PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

The secular bull market is over. Also over is the sharp correction of its excesses. Of course, in the last few years all economic problems were solved with cheap money and higher debt. And so the next great challenge is to cope with the enormous debt burden.

Deflation would be the worst that could happen now; debt would become an even more extreme burden. Inflation, on the other hand, would reduce the burden of the mountain of debt.

Since the question of whether we will experience inflation or deflation cannot be conclusively answered yet, we assume that an opportunistic investment style will promise the best success in the coming years. In this cycle, innovation and opportunistic action are among the most important factors for success. This is what we want to do for you, and what we commit ourselves to do every day.

Christof Reichmuth

PORTFOLIO OF THE FUTURE

OPPORTUNISTIC YEARS AHEAD OF US

In the current environment of very low interest rates, the big question is whether deflationary or inflationary forces will gain the upper hand. In deflationary times (falling prices and very low interest rates), the goal is to ensure high annual yields for a long time, such as with long-term bonds. In inflationary times, the opposite applies. Investors should instead put their money in investments that do not trade based on current yields (bonds, stocks, real estate). Good choices are, besides inflation-indexed bonds, commodities or land. For these uncertain times, we have developed a «portfolio of the future», designed to take advantage of specific opportunities. Of course, our model «portfolio of the future» must be adapted to the individual environment and goals of the customer.

Portfolio of the future – a building-block concept

What is immediately apparent when compared to the previous strategy is that we are now placing our bets on six building blocks instead of the previous four (see box p. 2). Bonds now belong to the most unattractive category. Alternative investments remain an important pillar, while stocks appear to be twice as important, but with a division between «buy & hold» and «buy & sell». We have included precious metals as an additional investment category.

Bonds are not attractive

Interest rates in the major investment currencies are extremely low. In CHF, only 1.5-2.5% can be earned in top quality bonds, and this only as long as interest rates do not go up, because rising interest rates result in lower bond prices. The longer the life of a bond, the more important is this effect. Relatively attractive are 3-5-year EUR bonds with yields of around 3.5%. Of course, a CHF investor bears a certain currency risk, although limited. The USD does not offer attractive yields either, and we expect a continued weakness of its exchange rate. In summary, bonds are unattractive at the current interest rate level. Considering the worldwide reflationary efforts, which will push up the interest rates some years from now, long-term bonds are very risky.

Stocks – divided portfolio

At first glance, it seems as if we were doubling the weighting of stock. But in

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MARKET- AND FUTURE-DRIVEN: PORTFOLIO OF THE FUTURE

PORTFOLIO OF THE PAST

10%	Real Estate
20%	Alternative Investments
20%	Equities «Buy&Hold»
50%	Bonds

PORTFOLIO OF THE FUTURE

10%	Commodities (via forward trading)
10%	Real Estate
20%	Alternative Investments
20%	Equities «Buy&Sell» (in the market or on cash)
20%	Equities «Buy&Hold»
20%	Bonds

an environment in which, for fundamental reasons, neither revenues nor margins nor the price-earnings ratio (P/E) can increase strongly, we continue to recommend low weightings of «buy & hold» stocks. The increase relates only to the portion with which we take advantage of the cyclical market swings up and down.

Buy & hold – value-style stock portfolio

Here, we recommend hardly any changes. We continue to maintain a value style and look for stocks with good dividend yields. The major themes continue to dominate: energy, food, and health. Various energy stocks (particularly in the oil and gas sector) look very promising, mainly due to valuation considerations.

Buy & sell – opportunistic portfolio

The «buy & sell» portfolio is our answer to the sideways market we expect to see for many years. Our studies show that up and down phases alternate in such a market, sometimes with strong movements. The magnitude of these movements can be 20-60%, and the cycles generally last between 2 and 12 months. Of course, the main movement can take place within a short time. We experienced that this spring when the DAX rose 50% within one month; a strong movement that we were happy to take advantage of.

Our goal for this part of the portfolio is to earn around 10-15% per year from such movements. Of course, we will never hit the low nor the high of a cycle. But the aim is to move the «investment lever» forward (buy) or backward (sell), depending on the situation. If this part of the portfolio is not invested over a longer period of time, which can certainly be the case, the money will be «parked» in the money market, in short term bonds or in alternative investment vehicles until the next opportunity arises. To be successful with this strategy, it is essential to have a good understanding of the markets, with benchmarks such as «fair values», cash flow and market psychology. In addition, patience and, above all, discipline are among the factors for success. Unfortunately, neither of these are typical characteristics of investors. For sophisticated investors, futures or volatile, so-called high-beta stocks (which move more strongly than the market) are appropriate. For somewhat more conservative investors, we build structured instruments with partial capital protection. But, as a result, they participate somewhat less in the movements.

Alternative investments remain important.

Alternative investments have been an important part of our asset allocation since 1998. Back then, a relatively high weighting of alternative investments was our answer to highly valued stocks. The massive outperformance of the last few years, in which alternative investments gained around 60% in value while the stock markets lost around 40%, is over. Still, alternative investments remain important in our portfolio of the future. We still expect an annual performance of 6% to 10%, with low fluctuations comparable to those of bonds. In particular, their low volatility makes alternative investments appear attractive compared to a «buy & hold» stock portfolio. For this reason, we are maintaining a high allocation in alternative investments.

Real estate – a stable anchor

Real estate offers an attractive yield with good wealth protection, and it is based on real asset values. Although we do not expect massive increases in real estate prices due to economic developments and the already very low interest rates, the yields in real estate should remain a stable anchor for investors in the future as well. Here we prefer real estate companies to the pro-cyclical investment funds.

Precious metals – profiteers from the currency-depreciation competition

The central banks of the main currency blocks are trying to lower the value of their currencies compared to the others or at least keep them stable. This destroys the basis of the currencies as a store of value. Profiteers from this could be commodities, which have been languishing in a bear market for years. We are placing our bets on gold and silver, which we play via forward transactions (see Precious Metals as Currency Diversification on p. 6).

Your Reichmuth & Co Team

MARKET OUTLOOK

3rd TRIMESTER 2003

INTEREST RATES

Money market rates remain low. The bond yields, some of which have already increased considerably, are tending sideways.

The economic recovery, awaited impatiently everywhere, continues to move forward by fits and starts, if at all. Cutting costs and debt continues to be the main goal of most companies. Investment activity remains low due to excess capacity in many places. Consumers are worried about the security of their jobs or retirement pensions and so are still holding back on spending; in the U.S.A. and certain other countries, such as Korea, consumers are also heavily indebted and can hardly spend more. Until now, higher government deficits have been able to counteract these negative influences somewhat, but they are now reaching their limits: in the U.S.A. (with expected 4% to 5% of GNP), the limit of financeability, and in Europe, the Maastricht limit of 3%. In this environment, central banks can continue their very expansive monetary policy without producing immediate inflationary pressures.

Concretely, we hardly expect further reductions in the central banks' key interest rates (except possibly by the ECB) in the last trimester of 2003, but also no increases in the rates. The strongly risen bond yields, especially in USD, will likely remain at the higher level at first and only increase again when, in a better economic environment and with higher inflation rates, the central banks are forced to become more restrictive. In this environment, short-to-medium-term bonds in EUR are the most likely to hold their prices.

The credit spreads have fallen again and can currently be considered «normal». Accordingly, bonds of lower quality can no longer be expected to outperform top-class securities.

CURRENCIES

The weakening of the USD is not at its end, but only interrupted. The CHF has its weak phase versus the EUR behind it.

The USD has completed a first phase of its expected decline. It dropped most markedly against the EUR. Due to the continued high current account deficit of the U.S.A., a second wave of decline for the USD must be expected. This will probably occur less against the EUR this time than against the Asian currencies. Until now, the Japanese and Chinese central banks have successfully defended their currencies and prevented them from any appreciation. But over the long run, they will not succeed against the increasing pressure.

In Europe, the readiness of the countries not yet integrated into the EUR-Zone, such as the U.K, Sweden, Norway, and Denmark, to give up their currencies in favor of the EUR, has rather lessened. Still, the fundamental economic data continue to converge. Accordingly, these currencies will more and more take on the character of parallel currencies to the EUR - with quite stable exchange rates. Regarding the CHF, the situation is slightly different since the difference in inflation, which has existed for a long time, results in a lasting light upward pressure. We therefore expect a fairly stable exchange rate here as well, but combined with a slight basic trend toward a stronger CHF within the framework of the interest rate difference of 1% to 2%.

EQUITY MARKETS

After their rise in the last few months, the stock markets have too much optimism for the future.

Overall, stocks are slightly overvalued on average as measured by the customary fundamental criteria. This is particularly true for the U.S.A. A price decline after the strong rise from the market lows would therefore not be surprising. This correction would most likely begin in the U.S.A. and then reach Europe as well. Particularly threatened are the insurance companies, for example, since they have gone up the most and, after the losses in their stock investments, face the same in their bond holdings as well. The «dividend stocks», that is, stocks with good and safe yields, will be able to hold their own since the majority of them still yield better than bonds even after the interest rate rise. Otherwise, selected smaller companies with favorable fundamental valuations continue to offer attractive investment opportunities. Also, the energy sector, in particular natural gas and oil, from exploration and services («upstream») through production to distribution («downstream»), looks promising. We likewise judge Japanese stocks as attractive.

Dr. Max Rössler

INVESTMENT POLICY

3rd TRIMESTER 2003

	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1,51	1,01	0,64	1,00	110
GDP Growth					
actual	0,1%	0,9%	1,5%	2,3%	-0,6%
6 months	→	→	→	↗	↗
3 years	↗	↗	↗	→	↑
Inflation					
actual	0,3%	2,0%	2,9%	2,1%	-0,4%
6 months	→	→	→	↗	↗
3 years	2,0%	3,0%	3,0%	4,5%	1,0%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1,18	0,48	1,19	1,43	0,89
Dividend yield	1,6	2,3	3,7	1,7	1,0
Price/Book	2,4	1,4	2,0	2,9	1,6
Price/Earnings hist.	61	n.a.	53	28	122
Price/Earnings exp.	19	22	21	19	33

	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,2%	2,0%	3,4%	1,0%	0,0%
6 months	→	→	→	→	→
Swap Rates (10 years)					
actual	2,8%	4,1%	4,7%	4,8%	1,4%
6 months	→	→	→	→	↗
3 years	↗	↗	↗	↑	↑
Currencies					
actual		1,54	2,21	1,38	1,17
6 months		→	→	↘	→
3 years		↘	↘	↓	→
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	3.700	3.500	4.250	1.000	998
6 months	→	→	→	→	↗
3 years	→	→	→	→	↗
Real Estate Market	→	→	↘	→	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: 20 August 2003

STOCK RECOMMENDATIONS

SEPTEMBER 2003

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**	DSM	Kemira Lonza		
	Basic Resources	Anglo American			M-Real
CYCLICAL CONSUMER	**Automobiles**	VW pref. Daimler Chrysler			
	Retail			Charles Voegele	
	Media		Publigroupe		
NON- CYCLICAL CONS.	**Food**	Nestlé	Südzucker Parmalat (WA)	Altria	
	Various		Kali+Salz Emmi (WA)		
ENERGY	**Energy**	Total Royal Dutch / Shell T+T	ENI OMV	Lukoil Transocean Gazprom	
	Utilities		RWE pref. CKW PS		
FINANCIALS	**Banks**		SGKB	Commerzbank	ABN Amro Credit Suisse
	Insurances	AXA Swiss Re	Baloise	Zurich Fin. Allianz Endurance Spec.H	
	Financial Serv				
HEALTH	**Pharmaceuticals**	Schering-Plough Roche GS Novartis	Schering		
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim	Hunter Douglas Pilkington		Dyckerhoff pref.
	Machinery				Schindler PS
TECHNOLOGY	**Hardware**	Philips Samsung pref. Hewlett-Packard	BB Medtech Logitech		Siemens
	Software			Computer Associates	
TELECOM	**Telecom**	Swisscom			
	Equipment			Alcatel Motorola	
CERTIFICATES	**Index**	S&P 500 Bear Note Nikkei / Topix	MDAX		
	Style		Pilatus	Bottom Fishing	

INVESTMENT STRATEGY
3rd TRIMESTER 2003

PERSONAL INSURANCE
Currencies
- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-5% others

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

CROPS / INHERITANCE
Currencies
- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-5% others
- Ca. 5-10% gold and silver forwards against USD

Categories
- CHF corporate bonds with yields >2.75% and duration of 3 years
- EUR bonds with maturities of 3-5 years and yields of 3% to 4%
- «Buy & hold» stock portfolio
  - Value stocks, energy stocks, dividend stocks and second-line stocks
  - 5-10% Japan Groi (capital protected)
- «Buy & sell» stock portfolio
  - Sideways strategy using ETF (exchange-traded funds), volatile stocks, bottom-fishing funds or structured products (e.g. Airbag)
- 0-20% alternative investments
- 5-10% real estate stocks CH
- Up to 5% private equity

SPORT
Currencies
- Short USD/EUR (carry profit)
- Short USD/HKD (no carry costs)
- Gold and silver forwards against USD

Categories
- Start to build up JGB short positions
- «Buy & hold» portfolio
  - Long energy stocks
  - Long second-line stocks Europe
  - Long Topix/Nikkei
- «Buy & sell» portfolio
  - Sideways strategy using futures, ETF (exchange traded funds), high-beta stocks or structured products
  - Short strategy on the S&P 500
- 30-50% alternative investments
- Up to 10% high yield investments
- Up to 10% private equity

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.

REICHMUTH ALPIN
PORTFOLIO FUND WITH ABSOLUTE RETURN OBJECTIVE

On August 1, 2003, we launched a new investment instrument which applies our absolute investment approach in a conservative way.

Market and future driven
Reichmuth Alpin is based on a portfolio composition driven by the market environment and the outlook for the future. The absolute return objective is approx. 5% p.a. which ought to be achieved over an average period of five years with low volatility. The basic constraints are based on those of pension funds (OPP2), but making use of extended investment possibilities (e.g. alternative investments).

Weather forecasts are important
In view of the wide choice of investment categories and due to the alignment with an absolute benchmark, «sunny areas» can be searched for and «cyclones» can be avoided on the financial «weather chart». For the expected rather instable weather conditions of the coming years, Reichmuth Alpin ought to be well prepared to reach its goals safely, also in alpine areas.

Philipp Murer

REICHMUTH ALPIN. ABSOLUTE RETURN OBJECTIVE	
Focus	Absolute return with low volatility
Return objective	Approx. 5% p.a. in the present market with low volatility
Constraints	OPP2
Investment Universe	Bonds, Equities, Alternative Investments, Real Estate
Currency	CHF
Subscription/Redemption	Monthly
Management Fee	0.50% p.a.
Performance Fee	None
Management	Reichmuth & Co, Investmentfonds AG
Custodian	Reichmuth & Co, Lucerne
Security Number	1’655’599

PRECIOUS METALS AS CURRENCY DIVERSIFICATION

BUYING GOLD AND SILVER FORWARD AGAINST USD

You can do everything right at the investment-category level – one wrong judgment on currencies can ruin everything. Central banks worldwide are playing the game of competitive depreciation. Nobody wants a stronger currency. That hurts the domestic economy. This makes the money supply grow and creates potential for inflation. It is not easy at all to find a currency that still guarantees stable value over many years. It is more a choice of the lesser of evils.

Precious metals as diversification

In this situation, precious metals lend themselves to currency diversification. Precious metals, unlike paper money, cannot be increased without limit. Gold and silver are traded as currencies in USD. Of course, precious metals do not pay interest. But since short-term interest rates are very low worldwide, the opportunity costs are practically negligible. In a world in which the central banks let the money printing presses run, precious metal prices should rise.

Forward transactions better than physical purchase

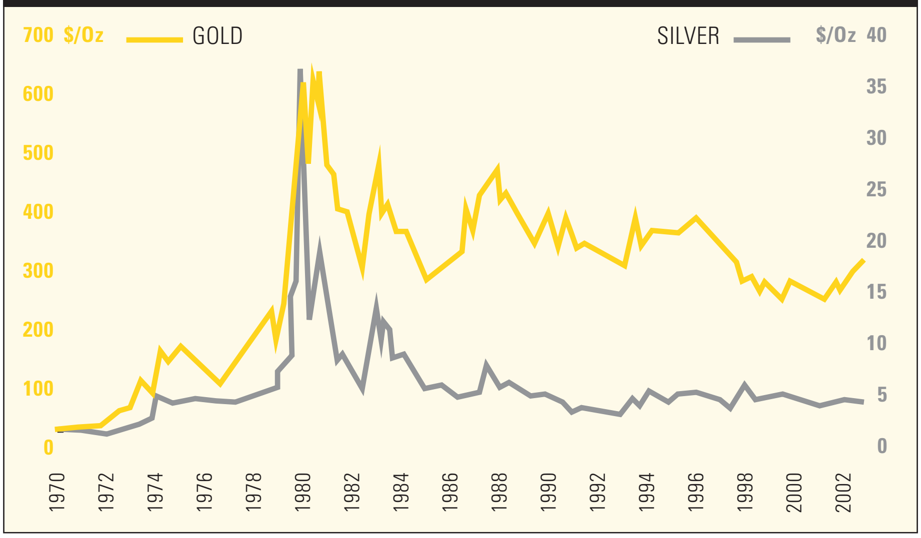
If an investor buys gold forward against USD, for example, he or she does not need any money when making the transaction. Only when the position is closed out is there a profit or loss, which the investor receives or suffers. And so only the profit or loss from the forward transaction is exposed to the currency risk. This is different from the physical purchase of the precious metal. Then the entire amount must be invested at the start – the investor thus bears a currency risk.

An example

If we buy gold forward against USD at USD 320 per ounce and the price rises to USD 352, our profit is USD 32 or 10%. If during this time the USD falls by 10%, in the example from 1.50 to 1.35, then our profit is still 9%. If we had bought the gold physically, our overall result would have been zero. We would have more than given up the profit of 10% on the gold price with the loss of 10% on the USD.

Precious metal markets are volatile, and the trick is to find the right buy and sell limits. But we still recommend precious metals for currency diversification and prefer forward transactions to physical purchase.

GOLD AND SILVER PRICES SINCE 1970



Tobias Pfrunder

INFORMATION MEETING FOR PENSION FUNDS

Topic: New Basic Legal Framework for Pension Funds
When: September 3, 2003, 4.30 p.m.
Where: Hotel Wilden Mann, 6003 Lucerne

Presentations:

New Basic Legal Framework after the OPP2 revision
We need a strong 2nd Pillar
Christine Egerszegi, National Council, President of the OPP2-commission

New Era in the Financial Markets
Review and Outlook
Christof Reichmuth, Reichmuth & Co, CEO

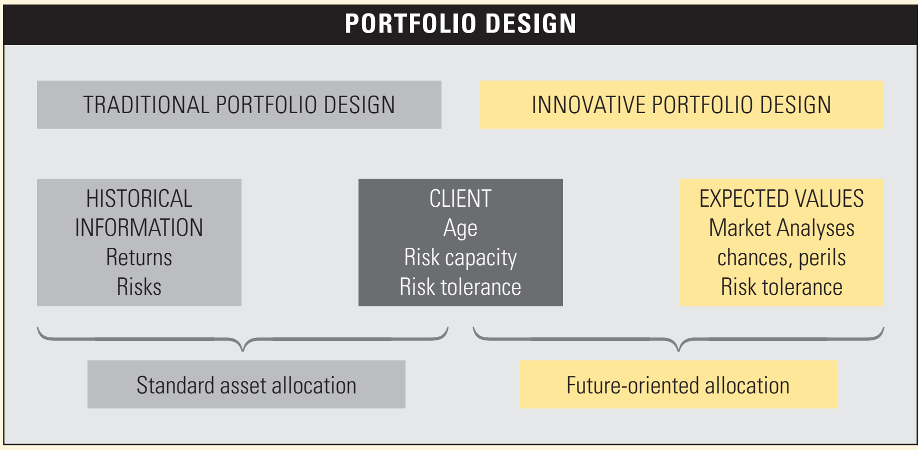
Consequences and Solutions for Investment Strategies
Sergio Hartweger, Reichmuth & Co, Institutional Investors

Solutions for Pension Fund Organisation
Marcel Wickart, Reichmuth & Co, Institutional Investors

Are you interested? Please call us at 041 249 49 88 or send an e-mail to: marcel.wickart@reichmuthco.ch

A NEW ERA IN THE FINANCIAL MARKETS

CONSEQUENCES FOR PORTFOLIO MANAGEMENT



An important driver for a renewed bull market is missing in today's environment. The scope for reducing interesting rates has been exhausted. The financial-market environment presents great challenges for asset managers. The environment for the classic investment instruments of stocks and bonds differs quite markedly today from that of the nineties. As a result, conventional approaches and assumptions of asset management must be checked, and strategies must be developed that fit the situation.

Disadvantages of conventional portfolio design

As a rule, the customer profile, with information such as wealth, age, investment horizon, spending, income, tax situation, risk tolerance and risk capacity, serves as the basis for designing the portfolio. With this information, the customer is placed in a risk-return category, and the portfolio's «optimal» allocation between money market instruments, bonds and stocks is determined. In conventional portfolio design, a young, ambitious and high-earning customer receives an investment recommendation with a relatively high stock weighting regardless of the market environment. The customer can take risks and, with his or her long investment horizon, can make up setbacks. That is the argument.

Opportunities for future-oriented solutions

This practice has two significant disadvantages. For one, asset allocation is often determined based on historical data. Historical data provide interesting findings and are relevant if the past repeats itself in the future or the investor can wait until it repeats itself. But if the financial-market environment has changed, historical data play only a subordinate role. The portfolio should be put together based on expectations for the future and the customer's individual characteristics. The composition of the portfolio of the future can thereby deviate considerably from a typical model allocation. An optimal allocation based on historical data misleads investors to position themselves incorrectly for the future. For all are «richer» at the end of a bull market. Pension funds, for example, have a very high coverage ratio and feel more able to take risk. But why should a pension fund increase its stock weighting further when markets are becoming ever more expensive. Only because their «risk capacity» is higher toward the end of a bull market?

Advantages of the absolute orientation

Besides a future-oriented asset allocation, goals are a further significant factor for investment success. By definition, a relative goal (e.g. 1% above an index) in the expected sideways market produces a result with high volatility and only moderate returns. With the typical «buy & hold» approach, where stocks are bought and held for the long term, investors participate in all market movements, upward and downward. In contrast, an active and absolute-oriented approach permits taking market conditions into account and deviating from a typical relative benchmark when warranted. Allocation is more flexible, but requires consistent and systematic action. A «buy & hold» approach becomes «buy & sell». Instead of continuing to hold positions after a cyclical rally, in an active approach the positions are successively reduced, depending on the market valuation.

Absolute thinking!

The financial-market environment has changed and is placing high demands on asset managers. Conventional approaches, which are based on historical data and strongly depend on relative benchmarks in their implementation, must be questioned. Our independence has always let us follow an absolute-oriented approach. For our customers, we carry out this strategy in mandate form and recently also in our newly launched investment fund «Reichmuth Alpin».

Sergio Hartweger CFA