

RIO Professional Investors Fund update

26 February 2010

The trading within this Fund continues to be successful and, as always, I continue to trade around 25% of the fund actively. At time of writing every remaining trade placed this year is in positive territory, including the purchase of gold, made yesterday, and which has gained 1%. Should the price move a further 2% into positive territory the sell order I set will automatically be triggered and this position will be closed with a net 3% gain.

A further 20% of the Fund is held in cash. Liquidity has become very important these days and is a major factor in the investor's decision to invest, with a lack of liquidity plaguing the financial system worldwide. I have almost 15% of the Fund invested in alternative investment at present, and trade event driven investment from time to time with up to 5% of the Fund. These are usually relatively short term trades.

Recent closed trades over the past couple of months have proven to be beneficial.

For example, I sold one position in gold on 25/11/09, taking a profit of 9.45% net, which bolstered the cash holdings of the fund for almost six weeks before being reinvested. It should be noted that this trade represented over 25% of the Fund and, as such, was good for the Fund as a whole.

Further Gold buy orders placed in early January 2010 were filled on the 9th and 10th January with the last buy order being filled on 12th of February 2010. As soon as the trades were confirmed and in position I immediately placed three sell orders. All the positions were closed having hit the price set two days ago on 24th February 2010; gains of 3.52%, 3.93% and 4.15% were realized. These trades represent over 25% of the Fund's total holdings.

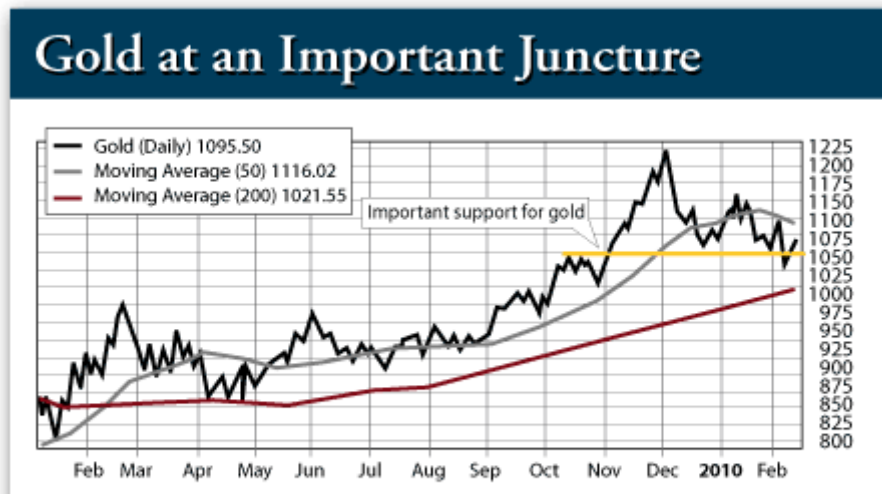
The Gold Market

At time of writing, precious metals are at a critical juncture and the price of gold is trading above an important support level. The graph below shows that the price of gold peaked at US\$1,075 in October 2009, and that level is now acting as important support. Now, if the bull-market's trend consistency is intact, then the price of gold must rally immediately and challenge its December high.

At the very least, the price of gold must hold above US\$1,075 per ounce. So, will gold manage to stay above this critical support level? Well, the macro-economic environment has never been better for the yellow metal. Mined supply is in decline, investment demand is rising, the public sector has become a net buyer of gold, and hatred towards paper

currencies is on the rise. This will drive further investment into gold. Under these circumstances, I expect gold to perform very well and this will benefit the fund significantly. However, members must remember that the American currency is in rally mode and this is currently exerting downward pressure on all metals, which gave me an opportunity to add to the Fund's gold position.

I would say that the odds of a rally in gold are about 2:1. Accordingly, the Fund will continue to both hold and trade positions in this commodity.



Now, if gold does the unexpected and breaks below US\$1,075 per ounce, then I envisage a deeper correction to the US\$1,000 per ounce level. I have already placed an order to acquire a further holding in this metal, just in case. As I said I will continue to trade positions in gold as opportunity presents.

CBS Marketwatch envisages that Gold will reach \$2,000 an ounce. **According to Forbes** Gold will eventually hit \$2,000 or \$2,500.

I believe that hard assets are in a secular bull-market, which will probably end in a gigantic rush. The bull-market will end in the latter half of this decade; at a time, when inflationary expectations are spiraling out of control only time will tell.

The policy actions of the past 18 months are extremely inflationary and, once the American economy stabilises, a significant increase in the general price level will be experienced.

Event driven trading opportunities realized producing further gains for the Fund

The Fund, as I pointed out above, has the option of investing up to 10% in alternative investments. A recent example of this type of trade would be the Japanese Airlines stock purchased for the fund on 30th December 2009.

Bankruptcy rumors had reached a peak on 29th December 2009. I placed a trade at the close of play on the 29th knowing that the airline the stock would open at an all time low the following morning. As predicted, the stock did indeed open at an all time low on the 30th.

The order was filled and I set the sale price. The good news is that the position closed on 4th January 2010 and provided a net profit of 14.79% on this event driven trade.

Having closed the position I retained the Yen in cash within the Fund. I had forecast that this currency would strengthen against the USD and continue to do so up to March 2010 for various reasons, including Japan's end of fiscal year when the Japanese repatriate their holdings (buying Yen to do so which historically always benefits the valuation of this currency). The Yen has strengthened, as predicted, and I shall put a sale order in on Monday 1st March, posting another gain for the Fund in dollar terms.

William Gray
Executive Chairman
The RIO Club