PRIVATBANKIERS
REICHMUTH & CO
INTEGRALE VERMÖGENSVERWALTUNG

CHECK-UP

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EDITORIAL

The nineties was the most successful decade for the Western financial markets. The globalization after the fall of the Berlin wall in 1989 marked at the same time the victory of the capitalistic society. The former German minister of foreign affairs Hans-Dietrich Genscher, on the occasion of our client invitation «Dawn of the year 2000» in Lucerne, also stressed the rapidly increasing global interdependance.

It is therefore surprising how diversified the World looks at the change of the millennium. While in the USA the «virtual» era has completely taken charge, Europe is still more or less stuck in the distribution wars in the style of the previous centuries. Asia is on the verge of seeing the opening of the most populated country in the World - China.

Which greetings for the year 2000 would be appropriate in the light of such an environment? That war has at long last become a thing of the past, that the stock and financial markets continue to follow a positive course, that nature and economy continue to find common ground or that rising stock prices could be converted into energy…?

Everyone will have to find his own goals. On the other hand, whatever your plans should be in matters of asset management and finan-cial investments, you can count on our continued assistance. For the year 2000 we would like to wish you good health, much happiness and success.



Christof Reichmuth

SET THE COMPASS CORRECTLY

THOUGHTS ON ASSET ALLOCATION

One of the most important factors of influence in asset allocation is the time horizon. From this perception emanates amongst other factors the rule of thumb that, expressed in percentage, one should invest at a maximum 100 minus one's own age in investments with strong fluctuations offering higher expectations of return.

Just as important for investment success is a correctly set compass whose needle points the way in which investments should be made over the long term. It is on this point that many investors let themselves be drawn into the hectic of daily market activity and become influenced by short term brilliant radiating will o' the wisp. Although the majority of people in light of their wealth could invest on a relatively long-term basis, they tend to keep revising and modifying their investment decisions in short intervals. What is valid today will be altered tomorrow. A long-term and basically sensible investment strategy can in this manner become a puppet of the ups and downs of the market. The stampede for short-term success and profit endangers in end effect long-term targeted investment goals.

Attitude and character are decisive

Many investment consultants and professional asset managers unfortunately assume that the client should make the asset allocation and he, the specialist can simply be always fully invested. In this way however, the professional delegates the most important decision – namely the adjustment of the long term investment compass back to the client and just concentrates on single decisions within his assigned investment target. In this manner, instead of defining the important structure and main accents of an investment, merely pure executive functions are made.

Therefore we are convinced as integral thinking asset managers, that the personal and professional attitude of a serious and competent investment consultant is more important than his versatility and professional competence. The latter can be learnt and if required can be bought for special markets. The personal attitude and integrity of our client advisors is however the major requirement.

continued on the next page

CONTENT

- RIF Market outlook
- In the long-term shares are unbeatable!
- RIF investment strategy
- Stock repurchase plans overtake dividend payments
- Megatrends and sectors of the future

Innovative ideas and a fundamentally conservative attitude

The art of investment basically demands that we buy low and sell high. Because of our fundamentally conservative attitude we are forced in the face of generally overvalued markets, to look for innovative solutions on our own. In the past for example, we did this by making real estate investments in London, which are now being liquidated in a «hot» market. We also recognized in good time the potential of under-valued secondary stocks. In addition we arranged for our clients to participate already quite early in a optimal means of investing in so-called non-traditional investments (or money manager strategies). Almost too early – already in the summer of 1998 – we took advantage of the under-valuation of the Japanese stock market for capital protected investments in. We always stay true to our principles: only to recommend that which we know about and to deal with people who we know personally.

Opportunities in year one of a new millennium

If today we look for investments which are currently not favored and consequently cheap, then we will find what we are looking for in both the emerging markets and in Euroland. In Europe we can count on two main factors of influence: on the one hand an undervalued currency – the Euro has a significant potential to recover against the USD and the JPY – and on the other hand the massive restructuring activities by numerous companies.

Diversification und Selection

The selection of reasonably priced stocks has strongly diminished. The financial and recently also sections of the real-estate market have already seen a significant increase in value and appear less interesting at current values. We therefore would continue to recommend a wide diversification in selected investments, which in all probability will yield income independent of whether only the best imaginable scenario becomes reality.

Such a well conceived, individually tailored investment policy will deliver sure success in the long term, even although it pays little attention to the occasional especially brightly illuminated attractions, holding to the old wisdom: «a compass which points its needle to every passing ship will rarely reach its destination.»

your RIF Team

THE PHILIPS CURVE ON THE VERGE OF A CHANGE IN DIRECTION

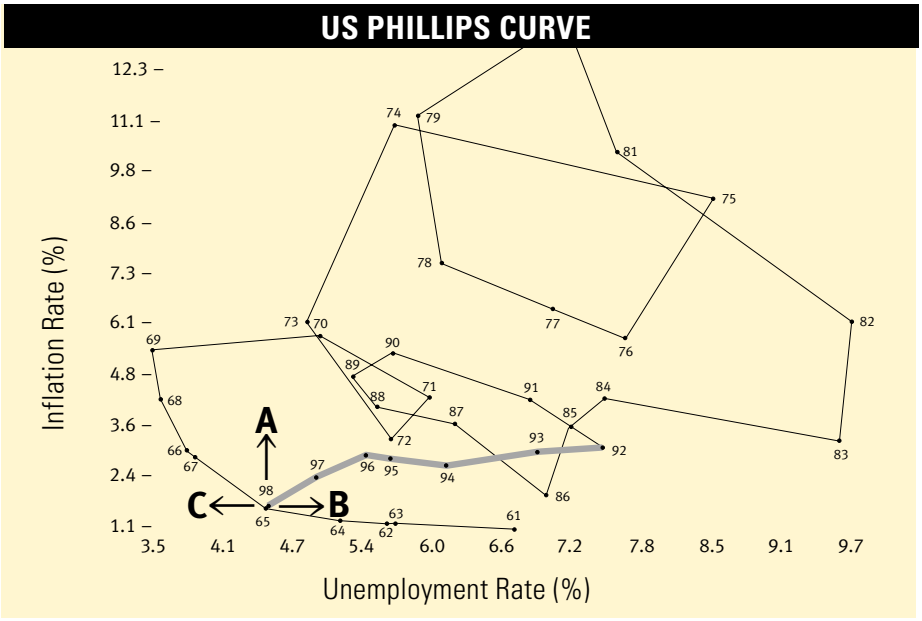
A POSITIVE OUTLOOK FOR INFLATION AND UNEMPLOYMENT

The Philips curve describes the relationship between inflation and unemployment. In earlier cycles it had often been attempted to invigorate the economy by means of a widening of the money supply. The consequence of this was a negative relationship between inflation and unemployment. The rule was that with a touch of inflation one could reduce the rate of unemployment. As time passed this relationship wandered to the right, in other words to a fresh level: higher unemployment coupled with a corresponding higher rate of inflation.

In the nineties, the USA managed to finally put an end to this somewhat ugly development. Unemployment sank with a low rate of inflation. In the USA, levels have already now been reached which were last seen during the sixties.

Based on the continued strength of the economy in the USA, we are expecting a change in direction of the curve. In our opinion, scenario A -more inflation with a low rate of unemployment - will be the most likely outcome. B would be expected only in the case of a stock market crash, while for C the stamina is missing and therefore the probability of such an occurrence is very small.

Stefan Ulrich



STOCK REPURCHASE PLANS OVERTAKE DIVIDEND PAYMENTS

SURPRISINGLY HIGH DIVIDEND PAYMENT QUOTA IN THE USA

Dividend payments like stock repurchase plans can be regarded as payments from companies to shareholders. According to one of the latest studies of the US Federal Reserve Board, dividend payments, contrary to the widely propagated opinion of US companies, are still of substantial significance. On an average, about 38% of profits are paid out to shareholders in America.

The strong increase in share repurchase operations is highly remarkable. While in 1994 around 17% of company profits were earmarked for share repurchasing, this share amounted to 41% last year! About 1% of profit increase per share is estimated to derive from it. The total pay-out of 80% seems extremely high and means that the strong increase in share repurchase activities can just not continue at this pace.

To a great extent the repurchased shares are used for employee option plans. In such instances, the shares are frequently submitted at discount prices, while the repurchases take place at market prices. Thus, the advantage of a synchronized incentive structure is accompanied by a corresponding transfer of assets in favor of the employee.

We can well support this point of view and can see that these employee options will put additional upward pressure on salary expenses (see also RIF market outlook, page 3). The largest portion of salary increases comes nowadays - and not only in the USA – from option plans and for this reason

In % of Market Capitalization	1994	1995	1996	1997	1998
Share repurchases	1.4	1.8	2.0	2.4	1.9
Issue of options to employees	0.5	0.8	0.9	1.0	1.1
Net repurchases	0.9	1.0	1.1	1.4	0.8
Dividend yield	2.8	2.4	2.1	1.7	1.4
Stock repurchase in % of profit	17	21	26	40	41
Dividend payment in % of profit	39	38	35	35	39
Total dividend quota in % of profit	56	59	75	75	80

Source: US Federal Reserve Board, Division of Research and Statistics November 1999

The US Federal Reserve Board reckons that a maximum 'Steady State' will have been reached with a total dividend quota of 80%. If one assumes that all influential factors remain stable, the Fed has calculated that the expected negative effect on share prices of around 20-30% will be the result of this.

does not figure in the official salary statistics. In this manner inflationary pressures are not built up by means of salary costs but to a far greater extent via the asset effect. One of these days, this pressure will flow out of the virtual world and splash into the real world!

Christof Reichmuth

WINTER ANECDOTE

CORRELATIONS TO ACTIVITIES ON THE STOCK MARKET ARE NOT JUST BY CHANCE.



It's a wonderful but bitterly cold day. You can hardly feel your nose, your ears hurt and you look for protection in your coat collar. You come to the shore of a frozen lake. Are you prepared to risk the short cut, or would it be wiser to walk to the next bridge?

Then you notice on the other side a man who is testing the ice, at first with one foot and then with both legs. The ice holds up. A woman follows the example of the man. The ice still holds up. Children with ice skates join in, then grown-up children follow. Not much later, the whole village is celebrating an ice party. Each additional person gives the next person the sense of security to take part in the party on the lake. The more people there are on the ice, the more secure one tends to feel. That's just logical, isn't it?

There's just something that stops you. You turn around and go back to the bridge a kilometer away. You hear something crunch behind you and then the first scream.

F. Levington early 1920's

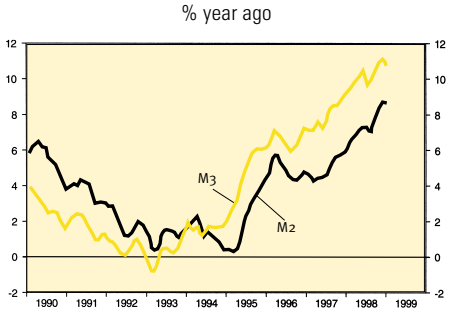
MEGATRENDS AND SECTORS OF THE FUTURE

MONEY FLOWS ARE CHANGING THE INVESTMENT ENVIRONMENT

Worldwide monetary assets have been increasing for years at an impressive rate. Future security analysis will have to pay as much attention to this factor as traditionally the international inflationary, interest rate and earnings development. Money flows ar also important for the sector selection, respectively the sector weighting within the scope of an investment strategy.

The following chart shows a typical example of the megatrend of increase in monetary assets, in this case the USA.

BOARD MONEY GROWTH CLIMBS



Source: Federal Reserve Board.

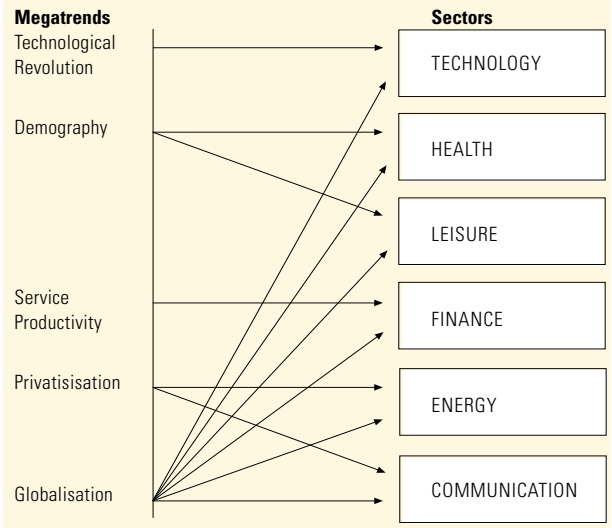
From the past…

The art of the investment business lies clearly in the detection of future trends. He who invested in the biochemical sector at the end of the 80's could regard himself as the great winner on the stock market up until 1992 (before the correction came). Today it is information technology, which attracts the attention of the masses – a consumer-oriented, dynamic-innovative trend, which will probably continue longer than the Bio trend at the beginning of the 90's.

...Into the future

Shares in the information technology sector will thus continue to enjoy an active demand. However, at the moment and with few exceptions, a rather exaggerated price must be paid for shares belonging to this sector. Therefore from within this broad selection that information technology offers, we are particularly looking for companies which can take advantage of the ever-increasing overflow of information. This means companies who are able to bundle information according to client segments, above all in internet or in Pay-TV sectors, or even as providers who can satisfy consumer demand with personalized content offers.

MEGATRENDS



Source: Merill Lynch, Swissca

Idealistic investments on the advance

On the other hand an increasing amount of money could well flow into companies which are taking more into account the human/environmental factors instead of merely the aspects of technology/profit. It is exactly in the afore-mentioned information technology that it will be one day possible to make investment decisions not only on the basis of comparison of prices/curves, statistics and performance data but also according to idealistic, ethical values. The foundation board of the Novartis pension fund offers a typical example for this new method of weighting investments. It has decided to invest a quarter of its investment capital to the tune of billions in such companies which have become listed in the «Dow Jones Sustainable Index», in other words in particularly environmentally oriented or environmentally acceptable companies.

Should in future an increasing number of major investors follow this example then the flow of money activated will bring about a clearly higher valuation of those companies involved. To back on this trend at an early stage will produce more return for our clients in comparison to the overall market – exactly like megatrend considerations in sector diversification in our stock list lead to corresponding/adequate over- or underweighting.

An investment in the Far-East with a hedge

From a very long-term point of view, an additional money flow factor will have an even more decisive influence. The growth of the world population is currently most significant in the Far-East – an area of the world currently under–weighted by international investors, although the Far-East produces around one third of world trade and represents more than 60% of the world population. Since the Far-Eastern (money) mentality differs vastly from that of the industrialized West, we prefer to accumulate this mega-global money-flow expectation in our portfolios initially by means of capital-protected products (hedged to the downside, open on the upside).



Jürg Staub

RIF MARKET OUTLOOK
1. TRIMESTER 2000

INTEREST RATES
The trend for interest rates remains up. Rebirth of the US Philips Curve

The period of falling interest rates is behind us and these have now stabilized at a higher level. The Philips Curve which describes the relationship between inflation and unemployment (Chart 1), after a positive development during the last year, will complete a change in direction. Inflation is splashing from securities over to the measured price indices. We are expecting a continued low rate of unemployment in the USA accompanied by a rising inflation rate, caused by the «delay effect» of the new remuneration system (option model).

The yield curve will remain steep in Europe. The weak currency and low short-term interest rates are helping the European economy towards an actual kick-start. We attribute the socialistic relapse of the German chancellor in the rescue of the Holzmann building group to a purely opportunistic move in order to push through his by all means pro-economic reform program.

Long-term US interest rates are already at 6.3% and we are expecting in the light of the next Fed interest rate hike a rise to about 7%. The higher interest rate level will tend to weaken the US economy, which is dependent on capital import. Should the euphoria in the US technology stocks come to a foreseeable abrupt end, then the stock market will suffer from it. With this in mind, the Fed could well introduce a round of lower interest rates. The long-term interest rates will remain high because a lower currency will bring about rising inflation.

Japan is reflating itself back to health. At the moment the major worry for the Japanese is their extremely strong currency. This is destroying a large amount of the interest rate advantage for the export economy. On the other hand, domestically oriented companies can refinance themselves at an advantageous rate and could possibly bring about a Tech-Phoria in Japan.

CURRENCIES
The year 2000 will be the year of the EUR, the JPY will remain strong, the USD will come under pressure.

The strength of the USD took us by surprise. The purchasing power parity of the USD against the EUR has now passed the 15% level. This is surprising since the US net debt toward Europe and Japan currently amounts to about USD 1.6 trillion and each year a USD 300 billion balance of payments deficit must be financed, 2/3 of this is being borne by Japan and 1/3 by Europe. With this scenario in mind we are expecting the year 2000 to be the year of the EUR.

Since the three goals of the SNB (price stability, full employment and a currency policy supportive to the overall economy) has demanded an expansive monetary policy over the past few years, a more restrictive tempo would be more appropriate. We are looking for a strong interest rate hike on the part of the SNB from todays' 1% to over 2% after the millennium change. The question remains as to how strong the SNB will let the CHF gain against the EUR in order that they do not endanger goal three. We are expecting a CHF which will be influenced by a fight against inflation (upside pressure) and EU membership (downward pressure) and are lightly reducing our high EUR weighting in favour of the CHF.

EQUITY MARKETS
The euphoric demand for technology and telecommunication shares will be increasingly satisfied by means of numerous IPO's.

Thanks to the telecommunications rally which took off during the middle of October (with exception of Swiss stocks), the European equity markets could also book an above-average 1999. The restructuring of Europe Inc. has managed to gain momentum due to the temporary problems of government acceptance in Germany. In addition Europe could well offer great potential for restructuring profits.

Since April 1998, the majority of shares by the way have been trading lower. The divergence of the markets – in other words the concentration of the bull market on less and less shares – has reached absurd proportions. We do not expect that this situation will continue. According to historical experience such divergences close themselves through the approach of the minority toward the majority, in this instance to the downside. An additional factor being that the buying panic with a corresponding high demand for technology is being increasingly satisfied by means of IPOs.

In Europe we still see a great deal of potential and are remaining cautious purely because of the uncertainties on Wall Street. Domestically oriented shares, in particular secondary stocks are our favorites. Japan stood at about 19000 Nikkei points. The change in generation is now taking place in Japan and the economic recovery is being burdened by the strong JPY. We are still expecting a positive if indeed volatile course of the equity market in Japan with a target of about 25'000 index point within 2 years.

RIF INVESTMENT POLICY

1. TRIMESTER 2000

BASIS	CH	EU (D)	UK	USA	J
Purchasing Power Paritiers					
PPP (NDR)		-10%	0%	4%	6%
GDP Growth					
actual	1,1%	1,6%	1,8%	5,5%	0,9%
6 months	↗	↗	↗	→	↗
3 years	↗	↗	→	↘	↑
Inflation					
actual	1,2%	1,4%	1,2%	2,6%	-0,7%
6 month	↗	↗	↗	↗	↗
3 years	3%	3%	2,5%	4%	2%
Stock Market					
Steady State FV-Potential	0%	-20%	-40%	-40%	11%
P/E 2000	21	25	24	26	30
EPS Expectationy 2000	↗	↑	→	→	↑

CONCLUSION	CH	EU (D)	UK	USA	J
Money Market (3 months)					
actual	2%	3,5%	6,2%	6,2%	0,3%
6 months	↗	↗	→	↗	→
Capital Market (10 years)					
actual	3,5%	5,2%	5,3%	6,3%	1,7%
6 months	→	→	→	↗	→
3 years	↗	↗	↗	↗	↑
Currency					
actual		1,60	2,55	1,59	1,54
6 months		→	→	↘	↘
3 years		→	↓	↓	→
Stock Market					
actual	7.390	6.320	6.730	1.421	18.180
6 months	→	→	→	↘	→
3 years	↗	↗	→	↘	↗

↑ = very positive

→ = neutral

↓ = very negative

Prepared: 21.12.1999

RIF GLOBAL LIST
JANUARY 2000

	SECTOR	W	THEMES	«TIMING PORTFOLIO»	«GRANDCHILDREN'S PF»	SELL
DEFENSIVE	Consumer Staples	+	Defensive Health Functional Food Lifestyle	PARMALAT SAKS	UNILEVER PHILIP MORRIS	ELSEVIER RP)
	Utilities	0	Liberalization Deregulation	ENDESA VEBA	RWE / CKW PACIFIC GAS	
INTEREST SENSITIVE	Banks	0	Concentration Merger-Mania Internet Higher Intereste	UBS	COMMERZBANK FIP) DT. BANK	SOGENAL RP)
	Insurances	–	Agains ? Population All Finance Capital Gains over	FORTIS	SWISS RE ZURICH ING	AXA RP)
GROWTH	Pharma	0	Process of Concentration Lifestyle Tabs	BAYER	NOVARTIS MERCK	NOVO NORDISK RP)
	Technology	0	Digitalisation Future-Fantasie	XEROX ALSTOM	ABB PHILIPS	
	Telecom	–	Wireless Network	ATT	SIEMENS BELL ATLANTIC	ALCATEL RP)
CYCLICAL	Oil	0	Doubling of Oil Price	ENI	ELF / TOTALFINA REPSOL	
	Chemicals	+	Process of Concentration Spezialisation	DSM CLARIANT FIP)	EASTMAN KODAK AKZO	BASF RP)
	Basic Industrials	0	Price-Trend Turnaround World Demand	METSA SERLA	PECHINEY RIO TINTO ANGLO AMERICAN ALUSUISSE/THYSSEN	
	Auto Parts & Equipments	+	Plattform-Conzept Model Variety Overcapacity World	RENAULT VW	DAIMLERCHRYSLER GEORG FISCHER MICHELIN	
	Real Estate Building	–	Settlement of Structure Redevelopment		ST. GOBAIN HOLDERBANK	
	Machinery Ausrüster	0	Innovation Management	STORK FIP)	SULZER LINDE	
	various Conglomerates			DAX MDAX	NIKKEI REAL ESTATE CH TOMKINS	CAC RP) SAIR

Timing-Portfolio: Interesting opportunities Grandchildren's Portfolio: buy-and-hold-titel - basic investements FIP = Fall in Place (special move expectet) RP = realise profits

IN THE LONG-TERM SHARES ARE UNBEATABLE...
HOW JAPAN CAN BE TESTED FOR A LONG-TERM ENGAGEMENT

From the long-term point of view shares are more interesting in respect of growth and income than other investment categories. To be sure, one cannot contend that long-term means for an American a longer period of time than for a Japanese, since it is a well known fact that patience is anyway more of an Asian characteristic.

Euphoria takes hold when investors become fascinated by an idea or a development, without being able to understand and assess just what consequences it can have on our way of life, and nevertheless chase after it with body and soul (and often with all they possess). But we all know that times change, sometimes quicker and sometimes slower – but always without having any respect of euphoric sentiment. For example, about 10 years ago the Japanese economic model was regarded as the most progressive and

continued on the next page

RIF INVESTMENT STRATEGY

1 TRIMESTER 2000

PENSION PORTFOLIO

Currencies

- EUR only slightly over-weighted
- USD at a minimum
- 5-10% commodity currencies (AUD, CAD)

Categories

- Maintain money market or invest in 1–2 year Groi (short SPX)
- CHF and USD maturities: around 2–3 years.
- EUR maturities: around 3–4 years
- Avoid equity risks, at best consider a few undervalued dividend opportunities

HARVEST PORTFOLIO

Currencies

- As Pension Portfolio (above)

Categories

- Stand-by funds or maintain a Groi (short SPX)
- Maintain equities at the minimum of the individual asset allocation
- Small and mid caps CH and Germany
- Maintain a Japan/Asia exposure at 5-10% by means of capital protected instruments (Groi)
- 10-20% alternative investments

SPORTING PORTFOLIO

Currencies

- Short USD
- Stand-by reserves in EUR

Categories

- Long Europe (MDAX/ small and mid caps)
- JGB short
- Nikkei long
- S&P or Nasdaq short (bear collar or short future with short put position)
- 20–35% Alternative investments

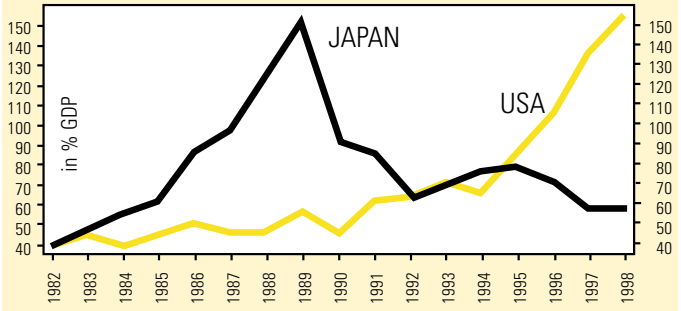
The recommendations depend on the current market environment and can be subject to alteration at any time. Further information as well as the RIF-World List, the RIF Small-and-Mid-Cap List and the RIF Bond List can be obtained directly from Mr. Alessandro Pelli or Mr. Stefan Ulrich (+41 41 249 49 29).

today it is the shares of technology companies which heat up the investor fantasy in a euphoric manner.

This can be demonstrated very clearly in the chart (see below): while in 1989 the Japanese stock market accounted for about 158% of the overheated Japanese gross national product, this figure came down over the years and today stands at about 57%. The price deterioration and the minus performance over the course of many years was grueling. A development in the other direction took place in the USA: there the corresponding level stood 10 years ago at around 60% and today it is at 162%.

However, it was not only the Japanese share investor who has been tested for his long-term outlook or his perseverance in long-term investing. Also Switzterland had to face many years of negative performance on the stock market, in which only a handfull of financial gurus dared to propogate the superiority of shares….

MARKETCAPITALIZATION / GDP



In spite of all this, the long-term outlook remains decisive. Of even more importance of course are the personal goals of the investor; and since these can change over time, it is of paramount importance to formulate an individual asset allocation with international diversification which can be tailored exactly to these goals.



Daniel Waldburger