This Billionaire Thinks Stocks Will “Crack” Any Day Now

Description

Jeffrey Gundlach is a billionaire. He’s the head of DoubleLine Capital and former manager of the $9 billion TCW Total Return Bond Fund. When Gundlach talks, stock markets listen.

Right now, Gundlach has mixed views about the future. He thinks the market will “crack” rather soon and urges investors to prepare now.

Stocks have him scared

Gundlach recently went on the record as a bear. His prognosis for the market is scary.

“Within 18 months, it’s going to crack pretty hard,” he said according to *MarketWatch*. “I think that you want to be avoiding it for the time being. When the next big meltdown happens, I think the U.S. is going to be the worst performing market, actually, and that’ll have a lot to do with the dollar weakening.’

““I think we have such a potential tail risk of outcomes, such a dispersed potential outcomes, that you really need to have this barbelled asset allocation concept,” he added.

What does he mean by barbelled asset allocation concept? Right now, Gundlach has just 25% of his portfolio in stocks. The rest is split between bonds, cash, and gold. He believes this risk diversification is more important than ever.

“I don’t think people fully understand how many business closures there’s going to be in the next few months,” he explained. “There’s going to be a lot more of that. I think it’s going to really accelerate. I think there’s going to be real problems in the wintertime here.”

How to prepare

Gundlach thinks investors should maintain exposure to stocks, but should also build positions in other areas like cash, bonds, and gold. The biggest thing you can do to mitigate your risk, however, is to tailor your portfolio to a high-risk world.

For example, avoid stocks that rely on capital markets like **Air Canada** (TSX:AC).

Air Canada lost more than $1 billion last quarter. The quarter before that, it also posted a billion-dollar loss. To remain solvent, it has needed to tap the equity and debt markets multiple times. It must continue to do that to survive. That's a risky proposition if markets tank.

When stocks crash, capital typically dries up. Vulnerable businesses like Air Canada could face a dire reckoning if this happens.

If you can fine-tune your portfolio to avoid holding high-risk companies like this, you can maintain enough value to take advantage of the potential plunge. Gundlach thinks there will be a "very rare" opportunity to make a killing over the next year or two.

"The trade is to wait for that trade," he stressed. "It will be quite a pleasant experience to not be in the car on the first wheel of the roller coaster that's coming. I just want to be very low risk right now."

Of course, your best option is to pick stocks that can rise *regardless* of where the market or economy heads. These are rare picks, but if you encounter one, don't delay. The next crash could occur at any moment, and those that prepare in advance will win.

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