PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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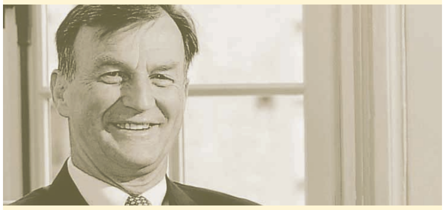
EDITORIAL

The year 2003 was a good one for investments. Most recommendations turned out well and produced very good results.

But our investment hypothesis, that the 20-year trend toward lower interest rates is at an end, remains valid in 2004. This has led to a structural break in the financial markets. Interest rates have passed through the absolute low point in summer 2003 and are already tending upwards. With falling interest rates, as was the case in the last 20 years, investments with long maturities had to be held. Now that rates are rising, investments with short durations are preferable.

In this environment, only a future-oriented and innovative investment policy promises success. We would like to tell you about that in this Check-Up and also wish you much joy and success for the New Year.



Karl Reichmuth
Partner with unlimited liability

2004 – TURNING-POINT

SECULAR BEAR MARKET NOT OVER YET

After the slump in the stock markets of the last few years, a cyclical recovery began in March. In our judgment, we are currently in the final 10% of this cyclical bull market, which is taking place within a long-term secular bear market. A secular bear market is characterized, after the first major slump, by up and down movements over a period of years without gaining substantial ground.

Turning point in expansionary monetary and fiscal policy

It appears that the extremely expansionary monetary and fiscal policy in the U.S.A. has prevented the worst. The economic growth numbers are surprisingly high, even though some question marks remain on how they are calculated and their basic effect. In all likelihood, the stock markets have already anticipated a good future. Otherwise, how could it be that neither the stock nor the bond nor the currency markets have rewarded the very positive final quarter numbers? We assume consumption growth will fall off. Most of the tax cuts in the U.S.A. will be effective into the first half of 2004. But there is a certain point of time where even higher government deficit spending becomes impossible. Further, we assume that the U.S. central bank will start to increase short-term interest rates next summer. Short-term interest rates will rise worldwide.

U.S. elections and jobs

Job creation is important for the 2004 U.S. presidential elections. George Bush Sr. stimulated too late, George Bush Jr. perhaps too early. Experience shows that jobs are created relatively late in an economic recovery, and so are a lagging indicator. Worldwide job arbitrage works against stimulating economic policy. Lost jobs are not being created again in the West, but in Asia, especially China and India.

Growth weakening in Asia

The strongest impact of the expansionary U.S. monetary and fiscal policy has been seen in Asia and the emerging markets. The flooding of markets with cheap money and stimulation of private demand by low interest rates and tax cuts have led to a real investment boom. And this after the SARS crisis at the beginning of the year largely paralyzed economic activity. The powerful investment boom has led to an equally enormous demand for raw materials and se-

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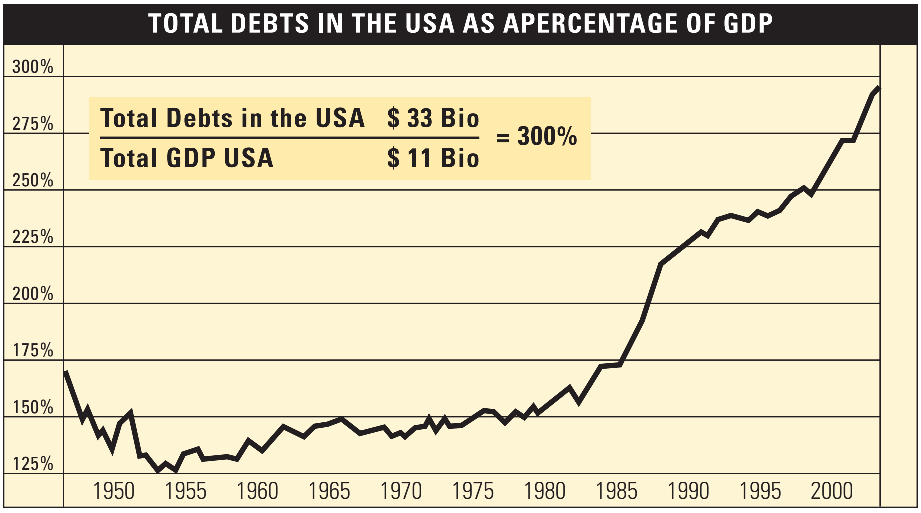


Source: Ned Davis Research

mi-finished goods. Stockpiling due to rising commodity prices has further heated up demand. Next year, growth rates in China and Asia should drop to lower, more sustainable levels.

Commodities in a structural high

Commodity prices increased strongly in 2003. After a decade-long drop in prices, various forces are now working to drive commodity prices higher. Besides the awakening of China and the chronically low investment into production of commodities over the last decades, the depreciation of the USD has to be mentioned in particular. Prices have gone up much less in hard currencies, that is, EUR, CHF or JPY. The OPEC therefore would like to see the price of oil, which is traded in USD, increase corresponding to the dollar's weakness. We are convinced that, unlike stocks, commodities are in a structural upward market.

But in the short run the consensus is so positive and speculation so high that a temporary correction in 2004 is not only expected, but desirable.

Currencies losing strong base

Competitive devaluation is going into the next round. The USD has lost around 30% of its value against the EUR in just two years! And with the USD, all currencies linked to it, in particular the Chinese renminbi, have dropped. This has made goods from the export-oriented EUR area more expensive. Export-driven growth will undergo a hard test. From a USD/EUR rate of 1.25 upward, the new European central bank head Trichet might even surprise the markets by cutting interest rates to stabilize the exchange rate.

The CHF is no longer the neutral and stable refuge for storing value. To avoid losing Switzerland's industrial base completely, the Swiss National Bank is following a monetary policy similar to that of the U.S. Whether the stability of the CHF remains intact in the long term is not yet clear.

Inflation awakening?

Such monetary and fiscal policy intervention undoubtedly creates inflationary potential. Only globalization and worldwide overcapacity are still keeping it in check. Initial protectionist steps are already being discussed, such as the U.S.A.'s China tariffs. The U.S. central bank wants to give companies some pricing power and is accepting the danger of inflation – it knows how to fight inflation: higher interest rates.

Of course, an argument against higher inflation rates is the heavy indebtedness of private households. As soon as rates go up the interest burden rises, which dampens consumer demand. This automatically reduces inflationary pressure; it might even trigger the next recession. To prevent the arrival of this moment of truth, the U.S. central bank is using strong words to try to keep long-term interest rates down as well.

Reasonable expectations – a positive sign

The sober, almost cautious expectations of company heads are a positive sign for future profit trends. The cost base meanwhile has been adjusted to revenues. Every increase in order inflow is first checked critically for sustainability. This avoids unnecessary capacity enlargements. Every productivity increase causes profits to surge. Inventories are also generally low, which has a positive impact on orders. The focus must not be placed only on the increase in profits, but also on their level. Unfortunately, the valuation for the current profit level is already high!

Preserving wealth versus making money

Does this environment call for preserving wealth or expanding it? Asset markets are generally expensive again. Too much money is floating around, looking for investment opportunities. But there are ways and means to take advantage of the new opportunities being offered. What counts is each individual's unique situation. And so the distribution among building blocks – as we recommend in our «portfolio of the future» – should be done individually.

We are looking forward to discussing this with you.

Your Reichmuth Team

MARKET OUTLOOK

1st TRIMESTER 2004

INTEREST RATES

Money market rates still remain low. Bond yields are rising slightly.

The long awaited economic recovery in the U.S.A. has now strongly taken off and is also improving the economic outlook for Europe and Japan. Of course, it was bought at the price of an extremely expansive monetary and fiscal policy. This has increased existing deficits in the current account and federal budget even further and raises the question whether the current upturn is stable and sustainable.

The central banks of the major industrial countries will keep their key interest rates at an unchanged low level for some more months despite a further strengthening of growth. Most companies are focusing on reducing costs, and continued competitive pressure will not permit a strong expansion of profit margins, so no significant price increases and thus no significant rise in inflation rates are expected, despite a better economy. An additional reason for continuation of the Fed's low interest rate policy is Bush's upcoming reelection. A gradual rise worldwide in the key interest rates is not expected before midyear.

Bond yields should start to rise earlier due to the increasing demand for capital and so make the yield curves somewhat steeper. But a strong increase is not expected, since the danger of inflation remains relatively modest. Short-to-medium-term bonds denominated in EUR, with a yield of approximately 3.5%, thus continue to promise an acceptable performance.

CURRENCIES

The USD remains weak. While it has already fallen sharply against the EUR and CAD, the drop is yet to occur against the Asian currencies (JPY, CNY, HKD).

The USD still tends toward weakness, especially against the European currencies and the commodity related currencies CAD, AUD and ZAR. Since the fundamental factors, especially the high current account deficit, have not yet improved, after a short term consolidation phase a further weakening of the USD must be expected. This will then impact more the Asian currencies that have so far remained practically stable against the USD thanks to massive support purchases by the Japanese and Chinese central banks. This also means that the strong pressure that the exchange rate shifts are currently exerting on the European export industry with regard to exports to Asia will be let off somewhat.

In Europe, the CHF and GBP have weakened somewhat compared to the EUR. The EUR/CHF rate is now in the upper part of the price range of 1.45 to 1.60, which has existed for many years; purchasing power parity is shifting slowly due to the continued difference of 1 to 2% between Switzerland's and Euroland's inflation rates, and a stronger CHF can therefore be expected in the longer term. Of the remaining European currencies, we expect largely stable exchange rates against the EUR for the Swedish, Danish and Norwegian kroner, while the Eastern European currencies will remain very volatile. It will take many years until they can join the EUR.

STOCK MARKETS

After their continued rise, the stock markets are somewhat overbought and priced rather high according to 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. Reasons for this are not just the fundamental valuation, but also the mood of market participants, who are increasingly giving up their previous reservations and caution toward investments in stocks, are again showing greater readiness to take risks, and are making the market appear somewhat overbought. Many blue chips, for example, are candidates for a certain downward price correction.

On the other hand, selected sectors and individual securities that are still valued fairly or even inexpensively, especially in Europe, will at least hold their own. And so the «dividend stocks», that is, stocks with good, secured yields, will remain attractive, also as an alternative to bonds. The energy sector, too, in particular natural gas and oil, from exploration and services («upstream») through production to distribution («downstream»), still seems promising to us.

We likewise judge Japan and other selected Asian markets attractive.

Dr. Max Rössler

INVESTMENT POLICY
1st TRIMESTER 2004

	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.49	1,01	0,65	1,00	109
GDP Growth					
actual	-0,7%	0,3%	2,0%	3,5%	1,9%
6 months	↗	↗	↗	→	↗
3 years	→	→	→	→	↗
Inflation					
actual	0,5%	2,0%	2,5%	2,0%	0,0%
6 months	→	→	→	↗	↗
3 years	2,0%	2,5%	3,0%	4,0%	1,0%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1,27	0,54	1,25	1,53	0,91
Dividend yield	1,5	2,1	3,6	1,6	1,0
Price/Book	2,3	1,6	2,1	3,0	1,7
Price/Earnings actual	39	52	57	27	114
Price/Earnings estimate	19	22	20	20	33

	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,2%	2,1%	4,0%	1,1%	0,1%
6 months	→	→	→	→	→
Swap Rates (10 years)					
actual	2,9%	4,4%	5,0%	4,6%	1,3%
6 months	→	→	→	↗	→
3 years	↗	↗	↗	↑	↗
Currencies					
actual		1,55	2,20	1,26	1,17
6 months		→	→	↘	→
3 years		↘	↘	↓	→
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	3.900	3.890	4.400	1.100	1000
6 months	→	→	→	↘	↗
3 years	→	→	→	→	↗
Real Estate Market	→	→	↘	↘	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: 19 December 2003

STOCK RECOMMENDATIONS
JANUARY 2004

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

INVESTMENT STRATEGY
1st TRIMESTER 2004

RETIREMENT
Currencies
- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-10% various (NOK, SEK, AUD, CAD)

Categories
- Duration CHF bonds 3 years
- Duration EUR bonds 3-4 years
- Up to 5% real estate stocks
- 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.

HARVESTING / LPP ABSOLUTE
Currencies
- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-5% various (NOK, SEK, AUD, CAD)
- Approx. 5-10% gold and silver forwards against USD

Categories
- CHF corporate bonds
- EUR, NOK and SEK bonds with duration of 3-4 years
- 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 fund or structured products (e.g. Airbag)
- 10-20% alternative investments
- 5-10% real estate stocks CH
- Up to 5% private equity

SPORT
Currencies
- Short USD/EUR (carry profit)
- Short USD/JPY
- Short USD/HKD (carry costs nothing)
- Gold/silver/palladium forwards against USD

Categories
- JGB and U.S. Treasury short positions
- Buy & hold portfolio
  - Long on energy stocks
  - Long on second-line stocks, Europe
  - Long on Topix/Nikkei
- Buy & sell portfolio
  - Sideways strategy using futures, ETFs (exchange traded funds), increase beta stocks or structured products
- Short strategy on the S&P 500
- 30-50% alternative investments
- Up to 10% private equity

TEAMWORK
WE WISH A HAPPY NEW YEAR!

In the past few years, we were able to build up a team with very different competencies and know-how. You made that possible by telling us your needs and expectations, and also your ideas. Armed with that, we were able to continuously develop our services. We all thank you very much for that.

Today we are pleased to enter the New Year with a broad and strong team. The environment places high demands on successful asset management.

The fact that around half of our team has direct client responsibility shows how important direct contact with you is to us. To tell you more on paper and in the internet about the people of our team, we have updated both our brochure and our internet appearance (www.reichmuthco.ch). We are happy to send you our new brochure and hope that you like it. As always, we are grateful for your remarks and suggestions for improvement.

We look forward to working with you in 2004 as well.

SKILL-BASED ASSET MANAGEMENT
AN APPROACH FOR THE FUTURE

Modern portfolio theory has marched triumphantly in the last decades. It has culminated in passive investing, and index products, such as ETFs (exchange traded funds) or index certificates, have gained popularity. The goal of passive investing is to be invested like the market (e.g. SMI index) as exactly as possible. Due to the end of the 20-year period of falling interest rates, it is probable that the passive investing approach will also achieve poor results over the next years. In contrast, we practice the future-oriented approach of «skill-based» asset management.

Value Added		Implementation at Reichmuth & Co
Non Investment Alpha	Client service	■ Personal identification, continuity ■ Innovation and independence ■ Consolidation of all assets ■ Integral and complete service
Investment Alpha	Asset allocation	■ Portfolio of the future ■ Independent investment policy ■ Focus on absolute performance ■ Solide fundamental analysis
	Selection	■ Buy & hold stock portfolio ■ Value oriented investment style ■ Broad universe (e.g. small stocks)
	Portfolio management	■ Buy & sell stock portfolio ■ Individual and market oriented implementation ■ Selection and weighting of stock positions ■ Profiting also from sinking market trends

What is alpha?
A portfolio's performance can be divided into two parts: alpha and beta. Beta means the performance that is generated by the market itself. Alpha is the profit, not generated by the market itself, that a skilled investment manager adds to a portfolio. It is not hard to see that the supporters of the passive and relative approaches deny the existence of alpha or at least assume they cannot find managers with alpha skills. Until now, most banks and advisors have only offered the service of «access to the market» – that is, beta through passive investing. It is easy to understand that, in the Internet age with direct access to the market, this hardly provides added value – there is no longer any.

Where can added value (alpha) be generated?
To answer this question, we differentiate between two classes of alpha:

1. NON-INVESTMENT ALPHA
We designate above-average service as non-investment alpha. This includes service quality and relationship maintenance.

2. INVESTMENT ALPHA

- Asset allocation
  Asset allocation (asset distribution among the various investment categories) can be responsible for 80-90% of long-term performance. This decision is therefore of immense importance. The market cannot and must not be considered an exogeneous variable!

- Selection
  Selection alpha is how we designate the selection of securities and industries that do better than the market. Selection can account for around 10% of long-term performance.

- Portfolio management
  In an environment like today's without clear trends, this is becoming more and more important. We distinguish between three groups:
  – Timing: entry into and exit from markets and categories
  – Weighting: size of the positions
  – Long/ short: short sales are also permitted

Where do we generate alpha?
«Identification with the client» has long characterized our strategy as a private bank. As important as the recognition and understanding of customer requirements is the understanding of financial markets.

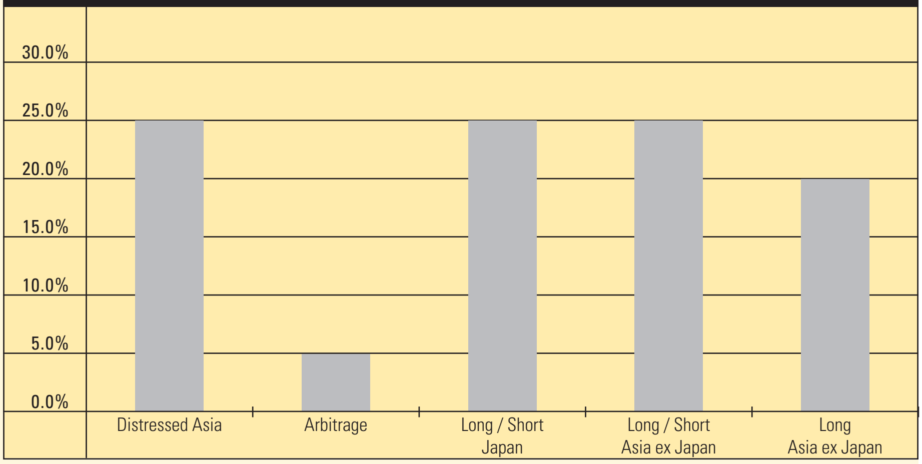
For that reason, we are concentrating on these two most important potential sources of alpha: 1. service to the client (non-investment alpha) and 2. asset allocation. Because of our hypothesis that this is the decade of risk management, due to the structural break in the financial markets, we are also placing increased weight on portfolio management.

Sergio Hartweger CFA

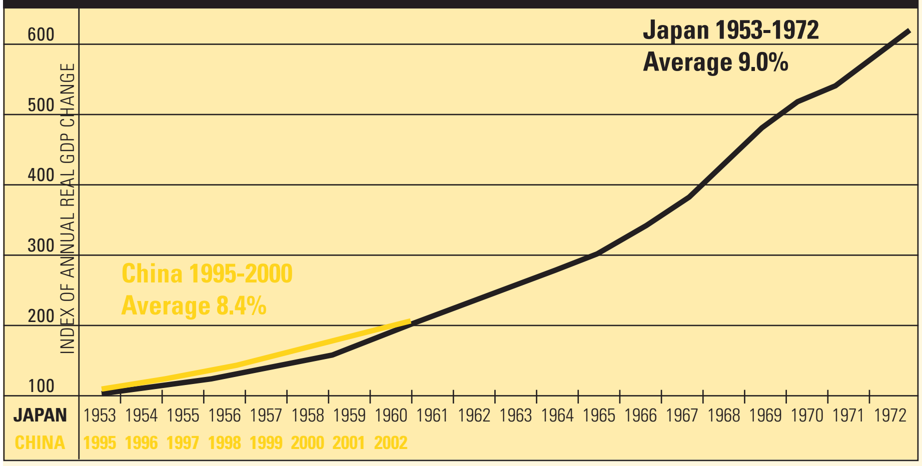
REICHMUTH HIMALAYA
OUR MULTIMANAGER PROGRAM FOR ASIA

Asia is an investment theme with a future. Its potential appears enormous in view of the huge population numbers and still relatively low prosperity. China's political opening and its hunger for more prosperity are resulting in reports about new records over and over again. The comparison with Japan in the last century holds out the prospect of a similarly positive development for Asia.

BALANCED ALLOCATION



CHINA FOLLOWS JAPAN'S GROWTH PATTERN



Asia is an emerging market!

But despite all the enthusiasm, it must not be forgotten that Asia is still an emerging market from the investment viewpoint. High fluctuations and hardly liberalized, inefficient financial markets are typical of such emerging markets. Prices in the emerging markets are also strongly liquidity-driven. Financial investments in Asia are therefore subject to relatively large risks. To meet these risks, we are taking advantage of our expertise in selecting money managers, which we have built up over many years at Reichmuth Matterhorn.

Reichmuth Himalaya – very promising

Reichmuth Himalaya is a diversified portfolio of funds and hedge funds with an investment focus on Asia. We are trying to achieve an above-average return in Asia through a combination of various investment styles and strategies. The 5-year-average target return is 10-15% per year. Through the combination of specialists in various regions and investment strategies, the fluctuation of Reichmuth Himalaya should lie below the normal market volatility.

Five percent position in two steps

Because of the stock-like fluctuation, we recommend a weighting of approximately 5%, which is built up in two steps. This allows achieving an attractive average purchase price. We look forward to answering your questions.

REICHMUTH HIMALAYA – A FUND OF FUNDS FOR ASIA

Investment universe:	funds and hedge funds with focus on Asia
Target return:	10-15% on a 5 – years average
Currencies:	USD / CHF / EUR
Subscription/Redemption:	monthly (period of notice 90 days)
Management fee:	1.0% p.a.
Performance fee:	none
Fund management:	Reichmuth & Co Investmentfonds Ltd, Lucerne
Custodian bank:	Reichmuth & Co, Lucerne
Security no.:	USD 1'740'346 / CHF 1'740'350 / EUR 1'740'357
Internet:	www.reichmuthco.ch

Irene Heer