PRIVATBANKIERS
REICHMUTH & CO
INTEGRALE VERMÖGENSVERWALTUNG

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

Three years after the zenith of blind faith in the New Economy, Western economies are now faced with the results of the crash of these over heated sectors. It is time to clear up after the party. The «help yourself» mentality of the top managers during the 90s was only acceptable as long as everyone profited from it.

But markets are always exaggerating – as much in their downturns as in the good times. Today, the stock exchanges seem to be less efficient an the private markets. This is also demonstrated by the first «going private» offers. Despite the mark-up, entrepreneurs are buying back companies at knockdown prices. Therefore now is the time for long-term investors who can take advantage of attractively low prices of smaller, less liquid stocks.

We wish you all the very best of health, success and good luck for the New Year!

Christof Reichmuth

POSITIVE INTEREST RATE CYCLE COMES TO AN END

USA AND JAPAN IN THE FIGHT AGAINST DEFLATION

All too often, people have believed in the capacity of liquid financial markets to provide a fast track to riches, without needing to do any work. These days are gone.

Losses of 5% p.a. with equities over the last 5 years

Since spring 1998, valuation considerations have led us to take a very cautious approach to the stock markets. We recommended increasing alternative investments instead of stocks. In the graph on page 2, we compare the average returns in the major investment categories since January 1998.

The results of the comparison are astonishing. The SMI (Swiss equity index) and S&P 500 (US equity index) have lost around 2% and 5% respectively, per year, over this period. And this was with a high fluctuation level of 20%, which is typical for equities. Equity investors in this period were penalized for taking such a high risk! In contrast, alternative forms of investment, such as Reichmuth Matterhorn, brought returns of 8% per year, at a fluctuation of only 4%. The same rate applies to the 10-year US Treasury bonds, which produced similarly good returns. This is primarily due to the heavily falling interest rates in recent years, which today are below 4%. Accompanied by an extremely fast-growing money supply, this unusually low interest rate level should set alarm bells ringing. It points to strong deflationary forces. It increases the danger of a liquidity trap, where the interest rate can no longer be used as a tool to support the economy. And at the current level of interest rates, the 8% average return on US Treasuries is also a sheer impossibility for the future. The best case would be 4%, as long as interest rates do not rise.

2003 – A turning point in US economic policy

The recent elections in the USA have given the Republican party a majority in both Houses. George Bush now has «carte blanche» – and he will undoubtedly want to use it. In order to secure his re-election, he has to defeat the deflationary forces and set the economy on course for growth again through to 2004. He will want to avoid similar developments as were seen in Japan with the bursting of the bubble there in 1990, by any means. Therefore, we expect

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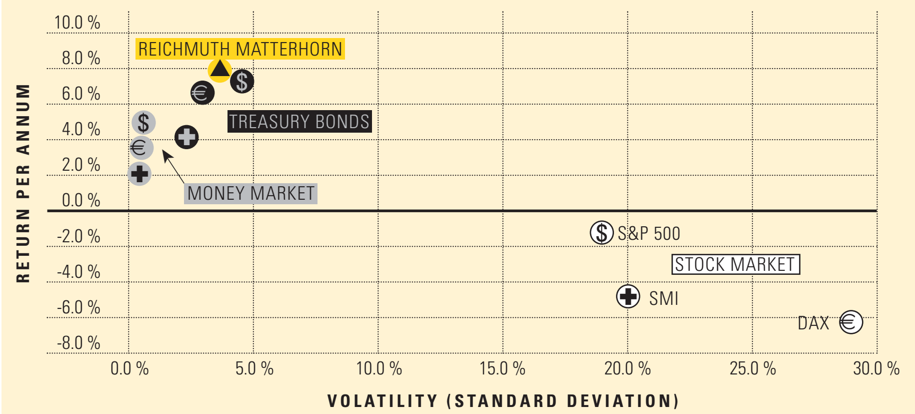
INVESTMENT CATEGORIES IN COMPAISON SINCE 1ST JANUARY 1998



Bush to once again push massive tax decreases through Congress, while increasing state spending under the guise of «homeland security».

Inflation is the lesser evil …

With this type of inflationary economic policy, the USA is trying to reduce the burden of the record mountain of debt, which is currently USD 31 trillion (three times as high as the US GDP). In addition, the central banks today believe that they know how to fight inflation, but not how to fight deflation. So they would rather err on the side of inflation, and then fight that later.

… but it is also a tightrope walk!

This activistic economic policy is full of risk. The USA is reliant on inflows of money from abroad, and foreigners already hold bonds to the amount of USD 3.3 trillion (31% of the US GDP). As soon as the capital market starts to smell inflation, long-term interest rates will rise – after all, creditors will sell their positions as soon as possible. This would have devastating consequences for the bond markets and the USD. Longer-term interest rates would rise, while the USD would suffer a massive fall. The US property market, previously a pillar of the economy, would also come under pressure, and a recession would be inevitable. Anyone wanting to profit from such a scenario should sell USD for EUR and gold. Best suited are forward transactions.

2003 – A year of decisions

The scenario described above may be likely, but the timescale is littered with uncertainties. Due to the election cycle, it has to be expected that the strongest impulses will not start until the second half of 2003, so that their effect can be felt in 2004. In 2005, after winning re-election, it would be time for the necessary corrective measures, which had been put off for years because of the pain they would entail. However, this scenario is countered by the globalisation process. The deflationary forces of globalisation on tradable goods markets will become even stronger with the accession of China to the WTO. This could prevent wide-ranging price increases, despite domestic inflationary policies.

Only attractive interest rates in EUR

If inflation really does return to the USA, the effects would also be felt in Europe, only later on. At the moment, EUR interest rates are still too high. Total stagnation in Germany will only be further cemented with the impending victories of the CDU in the Länder parliaments. The strong trade unions will also have a limiting effect on growth, as they prevent the creation of new jobs. The power mentality of the elite European bureaucracy will also have a negative effect. But developments in Europe are not totally hopeless. We hear from companies that business in Eastern Europe is doing very well. Unfortunately, their contribution to the European economy as a whole is still relatively low.

Positioning for 2003

Our investment policy at the moment is not particularly spectacular, but brings security and promises positive returns – in absolute terms, not just relative to the market. We continue to advise a defensive investment position. However, we are reducing our high bond positions slightly, following the heavy interest rate cuts, to the advantage of equities with high dividend yields. Both in CHF and in USD, the yields for top quality issuers are unattractive. The only bond market for top qualities we recommend is the EUR market. CHF-denominated corporate bonds are also on our list of recommendations, but only where we analyse them ourselves, because here, too, the analyses of the rating agencies, much like the stock analysts, are very often behind the most recent developments. Very promising, but correspondingly full of risk are high-yield bonds. They are only suitable for investors who are willing to take risk.

We do not expect any dramatic changes in the equity markets. Therefore, we advise sideways strategies, with clear buy and sell limits. Writing call and put options is also attractive for larger equity portfolios. The fall-back potential is still highest in the USA. We advise against passive index strategies, except when used in conjunction with sideways or option strategies. Of particular interest is the price level of small cap and good dividend stocks. A buy and hold strategy in these categories can still be recommended today. We continue to advise high alternative positions. They should achieve returns of 8% to 10% with low levels of volatility.

Your Reichmuth Team

MARKET OUTLOOK
1st TRIMESTER 2003

INTEREST RATES

The money presses are rolling! Economies are under pressure worldwide. Falling interest rates point to low economic optimism.

The economy is sputtering. Despite low interest rates, the economic engine refuses to start. In the USA, there's hardly any pent-up demand after the debt-financed consumption boom that followed falling interest rates. And there is no capital investment in sight, since it's cheaper today to buy a company than to invest and build operations. Only US government demand seems to be growing strongly. Bush, together with the two Republican-held houses of Congress, will lower taxes and raise defense spending again. The result is a twin deficit (trade balance and government). In Japan, money is still almost free. The deflationary tendencies there are being fought more resolutely. The central bank has started to buy shares. An extension of savings deposit guarantees is also being talked about. Interest rates remain extremely low.

Stagnation in Germany is causing Europe's economies to suffer. Although discussion of the disastrous economic situation and budget deficit only began after the September elections, Europe's shaken stock exchanges have not reacted negatively: The free fall had already taken place. Almost all leading indicators in Europe remain negative. At least there's a glimmer of hope here: What more bad news could there possibly be?
The Swiss economy is very weak. The interest rate weapon is of little help, since the export sector depends mainly on prosperous economies abroad. Domestic structural problems are worsening: Serious overcapacity in the financial sector must be reduced. The bottom has not yet been reached, and all interest rates remain low.
We still recommend EUR bonds. The yields have fallen somewhat, but still are around 4% for 5 years. We are also still betting on our selective CHF company bond portfolio. USD bonds are unattractive, the yield curve is steepening.

CURRENCIES

Competitive devaluations to benefit countries' own economies will probably continue. The heavy devaluation favorite remains the USD.

After the USA decided to follow the Keynesian recipe for fighting deflation and take massive fiscal policy measures, the country finds itself facing a twin deficit again. Lots of money have also been printed which has driven up real estate prices. Mortgage refinancing has put more money into consumers' pockets. If the economy does not start now, there's no doubt the USA, too, will use the instrument of competitive USD devaluation to stimulate demand.

The heavy indebtedness of the Japanese government and of the US private sector suggest that both countries would rather welcome some inflation.
The CHF is moving within the framework of interest rate differentials. Despite the one-sided interest rate reduction in Euroland, the CHF has not come under revaluation pressure, even after expectations of a new capital flight from Germany due to the threat of a wealth tax. This is a partial victory for the SNB, which is increasingly using the weapon of words now that it has shot up all its interest rate ammunition. As before, there is no reason to take USD positions. We expect an even lower USD. If interest rates continue to drop in Euroland the CHF might be tending a little bit stronger. For CHF-based investors, we recommend a minimal (or short) USD position, a normal EUR weighting, and an overweighting in CHF.

EQUITY MARKETS

At best, one can count on cyclical rallies driven by a lot of new money and a global scarcity of investment opportunities.

The procyclical pension plan sytems have largely done their damage; now, stock exchanges are kept on a string by Wall Street, and there is hardly a stock market that can muster a life of its own. It is unfortunate that, of all markets, US stock exchanges in particular are still rather expensive. As the American policy makers are hell-bent on reflationing, tax cutting and increasing government expenditure, the stock exchanges will rise and fall, oscillating between hope and anxiety. We expect cycles to last 3-6 months each with little ground to be gained.

Japan has reached a 20-year low. Corporate restructurings are moving ahead at a slow, albeit constant pace. We will remain patient and increase our allocation, using instruments with capital protection.

European stock markets are overshadowed by their American counterparts. A weaker USD would harm, whereas a rekindling of US economic activity would lend support. The outlook is not very promising but at least the downside price risks are largely exhausted as far as fundamental valuation is concerned. Further setbacks can be interpreted as undershooting.

INVESTMENT POLICY

1st TRIMESTER 2003

	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1,52	1,00	2,37	1,00	111
GDP Growth					
actual	0,6%	0,7%	1,8%	3,2%	-1,5%
6 months	↘	↘	↘	↘	↗
3 years	↗	↗	↗	→	↑
Inflation					
actual	0,5%	2,0%	2,1%	2,0%	-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	1,10	0,44	1,19	1,35	0,75
Dividend yield	1,4	2,5	3,8	1,7	1,1
Price/Book	2,1	1,3	1,9	2,8	1,4
Price/Earnings 2002	24	24	22	19	38
EPS Expectation 2003	↗	↗	↗	↗	↗

	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,7%	3,0%	4,0%	1,3%	0,0%
6 months	↘	↘	↘	→	→
Bond Markets (10 years)					
actual	2,8%	4,7%	5,0%	4,7%	0,9%
6 months	→	↘	↘	→	→
3 years	↗	→	→	↗	↑
Currencies					
actual		1,47	2,31	1,43	1,20
6 months		→	↘	↘	→
3 years		↘	↘	↓	→
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	3.420	3.170	3.950	910	890
6 months	→	→	→	→	↗
3 years	↗	↗	↗	→	↗
Real Estate Market	→	→	↘	→	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: 17 December 2002

STOCK RECOMMENDATIONS

JANUARY 2003

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**		DSM Clariant Kemira		
	Basic Resources	Anglo American	M-Real	Xstrata	
CYCLICAL CONSUMER	**Automobiles**	VW Vorzüge Daimler Chrysler	Michelin		
	Retail		Charles Voegele		
	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	RWE Vorzüge	Endesa CKW		
FINANCIALS	**Banks**	ING	LUKB SGKB	Commerzbank ABN Amro CS	
	Insurances	AXA Swiss Re Allianz	Baloise Helvetia Patria	Swisslife Zurich	
	Financial Serv				
HEALTH	**Pharmaceuticals**	Schering-Plough Roche GS	Bayer Merck KgAA	Bristol-Myers	
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim Lafarge	Hunter Douglas Pilkington Dyckerhoff Vorzüge		
	Machinery		Schindler Krones	Sulzer Georg Fischer	
TECHNOLOGY	**Hardware**	Philips Siemens Hewlett-Packard	BB Medtech Samsung Vorzüge	Xerox	
	Software			Computer Associates	
TELECOM	**Telecom**			ATT	Comcast
	Equipment			Alcatel Motorola	
CERTIFICATES	**Index**	Japan Domestic	MDAX		
	Style		Pilatus	Bottom Fishing	

INVESTMENT STRATEGY
1st TRIMESTER 2003

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

Categories
- Duration CHF bonds 3 years
- Duration EUR bonds 4-5 years
- Up to 5% real estate equities
- Up to 5% 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. Othmar Som or Mr. Yves Bachmann at +41-41-249 49 29.

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

Categories
- CHF corporate bonds with yields of >4% and duration of approx. 3 years
- EUR bonds with maturities of 4-5 years and yields of approx. 4%
- Sideways strategy for equities, with limited buy and sell orders
- Hold dividend stocks
- Increase small cap stocks CH and D
- Increase European value stocks by step-by-step buying into an eventually undershooting market
- 5-10% Japan bull market strategy (with capital protection)
- 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 against EUR
- Gold forwards against USD

Categories
- Long small cap stocks Europe
- Short calls and puts on blue chips, in order to cash in the high volatility
- Bottom fishing strategy
- Nikkei/Topix long
- 30-50% alternative investments
- Up to 10% high yield investments
- Up to 10% private equity

KIRCHSPORT, EMMI, CONSTANT
SUCCESSFUL PROJECTS DUE TO OUR INTEGRAL APPROACH

In recent months we were able to successfully complete various financial projects. Although the complexity of these transactions differed a lot, they all had in common that there was no standard solution available.

For KirchSport (today known as Infront) we got the chance to arrange and conduct the idea of an MBO. Mr. Robert Louis-Dreyfus could be gained as lead investor. The transaction amounted to EUR 330 Mio.

For Emmi we could arrange a solution for a complex «sale and lease back» transaction on very short notice. This project was done in connection with Emmi's offer for Swiss Dairy Food's business in Ostermundigen. The volume of this investment amounts to CHF 40 Mio.

Furthermore, we are happy to offer our clients another interesting private placement. The company Constant Ventures is offering a new bond issue of EUR 52 mio., paying a coupon of 4.5% and expiring on 31.01.04. The bond is secured by an irrevocable guarantee of Luzerner Kantonalbank (credit rating: AA).

Due to the broad spectrum of our financial projects completed so far, we could build up a remarkable expertise. We are also happy to have access to a very well functioning network of specialists. We would like to make use of them for our clients also in the future.

Dr. Ricardo Cordero

SECURITY ISSUES IN PORTFOLIO MANAGEMENT

YOUR SECURITY IS IMPORTANT FOR US

When it comes to security, most investors think automatically of large banks. However, the collapse of Swissair, Enron or Worldcom have once again demonstrated the risk of credit, and a glance at current performance of third party banks has opened the eyes of some investors to the fact that the most direct and biggest risk is not the bank, but the advisor.

FOUR FACES OF SECURITY	
CUSTOMER GOALS – WHAT? - Recognise requirements - Record investment position - Determine ability and propensity to carry risk - Define investment strategy - Monitor goals	**ADVISOR – WHO?** - Is the advisor focused on your goals? - Technical competence and experience - Conflicts of interest - Independence - Integrity and enthusiasm - Trust and discretion - Overview and coordination
INSTRUMENTS – HOW? - Credit risk - Price risks - Currency risks - Liquidity (tradability) - Tax risks - Country risks (transfer risks) - Diversification	**STRUCTURE – WHERE?** - Counterpart (bank, insurance company, etc.) - Domicile, legal and tax basis - Commission model - Discretion - Liability risks

Integral Advice Guarantees Security in Customers' Goals

Security in investment starts with defining the right goals. These goals must be matched comprehensively to your requirements, your propensity to take risk and your ability to carry risk. For example: A pensioner who has to live from the revenue from his investments, but whose portfolio management mandate allows his portfolio to be entirely invested in stocks has either communicated his goals incorrectly or his advisor has not performed his task professionally and has an inaccurate impression of the pensioner's situation. In such a case, the consequences for the customer might be verry serious.

An advisor who deserves your trust is extremely valuable

As far as advisors are concerned, in addition to professional competence and an understanding of your initial position, integrity and independence are the most important considerations. The incentive for a professionally brilliant advisor whose salary mainly depends on selling his own company's products can hardly be said to act in the customer's interest.

Integral overview enables goal-oriented investment

If you have several people managing your investments, then you have the advantage of diversifying the investment decision-making process. However, you must then make sure that the goals set for each individual mandate match your overall requirements. An overview is the most important tool you can have. With a consolidated overview that shows all investments, including endowment policies, direct shareholdings and property, you have the necessary controlling instrument right to hand. At a glance you can see whether your investment portfolio is evenly distributed over the various types of investment, and whether this is in accord with your overall strategy.

Securities owned by customers represent protected special assets

Now you simply have to select the structure – i.e. the institution that you want to handle your affairs. Reichmuth & Co. is a Swiss bank, and as such is subject to the supervision of the Eidgenössische Bankenkommission EBK (Swiss Federal Banking Commission). According to the law, all securities owned by customers are protected in the case of a default of the bank. However, there are now institutions that release security positions for purposes of «Securities Lending» without needing explicit permission – it is simply permitted in the general terms and conditions. These banks can take your securities without your knowledge, thus making the bank your contracting party. Separation of the deposited securities would then be endangered. We do not do that sort of thing.

Reichmuth & Co – maximum security

Our core business is and will remain integral investment management. We are neither a commercial lender nor a retail bank. Our equity capital is three times as high as the legal minimum requirement, and is more than twenty times the equity we need for our business activities. In addition, as a shareholder, Karl Reichmuth has unlimited liability with his privately held assets. Risky transactions on our own account are not an issue – we have your security at heart.

Jürg Staub

«INTEGRAL INVESTMENT MANAGEMENT IS A WAY OF THINKING»
KARL REICHMUTH ON HIS SUCCESSFUL CONCEPT

For many years now, integral investment management has been the base line of your logo. What does this mean for your customers?
Firstly, it means that our customers have a single contact person who can advise them competently and responsibly on all financial matters. Secondly, it means that we provide our customers with our comprehensive «Family Office» services. For us, the decisive factor is that the customer knows his financial affairs are in good hands, and does not feel «lost».

You just mentioned «Family Office» services. What do you have in mind with this?
«Family Office» is a modern term for activities that have always been undertaken by private bankers. With us these services can be used on a modular basis, in the framework of the integral investment management system. «Family Office» brings together all the strands of the family's overall portfolio. It includes questions regarding bond and equity investments, life insurance, property and direct holdings, right through to payments transactions and household budget overviews.

What are the advantages of the integral investment management concept?
The most important aspect is obviously the fact that the customer always knows about his overall position. This knowledge is vital for making decisions on a solid basis, and ensuring you are on the right road to pursue your goals. It allows customers to take advantage of market opportunities, and once we know all the pieces in the puzzle, we can create individual solutions for the customer. In addition to high transparency, security and flexibility, customers have other advantages, too.

Karl Reichmuth
Partner with unlimited liability

Can you give an example?
Recently we constructed a new solution that incorporated the advantages of a holding structure without the disadvantages of double taxation. There was another case where the customer was able to combine existing savings pools around the world in an optimal way to produce a tax-efficient solution for buying a house.

What does «integral» mean for your employees?
Our employees want to help the customer achieve his investment goals. They do not sell financial products. They identify with their customer's financial health. Our policy is not to go for fast money – which is usually at the cost of the customer – but take care of our customers in accordance with the old Swiss banking culture, where we serve each customer individually and earn our money that way. Our employees have proved excellence in terms of these characteristics, and therefore represent the most important pillar for our private clients business.

How do you organize this wide range of tasks?
Naturally we require our employees to think in the same way as we do. Professionalism is a prerequirement nowadays, and should be taken for granted. Another advantage is the transparent company structure, typical for private bankers. Larger institutions find it much more difficult to provide this form of banking. Furthermore, it requires a separate risk management system, so that securities accounts with third-party banks can be included in the overview. We call this our «dual business model». It allows us to provide consolidated accounts, including direct investments, property, etc. in the portfolio overview. After all, you can only be sure that you are on the right road to your goals - apart from the market fluctuations - if you know where you are now.

Are there customers who do not need integral investment management?
Yes, of course, but usually we find that private customers become integral customers after a couple of years working with us. Nevertheless, we also provide pure banking services and portfolio management, especially for pension funds or portfolios of companies with their own financial professionals.

Does integral investment management involve higher costs?
Not normally, no. Again, this obviously depends on the size of the portfolio and the customer's requirements. The integral services are really mainly a way of thinking. They give us the advantage of greater, deeper customer loyalty. That way, the higher expenses pay off for us too. In the case of securities accounts managed elsewhere but which our customers want to incorporate into the portfolio overview, we charge 0.1%. This more than pays for the customer, who then always knows exactly where he stands.