet this call, and they turned to the banks to bail them out. The Hunts had borrowed billions to support their position in silver, but they were no longer able to borrow hundreds of millions of dollars. Consequently, the price began to crash. Bache Group asked the Hunts for \$100 million in collateral to cover their losses on March 25, 1980, but the Hunts were out of cash and defaulted on their loans. Bache Group had no choice but to sell silver and the price collapsed from \$30.80 on March 12 to \$21.25 on March 25 and \$10.80 on "Silver Thursday", March 27, 1980. Some people feared that Bache Group might go bankrupt under the pressure of selling its silver contracts at a loss. If the companies that had loaned money to the Hunts went under, some people feared a depression-like crash of the markets similar to what happened in 2008 when Lehman Brothers failed. Instead, a consortium of banks put together a billion-dollar loan to bail out the companies that had loaned money to the Hunts and allow an orderly disposal of the Hunts' silver contracts. The Hunts were provided with a \$1.1 billion line of credit which allowed them to pay off Bache Group. The Hunt Brothers' ownership in Placid Oil was used as collateral on the loan.

## **The Aftermath of the Silver Fiasco**

A Peruvian silver company, Minpeco had sold their silver production in the futures market in 1979 and was unable to keep up with the increased demands for margin the commodity exchanges demanded as the price rocketed up. The company put up over \$100 million in cash to cover their positions, but were unable to raise additional funds and sold off their contracts during the price increase in 1979, closing out their futures positions at a loss. Minpeco sued the Hunts for their losses and in 1988, after a six-month trial, the Hunts were found guilty of manipulating the price of silver and forced to pay \$134 million in compensation. The Hunts were unable to pay the \$134 million and declared bankruptcy, forcing Nelson Bunker to sell his stable of 500 horses, his collection of Roman and Greek coins and other items he had accumulated on the way up. It is estimated that Nelson Bunker Hunt was worth \$16 billion in the 1960s after he discovered oil in Libya, but after settling all the lawsuits against him in 1988, his fortune had sunk to \$10 million. Hunt spent the next seven years disposing of his assets to meet the

demands of his creditors. The Senate led an investigation into the silver fiasco the Hunts had created, and during the proceedings, a Senator asked Nelson Bunker Hunt how anyone could lose a billion dollars. And you have to remember, this was 35 years ago when \$1 billion was a lot of money. Nelson Bunker Hunt responded in his best good ole' boy Texas drawl, "Well, Senator, a billion dollars just ain't what it used to be."