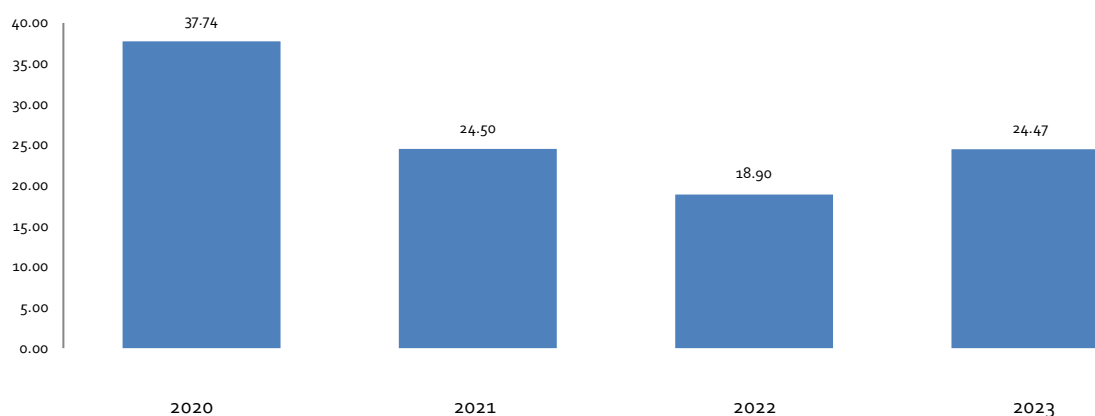




Performance for calendar year (%)



Stock

I sold the final position in British American Tobacco (BTI) stock on the 5th of September, banking gains for those invested. I have yet to reacquire any BTI stock because the stock had not fallen to our buy price, and I am confident that it will lose ground in the coming volatility. Why do I continue to trade British American Tobacco? Apart from the fact that I have traded the stock for years, and as such am well versed in the underlying fundamentals, I have also had much success trading this stock and have banked significant gains in doing so year over year.

The company is highly profitable, with earnings per share rising massively over the last decade. It's also attractive because the company trades at less than 8x free cash flow, this despite the fact that it's had a 30% increase in share price year-to-date, therefore when combined with the 8% dividend yield it's attractive. I also draw attention to the fact that the company's manageable debt levels are consistent with its cash flow, even during crises; this makes it, in my opinion, an undervalued investment. British American Tobacco's long-term undervaluation presents a compelling investment opportunity.

Typically, massive undervaluation corrects itself with a dog leg or V-shaped recovery, but BTI has been trading at bargain-level valuations for over five years. That said, I have traded this stock successfully over the years and remain a buyer when it enters a technically oversold position.

October/November

In the coming weeks this investment stands ready to adjust its asset weightings to fully exploit the significant investment opportunity which surrounds the US election. The recent standout performance of Kamala Harris at the first, and last presidential debate, drove the odds back to a crucial 50-50 position, from the previous 6–7-point advantage in favour of Donald Trump. On October the 1st we had the Vice-Presidential debate which much favoured the republican candidate; however, this didn't move the polls and it still looks uncertain who will be the next president.

America - A land of inequality

We all know that high levels of inequality plague the US, but looking at the numbers is genuinely staggering. According to the US' St. Louis Fed, the wealthiest 10% of the country's population has 67% of the country's wealth, while the bottom half of American has a mere 2.5%. These numbers have generally only gone in one direction since the point of maximum American equality in the 60's and 70's. This is undoubtedly one of the chief drivers of a very politically divided America, with the two political sides finding different targets for their dissatisfaction with the status quo.

The point being investment opportunity is to come a knocking!

We are now approaching what is the homestretch of the US presidential race, the rhetoric is building with pressure mounting on both candidates to spell out their policies and drive them home. As we move through October, the uncertainty will build, and markets don't like uncertainty. However, this uncertainty presents an investment opportunity for the expert, and it's an opportunity I have been awaiting. Simply put if you've done your research - and we have- it's possible to bank strong gains! I would strongly underline that should the polls still be this close on Election Day, the market reaction to the outcome will likely be substantial.

For those willing to accept risk an investment in RIO Stock Trading USD could certainly be rewarding. For new members, you have indeed joined us at the right time!

William Gray
The RIO Club