ALMOST ALL HEDGE FUNDS HAVE FAILED TO BEAT THE S&P 500

Has the world changed? Well the financial world most definitely has! But the good news is that the RIO Club's creed for survival has foreseen and preempted these changes, adapting and evolving. We have been proactive not reactive to market conditions, the reason behind the launching of the RIO Professional Investors Fund years ago, to preempt and benefit from any world changing events. And several of these there have been.

But what of those less flexible funds, the so- called "too big to fail" super funds? Their performance has been feeble at best, which begs the question whether the world has become more difficult for hedge funds? One should spare a thought for those invested in these mega hedge funds, which are suffering heavy losses or at best showing lacklustre performance.

In an analytical report issued by Goldman Sachs so far this year hedge funds have underperformed the S&P 500 by a full 10 %, returning 5.4 percent through May 10 against a 15.4 percent gain for the index. Investors in hedge funds are understandably not happy.

Much of the hedge fund industry's sales material is about the value of strategies that are market neutral. Hedge fund managers have gone on record boasting about their returns that are distinct from the overall direction of the market.

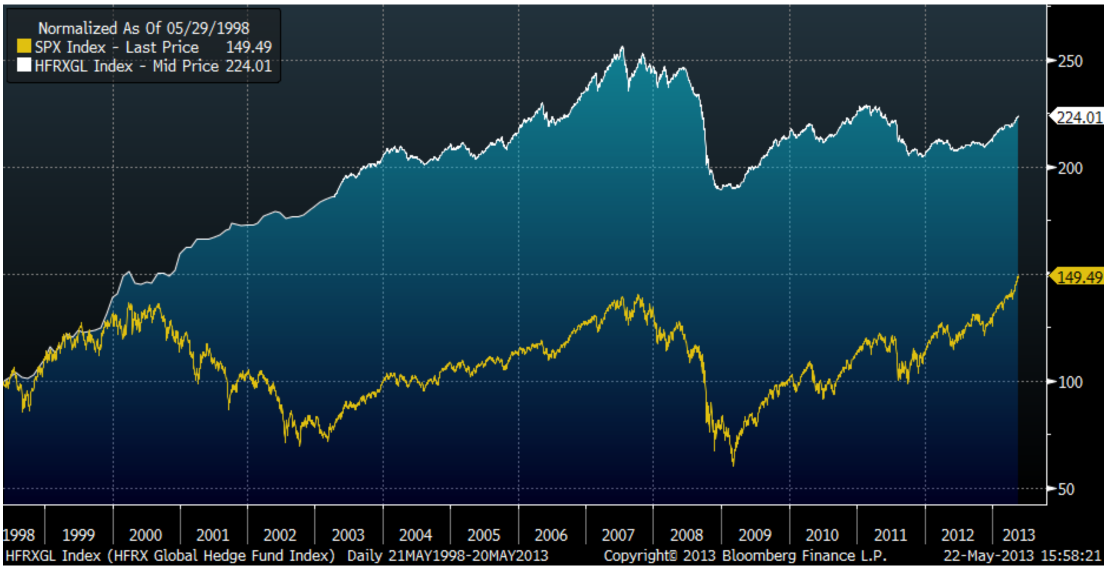
Hence when the stock market is booming, it is not a surprise to find hedge funds underperforming. These funds have significant amounts of market investors' money under management, in fact multiple billions of dollars. Frankly it is ridiculous for these funds to comment that their funds have nothing to do with the stock market as far as performance goes.

Neither does RIO Professional have anything to do with the stock market, but just like hedge fund managers I continually comment on RIO's perfomance versus the main market. In RIO's case it is consistently outperforming the market. For the record RIO outperformed the markets to March 2013. Perhaps hedge fund managers should simply say that they did not make the cut, we didn't invest wisely, we didn't perform, we failed to beat the market, that's it! The return on investment is the most important factor of any investment which, unlike RIO's, for hedge funds is poor.

Hence, in a rising market one has to ask why invest in these hedge funds as few investors would want to be in a fund that's market neutral. Why then would any fund manager remain market neutral if there's no money in it? The larger issue at hand for hedge funds, though, could be that the world has become more dangerous for ostensibly market-neutral funds. Should they not change policy to avoid continuing to lag well behind as a result of the investment strategies they currently utilize.

Seen below is a 15-year chart of the HFRX Global Hedge Fund Index versus the S&P 500.

From the volatility referred to above members must agree that it is far more sensible to be invested in RIO Professional Investors Fund, which is defined to closely observe in order to benefit from market changes and world events, and thereby avoid market volatility. At the beginning of the period hedge funds do well and match the S&P 500's ascent during the technology boom and then keep rising as stock values tumble. On the other hand unlike RIO Professional Investors Fund hedge funds did not do well at all in the last market crash and one must ask why.



The main difference between 2000 and 2008 was that in the first case this was a downturn in the U.S. stock market. In the second everything was very different indeed. Just as I predicted, a global crisis swept through every asset class. In the first case, market-neutral strategies shone of course, but in the second investment houses would have had to change their investment strategy to avoid losses and see some performance, but they did not. To repeat myself, I predicted the 2008 crisis well ahead of most investment houses, with many written warnings. I thus had time to carry out the research on likely impacts and make the vast but necessary changes required. Having done so, the changes had to be approved by regulatory authority in order to be ahead of the damaging results of the world recession that devastated so many funds.

Without the changes there would of course have been a negative result. This second market downturn is more complicated, and would have certainly required major changes in fund management strategy. As I have remarked previously when financial systems are failing, all the usual relationships between assets go out of the window, and then one needs to move and move fast. However, big funds can't and consequenlty end up with substantial losses. One example from the last crisis was with money-market funds, an ultra-safe asset class that suddenly became dangerous . Only few hedge fund managers made money; a vast number simply got wiped out.

Members will recall the near-collapse of several major U.S. institutions and banks in 2008. This perhaps would have persuaded many people that we are witnessing a period of greater systemic risk in the markets. I would hope that it would have anyway! And should that be the case, I would point out that this is very bad news indeed for the hedge fund industry in general, since hedge fund managers seem to have insulated clients from stock market booms, without protecting them from the kinds of risks they face in a global meltdown.

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