RIO CLUB Newsletter

RIO PROPERTY GROUP Ltd. ACQUIRES SMALL BANK PORTFOLIO

RIO Property Group LTD Expands Property Portfolio

On the 21 February 2000 our offer to acquire a small Clydesdale Bank portfolio of four properties was accepted by the vendor. This acquisition further enhances our portfolio from an investment standpoint, acquiring holdings that offer both excellent covenant strength and return on investment.

The final settlement date of 20 March 2000 was important to avoid any extra stamp duty raised by the budget that was to be announced the next day.

All properties as usual were acquired outright with no liens. Each property within this portfolio is currently leased by Clydesdale Bank Plc on a 20 year full repairing and insuring lease.

Along with this acquisition came 51/52 Low Street Banff a property occupied by the Clydesdale Bank Plc on the ground floor with Aberdeenshire council as a tenant occupying both upper floors on a full repairing and a insuring lease. Members will be interested to note that we have already secured a 9% up-lift on rent roll from the council.

The usual surveys were carried out on each property prior to final negotiations which brought to light the repair works which will be implemented on each property, as its in our interest to have them restored to prime condition. Repair notices were served on the Clydesdale Bank Plc, who I am pleased to say agreed in principle to carry out all repair works necessary. This will add further to the investment value of this package.

All building were included in our commercial all risks insurance policy cover which includes subsidence and full terrorism cover. Rent loss cover is also included as per our standard requirement for a secured income stream policy.

Japan, We Stand By Our Previous Recommendation

Japan is appealing now. Take a look at history. Ten years ago the Japanese market was booming. Just like the U.S. market is now. It boomed so much, in fact, that the market become a speculative bubble. Japanese stocks were selling for more than five times book value while U.S shares were selling for 1.8 times book value. The business best-seller list was filled with books about "The Japanese Economic Miracle."

As it turned out that was the very top of that cycle.

But the value investor, who sold Japanese shares 10 years ago when they sold for more than five times book value and instead bought U.S shares for less than twice book value, might have noticed something interesting.

Today it is U.S. stock that sells for more than five time book value. And Japanese stock? Less than twice book.

It was Mark Twain who said history never repeats itself, but it rhymes.

WHAT ABOUT THE LOCALS

The Japanese themselves are showing sign of investing in their market again. This process was boosted when Japan introduced their 401 k plans in April. This certainly worked in the United States to broaden and deepen individual involvement in the stock market.

Japanese M&A Activities reach new high.

Further confirmation of Japan's changing environment has continued to surface. The final 1999 figure for M&A activities, showed 892 cases, up by over 200 from 1998, and a record. The total M&A values tripled for the same period to US $ 60 billion. This is further evidence of a New Japanese corporate mentality which is beginning to show itself.

French companies were the top foreign investors in Japan in the financial year to March, far outstripping the United States or other European firms.

Direct investment by French companies reached a combined 745.7 billion yen (US$6.9 billion) in the year, more than a 44-fold jump from the 16.8 billion yen in the preceding year to March 1999.

In all there has been a staggering 2,399.3 billion yen of direct foreign investment in Japan this year to March 1999.

Our Japanese stock pick was sold in Dec 99. with gains of + 200 % Since our buy in march 98.

Having sold 70% of the Club's holding in Japan on 6th October last years when still in safety mode, it was time to take profits once again, only this time from one of my direct stock selections ie selling 100% of the Club's holdings in Ito En.

Ito En, for those members who do not participate in the Club's direct stock portfolio, sell tea to the Japanese, mostly in the form of canned drinks.

Participants in the Club's stock portfolio will remember this one well, since I added this selection to the stock portfolio, I mentioned that "The stock isn't cheap, it is trading at five times book value". But I justified this in that "it's the premium one must pay for the company's superior financial position; its total long term debt is only one year's cash flow". Even now one year later, it's total long-term debt is about US $ 80 million or less than one year's cash flow. This is very unusual for a Japanese company.

Hence, good companies can offer value even if they are nearly always more expensive to acquire. With proper stock picking they can and do often show more than excellent returns as this one has.

Even though I have sold the Club's holding in this stock, members interested in this company can visit the company's website: www.itoen.co.jp.

GLOBAL RECOVERY ?

The great surprise of 2000 was the rapid recovery of the world economy from the virulent emerging market crises of 1997-98. Southeast Asia has staged a powerful V shaped economic recovery, with the Korean economy leading the way. Even Japan is perceived to be breaking out of its post-bubble-malaise, and the economies in Europe are showing more and more signs of improvement. On the other hand, hopes are riding high that Mr. Greenspan will successfully manage a soft landing of the U.S. Economy.

HOW LONG CAN " SUCCESS " WITHOUT BUSINESS STRENGTH LAST?

We find the current discussion of the "global recovery" rather indiscriminate. Any ever-so-minuscule pick-up in GDP growth is instantly hailed as an incipient, sustained expansion. Frankly speaking, the steep economic upturns in Southeast Asia have been too heavily geared toward dramatic reversals in trade inventories and fiscal policy to be instantaneously taken for "recoveries". Business investment, the all important driving force of these economies in general, remains in outright depression.

Traditionally you would need to have exceptional double digit saving and investment ratios and explored growth. These structural features have been at the root of their superior economic performance in the past. But remarkably the few countries who showed strong growth during the last year namely The United States, Canada, Australia, have precisely the opposite extremes in common, an unprecedented collapse of personal savings. As a matter of fact, it strikes us again that in the ecstasies of the New Economy one word is never, absolutely never, touched on. Its name **credit**!

THE CREDIT BUBBLE CONTINUES

In the Quarter century to 1973, the U.S economy had average annual real growth of 3.9%. During this long period of strong economic growth, the aggregate indebtedness of all non-financial borrowers (public sector, businesses and consumers) in the United States fluctuated around $1.40 for each $1 increase of GDP. By the early 1990s it was $183.60. But 1998 and 1999 stand out as the years of the most rampant debt creation ever, and remarkably, it was all consumer and corporate borrowing, since the government finances are in surplus.

In the first half of 1999, for new dollar of debt finance there has been 34.7 cents of additional spending on goods and service. In other words, little more than one third of every dollar borrowed translated into demand for goods and services, adding to GDP growth.

It is no secret where the bulk of the proceeds of the debt binge of consumers and corporations went into the stock market.

WHAT IT MEANS

There has not been any corporate sector miracle in recent years in the United States.

There is a general assumption that as long as inflation rates are low, there is no serious threat to the U.S. economy and market. It is the enormous and unsustainable imbalances like near-zero personal savings and the huge trade deficits that make the economy highly vulnerable. Such imbalances are not the customary route to depression.

DOLLARIZATION

Argentina's continues to consider using the US dollar as its official currency. For a while the U.S. Federal Reserve and Treasury Departments were against the idea; now, they are willing to let countries use the dollar as official currency (Panama does already, more or less), as long as those countries realize that they are at the mercy of the U.S. economy and fiscal policy. Ecuador appears to be first country to take up the challenge. The Ecuadorian Congress has passed the first part of the "dollarization," which sets the legal framework for the adoption of the dollar.

LETS NOT FORGET OUR PREVIOUS WARNING "BEWARE THE BANKERS"

1999 was the worst year since 1995 for bank failures when seven banks and one thrift saving house went under. But FDIC Finance Director Frederick S. Selby warned the Agencies Board on Dec. 14 that 2000 could be much worse. He predicts that another 12 institutions, and possibly as many as 22, will fail this year. Be careful where you put your money, literally.

OUR "DUMP THE DOW" RECOMMENDATION WAS JUSTIFIED !

We've been cautious when everyone else was bold, and it's paid off. Since our recommendation to dump the Dow in October last year. The Dow has dropped 1,230 points or 11.5% and that's after the biggest one-day gain ever.

CONTRARIAN INVESTING

That's the essence of contrarian investing, being bold when the crowd is fearful and being fearful when the crowd is bold. As it happens, this attitude is also the prime secret to every investor's goal; buying low and selling high. Easy to grasp, but hard to do.

Contrarian investing is unnatural, inhuman. We're programmed to look for safety in numbers and that's exactly the worst thing you can do as an investor.

But there's more to being a contrarian investor than the obvious benefits. And this is our deepest, darkest secret:

Buying when everyone else is selling and selling when everyone else is buying is exactly what it takes to be a good trader.

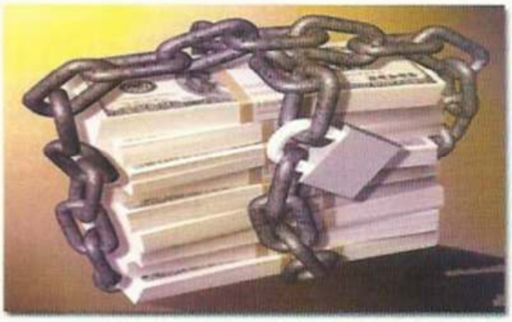
INVESTING VERSUS TRADING: TWO SIDES OF A COIN

There's a mistaken notion that we contrarian investors are naturally ordinary investors who go the opposite way from the crowd as a matter of course. Actually, most contrarians get there by discipline, not intuition.

It may feel comfortable to be a "go with the herd" investor, I wouldn't know myself. But the truth is we love crowds. After we buy, we want thousands of new buyers to come along and beg us for our shares at any price. And to gét the best return, we hope to sell right before the hordes who followed us in, follow us out.

Really, the one, big difference between investing and speculating is not in the goal. It's in the time you are willing to give to a trade. Got a year or more? That's investing. Want results in days to months? That's trading, also called speculating.

Trading doesn't have to be riskier than investing. Nobody takes more risk than the buy-and-hold investor who hangs on to stocks as they sink. Good traders only take on extra risk for proportionately more reward. You can't control the market or other investors, but risk is one thing you can control quite well.



This year we've been inundated with requests on should I assign my investment holdings to a Trust ?

Many members have inquired about the benefits of assigning their investment to trust for various reasons, the main one being tax efficiency. Since this topic is obviously a concern to many members I have decided to point out the obvious disadvantages that are all too often overlooked when considering utilizing trusts to achieve tax efficiency.

What's The Downside with Trusts?

1. You lose control of your money
2. You give control to someone who may not be trustworthy
3. You can't change your mind (about having given away your money)
4. The trustee may or may not follow your "letter of wishes"
5. In any case, the "letter of wishes" is not a legally binding document.
6. The trustee may do what you say, instead of what you mean !
7. Nobody's going to look after your own money like you do.
8. The law may change, making trusts useless from a tax and inheritance point of view, but it's too late to do anything about it. On the contrary, your trustees will love each and every change in the law because this will give them a "genuine" excuse to re-arrange your affair- for a "small consideration".
9. The protector who is supposed to protect your interests almost certainly won't know, in advance, if your money is being diverted.
10. Trusts cost a lot to set up and a percentage of your wealth to manage. If the government told you they were going to impose a wealth tax of 1% per year you and the other tax payers would be up in arms. But people gladly pay this, and more, when they sign away their life savings with a trustee.

All of these negatives don't mean you shouldn't have a trust for a specific purpose, provided you can be convinced that none of them outweigh the specific advantages you are seeking.

THERE IS AN ALTERNATIVE ?

For members who would prefer not to lose control of the money, nor suffer the numerous disadvantages listed above, there is a very real alternative which has been put in place for over eighty three members already.

Interested ? e-mail:billgray@cbn.net.id

LET'S TALK ABOUT US

More service that's our plan for 2000. Every quarter when the Rio Club News is published, we try to make the coverage as current and complete as possible. But we always wish there were space for more and we could reach you more often. Well, now we're going to do it. We have added to our service, thanks to the miracle of the internet. You'll be able to get the latest on your stocks and frequent market observations throughout the month via our new website.

Our New Website is under construction **www.therioclub.com**