PRIVATBANKIERS
REICHMUTH & CO
INTEGRALE VERMÖGENSVERWALTUNG

CHECK-UP

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

A New Year is upon us! We are confident that 2002 will bring us all more pleasure than the previous year.

In 2001, many investors with their money in shares had the painful experience of finding out just how much stock markets can fluctuate. Investors who undertake their asset allocation without taking into account market conditions are not destined to succeed. It is important to under- or overweight fluctuating asset categories according to their stage reached during the investment cycle. When financial markets are in difficult times with unfavourable conditions for shares, losses should be avoided by means of cautious asset allocation so that the transition to better times can take place from a higher level. Luckily, this is what we were able to achieve.

We thank you for your loyalty and wish you a good start to 2002.

Christof Reichmuth

INVESTMENT CRISIS

LOW INTEREST RATES AND EXPENSIVE STOCK MARKETS

It is important to us to form a sound assessment of the fundamental situation as the basis of our investment policy. This allows us to formulate the expectations we have for our clients and the tactical advice we give them.

Low interest rates and lots of new money

The current positive consensus with reference to the stock markets is founded primarily on two arguments: firstly, a huge volume of new money has been created and interest rates are so unattractively low that hardly anyone is making fixed-rate investments. Therefore, so the argument runs, one should buy shares. At the same time, the maxim is put forward that «shares always beat bonds in the long term». Although the saying is not wrong, it is the «long term» waiting that frays the nerves of investors. Is three-and-a-half years a long time? Over this period, Swiss index-linked investors have lost around 26%. This corresponds to a negative annual performance of -7% since mid-1998, for which a recovery must first of all be made.

Strategy takes priority over tactics

In past years, there has been a tendency to define investment strategy independently of the prevailing market situation. Although in theory this is quite well-founded, in practice it is of little use. Thus, it was precisely towards the end of the 17-year interest-rate induced boom, that share quotas were topped up. It is not economic growth that is the main driving force behind the stock markets, but interest rates. When interest rates are low, investors are supposed to be cautious with long duration assets and vice versa. The S&P has, over the last 20 years up until the year 2000, increased by around 13% p.a. or 1200% cumulatively. However, higher profits have contributed only 27% to this rise. The lion's share of this increase in value amounting to 73% is attributable to the price-earnings ratio that has, overall, risen dramatically.

Investment-driven recession

The current recession was not, as is usually the case, brought about by restrictive monetary policy rendered necessary in the wake of exuberant demand with corresponding inflation. The current recession is rather the result of

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the collapse of the investment-driven boom, which has resulted in high levels of bad investment and massive over-capacities.

Oversupply is a novelty of the Nineties

The effect of globalisation has been to invalidate one key economic principle, namely that demand always outstrips supply. Goods that have increasingly been produced in low-wage countries are coming onto the markets. Nowadays, any demand can be met relatively quickly in any part of the world. For this reason, speed and innovation are increasing in importance, the only exceptions being location-specific goods and services.

Problem-solving according to age-old principles

The method adopted by the US Central Bank, the Fed, in approaching the problem follows the post-war formula, namely to lower interest rates. Interest rates have an effect mainly on the demand-side – the intention being to stimulate demand. Although in this instance it is not the lack of demand that is supposed to be cured with the medicine of cheap money, the Fed has no other choice. At least it has been possible to maintain consumption at its very high level, primarily thanks to the strong property market with options for refinancing being much lower.

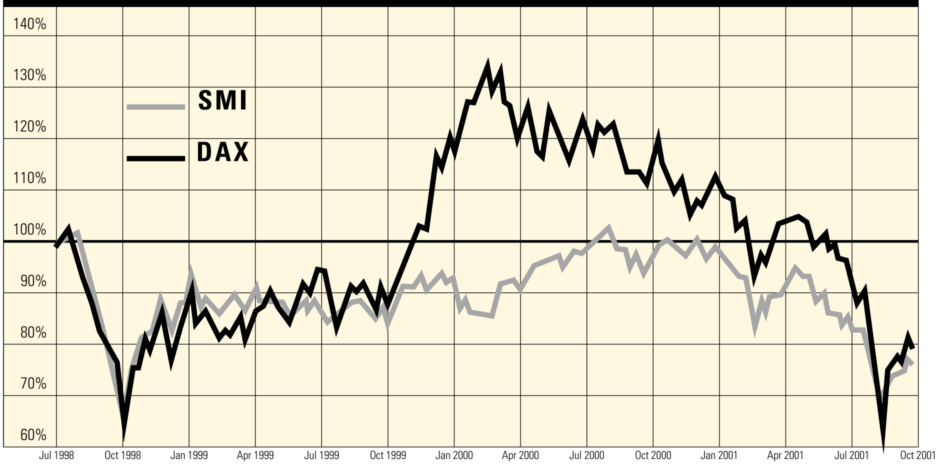
What can be stimulated?

Consumption is still at a very high level. If investment is boosted, the problem of oversupply will be accentuated. Moreover, this will also have the effect of keeping non-viable companies alive. Together, these factors will have a negative effect on any price war, whereby deflationary trends will intensify and for a long time margins will become smaller.

Keep the asset bubble high

The US Central Bank is doing everything to keep asset prices high. A collapse in the price of expensive assets would necessarily dampen consumption and make new investment even more unlikely because it would not be profitable. However, because the value of assets is being kept high, they cannot yield an attractive return on that capital-base. The hurdle is not – as wished for – being lowered to provide more opportunities of being able to earn something from investments.

FLAT STOCK MARKETS SINCE 3½ YEARS



Poor investment outlook for shares

Against such framework conditions, it is not possible to talk about an attractive outlook for shares. We do not expect sales to soar dramatically nor for margins to be higher, and even the multiplier, the so-called price-earnings ratio, will in all probability hardly expand any further, because when the economic upturn actually materialises, interest rates will rise and the multiplier will have to fall. In this respect, we see sideways trending in the mid to long-term. A sharp slump of a further 20% of big-capitalised indices is possible. However, even now, there are still shares that are listed at a low, favourable value. Admittedly, they fall mainly in the category of second-line stock which, due to their small size, are outside the focus of institutional investors. In the case of highly-capitalised securities, the talk is increasingly of «trading». There must indeed be an attempt to make use of the volatility and to act in the market-place within limits for buying and selling.

Store-of-value

The issue of finding an investment with a store-of-value character is not an easy one to resolve. Of course, there is the property in which the property-owner lives and which could be spoken of as being a true store-of-value investment. In this instance, one enjoys use of the accommodation over time, regardless of the currency in which this is measured. Rented property may also belong to this category, remuneration being received for use of the accommodation by third parties. Land could also be another store-of-value. However, this brings no continuous benefit, but it cannot be increased at will and likewise, it cannot be traded globally.

Relatively safe alternatives

Any advice to buy shares on the basis that there is a relatively high amount of liquidity and that interest rates are low would be cheap and unintelligent advice, because the situation is precisely the reverse. Shares are «long duration assets», which at a time of low interest rates should rather be avoided. So what options are there for investments? Options should include not only real estate, but alternative investments, corporate bonds, dividend stocks and special ideas such as Baer-Groi (capital-protected speculation à la baisse). Although these investment opportunities do not promise outstanding performance, nevertheless the risk/reward is strongly in your favour.

Your RIF Team

OLD-AGE WITH FINANCIAL CONSEQUENCES

PERSONAL INSURANCE INCREASING IN IMPORTANCE

Over the next 50 years, Germany's population will fall by at least 12 million. At the same time, the proportion of old people to young people will shift dramatically. In the year 2050, people aged 58 – 63 years will represent the largest population group. The age structure of Germany's population will therefore be inverted within this century. At the same time, people's life expectancy will increase. A comparable trend will be witnessed in the majority of European countries.

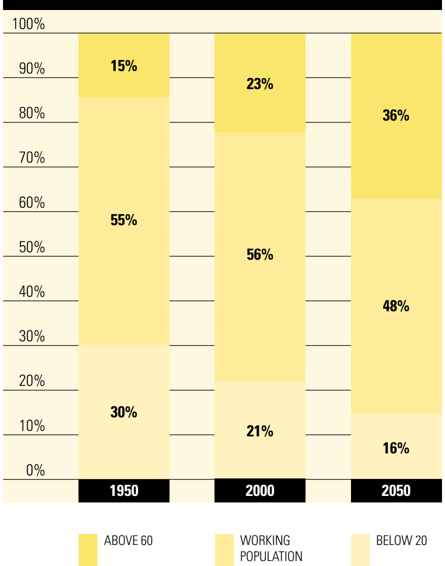
Social systems need contributing immigrants

The number of net immigration will therefore have a decisive effect on social security establishments. Only if the majority of newcomers can be included within the social security system, the expected meltdown will be averted. But likewise, the reorganisation of our social structures requires considerable effort over many years to come.

Bigger contributions or smaller benefits

Currently, the age ratio, that is the number of those gainfully employed compared to pensioners is 40, i.e. there are 100 gainfully employed persons for every 40 pensioners. In the year 2050, this ratio will be around 75, that is almost double the current figure. It is therefore not difficult to see that either social security contributions must be greatly increased or benefits significantly reduced. It is probable that both measures will take effect.

DEMOGRAPHIC STRUCTURE IN GERMANY



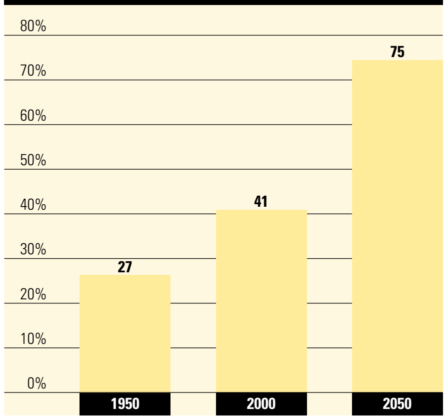
Is there a need for action?

Social security systems in Europe and in Germany in particular, but also in Switzerland, will collaborate without any deep-reaching reform. Alongside health insurance, the biggest problems will be caused by state-guaranteed pensions. Despite all the promises made by politicians, reality will force the making of painful incisions and restructuring measures. The first steps towards capital-covered pension schemes and a 2nd pillar of personal insurance backed by the state are steps in the right direction, but are still not enough.

Private insurance and personal responsibility

Intelligent private insurance with an asset allocation tailored to your objectives is the dictate of the day. In addition to real estate (which holds its value), there is an increased need in old age for relatively constant income. Even capital insurance policies have their part to play. Third-party financing of property should be reduced to a sensible level, because both the effect of tax and tax progression diminish. The proportion of shares relative to overall assets should constantly diminish as the age of retirement approaches so that during retirement

AGE-RATIO - PENSIONER PER 100 EMPLOYEES



one is not exposed to unforeseeable market risks. As a rule of thumb, the adage still applies that the percentage of shares held should be no more than «100 less one's own age». For a 60-year-old investor, this means a maximum of 40% shares or other risk papers. Even relatively stable alternative investments such as REIT´s (Real Estate Investment Trusts), as well as other special forms should be included in this type of overall asset structure.

Integral asset-management

This is precisely the area of our core business – to recognise your needs and objectives and to keep these constantly in sight when conceiving and implementing your overall strategy. Such a strategy can outlast any necessary and painful adjustments and will stand you in good stead when you want to enjoy the fruits of your working life during your well-earned retirement, when your working life is over.

Christoph Schwarz, CEO Munich

THE REALUNIT® - SOURCE OF MONETARY STABILITY
AN ALTERNATIVE STORE-OF-VALUE INSTEAD OF CURRENCIES

The EUR is stillborn. That at any rate is the opinion of some monetary theoreticians. For many years I, as a practitioner, have dealt with the philosophical monetary concept of «currencies». Together with my son, Remy, I have published a new approach to the problem in the recently published book entitled «The RealUnit® – towards the source of monetary stability» (Karl Reichmuth/Remy Reichmuth, 2001, Ott Verlag, Thun, www.ott-verlag.ch).

«Whoever understands the times, understands money»

With these wise words, Goethe invited us discreetly but unmistakeably to mistrust the state's authority in monetary matters. In fact, the signs of our time are clear. It is precisely in matters of monetary stability that globalisation is having the effect of curbing the state's power. Thus, money must change with the times, the owners of money all the more so.

Privatisation of money

Shortly before his death, the great German economist, Friedrich August von Hayek, wrote that «only the privatisation of money can save the capitalist system.» With these words he can only have meant removal of the state's influence from the monetary system.

Money as a store-of-value asset

The euro is being introduced. The time has come to think beyond the function of money as a means of exchange. The decisive factor is money's ability to maintain buying power over a period of time. Price jumps on the stock markets together with inflation have engendered mistrust amongst small and medium investors. In response to this, we would like to give a clear answer with a plausible solution. The store-of-value function has not been well handled by the national banks. It is time to uncouple money from politics and create a new currency, free of speculation and able to withstand crisis.

The idea of the RealUnit®

The idea of the RealUnit® promises maintenance of value and sensible returns over a long period of time. The concept is based on 3 pillars, the first pillar of the RealUnit's stability being domestic prices measured on the Consumer Price Index (CPI). The second pillar is formed by the domestic country's investment markets given in total a 1/3 weighting, subdivided into shares, bonds and real estate. The third pillar of 1/3 is made up of global currencies, commodities markets and world stock markets (see chart). In this way, we can define price stability as a broader concept than the one provided by the Consumer Price Index (CPI).

RealUnit® – OVERVIEW	
1/3	Consumer Price Index (CPI)
1/3	1/3 Domestic Stock Market Index 1/3 Domestic Bond Index 1/3 Domestic Building Index
1/3	1/3 World Stock Market Index 1/3 World Currency Index 40% USD / 40% EUR 15% YEN / 5% AUD 1/3 Commodity Price Index (CRB)

Proven stability

The result is a far more stable monetary investment than if investors had to spread risk at great cost in a portfolio put together by themselves. The RealUnit® is thus a concept for a denationalised and depoliticised accounting unit based solely on market indices. Better than a note-issuing central bank and its policy, these market indices are able to reflect economic conditions.

Karl Reichmuth
Partner with unlimited liability

«CURRENT TIMES IN UPHEAVAL»
INVITATION FOR THURSDAY, 24TH JANUARY 2002, 17.30 HOURS

We are pleased to invite you to a talk by Prof. Dr. Beat Kappeler followed by a panel discussion (German only). Beat Kappeler will talk on the topic of «Current times in upheaval»; a panel will then discuss the topic «The RealUnit®- currency units in upheaval». We would be pleased to welcome you on Thursday, the 24th January 2002 at 17.30 hours to the Panoramasaal in the Lucerne Casino followed by a stand-up buffet. Separate invitations to follow.

MARKET OUTLOOK
1st TRIMESTER 2002

INTEREST RATES
Falling inflation rates – short-term interest-rates at rock-bottom – long-term interest rates show little change

A feeling of crisis hangs in the air. No-one knows how to respond in a supply-induced recession. One point of reference is the experience gleaned during the Thirties, when, because of the gold standard, it was not possible to print unlimited amounts of money. The only other point of reference is when in Japan during the Nineties the interest rate cuts set in too slowly and were unable to save overpriced assets and the economy which was experiencing a downward trend. Thus, from the beginning of the year up until now interest rates in the USA have been cut from 6.5% by around 4.75% or 3/4 within record time. However, there have been no effects as yet and the forecasts for recovery have been rescheduled from the second half of 2001 to the second half of 2002.

Our assumption is still that this is a cyclical recession and therefore, due to the prevailing basis effect – the last quarter of the previous year was already bad – we expect US growth to recover to just over 0. However, this is provided that house prices do not fall. It is obvious that a powerful, overlying deflationary force is at work. Therefore, any stabilisation or any revival of the economy must at present be seen as being cyclical. However, in a debt-laden economy this could result in depression, bringing the economy to persistently lower profit margins.

We expect capital markets with a lateral trend in the USA as well as in Europe and Japan. Short-term interest rates in the USA could fall to 1%, whereas the European Central Bank is trying to hold out until it gets the first data back after physical introduction of the EUR. Foreseeable price increases due to currency conversions have, however, already taken place on the whole.
We advise medium-term maturities. Only the so far unlikely scenario of a world depression would suggest longer maturities.

CURRENCIES
USD overvalued by 20% – JPY wants to devalue – EUR striving to gain trust – CHF is dangerous playing ball

The USD is still overvalued by around 20% and currently, everyone is happy with the situation. Too weak are the economies elsewhere. Belief in the USA is so deep-rooted that price correction of the USD could be further delayed, despite negative real yield and high demand for capital imports.
The EUR is now available as «real» money and offers Europeans the advantages of a single currency throughout Europe. However, the EUR must still gain the trust of investors who are primarily concerned with whether or not it is inflation-proof. Because even the economy in Europe is limping and the eastwards expansion is, if anything, accentuating the problems of trust, it is likely that the EUR's long-overdue strength against the USD will be triggered only if there is bad news from the USA.

The relatively strong revaluation of the CHF against the EUR in the catastrophic year of 2001 should be seen from the viewpoint of the CHF as a micro-currency with an overblown reputation – and this is the problem. The CHF is being traded as an investment currency bringing with it increasing problems for the small area of the CHF economy. We therefore expect that in the future the Swiss national bank will increasingly concentrate its monetary policy on the rate of exchange.

EQUITY MARKETS
Profit forecasts over-optimistic – price/earnings ratios too high – thus limited potential with high risks

Unfortunately, our expectation of volatile lateral markets performing poorly and even negatively in the 3rd trimester was realised. However, the concept of indexing continues to be a winner. A share is bought because it is in the index – regardless of what product it manufactures or at what price. On the basis of this observation, we expect the same development even in the New Year – namely volatile lateral markets with strong rallies thanks to high liquidity and slumps due to disappointments regarding underlying fundamental performance.

It is likely that for several years the S&P 500 will not reach any consistently higher valuation level. Probably, we will witness over several years a «stock-picker» market in which active but at the same time patient buying and selling will gain the best results.
Admittedly the European share markets are valued lower than the US markets. We are therefore more positive towards Europe but know that any uncoupling is unlikely until further notice. Japan is getting to grips with reflation. The consensus is that there will be another two years of recession, although the Nikkei has now stabilised. We remain patient and positive about Japan's stock markets.

INVESTMENT POLICY
1st TRIMESTER 2002

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	1,6%	1,5%	2,3%	1,1%	-0,9%
6 months	↘	↘	↘	→	→
3 years	→	→	→	↗	↑
Inflation					
actual	1,1%	2,7%	2,2%	2,3%	-0,8%
6 months	→	↘	→	→	↑
3 years	2,0%	2,5%	3,0%	3,5%	1,0%
Stock Market					
P/E 2002	16	32	18	24	140
EPS Expectation 2002	↗	↗	↗	↗	→

CONCLUSION	CH	EU (D)	UK	USA	J
Money Market (3 months)					
actual	1,8%	3,0%	3,6%	1,5%	0,0%
6 months	↘	↘	↘	↘	→
Capital Market (10 years)					
actual	3,3%	4,8%	4,9%	5,0%	1,4%
6 months	→	→	→	→	→
3 years	→	→	→	↗	↑
Currency					
actual		1,47	2,36	1,63	1,27
6 months		↗	↘	↘	↘
3 years		→	↘	↓	↓
Stock Market					
actual	6.220	5.000	5.150	1.150	10.400
6 months	→	→	→	↘	↗
3 years	→	→	→	→	↗

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

as of: 20. 12. 2001

STOCK RECOMMENDATIONS

JANUARY 2002

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**	BASF	DSM Clariant	Rhodia	
	Basic Resources	Anglo American Thyssen Krupp	M-Real	Pechiney	Rio Tinto Stora Enso
CYCLICAL CONSUMER	**Auto**	VW Vorzüge Daimler Chrysler	Michelin		
	Retail		Voegele	Fed Dep Store	
	Media		Tamedia	Wolters	
NON- CYCLICAL CONS.	**Food**	Philip Morris			
	Various				
ENERGY	**Energy**	TotalFinaElf Royal Dutch	ENI Repsol	Lukoil	
	Utilities		Endesa CKW		
FINANCIALS	**Banks**	Deutsche Bank	LUKB SGKB	Commerzbank	UBS
	Insurances	AXA Zurich Swiss Re	Baloise		
	Financial Serv	ING			
HEALTH	**Pharma**	Novartis Schering-Plough Roche	Bayer	Merck	
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim	Hunter Douglas Pilkington Dyckerhoff VZ		
	Machinery	Linde ABB	Schindler MAN VZ	Stork Sulzer	
TECHNOLOGY	**Hardware**	Philips Siemens Compaq	BB Medtech	Xerox Hewlett Packard	
	Software			Computer Assoc.	
TELECOM	**Telecom**	Worldcom	Swisscom	ATT	
	Equipment	Alcatel		Nortel Motorola Marconi	
CERTIFICATES	**Index**	DAX Japan Domestic	MDAX		Korea Fund
	Style				

INVESTMENT STRATEGY
1st TRIMESTER 2002

PRECAUTIONARY
Currencies
- EUR - weight normally
- USD at a minimum
- 0-5% AUD

Categories
- Durations for CHF, EUR and USD: approx. 3-5 years
- up to approx. 5% real estate shares
- up to approx. 5% dividend shares

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.

HARVEST/ INHERITANCE
Currencies
- EUR - weight normally
- USD at a minimum
- 0-5% AUD

Categories
- Bond durations 3-5 years
- Slightly increase proportion of shares
- Buy in dividend titles
- Increase second-line stock of CH and D (MDAX)
- Hold European value shares
- Build up bottom fishing instruments
- 5-10% Groi short S&P 500
- Hold 5-10% Japan via capital-protected instruments
- 10-20% alternative investments
- 5-10% real estate shares CH
- up to 5% high yield instruments
- up to 5% private equity instruments

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

Categories
- Long Europa (MDAX/second-line stock)
- Bottom fishing strategy
- Nikkei/Topix long
- S&P short (bear collar)
- 30-50% alternative investments
- up to 10% high yield investments
- up to 10% private equity

DIVIDEND STOCKS
ATTRACTIVE IN THIS LOW INTEREST ENVIRONMENT

The actual low interest rate environment and the lack of positive news about the economy make our dividend stock recommendation to look very attractive. The current dividend yields are higher then the respective bond yields and the valuation of those stocks is relatively low. We therefore still advice to buy dividend stocks, although we know, that these stocks will hardly profit from a liquidity driven bull market. As an investor one has to be aware also, that one buys a share with a fluctuating market price. Furthermore, the dividends are not set in advance as it is the case in the bond markets and there is no accrual for dividends.

Our selection of dividend stocks is very attractive due to the valuation level and due to the fact, that the dividends seem to be secured. Beside the appealing dividend yield, which also serves as a downside protection, an investor has the opportunity to profit from price appreciation.

Philipp Murer

SHARE	CURRENCY	PRICE 20.12.01	DIVIDEND-YIELD	PRICE / BOOK	PRICE / EARNING 02	PRICE/ SALES	PAYOUT	MARKET CAP.
St. Galler KB	CHF	175	4.6	0.9	N.A.	1.1	40%	880
Luzerner KB	CHF	140	4.3	0.4	N.A.	1.3	41%	1190
Forbo	CHF	511	4.2	0.9	10	0.4	53%	750
Dyckerhoff VZ	EUR	15.7	6.4	0.6	6	0.3	40%	850
MAN VZ	EUR	17.8	5.6	1.0	11	0.1	55%	3100
DSM	EUR	40.4	4.4	1.2	10	0.5	43%	3800
Kali+Salz	EUR	21.8	4.0	2.0	10	0.5	50%	950
Hunter Douglas	EUR	29.4	3.7	1.5	8	0.7	32%	1180
Pilkington	GBP	1.08	4.7	1.7	10	0.5	49%	1370