2018 FORECAST

I had forecast that the year would start with a continuing bull market. That said, however, there is the potential for higher inflation in 2018, which is why RIO added further to its precious metals selection. First, RIO Platinum (USD) was launched in March 2017, and then our first physical Silver product was added in October 2017. Is this the silver lining to our product range? I believe that we are just entering an environment where there is a likely potential for an attractive return trading and or investing in commodities.

In relative terms, commodities do not really get much cheaper relative to equities, opening a window for a great opportunity to switch from equities to this sector. Some commodities, the agricultural ones, such as corn, soy bean and wheat, are broadly building a big price base at historically cheap levels.

Bullion has been a core product in the last couple of years with both RIO ARC (USD) and RIO ARC (GDP) outperforming their benchmark (physical gold). Looking ahead the gold price looks to be building a big base that could be the prelude to a strong upside move in 2018. As I have mentioned previously, the important resistance level is $1,320 which, if broken, should allow the price to start trending higher. A break above $1,340 would see the 2016 highs being surpassed.

There are some in the investment industry who would cite that the current numbers indicate that economic growth is in line with expectation. Corporate earnings growth seems relatively strong and with central banks propping up markets, there is simply no alternative to stocks.

There is a fundamental distinction between investment and speculation and, by late 2017, I believe the latter was more appropriate. In saying that, I concur with the bulls that economic and corporate earnings growth are both reasonable at the moment, and that central banks do not want to do anything to call an end to the current situation. However, at this time the price of stocks is over the top, which implies that there will be negative nominal total returns over the next decade or so, with the high potential for a bear market coming to the fore in the next 1 to 3 years.

When markets are this expensive, any short term gains (measured in months back at the time of the dotcom bubble) are there for only a short period of time, and give these back more often than not very quickly.

I would remind members that bubbles end in a higher spike, followed by a crash. The only question is whether we will witness this in 2018/9.

For those analysts and investment professionals who tout massive gains, in plain terms they are simply speculating that the market will move to the most extreme valuation ever in history. To put that in perspective, that would be greater than at any previous bubble peak, like 2000 or 1929, or other peaks like 1907 or 1966. However, to underline my point these peaks preceded a decade or more of zero nominal returns.

Our team of analysts agree with me that solid valuation techniques are all working in the vicinity of previous bubble peaks. A massive move upward or 'melt up' as it is known in the business, would require valuations to reach the highest of all time, creating the 'mother' of all bubbles.

RIO is tasked with finding investment opportunities. Hence, the name - RIO -Real Investment Opportunities- Club. In a world where every asset appears expensive, we have identified that there is value in selected commodities and have added to our range of products in an attempt to offer potential to produce an acceptable Return on Investment (ROI) to our membership.

Buy and hold investors may need to be patient in allocating capital to these markets, especially in the melt up scenario. However, I believe that, in a few years, investors may well be able to look back and see that the current period, which RIO has identified, was a great time to make a switch from equities to selected commodities.

Finally, to recap RIO is currently offering five actively traded commodity based products, two physical gold bullion based, two platinum products, and one new physical silver. All are actively traded and therefore likely to outperform any of the investment industries standard offerings, since most of the basic products and funds are based on a simple buy-and-hold strategy. These basic and perhaps out dated type of product and funds attract management charges, the levels of which are often in my opinion not justified, for the reason that there is little to no effort required to manage and or run. It could be argued that the investor in such a product pays a fee for an investment manager who does little to nothing all year except take in fees.

Consequently, the above does not bear comparison to an approach applied by industry professionals who promote active investment products. These are designed to do exactly as the name suggests and it requires the manager to be actively trading, which from personal experience takes a great deal of time and effort to run such investment products proficiently. The additional effort on behalf of the investor should result in a superior performance in terms of the return generated when compared to the bench mark - I would quote a well used phrase “no pain no gain”.

William Gray
The RIO Club