PRIVATBANKIERS
REICHMUTH & CO
INTEGRALE VERMÖGENSVERWALTUNG

CHECK-UP

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

After seven good stock market years, the year 2000 turned out to be one of disappointment. It was a year that put us to the test. Only a well-planned risk/reward diversification could avoid losses. The most content are those who look at their investment returns in accordance with their individual time horizon and goals. Investments are and remain something very personal.

The year 2001 will probably not be any easier either - as this «CHECK-UP» of the markets, investment instruments, countries and currencies indicates. However, it will be much easier for those investors who are aware of the fact that they have reliable partners. And it is this part that we want to be for you also in the New Year.

Karl Reichmuth
Partner with unlimited liability

WELCOME TO OUR WORLD

THE TECHNOLOGY BALLOON IS DRIFTING BACK TO EARTH

The US economy over the past years has again and again confounded even the most stoic optimists. The American growth figures are indeed impressive and are not even been viewed from the aspect of severe signs of inflationary pressure. The euphoria on the other side of the Atlantic was difficult to understand for us. The markets hardly moved in step with the logic of fundamentally based analysis. Even after continued research, we could not come up with a scenario, which could justify the past upward trend.

Success with alternative investments

The consequence in our investment strategy was to generally stand aside from the extremely overvalued technology markets. True to our philosophy, we were more tempted to turn to those markets, which were unknown to us by using the services of specialised experts, in order to invest in fundamentally interesting technologies. Up to now, this strategy of placing increased attention to alternative investments brought us a great deal of satisfaction and success (see our article: «Alternative Investments - Fashion or Evolution?»). Thus, the current bear market in technology stocks has not been a source of concern to us.

Bubbles and Euphoria...

The term «bubble» refers to the unhealthy situation in which the valuation of the stock market has more influence on the economy than the economy has on the valuation of the stock market. Already our lead article in the CHECK-UP of May 1999 looked at the phenomenon of euphoria in the stock market. While most of the Blue Chips are still priced under levels seen in mid 1998, the technology indices have up to now not fallen back under the levels of 1999 - an «undershooting», or a correction to unrealistically low valuations does not yet seem to be eminent.

...also imply economic gain

Bouts of financial euphoria need not necessarily to be negative. The massive amounts of money which become invested during such an euphoria generally means that a new technology can be much faster and more effecti-

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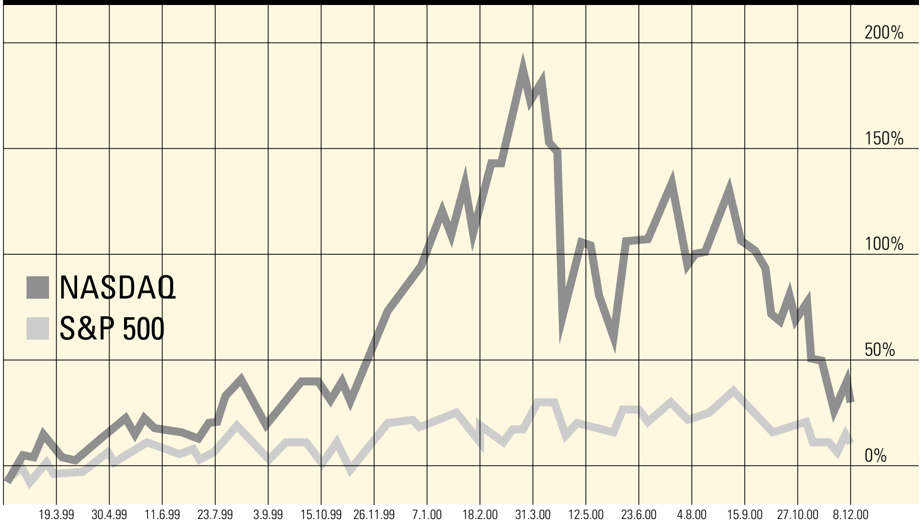
CONTENT

COMPARATIVE RETURNS 1999-2000



Source: Bloomberg

vely put into practice. Although such bubbles collapse sooner or later, they generally only hurt those who get grabbed by the mania in a late stage. On the other hand, the economy as a whole profits. The numerous individual losers must so to say rekkon up their stock market losses against benefit made to the public. Two driven parallels: Also after the railway euphoria in times gone past, the railway lines remained where they were, and also the Internet as the communication medium of the future will still be there in spite of the hundreds of unsuccessful Internet company start-ups.

Disappointed expectations

Today, the US markets are trading between -8% and -40% lower than at the beginning of the year. The respective expectations on the part of the investor in 2000 have remained unfulfilled. What consequences have these unfulfilled expectations for the future? How are those many American consumers going to react, who steers their mode of consumption according to the scenario of an endlessly rising stock market? In many cases, the precautionary planning was utterly neglected, because one had set completely on rising share prices for financial security.

Investment-Booms generally end abruptly

The strong US economic growth was to a large extent based on an investment-led boom, as it is the case when a revolutionary technology gains general acceptance. Immediately, large sums of money start to flow into the freshly discovered economic sector, while the old sectors hardly attract any new investments. The result is a kind of «swine cycle», the cyclical up and down and over and under-supply: over a period of time bottlenecks build up in the old sectors, for instance in the oil sector with the current lack of tankers and refineries or in the infrastructure of the out-dated electricity market in the USA. The renowned economist John Makin expects, that the large problems of investment-led boom markets, namely an abrupt end could soon ravage the USA. Thus no soft landing as it is generally expected and attributed to Fed chief Alan Greenspan, but a relatively short and sharp recession.

Limited profits from technology companies

It is actually a cause for concern when one realises how little profit the technology companies were able to achieve in the latest technological revolution. In 1999 the 100 largest companies quoted on the Nasdaq earned altogether 41 billion USD only. In the year 2000, they are closing with one profit warning after the other. Such a development can only be explained by the fact that a too high operational leverage, in other words a (too) high fix cost block was implemented. False expectations lead to false decisions. It seems as though even the managers of these technology companies have succumbed to the magic of euphoria. The generally accepted belief today, that the stock market can only go up, has something magical about it - except perhaps in the case of Japan…

What will the year 2001 bring us?

First of all we are relieved to see that this wave of euphoria is now behind us. The fundamental factors have once again won through. However, it is still unclear whether the markets will «overshoot» to the downside as they so often do. As already mentioned: the stock markets are not yet reasonably priced, however at current levels one can at least find scenarios which could support today's valuations.

It is important to note that the market is still split in two. Apart from a number of reasonably priced companies there are still many overvalued ones existing. We are not expecting a fresh outburst of technology euphoria next year. Also, the more defensive blue chips are well priced. We therefore still prefer our alternative ideas, solid real estate investments and a few selected, and up to now neglected value stocks. For the year 2001, we are expecting once again a subdued to «normal» stock market year.

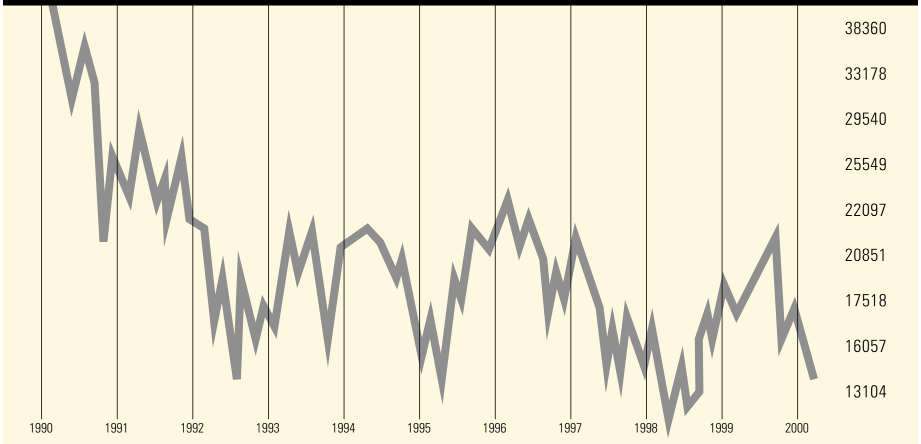
Your RIF team

JAPAN'S RESTRUCTURING ON TRACK

UNIQUE INVESTMENT OPPORTUNITIES IN A NEGLECTED STOCK MARKET

The collapse of Nippon's equity indices tends to disguise the current fundamental development. The rapid rise in 1999 from 14'000 up to 20'500 Nikkei points was primarily due to the technology euphoria. The rather unfortunate remodelling of the Nikkei Index to incorporate 40% Electro-technology was made right at the peak of the Tech-euphoria and is the main reason for this remarkable collapse. Nevertheless, there are numerous positive signals, which would make an investment in the Japanese stock market worth considering.

NIKKEI – BEAR MARKET SINCE 1990



Real estate crisis over, the banking system stabilised

The repercussions of the real estate and stock exchange boom in the 80's have lasted an extremely long time. However, it is now apparent that they belong to the past. In Japan as in the USA, REIT (Real Estate Investment Trusts) are making a considerable contribution to the recovery of the real estate sector in respect to liquidity.

Underweighting in Japanese stock markets

Japan is currently underweight in global portfolios. From a relative point of view the Japanese share market has become much smaller than it can be expressed in Nikkei points. Due to the fact that the western stock markets have at the same time experienced in the past few years an exceptional bull market whereby the market capitalisation according to weighted portfolios was additionally built up to the disadvantage of Japan.

Maturing high interest rate bonds

In addition, continual large amounts of bond are becoming due for repayment, which were issued during the high interest period at the beginning of the nineties. It is not to be expected that these liberated funds will completely be reinvested in bonds due to the fact that the current interest rate levels of 0.5 - 2.00% are rather uninteresting. A diversification in stocks could therefore well be just around the corner.

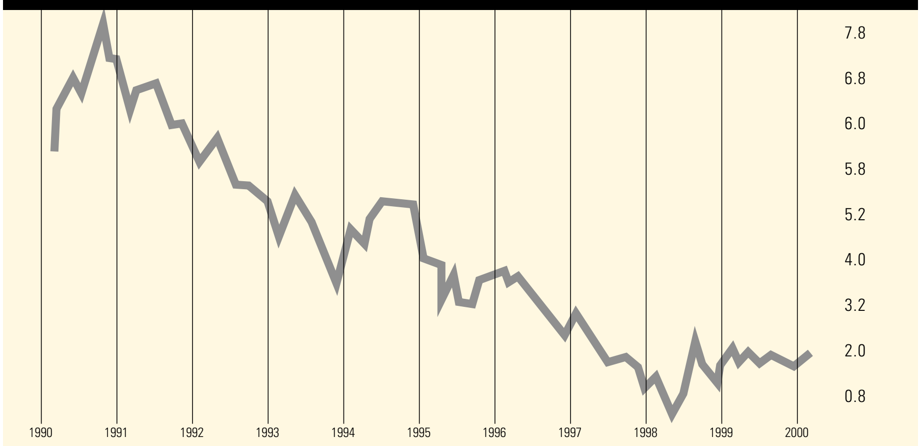
Not only positive factors

The demographic development in Japan is hardly encouraging. The population pyramid is here hardly taking on the form, which would be wished by growing economies. In addition the fiscal impulse package from the recession years caused the Japanese government to accumulate huge amounts of debt. Nevertheless, the Japanese can easily finance the required sums.

Increasing the Japan allocation

Thus, we feel that an increase in the Japanese allocation is justified in light of these factors. Due to the fact that stock picking based on data, which is impossible to evaluate is extremely difficult, we would advise investing in funds and certificates or capital-protected instruments preferably domestically oriented investments.

JAPAN'S LONG TERM RATES SHARPLY LOWER SINCE 1990



Daniel Waldburger

ALTERNATIVE INVESTMENTS - FASHION OR EVOLUTION?

NEW INVESTMENT CATEGORIES FIND WIDE ACCEPTANCE

During the year 2000 alternative investment categories have enjoyed increasingly wide acceptance. Even the Swiss banking association and the Swiss providence authorities allow investments in this new investment category. Also the major Swiss banks have gradually come round to accepting them. From the start we regaded alternative investments - or Multi Manager Models - as a separate investment category with very special risks and opportunities. We have been able to successfully realise the established expertise for our clients up to now.

Expensive financial markets and high performance expectations

The combination of these factors, together with an increased appetite for risk constitutes the main reasons for acceptance of alternative investments. We are monitoring this trend with mixed feelings because not all strategies can be realised with heavy volume; size can become a problem. We can basically differentiate between two main categories of alternative investments: Hedge Funds and Private Equity.

Hedge Funds – Multi Manager Models

Today, a wide range of strategies come under the term Hedge Funds and one is not always referring to hedging strategies. One thing that they all have in common, however is that they have a very special type of risk, the manager risk. We see the goal of Multi Manager models in the ability to achieve equity-like returns, with bond-like volatility. In fact, the majority of strategies are aimed to achieve high returns with low correlation to the equity market. There is a wide range of strategies: from tiny niche strategies up to broad global macro strategies, which one has to understand before selecting money managers.

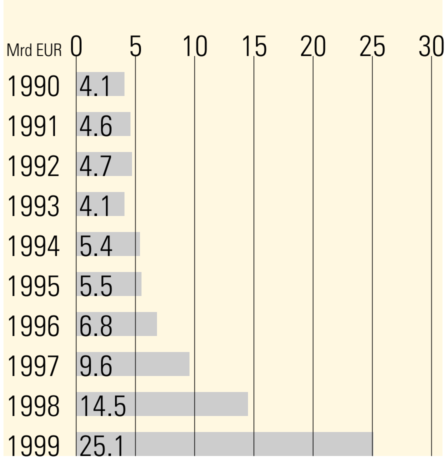
Private Equity – even more trendy

Private Equity is a collective term for non-quoted shares. This type of investment acknowledges various strategies. For example privately owned companies in old industries are just as much part of private equity as Venture Capital, in other words start capital with high risk. During the technology euphoria, an enormous amount of money flowed into this category. We fear that the problem of over-investment will manifest itself here and that the high performance expectations will hardly be fulfilled.

Two strategies - total diversification or personal selection

We recommend investments in both categories of alternative investments for reasons of diversification and based on our experience with Multi-Manager instruments. Two strategies are available: firstly complete diversification or personal selection. In the case of personal selection one invests in a small group of persons who enjoy a high level of trust. In the case of total diversification it is not such a question of the individual persons but more of the market as a whole. In the case of Hedge Funds we prefer to concentrate on the personal selection, because the profiles and capabilities of the individual managers are of utmost importance. In the case of private equity we tend to select total diversification.

NEW PRIVATE EQUITY MONEY IN EUROPE



Source: EVCA

A sophisticated investor base is developing

Up to now it was mostly sophisticated private investors and families who invested in Multi Manager models. The private equity category was often an additional resource for established companies to take a foothold in new technologies and innovation. Thanks to the abundance of new financial intermediaries, this segment is now available to individual investors and pension funds. The latter were hesitant to utilise these categories, although in the USA the alternative investment allocation for long-term oriented institutionals already exceeds their equity share.

Attractive investment category

During the year 2000 the hedge fund industry was able to prove that they did not participate in the negative trends of the US stock market. We continue to regard alternative investments as a highly attractive category for those who are in the position to accept a different risk environment for a return similar to equity investments but with volatility associated with the bond market (see also RIF investment strategy).

Christof Reichmuth

RIF MARKET OUTLOOK

1st TRIMESTER 2001

INTEREST RATES

The weakening of the worldwide boom is leading towards a stable interest rate environment with lower real interest rates.

The US economy is quickly cooling off. Can a hard landing be avoided? The market expects an interest rate decline of 0.5% within the 1st half of 2001. The Fed now has to find the correct weighting between a weaker economy, inflationary pressure and the threat of a collapse of the USD. It will again turn to verbal precautions to achieve this goal. The salary pressure will not recede so quickly mainly because unemployment remains very low and the numerous option plans have mostly become worthless. We see a relative stable US interest rate scenario with a flat yield curve.

The development in Japan remains precarious. With the introduction of the consolidation and 'mark to market' principle, certainly two important steps have been taken so that Nippon's stock market can also be analyzed by Western investors. Therefore, we are cautiously optimistic for the economic development. Nevertheless, interest rates will not move so quickly from their current extremely low level.

Europe's capital markets have been able to finance the greater part of this years mega takeovers of European companies in the USA. The EUR is success for Europe's financial community, at least for corporations. Interest rates will remain relatively stable; only a collapse of the USD could lead to lower interest rates in Euroland, since the existing transmission mechanism would no doubt weaken the European economies.

In Switzerland, the independent monetary policy remains intact. The two instruments, interest and foreign exchange rates, have been well implemented up to now, avoiding the economy becoming overheated. Based on our interest rate scenario, Swiss interest rates will also continue to trend sideways.

We would recommend to lightly extend the duration of bonds and to invest mainly in EUR and CHF.

CURRENCIES

The USD will weaken, so that the extremely high trade deficit can be normalized.

The trend turnaround for the EUR is now probably behind us. The EUR still remains an uncherished child. In addition, one must not forget the uncertainty in respect to the future structure of the EU and the degree of the extension to the East. An extremely bad basis to win the trust of the World. This, however, will not alter the fact that the EUR as an internal currency is in fact stable. When the 'virtual currency' finally turns into real money, then at least the Europeans will believe that the EUR exists and will be able to maintain its intrinsic value. The EUR will for the moment hardly be a challenge to the USD in its role as the world currency. Too many uncertainties remain associated with the European construction, above all in comparison to the well established US Dollar.

Negative aspects for the USD could well be the announced higher government spending and the expected lower tax income. The weak US equity market will not only weaken the flow of tax on capital gains; but much more the tax deductible equity losses could well lower the flow of income tax. The US boom was accompanied by an enormous foreign debt. This debt in a positive economic scenario can lead to a positive leverage effect, or vice-versa. The level of debt in the private sector and a savings rate of 0 without the expected stock market profits could well be additional unknown risk factors for the US development. For the year 2001 we expect a weaker USD against the EUR and the CHF. We see the CHF remaining stable against the EUR within a range of +/-5% around 1.55.

We still recommend minimum USD, normal EUR weighting and an overweighing in CHF.

EQUITY MARKETS

The environment has worsened, the condition of the equity market on the other hand has improved. Accumulate reasonably priced stocks.

The SMI stocks are now at the upper end of a fair valuation band and encourage us to take profits. Secondary stocks have mostly made up for the discount they had against Blue Chips, but only because Swiss growth stocks have in the meantime become very expensive. We therefore expect strong corrections here. Our choice of value-oriented secondary stocks remain extremely attractive.

As was to be expected, the excess demand for technology stocks has disappeared and these stocks now trade more according to their fundamental factors. We are not expecting a ‚Rebubbling'. From the aspect of monetary flow, the European and Japanese stocks will now find increased popularity. Tax reforms in Germany are leading the way to a fresh attitude amongst mid-sized companies: away from 'hiding profits' to 'showing profits', one of the prerequisites for capital markets with Anglo-Saxon characteristics. We remain positive for small capitalized stocks in Europe.

Japans' history of sorrow writes one black chapter after the other. The Nikkei - which is now closer correlated to the Nasdaq due to the fresh weighting - is hovering around the 14000 level. In our opinion, the Japanese market is currently trading at an attractive level from which to add to existing positions.

RIF INVESTMENT POLICY

1st TRIMESTER 2001

BASIS	CH	EU (D)	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1,40	1,12	1,60	1	109
Gross Domestic Product					
actual	3,6%	3,4%	2,9%	2,4%	1,0%
6 months	→	→	→	↘	↗
3 years	→	→	→	→	↑
Inflation					
actual	1,9%	2,7%	3,4%	3,1%	-0,8%
6 months	→	→	→	→	↑
3 years	3,0%	3,0%	4,0%	4,0%	2,0%
Stock Market					
P/E 2001	19	21	20	21	N.A.
EPS Expectation 2001	→	↗	↘	↘	↑

CONCLUSION	CH	EU (D)	UK	USA	J
Money Market (3 months)					
actual	3,2%	4,9%	5,9%	6,5%	0,7%
6 months	→	→	→	↘	→
Capital Market (10 years)					
actual	3,6%	4,9%	4,9%	5,2%	1,7%
6 months	→	→	→	→	↗
3 years	→	→	→	→	↑
Currency					
actual		1,51	2,47	1,68	1,50
6 months		→	↘	↘	↘
3 years		→	↘	↓	↘
Stock Market					
actual	7.975	6.390	6.250	1.320	14.200
6 months	↘	→	↘	↘	↗
3 years	↗	↗	→	→	↗

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

as of: 19. 12. 2000

RIF STOCK RECOMMENDATIONS

JANUARY 2001

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**	BASF	DSM Clariant		Akzo
	Basic Resources	Rio Tinto Anglo American Thyssen Krupp	Stora Enso Metsa Serla	Pechiney	
CYCLICAL CONSUMER	**Auto**	VW Daimler Chrysler	Peugeot Michelin		Renault
	Retail		Voegele	Fed Dep Store Saks GAP	
	Media		Tamedia	Wolters	
NON- CYCLICAL CONS.	**Food**	Philipp Morris	Parmalat Südzucker Seita		Nestle
	Various				Unilever
ENERGY	**Energy**	Elf/Totalfina BP/Amoco	ENI Repsol Texaco		
	Utilities		Endesa CKW		RWE E.on
FINANCIALS	**Banks**	UBS Commerzbank	Allied Irish Bank Sogenal		HSBC
	Insurances	Zurich Swiss Re		Baloise	ING Fortis
	Financial Serv		First Data Corp	Bear Stearns	
HEALTH	**Pharma**	Novartis Roche Johnson + Johnson	Bayer		Schering Plough
	Biotech			BB Biotech Dynamic Biotech	
INDUSTRIALS	**Building**	Holderbank St Gobain Caterpillar	Pilkington Dyckerhoff Hounter Douglas		
	Machinery	Linde Sulzer	Schindler MAN	Stork	
TECHNOLOGY	**Hardware**	IBM ABB Alstom	BB Medtech Boston Scientific	Computer Assoc. Xerox Apple/HP	Honeywell
	Software	Microsoft		BMC Software	
TELECOM	**Telecom**	ATT Worldcom			
	Equipment	Motorola Philips			
CERTIFICATES	**Index**	DAX Stoxx 50 Japan Domestic	MDAX	Korea Fund	
	Style	Euro Select 20 Japan Momentum			

RIF INVESTMENT STRATEGY

1st TRIMESTER 2001

PRECAUTIONARY

Currencies

- EUR normally weighted
- USD at a minimum
- Sell CAD
- 0-5% AUD

Categories

- Continue to liquidate money market investments in favor of bonds
- Maturities CHF and USD: ca. 4-5 years
- Maturities EUR: ca. 5-7 years
- Ca. 5% real estate stocks

INCOME / INHERITANCE

Currencies

- As precautionary (above)

Categories

- Gradually accumulate EUR and CHF bonds with medium-term maturities at the expense of money market investments
- Slightly raise the equity weighting at the expense of stand-by reserves by now accumulating reasonably priced stocks. European value stocks to be preferred
- Small and Mid Caps CH and D (MDAX)
- Maintain 5-10% Groi short S&P 500
- Maintain 5-10% Japan by means of capital protected instruments
- 10-20% alternative investments
- Accumulate 5-10% real estate stocks
- up to 5% private equity instruments

SPORT

Currencies

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

Categories

- Long Europe (MDAX/secondary stocks)
- Accumulate hard hit Blue Chips (Bottom Fishing)
- Realize Biotech profits
- JGB short
- Nikkei/Topix long
- S&P short (Bear Collar)
- Close Nasdaq short positions
- 30-50% alternative investments
- up to 10% private equity

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. Alessandro Pelli or Mr. Stefan Ulrich at +41-41-249 49 29.

A NEW WITHHOLDING TAX ON FOREIGN BONDS

NO REASON FOR WORRIES

You have no doubt read about the difficult interest rate talks which Switzerland has been having with the EU bureaucrats. The latter would just love to crack our banking secrecy.

Thank goodness that our authorities have realized that the Swiss citizen wants to defend this part of their privacy. In order to defend its status as an island in the EU area, Switzerland will however be required to introduce a type of withholding tax also on foreign bonds. The banking secrecy can be fully maintained and therefore, this option which finance minister Villiger recommends seems to us quite reasonable.

Below are a few highlights of this newly planned withholding tax:

- Withholding tax as tax basis for all interest income: The EU is talking of 15% over the first three years and 20% afterwards, which must be charged by the banks for all EU borrowers.

- Result distribution: Every country must transfer 75% of the withholding tax amount to whatever country in which the beneficiary is domiciled. This transfer will take place in a total sum, without infringement of the banking secrecy.

- Transition period: Securities which were issued before March 1, 2001 will not be subject to this possible withholding tax for 7 years. In this manner, it will not be possible to make alterations to the law backdated.

Cornelia Wyrsch - Kloetzel