RIO US Dollar Comments

8th May 2008

The first point I would highlight to members is that, by flooding the system with liquidity, the Fed cannot control the value of the U.S. Dollar against foreign currencies, nor can they control its purchasing power – at least not indefinitely. The Fed's current policies can "give the majority of investors the illusion of wealth as asset markets appreciate, as I have said previously, while the loss of the currency's purchasing power is hardly noticed. This is particularly true of a society that has a very large domestic market, where 90 percent of the people do not have a passport and know little about what affairs outside their own country. That being the case, any declines in the Dollar provide an opportunity to make money.

The Dollar is currently the single biggest element of risk in the world of finance. Consequently, we should see some rearranging of the current world finance system albeit ever so slightly. Any faltering in confidence in the Dollar, it could be in serious trouble. There are many ways to hedge against this risk, but there are also many ways to profit from the likelihood the Dollar will fall, with some methods direct, others indirect; some leveraged, others unrevealed. There is an approach for every taste, but before going into detail, "What ails the Dollar?"

The Dollar is a victim of its own success. It is America's most successful export ever – more successful than chewing gum, Levi's, Coca – Cola, or even Elvis Presley, Britney Spears, and Madonna put together. Trillions of Dollars flow through the global financial markets every week, and they are readily accepted at large and small – and clandestine – business establishments from Kiev to Karachi.

Today, there are simply too many Dollars in circulation for the currency's own good, because the country has been living beyond its means for more than two decades. The U.S. Dollar's problems stem from a single cause. "If there's a bubble," wrote David Rosenberg, chief economist at Merrill Lynch, "it is because of **debt"**, an opinion that I have shared for many years.

The American Public now holds more credit cards and outstanding loans – with a higher and higher total debt load – than ever before. Outstanding consumer credit, including mortgage and other debt, reached $ 9.3 trillion in April 2003, a significant increase from its $ 7 trillion total in January 2000, but by the third quarter of 2007, debt had nearly doubled since 2000, to $ 13.7 trillion. With consumer spending alone responsible for approximately 70% of U.S. GDP, this represents a large personal debt load.

To repeat what I have said previously, the corporate debt picture is no better. American companies have never depended so much on sales of their corporate bonds. Between 2002–2007, investment – grade corporate bond sales increased nearly 60%, growing from $598 billion to $951 billion, but junk bond sales for that same period broke the bank, surging from $57 billion to $133 billion.

The third leg of the debt problem, following consumer and business debt, is the Government itself. Its debt as of November 7, 2007, officially passed $ 9 trillion, which represents about $30,000 for every man, woman, and child in the country. This total includes debt owned by many types of investors, from individuals to corporations to Federal Reserve banks and especially to foreign interests. (As highlighted in the 2004 report, foreign central banks had stockpiled more than $ 1.3 trillion of Dollar – denominated Treasury bonds and agency bonds at the Federal Reserve, and by 2007 foreign debt had nearly doubled to $ 2.033 trillion.)

What the $ 7.8 trillion figure does not account for are items like the gap between the government's Social Security and Medicare commitments and the money put aside to pay for them. If these items are factored in, the government debt burden for every American rises to well over $ 175,000. By 2005, the Methuselah of investment mavens, Sir John Templeton, then 93, began to concur with my recommendations, he openly said you should get out of U.S. stocks, the U.S. Dollar, and excess residential real estate. Indeed, as per the 2004 forecast, Templeton believed the Dollar would fall 40% against other major currencies, and that this would lead to the USA's major creditors – notably Japan and China – to dump their U.S. bonds, causing interest rates to increase, thus beginning a long period of stagflation. I'm glad to say that we were among the few investment specialists who were right.

During 1999, when the financial industry hacks in Florida were urging their customers to buy more tech stocks, Templeton, like RIO, warned that the bubble would soon burst. Both RIO and Templeton were right; most other investment houses were wrong. Soon other main investors began to follow by getting out of the Dollar. For the first time in his life, Warren Buffett is investing in foreign currencies.

Again, as said in my previous report, George Soros made a fortune selling Sterling in the 1992 ERM crisis, and members should not therefore be surprised to hear of today's opportunities. Soros now feels, as I do, that the U.S. system could "blow up" at any time. He commented that "if ever there was a crisis that could shake the global economy – this is it."

It is pleasing to be vindicated that many of the world's most prominent investors are now openly forecasting trouble ahead for the US economy and the weak Dollar. Accordingly, I would strongly recommend taking shelter in one of our holdings, since all three of the current RIO international investments Ltd holdings are protected from US Dollar collapse. For example, RIO Prestige Performance Fund is Sterling based and a strong buy at the current exchange rate 1.9525. **Buy today!** Secondly, RIO Professional Investors Fund continues to benefit from US Dollar weakness as it has positioned currency trades in both Dollar/Sterling and Dollar Yen, both of which the fund realizes regularly. Importantly, all currency trades within this fund have been profitable to date. RIO Fixed Income Bond based in Sterling with its capital guarantee and its 9% per annum track record is the highest return in the fixed income guarantee market today and is also a **very strong buy** at the current 1.9525 exchange rate. **All have one very important thing in common; they will all benefit from further US Dollar weakness!**

The final comment on this is that American consumers, companies, the U.S. government, and the country as a whole owe more Dollars to more people than ever before. I believe that perhaps the greatest threat to the U.S. economy is its foreign creditors. There is – or should be – a limit to the number of Dollars foreigners are willing to buy and hold, and thus a limit to their willingness to service our credit habit. Why? The United States, while still the world's number – one economic power has been showing itself to be an unreliable steward of its own currency.

William Gray
RIO Club
Executive Chairman