STOCK RALLY COULD BE SHORT LIVED

I suggest taking profits now while you can. With the gain perhaps buy that loved one a Valentine's gift, a good investment. After all without love we have nothing at all! On that note, "Happy Valentine's Day to all romantics out there".

At the end of the US election I predicted that January 2013 would start with some confidence. This was proven to be correct as many investors put money into the market at the start of the year, with this trend continuing to the end of January. It was also noted from statistical analysis that cash flows into stock mutual funds were at the highest level in more than a decade.

Deeper research revealed the funds attracted cash at the fastest pace in 17 years. The number adding to $34.2 billion of net deposits into stock mutual funds and exchange-traded funds for the four weeks to January 30. This was the largest four-week total since January 1996, for those interested in statistics.

I would point out that January 2013 also was the first time in 11 months that deposits into U.S. stock funds exceeded withdrawals. Almost $405 billion has been cashed out of this market since the beginning of 2007. It may be recalled that this is was also the year that my multitude of reports issued where I had gone on record predicting and fore warning members of likely fall out that would come from what I considered to be a financial crises, which indeed became a historic fact. The important point to remember is that at the time the stock market hit a historic high. Therefore there were some who thought my predictions whimsical; later not so, only memorable if money was lost.

The current rally is partly due to investors who have been perhaps encouraged in January by the January 1 agreement between US Congress and the White House. Some might say postponing the worst effects of the so-called fiscal cliff. I beleive that this matter has just been delayed to March, when it will rear its ugly head once more.

During January, investors deposited a net $51 billion into stock funds and hybrid funds. That is the most since $56 billion flowed in during January 2004 when historically RIO funds under management also enjoyed a massive upswing in new investment. This resulted in a 20% increase in funds under management. This new trend is encouraging but I would not hold my breath.

Although it would be true to say that for the moment investors have regained confidence; but this could prove to be short-lived. For example, investors added a lot of cash to stock funds for four months in a row at the start of 2011, having consistently withdrawn money since 2008, so this is nothing new. Facts show that sentiment worsened in the late spring of 2011 and these same investors were confronted by a flurry of disappointing news about a false economic recovery on top of which there was the European debt crisis. The consequence was perhaps obvious. They then began pulling cash out again in a big way; net withdrawals from stock funds totaled a huge $82 billion for that year.

Investors, what many in the business call the herd, forget that both current and historic statistics matter. Stock funds attracted cash in January and February of 2012. At that time I warned that nothing had changed in the world's economic position, added to which the real investment fundamentals also remained unchanged. A market trend based on no sound footing always produces the same reaction as that witnessed. Net withdrawals totaled $90 billion for the year, the largest since 2008.

Please note again that nothing has changed in the world economic picture and the fundamentals. You have been warned! Even so my analytical data reflects that hedge funds and their managers, who have an average age of 28, are buying into this rally, which means that the market will remain in a false bull position for now.

RIO Professional Investors Fund holds just under 70% of its assets in traditional low risk/ hard assets which will benefit from a fundamental change in today's currency market, which is the largest liquid market in the world. **Stocks will not protect you from a currency crisis.** This looks to be coming. For members invested in stocks or mutual funds with exposure to equities, don't say I didn't warn you. This has been highlighted previously.

William Gray
The RIO Club