THE RIO CLUB

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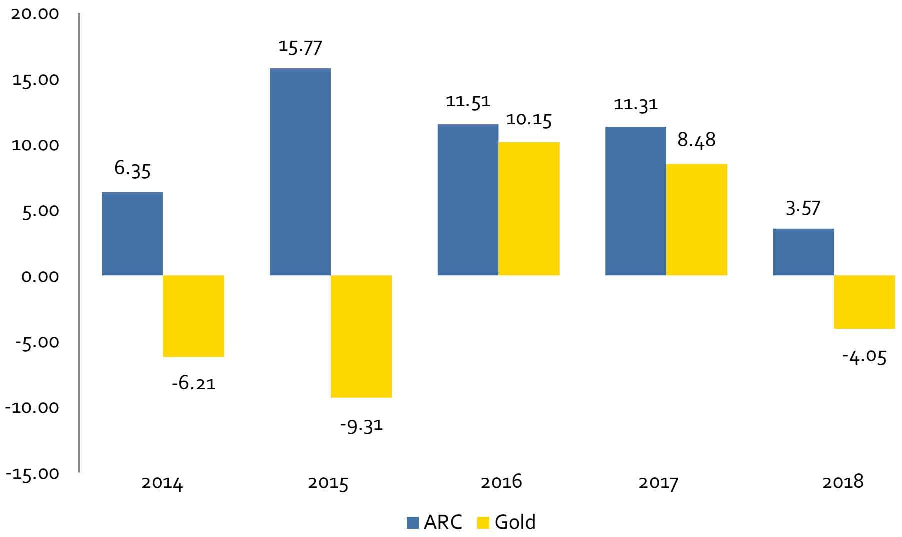
RIO ARC BULLION ACCOUNT (USD)

During April the RIO ARC Bullion Account (USD) posted a gain of 0.37% while physical gold (the benchmark) fell 0.68%. Looking back, recorded figures show that this outperformance has been the case since launch, to be precise since October 2013 the ARC has produced a gain of 71.75%, and bullion in the same period produced a loss of 0.58%.



It is also worthwhile to note that the risk reward ratio is 6.38 to 1 which is considered excellent. The risk reward ratio is simply a measure of risk taken to attain gain over the given period. During the last two years $6.38 was returned for $1 risked, this is far above the industry norm for any form of physical Gold investment. An example being hold in hand gold, which has a very poor risk reward ratio when measured over the same period 0.54 to 1 which means for every $1 risked the gain is only 0.54 cents. This is one of many reasons why this account has seen a large inward flow of new investment in recent years.

VOLATILITY & RISK
(24 Months)

	ARC USD	GOLD
Annualised Volatility	6.34%	10.84%
Return for Period	13.83%	2.10%
Best Monthly Return	3.88%	4.91%
Worst Monthly Return	-2.17%	-3.93%
Risk / Reward Ratio	6.38:1	0.54:1

Gold

Today, more and more mainstream investors see bullion as a store of wealth and as a currency hedge against fiat money. It is important to note that gold has historically improved the risk-adjusted returns of portfolios. It can and often does deliver positive returns while reducing losses, and provides liquidity to meet liabilities in times of market stress. It is thus a valuable asset class to add to an investment portfolio, especially given the current geopolitical turmoil. Another advantage is that bullion is outside the banking system. When an investment or pension is converted into physical gold, it is essentially being removed from the banking system and any counterparty risks associated with it. This has huge benefits should the financial system itself come into question. It is perhaps telling when I say that, during 2018, Central Bank's bought more gold than in any year since 1971. This was the year when the then acting US President Nixon un pegged gold from the US dollar, ending the so called Gold Standard.

The Central bank buying spree continues with another 145.5 tonnes in first quarter 2019, this is the strongest quarter since 2013, and adds to 2018's record purchases.

This year's first quarter purchases of 145.5 tonnes is the strongest first quarter buying by Central Banks since 2013. This is 68% higher than the year-on-year average. Intriguingly, 2013 was the year when gold was promoted from tier three asset classification to a tier one asset (A tier one asset classification is given to cash, a tier three asset can borrow 50% of value versus tier one which can borrow 100%).

This coupled with last year's gold purchases represents a significant change in attitude. Central Banks appear to be preparing for an inevitable shake up. The factors that drove Central Bank net purchases to a 50-year high in 2018 remain relevant today in 2019. The economic uncertainties caused by trade tensions are very much unresolved and, on the back of sluggish growth and a low/negative interest rate environment, have all been weighing heavily on reserve managers minds, even before geopolitical factors rock overvalued stock markets. Is it any wonder in the face of these massive challenges that Central Banks continue to accumulate gold? I would say that such actions should be expected to protect the financial system, and not taking such action would be considered reckless.

Anti-dollarization continues to build with many nations favouring gold, obviously since it has no third party risk.

It is no mistake that Russia was again the largest buyer, adding 55.3 tonnes in Q1. This brought their gold reserves to 2,168.3 tonnes. To put the Russian's gold grab into perspective, the UK ranked eighteenth on the world gold reserve table and holds 310.3 tonnes. Russia bought 274.3tonnes in 2018 alone, and has bought +200 tonnes year on year for the past four years. They have accordingly leapt up the ranking to sixth position in the world in terms of total gold reserves, which is very much part of the country's strategic plan to drastically reduce its exposure to US Treasury holdings, underlining their drive for de-dollarization.

Looking at China, they also have reported net purchases in the first quarter, buying 33 tonnes. PBOC monthly net purchases have averaged 11 tonnes over the past four months, which lifted China's total gold reserves officially to 1,885.5 tonnes. However, there is strong evidence also that they have greatly under reported their gold reserves. China’s actual reserves is widely believed to be around four times the reported amount, if that were true it would lift their ranking in the official reserve table to near that of the US who have reported 8,133.5 tonnes which is the largest gold reserves in the world.

Looking ahead, gold may face headwinds from higher interest rates and US dollar strength, but I believe that these influences will be very limited as the Fed has signaled a more neutral stance. There are without doubt many reasons to expect increased market uncertainty, and the expansion of protectionist economic policies. This behavior change will support gold as it becomes increasingly attractive as a hedge against risk. There is also the ongoing structural economic reforms in key gold markets which will also continue to support demand for gold in jewelry, technology and as a means of investment.

It is likely that the financial markets will see continued instability.

I believe that as we move through 2019 global investors will continue to favour gold as an effective diversifier and hedge against systemic risk. Further, higher levels of risk and uncertainty on multiple global metrics can be seen. The US stock market is hovering at an all-time high; accordingly, this market carries expensive valuations, and I would expect to see higher market volatility. There is rising political and economic instability in Europe, and potentially higher inflation from protectionist policies, some indicators show an increased chance of a global recession.

I am happy that so many members are being prudent, I feel much relief that more and more members have added the ARC Bullion Account to their portfolios recently, gold is after all is portfolio insurance.

William Gray
The RIO Club