PRIVATBANKIERS
REICHMUTH & CO
INTEGRALE VERMÖGENSVERWALTUNG

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT
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EDITORIAL

Transition or new departure? This is the question troubling us in this review. We incline towards the former.

Being able to share the ups and downs of investment is part of our everyday professional life – it comes from identifying with our clients' investment objectives. This, the most important rule of business, fortunately protected us from volatile share prices when the fashion for investing in growth shares turned into a euphoria. For this reason our clients have got off lightly. But the most important rule of investment – that of healthy opportunity and risk diversification – makes even the smallest stock market allocation seem pitiful in the current market environment. But although all good things come to an end, things are never as desperate as they seem – so the policy of steady-handed investment must be the right one.



Karl Reichmuth
Partner with unlimited liability

REVALUATION OF ASSETS IS OVER

WILL THERE BE A NEGATIVE REVALUATION?

For more than a year now, investors keep being disappointed. Most stock markets have sunk lower than three years ago, in the summer of 1998. In spite of these setbacks, however, many investors are still hungry for shares.

Sharply falling interest rates as the impetus

At the end of 1990, the Swiss share index stood at 1400; in July 1998 it had reached 8400 – a six-fold increase in a time that could not be counted as a boom period. How was this possible, since economic growth between the end of 1990 and 1998 was only about 3.5%? The main reason for the general price rise was the great fall in interest rates, which resulted in a price/earnings expansion. The price/earnings ratio is related to the interest rate in order to judge whether something is expensive or cheap. Capitalisation at a low interest rate leads to a high capital value and vice versa. In addition Swiss companies, which were previously old-fashioned and rather fat, were helped by restructuring and cost reduction measures. Profits actually increased as a result. Both things together led to this unique revaluation of the stock market. In other western stock markets there were similar developments; particularly in the main driving factor, interest rates, which fell everywhere.

1998 – lowest interest rate for many years

In 1998 came the low point of the several-year decline in interest rates. Thanks to the relatively long period of strong stock markets, the prevailing opinion was that shares could only go up. Technology shares sent the indices, but not the majority of shares, soaring temporarily to irrational highs.

Stock markets in 2001 – a minefield

After the technology bubble started to deflate in March 2000 dramatically, the widespread bear market set in this year, particularly in Europe. For a change, the trigger this time was not higher interest rates, but lower profits. The book-keeping tricks of the boom phase needed adjustment. One company after another announced bad news and huge write-offs. The stock markets are a minefield. Investors are hardly moving any more – much to the disappointment of the financial sector, which has become over-

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sized in the long bull market, and was now seeing its revenue spinners crash. However, now probably most of the mines have exploded, leaving the minefield a little safer.

The world is round...

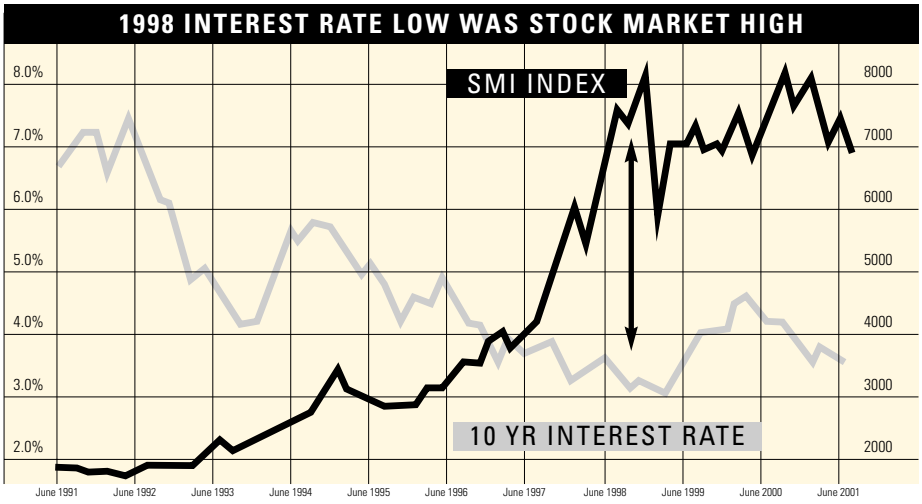
In the 1980s, people chose a financial advisor or investment manager on the basis of trust. He had room for manoeuvre. Then came computers and, with them, the indices. There followed the annual benchmarking, which resulted in a lack of trust in the skills of the managers. This culminated in the «tracking error» method. That is why most investment managers nowadays are close to the index. Because of the unprecedented bull market starting in 1980, this development has been able to spread further than was wise. Falling interest rates simply caused all share prices to rise further, so that index-based investing was thoroughly acceptable – but most investors have not noticed that this period came to an end in July 1998. Fortunately, we did not take part in this harmful development.

Alternative investments as means of salvation

As a response to the annual losses on share positions, some market participants think that alternative investments – so-called hedge funds – could be the solution to the problem. For us, hedge funds have been a separate investment category since 1997. However, for the forward-looking investor, the current fashion is not quite without its dangers (see p. 3 «Hedge Funds – All the rage»).

Trust is valuable and cannot be bought

It is obvious that one has to place complete trust in hedge fund managers. They have room for manoeuvre, are allowed to sell short, and the use of borrowed capital is normal. We have come full circle – back to the 1980s, when trust and skills were more important than rigid rules and restrictive guidelines. But this time there is less transparency.



Revaluation imminent?

At the moment there are three possible scenarios which all would be negative:

1) Inflation and interest rates rise.
2) Margins fall steadily because of globalisation and internet transparency.
3) The share mania of the 1990s gives way to a Japanese anti-share culture.

Nowadays inflation seems hardly to be the problem. Although the growth in the supply of money has been dramatic, companies have no power to raise prices. Only state-administered prices and individual services are rising. Inflation in specific sectors, such as property in top locations, which cannot be traded globally, has been known for a long time. So the money has to be parked in so-called non-demand-affecting areas.

Case 2 seems much more likely, since we have come a large step closer to the ideal of «perfect competition» through globalisation and the transparency enabled by technology. If margins end up lower on a long-term basis, the markets would still be much too high even at the current low interest rate. Revaluation downwards or a long sideways period would be the result.

Case 3 is a more extreme form of the first two. If people in general were indeed to become risk-averse concerning shares, the markets would not merely be revalued, they would undershoot.

Upward revaluation of the markets as a whole is only possible if there is another boom. Lower interest rates are only conceivable in the event of a world recession. And this would be more likely to cause things to develop along the Japanese lines. It is possible that the current situation could be a cyclical, rather than sustained, erosion of margins. At least then the markets could be supported with profits. However, a clear-cut revaluation on this basis is improbable.

Our way: substance and earnings

In this environment of low interest rates, our most likely share scenario is for a volatile sideways trend lasting many years. Our method is therefore substance so that we have a certain margin of safety in case of a slump. And earnings, so that we can keep calm through the «miserable» times on the stock markets. Many securities have higher dividend yields than the interest rate of the respective country. However, the investment horizon and the starting point are always crucial. The more an investment fluctuates, the longer the investment horizon must be. The basis is also very important – there is no share price so low that it could not fall by another 50%. However, with shares undershooting and a relatively low purchase price, that is no reason for panic.

Your RIF Team

HEDGE FUNDS – ALL THE RAGE

HUGE RUSH ON ABSOLUTE PERFORMANCE

In the 1st quarter of 2001 alone, seven billion USD flowed into hedge funds. This equates to the total for last year.

Spotting opportunities early on

When we built an alternative investment instrument for our clients, around four years ago, it was our aim to generate a positive absolute performance in an expensive share environment. It was important to us to select non-market - correlated money managers wherever possible. This early assessment proved to be spot on. While the SMI, for instance, is some 15% lower today than three years ago, we can report a performance of around 33% in our alternative portfolios in the base currency. Our attempt to offer a non-market investment opportunity has been a success.

From «Haute Couture» to «Prêt-à-Porter»

That hedge funds are now becoming the fashion accessory of choice for many banks has much to do with the past performance of hedge funds and the poor performance of equity portfolios. The banks are currently turning to this investment category in a big way, which used to be the preserve chiefly of wealthy private clients and family offices. In some respects, we welcome this development, as it will increase competition and understanding. However, we are sceptical about the future development of the hedge fund industry as, in contrast to «long only» investments, in the case of hedge funds too much money is not a good thing. We believe that this sudden, high influx of money has four risks:

1. High performance expectations will be dashed

High performance expectations are based on past figures and are too high: the more money that flows into a strategy, the more efficient the market becomes. The performance can then only be improved by making greater use of borrowed funds, but this carries additional risks.

2. Inexperienced hedge funds heighten the contingency risk

The incentive-oriented fee structure tempts young and inexperienced managers into this sector. This results in a greater contingency risk.

3. Individual stocks become more volatile

More money in long/short strategies in uncertain times heightens volatility - especially as many managers pursue similar strategies.

4. The system risk increases

The high degree of discretionary room for manoeuvre makes investments even less transparent. The counterparty risk increases and the effects on the system are difficult to assess.

While points 1-3 can be borne in mind by the investment manager of the Fund of Funds, the system risk cannot be entirely ruled out. However, as the counterparties operate in regulated markets, this risk seems acceptable. The only measure to counter the system risk is diversification of investment categories. We mustn't put all our eggs in one basket.

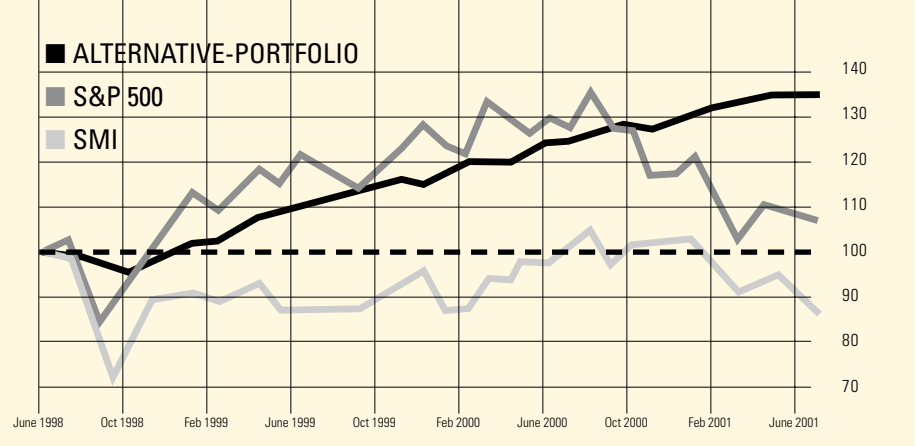
Experience and know-how

We are aware of the problems surrounding each new fashion trend and are therefore particular pleased that we have gained a great deal of experience and know-how in recent years. That is why we will continue to endeavour to predict trends in the hedge fund industry. In light of the massive reduction this year in the risk-free interest rate, from 6.5% to around 3.5%, and being aware of the dependence of arbitrageurs on these risk-free rates, we have reduced our target forecast from 12-15% to 10-13%.

Still an attractive investment category

In the current landscape, however, we still consider alternative investments to be a highly attractive investment category, benefiting as they do from the specialisations of the managers involved. In a low interest rate environment and an unpromising share market, positive absolute returns are very helpful.

POSITIVE ABSOLUTE RETURNS WITH LOW VOLATILITY





Christof Reichmuth

A UNIQUE CONCEPT – NEW FOR GERMANY

INTEGRAL INVESTMENT MANAGEMENT IN MUNICH

«Integrale Vermögensverwaltung» - Integral Investment Management. This embodies our philosophy and our activity. For around a year now we have been providing this service also from our base in Munich, taking the traditional Swiss private banking culture as our model. Christoph Schwarz, CEO Munich: «Experiences to date have been very positive and show that our concept is unique in Germany and one step ahead of the market.»

The Reichmuth concept of integral investment management is based on three pillars.

1. Full identification with the client

The core of our philosophy is and remains full identification with the client and independent, unbiased advice. We make our clients' personal objectives our own and are not obliged to place any fund products. This is what sets us apart. We think and act as if the assets were our own. For our clients, advice as we provide it above all means mapping out a deliberate course. The advisor's attitude and character is more important here than the most short-term of performance promises.

2. Overview and transparency

Integral investment management is founded on an integral overview of real estate, direct participations and endowment insurances. This basis for discussion also forms the starting point for the shared task of determining strategy, which is known to account for more than 80% of investment performance. Moreover, the business model adopted by Reichmuth & Co Munich, a pure asset management company, is constructed entirely independently. The client can choose the custodian bank. For both investment instruments and charges, our concern is to ensure full transparency and disclosure for the client.

This is where our consolidation service really proves its worth. We aggregate the various asset components as well as the portfolios managed by third parties, in order to advise the client on overall allocation and management tasks. This avoids unhealthy concentrations. This service is especially valued by families and companies, or their «Family Offices», as a decision-making basis.

3. Know-how and experience

The character and attitude of the client officer, as well as an integral overview, are only truly of value when combined with know-how and experience. With this in mind, the team comprises many specialists with hugely diverse educational backgrounds. This variety, allied with a team that has remained stable for years, is what carries us forward thanks to an open exchange of ideas and tips. We work on this daily and the demands we place on ourselves are correspondingly high.



Christoph Schwarz, CEO Munich

RIM GLOBAL FUND CC BIOSCIENCE

WKN 580 452

Backed by the expertise of its two clinical advisors, the fund concentrates on the main causes of death in the developed industrial countries: cancer and cardio-vascular diseases (= CC).

New drugs will prolong and make the lives of patients easier, thereby transforming the diseases into chronic illnesses requiring ongoing treatment. The latest scientific breakthroughs in molecular medicine will enable the development of pioneering products to combat cancer and cardio-vascular disease. The shares of small biotechnology companies developing new drugs and treatments present extremely attractive investment opportunities. The team of specialists comprises:

Dr. Andreas Körte
Scientific advisor to the Fund. More than 12 years experience in the field of molecular biology in Europe, the USA and Asia.

Christoph Schwarz
CEO of Reichmuth & Co, Munich. Worked many years for CSPB Munich.

Prof. Dr. Thomas Cerny
Head of Haematology Cantonal Hospital St. Gallen. Advisor on all current issues in oncology.

Prof. Dr. Paul Erne
Leading cardiology doctor Cantonal Hospital Lucerne. Advisor for new forms of treatment in the cardio-vascular area.

MARKET OUTLOOK
3rd TRIMESTER 2001

INTEREST RATES

What is called for now is a fight against the looming spiral of deflation. Short-term interest rates will fall all around the world as soon as, or as long as, inflation allows.

Alan Greenspan has taken the emergency measure of reducing the real interest rate to 0.2% and thus been able at least to save consumption. However, the excesses of the technology boom have still not been fully digested. It will take longer than three to six months. The danger is that there will be a collapse in consumer confidence because of rising unemployment and falling share prices. If property prices – which are currently very high – fell, there would be a credit contraction, and a huge shortfall in consumption. We are still more positive, and expect merely lower short-term interest rates with a steep yield curve.

The Japanese 0% interest policy is going into extra time. It is more than ten years now since the shake-out phase there started. The real and painful measures are still to come, in the form of adjustment to the excessive property values and loans.

In Europe, the ECB is getting support on the inflation front. The static target of 2% should be reached soon, because of the declining economic situation and lower raw material prices. On top of this there is the positive effect of a USD turn. The effect of lower interest rates will be more psychological than economic.

The employment market in Switzerland still looks strong. The current slowdown is relieving the economy of excessive wage pressure. Interest rates remain low, and short-term interest rates may even fall further.

We still recommend medium maturity periods. Only a world recession would justify longer maturities, and we are not yet convinced this will happen.

CURRENCIES

Currencies are still in a state of imbalance. The USD is slowly adjusting itself. Good news on the USD no longer has a positive effect.

The USD is still being traded against the EUR at a premium of about 20% for lack of any alternatives. However, the USA – a capital-importing country – is gradually running out of steam. The USD still has no real competition. Japan and Europe are too weak. So the USD can only «beat» itself, which is what we expect. US inflation is higher than in Europe, real interest rates are lower and indeed, after taxes, they are negative. On top of this there is the high trade deficit. The rapid growth in the supply of money should also have a negative effect in the long term. However, the USA can make further use of both the interest and the tax weapon, and the US Fed holds about 10% of US Treasuries. Money can thus be relatively quickly withdrawn from the market if inflation threatens, albeit at the cost of higher interest rates.

The EUR will soon be «real» money, making it a reality for everyone. Currencies are based on confidence, and this is still in short supply. However, the European interest rate below 5% is in principle not a problem for the economy – the lack of confidence is more significant. The sword of Damocles hanging over eastern expansion and lack of agreement within Europe will not relieve the confidence problem.

In our opinion, the CHF will remain relatively stable against the EUR, within a fluctuation margin of +/-5% around 1.55. We still recommend a minimal USD weighting, reasonable EUR weighting and a heavy weighting for CHF.

EQUITY MARKETS

The minefield is gradually becoming safer, since a large proportion of the mines have exploded. But no sustained bull market is in sight.

Once again, investors are finding out the sobering fact that shares do not only rise. The index investors have made particularly bad losses. The markets are about 15% lower than three years ago, and there is still no sustained bull market in sight. We do not expect a long-term fall in interest rates, except in the event of a very severe world recession, during which shares would be the wrong choice anyway. As we expected, the rallying of the markets in the spring was short-lived.

This environment favours a targeted choice of individual shares or sectors. Despite the still positive technical indicators (low interest rates, oversold markets, high levels of cash and declining optimism), the volatile side-stepping markets following the massive jump in prices a year ago seem likely to continue, with low to negative performance. We thus still advise buying shares with attractive dividends and from companies with stable cash flows. In addition we would venture to recommend again some shares that have fallen sharply.

Japan's Nikkei is at the level of 1985. Companies' sales are still high, but margins are at a record low. One should buy when nobody wants anything and sell when everybody wants something. We are still patient and optimistic for Nippon's equity markets.

INVESTMENT POLICY

3rd TRIMESTER 2001

BASIS	CH	EU (D)	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1,42	1,10	1,61	1,00	110
Gross Domestic Product					
actual	2,5%	2,6%	2,1%	0,7%	0,1%
6 months	↘	↘	↘	→	→
3 years	→	→	→	↗	↑
Inflation					
actual	1,4%	3,1%	2,4%	3,2%	-0,7%
6 months	→	↘	→	→	↑
3 years	→	↘	→	→	↑
Stock Market					
P/E 2001	18	23	18	23	43
EPS Expectation 2001	↘	↘	↘	↘	→

CONCLUSION	CH	EU (D)	UK	USA	J
Money Market (3 months)					
actual	3,0%	4,3%	4,9%	3,5%	0,0%
6 months	↘	↘	↘	↘	→
Capital Market (10 years)					
actual	3,2%	4,8%	5,0%	4,9%	1,3%
6 months	→	→	→	→	→
3 years	→	→	→	↗	↑
Currency					
actual		1,52	2,41	1,66	1,38
6 months		→	↘	↘	↘
3 years		→	↘	↓	↘
Stock Market					
actual	6.660	5.220	5.410	1.165	11.180
6 months	→	→	↘	→	↗
3 years	→	→	→	→	↗

Legend:
↑ = very positive
→ = neutral
↓ = very negative

as of: 23. 08. 2001

STOCK RECOMMENDATIONS

SEPTEMBER 2001

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**	BASF	DSM Clariant	Rhodia ICI	
	Basic Resources	Rio Tinto Anglo American Thyssen Krupp	Stora Enso M-Real	Pechiney	
CYCLICAL CONSUMER	**Auto**	VW Vorzüge Daimler Chrysler	Michelin		Peugeot
	Retail		Voegele		
	Media		Tamedia		
NON- CYCLICAL CONS.	**Food**	Philip Morris	Parmalat Südzucker VZ		Altadis
	Various		Emmi (Convertible)	Surveillance	
ENERGY	**Energy**	TotalFinaElf BP Royal Dutch	ENI Repsol	Lukoil	
	Utilities		Endesa CKW		RWE
FINANCIALS	**Banks**	UBS Deutsche Bank	Sogenal	Commerzbank	Allied Irish Bank
	Insurances	Zurich Swiss Re	Baloise		
	Financial Serv				First Data Corp
HEALTH	**Pharma**	Novartis Schering-Plough Roche	Bayer		
	Biotech			BB Biotech RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim St Gobain	Pilkington Dyckerhoff VZ Hunter Douglas		
	Machinery	Linde ABB	Schindler MAN VZ	Stork Sulzer	
TECHNOLOGY	**Hardware**	Philips Siemens	BB Medtech Boston Scientific	Xerox Hewlett Packard	
	Software			BMC Software	Computer Assoc.
TELECOM	**Telecom**	Worldcom	Swisscom	ATT	
	Equipment	Alcatel		Nortel Motorola Marconi	
CERTIFICATES	**Index**	DAX Stoxx 50 Japan Domestic	MDAX	Korea Fund	
	Style				

INVESTMENT STRATEGY

3rd TRIMESTER 2001

PRECAUTIONARY

Currencies

- EUR normally weighted
- USD at a minimum
- Up to 5% AUD

Categories

- Maturities CHF and USD: ca. 3-5 years
- Maturities EUR: ca. 5-7 years
- Up to ca. 5% real estate stocks
- Up to ca. 5% dividend stocks

The recommendations are dependent on movements in the market and are subject to change without notice. Further information including the RIF World, RIF Small-and-Mid-Cap List and the current Bond List are available from Mr. Stefan Ulrich or Mr. Othmar Som at +41-41-249 49 29.

INCOME/ INHERITANCE

Currencies

- As precautionary

Categories

- EUR bonds: extend maturities slightly
- Buy dividend stocks
- Favor European value stocks
- Small and Mid Caps CH and D (MDAX)
- 5-10% Groi short S&P 500 positions
- 5-10% Japan by means of capital protected instruments
- 10-20% Alternative Investments
- 5-10% Real estate stocks
- Up to 5% High Yield Investments
- Up to 5% Private Equity Instruments

SPORT

Currencies

- Short USD/EUR and USD/CHF
- Short JPY/EUR

Categories

- Long Europe (MDAX/secondary stocks)
- Accumulate strongly battered Blue Chips (Bottom Fishing)
- Nikkei/Topix long (Bull Collar)
- Close S&P short
- 30-50% Alternative Investments
- Up to 10% High Yield Investments
- Up to 10% Private Equity

IN SEARCH OF DISASTER

LIGHTNING NEVER STRIKES IN THE SAME PLACE TWICE

It is easy at present to find shares that have fallen sharply. There is hardly any company which has not had to lower its expectations. Although the macro environment is set for expansion – lower interest rates, shrinking tax burden and slightly rising wages – there is little that points to an end to the profit recession. It is these phases of negative announcements that cause share prices to tumble.

In these times it is advisable to assume normalised profits. When companies are managed well operationally, they can attain their industry margins by appropriate management. We have subjected some «crash victims» to a screening, in which we investigated not only the margin, but also the balance sheet, especially for high debts or goodwill. The selection below is the result of our evaluation. They are by no means risk-free, but we are convinced that these companies can re-establish their normalised margins and can therefore be obtained on the market at an excessively low multiplicator. It is advisable to build up a portfolio of this kind gradually, so that one can buy more later if the price drops further.

SHARE	PRICE 23 08. 01	% SINCE 01. 01. 01	PRICE / SALES	PRICE / BOOK	PRICE / EARNING 01	EQUITY RATIO	NORMAL. MARGIN	NORMAL. PROFIT
SGS Surveillance	290	-42	1.0	2.1	14	53%	7.0	170
ABB	18	-57	0.6	2.6	13	18%	5.0	1940
Siemens	55	-40	0.6	2.1	17	32%	4.0	3120
Nortel	6.8	-80	0.8	2.1	n.a.	71%	5.0	1500
Alcatel	17	-72	0.6	1.4	31	36%	5.0	1500
Philips	29	-27	1.0	1.8	22	58%	5.0	1900
Kardex	310	-45	0.6	2.1	9	40%	7.0	31
Charles Vögele	115	-52	0.7	2.4	7	34%	7.0	100
Saia-Burgess	500	-20	0.8	2.8	9	41%	7.0	28