RIO PROFESSIONAL INVESTORS FUND

A New Year has begun and the RIO Professional Investors Fund posted its first gain of the year, a modest but expected +0.28%, realised for January 2013.

Those invested in this Fund will, or should, know that the Fund is continually being repositioned; this is professional fund management. This is the main reason for the historic outperformance realised by the Fund.

The Fund has continually exceeded its annual bench mark returns over the past four years, it has in fact returned 110.37%. A remarkable performance since historically up to 70% of its asset weighting has been vested to fixed return and term deposits, thus avoiding volatility. Let me clarify these asset classes are considered to be low risk assets by the industry, hence the risk ratio is low as is the anticipated returns.

So how was this performance achieved? Facts show that since inception the benchmark return was and remains 12% per annum - this number was set at inception in full consideration of the percentage of low risk assets held. At the Fund's inception I had predicted that massive volatility would be seen and hence elected to launch this low/mid risk Fund to offer members the opportunity to avoid potential losses and the unpalatable stress commonly associated with market volatility. I am proud to say that the forecast made years ago was literally on the money and absolutely correct and as such members profited. The returns were achieved by the continual balancing of asset class weightings, thus enabling the Fund to remain ahead of the predicted market movements.

The decision to increase percentage holdings to any particular asset class relies on a full in-depth study of any potential fundamental change to the coming economic and world political arena which often results in market movement. This in turn offers the continued preservation of the historic risk ratio of the Fund or, as is the case today, reducing the risk but optimizing the opportunity to reach and perhaps exceed the Fund bench mark return.

Accordingly, the Professional Investors Fund is currently positioned to see further gains in line with its target return this year, in part due to the events highlighted below.

During November 2012 I positioned a trade for the Fund on the back of the stance being taken by the BOJ and my forecast of the likely movement of the Yen thereafter. The forecast was correct Yen weakened and profits were taken as I closed the trade.

Main focus of this report

With reference to RIO's investment reports in the past, members will recall that I expect the eventual dissolution of the Keynesian monetary system that has been in play for over 60 years since the end of World War II.

How will this evolve? It may come in the guise of a now overdue currency debasement, which was predicted in an earlier investment report entitled "Foundations for a debasing of currency", June 2010.

This debasement could result in a large global currency crisis, partly due to the current strategies employed by Central Banks. The chain reaction looks to have already begun. There are many reasons why this is on the cards and one particular scenario is currently developing with the Japanese Yen.

I feel that most would be forgiven for forming the assumption that the Yen's recent free fall has been in response to Japanese Prime Minister Abe's intent to imitate US policy with Japan embarking in what they feel is the way forward, i.e. to print its way out of its troubles. The problem with this strategy, of course, is that eventually Japan's currency will break and this will have serious repercussions.

Japan is in a particularly tenuous situation in that their debt to GDP ratio dwarfs most of that of the rest of the world. The only hope they have of servicing this debt is for interest rates to stay basically at zero, much in the same way that the US Fed would be in trouble should they not retain the status quo on their current interest rate strategy for the obvious reason- the US can barely service their interest payment at current levels but that's another story.

An upturn in interest rates above the current artificially low level and Japan's debt becomes unserviceable, just like that of their counterparts in the USA.

Both of these major economies are faced with a stark reality. Without resorting to a greater and greater debasement of their respective currencies they are forced to hold interest rates as they are.

Should they embark on a debasement track, this will unfortunately also result in an acceleration of the collapse of their respective currencies which would, in Japan's case, cause the selling of Japanese bonds even more aggressively.

A major catch-22 situation is developing now.

The point is very simple; it is beginning to look as if there is no way out for Japan. The only question then is when the inevitable will arrive. Perhaps Japanese bond bears have been asking themselves that question for some time.

In this chart I have marked the successive yearly cycle lows with blue arrows to make it easy to identify my point. As you can see this major cycle bottom tends to arrive between March and May most years. However if the 2013 yearly cycle low arrives in the normal timing band, then there may be a very real problem developing with the Japanese currency.

Statistical data clearly show that, because the Japanese Yen is already in free fall, weight behind this suggests that it may be some time before this trend reverses. Perhaps it could realistically have another one, even two months, to go before it finally bottoms out.

The second trigger raises further warning signals.

But what is worse is that a second trigger has raised a further warning signal. This decline cut through not only the 2012 yearly cycle low, but also the 2011 yearly cycle low unchecked with reaction to these heavy moves.

This is a very bad sign. I would advise members that in normal circumstances in an orderly decline both of these levels should have generated at least a decent bear market rally and this has not happened.

In my professional opinion having traded this currency for more than two decades very successfully, the above is very worrying. The fact that the Yen's decline has not even slowed as it passed through two of these major support levels is very unusual. Even currency investment institutions have kept out. Research shows that they are yet to post any significant reverse trades, which means these institutions also do not see any reversal on the near horizon.

<u>If the yen breaks through the 2010 yearly curve low, then it's alarm bells.</u>

The main thing to watch now is for the next major underpinning support level, which is at the 2010 yearly cycle pivot. Should this be breached that would be the third sign and the alarm bells would be ringing; see chart on the right. Should the yen break through the 2010 cycle low I predict that this could lead to a serious crisis.

In summary, I will make it clear to those who may not grasp what I am analysing. If the Yen breach's this third support level, I would forecast that the world currency markets are likely to have already embarked on what will become a major currency crisis. The stage is set and it looks like the show is about to begin.

Should this pan out, then I predict that the world may witness a major currency collapse. If correct, it is going to ignite a massive panic and run for cover. This would be very profitable for those in the Professional Investors Fund since its holdings in hard assets has been increased ahead of predicted events. Should these events not unfold, the Fund is now positioned to have the added benefit of being exposed to little downside and a reduced risk ratio for the moment.

<u>Stocks won't protect you from a currency crisis</u>

Despite stocks entering the overbought stage of this bull market, I would go on record, stating the obvious, that stocks are not going to provide protection from a currency crisis. At this point I would reiterate that only <u>hard assets will protect you</u>. The Professional Investors Fund has financially benefited from trading two of the best known mainstream hard assets for protecting wealth, i.e. gold and silver. Indeed In the past four years I have posted and closed a vast number of gold and silver trades for this Fund, all of which closed in profit.

The increased weighting to another profitable hard asset the Fund holds, property, is likely to produce the desired result and the potential for further gains. The Fund's property assets are all in prime locations and have done well to date. Currently these are set to significantly outperform the market and I expect these to post further gains in coming months.

The research I carried out at the end of last year spanned some 15 previous US elections, confirming my theory at the time that we would likely see a short lived stock market rally. This has happened as predicted; the US Dollar may also see some short term benefit from the recent US election.

The current stock market rally is looking over bought. Some perhaps would consider it to still be in bull mode but we are fast approaching the delayed US so-called fiscal cliff, which will rear its ugly head again in March this year. I would suggest profit taking and a move to safety before the bear bites.

I am confident that this Fund will continue to outperform its benchmark this year.

Finally, and as a matter of course, I wish to take this opportunity to advise members that I may not have had the chance to speak to personally, that a change in the administrator and custodian to the Fund has been made and with immediate effect these roles will be performed by Atlas Fairweather (IOM) Ltd and Institutional Management Services (IOM) Ltd respectively.

The Private Placement Memorandum has been updated accordingly and new copies of this document will be issued to members under separate cover.

Should anyone have any questions in this regard please do not hesitate to contact me.

William Gray
Fund Manager