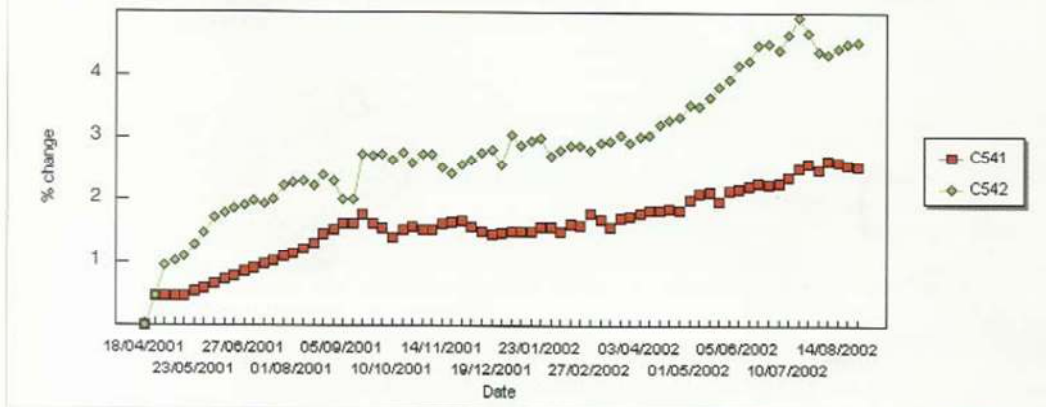




RIO CLUB Newsletter

September 2002 Issue

Performance History



We Never Pass The Buck, We Make Them!

The graph above shows a telling story. When compared to world indices our funds have not only out performed the main indices, but also have continued their trend of positive growth since launch.

Historically, September is the worst month of the year for the stock market. Over the last four years the FTSE All-Share Index has fallen in September each year: by 4% in 1998 and 1999, 6% in 2000 and 10% in 2001. In fact, the All-Share Index has fallen in 11 out of the past 17 years while the Dow Jones Industrial Average has fallen in 21 out of the last 30 years.

Some months ago we adopted the fund management strategy still employed today, which has been successful. We have seen sixteen consecutive gaining weeks to September 2001, with an impressive total of 49 gaining weeks since launch to August 14th 2002 as shown in the above graph. With a total of only 20 losing weeks since inception, it's remarkably important to note that the R.I.O Portfolio fund has never seen more than two consecutive losing weeks in its history to date, before the lost ground has been recovered. The R.I.O investment team clearly have demonstrated both their fund management and portfolio management capabilities in one of the most unpredictable markets in three decades.



THE HIGHLAND GATHERING WEEKEND



Pictured left are Miss Scotland Juliet Horne & her dad with Bill Gray, the chairman of The Rio Club at the Scotland in concert evening. Also pictured are some of the Rio Club staff and their wives.

The RIO Club was proud, yet again, to be one of the main sponsors of the Highland Gathering weekend. This Gathering is one of the main social events of the year and is now one of the largest outside of Scotland.

This year was particularly exciting for the RIO Club having sponsored Miss Scotland (Juliet Horne) and her dad, who was her chaperone, to fly over to Jakarta from Scotland for the weekend. Their first social function was to attend the reception at the British Ambassadors Residence where they met the British Ambassador Richard Gozney. It was also a good opportunity for our members to meet Miss Scotland.

Juliet and her dad were the RIO club's guests at the Scotland in Concert evening on the Saturday night. This was a tremendously enjoyable event with a varied program including a magnificent assembly of 82 pipers and drummers, Balinese dancing, Scottish and Highland dancing, and the Glaswegian comedian Stu Who? who was also sponsored by The R.I.O Club. The event officially ended with Flower of Scotland played by the lone piper, Pipe Major Ron Gallagher accompanied by Francine Paton, which was very moving for the many Scots there.

Dr Scott Younger was master of ceremonies for the evening and Juliet was kept busy during the raffle presenting the prizes, including the RIO club's special prize, which was won by a delighted Debbie Mimicola. Everybody had a thoroughly enjoyable time and for some perhaps the icing on the cake was meeting Miss Scotland. The Chieftain of the Java St. Andrew Society, Ms Sandie Law thanked everybody for attending and making the evening such a success.

Juliet and her dad were also the RIO club's guests at the Highland Gathering on the Sunday. Juliet had a busy afternoon assisting with the presentations to the various winners. The finale to the day was an absolutely spectacular firework display, which followed the traditional ceremony of 'Up-Hellya' in which a model Viking ship is set alight.

Juliet and her dad had never been to Jakarta before, and thanks to the people involved, left with a lot of great memories of Jakarta.

SCOTLAND IN CONCERT

Pictured Debbie Mimicola (left) being presented with the Star Prize by Miss Scotland.

Debbie Mimicola won The Star Prize when she and her partner Mark attended Scotland in Concert in May this year. The R.I.O Club donated The Star Prize yet again as the main Sponsor of this event, to help the St Andrews Society raise money for the many charitable causes this event supports.



WAR & MONEY

For U.S. investors, Saudi Arabia is one of the most important countries in the world. It is the largest oil exporter containing somewhere between 25% and 30% of the known world oil supply. When Saudi Arabia sneezes, U.S. investment markets catch pneumonia.

The Thousand Year War

If you don't succeed the first time, try and try again. That must be the motto in the Bush family as George W. prepares to take on Saddam Hussein 12 years after his father had the Iraqi army in ruins and let it limp home.

But this war will be vastly different for the United States, as it will influence which direction the United States will take in its role as a "superpower" - determining whether America's power is in ascent or decline. Certainly, what happens over the next six months will determine much about the investment markets and may even finally answer the inflation/deflation argument as forecasted in our October 1999 issue of R.I.O News.

If George W. Bush invades Iraq, only three things seem certain: (1) Saddam Hussein will be ousted, (2) Muslims worldwide will have a different opinion of the United States, and (3) there will be a major shift in the balance of power in the Middle East. At stake is not only the attempt to eliminate Arab-sponsored terrorism, but also the keys to the richest landmass in the world - the Persian Gulf.

The Persian Gulf holds more than two-thirds of the world's dwindling petroleum reserves and the nations that control this region control the future price of energy and the fortunes of the world's economies. Let there be no mistake; software may be the brains of the information age, but petroleum remains its engine.

Oil makes up 40% of the energy Americans consume and accounts for 97% of the transportation fuels. It is affordable oil that keeps America's transportation sector healthy and their obsession with the automobile alive.

Did I say oil is affordable? It might not seem that way at the gas pump, but the truth is that if you adjust the price of oil for inflation, it is cheap at the moment. Consider the fact that for a brief period in 1980, oil prices hit \$40 a barrel.

If the war against Iraq draws in either Israel or other Arab nations or if a U.S. invasion into Iraq incites the overthrow of the Saudi Royal Family then under those two scenarios oil could easily rise beyond \$60 a barrel prompting inflation. One thing that the stock - and especially the bond - markets can ill afford is rising inflation.

Losses on the 10-year US Treasuries issued over the past year - with their near-record low yields - would be monstrous. It would likely incite foreign investors to move

out of dollars more aggressively than they have been, thereby putting even more pressure on the greenback.

Certainly it is a high stakes game that the Bush administration is playing. You can almost hear Bush's little mind reeling - the U.S. Army will roll over Iraq the way the Germans blitzed Poland; Saddam's army and his cache of chemical weapons will be eliminated with "extreme prejudice" as well as Saddam himself; in its place a new Iraqi government will come to power, one friendly to the United States.

If that scenario unfolds, it would certainly cause a huge downward correction in oil prices that could keep crude below \$20 a barrel for years. Furthermore, a quick and decisive victory would demonstrate America's military capability and financial position.

Another gulf victory would not only help in the fight against terrorists, but would take care of the Bush administration's first economic priority following the election - securing cheap and plentiful energy for America's future.

Victory in the Middle East would allow the Bush administration to reflate the U.S. economy. Wars, after all, stimulate economies, don't they? Even the limited war on terrorism is allowing federal spending to soar, with rarely a criticism by anyone along the way.

One problem. Wars rarely work out the way they are planned. This war may have little resemblance to the war in 1990 when the U.S., backed by a coalition of nations, repelled Iraq after it invaded Kuwait.

Apart from the fact that there is no consensus about this war, not even within the administration itself, the only foreign backing the U.S. can count on comes from Great Britain, and barely that.

Furthermore, the politics of the region has changed. The Saudis are desperately trying to calm a growing radical population that sees the U.S. as the enemy.

Meanwhile Iran and Iraq have come closer together, one generation after their bloody war. Iran has warned the United States that it would be making a grave mistake to put troops into the region and who knows what Israel will do. They are much more of a wild card today than in 1990. It doesn't take a genius to figure out that the region is a tinderbox, one that could easily explode, driving oil prices through the ceiling. As predicted a Conflict in the Middle East = Oil Profits

Reserves of oil will be a terrific way to catch the explosive potential of this market. Convenient?

William Gray
Executive Chairman



THE MOVIE PORTFOLIO FUND

The R.I.O. Club now offers its membership an alternative investment, which can be offered direct or through an investment bond such as Scottish Provident International Choice.

Invest in the World's Most Exciting Business.

The Movie Industry is one of the most exciting and dynamic businesses in the world, a business where the revenue of a single feature film can approach \$1 billion.

Worldwide gross revenues generated by motion pictures now amount to over \$44 billion annually. The development of new distribution channels such as cable, DVD and internet together with the opening of new international markets is spearheading the industry's explosive growth and creating vast opportunities for revenue from film properties. Indeed latest figures across the various revenue streams emphasise the ever-increasing importance of non-box-office income to movie success:



Movies are the world's most popular form of entertainment, and these figures demonstrate the viability of movies as a highly lucrative and profitable business sector.

In recognition of the unique investment opportunity presented by this extraordinary industry, Out Of Obscurity is pleased to introduce the world's first mutual fund for film finance, The Movie Portfolio Fund.

The Movie Portfolio Fund is the first-ever mutual fund to give private investors globally access to movie investing. Its objective is to generate significant capital gains from investment in a portfolio of highly commercial movie projects.

The Fund will invest in a slate of feature films to be produced by renowned producer Barry Josephson and distributed worldwide by a major Hollywood studio.

Unrivalled Track Record and Industry Network: Pacific Media & Entertainment through its founder Barry Josephson has a track record second to none. As President of Worldwide Productions at Sony Columbia Pictures and as an independent producer Mr Josephson has overseen the development and production of movies with revenues of over \$2 billion, including: Wild Wild West, Men In Black, Die Hard 2, Air Force One, The Fifth Element, In the Line of Fire, The Professional, Anaconda, and Last Action Hero. PME Management has excellent working relations with the biggest figures in the entertainment industry including Bruce Willis, Will Smith, Clint Eastwood, Harrison Ford and Tommy Lee Jones, to name a few. The Fund has a 5-year \$100 million agreement to co-finance a slate of motion pictures produced by PME.

Ownership of Film Assets: The Fund will take ownership of all available rights on each investment, creating the potential to earn revenue on a broader scale and time period than is normally available to private investors. In some cases box-office revenues make up only 20% of final earnings, and ownership of rights to assets such as international sales, video/DVD, merchandising and music can turn a loss-making movie into a profit.

High Potential Returns: Barry Josephson has been in charge of the development or production of some of the highest grossing feature films of all time including:

Title	Cost	Worldwide Revenue
	\$ million	\$ million
Men In Black	90	834
Wild Wild West	105	309
Air Force One	87	439
In The Line Of Fire	38	250
The Fifth Element	90	348

These success stories clearly demonstrate the potential for movie investments to generate exceptional profit as well as create box-office magic.

Debt Bubble

Loan delinquencies are at an 8-year high. The U.S. current account deficit just hit a new record in the second quarter - \$130 billion. Finally, congress has been warned against overspending. Household debt, including mortgages, rose by more than 100% since 1991 to just under \$8 trillion. If you add business and other debt the total is around \$24 trillion - or more than twice U.S. GDP.

Eventually the consumer will break down under the load,

we keep saying. But eventually always seems to come long after we think it should. Most figures, for example, show the demand for mortgages has reached record levels. Consumers may already have more debt than is good for them, but they are still asking for more. Here is a saying that many won't forget - the greedy will become the needy.

Well, Mr. Market, go ahead and give it to them good and hard! There is nothing wrong with borrowing to make money. What is wrong is borrowing money to buy stocks in the US market that are vastly over valued.



The Residential Property Market

A recent study published by the Milken Institute suggests that property is seen as a "safe haven" in times of uncertainty.

From 1945 to 1980, the study on the share of property in household's total assets shows a positive correlation with GDP growth. But since 1980 they find a negative correlation. Housing becomes more attractive in times of slow growth. Until the 1980s, households invested [as if there were no human beings involved] more in housing as equities rose, but by contrast the recent fall in share prices has seen more money move into housing.

American ownership of stocks rushed past their love of property, ever-so-briefly, in the stock bubble of 1998-2000. Investors currently hold about \$11 trillion in stocks and nearly \$14 trillion in housing.



R.I.O's Comment!

Consider this. While the rise in US housing has been astounding in some areas it's only 5th on the list of countries experiencing a property boom. Britain has seen a whopping 40% increase in housing since the stock market peak in 2000. Spain, Italy, France, Australia and Canada have all jumped a minimum of 10%.

Trouble is, if these Western economies are anything like Japan that "negative correlation" between plunging stock prices and skyrocketing property values is about to become unglued.

After blistering price rises in the late 1980s - among widespread fears that the Japanese were going to buy up the whole planet - Japan's property market has now slumped for 11 years straight averaging a - 4.2% year-on-year decline thus far in 2002.

The collapse in Japanese property values began in 1991 - two years after the beginning of the "Daddy" of all bear markets in Japanese equities. Neither have seen too many bright rays of hope since

We are two years into this bear market and stock valuations are still absurdly high, but we must remember that in a bear market values deteriorate through time.

Japan is out for the count, Europe is on the ropes. The world economy [appears to be] held together only by the willingness of the US consumers to still do their duty and buy. That will only persist as long as jobs and housing stay afloat - it is a very unstable house of cards in which to dwell.

The US economy has lost its air of invincibility, while the stock market has continued to struggle, and yet, somehow, the housing market remains a pillar of strength, but is it too strong?

Obviously, most folks don't believe all this bad press about the housing market, or they'd be scrambling to sell houses instead of scrambling to buy them. Prices would be falling, instead of rising.

I can't say for certain, of course, but house prices continue to rise at a brisk, bubble-like pace. Then too, prices are rising much faster than incomes, which is a very bubblesque phenomenon. Add to that the troubling little detail that mortgaged delinquencies are on the rise, and suddenly the housing market begins to resemble a large balloon.

Whether the housing market is a bubble or a bull market or something in the middle, the rising delinquency rate may be the bell tolling the death of rising home prices. Whilst researching, we came across some compelling data - according to the Mortgage Bankers Association of America, in the second quarter, a record 1.23% of all home loans were in foreclosure. That tops the previous record of 1.14% set in the first quarter of 1999.

The Wall Street Journal observes that in recent years, the housing industry has bent over backwards to allow people to buy houses they could not previously afford. I would point out that about now, the bill is coming due.

Further more, growing numbers of distressed borrowers are heightening fears that the nation's red-hot housing market is poised for a correction. If the delinquency rate worsens, lenders could tighten lending standards, making it harder for many potential homebuyers to get financing and resulting in a weaker overall housing market.

A housing bust is born. After years of soaring prices, many homebuyers have tended to forget that the housing market, just like any other financial market, is cyclical. If I am correct the USA is heading into the down-leg of the cycle, and the USA economy may be in serious trouble. As we've noted numerous times, consumers have been tapping the equity from their homes like sap from a tree, or the economy would be even worse off. The easiest way to lose money is to buy something which is over valued i.e house, car, boat, stock, anything, assuming ofcourse that the purchaser has bought the holding as an investment!

Also note that the US labor market conditions have started to deteriorate again.

While the overall unemployment rate at 5.7% seems pretty decent for a sluggish economy, the long term unemployment rate tells a very different story.

So what do you do if the world economy is mired in debt, teetering on the edge of a housing collapse, and preoccupied with global terrorism and impending war in the Middle East?

Why, you make money of course, if you know how to take advantage of the above that is!

Any members interested in securing their position or taking advantage of the up and coming investment opportunity which will present itself in relation to the above should send us an e-mail: therioclub@cbn.net.id!



Mutual Fund Managers

In a classic case of tail wags dog, when mutual fund investors withdraw their cash, mutual fund managers must have been caught snoozing. They had to sell stock to raise money, whether they wanted to or not. This forced selling can, and often does, push share prices lower, which leads to even more redemptions and therefore more selling. This is not a pretty picture.

In the olden days of the 1980s and early 1990s, mutual funds used to hold significant cash positions with which to meet redemptions from panicky investors. However, as the bull market of the 1990s progressed, investors came to believe that they should only panic about when to buy MORE stocks - never to panic about selling them. Did these so called fund managers forget their responsibility?

Mutual fund managers, therefore, abandoned the practice of holding large cash positions with many

managers bragging that cash was for old fogies and idiots. "I think not!" It seemed to be their opinion that investing every available cent in the stock market was the best way to produce big gains. This was and is in our opinion ignorance or was it a buy buy and never sell attitude that always ends up in tears (investor's tears of course). For their ignorance many have been given the big kiss bye bye and no longer have a job.

Unfortunately, in our opinion the downside of the mutual fund industry's overconfident imprudence is now in full flower. Cash levels at mutual funds are near all-time lows. At Fidelity Magellen Fund, for example, cash represented only 0.5% of its assets as of July 31, compared to 3.2% one month earlier.

What does all this mean? Best case: Mutual funds don't have the "scratch" to do much buying. Worst-case: If

dejected mutual fund investors start to redeem their shares en masse, the funds will become forced sellers of stock into a falling market.

Our market setter told me that the mutual funds have been conspicuously absent from the day-to-day trading in the stock market.

The US mutual funds aren't active because they seem to have a buy and hold mentality and of course they are fully invested and have no cash percentage within their funds. They're seeing nothing but redemptions.

Unlike our funds that hold their positive ground in negative times, and are always holding a cash percentage for investment opportunity. As the Club's fund manager, I have only one comment 'we are creating opportunities, not waiting for them, to arrive!'

US Economy Update - Another Nail in the Coffin!

The American economy is closer to what economists call a "liquidity trap" than at any time since the Great Depression. It sounds like something you find under the kitchen sink, but a 'liquidity trap' is what happens when prices fall and people decide to stop spending - realizing that things will just get cheaper as time goes by.

It's a trap because it is very hard to get out of. The Fed can create money, but only so long as people are willing to borrow and spend. Otherwise, the credit just sits on the Fed's books, never affecting the economy. When this happens, the Fed is trapped just as the Japanese central bank has been for the last half dozen years.

Why can't the Bureau of Printing and Engraving just print money, people ask? Well, yes! A couple of years ago, one analyst helpfully suggested a cure for Japan's trouble: just print up billions of yen and drop them over Tokyo, he said.

It's a sad day when a central bank can't destroy its own currency, but it happens. Even printing and carpet bombing dollar bills can't save the situation because it risks adding hyper-inflation to depression, making the situation worse rather than better.

All over corporate America, businesses are cutting costs. Alas, cutting expenses can improve one company's bottom line, but for the whole economy, expense cutting is just another major step towards a liquidity trap.

But people like to think that someone, somewhere, somehow is in control. "Greenspan wouldn't permit a bear market," they said a couple of years ago. "The Fed won't allow

deflation," they say today.

Greenspan has only been right twice in the last 16 years and both times, perhaps by accident. He noticed that stock buyers were "irrationally exuberant" in 1986. Then, in 2002, he remarked that "infectious greed" could be a problem.

Few economists acknowledge this solution. Corporate cost-cutting and labor-saving layoffs appear in the forecasts as the golden road to greater productivity and rising profit.

We see this as yet another nail in the coffin. Is the above the road to a recovery in the US economy "they must be joking!!". Never mind about just firing the workers and extinguishing the salaries that would have been spent on the merchandise and services that fatten the profit. With revenue failing to rise, what will they do then - cut costs more? The process feeds on itself - until there are not enough workers and salaries left to generate sales and profit.

If everyone tries to cut costs and save more, no one saves more. If you and everyone cut costs, expenses do indeed go down, but revenue also goes down, so profits eventually go down, too. Collectively, we can't cut our way to prosperity.

In our opinion the United States is caught in the strangest and perhaps most perilous recovery since the Depression. New figures showed investors took a record amount out of US equity funds in July - \$50 billion.

William Gray
Executive Chairman



Italian Residential Property still offers 'La Dolce Vita' if you know where to look!



"La Dolce Vita" means the sweet life and life gets no sweeter than in sunny Italy.

Italy has a staggering amount to offer residents. Romantic cities, timeless hill towns, snowy mountains, idyllic islands, and a rivetingly beautiful coastline.

Outside the major cities, homes are enticingly affordable. There are towns in Italy's glorious lake district where apartments sell for as little as \$26,000. A classic farmhouse to restore? We know of one location where the starting figure is \$31,000.

In fact, you can find sensibly priced properties in most Italian regions.

Fifty thousand dollars opens the door to lots of options. On our recent trip to Italy earlier this year we viewed several options, for example, I came upon a 750-square-foot villa singola (a simple, bungalow-style home) for just \$42,500.

Here's another: a bijou village house of 500 square feet, whitewashed and with two stories, in the centro storico (historic center) of an Apulian village. The price is \$35,000.

Even in the Italian Lakes, prices aren't outrageous. This is an



astoundingly picturesque area where palm trees grow amidst alpine scenery. Crowned with ancient churches, the lakeside villages girdling Lake Como and Maggiore are storybook affairs.

Draped in bougainvillea and wisteria, lakeside village houses are painted in warm summer shades of daffodil yellow, peach, pink, cream, and butterscotch. Does \$118,000 for a house in this paradise sound reasonable to you?

For those seeking a studio apartment (maybe for vacations) we know of one that's priced at just \$44,000. In a period villa within walking distance of Lake Como and village shops, it has a parking space and shared garden.

Many Believe Prices in Tuscany Can Be Crazy

True, you'll still encounter crazy prices in Tuscany's so-called Chianti region especially if you're looking for a restored farmhouse with marble bathrooms and a swimming pool. But does it have to be a home in the Pisa-Siena-Florence triangle?

We can point you toward another part of Tuscany where prices are far more sensible. Where stone-built village houses requiring some modernization start at \$52,000 and houses that you could move into tomorrow go for around \$100,000.

This April we went exploring the glorious hill towns and countryside of Le Marche, a region where the scenery gets more beautiful at every turn. Let me tell you about this property we saw - not a ruin, but a large, rambling farmhouse

where you could literally move in immediately.

Built of rose-colored stone, this casa colonica is big, around 3,000 square feet, with a couple of outbuildings. The garden,



planted with olives, hazelnut trees, and vines, is 40,000 square feet and includes a stream. It's not isolated - the nearest village is a mile away, and Adriatic beaches are a 15-mile drive. The price is \$134,000.

Rome is irresistible, but good-quality homes are pricey. We won't pretend otherwise, but how about a rental? An apartment with a view of St. Peter's Basilica for just \$700 per month.

Consider buying a home near Rome rather than in the capital itself. An hour from Rome, Rocchete is a beautiful village set amongst the green valleys and streams of Lazio province. Closed to cars, the village is more than 500 years old...you can only enter on foot through an old door that used to be the settlement's main gate.

On two levels, there's a 750-square-foot apartment on sale here that faces the valley and an old castle. No major structural work is required, and the roof was redone about 15 years ago. Price: \$35,000.

Each future issue of the R.I.O Club newsletter will feature an article on interesting residential property locations, which have been selected for their value to potential second homeowners or members who are close to retirement and may be looking for that ideal location. The R.I.O Club is soon to provide its membership with information on residential properties for sale worldwide which we feel offer the best of both value and location.

William Gray

Executive Chairman



This is what it's all about !!

Pictured below are founder members Dr Scott Younger (left) and Dr Robert Park being presented with an award of gratitude from the RIO Club by Miss Scotland. Scott and Robert have continually supported the RIO Club during their many years of membership. They have been happy to endorse the concept and values that the club has adopted, regularly recommending friends and colleagues to look at the RIO Club opportunity.



New Member's Letter

I started investing through the RIO Club this June, after having first met with David Wiseman and then Bill Gray. I would like to relay to members my first impressions and how the first few months have worked out.

Initially, I was driven to changing my previous financial advisor following on from years of what has to be described as "under market performing investments". This was despite having a highly "qualified" advisor, complete with degrees, published articles and actually internal awards from his own company. I believed, however, that all I was getting was "institutionalized" advice with no serious insight into real risks and opportunities. Bill Gray and the RIO Club instantly struck me as not of this mould...at all!

It is difficult to trust someone new with any sum of money, particularly in Indonesia! For me, I had concerns that I was being sold a story with the sole goal of getting my money. The story told to me, in strong terms, was that the major holding I had was likely going to drop 25% and the risk/reward balance was hopelessly wrong. The RIO funds, I was told, are

low risk with a steady growth pattern, not necessarily spectacular, but above most indices. I did make the decision to liquidate my holding, and transfer the money to RIO funds, uneasy that the advice was not necessarily the prevailing view in the industry, but reassured by some friends who had told me they have seen good history with the club.

Three months later, the value of that previous holding has decreased by 37%. The value of the RIO fund has risen, not by much, but key to me is that it has not dropped, like many other investments have done over the last few months. It is still early days for me with RIO and time will further tell how consistent the advice and fund performances are. However, to give credit where credit is due, the initial advice I have received and the initial performance I have seen have all proven to be excellent.

Lance Portman
22.09.02

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