PRIVATBANKIERS
REICHMUTH & CO
INTEGRALE VERMÖGENSVERWALTUNG

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

In the last four years our underlying attitude towards the stock markets was very cautious. The markets were both expensive and over-valued. This aided our clients to avoid or, at least, to reduce their losses. In difficult times it is important to keep the basis high and then, during upswings in financial markets, to build from a higher level.

The Western stock markets are now at their 1997 levels. For the first time in five years valuations appear to have reached acceptable levels. Medium sized and smaller companies are already undervalued. The basic position of this Check-up is therefore more optimistic. We can increasingly give thought to purchase opportunities. The time has already come for far-sighted and quietly active investors.

Christof Reichmuth

EQUITY OVER-VALUATION IS MAINLY CORRECTED

OPPORTUNITIES WILL SOON BE ON THE PURCHASE SIDE

Since 1998 we have recommended keeping equity allocations to a personal minimum and to invest these not index-linked but in value stocks. Admittedly, we failed to forecast the extent of the euphoria of 1999/2000 but when it came it did not take a genius to recognise it. Thanks to our capital protection strategy à la Baisse over the last 2 years, for many clients we were even able to profit from the correction.

«Fair Value» of S&P 500, SMI and DAX

The calculation of «fair values» for indices is an imprecise science, however they provide a powerful positional aid. An intuitive, easily understandable fundamental model is based on three factors: revenue growth, profit margins, and multiplier (capitalization factor). We assume a modest growth in the real economy; hence the margin and multiplier are the main determinants. According to our model the S&P 500 (US shares) fair value is 750 in the current environment, that of the SMI (Swiss shares) around 5000 and the DAX (German share index) around 3800 (viz. table).

Unfortunately the SMI and DAX «fair values» are, in this simplifying model, less representative than the S&P 500 because the share composite consists of only between 27 and 30 shares. These indices react correspondingly sensitively to individual companies. Furthermore the SMI normalised profit margin of around 7% is high because the SMI contains mainly pharmaceutical and financial equities. In Germany however companies are driven less by margin than by market share considerations. Furthermore, our model applies a lower P/E ratio to Europe due to the less efficient financial markets and a less pronounced equity culture than in the USA.

	Actual	Fair Value	Margin	P/E
S&P 500	940	750	5%	20
SMI	5500	5000	7%	16
DAX	3800	3800	3%	16

S&P 500 «Fair Value» Example

The current interest level of long-term USD rates of ca. 5% allows for a price / earnings ratio of 20 (inverse value of 5%). The normalised profit margins of all 500 S&P companies should be around 5%, although at present, due to one-time write-offs, they are merely

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around 3%. Therewith, by multiplying 5% by 20, a P/E ratio of 1.0 can be calculated. This represents an index level of around 750. With that, and despite stock exchange lows, we today still have an overvaluation of about 20%.

Risks of «Fair Levels»

A calculation like the one above reacts very sensitively to changes in the multiplier and margin. The P/E ratio depends on interest rate levels and investors' trust. Due to worldwide overcapacity and correspondingly intense competition one cannot hope for sustained margin increases above this level. In this deflationary environment interest rate levels should also remain low. Should however inflation risks once more become apparent within a few years the multiplier would sink with a correspondingly negative impact upon the fair value.

The World Economy at a Crossroad

Key to the companies' situation regarding growth and margins as also the attitude of individuals is the development of the economies in general. Currently we are working with two scenarios, both with similar probability; the first one is the «muddling through» scenario and the other one that of deflation. Governments and central banks are holding to the former, with somewhat higher inflation. This however cannot always be arranged, as proven by Japan. Whether Western central banks' avoidance of deflation will be successful remains questionable. Ammunition for the corresponding weapons is more and more depleted.

«Muddling through» – the Japanese Way

The USA chose an expansive monetary and fiscal policy. The short-term interest rates are at record lows, however other than consumers nobody is looking for credit. The order of the day is not to invest but to reduce both costs and debts. The disadvantage of this strategy is that, after the massive over-investment of the 90's at low interest rates, ailing companies can also stay alive. Therefore both overcapacity and ruinous pricing competition continue unabated. Sinking margins remain the norm, and the probability of the deflationary scenario is increasing. This spiral of cost reductions with redundancies and restitution of a healthy balance sheet inhibits growth. The cleaning-up process might last for several years. A «happy recession» at high living standard is for the people a welcome, but for the financial markets a detrimental, result.

BUY - STRATEGY FOR 5 YEARS FOR THE EXAMPLE S&P 500

Buy Level	S&P 500	Price/ Sales	Price/ Earnings	Price/ Book	Div. Yield
1	800	1.2	16	2.5	1.9%
2	700	1.0	14	2.2	2.2%
3	600	0.9	12	1.8	2.6%
4	500	0.7	10	1.5	3.0%

Deflation – the Crisis Scenario

Deflation causes assets to lose value. Thereby highly indebted companies and consumers are subject to greater pressure to save, which causes asset values to slide further. Apparently large fortunes shrink and dampen optimism in the future. Prices sink, testing capitalistic economic systems enormously. Hectic regulatory activity commences but with no impact upon the negative spiral. It would become critical if, after their strong rise, property values in the USA and UK were also to slip.

Escape in Recession?

A sharp recession would represent an escape from the dilemma. Then overcapacity would quickly disappear and asset values come down to more realistic levels, thereby creating the basis for a healthier future with better profit opportunities and new capital investments. However, in all honesty, which democratic government would choose this temporarily painful path? Reelection would be impossible.

Undershooting – quite likely

According to Charles P. Kindleberger («Manias, Panics and Crashes») excesses always follow a similar pattern. They start with a fundamental change in the real world, e.g. a war or a new technology that create new profit opportunities in several sectors. Investments explode, mainly supported by cheap money and an expansive credit policy. An investment boom soon turns into a speculation bubble that quickly becomes entirely detached from reality.

Opportunities in Stocks

We do not know today whether an undershooting in the stock exchanges will come about. Similarly we did not yet know in 1998 how high the stock exchanges would be driven by euphoria. But in those days the risks were incomparably higher than the chances. Today fortunately it is the opposite. In the medium term view there are once more good opportunities and, in a possible undershooting, an enormous recovery potential can come up.

Strategies for the Future

In this environment of great uncertainty and with the risk of stock exchanges undershooting, we take the position of strong diversification. Furthermore, we have defined a equity buying strategy which we continuously control. Currently we purchase our stocks at lo-

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MARKET OUTLOOK

3rd TRIMESTER 2002

INTEREST RATES

Weak economies and weak financial markets have pushed down interest rates once more. Trend to even lower interest rate levels will continue only if deflationary trends cannot be stopped.

The market messages about the economic trends are contradictionary. The US interest rates have continued to fall, and the market is expecting a further reduction of the Fed funds rate by the central bank. The decreasing long term interest rates are indicating that the deflation/recession scenario more and more becomes the likely one. But despite the low level of interest rates many companies still suffer from a high interest burden, because the risk spreads for low quality issuers have increased to record levels and thus prolong the recessionary trend. The economic recovery therefore is postponed for another year. The high unemployment and the low demand for capital goods mean that there is no immediate danger of inflation. The money market rates might decrease further if consumer spending is levelling off and lead to a demand driven recession.

Japan is still occupied with bringing its balance sheets in order. Nobody is willing to borrow money and to invest, despite 0% interest rates; the economic outlook is too uncertain. The government debt meanwhile has surpassed 140% of GDP.

The lower USD reduces the profit margins of the European export industry. The governments in Europe have changed or will change from the left to the right side of the political spectrum, but nevertheless economic growth remains low. We expect a reduction of the EUR money market rates as soon as the wage increases in the European countries have been settled with the unions so that no further inflationary impact is threatening from there.

In Switzerland the export industry is suffering from the strong CHF, and the insurance sector from the weak stock market. The CHF can only be held at its level by very low interest rates – a kind of «Japanese way». Even the low growth and the cloudy economic outlook have not been able to change the basic strength of the currency.

We recommend buying EUR denominated bonds at yields of 4.75% or higher and with a duration of 5 to 7 years, and a portfolio of CHF corporate bonds with about 3 to 4 years maturities and an average yield of 4%.

EXCHANGE RATES

The USD has come down by 10%. The CHF based investor still cannot generate an additional performance with non-CHF investments.

The strong phase of the USD, which was never fundamentally justified, has come to its end. From today's point of view it is almost unbelievable how the US were able to attract so much capital from the rest of the world, with manipulated corporate accounts. They still need huge capital inflows from abroad for covering the current account deficit. Will the investors and savers in Europe and Asia continue to be willing to cover this deficit? A huge depreciation of the USD is possible any time and can only be avoided in the long term if the fundamental data of the surplus countries deteriorate. The high indebtedness of the Japanese government and of the US private sector mean that these countries are rather in favour than against an inflationary solution of the problems.

We do not see a reason to hold USD positions even after the USD correction by 10%. The interest rate differential and the current account are negative, and we therefore expect the USD to continue to weaken. The EUR/CHF exchange rate might stay within the band 1.44/1.50 as long as there are no exogeneous shocks. This means that the CHF based investor should be underweighted in USD, normal weighted in Euro and overweighted in CHF.

STOCK MARKETS

Back to normal valuation levels. Now there are opportunities with a purchase program in 4 steps and a time horizon of 5 years.

Since May all segments of the stock markets corrected. In our opinion the US stock markets are fundamentally still 15% overvalued. The looming consumer recession and the extreme risk aversion of the investors could even lead to an undershooting. Another reason supporting this scenario might be the head and shoulder formation in the S&P. Panic selling to around 500 points is technically possible. On the other hand it is very common in secular bear markets to see many cyclical rallies. In this uncertain environment we recommend a buying programme in 4 steps in order to achieve an attractive average purchase price.

The Japanese stock market is yet the most stable in the industrialized world. We remain patient and invest in Japan through capital protected notes.

The European stock markets still follow the US markets. They corrected as well. Now they are on an attractive entry level. As mentioned above, an undershooting is also possible. Therefore a strategy in steps seems to be most appropriate.

INVESTMENT POLICY
3rd TRIMESTER 2002

BASE	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1,52	1,00	2,37	1,00	111
GDP Growth					
actual	0,2%	0,3%	1,5%	2,1%	-1,6%
6 months	→	→	↘	→	↗
3 years	↗	↗	↗	→	↑
Inflation					
actual	-0,1%	1,9%	1,0%	1,1%	-0,7%
6 months	→	→	→	↗	↗
3 years	2,0%	2,5%	3,0%	3,5%	1,0%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1,1	0,5	1,2	1,3	0,8
Dividend yield	1,4	1,4	3,6	1,7	1,0
Price/Book	2,2	1,3	1,9	2,8	1,5
Price/Earnings 2002	17	20	22	18	33
EPS Expectation 2003	↗	↗	↗	↗	↗

FORECASTS	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	1,1%	3,3%	4,0%	1,8%	0,0%
6 months	↘	↘	↘	↘	→
Bond Markets (10 years)					
actual	3,2%	5,0%	5,1%	4,8%	1,3%
6 months	→	↘	↘	→	→
3 years	↗	↗	↗	↗	↑
Currencies					
actual		1,47	2,30	1,52	1,26
6 months		→	↘	↘	→
3 years		↘	↘	↓	→
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	3.800	3.860	4.420	940	960
6 months	↘	↘	↘	↘	→
3 years	↗	↗	↗	→	↗
Real Estate Market	↗	↗	↘	↘	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: 23 August 2002

STOCK RECOMMENDATIONS

SEPTEMBER 2002

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**		DSM Clariant Kemira		
	Basic Resources	Anglo American Pechiney	M-Real		
CYCLICAL CONSUMER	**Automobiles**	VW Vorzüge Daimler Chrysler	Michelin		
	Retail		Charles Voegele	Fed Dep Store	
	Media		Tamedia		
NON- CYCLICAL CONS.	**Food**	Philip Morris	Parmalat Südzucker		
	Various	BIC	Kali+Salz Emmi (Wandel)		
ENERGY	**Energy**	TotalFinaElf Royal Dutch	ENI Repsol OMV	Lukoil Transocean Gazprom	
	Utilities		Endesa CKW		
FINANCIALS	**Banks**	ING	LUKB SGKB	Commerzbank ABN Amro CS Group	
	Insurances	AXA Swiss Re	Baloise	Swisslife Zurich	
	Financial Serv				
HEALTH	**Pharmaceuticals**	Schering-Plough Roche	Bayer Merck KgAA	Bristol-Myers Squibb	Novartis
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim	Hunter Douglas Pilkington Dyckerhoff VZ		
	Machinery		Schindler	Stork Sulzer	
TECHNOLOGY	**Hardware**	Philips Siemens Hewlett-Packard	BB Medtech	Samsung pref Xerox	
	Software			Computer Associates	
TELECOM	**Telecom**			ATT	
	Equipment			Motorola Alcatel	
CERTIFICATES	**Index**	Japan Domestic	MDAX		
	Style		Reichmuth Pilatus	Reichmuth Bottom Fishing	

INVESTMENT STRATEGY
3rd TRIMESTER 2002

PERSONAL INSURANCE
Currencies
- EUR – normal weight
- USD at a minimum
- 0-5% various currencies

Categories
- Duration CHF bonds 3 years
- Duration EUR bonds 5 years
- Up to 5% in real estate stocks
- Up to 5% in dividend stocks

The recommendations are dependent on market developments and are subject to change without notice. Further information including our World List, 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.

CROPS / INHERITANCE
Currencies
- EUR – normal weight
- USD at a minimum
- 0-5% various currencies
- 5-10% gold forwards against USD

Categories
- CHF corporate bonds with yields >4% and duration of approx. 3 years
- EUR bonds with maturities of 5-7 years and yields of approx. 4.7%
- Hold dividend stocks
- Increase CH and D secondary stocks
- Purchase programme in 4 steps for European value shares
- Realize profits on bear market strategy in the S&P 500 (capital-protected with GROI)
- 5-10% Japan bull market strategy (capital-protected)
- Up to 5% bottom fishing strategy
- 10-20% alternative investments
- 5-10% real estate stocks CH
- Up to 5% private equity instruments

SPORT
Currencies
- Short USD/EUR
- Close short JPY/EUR
- Gold forwards against USD

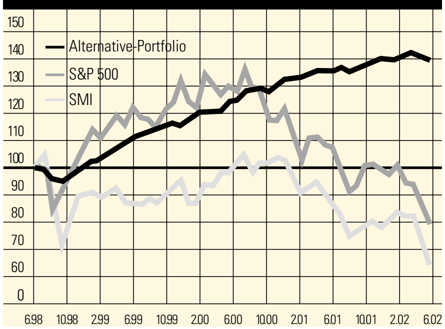
Categories
- Long Europe (MDAX/secondary stocks)
- Bottom fishing strategy
- Nikkei/Topix long
- S&P short (bear collar)
- 30-50% alternative investments
- Up to 10% high yield investments
- Up to 10% private equity

GOOD SUCCESS WITH ALTERNATIVE INVESTMENTS
HIGH STARTING POINT THANKS TO POSITIVE PERFORMANCE

Since 1998 we have, because of the overvaluations in the equity markets, recommended to build up large positions in alternative investments and to underweight equities. The following exanmple shows how successful this strategy has been:

100% Outperformance in 4 Years !
An investor who bought the Swiss blue chips (index SMI) in summer 1998 has lost about 30% since then, whereas an investment of CHF 100.- into our hedge funds portfolio increased to CHF 140.- over the same time period. This means that the alternative investor now has double of what the equity investor now has.

PERFORMANCE SINCE JULY 1998



Basis and Interest Compounding - the Secret Recipe
Because of the new high starting basis for the alternative investor, the SMI investor will almost certainly stay behind: 10% performance from the higher basis of the alternative investor is the same absolute amount as 20% performance from the lower basis of the SMI investor.

Alternative Investments Better than Everything Else ?
Nothing is forever, and everything depends on the environment. One should never put all eggs into the same nest. We think that at the moment alternative investments are still right and important. Only when the equity markets offer better chances because of increasing multiplicators (PE ratios) we will recommend to reduce the hedge fund positions in favour of the equity exposure.

Jürg Staub

wer prices and prepare ourselves to move away in 4 steps from our minimum to our maximum position (viz. table). However, this strategy should only be followed by those investors who are prepared to accept temporary book losses in order to develop opportunities and who have a longer (>5 years) time horizon.

Furthermore we still advise holding relatively high bond positions in EUR and to buy corporate bonds denominated in CHF. We also consider real estate and alternative investments attractive although in the near future hedge funds, due to the lower interest rate levels, might also produce below average but positive returns. On the exchnage rate front we anticipate a further collapse of the USD and advise not to hold or even be short in dollars. For reasons of diversification gold forwards versus USD would be appropriate. Therewith one can profit from a possible collapse of the USD.

Your Reichmuth Team

«REICHMUTH PILATUS» AND «REICHMUTH BOTTOM FISHING»

TWO ATTRACTIVE INVESTMENT FUNDS FOR THE PRESENT FINANCIAL ENVIRONMENT

In spring 2002 «Reichmuth Pilatus» and «Reichmuth Bottom Fishing» got the admission of the Swiss Federal Banking Commission (SFBC) and since hold the official status of Swiss investment funds. The two funds follow strategies that we so far could only reflect in huge individual save keeping accounts.

Reichmuth Pilatus – value strategy for Swiss second-line stocks

This fund invests in Swiss second-line stocks and follows a highly distinctive value policy. The stock selection is based on our independent «on the spot» company research. This direct way of analyzing companies (personal discussion with the management) provides us with first-hand information. For the stock selection we take into account not only our estimates for the economic development but also our critical analysis of the company reports and research studies. This enables us to pick stocks with an above average performance potential.

Reichmuth Bottom Fishing – the contrarian strategy

The target investments of this fund are equities that suffered a heavy price correction but leave no doubts about their fundamental quality. The fund's investment universe is global and its investment currency is the EURO. The selection process takes place in three steps: First, potential candidates are identified by screening the markets after specific criteria. In the second step we analyze the fundamental data, and finally, in a third step, the technical market analyses result in either buying or selling single positions.

Attractive in this environment

Both of the two funds follow a pure equity strategy. As the selection process is not influenced by a specification of a benchmark their performance will differ from the indices. For a time horizon of 3 years we expect to gather an above average performance. In the current financial market environment we consider both strategies as very attractive. We think an average P/E (price/ earnings) ratio of Reichmuth Pilatus of only 9, a current P/B (price/book value) ratio of 1.1 and a dividend yield of above 3% are attractive figures. The present market situation also offers numerous investment opportunities for Reichmuth Bottom Fishing. Therefore, investors with a medium-term time horizon should take action and build up a portfolio with such equities. In this strategy it is not the exact timing of the investment which matters but much more the selection of survivable companies with convincing fundamental data. If you have any question, please do not hesitate to call.

Dr. Max Rössler

	REICHMUTH PILATUS	REICHMUTH BOTTOM FISHING
Focus	second-line stocks	mid and large cap equities
Investment universe	Swiss equities	global equities
Style	value style	contrarian
Currency	CHF	EUR
Issue/Redemption	monthly	monthly
Minimum investment	CHF 100'000.-	EUR 50'000.-
Management Fee	0.5%	0.5%
Peformance Fee	10%	10%
Fund Management	Reichmuth & Co Investmentfonds AG	
Custodian	Reichmuth & Co	Reichmuth & Co
Security Nr. (Valoren-Nr.)	1'372'899	1'380'343

«BVG ABSOLUTE»
OUR SOLUTION FOR PENSION FUNDS

«He who does not know his destination should not be surprised at not arriving». This might very well describe the situation many pension fund board members find themselves in. In addition to their obligatory duties, they need to maintain certain guarantees such as the minimum interest given. Nevertheless they are often passive, surrender to unexpected market fluctuations and oblige the responsible manager to track the ups and downs with minimal deviation.

Absolute Performance Target

What is needed is an investment policy which meets the pension fund needs. The developments of the last 4 years, and also the continuing discussions concerning the minimum interest rate on pension funds, show that particularly for pension funds an absolute yield target is more suitable than a relative benchmark target. Pension funds and their holders would be best advised to clearly define an average yield target over a mutually agreed time-span rather than, for pension funds, the usual theoretical benchmark (comparison index).

Long-term Strategies Reduced to a Farce by «Tracking Error»

Bound by a maximum deviation from the base index (so called «tracking error») and due to short reporting periods even essentially sound strategies can be thrown over board by a fund manager in order to meet short-term targets and thus avoid short-sighted criticism.

BVG Absolute - the Active Investment Approach

Based upon this knowledge and the real needs of our clients we have developed our «BVG Absolute» solution. «BVG Absolute» is based on an active investment approach that, thanks to generously set parameters, deliberately benefits from medium term market movements.

Our solution «BVG Absolute»?

- You choose the yield target
- You agree the time-span (min. 3 years) with us
- We choose the investment structure within BVV2*
- We choose the investments within BVV2*
- Your portfolio will be positioned against the absolute target and not an index
- You measure us against the average performance over the agreed time-span

Strategy Creates Opportunities

Thanks to the «BVG Absolute» approach long-term calculated strategies will not, due to the setting of a maximum deviation (so-called «tracking error»), be reduced again to a short-term relative mass. This approach is therefore a genuine strategy. The periodic examination of the strategy in relation to prevailing market conditions means that new opportunities can be opened up continuously.

Trusting in People instead of Markets

«BVG Absolute» is the solution for placing trust rather into the implementing people and less in the mathematical average (index resp. benchmark). From our side we can support this solution with an investment policy based upon a solid assessment of fundamentals, which is superior to cash flow and sentimental considerations. We always comply with BVV2 regulations. Are you interested in this solution? We would be pleased to discuss your questions or suggestions with you.

* BVV2 = Law relating to work, old age, heirs and disabled persons provisions

Marcel Wickart

CONFERENCE FOR PENSION FUND MANAGERS

Subject: Pension Funds - quo vadis
Date: Thursday, September 26th 2002, 5 p.m.
Place: Hotel Wilden Mann, 6003 Lucerne, Switzerland

Speeches:
- Strategies for low reserve - levels
  Dr. Dominique Ammann, PPCmetrics, Partner
- New Concepts for the 2nd pillar
  Peter Fries, PensFlex
- Strategies for 4% in the present market environment
  Christof Reichmuth, Reichmuth & Co, CIO

Are you interested? Please do not hesitate to contact us 041 249 49 88
or send us an e-mail: marcel.wickart@reichmuthco.ch