PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

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

Seldom has the outlook for a new financial year been so clear as it is at present. The US is growing nicely, while Europe is stagnating but can expect a flood of cash from the European Central Bank. Given the dearth of alternatives in the zero interest rate environment, equities remain the first choice. How long will this clarity last? Will 2015 be a calm year on the financial markets? Will the central banks really be able to measure up to their new responsibilities?

In Europe, in particular, it appears increasingly likely that savers will be called upon to help finance the excessively high sovereign debts. This will be achieved by way of negative interest rates, and possibly taxes on the rich in various forms. Without a political turnaround, there is scant protection against such measures. That said, new opportunities are opening up all the time, and we aim to seek these out for you. We wish you and your families all the very best for 2015.



Jürg Staub
General Partner

NEGATIVE INTEREST RATES IN EUROPE

NEW MONETARY POLICY LOW POINT

In our view, there are two crucial developments that need to be tracked in 2015: the Fed's attempt to normalize US monetary policy, and whether the ECB can live up to the expectations that have been raised.

Can growth be dictated?

In recent years, the central banks have shown themselves to be the players most capable of taking action. However, they have only been really effective where they have worked in conjunction with politicians. Unfortunately, business-friendly structural reforms are still thin on the ground. Such moves are too unpopular, since they always entail reducing regulation, liberalizing the job markets, opening borders, cutting pensions, etc.

Trust, not money, is in short supply

It is not a scarcity of money that is curbing investment, but rather a lack of fundamental trust in political stability. The reasons behind this are a mounting antipathy toward business and a political inclination towards interventions that, though well intentioned, hold business back. As liberal Swiss citizens, we are in favor of federalism; decisions should be taken at the lowest possible level. There are often calls for a world government to resolve the current problems, but we remain skeptical about such an entity. Although it would help in the case of climate protection, it would be unable to tackle the root causes of excessively high sovereign debt. Quasi-world governments – G7, G20, and the OECD – have thus far primarily curbed the privacy and autonomy of individual citizens. Does this help engender trust?

US rate increase in 2015?

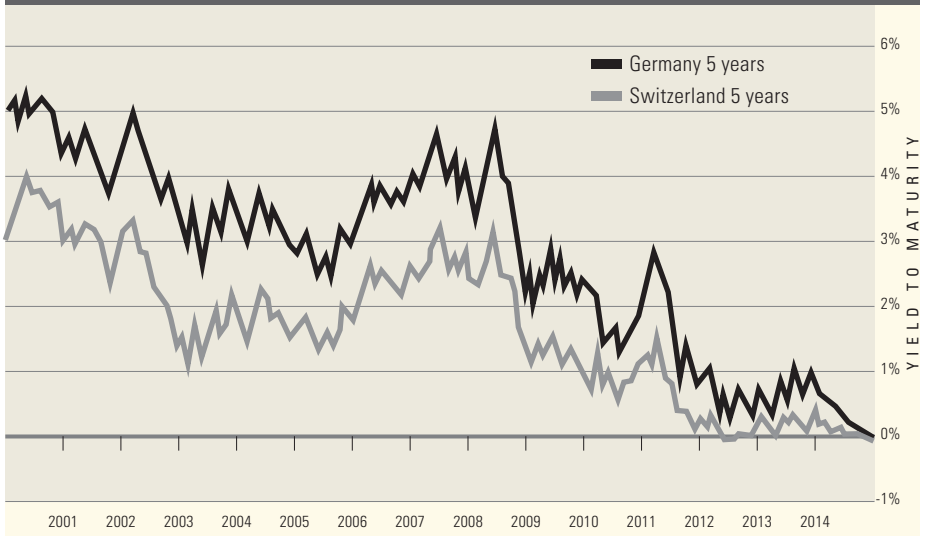
After many years of zero interest rates, the Fed will probably raise its key rate again for the first time in summer 2015. An excessively strong USD or a stock market slump leading into a recession would be the only things that could thwart this intention. The oversized central bank balance sheet is likely to be reduced starting in the autumn of 2015 by not reinvesting as bonds mature. Both give us some grounds for caution, although the stock markets price in such known events. That said, when the very high levels of liquidity begin to subside, and if further highly indebted companies participating in the US's new shale oil boom were to be hit by the low oil pri-

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NEGATIVE YIELDS FOR 5 YEAR GOVERNMENT BONDS IN SWITZERLAND AND GERMANY



Source: Bloomberg, own representation

ce, then this would certainly be a combination with the potential to bring about a stock market correction.

Europe's centrifugal forces…

The new European Commission elected for a five-year term with Jean-Claude Juncker at the helm is not a harbinger of change. Increasingly strident calls are being heard from across the Channel that make even the prospect of the UK leaving the EU (a «Brexit») appear not entirely improbable. Skeptical voices are also becoming increasingly commonplace elsewhere in the EU, even in economically powerful regions such as Catalonia. In addition to Greece, Italy is increasingly flagging as a result of remaining in the Euro. Simply repeating the same procedure as last time is seldom likely to have the desired effect. A keen eye will therefore have to be kept on the elections in Finland in April and the UK in May.

… and Draghi's Herculean task …

ECB President Mario Draghi is doing what he can to buy time for the governments. But even he is increasingly showing signs of impatience with Europe's approach to tackling its problems. If the Eurozone wants to avoid Japanization, it needs to do more than simply transfer more and more tasks to the ECB. There is no scope left for further interest rate cuts. Similarly, even the yields on poorer-quality debt can hardly come down any further. Draghi recently took the virtually unprecedented step of experimenting with negative interest rates on bank deposits with the ECB, and soon a glut of money will be used to further weaken the EUR and stimulate the economy.

…with implications for Switzerland

With the floor set at CHF 1.20 to the EUR, this ECB monetary policy will be imported directly into Switzerland. Negative interest rates are not a good sign for investors. In January negative interest rates will be introduced in Switzerland, the probable effect of which will be additional upward pressure on prices of relatively attractively yielding investments such as dividend stocks. We therefore believe that a bubble forming scenario is entirely conceivable (see scenarios on page 3). The floor at 1.20 is to be maintained for the time being and there is absolutely no sign of this policy being abandoned. Barring any changes in the Eurozone, the only possible way out of this stance is likely to be via a crawling peg or a change in policy away from the EUR limit towards a currency basket. Controls on the movement of capital would, of course, can also be a solution, but this seems unlikely for Switzerland and it would only be possible to implement it unilaterally in an emergency. Hence, for the foreseeable future the CHF will remain the slightly better version of the EUR.

Markets expensive, but amid negative interest rates no price is too high

Unlike the ECB, the SNB is not looking to stimulate the economy, but to defend its EUR floor. The threat of real estate bubbles is likely to be countered with further regulatory measures. Negative interest rates represent a new nadir in monetary policy. Ironically, the result of this is that government bonds – the cause of the present debt problems – are increasingly worth more, at least on paper. Against the backdrop of this extreme monetary policy, savers are being driven into investments that still offer a comparatively attractive return. It is therefore becoming even more likely that a bubble will form in the stock markets.

Put purchase program on the SMI and S&P500

If there are signs of this happening, it could be advisable in the course of 2015 to consider a hedging strategy via a purchase program with put options on the US and Swiss equity markets. Both of these are already relatively expensive. In addition to the factors in the US set out above, in Switzerland the SNB relinquishing the EUR floor would be a trigger for a sharp correction. You should also bear in mind that high valuations at some point have to be backed up with earnings. And before we forget: Do we still recommend gold? Yes, although gold is not an investment that generates income, neither are bonds any longer.



Christof Reichmuth
General Partner

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

The bond markets say: STAGNATION	The equity markets say: GROWTH	BUBBLE FORMATION FIN. REPRESSION/ STAGFLATION	CORRECTION RECESSION / DEFLATION
Interest rates essentially remain low in all industrialized countries. The US and UK economies show some growth, and key interest rates are raised slightly in the course of 2015. In Europe (including Switzerland) and Japan, interest rates remain close to zero for years to come. Interest rates decline in China and other emerging countries. The economies in Japan and the EU stagnate. Inflation is not an issue in any currency zone; it remains just above zero in the US and UK but could become negative in Europe. Global economic growth remains modest (US, UK, and Japan rising slightly, Europe stagnating, China and other emerging countries declining). The exchange rates among the major currencies remain relatively stable (the USD initially the strongest but declining again thereafter, the EUR remains stuck at CHF 1.20), while certain emerging market currencies (e.g. RUB) depreciate. The problem of high sovereign debt remains unresolved.	The low interest rates gradually get global growth moving again: further economic improvement in the US, the UK, and Japan; in Europe, the crisis in the southern countries is overcome; in China, the decline in growth is halted thanks to an easing in monetary policy. Geopolitical trouble spots (e.g. Russia, Ukraine) remain under control. Corporate earnings rise on the back of increasing sales, and profit margins can be kept high. Companies begin to invest in future growth. Nevertheless, the central banks can take their time tightening monetary policy since inflation remains low due to the strong productivity gains. Interest rates therefore begin to edge up only very gently. Thanks to the rising growth rates, and because of the declining national deficits owing to higher tax revenues, sovereign debt levels are no longer increasing or are beginning to come down.	Despite all the efforts of the central banks to bolster growth, it remains below the potential level. The depreciation race can no longer lend any growth impetus. Unemployment in particular remains too high in many industrialized countries. Minimum wages and bans on redundancies are introduced. Nonwage labor costs and levies rise, and so do prices of goods with inelastic demand, which are not sufficiently reflected in the official inflation baskets (housing, health insurance, electricity). Consumers have less and less money in their pockets in real terms, and consumption remains weak. The central banks get more aggressive. Negative interest rates lead to an asset value bubble with misallocations. Official inflation remains low, but is perceived as being high. Social tensions tempt politicians into even more redistribution, and structural reforms fail to materialize. Investors buy anything that still offers returns. The stock market reaches its melting point.	Growth declines in the industrialized countries. Budget deficits remain high, and the debt burden mounts. Lower commodity prices plunge commodity-producing countries into difficulties. The strong USD heightens the pressure on companies and countries with debt denominated in USD. The monetary policies of the central banks increasingly fall into the deflation trap, since scarcely any investment is being made and consumers are suffering under the debt burden. Inflation rates become negative and real rates therefore remain positive despite the zero interest rate policies of the central banks. The savings rate rises and capital spending declines. The tensions in the Eurozone mount, and there are either equalization payments from the stronger countries to the weaker nations, or debt restructuring and currency exits. The emerging markets and commodity countries also suffer from the increasing recession and are beset by currency crises in some cases (e.g. Russia).
INVESTMENT IDEAS: - Dividend stocks - Real estate - Hedge funds (e.g. M&A or long/short equity) - Bonds - USD	INVESTMENT IDEAS: - Stocks of growth firms from cyclical sectors - Southern European banks - Emerging market equities - Commodities - Hedge funds - USD	INVESTMENT IDEAS: - Stocks of global leaders - Dividend stocks - Precious metals - Real estate - Selectively hedge funds - USD - Infrastructure investments with inflation protection	INVESTMENT IDEAS: - Long duration bonds - Selectively hedge funds, e.g. short credit - Gold as a store of value in the event of currency reforms
Probability 12 months 30%	Probability 12 months 20%	Probability 12 months 45%	Probability 12 months 5%
Probability 24 months 35%	Probability 24 months 15%	Probability 24 months 40%	Probability 24 months 10%
Probability 36 months 40%	Probability 36 months 10%	Probability 36 months 35%	Probability 36 months 15%

«PORTFOLIO OF THE FUTURE»

DIVERSIFIED AND FUTURE-ORIENTED – ADAPTED TO THE CURRENT MARKET ENVIRONMENT

STRATEGY	CURRENT TACTIC	ASSET CLASS	POT 1: COMMITMENTS	POT 2: PRESERVING VALUE	POT 3: SEIZING OPPORTUNITIES	RETURN*	VOLATILITY*
0%	5%	Cash	Money market investments or cash in home currency			0%	1%
50%	35%	Fixed income investments	Short-term corporate bonds	5 to 7-year US corporate bonds Inflation-linked government bonds		0-2%	5%
30%	40%	Equities		Stocks with high dividends and low valuations from the food, energy, pharmaceuticals and telecom sectors from our Global Leaders list	Gold mining shares Italian equity index Japanese banks Small caps (Pilatus) Cheap emerging markets	4-8%	15%
5%	5%	Real estate		Switzerland	Asian REITs, Spain	4-6%	15%
15%	10%	Alternative investments			Matterhorn 3 / 24 or third-party products Reichmuth Himalaja	6-8% 10%	< 10% < 15%
0%	5%	Precious metals		Gold (Physically)	Silver ETF	8-10%	15%
					Total	**3-6%**	**ca. 6%**

*Expected average values over a 5-year time horizon – no guarantee

INVESTMENT POLICY

JANUARY 2015

Economy	Switzerland	Germany	Italy	US	Japan	China
GDP in USD bn	651	3635	2071	16800	4902	9240
GDP growth	1.9%	1.2%	-0.5%	2.4%	-1.3%	7.3%
Unemployment	3.2%	6.6%	12.8%	5.8%	3.5%	4.1%
Expectations 12 months	**Switzerland**	**Germany**	**Italy**	**US**	**Japan**	**China**
Expectation GDP growth 12 months	→	→	↗	↗	→	↘

Interest rates	Switzerland	Germany	Italy	US	Japan	China
3-month LIBOR	0.00%	0.06%	0.06%	0.04%	0.11%	4.7%
10-year gov bond yield	0.3%	0.6%	2.0%	2.2%	0.4%	n.a.
10-year swap rate	0.5%	0.9%	n.a.	2.4%	0.5%	n.a.
Inflation	-0.1%	0.6%	0.2%	1.3%	2.9%	1.4%
Expectations 12 months	**Switzerland**	**Germany**	**Italy**	**US**	**Japan**	**China**
3-month interest rates	↘	↘	↘	↗	→	↘
10-year interest rates	→	→	→	↗	→	n.a.
Inflation	→	↗	→	→	↘	→

Stock markets	SPI	DAX	MIB	SPX	TPX	HSCEI
Index level	8864	9811	19061	2061	1410	11426
Performance since 1.1.2014	13%	3%	3%	14%	10%	10%
Performance 5 year p. a.	10%	11%	0%	16%	11%	2%
Performance 10 year p. a.	8%	9%	0%	8%	4%	12%
Valuation	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Price/Earnings 2014	17.5	13.8	17.1	17.2	15.5	7.9
Shiller-PE	26.7	20.6	11.9	26.3	26.1	19.0
Price/Book	2.4	1.7	1.0	2.8	1.3	1.2
Price/Sales	2.0	0.8	0.6	1.8	0.7	0.9
Dividend yield	3.0	3.0	3.3	1.9	1.8	4.1
Return on Equity	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Return on Equity	14.0%	10.5%	5.1%	15.0%	8.9%	17.5%
Margins	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Current profit margin	10.0%	4.7%	-1.0%	9.6%	4.4%	11.3%
Avg profit margin (10 Yr)	9.1%	4.7%	4.8%	7.7%	2.9%	11.0%
Expectations	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Stock market 12 months	↗	↗	↗	→	↗	↗

Currencies		EUR	USD	JPY	CNY
Current exchange rate		1.20	0.98	0.82	0.16
Purchasing power parity		1.25	0.90	1.083	0.14
FX drivers and forecasts	**CHF**	**EUR**	**USD**	**JPY**	**CNY**
Monetary policy	Expansionary. SNB oriented towards the ECB. Minimum exchange rate policy.	Expansionary. Substantial increase expected and further measures announced.	Less expansionary. First rate hike expected in 2015, but no normalization.	Very expansionary. BoJ with aggressive QE program.	Slightly expansionary. Further interest rate cuts and easier credit standards expected.
Current account	11.7%	Germany 7.3% Italy 1.6%	-2.3%	-0.1%	2.1%
Sentiment		negative	extremely positive	extremely negative	neutral
Expectations 12 months		**EUR**	**USD**	**JPY**	**CNY**
Currencies 12 months		→	↗	↘	→

Legend: ↗ = increasing ↑ = strongly increasing → = neutral ↘ = decreasing as of: December 19, 2014

MARKET OUTLOOK

1st TRIMESTER 2015

CURRENCIES

Exchange rate movements are being shaped by the strong USD, the weak JPY and the declines – massive in some cases – in the currencies of the commodity countries and in particular the oil-producing nations. These trends are likely to persist in the next months, since the economy in the US seems to be continuing to improve and the oil price has not bottomed out yet. In the long term, the USD will weaken. To take another example, the RUB – which has shed nearly half its value in a very short space of time – will recover again to some extent.

In Europe, despite the unsatisfactory development of the economies in several countries (stagnating or even negative growth, doggedly high unemployment, national deficits still high) the EUR has fared relatively well and has lost only a little ground against the USD. The tensions between the European currencies have heightened. In addition to the CHF, the CZK also came under appreciation pressure, requiring the Czech National Bank to intervene, while on the other hand the NOK suffered due to the falling oil price. The EUR is only just above the limit of CHF 1.20 set by the Swiss National Bank. With the rate of inflation continuing to decline in the Eurozone and having now reached close to zero, the SNB will maintain its support for the EUR at CHF 1.20 for the foreseeable future. Even after the introduction of negative interest rates the floor will continue to be defended with increases in currency reserves if needed. Failure to do so would permit a strengthening in the deflationary trend, thus posing a threat to its primary task, namely monetary stability.

INTEREST RATES

In the US, an initial hike is to be expected in the course of the new year, while in Europe and Japan interest rates will remain close to zero for some time yet. The interest rate trends in the emerging markets are very much a mixed bag; in countries with high depreciation pressure on their currencies or sharply rising inflation, the central banks concerned will react as before with drastic interest rate increases in some cases.

The long-term trend in inflation rates in most countries is still pointing downwards. Inflation is turning negative in a growing number of countries, and not just due to recession there is little prospect of a rise in long-term yields, which are at historic lows. The central banks – whose goal is monetary stability – will therefore remain expansionary in their monetary policies, even if certain individual countries deviate somewhat from this temporarily in response to the prevailing economic or exchange rate trends.

The markets' take on credit risks has been subject to increasing fluctuations again over the past few months. In some southern European countries, the risk premiums on government bonds have risen sharply at times. The marked drop in the price of oil has had a particularly dramatic impact. Yields have shot up in some cases for the borrowers concerned, and in the case of Venezuela, certain issuers in Russia and Ukraine, for example, they have reached levels indicative of an impending default. We can expect the volatility of risk premiums to remain high.

STOCK MARKETS

The stock markets have become increasingly volatile, and latterly slumped due to the sharp decline in oil prices. On average, the performance for 2014 as a whole is therefore around zero. The fundamental valuations of equities are rather high, but justifiable. Given the lack of attractive investment alternatives, good quality equities in sectors that are less cyclical and that offer good and steady dividend yields remain appealing, and these should be able to maintain their price level well in the coming months.

The outlooks for individual countries and sectors have shifted markedly due to the drop in the price of oil, with oil producers among the losers and consumers among the winners. There has been a correspondingly strong reaction in their share prices. The weightings of the sectors and stock selections should be adjusted, taking into account the price shifts that have taken place.

Short-term upheaval on the markets is currently opening up interesting opportunities for investors with high risk tolerance in the oil sector, particularly in Russia, where share prices look very low for foreign investors due to the massive slump in the RUB and offer corresponding potential for recovery.



Dr. Max Rössler

NEGATIVE INTEREST RATES BENEFIT DIVIDEND STOCKS

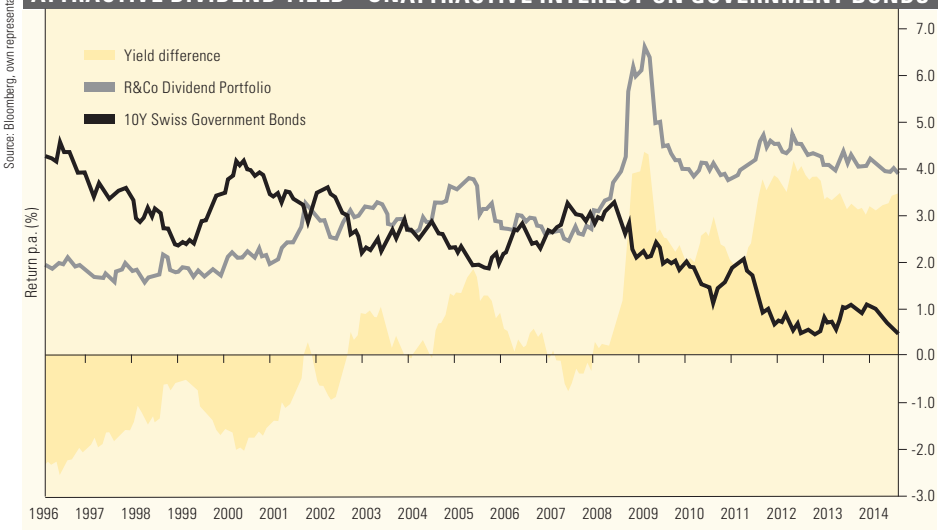
WHAT TO KEEP AN EYE ON

The dividend policy is pivotal. While growth firms mostly reinvest their earnings, established companies often distribute a handsome portion of theirs to shareholders. The more stable the business, the less dividends can be expected to fluctuate every year. Some firms with business models that deliver particularly strong earnings can increase their dividends year after year. These include companies such as Coca Cola and Nestlé. Such profitable firms also often carry out share buyback programs, although in our view these are no substitute for dividends and frequently serve only to optimize short-term earnings.

Dividend security more important than dividend growth

Companies with stable earnings but low potential for growth can be attractive thanks to the high dividend security they offer. These include firms such as real estate companies, which mostly distribute their rental income. The rents are stable and so too are the dividends. A growing dividend is only possible if the earnings can also be increased or if there is scope for expanding the payout ratio. The first such scenario is especially prevalent among companies in the non-cyclical consumer or healthcare sectors. When looking at cyclical sectors in particular, the margin situation also has to be kept in mind. Depending on the level of capacity utilization, margins can drop quickly and thus jeopardize the security of the dividends.

ATTRACTIVE DIVIDEND YIELD - UNATTRACTIVE INTEREST ON GOVERNMENT BONDS



Only what has been earned should be paid out

If you distribute more than you earn, what you are doing is paying out the substance of the firm and not the earnings. This cannot work out in the long run. Operating performance must healthily exceed the amount paid out. Focusing on cash flows generated from operating activities is important since the net income is often distorted by one-off effects, and the payout ratio tells us little in such cases. We are also skeptical of companies that borrow to pay dividends.

Acceptable price risks

In the past ten years, around 40% of the performance of the SMI has been attributable to dividends, the remaining 60% to rising prices. With the markets now expensive, dividends are likely to make up more than half of the overall performance going forward. You should keep tabs on the dividend trends, and only buy securities where you can take the price fluctuations in your stride, including swings on the downside. It is therefore important not to lose sight of the valuations. In the defensive sectors with high dividend yielding companies, we currently regard price/earnings ratios below 18 and enterprise value/EBITDA ratios below 13 as acceptable, with these being correspondingly lower for the cyclical sectors.

Pay heed to diversification and the tax situation

We assess our dividend recommendations on the basis of qualitative and quantitative criteria, and distinguish between three categories: 1) dividend growth stocks, 2) stable dividend payers and 3) dividend payers whose fundamental business is cyclical. We recommend having a good mix of these three groups and avoiding focusing too strongly on any one sector. The expected dividend yield for a balanced portfolio currently stands at just under 4%. Another important aspect for private individuals is the tax situation. The source taxes charged vary from country to country. If you want to avoid income taxes on dividend earnings, the best way is to hold the dividend stocks in a retirement benefits portfolio. There are also many companies in Switzerland that can pay out tax-free dividends from their capital reserves. We will be happy to discuss our dividend recommendations with you.



Patrick Erne, CFA

HIGH SALARY OR HIGH DIVIDEND?

STRIKING THE RIGHT BALANCE BETWEEN DIVIDENDS AND BUILDING UP OCCUPATIONAL PENSION SAVINGS

«Adding maximum value for employee shareholders» – employee shareholders have to choose between a high salary and a generous management pension scheme, or maximizing the tax-privileged dividend payout of their company.

Privileged taxation of dividends

Since January 1, 2009, employee shareholders with a participation of at least 10% in the share capital of a company enjoy tax relief on the dividends paid. Depending on the regulations of the canton in question, this takes the form of partial taxation or a reduced tax rate on dividends. For federal tax the relief is 40%, but the figure varies from canton to canton.

Salary or dividends?

The tax relief on dividends often leads people to take the lowest possible salary and maximum dividend payout. However, in setting the size of the dividend, you should not allow yourself to be guided by the tax breaks alone. A low salary also entails consequences, such as seriously limiting the insurance cover for the risks of death and disability. It also makes it impossible to build up a management pension scheme, with the related tax-efficient opportunities for making voluntary contributions. It is therefore advisable to consider opting for a high salary combined with pension savings. The simplified example shows what a difference this can make (see table).

Simplified example

Fredy Müller, aged 53, married, principal shareholder of the company Successco AG based in Zurich, plans to retire between the age of 62 and 65.

Two contrasting options are shown below:

Option 1: low salary, high dividend without management pension scheme, and

Option 2: high salary, low dividend with management pension scheme and voluntary contributions.

In both cases, Successco AG generates a profit before taxes, salary, and social security contributions of CHF 400,000 per annum. The social security and tax expenses of Successco AG are roughly the same in both options.

The excess generated by Option 2 over Option 1 accrues above all to the shareholder Fredy Müller, and amounts to CHF 29,400 p.a. or around CHF 147,000 over five years.

INCOME STATEMENT FOR SHAREHOLDER FREDY MÜLLER

	Variante 1	Variante 2
Gross salary	126'000	240'000
- Social security (AHV, BVG contributions)	-18'000	-36'000
Net salary after deduction of social security contributions	108'000	204'000
Dividend payout (earnings of Successco AG)	193'000	80'500
- Voluntary contribution to management pension scheme	0	-150'000
Income before taxes	301'000	134'500
Federal, cantonal, municipal taxes	-53'000	-14'000
- Capital from management pension scheme split over five years	0	*178'500
- Federal, cantonal, municipal taxes on capital from management pension scheme split over five years	0	21'800
Income after taxes	**248'000**	**277'200**

*In Option 1, it would have been possible to invest the sum of the annual voluntary contributions and the ordinary contributions into the management pension scheme to generate interest. However, for simplicity's sake, we have decided not to include this notional interest income in the calculation. To ensure an objective comparison, we therefore also did not calculate interest on the voluntary contributions and the ordinary contributions into the management pension scheme. The capital from the management pension scheme split over five years of CHF 178,500 thus corresponds to the annual voluntary contributions and the ordinary contributions paid in.

Early planning is required

A high salary combined with a well developed management pension scheme always delivers clear added value compared with a strategy focused purely on maximizing dividends. The privileged treatment of dividends should therefore be incorporated in the tax and pension planning of companies in such a way that the strategic combination of salary and dividends and voluntary contributions to a suitable management pension scheme allows for the maximum value to be added. We will be happy to show you how your company can benefit from the advantages offered by PensFlex, the most flexible Bel-Etage pension solution in Switzerland.



Mario Lazzarini, PensExpert AG

MY TAKE ON THE POWER OF MONEY
BE YOUR OWN CENTRAL BANKER

The continual growth in the money supply and unrelenting borrowing by western states are leading to a glut of cash. These excesses have become ever more apparent of late, but their origins can be traced back to 1971. Prior to this, the USD was the global reserve currency, convertible into gold at USD 35 per ounce. All currencies were thus more or less secured against gold and so tied to a substance that could not be increased at will. Today that constraint is gone. Time and again throughout history, countries' leaders have misused the power that being able to mint money gives them. Even back in the days when coins were made from pure gold or silver, cheap copper was mixed in to cover state deficits.

Dangerous for our social order

The consequences of such imprudent monetary policy are grave. Inflation does not just affect consumption; it can also impact asset prices, which in turn results in the slow but steady expropriation of those who own money. The widening gap between rich and poor caused by this abuse of the state's monetary monopoly poses a historic threat. The impoverishment of large parts of the population can jeopardize the prevailing social order, democracy, and capitalism.

Are there solutions?

The question is what could be done to counter this development. Given the repeated abuse of states' monopoly on money creation, an obvious solution would be to denationalize money as proposed by Friedrich A. Hayek. As with all other goods, the argument goes, competition would ensure an improvement in «quality» for currencies as well. It is pleasing to see that the currency issue is increasingly gaining importance. Switzerland has seen two initiatives launched to address this topic, one on the central bank's gold reserves and the other on the subject of sovereign money. Alternative currencies such as Bitcoins, which are independent of government control, are also attracting greater media coverage.

Everyone should be their own «central banker»

The monopoly on money is unlikely to be transformed from the top down. That said, you as an individual can already bring about an improvement by creating your own currency. An individually constructed portfolio can serve as a personal currency, at least when it comes to functioning as a store of value. It is not dependent on the state and you can implement it at your own discretion or delegate it to a person you trust to act in line with your ideas.



Karl Reichmuth
General Partner



For a video recording of our Private Clients event on November 4, 2014 in the KKL, Lucerne, please see www.reichmuthco.ch (German only)

ANNOUNCEMENT: REICHMUTH INFRASTRUCTURE SWITZERLAND

Just before Christmas our fund administration launched our new project «Reichmuth Infrastructure Switzerland». It is a closed end fund for qualified investors according to the Collective Investment Schemes Act (CISA). The aim of this fund is to invest in Swiss infrastructure projects to generate attractive returns and stable payouts for the investors. The fund invests in different areas: Transportation, utilities, waste disposal and social infrastructure. Investors will be able to subscribe to the fund in the first half of 2015. The next Check-Up will present in-depth information on the fund.

Mathias Fleischmann

