PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

CH-6000 LUCERNE 7 RUETLIGASSE 1 PHONE +41 41 249 49 29 WWW.REICHMUTHCO.CH MAY 2004

EDITORIAL

2003 was an excellent year for the stock market and many investors were able to compensate for their losses from previous years. However, most investors' portfolios are still worth considerably less than around 5 years ago. Fixed income securities and alternative investments achieved very good results in these challenging times.

As we always try to apply a forward-looking investment approach, we moved from the defensive position of previous years to an opportunistic investment style by last spring. After the pronounced correction of the over-valuation at the end of the nineties, it was clear that markets were going to remain generally expensive and that only an opportunistic investment style would provide added value for our customers.

This Check-Up explains what we mean by this and how we put this investment approach to work.

Christof Reichmuth

OPPORTUNITY THINKER

INVESTING OPPORTUNISTICALLY

Every homeowner knows the effect of the capitalization factor. His house gains in value when interest rates are low, and viceversa. This mechanism applies to all assets. Interest rates are always used as means to compare the valuation of an investment. In the case of bonds, the capitalization factor is known as the rate of interest, whereas for stocks it is the price/earnings ratio. Hence, the valuation of assets can change markedly according to the discount factor that is applied.

Interest rates determine asset values
Today, everyone realizes that world-wide interest rates have reached their lowest levels. As a consequence, assets are largely expensive. Could this environment be the starting point for a long-lasting market rally? We doubt it. This is why we developed the concept of our «Portfolio of the Future» about one year ago.

Portfolio of the Future - a modular concept
We have defined new components for our portfolio design so that our clients can profit from the opportunities available, according to their individual needs. This is a natural development of our traditional future-oriented investment style. Of course, conventional investment categories, such as bonds or stocks («buy & hold») still form a core part of a portfolio. However, for more than the last six years, alternative investments have also formed an important part of our investment strategy. Last year we added a new category in our portfolio modules: the so called «buy & sell stocks». This is a part of the portfolio that attempts to exploit investment opportunities as they arise. Equally, since the start of 2003, we have reacted to the policy followed by the central banks of weakening currencies for the purpose of kick-starting exports. Consequently, within our precious metals module we recommend the use of precious metal forwards as means of foreign exchange diversification. In the following section, we explain these newer portfolio components in more detail, and describe a concrete example using Japanese small cap stocks on page 8.

Security versus opportunity
There is a clear conflict of interest between return, liquidity and security. However, not everything that is liquid is secure, and not everything that is inse-

continued on next page

CONTENT

3 Market Outlook
4 Investment Policy
5 Stock Recommendations
6 Investment Strategy
6 Reichmuth Matterhorn
7 Performance is not equal to Performance
8 Opportunity: Japanese Small Caps

PORTFOLIO OF THE FUTURE - A MODULAR CONCEPT

%	ASSET CLASS	HOW	EXP. RETURN
10%	Precious Metals	Forwards (collateralized with short-term bonds)	8-10%
10%	Real Estate	Mobimo	5-8%
25%	Alternative Investments	Reichmuth Matterhorn or third party instruments Reichmuth Himalaja (Fund of Hedge Fund with focus on Asia)	8-10% 10-15%
15%	Buy & Sell Stocks (invested or Cash)	Topix and Topix Small Cap Airbag SPX Bear Note Turn-around stocks, ETF, Futures	10-15%
20%	Buy & Hold Stocks	Value stocks / dividend stocks Small and mid caps Energy / Food / Health	5-7%
20%	Bonds	EUR bonds 3-4 years CHF corporate bonds NOK / SEK bonds	3-4%
		Expected portfolio return	**6-9%**

cure provides better returns. Therefore, within our modular concept, we use a simplified pattern that differentiates between «security and opportunity». As a consequence, we have to decide which portion of every clients' portfolio provides security, and which part should be used to exploit opportunities. Most people see high security equal to constant liquidity and minimal exposure to risk. Yet unfortunately, the returns on this type of asset are practically zero. Taking into account costs for banking, taxation and inflation, the returns can even be negative.

Since our investment attitude is basically conservative, we recommend a fairly wide portfolio diversification and a systematic use of opportunities that offer attractive risk/return profiles. Currently, such opportunities can be found in energy shares (oil and utilities), Japanese small cap stocks, Reichmuth Himalaja (fund of hedge fund with focus Asia) and Gold.

Buy & Hold Stocks

A large portion of the shares that we intend to hold in the portfolio for the long term consist of stocks in the energy sector (oil and utilities). In addition, we like value stocks in the areas of food and health, though these are somewhat harder to find. Furthermore, we also invest in small and mid capitalization stocks with still attractive valuations, despite the fact that most of these have meanwhile regained a portion of their enormous under-valuation of the previous years.

Buy & Sell Stocks

This is the section of the portfolio that is intended for opportunistic action. In this module we are constantly on the lookout for new ideas with attractive risk/return profiles for our clients. In order to make use of such opportunities, we often create structured instruments that offer partial capital protection. Currently, our fairly large investments in Japan (see also small caps, cf. page 8) fall into this category. At the same time, similar to the years 2000 and 2002, we also have a new instrument in our pipeline - a note that will allow to profit from falling US markets.

Alternative investments

In this area, we primarily invest in hedge funds. They provide the option of reacting flexibly and with few restrictions to the markets. Thanks to our well diversified and rather conservative instrument, Reichmuth Matterhorn, we have a well-proven instrument at our disposal with a track-record of over 6 years (cf. page 6). It allowed us to achieve a performance of approximately 8.7% per annum during the recent difficult years, with a volatility of only 3.5%. We exploited this lengthy experience in the assessment and selection of money managers to construct an instrument focussed on Asia - Reichmuth Himalaja. While we expect volatility for this instrument to be higher than for Reichmuth Matterhorn, expected earnings will also turn out to be correspondingly higher.

Precious Metals

The opportunities for precious metals lie in the fact that they are traded in USD. Due to world-wide reflation, a large amount of new money is created. However, in contrast to paper money, precious metals cannot be produced without restrictions. Therefore, we see precious metals as a good opportunity to profit from a further weakening of the USD, as well as from an increase in inflation in the future. Our investment recommendation foresees the use of precious metals forward transactions.

Diversified to Success

With our Portfolio of the Future, we aim to obtain above-average returns for our clients, even in the current environment. The weighting of individual modules must always be determined individually, according to each clients' needs. Hence, we look forward to further interesting discussions with you.

Your Reichmuth Team

MARKET OUTLOOK

2nd TRIMESTER 2004

INTEREST RATES

Money market rates and bond yields remain low

While the upturn in the economy remains moderate, dissatisfactory in some aspects, especially in terms of the demand for labour, it is still progressing. Following the strong increase in the USA, growth rates are now higher in Europe, too. Japan has emerged from the years of stagnation, and is reporting surprisingly high real-terms growth at the moment. Drivers of this growth remain China and other Asian countries. Their contribution to the world economy as a whole, although still modest, is increasing rapidly. Dangers for continued sustainable favourable economic development are still posed by the unchanged high disequilibrium in the trade balance and in the budget deficit.

As inflation rates remain close to zero, and there is hardly any inflationary pressure on the horizon, most central banks are holding on to their expansive monetary policy, especially considering the current levels of excess capacity on the labour markets and the intensive competition on the liberalized markets. Therefore, money market rates will remain at very low levels at least into the second half of the year. In the USA, political motivations (Bush's re-election) mean that the Fed is keeping the Fed Funds rate at 1%. However, the steep USD interest curve demonstrates that the market expects a rate hike after the elections. Nevertheless, in the long term, too, we expect only a gradual rise in interest rates, which will be most notable in the USD.

On the bond markets, yields will remain low for some time, and will only rise slowly. Credit spreads – the yield mark up depending on the issuers' credit rating – have risen slightly recently, but remain at relatively low historical levels. Medium-term bonds denominated in EUR, which currently yield slightly below 4%, continue to be an acceptable investment.

CURRENCIES

The USD has stabilized at a lower level. In the long run, it is anticipated that it will weaken further, especially against Asian currencies.

In the intermediate future, the USD will tend to move sideways following the heavy recent drop, or could even make up some lost ground in the short term. However, as the fundamentals have not yet improved, especially considering the high deficit in the trade balance, it should be anticipated that the USD will continue to weaken in the long run. This will have an effect on Asian currencies (JPY, CNY, HKD, etc.), which have until now remained relatively stable against USD due to massive intervention by the Japanese and Chinese central banks.

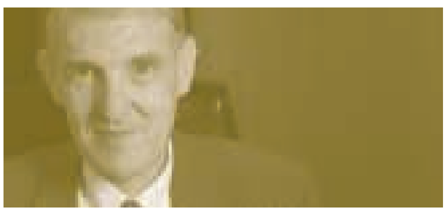
In Europe, EUR/CHF has stabilized around 1.56 following a recent rise, and should remain at this level over the coming months. However, due to the continuing differences in inflation between Switzerland and the eurozone, of between 1% and 2%, the exchange rate will probably return to 1.50 or even lower in the longer term. Great Britain is not experiencing the same conditions as the rest of Europe. The economy across the channel is in significantly better health, and interest rates are considerably higher and are rising. This has strengthened the pound recently. In the medium term, we expect the GBP to once again weaken against the EUR. The Scandinavian currencies remain stable against the EUR.

STOCK MARKETS

The stock markets have undergone a slight correction following a strong rise, and will continue at current levels in the intermediate future.

As we expected, the stock markets have already corrected the rise that they initially continued at the start of the year. Today, they are recording levels that are largely similar to those seen at the beginning of the year. An exception is in Japan. Here, the upwards trend continues, and especially banks and smaller companies have increased in value by over 20%.

According to fundamentals, the markets are fairly valued on average, although American markets are valued rather high. Selected sectors and individual shares remain attractive. We favour energy shares (oil, gas and electricity) as well as shares offering secured dividend yields above bond yields. In Japan, small caps have further upward momentum, as profit margins are currently still low, yet - in contrast to those in the West - have a lot of room for growth.



Dr. Max Rössler

INVESTMENT POLICY

2nd TRIMESTER 2004

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.49	1,01	0,65	1,00	109
GDP Growth					
actual	0,0%	0,3%	2,7%	4,1%	3,4%
6 months	↗	↗	↗	→	↗
3 years	→	→	→	→	→
Inflation					
actual	-0,1%	1,6%	2,5%	1,7%	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	1,3	0,6	1,3	1,6	1,1
Dividend yield	1,2	2,2	3,6	1,6	0,8
Price/Book	2,5	1,6	2,1	3,0	2,0
Price/Earnings actual	20	39	39	22	132
Price/Earnings estimate	17	16	20	18	44

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,3%	2,1%	4,4%	1,2%	0,1%
6 months	→	→	→	→	→
Swap Rates (10 years)					
actual	2,9%	4,3%	5,3%	4,8%	1,5%
6 months	→	→	→	↗	→
3 years	→	→	→	↗	↗
Currencies					
actual		1,56	2,33	1,31	1,20
6 months		→	→	↘	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	4.250	4.030	4.550	1.120	1.210
6 months	→	→	→	↘	↗
3 years	→	→	→	→	↗
Real Estate Market	→	→	↘	↘	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: 22 April 2004

STOCK RECOMMENDATIONS

MAY 2004

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**	DSM Akzo Nobel Air Liquide	Lonza Ciba	Clariant	
	Basic Resources	Anglo American			
CYCLICAL CONSUMER	**Automobiles**	VW VZ Daimler Chrysler	Peugeot		
	Retail		BIC	Inditex	
	Media		Publigroupe		
NON- CYCLICAL CONS.	**Food**	Nestlé	Südzucker Geest Bell		
	Various	BAT	Emmi (CB)		Kali+Salz
ENERGY	**Energy**	Total Royal Dutch / Shell	ENI OMV	Gazprom	Transocean
	Utilities	E.ON RWE VZ Iberdrola	CKW Fortum	Endesa	
FINANCIALS	**Banks**	HSBC ING ABN Amro	SGKB Almanij Zuger KB	Commerzbank	
	Insurances	Swiss Re Zurich Fin. Allianz	Baloise Endurance Converium	Hannover Rück	
	Financial Serv				
HEALTH	**Pharmaceuticals**	Novartis Roche GS Wyeth	Schering Bayer	Schwarz Pharma Schering-Plough	
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim	Hunter Douglas Pilkington		
	Machinery		Rieter		
TECHNOLOGY	**Hardware**	Philips Samsung VZ Hewlett-Packard	BB Medtech		
	Software				
TELECOM	**Telecom**	Swisscom Telecom Italia BT Group	TDC PTC		
	Equipment	Motorola		Alcatel	
CERTIFICATES	**Index**	SPX Bear Note Nikkei / Topix Topix Small Cap	MDAX	Korea Ishares Taiwan Ishares	
	Style		Pilatus	Bottom Fishing	

INVESTMENT STRATEGY

2nd 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 with yields >2.75% and duration of 3 years
- EUR, NOK and SEK bonds with yields of 3-4% and duration of 3-4 years
- Buy & hold stock portfolio
  - Value stocks and dividend stocks
  - Energy, food, health
  - Small and mid cap stocks
- Buy & sell stock portfolio
  - Structured products on Japanese stocks (incl. small and mid caps) or S&P Bear note
  - Sideways strategy using ETF's (Exchange Traded Funds) or turn-around stocks (Reichmuth Bottom Fishing)
- 10-25% alternative investments
- 5-10% real estate stocks CH
- Up to 5% private equity

SPORT

Currencies

- Short USD/JPY
- Short USD/HKD (carry costs nothing)
- Short USD/Gold and silver

Categories

- JGB and U.S. Treasury short positions
- Buy & hold stock portfolio
  - Long energy stocks
  - Long small and mid cap stocks, Europe
- Buy & sell stock portfolio
  - Structured products on Japanese stocks (incl. small and mid caps)
  - Sideways strategy using ETF's (Exchange Traded Funds) or turn-around stocks (Reichmuth Bottom Fishing)
  - Short strategy on the S&P 500
- 30-50% alternative investments
- Up to 10% private equity

REICHMUTH MATTERHORN

STRONG RETURNS FOR OVER 6 YEARS

The excerpt below from the renowned «Finanz und Wirtschaft» obviously pleased us greatly. However, more important for us is the fact that we have reached the targets we set, and accomplished this during extremely difficult financial markets.

REICHMUTH IN TOP POSITION

Rank	Product (in USD)	Sharpe Ratio Feb 2002 – Jan 2004
1	Reichmuth Matterhorn	2,77
2	Castle Alternative Invest	2,74
3	Creinvest	2,50
4	Altin	2,44
5	AIG Diversified Strategies Fund -A-	2,39
6	Swissca Diversified	1,91
7	GL Galileo Emerging	1,70
8	Star MM-Circle Asia Pacific Fund	1,66
8	Leu Prima Global Fund	1,66
10	GL Galileo Pacific	1,64

Source: Finanz und Wirtschaft Nr.25 / 2004

Our aim remains to achieve a return between 8 to 10% per annum, with low levels of volatility. In very basic terms, we attempt to obtain stock-like returns with bond-like volatility. Since 1998, our clients have been able to earn around 70% in total with this instrument. By contrast, the Swiss stock market is still around 10% lower than in 1998!

For private individuals in Switzerland, the profits from Reichmuth Matterhorn are qualified as capital gains, and are thus tax-free. In order for our German clients to also enjoy a tax-optimized investment, we issued an index certificate based on Reichmuth Matterhorn in co-operation with the private bank Hauck & Aufhäuser, Frankfurt. Do you wish to learn more about Reichmuth Matterhorn? I am available to answer your questions at any time.

Patrick Erne

PERFORMANCE IS NOT EQUAL TO PERFORMANCE

MONEY-WEIGHTED OR TIME-WEIGHTED PERFORMANCE

Again and again we come across misunderstandings in the interpretation of performance figures. Marcel Wickart explains:

Marcel Wickart, what does performance actually mean?
Performance is a figure, expressed as a percentage, that measures the success of a portfolio. The success is composed of three major factors: First, income - i.e. interest and dividends - second, price gains or losses of the securities, and third, profit or loss on foreign exchange.

Are there different methods for measuring performance?
There are two main methods of measuring performance: first, the money-weighted rate of return - MWR – and, second, the time-weighted rate of return - TWR. The only distinction between the two is in how they handle money flows.

EXPLAINED IN SHORT:

TWR: Performance measure independent of money flows. Individual performance for individual periods (p_1, p_2, … , p_n) are multiplied geometrically with one another.

TWR = $(1+p_1) \times (1+p_2) \times \dots \times (1+p_n) - 1$

MWR: Performance measure dependent of money flows. Absolute performance is put into relation to the average invested capital.

MWR = (absolute Performance / average invested capital) [1)]

1) simplified calculation method

What does that mean in actual terms?
It is best explained using a simple example. Let us assume that you invest CHF 100. In the first period, your investment is doubled. You now have CHF 200, or a performance of 100%. Now you invest a further CHF 800. Your portfolio is now worth CHF 1'000. In the second period, the portfolio loses 50%. Your portfolio value is now CHF 500. By applying the TWR method, your performance over the two periods is 0% - first a gain of 100%, then a loss of 50%. According to the MWR method, however, performance is a loss of 80%. The reason for this is as follows: by applying the MWR method, performance is not calculated independently from the invested money but much more as a function of such amount. After all, you invested CHF 900 and still have CHF 500. That results in a loss of CHF 400 on the average invested capital of CHF 500, i.e. a loss of 80%.

Those are large differences. Which method is correct?
Admittedly, the above example is an extreme case, but it clearly illustrates the effect. Both methods are essentially correct, but they answer two different questions. For example, if you wish to make a comparison against an index or another asset manager, then TWR is the correct method. After all, the asset managers can usually not determine the money flows themselves. However, if you as a private client wish to know how much money you have earned, then MWR is the correct method. So primarily, you have to ask the question, «what do I want to know?»

EXAMPLE

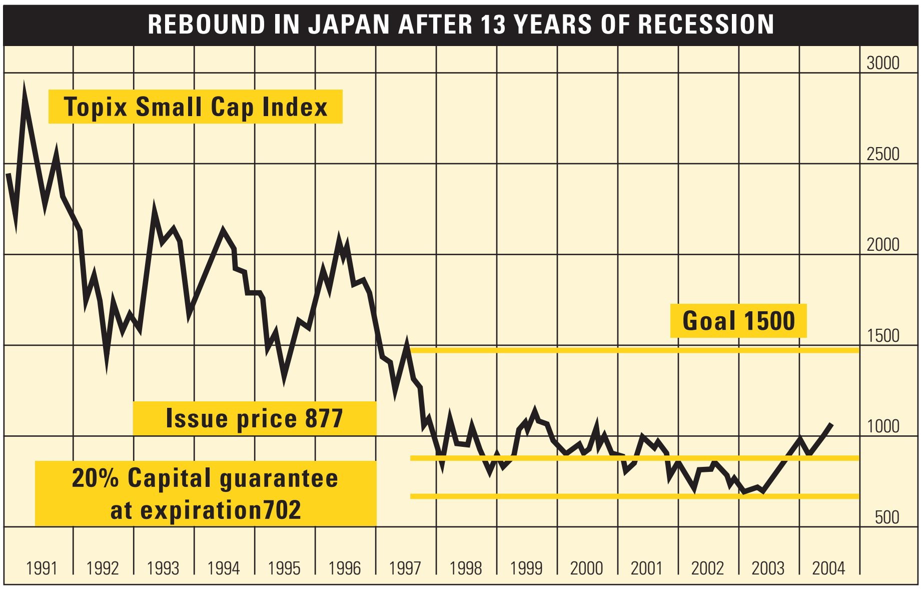
Starting investment period 1	100
Value after period 1	200
Additional investment after P1	800
Starting investment period 2	1000
Value after period 2	500
Performance period 1	+ 100 %
Performance period 2	- 50 %
Average invested capital	500
Absolute growth in value	- 400
Total performance TWR	**0%**
(1+1) x (1-0.5)-1 = 0	
Total performance MWR	**- 80%**
(-400/500) = -0.80	

What method do the Swiss Performance Presentation Standards (SPPS) prescribe, and what method do you use at Reichmuth & Co?
Among others, the aim of the SPPS is to improve comparability of performance figures. For this purpose, the TWR method should be used. If there is no flow of money in the assessment period, both values will agree. In general, however, it can be said that private customers understand the MWR better, and prefer this, while pension funds prefer the TWR as they normally invest more in line with a specified index. Since we have both types of customers, we always calculate both values.

Marcel Wickart

OPPORTUNITY: JAPANESE SMALL CAPS

INVESTING WITH STRUCTURED INSTRUMENTS



As an example of an idea in our buy & sell portfolio - the opportunistic portion of the portfolio - we would like to describe our «Topix Small Cap Airbag» concept.

It all starts with an idea…

The most important stage in any investment is a well-founded and researched idea. Once that is in place, we can make a decision about how to realize it. There are four good reasons for investing in Japanese small caps.

1. End of restructuring

Around 13 years following the high point of Japanese euphoria, the global economy seems once again to have acquired a solid basis. Hence, the foundation for healthy growth has been laid.

2. Valuation

Analysis of the average valuation indicators shows an attractive picture. The price/book value ratio is 1.1, while the price/sales ratio is at a record low of 0.4. Only the price/earnings ratio is still above 25 due to the still low net margins. At 1.1%, dividend yields are attractive for Japan, where interest rates are at approximately 0%.

3. Exports

Similar to Europe, Japan exports high-value goods to the booming Asian region. However, in contrast to Europe, Japan has advantages in geographic proximity and currency. JPY has been much less heavily revalued than EUR, giving Japanese firms a competitive advantage.

4. Expansive central bank

The increasingly more consistent interventions of the Japanese central bank have supported the JPY/USD exchange rate, permitting the money supply to grow quickly. This supports share prices in general terms.

… and then the idea is implemented in a structure

Such macroeconomic ideas can be implemented in either a passive or active way. As we do not possess the expertise for «stock picking» in Japan, and we would like to incorporate a certain level of capital protection for our clients, we decided to develop a structure on the basis of the Topix Small Cap Index. This will protect us down to the all-time low levels that were reached at the start of 2003, while also allowing us to profit handsomely from a rising market. This structure is known in the industry by the term «airbag».

What is an airbag?

An airbag is a structured security that combines an underlying with an option strategy. In the case of the Topix Small Cap Airbag, one purchases the index of the underlying market - containing around 1'100 shares - and combines this with options that permit a specific profit and loss profile by the time of expiration of the options contract. This instrument protects us fully from losses amounting to 20%. Hence the name «airbag».

Is my capital guaranteed?

Yes, by the time of expiration, capital is guaranteed down to the airbag level. If the market falls below that point, investors will also suffer a loss. Yet such a loss will generally be lower than in the underlying market itself.

What defines the price development of the airbag?

The so-called «delta» is decisive in understanding the price change. The delta describes by how much the price of the instrument moves when the underlying index moves.

Our expectations for Topix Small Cap: 1'500 points

When starting in December 2003, we anticipated a target value for the Topix Small Cap index of around 1'500 points. This was then around 80% higher than the current value at that time. As we assumed that markets would gain momentum relatively quickly, we structured an instrument with a high delta. Today, the index is around 1'200 points - i.e. approximately 35% above the value of December 2003. We still expect to gain a further 25% for our clients and, hence, are sticking to our strategy.

Othmar Som