PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

The year 2004 has given us a taste of what we can expect for the next few years. For many, 2004 threatens to be a «zero year». Investors are losing just as much on falling bond prices, due to higher interest rates, as they are making on the coupons. Stocks are oscillating around the zero point, and even alternative investments are having trouble achieving their targeted results.

In times of upheaval, a healthy sense of reality is a good recipe for success. And even more important in times of major change is closeness to the customer. In this way, by knowing the customer's individual environment and personal goals, one can take advantage of the opportunities offered. Thanks to our «integral investment management» approach, we can achieve our customers' goals even in lean years, because these are integrally adjusted to our market opinion.

Karl Reichmuth
Partner with unlimited liability

FINANCIAL MARKETS ON A DIET

CONSEQUENCES OF AN ENVIRONMENT OF LOW RETURNS

Large errors in valuation are passé

For value-oriented investors, avoiding the worst mistakes and taking advantage of undervaluations have paid off in the last few years. Stock valuations at the start of 2000 were euphorically unrealistic. The same can be said for the overvaluation of the USD two years ago. Last year, the prices of second-line stocks and the DAX, in particular, were based on expectations that were much too gloomy. Today, such blatant valuation errors are very hard to find. Investors often have short memories. A single good year for stocks, such as 2003, and the losses of the poor investment years 2000-2002 are forgotten, even though Swiss stocks today are still about 35% below their 1998 level, German stocks around 50% below the 2000 level, and the US stock index around 30% below its high.

From the income-based to the wealth-based economy

The change in the business environment in the last decade is also remarkable. Whereas financial markets used to be dependent on the real economy, today the opposite seems to hold. Today, capital, as a factor of production, can carve out a much bigger piece of the profit pie than can the factors, such as land or labour. Wages are stagnating, but the multi-year bull market prior to 2000 helped many people to increase their financial assets. Households felt richer. Then rising real estate prices took over this function in the last few years, at least in the Anglo-American countries. Households were able to take out ever larger mortgages at ever lower interest rates. That helped consumption growth. Unfortunately, with stagnating wages, consumption growth increasingly depends on rising wealth. But is that a sustainable concept? Now that interest rates have passed their low point and the above-average growth in wealth its high point, there need to be signs that wages will rise in order to drive consumption growth forward.

Will rising wages take over?

Around 70% of economic activity in the western world is determined by consumption and consumption growth. Consumption grows when private households have higher incomes, when their asset values rise and they can borrow on these higher values, or they draw down their savings. Asset values,

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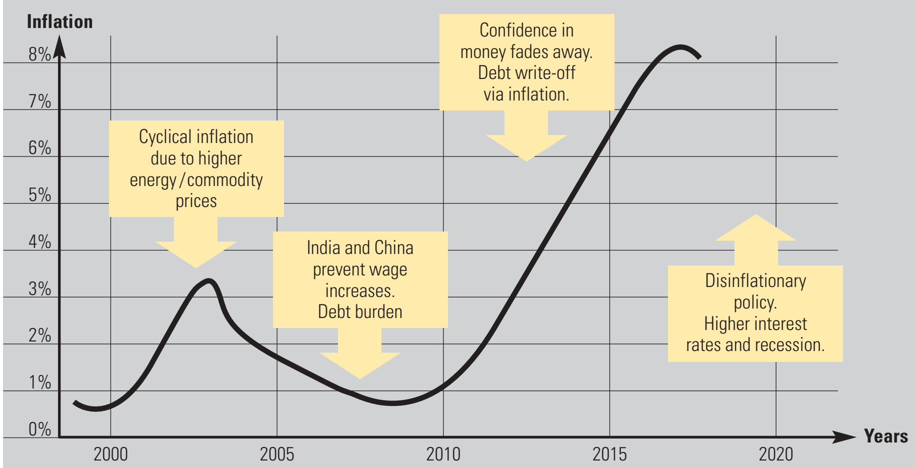
THESIS: INFLATION IS CYCLICAL – FOR THE TIME BEING!



including real estate, are already valued very high, especially in the USA, and savings rates are at a record low. To keep consumption growth going, wages would have to rise. But that appears unlikely, at least as long as globalization retains the upper hand. The latest economic data from Germany show that wages in Europe are tending to fall rather than rise. In real terms, people have less money in their wallets that they can freely dispose of. Hence, we do not see an inflation spiral arising at the moment. That would require the once typical protectionist and automatic inflation equalisation measures.

Valuation level with little potential

For more than a year, our expected return for a simple «buy + hold» stock portfolio has been around 4-6% per year, yet with large fluctuations. Last year it was more, this year less, but on average it should come out around that level. The reason for this lies in the high valuation of the US markets and the shift in the interest rate trend. The long period of falling interest rates is at an end. The financial markets are adjusting to a new interest rate environment. In this environment, the two main factors of stock valuation are affected: earnings developments and the P/E multiplier. An empirical study shows that earnings of listed firms have not risen stronger than the gross domestic product over the last 60 years. That should also hold in the future, especially since profit margins are at record levels at the moment and globalization continues to keep margins under pressure. The price/earnings ratio (P/E) is no longer as high as in the euphoria years, yet still above the long-term average due to low interest rates. But now interest rates are rising, which leaves no room for an increase in the price-earnings ratio. This environment is only positive for the real economy, but not a really positive scenario for financial investments. Since the correlation in financial markets is very high, the lower-valued European equity markets, unfortunately, continue to be influenced by US developments.

Consequences for the future

Investors with a sense of reality do not see a euphoric scenario. Scepticism is needed toward starry-eyed sellers of high-performance strategies. It seems better to recommend adjusting earnings expectations to reality and base asset allocation on a future-oriented fundamental evaluation - as unattractive as this may be at present. Opportunities continue to arise. The days of pure «buy + hold» strategies, which, in the wake of falling interest rates, achieved very good results between 1980 and 2000 – except in Japan – are over. Our answer to this environment is what we call our «portfolio of the future», in which we have kept the pure «buy + hold» strategies for bonds and stocks at the minimum allocation for a long time. In addition, we select a part of the portfolio to take advantage of opportunities that arise.

Portfolio of the Future

Bonds are not attractive, and with stocks we set a clear focus. Energy, i.e. oil, gas, and electricity, is a sector that we continue to assess as promising. The issue of energy should remain in our heads for the rest of this decade and beyond. Likewise, we are sticking to Japanese second-line stocks in the opportunistic part of our investment strategy. We are maintaining our high allocation of alternative investments, although the environment has become more difficult as well. The latest fashion trend in this area with broad institutionalization of the hedge fund business will result in lower returns. However, thanks to our over seven years of experience and our well established network, we see achievable returns of around 6-10% per annum for our Reichmuth Matterhorn instrument in the future as well.

To summarize, an average return of between 4% and 7% is a realistic assumption for conservative investors in the next few years. Of course, this always depends on your individual situation, your personal goals and your risk capacity and tolerance. We would be happy to discuss this with you.

Your Reichmuth team

MARKET OUTLOOK

3rd TRIMESTER 2004

INTEREST RATES

Money market rates are rising, interest rate curves are flattening.

Strongly higher oil prices are increasingly endangering the worldwide economic recovery. In the USA, growth has already slowed down. In Europe, while growth is still rising and slowly approaching the rate in the USA, it is being carried mainly by exports and so is strongly dependent on demand for investment goods in Asia and USA. Asia is still showing the highest growth, despite measures in China to slow down the economy. The imbalances in the current accounts and state budgets remain high and continue to provide a poor foundation for the long-term stable development of the world economy.

The central banks have begun to make their monetary policy somewhat less expansive. The Federal Reserve and the Bank of England, in particular, have taken the first upward steps in interest rates, and the European Central Bank, too, will raise its key interest rates in the next few months. Overall, one can probably expect increasing money market rates, although to a lesser degree than has been expected due to the weaker economic outlook.

Long-term interest rates also rose somewhat with the increase in the key interest rates, but later fell again. Since inflation rates are still very low, and the danger that high raw materials prices could set off an inflationary spiral appears low in view of open markets and high unemployment, we also expect no more than a small increase in the level of long-term interest rates in the foreseeable future.

The flattening of the yield curve on bond markets will continue. This means that short- and medium-term bonds will suffer price declines, while long-term bonds will be able to almost maintain their prices. Therefore, we recommended a «barbell» bond investment strategy, that is, putting the main weight on money market investments and also on long-term bond yields. The credit spreads, that is, the yield sur-charges paid by lower quality issuers, are low. Despite this, AA- and A- corporate bonds appear favourable to us, since the companies are still endeavouring to improve their balance sheets and thus increase the quality of their bonds.

CURRENCIES

Exchange rates have hardly moved. In the longer term, a further weakening of the USD is expected.

While exchange rates between the major currencies, and particularly with the USD, are very volatile in the short run, they have hardly moved on balance. We expect this tendency to continue at first. But since the fundamental factors, especially the USA's high current account deficit, have in no way improved, a further weakening of the USD must be expected in the long run. Most impacted by this will be the Asian currencies (JPY, CNY, HKD, etc.), which have remained relatively stable against the USD thanks to massive support purchases by the Japanese and Chinese central banks.

The Swiss National Bank orients the CHF exchange rate primarily on the EUR, and the rate should remain between 1.50 and 1.55 in the next few months. Yet in the long run, it will tend rather toward 1.50 or even below, due to the continuing difference in inflation between Switzerland and Euroland of 1% to 2%.

STOCK MARKETS

The stock markets are drifting down. In the long run, this will gradually result, in attractive purchase prices for selected blue chips.

Stock markets are drifting down constantly, and the majority are trading below their level at the start of the year, with exceptions such as Japan (slightly higher) or even Austria (around +30%). Investors' moods will hardly improve in today's environment, in which negative influencing factors, such as higher oil prices or generally rising interest rates, prevail. And so continuation of the stagnation trend can be expected. This means that price levels are becoming more inexpensive, according to fundamental valuations, and, especially in Japan and to some extent also in Europe, are not unattractive for long-term oriented purchases. Among the different industries, banks and insurance companies, in particular, appear to be valued low, with price/earnings ratios around 10 and price/book ratios around 1. Yet for the time being, we favor energy stocks (oil, gas, electricity) and, in general, securities with assured dividend returns above the bond return. Since second-line stocks have risen further, in contrast to large-capitalized shares, we recommend a shift in weighting towards large-capitalized shares.

Dr. Max Rössler

INVESTMENT POLICY
3rd TRIMESTER 2004

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.47	1,00	0,64	1,00	107
GDP Growth					
actual	1,6%	1,3%	3,7%	4,8%	5,6%
6 months	↗	↗	↘	↘	↘
3 years	→	→	↘	↘	↘
Inflation					
actual	0,9%	2,4%	2,3%	3,3%	0,0%
6 months	↗	↗	↗	↗	↗
3 years	2,0%	2,5%	3,0%	3,5%	2,0%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1,25	0,52	1,18	1,46	1,02
Dividend yield	1,7	2,1	3,7	1,7	1,0
Price/Book	2,3	1,4	2,1	2,8	1,8
Price/Earnings actual	17	22	22	19	49
Price/Earnings estimate	16	14	18	17	24

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,5%	2,1%	5,0%	1,5%	0,1%
6 months	↗	↗	→	↗	↗
Swap Rates (10 years)					
actual	2,9%	4,3%	5,4%	4,8%	1,7%
6 months	→	→	→	↗	↗
3 years	→	→	→	↗	↗
Currencies					
actual		1,54	2,29	1,27	1,15
6 months		→	→	→	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	4.000	3.780	4.400	1.100	1.110
6 months	→	→	→	↘	↗
3 years	→	→	→	↘	↗
Real Estate Market	→	→	↘	↘	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: August 24, 2004

STOCK RECOMMENDATIONS

SEPTEMBER 2004

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

INVESTMENT STRATEGY
3rd TRIMESTER 2004

RETIREMENT

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-10% various (NOK, SEK, ISK)

Categories

- Bond maturities of 1 and 10 Years («barbell»)
- Up to 5% real estate stocks
- Up to 5% dividend stocks

The recommendations are dependent on market developments and are subject to change without prior 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, ISK)
- Approx. 5-10% gold and silver via forwards against USD

Categories

- CHF corporate bonds with maturities of 1 and 10 years («barbell»)
- EUR, NOK and SEK bonds with maturities of 1 and 10 years («barbell»)
- Buy & hold stock portfolio
  – Value and dividend shares
  – Energy, food, health
  – Reduce weight in second-line stocks
- Buy & sell stock portfolio
  – Structured products on Japanese stocks (incl. second-line stocks), S&P Bear Note or financial airbag
  – Sideways strategy using ETF (exchange traded funds) or turnaround 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 (zero carry costs)
- Short USD/gold and silver

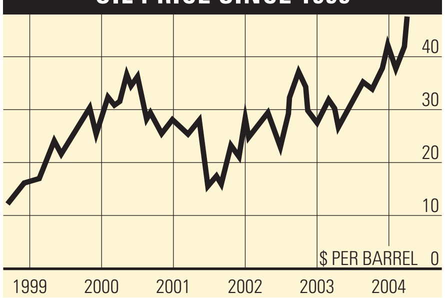
Categories

- JGB short positions
- Buy & hold stock portfolio
  – Long on energy stocks
- Buy & sell stock portfolio
  – Structured products on Japanese second-line stocks
  – Sideways strategy using ETF (exchange traded funds) or turnaround stocks (Reichmuth Bottom Fishing)
  – Short strategy on the S&P 500
- 30-50% alternative investments
- Up to 10% private equity

ENERGY – OIL AND ELECTRICITY
TOPICS FOR THE NEXT 10 YEARS

The focus of our share strategy has, for a long time, been on energy shares – oil and electricity. In the meantime, oil prices have climbed to a new peak of USD 48. This topic dominates the headlines. Is it time to take profits, or do the shares still have upward potential?

OIL PRICE SINCE 1999



Investments necessary!

It is clear that worldwide demand, particularly from China and India, is rising rapidly. However, investments, have been at a very modest level for 20 years. The situation with respect to oil reserves is also unclear. It seems to us that oil prices below USD 20 are unlikely in the foreseeable future. Consequently, investments in projects with high development costs seem worthwhile. Therefore, we expect a marked increase in investment activity, which should, primarily benefit oil-service shares.

Use opportunity

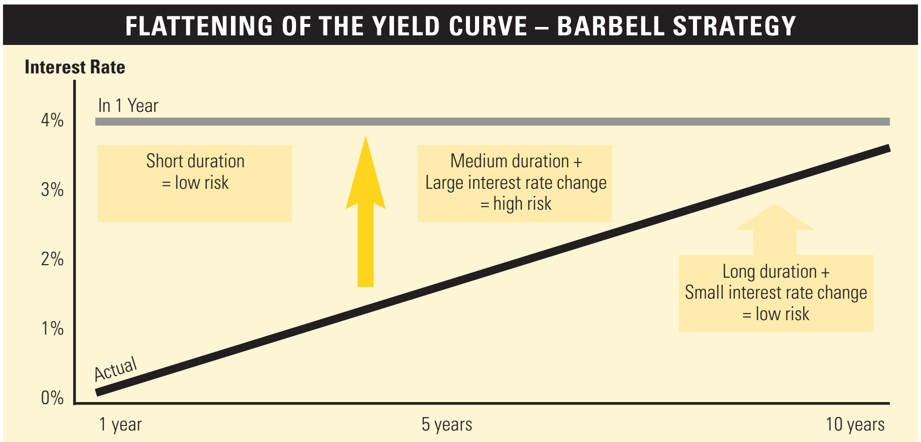
Energy is, and will remain, an important investment topic in the future. We are holding onto our energy shares, and, in addition, are buying oil-service shares. And we are convinced that even more opportunities will open up.

Tobias Pfrunder

DURATION AND YIELD CURVE STRATEGY

KEY FIGURE FOR BOND HOLDERS

Some investors are rubbing their eyes in disbelief – they have lost money on their fixed income investments. How can this be? Fixed income securities are supposed to be safe. The reason lies in the increase in interest rates. Apart from a bond's current returns, the performance is also affected by price changes of fixed income securities. Two figures are crucial when controlling risks and returns of fixed income securities: duration and the yield curve strategy.



What is duration?

Duration is the technical expression for average remaining time to maturity. Apart from the maturity of a bond, it includes the point of time of cash flows, i.e. the bond's coupon payments and the repayment of the bond. In a nutshell, the duration denotes by how much the price of a bond changes if interest rates change. For example, if interest rates decline by 1% for a bond with a duration of 5 years, the price of that bond increases by 5%, and vice versa (interest rate change x duration). This is why it is advantageous to hold long-term bonds with low coupons (= long duration) when interest rates go down and to hold short-term bonds with high coupons (= short duration) when interest rates rise.

Flattening of the yield curve in sight

Apart from the respective change in interest rates, the shift of the yield curve, i.e. the interest rates for various maturities, is also important. Our most likely scenario assumes an increase in short-term interest rates yet stable long-term rates. As a result, the interest rates along the yield curve will not shift in parallel but the yield curve will become flatter (cf. chart, higher short-term interest rates, stable long-term interest rates).
In this scenario, we face the lowest risk at the short and long end of the yield curve and, therefore, advise people to invest in short-term fixed income securities (e.g. 1 y) and liquidity on the one hand and long-term bonds (e.g. 10 y) on the other hand. The technical term for this strategy is «Barbell». The same returns as with a «Bullet» strategy - which concentrates all maturities, for example to 5 years - can be achieved, except that the price risk would be greater.
We will be happy to discuss which strategy best suits your portfolio.

Stefan Ulrich

ANNOUNCEMENT

«EUROPE'S FUTURE IN THE 21ST CENTURY»

LECTURE IN GERMAN BY
DR. OTTO VON HABSBURG

Dr. Otto von Habsburg

Please reserve October 28, 2004, at 5:30 p.m. for a lecture by Dr. Otto von Habsburg on the subject «Europe's Future in the 21st Century». There is hardly a living contemporary who can draw on as much experience as Dr. Otto von Habsburg, son of Emperor Karl of Austria and King of Hungary, who at the young age of nine enjoyed asylum for six months in Weggis at the shore of Lake Lucerne and has remained a constant friend of Switzerland ever since. We are pleased to invite you to a lecture by such a distinguished speaker in this year of «200 Years of William Tell» by Friedrich Schiller.

«STEEL AND STONE»

EXHIBITION IN THE
VON SEGESSER HOUSE

From September 10, to October 31, 2004, Gabriela von Habsburg, daughter of our speaker, and Sibylle Pasche will present their works, under the title «Steel and Stone», in the garden and in the customer areas of our domicile, the «von Segesser House». The two artists will be present at the opening on September 10, 2004 at 5:30 p.m. You are cordially invited to the opening and to view the exhibition.

FAMILY OFFICE OR «INTEGRAL INVESTMENT MANAGEMENT»

INTERVIEW WITH DR. RICARDO CORDERO

Dr. Cordero, what does «family office» mean and why do they exist?
Family offices were created to cover the varied needs of wealthy private persons and their families (capital investments, domiciles, charitable activities, etc.). This task was originally performed by private banks. With the increasing development of many private banks – not, however, of private bankers – into «product sellers», the important function of «person of trust» was lost.

How do you define a family office and what is normally its range of tasks?
The range of tasks of individual family offices is very different. Fundamentally, though, it can be said that a family office is, first and foremost, the «headquarters» for managing, maintaining and increasing a family's wealth. Normally, the operating activities are delegated partially or completely to third parties.

Does Reichmuth & Co also offer family offices services?
The answer is yes! But as you know, in our bank we pursue what is called «integral investment management». This we understand as a very broad consulting of the client in all aspects having to do with securing and increasing his or her entire wealth. We can only fulfil our task, if we constantly place our client and his or her environment in the center of our activities. Only in this way can we recognize the «whole», and derive from this the current and future needs of each individual client. A fundamental requirement for this is the build-up of a broad and mutual basis of trust.

Is a family office equivalent to integral investment management?
Here, too, the answer is yes, particularly as there are large parallels between the typical services of a family office and integral investment management. The fundamental difference from a family office, however, is that we do not delegate asset management to third parties, but carry it out ourselves.

How is integral investment management offered at Reichmuth & Co?
Since – as described – the extent of our offering for an integral mandate goes beyond the customary asset management that is offered elsewhere, additional customized services are billed at competitive rates.

What are the strengths of the family office at Reichmuth & Co?
I think we differentiate ourselves from our competitors especially in the following four factors:

- Thanks to our integral approach, we are able to recognize customer needs to work out tailor-made solutions.
- It is our ambition to understand financial markets in order to implement an independent investment policy.
- The permanent interaction with our clients forms the basis for building up mutual trust.
- For our clients, we want to be more than just «their bank» or «their asset manager»; we want to be «their solution finder».

Private bankers that carry out their original mission – placing the client in the limelight – are the optimal partners for family office tasks.

Dr. Ricardo Cordero

SIDE GLANCE Christof Reichmuth on Bloomberg TV

On August 23, Christof Reichmuth was invited for an interview by Bloomberg TV.
Beside our business model, the main topics in this broadcast were our strategy and our financial market outlook.
For people interested in this broadcast, please visit our homepage at www.reichmuthco.ch, where we have posted a copy of the broadcast (German only).

Bloomberg TV August 23, 2004