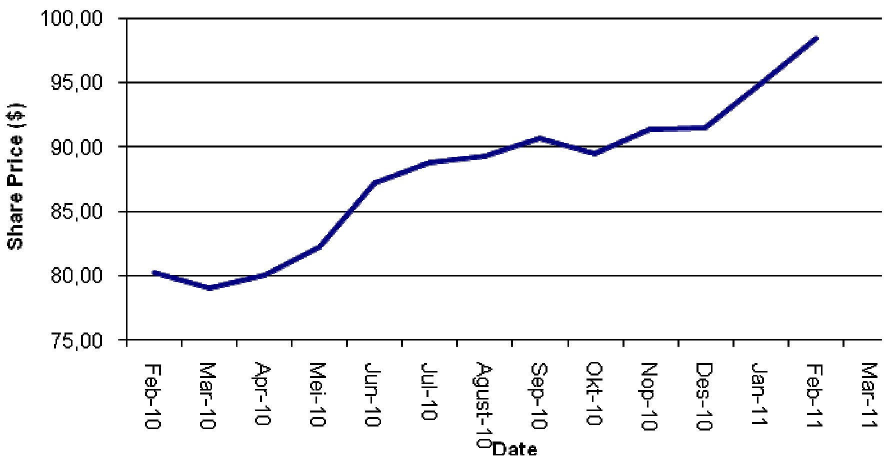
RIO Professional Investors Fund has successfully traded both the Nikkei and Yen in event driven trading over the past two weeks!



23th March 2011

To date March has netted further gains for this Fund on the back of February's 3.59% gain and continues to benefit from active trading. This is no exception. I anticipated and took advantage of the intervention by the G 7 group of countries by posting a trade in Yen on Friday, 18th March acquiring Yen at 79.75 with a sell order at 81. I was confident that this G 7 action would be enough to push the yen weaker; it did and by Monday the trade closed with profits taken.

The fund also benefited last week from my event driven trade on the (Nikkei) placed 21st March and closed on 22nd of March showing a net gain of 5.39%. Hence, as I have said before, bad news can be used beneficially if you know how. I believe that there is a lot more bad news on the horizon and I am more than ready to take advantage of this going forward. Accordingly, I have just positioned trades to benefit from any escalation in the turmoil currently plaguing Libya.

The Fund continues as predicted to outperform its annual bench mark return of 12% and, for year to 1st March the return stands at +22.76%. I am confident that the next few months will see this Fund continue to outperform the target. Looking forward should we see continued trouble in the Middle East or Japan I confident that my trading strategies will continue to net handsome rewards.

What of the Yen?

Will we see a repeat of 1995? The big story has been the G7 stepping into the currency market and selling yen on a coordinated basis. As you would expect, it was the worst performing currency on the day of intervention, ending up with a loss of about 2.25%. Good news for RIO Professional Investors Fund, since I had posted a trade at 79.75 for a move to 81.25. The yen (JPY), as predicted, fell all the way to 81.99 on Friday morning, but barely climbed back into the 80 hurdle by the weekend. All of the excitement in the currency market really took place in the Asian and European trading sessions. In fact, most currencies ended the day higher in US trading, including the Yen.

Some investors asked me if we could see a repeat performance after Japan's 1995 quake when the currency ran up about 20%. It does not seem likely, the reason being that the world is much different now and there are several factors working against a significant appreciation.

First, the interest rate environment is different. During 1995 both the US and Germany were cutting interest rates, so the rate differential was narrowing. In the current situation interest rates globally are on the rise. In other words, the current interest rate environment was already working against the yen before the quake.

Secondly, one of the few bright spots for Japan has been its export strength. It has posted a current account surplus since 1986, so erosion of its trade surplus from increased demand on imports and limitations on some exports would pose a real threat.

We also have a situation where Japan could become the first G7 country to return to recession after its fourth quarter GDP contracted 0.3% as government stimulus was being removed from the economy. Limited economic growth and falling consumer prices before the earthquake did not signal positive points either. In addition, the annual repatriation of funds for corporate tax filing could keep the yen exchange rate unstable and the continued thought of intervention and weaker economic numbers should lead to a weaker yen.

It seems as though the intervention efforts by the G7 are having the desired effect, at least thus far, as the yen has not shown any sustained appreciation. The market does not seem to want to challenge the Bank of Japan or the G7 at this point, and hence the yen is likely to hover around current levels with a sell bias until investors have a chance to fully evaluate the situation.

The markets have been digesting the G7 yen intervention, but were not scared away as the currency rose from its low of the day last Friday. Members should take note that the G 7 group of countries has remained on the side lines for more than ten years before this swift coordinated intervention. It would seem that the main goal of the G 7 policy makers has been to show solidarity with Japan at a very difficult time and to help to restore market stability. In this context I view the G 7 action as successful. Statistics show that option-market pricing supports this view as front –end volumes have fallen sharply, while risk reversals, though still favouring JPY calls, have came back in.

Finally, I strongly believe that there are not many currency traders anticipating a repeat of 1995 where the yen appreciated significantly in the aftermath of that earthquake.

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