RIO ARC BULLION ACCOUNT USD

The figures from inception to date place this investment as the top performing physical bullion account in the world, in terms of absolute return measured in US Dollars. The account has already begun to take advantage of the oversold position of gold; already averaging in to the fall back. As such it is ideally positioned, at present I currently hold 60% in cash ready to buy in should we see any further weakness.

Looking back to last month I had expected gold to continue its correction through February, this in part the net result of markets fully valuing in the New Democratic Government and pricing in the now passed $1.9 trillion of stimulus. I took action on the 3rd of February selling 20% of the physical gold held by the account at $1,849. I knew that doing so would limit the potential downside (should I be proven correct) and I immediately set a buy to reacquire gold at $1,780 in case the market moved sharply.

Gold remained in range to mid-February, as such I commenced my averaging in strategy early in case I was wrong. Fortunately I was correct and I was able to add further gold as we moved through the month. The final acquisition was made on the 26th, buying at $1,758.07, at that point it was close to a year low, which at the time represented a massive buying opportunity and the potential to post gains in the coming months.

With the month end firmly in sight we were in profit, that is right up to 2pm on Friday 26th the last day of trading for February, the account was looking good and set to post a gain despite gold's fall over the month. However, in the closing hours of the last days trading most markets witnessed a sell-off, including gold, which resulted in the ARC ending the month lower.

Selling 20% of the gold early had limited the downside risk to those invested and has subsequently proven to be the correct move. It had reduced the downside of the account which lost 2.77%, gold fell back almost three times that amount, losing 6.16% during February.

Gold

Against the current economic and political background, golds current value represents an excellent buying opportunity. Recently I have noted that many more analysts are beginning to join RIO's train of thought, in that they too are predicting that inflation is set to rise. In fact I underlined exactly that in my recent article written during January, and featured in Forbes February issue http://docs.rioclubreporting.com/Forbes-Feb-2021.pdf

Inflation today is perhaps even more likely, since the Senate has now passed President Joe Biden's $1.9 trillion COVID-19 relief plan in a party-line vote after an all-night session which had Democrats battling among themselves over jobless aid. The Republican minority failed to push through some three dozen amendments which had been debated. The result being that the Senate voted 50-49, with no Republicans supporting what will soon be seen for what it is, one of the largest stimulus packages in US history.

This week Gold has remained in its current range moving a little higher and looks set to continue its uptrend. In the short term should the market rise above the current resistance level of $1,735 gold should move unfettered to the next resistance level of $1,780 and back into its recent range.

Technically, the downtrend would find support should gold test $1,700, if the metal broke through this level it would find major support at $1,675 and rally back to $1,700.

What had caused gold's recent pull back? The main reason was the fact that the US market had witnessed a rise in the US 10-year Treasury yield, which in turn triggered a stronger US Dollar, this put pressure on gold's value. The rising yield simply has produced what is a short-term bullish outlook for the dollar, which had caused gold to fall in Dollar terms. The next date to watch is the 17th of March, this is when the Fed next meets. For the past few days the bond market has for all intents and purposes been free to move unabated, that producing short-term pressure on gold.

Today markets remain concerned about the sudden rise in yields. That said, most importantly there is expectation that Powell will soon remark on a plan to prevent the long-end of the curve from rising further. Analysts are expecting the Fed to get involved sooner rather than later because if the 10-year starts challenging 2%, equity markets will react very negatively. This will unsettle the perceived stable monetary condition.

The Fed of course is not just looking at yields, they are considering the broader financial conditions. Once the Central Bank makes it clear that there is a red line for the yields, gold will find strong support**.**

<u>The short term outlook</u>

The focus remains on the rising yields and the Dollar, and what it does for gold in the short-term. Gold fell back to $1,685 last week, and as I forecast, there has since been some consolidation. That said, I expect a move back to $1,700 from here, from a technical perspective a climb back to $1,725 could be seen although there is likely to be some resistance at $1,750. However, there is still a risk of a drop towards the $1,660 level, and even lower, if the Fed doesn’t announce when and under what conditions the central bank would consider intervention to control the yield.

If gold fails to hold $1,675 in the coming weeks the market could see $1,610. Personally, I am looking to add further to our weighting at $1,670 should support levels fail to hold, importantly a move to the $1,600 level would see major action from institutional buyers and we would almost certainly see it move back in to the $1,675 - $1,700 range.

The reason; the fiscal stimulus is here for arguably the rest of 2021 and the Fed is not planning to reverse policy until 2022, this will ultimately support gold. If the long-end of the yield curve continues to ratchet higher, the Fed will create action to bring it under control.

<u>The mid-term outlook is likely to be very positive</u>

Looking forward, it is not just inflation which could see gold regain its rally, another driver would be the fact that that the stock market is vastly overbought; our analysts have all aligned with me in predicting the coming crash.

I would point out that most stocks are near new record highs, with most stocks simply overvalued. In fact the price-to-earnings ratios of stock markets have almost reached the high last seen during the previous financial crisis, underlining the disconnect between stock prices and the real-world economy.

Importantly, as common sense returns to the market and as the true position of the world economy begins to get factored, the fundamentals will again take precedent as common sense returns to what is currently an over optimistic market. When (not if) this happens it will almost certainly result in a strong correction in stocks and a run to safety assets. This will favour those holding wealth insurance, gold, as the yellow metal benefits from financial instability. This is why, as always in times of uncertainty, bullion firmly belongs in every diversified portfolio!

Government debt burdens now at record highs

Another compelling reason to hold gold is the fact that the US government debt is now at the highest level in history, records show that the US central bank now holds a record 16.5% of the US debt load. For many reasons there are fewer buyers recently, as a readout during the past 12 months alone the Fed themselves have doubled their own holdings of US Treasuries. They have added a staggering $2.4 trillion in US government bonds to their now stretching balance sheet – most of that since March. The Fed's total share of US debt has spiked from 9.3% in Q1 to 16.5%.

In fact, during March and April alone, the Fed bought $1.56 trillion in Treasuries and in that same time period the US Treasury issued $1.56 trillion in bonds. What does this mean? Well the Fed effectively monetized 100% of the new federal debt accumulated in March and April.

The European Central Bank has stifled the Government Bond Market. The ECB's purchases of government bonds so far this year have dwarfed new issuance, even as governments spend heavily on Coronavirus relief. The Bank of Japan is not far off the UK's level.

The above perhaps underlining the last traces of the taboo of monetising deficits. Everyone is doing it! But the big question is whether anyone can stop? If not, it's not going to end well!

God forbid we see hyperinflation, avoiding that fate involves a dramatic change in fiscal policy. The new US administration have add a record $1.9 trillion to this already colossal debt burden, things are now very stretched. There's already been significant talk on a financial reset, the additional strain today may soon force many more to doubt the current outdated financial system. In doing so this could shake the very foundation of the now flagging US Dollar standard trading system. The US Dollar could soon be put to task. In short, another stimulus against the current backdrop makes gold a must for portfolio insurance.

Gold is often used as portfolio insurance in times of trouble, today we remain in such times.

It is never a good idea not to have insurance. This is especially true if many houses next to yours are on fire. As I stated above the debt burden worldwide is set to test the outdated financial system which is currently weak, at best. Uncertainty on the outcome could send gold far higher as we move through 2021 in to 2022.

I am no stranger to gold, having traded this metal for more than two decades. More importantly during this markets last rally which ran from 1998 - October 2011, RIO delivered a 630% gain to those who remained invested. More recently, having identified the return of the bull market in gold in 2013 RIO launched the ARC, it has done very well to date, returning over **103%** since its launch. Today, I remain bullish on gold and forecast that by the end of 2021 we will have already seen some or all of the above drivers push gold higher. I stand by my previous prediction that we will see values significantly higher into 2022.

There are massive amounts of debt and a building concern among institutional investors that we will see further currency devaluation, the government seems to have little choice but to monetise all that paper. We will have inflation soon it would seem. Once the market gets tuned to that, long positions will return, and return in quantity to gold.

Covid 19 remains vexing

Virus mutations and their impact on the US is one thing to keep a close eye on because it could derail the much-expected economic recovery. Should virus variants become an issue in the US this could easily derail any reopening plan, the net result bringing yields back down and gold back up.

Inflation is already on the rise

US inflation data will also be important next week, with market consensus estimating the annual core CPI number to be at 1.4% in February. Our analysts see inflation moving higher primarily due to rising gasoline prices. With the annual rate of headline inflation set to head to 1.6% from 1.4% while core (ex-food and energy) stays at 1.4%. Traders will also be watching US jobless claims on Thursday and the PPI data on Friday.

Gold is importantly outside the financial system, this alone is very attractive

One big benefit of gold is that it is a non-financial asset which allows you to opt out of the financial and monetary system. The financial and monetary system is coming under more and more stress, in fact it could soon become unstable, that alone would be enough reason to hold 20% of your wealth outside the system. This is just common financial sense.

The rationale for why gold is likely to do well in 2021/2 is its attraction as a safety asset, this has certainly been bolstered by Central Bank and government actions over the last six months. We have heard from one Central Banker after another that they are not going to raise rates; they've said that they intend to do whatever is necessary to achieve sustained inflation. How is this done? By devaluing the purchasing power of their currencies.

The conditions which support a continuance of the bull market in gold are present, so in short, recent price moves are just a temporary correction. Gold will almost certainly see a strong rebound in the price.

Gold remains in a bull market condition and it is important to note that the metal as always tends to move sporadically, jumping forward in spurts. Looking back, the majority of the strong gains tend to happen in short bursts that last a few months. In between, the price can remain range-bound then suddenly it's back on track. The ARC's primary purpose is always to average in, by buying in to the value dips. Having done so the goal then is to average out, selling into rallies and taking profits, thus reducing volatility.

During periods where gold fundamentals remain but the metal is oversold, like today, the ARC simply takes advantage to buy in. Historically this has subsequently resulted in very good performance.

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