

Investment Report

26 July 2007

Overseas investors see every slight drop in the Dollar as an increase in the risk!

As we keep saying, we can't predict the future but it seems to us that investors greatly underestimate the risk in the US market.

We remind readers that the way to make money is to buy low and sell high, doing it the other way around doesn't work. Of course, you can also buy high and try to sell higher. But the higher you buy the more downside risk you take on.

Our advice: Stick to the simple formula. Buy stocks when they are bargains be like RIO it simple but effective if they're not bargains, don't buy.

And here's another reason not to buy stocks: The dollar is falling. So far this year, investors have lost about 4.5% in dollar-based assets, compared to the euro. That effectively wipes out an entire year's worth of earnings for Treasury bond investors, for example. The typical American barely notices; but the overseas investor sees every slight drop as another reason to get out of this situation.

Of course, a sudden rush out of the greenback has been a danger for years. Since it hasn't happened yet, speculators believe it will never happen.

"Traders ask how low dollar can go," is the headline of an article on the subject in today's Financial Times. Already at \$1.38 against the euro the paper cites a guess that it will go to \$1.40 soon. We have been predicting the demise of the Dollar since 2004; members should read past reports on this on RIO's web-site which has been re vamped. As usual our predictions were perhaps too early, however the facts show that our forecasts were worth there weight in Gold.

A falling dollar isn't bad for everyone, when the dollar goes down, gold and silver go up. And investors have, historically, turned to precious metals as a hedge against the faltering U.S. currency.

An expert who was willing to talk to the Financial Times publication agrees with RIO that at some point the fall in the Dollar will translate into foreign investors no longer buying U.S. assets and selling their existing holdings.

The United States has a huge annual current account deficit. Foreign investors cover it each year when they buy U.S. treasuries and other American assets. Spectators - we among them - have been amazed at how much money they were willing to put into Dollars. But there's a limit to everything and it's not hard to imagine a change in attitude coming.

The crack up in sub prime lending is reminding them that every asset with a Dollar sign on it is not necessarily as child-safe or foolproof as it looks. And pity the poor speculator who borrowed yen, traded for dollars, and bought into Bear Stearns' Leveraged Credit CDO fund. He's been wiped several times over.

Not only has his hedge fund account gone to zero the yen has gone up too, giving him additional losses.

RIO highlights another trend that might be worth watching. For the second consecutive month, reports our analysts China has been a net seller of U.S. securities.

China sold a net \$6.6 billion of U.S. securities in May, after selling \$5.8 billion in April. My data shows this to be the first back-to-back sales of securities in these quantities since January and February 2004. And is evidence China may be diversifying its more than \$1,300 billion in foreign reserves.

Those members who sold there US Dollars as recommended to invest in RIO Prestige Performance Fund will be laughing as Pound Sterling hits new highs just as I predicted in the multitude of investment reports set to members over the past three years. The good new is that the position will continue though 2007 with a few breaks for the fragile US Dollar before the next fall. Mean while **this Sterling investment which produced a 5.76% gain in June alone**, add to this the currency factor and this fund truly is producing results. This out performance will continue in coming weeks as fund looks set to hit new high e-mail us for your chance to prosper from up side.

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