THE RIO CLUB 24 May 2016

RIO ARC BULLION ACCOUNT (USD)

To all members, who have commented on the RIO Club's performance this year, thank you. The ARC Bullion investments have certainly done very well since launch, an exceptional start to this year. The performance of this account is telling, with a gain of **14.37% in just sixteen weeks**, almost 1% a week, and a far cry from the target return for the account which is 12% per annum. Since the year's target return has already been exceeded, and with eight months in hand, this provides a very real opportunity to continue the outperformance.

This month will likely close at break even or just above, resulting from protectionist trades that were executed, with profits taken ahead of anticipated gold correction ahead of Fed comments.

The ARC Bullion Account (USD) started 2016 with back to back net gains. This certainly helped bolster RIO's membership numbers, with eleven new membership applications processed in recent weeks and another seven pending to be cleared before month end. The total membership currently stands at 912 compared with 888 just a few months ago. The Club's numbers has always continued to grow with every week that passes, most importantly is that it has done so at a controlled pace, the reason being expediting expansion in a structured way ensures that the levels of service are maintained. As for membership increases this year we are moving closer to the revised membership quota (target membership last altered upward in January 2016) of 1,000. Looking at this year's applications to date, I would expect that we will reach the revised target by first quarter of 2017. When this target is achieved the club will be adding to its staff numbers with the planned recruitment of two additional service personnel.

For those of you who take an interest in my trading, within this account on 22nd April I acquired physical gold at $1,229. The additional acquisition was subsequently sold at $1,293 on 2nd May. The profit was realised to protect the gains and continue with the reduction of the overall risk profile of the accounts current position. Importantly, as anticipated I was able to acquire bullion again on 19th May at a lower price, $1,249, Bullion's value held above this price all last week. Today, Tuesday, 24thMay, the price of gold was around $1,244. The four week overview has the high for the metal at $1,301. The previous low for the same period was $1,221.

Looking ahead, I expect gold to see a small correction later this week, and the reason I anticipate a move lower being again, as shown in the Fed minutes, a repeat of the old interest rate hike threat. Accordingly The ARC is well prepared having retained 15% of the total accounts value in cash. I intend to utilise the cash to take advantage of the potential buying opportunity that will almost certainly arise, and have a buy price already set at $1,229. I expect this to be filled this week.

Again, I would point out that bullion's rally in the first quarter was partly due to stock markets having their worst start to a new year in recorded history. It is a telling story when you consider that gold has had it strongest start to a year since 1974, this perhaps demonstrating the positive effects of a run to safety. In recent weeks the Fed has been back pedaling and playing down any near term rate rises, a sentiment which altered slightly mid last week.

Last week, conseqeuntly, Bullion traded near a three-week low on the Thursday, this following from a Federal Reserve policy meeting, as mentioned above. The minutes of this meeting signaled that the U.S. Central Bank could raise rates as soon as next month for short term support to the US dollar. A Fed interest raterise will, in turn, cause the stock markets to become jittery which supports bullion, meaning the correction in gold will be short-lived.

Basically, any correction in the value of bullion is to be seen as a buying opportunity!

I would point out that gold will remain well supported due to many factors. There are many bullish drivers of gold today, the first obviously being the potential bullion offers to hedging against the ramifications of the UK's referendum on EU membership.

Gold prices could easily skyrocket if the British public decides to vote yes to leaving the European Union in the referendum on 23rd June, known as a Brexit.

On that topic, earlier this week the British Prime Minister, David Cameron, suggested that leaving the EU would impact UK stability, trigger recession, devalue Sterling and cause around half a million job losses. The comments were delivered as part of a Treasury report which included warning of a fall in the value of houses and more expensive foreign holidays should the UK vote to leave the EU.

I personally don't think we will see a yes vote, for many reasons. However portfolio insurance is essential in today's market, one of the best safe havens being gold. In fact, regardless of how things look in polls, as the June vote draws closer, until the referendum result is confirmed, there will be continued uncertainty surrounding Brexit. As a direct result of this there will be uncertainty in the market - members who are invested in stocks be warned- expect volatility, that same volatility will add additional support to safe haven assets such as gold.

Additional support which will considerably underpin gold's value comes from the fact that the European Central Bank has recently joined the growing number of countries, who continue to experiment with the absurd notion of negative interest rates. This makes owning physical gold as investment portfolio insurance essential now one knows what the longer term effects of NIR will be.

The effects of this are amplified by the fact that it has also led to negative rates on a number of short term government bonds including those of high quality such as those offered by Germany. A little reported fact is that Investors (including central bank reserve managers) now need to assess the risk-reward situation of investing in assets with negative return expectations.

However, the implications may be more far-reaching.

Such policies may fundamentally alter what it means to manage portfolio risk and could extend the time needed to meet investment objectives. As a result, I am confident that demand for gold as a portfolio asset will structurally increase. This is based on four main reasons caused bythe NIRPolicy: It reduces the opportunity cost of holding gold, limits the pool of assets some investors/managers would invest in, and erodes confidence in fiat currencies due to the threat of currency wars and monetary interventions. Fourthly, it also increases uncertainty and market volatility since central banks run out of effective policy options to combat inflation/deflation and/or spur growth.

One knock on effect has just started. The wealthy have begun to buy gold as a hedge against possible effects of negative interest rate policies. I predict that we are likely to see this trend escalate as we move through the rest of this year, this simply adding to gold's upside. Remember gold offers a hedge against currency devaluation, when a currency loses value, Bullion conversely increases in value.

Another major plus for gold comes from the fact that China holds a large amount of U.S. government bonds, around $1.3 trillion, the most U.S. debt in the world.

This has been the case for some time, and I have commented on it before in several reports, but I also underlined that a dollar crisis is looming, China seems to agree with this thinking and has already addressed this potentially sertious problem. For example, the Chinese went to great lengths to become the world's largest gold producer, a title it obtained in 2007 when their gold production reached 304 tons a year. Today they produce over 490 tons per year and export almost none of this. To put this into perspective the UK's total gold reserves are 310 tonnes.

However, that is only part of the story, on top of the above, China has been on a massive gold acquisition drive they became one of the world's largest gold importers, a position held since 2012, when they imported a staggering 832 tons through Hong Kong in that year alone. It didn't stop there as 2013 they outdid themselves importing a further 1,495 tons, before falling off somewhat in 2014 when they imported a mere 1,095 tons. China continues to import vast quantities of gold. For 2015, a further 992 tons were imported according to data taken from the Hong Kong statistics department. However the point being with all this production and importing they declared their official gold reserve tonnage last year as I had predicted in Forbes magazine (http://www.therioclub.com/Press/forbes.jpg) their holdings went from 1,054 in 2009 to 1,658 in 2015, an increase of 604 tons!

Although this was a significant rise, I believe they have and continue to understate their true gold national reserves; for good reason they continue to buy and add to their bullion reserves as insurance/hedge against US dollar devaluation.

If China's true gold reserves were revealed along with their significant buying spree this would push gold's value much higher. Our research leads me to believe that this number would be over three times the amount declared, i.e.nearly 5,000 tons at least.

There are many other gold analysts, traders and Bullion experts who have recently agreed with me on this point, given that they too have reviewed both China's gold production and import totals.

If it were proven that we are all correct, and the Chinese were then to declare a far larger number anytime soon, one almost immediate impact would be that we would witness a major rally!

Why is there an additional possibility of USD weakness? What has changed?

China's aspirations have been fulfilled since their currency gained global acceptance in attaining reserve currency status in November 2015. This being so it is a major change in the world's financial system, the ramifications of the change will be seen later this year when I predict that central banks will add to their reserves in Yuan and lower those held in USD. This will have a profound effect on the value of the dollar in the future and will almost certainly lead to its devaluation!

Do the statistics show that we are beginning to see investors lose faith in central banks?

RIO is not alone in its thinking that official statistics clearly demonstrate that, during early 2016, investors poured money into the precious metal markets at some of the highest levels seen in almost six years. In total, $1.6 billion (£1.1 billion) of money tracked by BAML was focused on the acquisition of gold and other precious metals, such as silver and platinum. Perhaps the volume of inward capital flow shows that the investment market is beginning to lose faith in central banks, a big plus for gold.

Finally, Consider also the media's influence on gold with it once again receiving more attention in the mainstream press and TV financial channels. This is likely to encourage the 'herd' investors to seek large returns, much as occurred during 2001-2011.

I recommend safe guarding one's own wealth against dollar shortcomings by acquiring gold bullion which should represent at least 10% of one's net worth. Both ARC's retain their current position as the top performing physical bullion investments in the world. B**uy ARC Bullion Account before it is too late**!

William Gray
The RIO Club