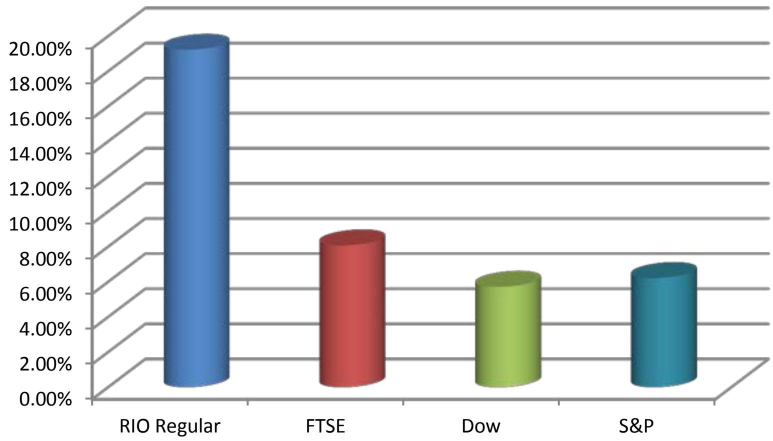
RIO REGULAR INVESTMENT ACCOUNT

The Regular Investment Account continues to show impressive performance, with eight consecutive gaining months in 2016.

The Account posted a 1.46% gain in August, and has produced a 19.22% gain in the first eight months of this year. In doing so it has not only exceeded its annual target return, but outperformed all three main stock markets (FTSE 100, Dow Jones and the S & P 500).



Year to Date, 2016	Return
RIO Regular	**19.22%**
FTSE 100	**8.07%**
Dow Jones	**5.71%**
S&P 500	**6.21%**

The primary stock trade executed during August was Barclays PLC on 1st August, which was acquired at 151.85. At point of acquisition this stock represented 15% of the assets held by the Account.

Barclays Bank had reported a fall in pretax profit for the first half of 2016, their stock price having already been dragged lower by continued losses in their non-core division. However, the Bank reported that they were on track with their strategy to resolve this issue, and as such the stock price in my opinion could prove resilient to further negative moves caused by Brexit.

The Regular Account has since sold 100% of its holdings in Barclays Bank, closing the position on the 23rd August at 167.20, this trade gaining over 10%, and contributing to the gains produced that month.

The second opportunity realized had been identified during July, as my trading platform alert indicator showed that house builders were trading lower. Furthermore, I had just read a survey from Market Economics, which had highlighted that construction activity in the UK in June had hit a seven-year low. The fall had been widely-linked to a slowdown in activity caused by uncertainty ahead of the UK's referendum on its European Union membership, which took place on 23rd June.

At that time my opinion was clear over the reaction to Brexit. With the EU referendum barely over, it was far too early in my opinion to say what would be the impact of the uncertainty facing the UK economy, but many doom sayers had their day!

Simply, based on my expertise and experience in the UK property market I disagreed with initial market comments made on this sector, such comments having helped drive property developers stock prices lower. I identified the sector as an investment opportunity. Our analysts agreed with my thoughts that Barrett was oversold and offered a good upside potential in the short term.

As members know from my numerous reports on this market, RIO has been directly involved with the UK property market for over 21 years. I knew and was well aware that the housing sector continues to receive focused government support. I also knew from recent research that the mortgage availability was very good, and both these factors would help the sector outperform recent expectations. My knowledge of this market indicated that statistically the current market for new homes was one of undersupply.

Barrett Developments PLC had and has a strong balance sheet, an impressive forward order book, industry recognized quality and good customer service. At this time the stock was an obvious buy! Barrett Developments stock was thus acquired and added to the Regular Account stock holdings on 1st August at 432.02, at time of acquisition this trade representing 10% of the assets held.

The position taken in Barrett's stock proven to be justified as last week I closed this position, selling all stock held on 23rd September at 498.55, a healthy gain achieved which will add to the profits taken in September.

Market news

World stock markets fell on Monday, as a crash in Deutsche Bank's shares offset a surge in German business confidence and the two US presidential candidates headed into their debut debate. My point here is that members should not expect markets to move decisively until there is clarity from the US presidential race. The uncertainty adds significanctly to down side risk.

The new historic low for Deutsche Bank stock is very bad news.

Shares in Deutsche Bank, Germany's biggest lender, plunged 7.5 percent to a historic low of 10.55 euros. Worse still was that the weekend report reflected the fact that German Chancellor Angela Merkel had ruled out the prospect of any form of state aid.

In addition, the US authorities are seeking Deutsche Bank to fork out a record $14-billion fine (12.5 billion euros) over its actions leading up to the subprime mortgage crisis in 2008. While the eventual fine paid may not be near that much, the litany of legal problems has raised concerns about the health of one of Europe's largest lenders, and any contagion effect to the rest of Europe's banking sector.

The UK has seen a significant increase in mergers and acquisitions activity in the third quarter, encouraged by sterling's low external value. There are several common “threads” to date within the large M&A activity. There is a window for US buyers with sterling not far from a 31 year lows v USD and considerably cheaper v EUR. Furthermore, the availability of cheap financing due to the global zero/ negative interest rate environment has encouraged banks to increase their leveraged lending capacity

Returning to the Deutsche Bank saga, it may be of interest that the order to pay $14 billion to settle mortgage-securities probes dating back to the 2008 financial crisis was much greater than the $2 billion-$5 billion settlements many had expected.

The Department of Justice (DOJ) often opens settlement talks with higher numbers than it is willing to accept, and it has allowed Deutsche Bank to submit a counter proposal. However there remains a massive gap between the DOJ's proposal and analyst estimates, suggesting the US government have a much larger number in mind. This is very important, since the bank announced that in June it had set aside about $5 billion in "provisions" to cover settlements and fines. According to recent analytical comments, any settlement exceeding $4 billion would raise questions about Deutsche Bank's capital positions.

Hence in summary, even if the DOJ dramatically reduces its settlement, the Bank could be forced to raise billions in new capital. This may lead to serious problems! If the German government will not provide a bailout, this burden will fall on shareholders who could suffer massive dilution, even in the best-case scenario. The worst case is where the DOJ moves to reduce the settlementonly a little, and again Germany does not step in to assist. This could lead to default.

Furthermore a warning released by the International Monetary Fund (IMF) called Deutsche Bank "the most important net contributor to systemic risks." It also warned that the German banking system poses the "highest degree of outward contagion."

In other words, if Deutsche Bank were allowed to fail, it could take down banks across Europe and around the world.

Members should head this warning and take action to invest in the RIO ARC Bullion Account since a banking crisis would lead to a Gold rally. Those invested in the Regular Account will also benefit since the account holds gold stocks which will rally should the Bullion see a significant move upwards.

Finally, a recent comment from one of our members - *As Warren Buffet was once quoted 'Wide diversification is only required when investors do not understand what they are doing.' RIO have a small portfolio of funds focused on the areas they clearly understand hence as an investor I see regular gains on my investments which keeps me very happy.* – M. Forsyth

William Gray
The RIO Club