Warning Paper Money; US dollars in circulation is being vastly underreported!

30th March 2010

RIO's research has highlighted a disturbing fact; that the US money supply is much larger than the official numbers indicate, $1.25 trillion bigger, to be exact. Members who care about the value of the US dollars in your pocket should read the following report.

Our research has shown that the quantity of dollars in circulation is being underreported. The reason for this anomaly is simple the system currently utilized is relying upon the traditional but outdated definitions used to calculate M1 and M2. For those of you who don't know these 'Ms' are calculated and reported by the Federal Reserve based on the following guidelines that identify the several different forms of dollar currency used in commerce:

M1: The sum of currency held outside the vaults of depository institutions, Federal Reserve Banks, and the US Treasury; travelers checks; and demand and other checkable deposits issued by financial institutions (except demand deposits due to the Treasury and depository institutions), minus cash items in process of collection and Federal Reserve float.

M2: M1 plus savings deposits (including money market deposit accounts) and small-denomination (less than $100,000) time deposits issued by financial institutions; and shares in retail money market mutual funds (funds with initial investments of less than $50,000), net of retirement accounts.

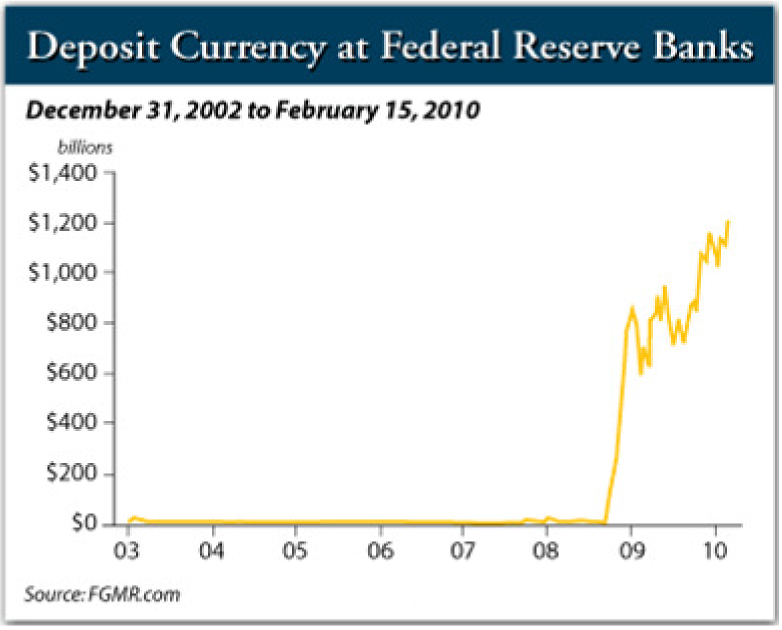
Cash currency every note issued is recorded on the Federal Reserve's balance sheet. Basically, the Fed 'monetizes' an asset by turning it into currency.

I would draw attention to the simple fact that in the past, the Federal Reserve only created cash currency. However, as the credit crisis erupted two years ago, the Fed began the unprecedented process of creating vast amounts of deposit currency. So instead of purchasing paper from the banking system solely with cash currency, the Federal Reserve since the start of the financial crisis has increasingly relied upon deposit currency to purchase paper.

Regardless how the Federal Reserve pays for the paper it purchases – cash currency or deposit currency – it is creating dollar currency and perforce expanding the money supply. But the traditional definition of M1 does not accurately capture this process when the Fed uses deposit currency to pay for its purchase. The disturbing fact is that it is totally excluded. Because the Federal Reserve did not create deposit currency in the past, none of the Ms take it into account.

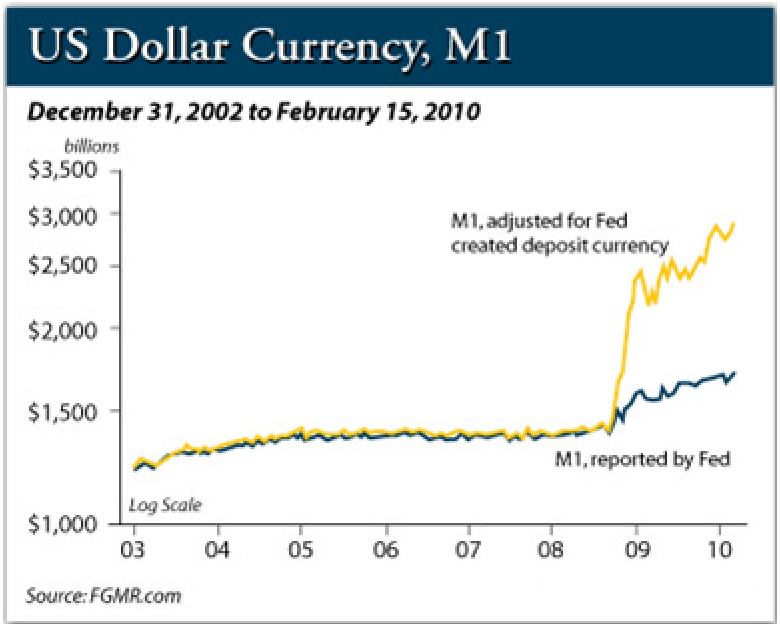
In my opinion consequently, the traditional definitions of the Ms are outdated because they do not capture the total quantity of dollars in circulation. Because M1 is underreported, so too is M2.

This is very significant when one considers the obvious that an unprecedented amount of deposit currency created by the Fed over the past two years. The following chart illustrates this point. It shows the quantity of demand and checkable deposits, i.e., the amount of deposit currency, at the Federal Reserve since December 2002.



From December 2002 until the collapse of Lehman Brothers in September 2008, the quantity of deposit currency created by the Fed averaged $11.8 billion, an amount that is relatively insignificant compared to total M1. Presently, it stands at a record high of $1,246.2 billion, which of course is highly significant.

But to be more precise and more to the point, none of this deposit currency is captured in the traditional definition of the Ms. The quantity of dollar currency is therefore significantly underreported, which is illustrated by the following chart.



The Federal Reserve reports M1 to be $1,716 billion as of February 15th 2010. When deposit currency created by the Federal Reserve is added to the traditional definition of M1, M1 after adjustment is actually 170% higher at $2,918 billion. Its annual growth increases to 29.5%, nearly 3-times the rate reported by the Fed! With this annual rate of growth in the quantity of dollar currency that is approaching hyperinflationary levels.

Unless the Federal Reserve changes course, the US is headed for a deposit currency hyperinflation like those that plagued much of Latin America in the 1980s and 1990s.

The above is one reason why we could see the US dollar weaken significantly our recommendation Buy RIO Professional Investors Fund Achieving trades Gold a historic safe haven in times of economic and or political upheaval.

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