

RIO Professional Investors Fund

19th of August

Since 2002 I have taken annual leave for four weeks during August, this year being no exception; I usually refrain from writing investment reports during this time. However, having some good news, I felt I should update those who have invested in this Fund. I will be returning to my desk in Jakarta on 5th September.

Just as I predicted months ago the markets have been suffering absolute carnage. As you would expect, I correctly positioned the Fund to benefit from any negative news.

Though I had left on a business trip to the UK in July, remaining there till the beginning of this month, investors may be interested to know that at the beginning of July I had prudently set several currency positions, predicting that the Yen would strengthen in August. These trades were then activated as my predictions on Yen proved correct as the Yen moved from 78 to 76.50 on the 1st of August; as I closed the first position taking profits.

I interrupted my leave to actively trade during the first ten days of August as such the second trade was set forecasting that we would see BOJ intervention at this level (76.50). I positioned the second expecting the Yen to weaken to 80 again this position was closed at 79.25 within a few days taking profits. I won't bore members listing further trades, but will simply say I continued to trade Yen positions for the Fund several times until from the 1st to 8th of August.

I also took the opportunity to trade again on the 8th of this month, this position was in Swiss francs, which had reached a point where bank intervention to weaken this currency's overvalued position was imminent in my opinion. I therefore positioned a Swiss franc/USD Dollar trade on 8th of August when the currency stood at 0.714 predicting that the currency would weaken. I set a position to close trade at 0.762 the trade closed in two days with profits taken.

August so far has been a good month as we have also seen positive moves on core holdings of the fund. Unlike many investment companies that were inundated by calls from investors panicking about what was happening and the losses, my staff enjoyed peace and tranquility with no calls from investors, simply because members had been advised several times in various reports that trouble was coming and I had positioned the Fund to benefit from volatility and bad news!

Members who have holdings in this Fund can now witness the benefit of investing in an actively traded low risk, correctly positioned fund. Whilst other markets witnessed severe volatility and losses, this Fund had no volatility and simply gained from the predicted panic in the market place.

I hope members noticed that my predicted \$1800 for gold also proved correct.

Why the Gold Bull Market Will Continue for Now!

Well stocks are plunging again as we go to press. The Dow Jones Industrial Average is down a very significant 500 points – back below 11,000. Meanwhile, most European markets are off more than 5%.

Gold is making headlines again by jumping \$30 to a new record high above \$1,800 an ounce. Gold has been making many headlines these days – both because of the success it has achieved, and because of the market failure that so many investors seemed not to anticipate.

Despite the fact that gold has soared more than 500% during the past decade, most professional investors still refuse to embrace it as a respectable asset class. Surprisingly Gold remains a relic to many investors and even some investment companies.

Gold is like a lady of the night that becomes a brain surgeon. No matter how accomplished a surgeon she may become, most folks will still consider her less qualified, not a doctor, which is unfortunate, especially if you happen to need brain surgery!

Right now, the entire world definitely needs a kind of monetary brain surgery, gold can handle the job, as I have often remarked since 2002. Members should consider the facts Gold can preserve wealth and has for several millennia. That's a track record worthy of at least a 5-Star rating in my opinion.

Simply put, history has shown that we got it right even if most of you care more about what will happen next than about what has already happened and, in the case of gold, most members perhaps want to know if this spectacular decade-long advance which I so accurately predicted can continue. In other words, is gold a "Buy" or a "Sell?"

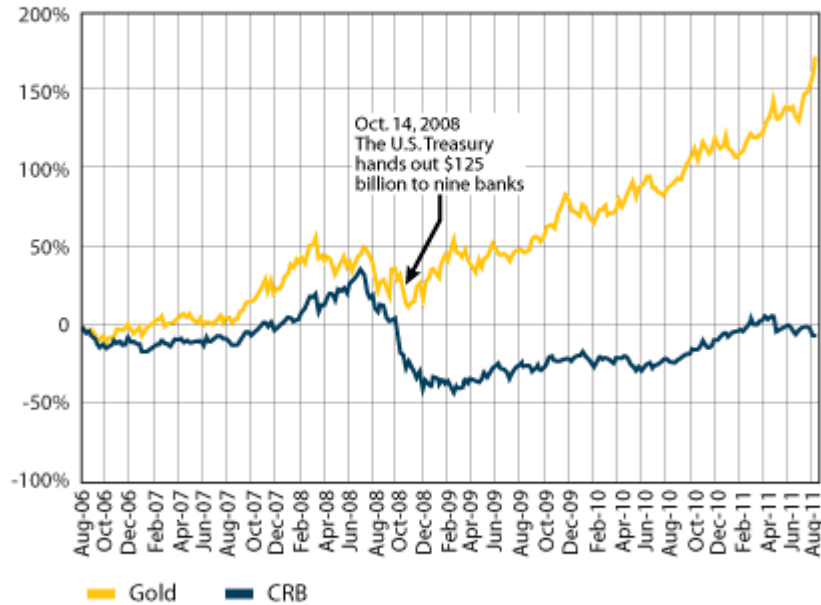
It is a Buy for now, but if you are not an active trader with both the time and skill to trade this commodity if you have not already done so I would suggest that you invest in RIO Professional Investors Fund which has outperformed its benchmark significantly.

RIO continues to trust gold because we continue to distrust the politicians and Central Bankers of the West. Actually, we do trust them; we trust them to pursue irresponsible fiscal and reckless monetary policies!

Take a look at the chart below. Members will see that the gold bull market did not really see some big action and jump into overdrive until late in 2008. About the time the Hank Paulson's Treasury Department began his *ex cathedra* dispensations of cash to financial institutions deemed "too big to fail" or merely, "too well connected to fail."

The Day Gold Became Money

In October 2008, the gold price began to diverge dramatically from the CRB Index of commodity prices



Hank's initial \$125 billion handout on 14th October 2008, seems almost quaint in the context of the bailout orgy that followed. Throughout late 2008 and early 2009, Paulson's Treasury and Bernanke's Fed colluded to funnel trillions of Dollars of direct bailouts and indirect subsidies into the bombed out balance sheets of selected financial institutions.

What's more disturbing is the fact that most of these Dollars had not yet been printed. Then Ben Bernanke went straight into the private recesses of the Federal Reserve and started procreating billions of little Benjamins, Andrews, Alexanders and Abrahams.

The gold market immediately picked up on this monetary activity, and has more than doubled since late 2008. But what was really interesting was that, while the gold price was doubling, the rest of the commodity sector was doing nothing. while not unprecedented, it is unusual.

As the left side of the chart above shows, gold tends to move up and down with the rest of the commodity sector. But that correlation ruptured in late 2008. Since then, commodities have been slumping, while gold has been soaring. Hence my decisions to specifically trade gold during this period and even restructuring RIO Professional Investors Fund to enable it to hold a far greater exposure to this commodity have been well justified.

Simply, while the commodity markets are saying that the global economy is in trouble, the gold market is saying that the Dollar is in trouble.

In general, we are confident in the collective incompetence of the individuals who purport to “safeguard” paper currencies. In particular, we are confident in the collective incompetence of those individuals who are safeguarding the Euro and the US Dollar.

In my opinion these two pieces of paper are a ‘Sell’, which makes gold a ‘buy’.

The Euro is an immediate ‘Sell’, which means the Dollar might be a short-term ‘Buy’. But we would sell the Dollar anyway. Why mess around with short-term, counter-trend moves?

Simply be warned that the Dollar’s primary trend is down, not up.

At last a growing number of Dollar-holders seem to agree. Over the past couple of years, the central banks of China, India and Russia have been swapping some of their vast pile of Dollars for gold. Many lower-profile nations like South Korea, Thailand and Mexico have been boosting their gold holdings as well.

Venezuelan President Chavez has announced that he plans to sell all his country’s Dollar reserves for gold and a basket of non-Dollar currencies.

Bloomberg News, Venezuela will shift its cash reserves “into currencies from emerging markets including China, Russia, Brazil and India...” Additionally, says Bloomberg, “Chavez will move forward with a proposal to repatriate as much as \$11 billion of gold reserves held in the US and Europe as part of a plan to shift assets away from American institutions.”

What’s he worried about? The US government would never confiscate his gold, would it?

The RIO Professional Investors Fund remains positioned for further bad news and negative data, therefore I am confident that this fund will continue to outperform its target return for the rest of this year.

William Gray

RIO Professional Investors Fund