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 JANUARY 2005

EDITORIAL

Was the past year hard, or will the new one be harder? Almost always, the balance of the past year is more satisfactory than the view of the year ahead. And so it is at the start of this new year. The uncertainty is a burden – but it is precisely this challenge that makes us happy when we overcome it.

In reality, our investment success in the past year was quite satisfactory. We are happy for our clients and for ourselves – knowing well that the times of upheaval in the international financial markets are not over but have become even more challenging. Properly meeting this challenge and orienting ourselves on our clients' individual investment goals remain the content of our fascinating work. What was safe and profitable yesterday will not necessary be so tomorrow. And so we always focus our Market Check-up more on the future than on the past.

Karl Reichmuth
Partner with unlimited liability

EXPLOIT CHANCES OR AVOID RISKS?

CHALLENGES FOR 2005 FROM OUR POINT OF VIEW

The risk of a currency crisis has increased, and today it is greater than it has ever been during the past few years. In crises, cash and top-quality bonds are the best advice. Still, we recommend that you do not position yourself based on such a negative scenario. Rather, our strongly diversified Portfolio of the Future – as we call our modular concept – still appears to be the right answer.

Imbalances everywhere

China is the world's producer, the USA the world's consumer – in a nutshell, the global economic order of the past few years could be described this way. Japan and Europe play a subordinate role and profit from China's tempestuous growth mainly through exports. This has caused a massive deficit economy in the USA, which consumes around USD 600 billion – or 5% – more than it can afford. This deficit is financed by Asian central banks, which accept the threatening depreciation of their central bank assets. That is the price they are willing to pay for rapid industrialization.

Negative real interest rates – recipe for misallocation

The current situation worries us, because it is not just in Switzerland and the USA that negative real interest rates exist. No, through the pegging of the Asian currencies to the dollar and the quasi-fixing of the Russian Ruble, which is profiting from huge income from oil exports at high prices, real interest rates are negative in these economies, which are rapidly growing in real terms. This often leads to projects being undertaken that are at least questionable from an economic point of view and will hardly ever pay off. Overcapacities and bad investments are the result. The last example of capital misallocation was the technology euphoria before the new millennium which was only possible because money could be obtained from the stock market more or less for free. Up until now, consumers are profiting through lower prices from the capacities built up then, such as in the telecommunications sector. But for investors at that time, it ended in a financial fiasco.

A matter of the order of magnitude

As is well known, everything is always a matter of the order of magnitude. Huge volumes of US dollars have found their way into the world´s economies. For a

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PORTFOLIO OF THE FUTURE – OUR MODULAR CONCEPT

%	WHAT	HOW	EXPECTATION
10%	Precious Metals	Forwards (using bonds as collateral)	8-10%
10%	Real Estate	Mobimo	5-8%
25%	Alternative Investments	Reichmuth Matterhorn or third party instruments Reichmuth Himalaja (Fund of Hedge Funds with focus on Asia)	8-10%
15%	Opportunities	Topix and Topix Small Cap Airbag (bullish) S&P 500 Bear Groi (bearish) RUB & Asian currencies against USD with capital protection	10-15%
20%	Stocks «Buy&Hold»	Value stocks Dividend stocks Energy	4-6%
20%	Bonds	EUR bonds 3-4 years CHF corporate bonds ISK / SEK bonds	2-4%
		Expected return of portfolio	**5-9%**

long time now, private investors have hardly been ready to cover the deficits - consequently, the central banks stepped in. Now China and Japan are sitting on currency reserves of USD 1'400 billion. How long will that continue? Thoughts are already being made about what to do with these huge USD holdings. If the central banks stopped covering the USA's deficits, US interest rates would inevitably rise. This, in turn, would hit the US real estate market, causing losses to US banks, and US consumers would have to tighten their belts and no longer finance their consumption via credit. Not a good scenario. This would impact the export industries in Europe and Asia. Ultimately, even prices for raw materials, including oil, would come under pressure, and the world economy would again show recessionary tendencies. What that means for asset markets is clear: valuations would come under pressure.

The real world is not coming to an end

It is important to recognize that such developments never mean the end of the world. But they are often painful for investors. Due to the extreme increase in debt, in particular in the Western world, it is foreseeable that the imbalances and problems will be solved in the future at the expense of the wealthy. It is unclear whether this will occur through currency shifts (massively lower USD) or through capital destruction, as happened in the technology bubble at the start of 2000. But we should not forget, that imbalances always offer opportunities as well.

Undervalued investments

At the moment, these are a rare commodity. While during the technology euphoria, bonds, quality stocks and real estate still offered attractive entry prices, such bargains can hardly be found today. Rather, the art today is to find a structure in which good quality can be combined with an attractive investment idea. Precisely this is what we try to carry out in the «Opportunities» part of the portfolio, which we have separated out for some time in our «Portfolio of the Future».

Portfolio of the Future or Portfolio of Safety?

The portfolio of safety should consist of cash and top-quality bonds in the investor´s home currency. One would then have the firepower to profit from massively lower prices after the crash. As is well known, «cash is king» in a crisis. One could also bet on a bear market investment strategy. But one cannot and must not position oneself based on such a crisis. Our path is the same one we have followed for about two years: the Portfolio of the Future, our modular concept. Here the order of magnitude of the modules is set individually. Besides the conventional – today unattractive – investment categories of bonds and stocks in the «buy&hold» style, it also includes a good portion of alternative investments, real estate and commodities. But most of all, it also has an opportunistic portion, which can take advantage of opportunities offered in the current world of «muddling through». Often these are structured investments, which implement a well analyzed idea with an attractive risk/return profile.

Opportunities are a matter of taste

In addition to risk capacity, the size of this portion also depends heavily on the individual appetite for exploiting such opportunities. Currently, we have implemented such ideas with a bull market strategy on Japanese second-tier stocks, the currencies in Russia and Asia, which should rise against the USD in the next year, and with a bear market strategy in the US stock market. And so we want to exploit the opportunities offered in 2005, always including the safety-oriented base share with home currency bonds, real estate and value stocks that pay high dividends. After all, the goal is to take advantage of opportunities and avoid risks.

Your Reichmuth team

MARKET OUTLOOK

1st TRIMESTER 2005

INTEREST RATES

The general interest rate trend is slightly upward, yet varies by currency.

The ever higher prices for oil and other commodities as well as large imbalances in important economic and financial variables, such as current accounts, public finances, savings rates, etc. are increasingly dampening the hoped-for economic recovery. Growth rates in the course of the new year will instead tend to fall. Still, a recession is not expected.

Central banks have been forced more than before to take exchange rate developments into account in their money-supply and interest rate policies. The weakness of the USD means that the expected further increase in the key interest rate in the USA will not be followed by corresponding interest rate increases in Europe.

After a temporary rise and against the expectations of most market participants, long-term interest rates fell back again almost to the lowest levels of 2003. Since inflation rates remain low and, excluding the influence of high commodity prices, are even dropping slightly, long-term interest rates remain low. But we expect a slight increase in the next few months, especially in the USA.

Credit spreads have fallen again and are close to the lowest levels in the past 10 years. Under these circumstances, we do not see any more profit potential in the bond markets and recommend limiting investments in this sector to first-class short to medium-term bonds, despite the extremely low returns, and to weight money market investments (liquidity) relatively high as an alternative.

CURRENCIES

After a possible interim recovery, we can expect a weaker USD again in the longer term.

Among exchange rates, what meets the eye is the marked weakening of the USD compared to most currencies. The central banks of those countries that orient their currency policies on more or less constant parity to the USD, especially Asian countries like China, Hong Kong, Taiwan, Malaysia, among others, were forced to make extensive USD purchases and so now hold very high levels of foreign reserves in USD. Although a short-term technical recovery of the USD is not improbable, we must expect a weaker USD again in the longer run, since the fundamental factors, in particular the USA's high current account deficit, have hardly improved. This will have the strongest effect on the Asian currencies that have remained completely or nearly stable against the USD. The affected central banks can theoretically continue their interventions without limitation, but we expect they will change their exchange-rate policies, since the negative effects of supporting the USD are becoming ever more apparent.

Among the European currencies, the exchange rate shifts are small. What is noticeable is that the Scandinavian currencies and the GBP have been stronger than the EUR recently, while the CHF has been slightly weaker. We expect a correction at some time, that is, a somewhat weaker SEK and NOK and, especially, GBP compared to the EUR, and a lower EUR compared to the CHF, in the long run below 1.50.

STOCK MARKETS

Overall, the stock markets are moving sideways, and this lack of trend will probably continue. Profit opportunities, therefore, result mainly from country and sector rotations, stock picking and skilled timing.

The up and down in the stock markets is continuing and will probably persist for some time. The most important stock indices are all close to their levels of the start of the year. According to fundamental valuation measures, American stocks tend to be somewhat too high, European shares are valued fairly on average, and the most favourable among the large markets are Germany and Japan, along with various smaller ones, such as Korea and some developing countries. Among the sectors, banks and insurance companies tend to be undervalued. And pharmaceutical stocks, which have been very disappointing recently, have reached a level at which there is some recovery potential. Otherwise, because of continued low bond yields, we continue to recommend an overweighting of stocks with good and secure dividend yields. A good selection of such shares can be found in the banking, energy and telecommunications industries.

Dr. Max Rössler

INVESTMENT POLICY

1st TRIMESTER 2005

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.47	1,00	0,64	1,00	107
GDP Growth					
actual	2,0%	1,8%	3,1%	4,0%	3,0%
6 months	→	→	↘	↘	→
3 years	↘	→	↘	↘	→
Inflation					
actual	1,5%	2,4%	1,2%	3,2%	0,5%
6 months	→	↘	↗	↗	↗
3 years	2,0%	2,5%	3,0%	3,5%	1,0%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1,28	0,57	1,26	1,56	1,05
Dividend yield	1,6	1,9	3,5	1,9	1,1
Price/Book	2,4	1,6	2,3	3,0	1,6
Price/Earnings actual	18	17	21	20	55
Price/Earnings estimate	17	15	19	18	30

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,7%	2,1%	4,8%	2,5%	0,1%
6 months	→	→	↘	↗	→
Swap Rates (10 years)					
actual	2,5%	3,6%	4,8%	4,5%	1,4%
6 months	→	→	→	↗	↗
3 years	→	→	→	↗	↗
Currencies					
actual		1,54	2,21	1,15	1,10
6 months		→	↘	↗↘	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	4.190	4.214	4.730	1.200	1.120
6 months	→	→	→	↘	↗
3 years	→	→	→	↘	↗
Real Estate Market	→	→	↘	↘	↗

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

STOCK RECOMMENDATIONS

JANUARY 2005

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

INVESTMENT STRATEGY

1st TRIMESTER 2005

RETIREMENT

Currencies

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

Categories

- Bond maturities of 3-5 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 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 / BVG ABSOLUTE

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-5% various (SEK, ISK)
- Approx. 5-10% gold and silver via forwards against USD

Categories

- Bonds
  - EUR, ISK and CHF bonds
  - Pay increasing attention to top quality bonds
  - Sell the long maturities from the «barbell strategy»; choose short maturities of 3-5 years
- Buy & hold stock portfolio
  - Value and dividend shares
  - Energy, food, health
  - Reduce weight in second-tier stocks
- Opportunities
  - Japanese second-tier stocks in a bull market strategy
  - S&P 500 in a bear market strategy
  - Capital-protected EUR notes on a stronger RUB against USD
- 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/RUB
- Short USD/gold and silver

Categories

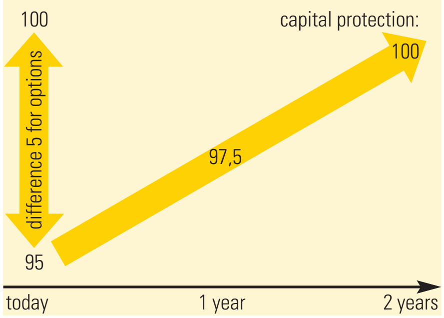
- JGB and US Treasury short positions
- Buy & hold stock portfolio
  - Long energy stocks
- Opportunities
  - Japanese second-tier stocks in a bull market strategy
  - S&P 500 in a bear market strategy
  - Capital-protected EUR notes on a stronger RUB against USD
- 30-50% alternative investments
- Up to 10% private equity

SECURITY AND OPPORTUNITY

COMBINATION OF AN IDEA AND CAPITAL PROTECTION

The Asian currencies and the Russian Rouble will probably gain against the USD in 2005. How can we profit from this movement, without incurring too much risk?

CAPITAL PROTECTION SCHEME



Zero coupon bond with currency option

If we want to have 100% capital protection after two years we have to invest EUR 95 in a term deposit which will grow to EUR 100 in 2 years. This leaves us EUR 5 to invest into options of any kind. At the moment we think that RUB/USD options or options on an Asian currency basket against USD are attractive.

Security in EUR, with good profit opportunity

This combination offers an attractive risk/return profile. The capital is protected, and, if our idea works, we make a profit of 12%-15%. If we are very much convinced that we are right with our idea we might even be willing to lose 5% in the worst case, and thus invest these 5% also into options. In this case the risk/return profile looks even more attractive: the maximum loss would be 5%, but the expected profit 24%-30%.

Philipp Murer

RISK – A MISUNDERSTOOD TERM

RISK, A MATTER OF VIEWPOINT

«Return» and «risk» are central to the vocabulary of finance. They describe the two most significant attributes of an investment: Return is the expected income of an investment; risk is the probability that the return will not be achieved. Although risk is a term with various meanings, today it is normally understood as the fluctuation, that is, the volatility of an investment.

Return and risk – what they mean

The diagram shows schematically what return and volatility mean. With a return of 8% and volatility of 4%, for example, the probability is 95% that the portfolio would achieve annual returns between 0% and 16%. In other words, the probability that the portfolio return would fall below 0% after one year is only 2.5%.

WHAT DOES RISK MEAN FOR YOU?

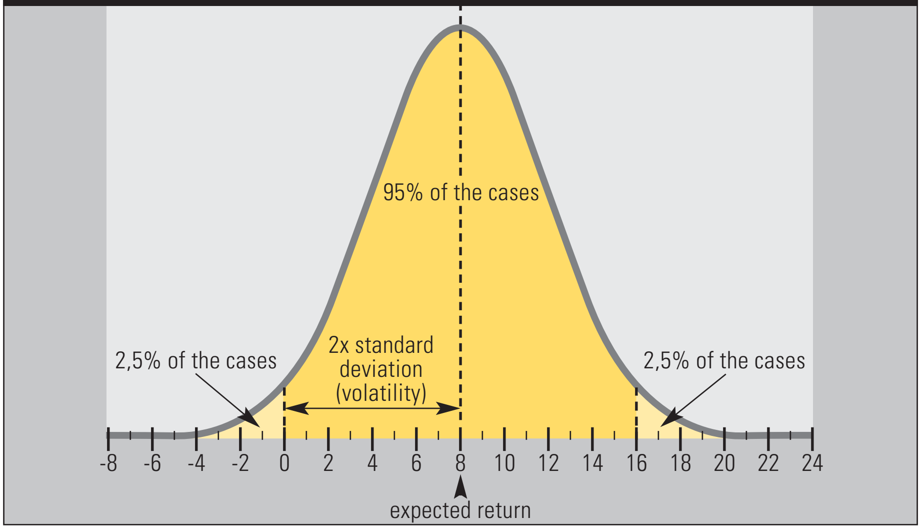
Risk	Investment Solution
A: Variation from benchmark	Passive investing
B: Volatility (fluctuation)	BVG Relative
C: Lose money or miss goal	BVG Absolute

Volatility cannot be seen in isolation, but only in combination with the return. Only then can these statistical data be used to make meaningful statements. But what seems to make common sense here has led in practice to questionable behavior.

Risk – a matter of viewpoint?

What does risk mean to you? Most client advisors at banks would choose A without hesitation, since for them risk means losing a client´s mandate. And within the Swiss pension fund sector, risk is minimized by being close to a given benchmark. Theory-based advisors often choose answer B, at least when

THE DEFINITION OF RISK AS DEDUCTED FROM NORMAL DISTRIBUTION



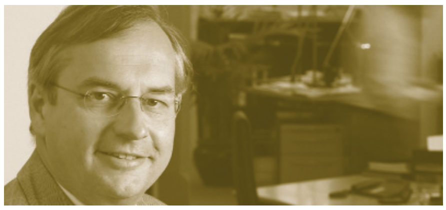
the result lies within the framework of the benchmark, yet forget that the return must also be included. But let us be honest: For a pension fund, isn't risk really answer C, the loss of money? Or perhaps the failure to meet the annual target return?

Risk – the practical meaning

First and foremost, a pension fund must make sure that it can fulfil its future liabilities. And so it is of little help if a result is close to a benchmark and still shows low fluctuations, yet the benchmark is far away from its actual purpose, i.e. future liabilities.

Solutions for future-oriented pension funds

We have developed future-oriented investment solutions. BVG Relative is a mixed investment form in which we implement our future-oriented investment strategy within individual bandwidths. In contrast, BVG Absolute positions the portfolio against an absolute target return. Here we select suitable investment categories and instruments within the Swiss OPP2 regulations. We would be happy to show you our solutions in detail.



Marcel Wickart

OUR SOLUTIONS FOR FUTURE-ORIENTED PENSION FUNDS

Goal	Optimal risk/return structure	Achievement of target return
Guidelines	Individual PF bandwidths	OPP2 regulations
Investment style	Active against benchmark	Active
Asset allocation	Flexible, within framework of instructions	Innovative, within framework of instructions
Implementation	Investment mandate	Investment mandate or Reichmuth Alpin

«AS IF IT WERE OUR OWN WEALTH»

CHRISTOF REICHMUTH ON THE STRATEGY OF REICHMUTH & CO

The world of finance has changed dramatically in the last few years. How has this affected you?
For us, it has been uniformly positive. Two developments have taken place: a process of industry concentration, in which many banks have been taken over, and the challenging financial markets, which have helped specialized banks such as ours!

What have you done differently from most banks, which have constantly restructured and cut back on staff?
In contrast to the large banks, which are constantly standardizing, we are consistently going down the path of individualization and flexibilization. Also, in our bank every client advisor is responsible for portfolio management in addition to the client relationship. To do this, you need a well trained and highly motivated team. Today, we can count on a team of around 30 people in the private bank in Lucerne. And we have another six specialists at PensExpert and a team of six people in each of our sister companies in Munich and Düsseldorf. So today, we have a broad and varied knowledge base and thus can offer individual services for demanding private customers and institutional investors.

What does integral investment management stand for?
Integral investment management stands for our philosophy of advising clients individually and comprehensively. We identify with our clients and advise them from a comprehensive point of view. Just as if it were our own wealth.

Is that enough to be successful?
Identification with the client is the key. That creates trust. Just as important is our second strength, understanding financial markets. We concentrate on recognizing customer needs and understanding the financial markets, that is, the big picture.

Today you have a broad team. In what business segments will you be active in the future?
As a «buy-side» house, we focus our activities on four areas. The largest is the private clients area. That is where we come from, and our concept of integral investment management is designed for it. What is critical here is the continuity of our client advisors. The second area we call «projects». Here we take on projects for our clients for a limited period of time in the most varied of areas. The most recent example is certainly Emmi, which we advised on its succesful initial public offering.

Besides that, you are increasingly active in the area of institutional customers, aren´t you?
That is correct. In the area of «institutional clients», results previously achieved, the so-called «track record», is decisive. Thanks to our independent investment policy and future-oriented investment approach, our results in the past few years look very good. Here we also offer the new concept «BVG Absolute». As a result of our success, we are also expanding this area. Institutional clients often are dissatisfied with conventional investment solutions. With our innovative approach, which is enjoying growing popularity, we can create real added value for institutional investors.

In addition, you also have your own, successful instruments?
We call «instruments» those solutions that we set up as collective investments or investment funds. As a buy-side house, we would like to avoid any sales pressure for our own instruments. But sometimes it is necessary to set up our own instruments, since similar ones are not available. That was, for example, the case with Reichmuth Matterhorn, a fund of hedge funds, which we established over seven years ago and which always occupies the top position in the Finanz und Wirtschaft ranking, or with Reichmuth Alpin, an investment strategy fund, which applies our absolute and future-oriented investment approach in a conservative way. Besides PensFlex and PensFree portfolios, it is also suitable for smaller portfolios, where individual implementation of our investment approach is not possible due to cost and diversification reasons.

Mr. Reichmuth, what do you do better than others?
Only our customers can answer that. But I think the above-named combination of our client identification and investment approach is convincing. We think of ourselves as a bank with a conservative basic attitude, yet with a very innovative investment approach. That has a positive effect on the attitude of our employees, the relationship to our clients and the results achieved.

Christof Reichmuth