THE RIO CLUB 14 March 2013

THE DOW JONES

It's almost whimsical to report that The Dow Jones Industrial Average has smashed through to all-time highs. First of all, while stock prices are soaring, household income in the US and household confidence are teetering at all-time lows. Unemployment in the USA remains high, energy remains expensive, housing remains depressed, wages and salaries as a percentage of GDP keep falling, and the economyremains in a deleveraging cycle.

These are not the conditions for strong organic and sustainable business growth. The USA is going though a structural economic adjustment. They have victimised themselves and are, accordingly, suffering the consequences of a huge 40-year debt-fuelled boom. While the fundamentals remain weak, it can only be expected that equity markets should remain weak. But that is patently not what has been happening.

In fact, it has been engineered that way. Bernanke has been explicitly targeting equities, hoping to trigger a beneficent spiral that he calls "the wealth effect" — stock prices go up, people feel richer and spend, and the economy recovers. But with fundamentals which are depressed this 'balloon' market condition cannot be sustained.

There are those who would suggest that this time it is different and that the good times are here to stay, even making the ridiculous statement that the Dow Jones is now a safe haven. What can I say? The less informed have much to learn!

They are all variations on one theme — that Bernanke is supporting the recovery, and will do whatever it takes to continue to support it. Markets at present are taking this as a sign that the recovery is real and here to stay. This is obviously false, and it is this delusion that could end sooner rather than later so why take the risk when there is a far better option offering excellent gains but with the massive benefit of having a limited risk?

RIO Professional Investors Fund is currently invested in assets which have a strong to excellent fundamentals not to mention, as said before, that it has outperformed not only the Dow Jones , but the S&P and the FTSE 100 over the one ,two ,three and four years periods as shown below.

| | 1 Month | 1 Year | 2 Years | 3 Years | 4 Years |
|---|---|---|---|---|---|
| **RIO Professional** | 2.50% | 10.70% | 21.21% | 48.79% | 115.94% |
| **Dow Jones** | 0.57% | 8.55% | 16.85% | 35.43% | 108.33% |
| **S&P 500** | 0.33% | 10.49% | 16.22% | 36.07% | 116.63% |
| **FTSE 100** | 0.49% | 7.54% | 7.46% | 17.99% | 75.92% |

The RIO Professional Investors Fund is a low risk fund and that being the case the potential downside is limited. Unlike most low risk funds which offer the investor the expected low return as the price of safety RIO Professional offers low risk/high return, so ask yourself why invest in high risk/high return? Ultimately markets react to the true fundamentals sooner or later, then those investing in these overheated, media hyped markets are likely to witness what high risk means, in terms of loss. After all that's what high risk means, the investor accepts the high risk of loss in exchange for possible gain.

William Gray
RIO Professional Investors Fund