RIO ARC BULLION ACCOUNT (USD)

The RIO ARC Bullion Account USD gained 0.36% in September, this despite the fact that the metal ended the month down 4.18%. During the past six months the account has gained 8.35%.

My trading strategy to capitalise on gold's recent moves continues to be rewarding. Importantly I sold into the rally, taking profits in July, August and September for members. Doing so had significantly reduced the amount of metal held by the account, in fact as we entered the last week of September the bullion holding had been reduced to just 17.4%. Simply put, Gold had rallied too far, too fast, and a pullback was inevitable. That's why I held of adding to the accounts gold holdings, electing instead to continue selling as the metal rally continued. The strategy has been proven to be correct, I acquired gold at $1,469 on Monday the 30th of September very close to the month low.

The conditions seen today in the gold market is potentially the start of what could be a massive bull market developing. Some consolidation of that rapid breakout is now underway. I have been anticipating such a move, and this is why I elected not to chase the market higher.

My primary objective is to limit risk, yet deliver profit from the ongoing gold rally. That means increasing positions during weakness, and refraining from chasing the price of gold as it rallies.

It takes discipline to stick to the time tested strategy, but it is the best risk-adjusted way of participating in what is a characteristically volatile market.

<u>The storm clouds are forming!</u>

The difference between the yield on the two-year and the ten-year Treasury bond is referred to as the yield curve spread. When the shorter maturity bonds have a higher yield than the longer dated maturities, it is one of the most reliable lead indicators of future recessions in the US. The spread is viewed as a useful indicator for the US market, because the inversion tends to offer a substantial lead indicator for a future recession. That lead time can be anything from 6 to 18 months in duration. It inverted in August so the clock has already started ticking on the next US recession.

That said, it is important to highlight that the stock market has a strong record of rallying between when the yield curve first becomes inverted, and when the recession starts.

This happened in 1998, ahead of the bubble peak in 2000, it also happened in the first inversion in late 2005, ahead of the market peak in 2007.

The stock market today is firming, and yet again we may see history repeat itself with the arrival of a last US market rally.

If we witnessed the aforementioned then it also likely be the catalyst for a pause in the gold price, as potential for the next breakout builds which will push gold higher. One thing is certain; the nature of the market is to price in future outcomes, it is unlikely that we are going to have to wait for long.

Gold is the ultimate insurance policy

In periods of higher uncertainty, such as today gold is a must.

Gold is one of the best hedges against recession.

Gold does well in recessions, because a governments meddling with the financial tools increase when faced with economic compression. They start spending money which they don’t have and the central bank starts printing money. Generally, the currency takes the brunt of the pressure from contracting economic activity and by contrast an asset in limited supply, like gold, shines.

Finally, the biggest medium to long-term positive for gold prices is the increasing likelihood of Modern Monetary Theory. At the end of every cycle we see a new version of “earnings don’t matter” or “debts don’t matter”.

Looking back gold has been traded as a form of currency for thousands of years. In fact, it was goldsmiths during the 17th century who created the banking industry, as we know it today. Gold’s rarity and adaptability ensure it is a tradable currency throughout the world, and the ultimate store of wealth.

The gold market is also attractive as it is very liquid, gold trades between US$50 and US$80 billion per day through spot, and derivatives contracts over-the-counter.

From a wealth protection point of view gold bullion most importantly sits outside the stressed banking system, meaning that when you convert your investments, or pension into physical gold, you are essentially removing it from the banking system, and any counterparty risk associated with such a system. This maybe a wise move given Italy's central banks non performing loans are around 349 Billion, this is bad news as its a number close to that of the Subprime losses seen during the US 2008 crisis. The systemic risks from this will reverberate throughout the European banking system.

William Gray
The RIO Club