

RIO Professional Investors Fund going for Gold

28/3/2010

RIO Professional Investors Fund both holds and trades gold. In fact the Fund has performed well in the 12 month period to February 2010, gaining 44.99%. Last week the Fund's exposure to the yellow metal was increased in order to benefit from further upward movement. It is anticipated that the Fund is likely to perform well in the coming months.

Gold prices continue to hold historically high levels, supported by the lingering fear of a further financial shock and instability in the major currencies.

I forecast that it is likely that jewellery consumption will recover during the second half of 2010 as household incomes rise in line with stronger economic growth. This will support the current spot price. I also predict that we will see a weaker US dollar which will also influence support of demand for gold over the medium-term. One must remember that investors often accumulate gold as a safe-haven at times of risk aversion and flight to high quality assets.

Gold supply and trading

Current statistics show that the output from gold mines is expected to be relatively flat as the effect of declining ore grades in Indonesia and South Africa broadly offsets an increase in mine reserves in China, Australia and Russia. Some producer de-hedging will continue and growth in gold supply is set to remain quiet over the coming year. This emphasises the significant price inelasticity of gold supply and is an important contributor to its rise in value.

Our research shows that the consensus is that, in the short term, gold prices are expected to hold current levels before there is a pick up in supply through 2011 both through the development of new (higher cost) mines and recycled supply. Another supporting factor in favor of the upcoming increase in the price of gold relates to jewellery consumption, as discussed above.

If our predictions on a structural depreciation in the US dollar going forward are proven to be correct, it will have a positive effect on the price of gold. It should be noted that two important facts are taken into account when predicting the depreciation, the very low official interest rates in the USA and the country's swelling fiscal deficit. Further we are beginning to see other investment specialists, such as currency strategists, agreeing with our forecast.

One such man that members may find interesting is John A Paulson, who has recently invested a huge proportion of his company's total holdings in gold and gold related assets, in fact over 45% to be precise. My prediction on this individual is that by 2015 he will grace the coveted top of the annual Forbes billionaire list. It is generally known that Bill Gates and Warren Buffet are America's - and the world's - two richest men, but the financial crisis of 2008 and 2009 was not kind to either of them, eradicating \$17 billion of their combined net worth. On the same Forbes list, at No. 33, is where you'll find Paulson today.

It is not the first time that we have both seen eye to eye on investment forecasts. The hedge-fund manager's financial acumen has led to what is now being called the "the greatest trade ever". By shorting the subprime mortgage market, Paulson & Co. Inc. generated a \$15 billion gain. Members will recall that I was one of the first to predict the melt down in the sub-prime

market in the US years ago; Paulson obviously felt the same and sunk a large amount of capital in what most would have deemed then a risky position.

This time RIO is ahead of the game since the Professional Investors Fund already both holds and trades gold. The Fund can hold up to sixty percent of its assets in the precious metal. If predictions are correct the Fund is likely to well outperform the market.

William Gray

Executive Chairman

The RIO Club

(The largest private investment club in South East Asia)