

# Rio Professional Investors Fund

30 March 2011

My report earlier this week resulted in a few comments from members. For example, how does our fund compare against the main markets? The answer is shown clearly in the table below; as can be seen, the management of the fund looks very satisfactory.

This has been achieved while asset allocation shows that RIO Professional Investors Fund holds almost 30% of its assets in fixed interests and over 10% in cash, in simple terms 40% in very low risk, leaving 60% of the Fund available to trade. This has been more than sufficient for me to outperform all main markets.

Even better, for those invested, the report for March shows that all trades placed this month closed profitable, which will add to the returns set out below. This Fund is positioned to benefit from any further bad news out of the Middle East or Japan.

	1 Month	3 Months	6 Months	12 Months
<b>RIO Professional Investors Fund</b>	<b>3.78</b>	<b>7.78</b>	<b>10.33</b>	<b>22.76</b>
<b>DOW Jones</b>	0.15	7.13	17.42	15.90
<b>S&amp;P 500</b>	-0.10	8.31	20.92	7.09
<b>FTSE 100</b>	-0.37	5.20	10.61	9.80

Figures to 01 March 2011 and expressed as a percentage

Several legislative initiatives caught our attention recently. All of them are related to the monetary role of gold and cover proposals to return to the gold standard. In fact the delegate from the Commonwealth of Virginia suggested minting gold and silver as an alternative currency to the US Dollar and in fact filed this bill a few weeks ago.

Are these proposals a signal of a significant attitude change among politicians and mainstream economic institutions toward gold? Actually no! They are largely regarded as just ideas which are currently being dismissed.

However it may interest members to know that last November, clearing house ICE Europe began accepting gold bullion as initial margin for crude oil and natural gas futures. ICE Europe is not alone this year, since J P Morgan Chase announced that it would [accept physical gold as collateral for a number of transactions](#). Further investigation shows that this is a growing trend. According to

the *Wall Street Journal*, stock exchanges in New York, Chicago and Europe also recently agreed to accept gold as collateral for certain trades.

I also discovered that the World Gold Council is gaining support in its push to have the Basel Committee on Banking Supervision accept precious metals as Tier-1 assets for banks, along with government bonds and currencies, which is interesting. Simply, private and public institutions alike are clearly rethinking their attitude towards gold, as I predicted over two years ago.

Finally if you think the interest in gold is exhausted, RIO Professional Investors Fund is not the only buyer of gold. The world's central banks were net buyers of gold in 2010 while up until 2009 they had been net sellers for the previous 20 years, which is an important indicator. The glaring fact is that even the less informed feel something has changed! World Bank President Robert Zoellick commented last November that gold has become the "yellow elephant", a fact that needs to be acknowledged by policymakers of major economies. I am often heard quoting a famous two thousand year old analogy, "He with the gold rules!"

I cannot say that this is set in stone, since no one can predict exactly how this will all develop, but a return to a gold standard is not as farcical as many may think. I would add that some modern equivalent is almost inevitable. It was Aristotle who outlined the benefits of such a thought over 2,000 years ago. He said that gold is "durable, divisible, consistent, convenient, and has intrinsic value". Perhaps it would be true that gold is without doubt the world's best money.

The dollarization of third-world economies is an example of less palatable money. The dollar is being perceived as good money but only when compared to many shakier currencies, but even that would seem debatable today. What happens then if fiat currencies as a class start to be perceived as bad money? History, tells us that they'll eventually be abandoned, unless made good (put back on some acceptable standard of value) and this may see the resurgence of gold.

The key point here is that it cannot happen just as a little amount, just as a woman cannot become a little bit pregnant!! Should the event start, good money will drive out the bad. In today's wired global economy, the phenomenon will be worldwide, and I would point out that such a remarkable world changing event, should it become reality, would occur with devastating and unimaginable speed.

**RIO Professional Investors Fund** can hold up to 60% of total investment in Gold within its asset allocation at any one time. More importantly every trade I have executed in this commodity has produced positive returns to date for this fund. As investors know historically gold is seen as a low risk low return holding, my predictions and trades in gold have been anything but low return. Not only has the performance this fund outstripped the main equity markets over the month, three month and even the year to 1<sup>st</sup> of March 2011 as depicted above, but when one considers that the funds asset allocation also has exposure to fixed interest holding's RIO Professional investors fund provides what can only be described as a strong argument to invest capital. This fund is positioned to benefit from any bad news from the markets.

**William Gray**

**Fund Manager**

**RIO Professional Investors Fund**