RIO Professional Investors Fund

28th September 2010

First of all Members will have noticed that Gold hit a new record high to reach my predicted $1,300 an ounce, following the US Fed announcement last week. The Fund has sold its positions in Gold already and taken profits and will acquire the yellow metal again when the right opportunity presents itself.

Whilst in the UK on business I took advantage of the Yen's strength, posting Yen/Dollar currency trades for the Fund. Both trades were positioned and sold with profits taken during the trip. For those interested these trades were positioned on the basis that we would see some profit taking in Yen/Dollar positions sooner rather than later. I also felt that we may even see the Japanese government enter the transaction market with the Yen at 83 or above. My forecast proved correct; we did indeed witness the Japanese government's first currency intervention in over six years. Last week I positioned a new trade in oil, in which we have successfully traded for the Fund previously. This trade will likely hit its benchmark in the coming weeks and is already in a positive position as I write this report. The annual target return of this Fund is 12% per annum currently this investment strategy has produced a positive return of +11.26% in just six months. Should members still not be convinced that this Fund is the one to watch, the chart below shows that the Fund continues to outperform the main markets. As September draws to a close RIO Professional investors Fund is likely to end the month with yet another positive gain.

	1 Month	**3 Months**	**6 Months**
FTSE 100	6.06%	7.21%	-2.15%
S&P 500	6.27%	3.87%	-3.40%
DOW JONES	5.55%	4.28%	-1.37%
RIO PROFESSIONAL	0.53%	8.49%	11.26%

Gold

Gold should go up with consumer prices or so it is supposed. However, for nearly two decades – from 1980 to 1999 – gold went down while consumer and asset prices rose. Now, while consumer prices are stable gold continues to rise. Why?

Well perhaps all views on gold are baroque! There is no line of thought on the subject that does not have a twist to it today. Some investors are acquiring gold because they see a recovery coming. Others are buying Gold because they don't see any recovery in the foreseeable future. Both groups of investors are often taking recommendation from analytical experts. Recovery, analysts tout, will boost consumer appetites, resulting in higher inflation levels and a higher price for gold. Other would-be analytical experts comment that the absence of a recovery will cause the Fed to print more money again favoring Gold.

The unusual factor here being that both groups of analysts are portraying the opposite economic scenario yet but schools recommend the same; buy gold.

A more compelling reason why gold continues to advance is that the Chinese at present sit with gold making up only 1.7% of China's foreign exchange reserves, as pointed out in a previous report. Our analysts believe China is targeting a 10% figure; I tend to agree that China will increase its stake in gold. An interesting technical fact is that they would have to buy every ounce the world produces for two and a half years to reach a 10% position. If they were to depend on their own production (China is the world's largest producer) it is predicted that they would take nearly 20 years of steady accumulation to reach the 10% figure.

Gold is under pinned by all of the facts mentioned above as such it is likely to remain above $1,200 an ounce near term. I would comment that I expect to see other investment houses take profits any time gold breaches $1,280, which may restrict gold's price breaching $1,300 in the short term.

The best use ever found for gold was as money – as a reliable measure of wealth.

Even gold is not perfect as money. During the years following the Spanish conquest of their New World territories, for example, gold flooded back into the Iberian Peninsula. Soon there was much more gold around than the other forms of wealth it was meant to comparatively represent, in effect an over-supply. Each incremental ounce of gold therefore disappointed. It bought only a fraction of what it had before this monetary inflation began. Furthermore, had one bought gold in 1980 one would have seen 90% of purchasing power disappear before the bottom was finally reached, and even today, one still would not be back at breakeven point. The price of gold will have to almost double from today's level to reach its inflation-adjusted high of 1980.

And when the post-1971 monetary system cracks up, will gold return to its true value? By 1971, Americans had forgotten everything they ever knew about money. Richard Nixon cut the final link between the US dollar and gold and here we are today with gold very much back in play!

William Gray
Executive Chairman
The RIO Club