PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

On a recent trip to Asia I was once gain impressed by the rapid development and tangible atmosphere of departure. The complete opposite is true of Europe, where there is a feeling of stagnation and a complete lack of ideas. Keeping hold of what you have got is the order of the day. It can be compared to a defensive and distribution struggle. The painful restructuring process in Japan - which lasted for almost an entire generation - appears to be coming to an end. Will Europe also lose 15 years by running on the spot?

We are even more concerned by the American economic model of rising debt and exaggerated consumption. It is not rising wages that keep it alive, it is cheap money and rising asset values. This model cannot be sustained and this will have far-reaching consequences for investments. Hence, the motto for the future continues to be «exploit changes and avoid risks». We look forward to this challenge.

Christof Reichmuth

«BUBBLE ECONOMICS»

CONSEQUENCES OF AN ASSETS-BASED ECONOMY

The whole world knows that the huge and ever-growing US trade balance deficits are dangerous for the future. In spite of this, everyone hopes that nothing will change and that the US consumer will keep the global economy running.

Global Economy running smoothly

So why should we worry? The reason lies in the fact that global economic growth is still too dependent on the US. And for several years now, this largest economy in the world has been pursuing a concept that is not exactly sustainable.

Bubble Economics – Assets-based Growth

When the technology bubble burst in the spring of 2000, everything was done to prevent a slide into a severe recession. Interest rates were reduced to historic lows, tax reductions were implemented to support this, and the US dollar devalued gradually. The object of the exercise was to not allow US assets to crash, since this would have caused the hugely important consumption to come to a standstill.

The heart-piece of the Concept – Cheap Money

In response to all crises of the last ten years, the same medicine has always been prescribed – cheap money! This created a climate of carelessness on the one hand. On the other hand, more than anything else, the growing debts cost less and less. And because, in the course of globalization, companies took advantage of the low wages in Asia and shifted jobs to low-wage countries, despite the abundance of money, no wage spiral occurred. That is why there has hardly been any official inflation up to now.

US Monetary Policy dominates the Global Economy

Without any doubt, US monetary policy is geared to the requirements of its own country. Thanks to the policy of cheap money, real interest rates – this means nominal interest rates minus the inflation rate – have been negative for years. This triggered a powerful real estate boom in the US. House prices have been rising at two-digit percentage rates for years. Buying a house is regarded as a more important element in the build-up of wealth than savings. Furthermore, negative US real interest rates are also responsible for the investment boom in Asia. These rapidly growing national economies have built up

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HIGH ASSET PRICES SHOULD SUPPORT CONSUMPTION

CAUSE	REACTION	EFFECT
Asia Crisis 1997 Russia Crisis 1998 LTCM Hedge Fund Crisis 1998	US Fed reacts with cheap money and increases liquidity in the system.	Stock market bubble. Stock markets are convinced the Fed would solve all the problems.
New Millennium 2000	US Fed provides system with plenty of liquidity.	Stock market bubble. Technology in particular explodes again at the turn of the century.
Balance sheet scandals 2001 September 11, 2001	Central banks print money and lower interest rates.	Real estate bubble. Property prices increase, mortgages are refinanced cheaper.
Fear of deflation because of China	Financial market interest rates are pushed down to record lows. Negative real interest.	Real estate and China bubble. Asia is flooded with FDI. Real estate prices in the US continue to rise!

immense capacities with this «cheap money» and their cheap products are flooding western markets. Hence, the US Fed has fed two «bubbles» with its policy which may well pose problems for us in the future: the real estate bubble in the US on the one hand, and the investment bubble in China on the other.

The Power of Real Estate Prices

Real estate prices are much more important for economic growth than stock prices. This is because many more people are affected by them directly. Above all, this applies to the Anglo-Saxon countries, where approximately 70% of the population are property owners and only 30% tenants. Thanks to the real estate boom, owners can increase their mortgages. The newly available money is used for consumption, among others, for the consumption of imported goods. It is interesting to note that it would be cheaper to rent than to buy in many places in the USA today – unlike Switzerland, Germany or Japan, where it is currently cheaper to buy than to rent! Rising real estate prices thus have a tremendously powerful effect which stimulates the economy. Unfortunately, the same thing applies also to the contrary.

China's Investment Bubble

Because there is no real bond market in China, and since the Chinese Central Bank keeps the Renminbi at a fixed exchange rate to the US Dollar, China unnoticed adopted US monetary policy. This doesn't make much sense, because the economic situation in China is completely different than the one in the US. Wherever money doesn't cost anything in real terms, the result is huge investments with rapidly growing production capacities. Sales also increase drastically – yet unfortunately, mostly without the corresponding profits – and against payment in a foreign currency, the US Dollar. How good this trade is for China will only be seen in the future. However, one thing is clear: investments without profits are of no value in the long term. Depreciations and revaluations will be the result. This means losses for today's investors – while the capacities remain!

The satiated feeling of high Capital Assets

We all know what it's like – increasing capital assets convey a satiated feeling. Home owners and shareholders alike are in the best of moods when the price of their property or stocks rises. Yet growth that is based on the appreciation of capital assets all the time is doomed to failure. Ultimately, it always comes down to profitability. The higher the price, the more difficult it is to generate acceptable profits. The basis effect plays a role here too. Add to this the fact that the interest trend has turned around and is now – with the exception of Europe and Japan – gradually making its way up.

The US Consumer is decisive

Rising interest rates mean trouble for the highly indebted American households. If they hold back on their consumption, the global economy feels the effects - directly. Asia will export less to the US – Europe and Japan will supply fewer machines. Temporarily, this would also put pressure on the energy and commodities markets – markets which are of long-term interest.

Consequences for Investments

As a consequence, the message for us remains the same: avoid risks and exploit chances. That is what we do in the «Portfolio of the Future» – our modular concept which has already been described here several times.

Japan is still one of the best ideas. In addition to the long-favored second-tier stocks, we also buy the JPY and J-REITs – Japanese property shares. We also continue to see chances in the energy and infrastructure sectors. Not only Asia and Eastern Europe must catch up in this area – also the West will boost demand, taking that in the shadow of the financial boom it invested less in infrastructure. Alternative investments remain a key issue. However, in this asset class, one must avoid the undeniably performance-reducing effects of increasing institutionalization.

Bonds are not particularly attractive and junk bonds should be avoided altogether. Only EUR bonds have an acceptable yield and a low risk of loss. US investments are completely unattractive, be it the US dollar, US bonds, US stocks or US real estate.

In synopsis – excluding any external shocks – we expect an unspectacular development on financial markets for the rest of the year. Therefore, it is becoming all the more important to generate additional profits through future-orientated portfolio management. In this regard, we have worked out new solutions for you. Are you interested? We look forward to having interesting discussions with you.

YourReichmuth Team

MARKET OUTLOOK

2nd TRIMESTER 2005

INTEREST RATES

US interest rates continue to rise while they remain low in Europe and Japan for the time being.

The base interest rate increases undertaken by the US Fed in recent months have not yet impaired the good economic situation in America. Because short-term real interest rates (nominal interest rates minus inflation rate) are still close to zero, additional upward steps can be expected to prevent the risk of an inflation spiral that could result from a continuation of the currently high energy and commodity prices. The economy in Europe, and consumer spending in particular, have not yet improved. For this reason, the ECB, along with most other European central banks, will keep interest rates at the current low level for a lengthy period. In Japan too, the signs of an economic revival are still too uncertain to occasion the Bank of Japan to abandon its zero-interest policy in the near future.

With longer term interest rates too, the movements in the major currencies were no longer virtually parallel as in the past. They showed an upward tendency in the US while the markets in Europe and Japan had a more or less sideward trend. These different price trends of USD bonds against those denominated in EUR, JPY, GBP and CHF look set to continue. However, because there is still hardly any risk of inflation, interest levels will remain low all over the world in a long-term historic comparison.

The credit spreads have increased slightly and now find themselves on a level which is still low but which will probably remain relatively stable in the near future.

CURRENCIES

The dollar will retain its value for a while but will become weaker again in the longer term.

Despite unfavorable fundamental data, the US dollar is performing well against the other major currencies thanks to the increasing interest rate differentials. However, the high daily fluctuations of the USD exchange rates indicate that market participants are uncertain and nervous about how the exchange rate will develop. The sideward trend will continue as long as the Asian central banks, above all those of Japan and China, keep supporting the dollar. In the long term though, they cannot build up their USD reserves indefinitely. Therefore, we expect a considerably lower USD exchange rate, particularly against the Asian currencies.

In Europe, the inflow of very large amounts of speculative, short-term capital to the Eastern European countries has resulted in a rise in exchange rates for the affected currencies. Despite the good growth outlook in these countries, things have been exaggerated a bit here. Hence, the risk of a setback has increased. For the EUR/CHF exchange rate we are expecting a decrease from the current level of around 1.55 to less than 1.50 in the longer term. We have a positive bias towards the Asian currencies and would buy the JPY at current rates, especially against the European currencies.

EQUITY MARKETS

Equity markets have once again become more vulnerable after the rise in recent months. Stocks with good and secure dividend yields, especially in the energy and infrastructure sector, are attractive.

Overall, equity markets have improved slowly but surely over the last few months. This is especially true in Europe and several emerging countries, yet not in the US. Small cap stocks continue to develop better than the market as a whole, thereby compensating to a great extent for their previous undervaluation. The markets have become more vulnerable since this increase, and an overweighting of small cap stocks – with the exception of Japan – no longer appears justified. They should, however, be supported by the appealing M&A activity of LBO funds and well financed large corporations.

Even if the interest rate level rises a bit, there will still be many top quality stocks with dividends that have a higher dividend yield than bonds. They remain attractive for this reason. Real estate equities have the best dividend yields, and especially Swiss and Japanese stocks should be considered above all others in this sector, while American and British stocks should be avoided due to the risk of a slump in property prices, which have risen sharply there. Although there have also been some sharp increases in energy stock prices (oil, gas, electricity), they still have good dividend yields. Hence, we still recommend that they be strongly weighted. Companies with specific knowhow in the infrastructure sector can also expect to do good business.

Dr. Max Rössler

INVESTMENT POLICY
2nd TRIMESTER 2005

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.42	1.03	0.63	1.00	107
GDP Growth					
actual	1.2%	1.6%	2.9%	3.9%	0.8%
6 months	↘	→	↘	↘	↘
3 years	→	→	↘	↘	↗
Inflation					
actual	1.4%	2.1%	1.9%	3.1%	-0.3%
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	1.27	0.56	1.22	1.45	0.67
Dividend yield	1.6	2.0	3.7	2.1	1.1
Price/Book	2.5	1.5	2.2	2.8	1.6
Price/Earnings actual	17	15	18	19	25
Price/Earnings estimate	14	12	13	16	20

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0.8%	2.1%	4.9%	3.2%	0.1%
6 months	→	→	→	↗	→
Swap Rates (10 years)					
actual	2.4%	3.6%	4.9%	4.7%	1.3%
6 months	→	→	→	↗	↗
3 years	→	→	→	↗	↗
Currencies					
actual		1.54	2.26	1.18	1.11
6 months		→	↘	↘	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	4'450	4'210	4'820	1'160	1'130
6 months	→	→	→	↘	↗
3 years	→	→	→	↘	↗
Real Estate Market	→	→	↘	↘	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: April 22, 2005

STOCK RECOMMENDATIONS

MAY 2005

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

INVESTMENT STRATEGY
2nd TRIMESTER 2005

RETIREMENT
Currencies
- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-10% miscellaneous

Categories
- Bond maturities of 3-5 years
- Up to 10% alternative investments
- 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
- Up to 10% JPY
- Up to 10% gold and silver via forwards against USD

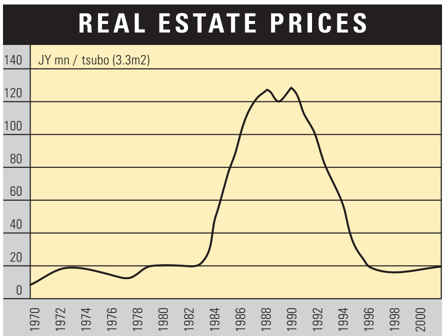
Categories
- Bonds
  - EUR and CHF bonds
  - Good quality
  - Focus on short and medium-term maturities
- Stock Portfolio
  - Value stocks and dividend stocks
  - Energy, infrastructure, food, health
  - Normal weighting of second-line stocks
- Opportunities
  - Japanese second-tier stocks in a bull market strategy
  - S&P in a bear market strategy
  - J-REITs
  - Capital-protected EUR note on a stronger RUB against the USD
- 10-25% alternative investments
- 5-10% Swiss real estate stocks
- Up to 5% private equity

SPORT
Currencies
- Long JPY/CHF
- Short USD/RUB
- Short USD/gold and silver

Categories
- Bonds
  - Short JGB and US Treasury
  - Short Credit Spreads
- Stock Portfolio
  - Long energy stocks
  - Long infrastructure stocks
- Opportunities
  - Japanese second-tier stocks in a bull market strategy
  - S&P in a bear market strategy
  - J-REITs
  - Capital-protected EUR note on a stronger RUB against the USD
- 20-50% alternative investments
- Up to 10% private equity

J-REITS – JAPANESE REAL ESTATE
OPPORTUNITY FOR RETURN, CURRENCY APPRECIATION AND CAPITAL GAIN

Investments in Japan currently belong to our favorites. The slide of the Japanese real estate market has come to an end. And the Japanese currency is attractive. This is why we recommend investments in J-REITs – Japanese Real Estate Investment Trusts.



An investment in JPY with return
An investment in J-REITs is an investment in the JPY with an approximate yield of 3.5%. This is more than double of the return of Japanese government bonds. Hence, one can easily wait for an appreciation of the JPY or the REITs. Furthermore, risks seem limited especially considering that rents for REITs are mostly protected against inflation.

Opportunity for capital gain
Since REITs must distribute their return to its shareholders, dividends play a crucial role in the their princing. Hence, assuming that J-REITs would be traded on a yield basis of 3%, the potential for capital gains would be in the area of 30-40%. Taking this, the main risks to this investment would be a sharp increase in interest rates or an earth quake. As to the first factor, we believe this to be quite improbable, while the second factor can be reduced via diversification.

Patrick Erne

FISCAL CHANGES TO PENSION PROVISIONS

PENSFLEX WELL EQUIPPED THANKS TO LEADING EDGE

The third part (tax package) of the first stage of the BVG revision will take effect on January 1, 2006. A draft of the new regulation was published at the beginning of 2005. Some important adjustments have been made which, above all, affect collective pension provision solutions such as the PensFlex collective fund.

Advantage of experience speaks in favor of PensFlex

The Federal Council will have passed the final version of the ordinance by summer of 2005. PensFlex can easily cope with these changes. Establishing a legal foundation for the free choice of investment strategy and the financing of early retirement is a welcome development. Both of these elements have been offered to PensFlex customers for five years. Consequently, PensFlex will be able to capitalize on its great advantage of experience in the field of individualization of investments for collective pension provisions. This appraisal has incidentally been confirmed by both the Providentia and Generali insurance companies. PensFlex took over the respective collective portfolios of these two insurance companies in the years 2003/04.

Most flexible Bel-Etage solution in Switzerland

Today, PensFlex is regarded as a highly flexible Swiss Bel-Etage solution with individual investment options. The concept has proven its worth and is finding more and more followers. The advantages for our customers are many and obvious. We would be happy if you visit us at www.pensflex.ch or if you give us a call.

Jörg Odermatt, CEO PensExpert

FISCAL ADJUSTMENTS	ASSESSMENT	REMARKS
Cancellation of the 1998 stabilization program	Positive	Even older insured persons can again make complete back payments to cover any gaps that may have accrued in the pension fund.
Individual choice of investment strategy by each insured person	Positive	What the PensFlex collective fund has been offering for five years, now has a legal foundation.
Financing of early retirement	Positive	Tax-effective advance financing by employees is now possible too.
Virtual collectivity	Positive	In principle, collective pension provision solutions with only one insured person are now conceivable.
10% of total premiums must be utilized for risk coverage	Neutral	Cantonal differences will disappear at last. A pure saving process is definitely no longer an issue.
Voluntary inpayment made must remain in the provision fund for at least three years if the drawing of capital is planned	Neutral	Three years are manageable and planable. Here too, it is positive that there will no longer be any cantonal differences.
Wage limit of CHF 774'000	Neutral	Saving contributions up to this wage limit remain tax deductible.
Voluntary inpayments are only allowed if due advance drawings on an owner-occupied home are repaid to the pension fund	Negative	Unnecessary and complicated regulation. Advance drawing become recommendable only once all intended voluntary inpayments have been realized.

WELCOME TO THE TEAM

REICHMUTH & CO CORPORATE FINANCE

At the beginning of the year, we succeeded in making a striking expansion to our expertise in the field of Corporate Finance with the founding of Reichmuth & Co Corporate Finance GmbH in Düsseldorf. This team, which is led by Dr. Christoph von Roehl, provides our clients with services which round off our integral consulting approach in a highly professional manner. Corporate Finance involves linking the points of view of owners and companies in order to find the right answers to all strategic and equity-related issues. Visit our home page at www.reichmuthco-cf.de or call us for an introduction.

Team Corporate Finance

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«CONSERVATIVE WITH AN INNOVATIVE BIAS»

JÜRG STAUB ON REICHMUTH & CO'S PRIVATE CLIENT STRATEGY

Mr. Staub, on which principles do you run your private client business?
Our two key core competences are "recognizing clients' needs" and "understanding financial markets". In addition to this, we are committed to the integral line of thought. This means that the structure of your wealth should be in harmony with your own personal goals and environment.

Is that not very demanding?
Yes indeed. Yet, challenging private clients, families, entrepreneurs and executives with great expectations clearly belong to our target customers. Hence, the more we know about our clients, the better. Customer proximity, trust and reliability form the basis of a successful long-term relationship. Clients have to feel at ease with the responsible people within our bank who look after them.

What are the demands you pose on your team members?
Willingness to serve and perform for the client are the two most important prerequisites. A broad mix of skills and personalities is just as important to us. We want to be able to provide the suitable person to each of our client.

What services do you offer?
Our range of services is always based on the two core competences mentioned above. It is always structured in line with the requirements of our clients. A typical example for this is an individual assets management mandate with any desired custodian bank. The key to the integral approach is a consolidated overview of assets. Several deposits with various banks and assets managers are combined at a central control point where strategies are worked out.

Do you do everything by yourself?
No, we concentrate on our strengths. Often, we are the private head of finances for our clients. Hence, especially as part of our Family Office services, we must provide specialized know how in such areas as structural and pension provision solutions, estate planning and tax optimization. Consequently, in order to find the appropriate solutions, we either revert to our own networking partners or the ones of our clients.

What does individual assets management mean?
It means that we adapt our corporate strategy to suit the individual requirements and environment of each client. That's why the responsible person for a client is always directly responsible for the implementation of the investment strategy. That way, the responsible client advisor identifies himself with his clients and with the tactical decision-making within the framework of the mutually determined strategy.

Can you offer such services for clients of any size?
Clearly, the range of our services can best be provided for our target clients, e.g. where the volume of assets is between CHF 1 and 2 million. Consequently, considering costs and diversification, it is more difficult to offer the full range of services for deposits below that size. In this case, we make use of instruments such as funds and index certificates. With our strategy fund Reichmuth Alpin and our new fund Reichmuth Hochalpin, we provide solutions so that holders of smaller deposits can still benefit from our independent investment policy and our absolute return strategy.

What kind of security do you offer?
Related to investments, we are regarded as a conservative company with an innovative bias. We focus on consulting activities and are not involved in any business involving higher risks, such as trading and credit business. Our equity capital is several times higher than the required legal minimum. In addition to this, Karl Reichmuth has unlimited liability with his private and business assets.

What is the greatest risk for clients?
The biggest risk of an investment is not the bank – it is the consultant and an investment strategy that is not aligned with the personal goals of the client. We avoid this risk with our proximity to the client and our integral approach. As a Swiss bank, we are subject to the strict supervision of the Swiss Federal Banking Commission (EBK).

Are you pleased with business developments?
If our clients are pleased with us, then we are pleased. Business developments in recent years have shown that we have done many things well. We have set the right accents with our investment policy. That is why we have achieved good results even during the difficult financial markets of the past years.

Why should customers decide in favor of Reichmuth & Co?
Because we identify ourselves with our clients and because we feel responsible for them. We want to be able to look them straight in the eye in ten years time too. We concentrate on clients' needs and on financial markets and don't do anything else. Get acquainted with our integral way of thinking and put us to the test – you will soon be able to answer this question by yourself.

Jürg Staub