PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT
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EDITORIAL

This summer season has left somewhat of a bad taste in our mouths. The main reason was the way in which the merger of «Swissfirst» and «Bank am Bellevue» took place. The media campaign has expanded, and now the pension funds in general are being accused of illicit dealings. There is a clear danger that overenthusiastic politicians and consultants will be driven to implement yet more well-intentioned laws that are of little real help. Overregulation produces no winners! Of greater benefit would be moves to strengthen the autonomy of the advisory boards and those insured by the pension funds.

The second consequence of the hyped-up reports about the pension-fund business will probably be an increase in passive investment. While this is not so positive for those who are insured, for us it represents a big opportunity. The larger the herd of investors with no strategy, the more attractive our independent and forward-looking investment approach.

Christof Reichmuth
General Partner

FIRST SIGNS OF RECESSION

RESTRICTIVE MONETARY AND FISCAL POLICY

Economic reports are positive on the whole, company profits high and consumer confidence is good. But especially in view of these uniform good news, it is important not to lose sight of the bigger picture.

1997-2006 – a turbulent decade

A short history of finance over the last 10 years: The trigger for the crisis in Asia in 1997 was the high level of debt of Asian countries denominated in foreign currencies (USD). Devaluation of local currencies caused these debts to explode. Consequently, the world economy cooled down, resulting in a falling demand for oil. However, since the OPEC was split at that time, production was not curbed. Consequently, the price of oil fell from USD 20 to USD 10 a barrel. That was too low for Russia. As a result, the Russian state fell into bankruptcy in 1998. This led to an increase of credit spreads around the world. Such a situation had not been anticipated by the Nobel prize winners of the US hedge fund LTCM. The subsequent collapse of LTCM threatened to trigger a chain reaction through the financial system. Alan Greenspan, then head of the Fed, reacted promptly and printed money to stabilize the financial system. This measure proved to be successful.

Then came the new millennium. To ensure that financial markets remained liquid during this critical time, yet more money was printed. This resulted in an euphoria about technology and internet stocks in 1999 with correspondingly sky-rocketing prices. But in 2000 this euphoria vanished, and uncovered numerous accounting scandals. Once again, the prescription against a shake-out in financial markets was «cheap money». This time the US real estate market profited from decreasing rates and started to overheat. Yet, at the same time, corporate bosses also seized the opportunity. They replaced expensive labor forces at home with cheap ones in Asia. Large sums were invested in Asia and Eastern Europe, financed with cheap money. Corporate profits rose to record levels. And now?

A profit bubble?

For some time, we have been worrying about the record-high yet hardly sustainable profit margins. The stock market bubble that burst in 2000 was a valuations bubble (high price/earnings ratios) – do we now have a profit bubble? The

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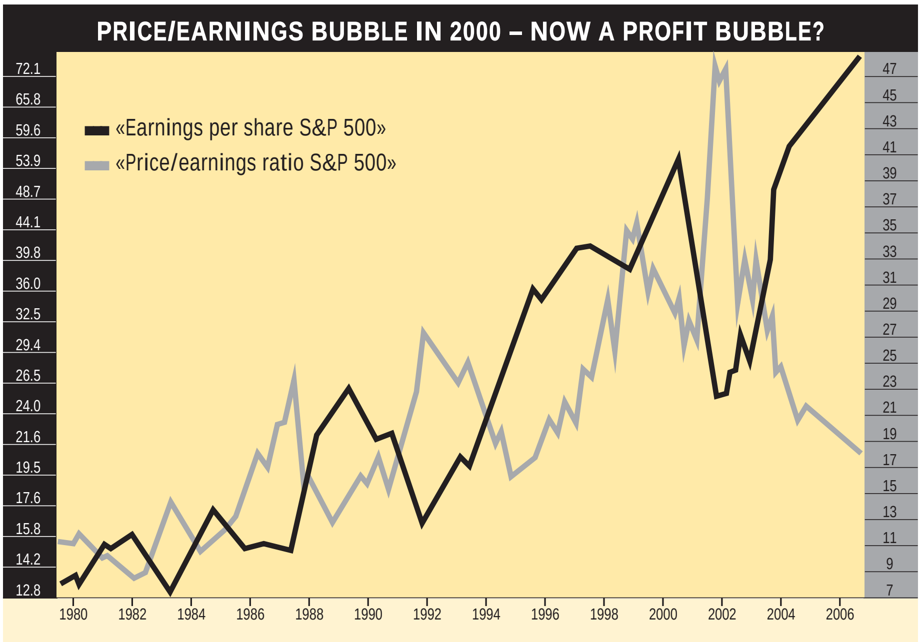


Source: NDR

wind has now turned, interest rates are rising, prices of energy and commodities too, and capacities are largely exhausted, demanding more expenditure on labor and equipment.

US Fed – the world's central bank

Why are the actions of the Fed so important? The US does not simply have the largest economy and largest financial market in the world. No, the USD de facto is also the world currency. This is the case at least for Asia, where central banks follow a USD based exchange rate policy. Therefore, interest rates at 1% in the US mean that rates will be low in Asia too. Hence, the ensuing investment boom in China and India is not particularly surprising. And exporters of machines in Europe and Switzerland will also profit indirectly, as is reflected in the growth figures of the respective companies.

Ben Bernanke and Henry Paulson

Ben Bernanke is the new head of the US Federal Reserve while Henry Paulson is the new US Treasury Secretary. Both are new in their jobs. It is still not clear how the Fed will react to the weaker US real estate market. Will Bernanke reduce interest rates in order to aid the economy and financial markets, or must he first show his will to fight inflation? For his part, Henry Paulson is a man with a very good reputation, but no less difficult a task. He wants to reduce the high trade balance deficit with a revaluation of the Chinese Renminbi. Domestically, his aim is to reduce the budget deficit without raising taxes. In the current state of a weakening US economy, those goals can only be achieved by tightening government spending.

Restrictive monetary and fiscal policy

Alongside the global restrictive monetary policy of central banks, we also expect to see the first signs of a more restrictive fiscal policy. Governments have to slow down expenditure or raise taxes. In addition, real estate prices in Anglo-Saxon countries are declining. Starting in the US, this combination will probably lead to a marked slow down of the global economy. In the US, the peak of the economic cycle has already been surpassed. Consequently, we expect the next economic trough to occur in 2 to 3 years. The key question is how much of the coming dive has already been discounted in the markets?

Development of profits and leverage

Further, an eye needs to be kept on the development of profit margins and leverage in the financial system. Growth expectations for corporate profits are too high. When financial markets realize this, they will be unable to avoid a correction. Yet, we are worried about leverage in the financial system. Leverage is basically the deployment of borrowings. We are not so much concerned by corporate balance sheets, than by the potential losses that may result from the re-packaging of loans for leveraged buyouts (i.e. takeovers financed by borrowing) and mortgage loans with very lax terms. Many of these loans have being securitized and split into tranches with different credit ratings before being sold on financial markets. We are very concerned about the possibility of large losses which might test the financial system. Consequently, we are keeping well clear of these types of investment.

Defensive portfolio bias

The Swiss and German stock indices (SMI and DAX respectively) are currently recording the same levels as in 1998, while the US stock markets are not much higher. Despite that, stocks are not cheap, even though, considering the currently high corporate profits, they are fairly valued. Since we assume that financial markets have not factored in the coming downturn sufficiently, we recommend a cautious approach and a defensive alignment of portfolios. While that will not permit large-scale profits, more attractive yields are again possible on the money market and bond markets. We also view alternative investments as still attractive, allowing achievement of returns that are commensurate with goals. Furthermore, we select capital-protected instruments with options on Asian currencies, or Japan. We are holding on to real estate stocks, and gold still seems to be a good insurance against a crisis, currency devaluations or inflation. We look forward to discussing these thoughts with you.

Your Reichmuth & Co Team

MARKET OUTLOOK

3rd TRIMESTER 2006

INTEREST RATES

US money market rates are approaching a turning point. In Europe and Japan they continue to rise. Long-term yields are barely changing.

The US Federal Reserve Bank has paused for breath after its previous continuous interest rate hikes. In Europe, the upturn of the economy is visible, and in Switzerland in particular, the growth rate is already clearly above potential growth. Europe's central banks will, therefore, further raise their key interest rates, in order to combat possible dangers of inflation at an early stage. We anticipate that the ECB will raise rates by 0.5% by the end of the year. At the same time, we believe the Swiss National Bank, which did not follow the latest step up of 0.25% announced by the ECB, will raise rates even more, especially in view of the current weakness of the CHF versus the EUR. Even the Bank of England has unexpectedly slightly increased its already very high base rate. In Japan, deflation has been beaten, the banking crisis overcome and the economy is growing. This being so, the central bank will continue to follow its recently initiated policy of step-by-step increases of interest rates.

Long-term yields have moved only slightly over recent months. Since inflation rates, despite high energy and commodity prices, are under control and as the markets trust the central banks to continue operating a monetary policy that is strictly aimed at monetary stability, we anticipate yields, and thus bond prices, to remain relatively stable. Bond investments, thus, have become more attractive.

STOCK MARKETS

Stocks are fairly valued, but are susceptible to price corrections due to falling profit margins.

The already very good profit margins in many sectors have risen once again. Therefore, stock valuations according to fundamentals and based on current figures, seem fair, despite higher prices. Nevertheless, we are less optimistic for the expected future developments. Profit margins and return on equity are both at historically high levels, which seem unsustainable in the long run. Within our stock allocation, we recommend to put more weight on defensive stocks, e.g. pharmaceuticals, or stocks with good and secure dividend returns.

In terms of sectors, energy stocks have risen strongly in recent months. Yet since the prices of energy sources will, at least in the short term, decline somewhat from their top levels, we expect stocks to go down as well. Increases in production capacity will continue, however, so that producers of investment goods will continue to have good profit opportunities and remain interesting. In terms of diversification of equity investments by country and region, Asia and especially Japan seem still attractive to us. In addition to the stock price potentials in these markets, the expected strength of the currencies will also be a source of profit. Investments in emerging markets should be approached with more caution. In the case of a change of sentiment, money will flow away from these markets.

CURRENCIES

The US dollar is set to fall over the longer term - particularly against the Asian currencies. Against the EUR, the CHF will strengthen while the GBP will weaken.

Despite the still very high current account deficit in the US, the USD is holding well against the other major currencies thanks to the high inflows of capital. However, in the coming months, the interest-rate differentials in favor of the USD that heavily influence these capital flows will become smaller and will not provide the USD with such good support anymore. This might lead to increasing pressure on the USD. Long-term, the difficulties related to the trade balance will definitely lead to a weak USD, especially against those currencies from which the largest amounts flow to the USD today, such as the Asian currencies, especially JPY and CNY.

The EUR/CHF exchange rate is at the top end of its range over the past years. Due to fundamentals (inflation rate differences, current account balance, economic growth) one would expect to see a stronger trend for the CHF for some time now. However, so far it has been overwhelmed by the capital flows searching for interest rate differentials in the short run. In the longer run, we anticipate a correction of the EUR/CHF rate towards 1.50 or below, which could occur as soon as financial markets experience any turbulence.

Dr. Max Rössler

INVESTMENT POLICY
3rd TRIMESTER 2006

BASIS	CH	EU	UK	USA	J
GDP Growth					
actual	3.0%	1.9%	2.4%	3.2%	2.8%
6 months	→	↗	→	↘	→
3 years	↘	→	→	↘	→
Unemployment					
Unemployment rate	3.4%	7.8%	3.0%	4.8%	4.2%
Inflation					
actual	1.2%	2.3%	2.0%	3.4%	0.5%
6 months	→	→	→	→	↗
3 years	2.0%	2.5%	3.0%	3.5%	1.5%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1.4	0.6	1.3	1.4	0.9
Dividend yield	1.8	3.1	4.0	1.9	1.1
Price/Book	2.8	1.7	2.5	2.7	1.9
Price/Earnings actual	17	13	16	17	20
Price/Earnings estimate	16	13	12	15	20

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	1.6%	3.2%	5.0%	5.4%	0.4%
6 months	↗	↗	→	→	↗
Swap Rates (10 years)					
actual	2.9%	4.1%	5.0%	5.4%	2.0%
6 months	→	→	→	→	↗
3 years	→	→	→	↗	↗
Currencies					
actual		1.58	2.34	1.24	1.06
6 months		↘	↘	↘	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	6'270	5'750	5'850	1'290	1'625
6 months	→	→	→	→	↗
3 years	→	→	→	↘	↗
Real Estate Market	→	→	↘	↘	↗

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: August 24, 2006

STOCK RECOMMENDATIONS
SEPTEMBER 2006

	SECTOR	SWITZERLAND	EUROPE	USA	REST OF WORLD
BASE INDUSTRIES	**Chemicals**	Clariant Ciba	DSM Yara		
	Basic Resources			Sherritt	Anglo American Norilsk Nickel
CYCLICAL CONSUMER	**Automobiles**		Daimler Chrysler		
	Retail	Vögele			
	Media	Publigroupe			
NON- CYCLICAL CONS.	**Food**	Nestlé Emmi	Südzucker		CP Foods
	Various				
ENERGY	**Energy**		Total / ENI / Statoil Repsol / Royal Dutch MOL / OMV / Neste	Oil ETF (XLE) Oil service ETF (OIH)	Gazprom / Lukoil Surgutneftegaz Keppel
	Utilities		EOn / RWE Iberdrola / Endesa Fortum		
FINANCIALS	**Banks**	Credit Suisse VP Bank SGKB	Almancora ABN Amro Raiffeisen International		State Bank of India Topix Bank ETF Bangkok Bank
	Insurances	Swiss Re Zurich Helvetia	Munich Re Hannover Re		
	Financial Services		ING		
HEALTH	**Pharmaceuticals**	Novartis Roche GS	Pharma ETF Bayer	Pharma ETF (PPH) Schering-Plough Pfizer	
	Biotech			Myriad	
INDUSTRIALS	**Building**		Lafarge Italcementi pref.		Hutchison Whampoa Siam Cement
	Machinery	ABB Rieter	Siemens IWKA Thales		Toshiba
TECHNOLOGY	**Hardware**		Philips		Samsung pref.
	Software			Oracle	
TELECOM	**Telecom**	Swisscom	Belgacom BT Group		NTT
	Equipment		Nokia	Motorola	
CERTIFICATES	**Index**				Taiwan ETF (EWT) Malaysia ETF (EWM)
	Style	Pilatus			Bottom Fishing RIM CC Bioscience

INVESTMENT STRATEGY

3rd TRIMESTER 2006

RETIREMENT

Currencies

- Overweight CHF
- Underweight EUR
- USD at a minimum
- 10% Asian currencies

Categories

- Bond maturities of 3-5 years
- Up to 10% alternative investments
- Up to 5% real estate stocks
- Up to 5% dividend stocks

HARVESTING / BVG ABSOLUTE

Currencies

- Overweight CHF
- Underweight EUR
- USD at a minimum
- Up to 10% JPY
- Up to 10% Asian currencies

Categories

- Bonds
  - EUR, CHF and SGD bonds
  - Good quality
  - Extend duration somewhat
- Stock portfolio
  - Scale in/scale out concept
  - Value stocks and dividend stocks
  - Reduce energy stocks somewhat
  - Infrastructure and health care
  - Reduce small caps
- Opportunities
  - Japanese small caps
  - S&P bear market strategy
  - Asian currency basket
  - REITs in Japan and Singapore
- 10-25% alternative investments
- 5-10% real estate stocks
- Up to 5% private equity

SPORT

Currencies

- Long JPY/CHF
- Short USD/RUB
- Long Gold/USD
- Long SGD/USD

Categories

- Bonds
  - Opportunistic JGB short positions
- Stock portfolio
  - Reduce energy stocks somewhat
  - Long infrastructure stocks
  - Short S&P Futures
  - Partial hedge with put options or bear spreads
- Opportunities
  - Japanese small caps
  - Asian currency basket
  - REITs in Japan and Singapore
- 20-50% alternative investments
- Up to 10% private equity

The recommendations are dependent on market developments and are subject to change without prior notice.

REICHMUTH & CO: NEW MEMBER OF THE SWX / VIRT-X

NEW DIRECT MEMBER OF THE SWX AND VIRT-X

As of mid-September, we will start direct trading as a new member on the Swiss stock exchange SWX and on the Virt-x. Three reasons have led us to take this step.

Independence

Direct membership means that we are independent of other banks on the stock exchange. This allows us to be more flexible, providing our customers with a direct and highly professional dealing channel.

Transparency

The latest reports about conflicts of interest in the financial sector demonstrate the need for an independent partner that is highly transparent. This transparency is best guaranteed by a typical «buy-side house» like ours, with unlimited liability of our General Partners.

Service

Direct membership on the SWX opens up a range of new services for pension funds and entrepreneurs. Further, it opens up new opportunities in the area of Corporate Finance.

We are looking forward to these new opportunities and of being of service to you.

Tobias Pfrunder

PENSFLEX – BEL-ETAGE SOLUTION AT ITS BEST

INDIVIDUAL MANAGEMENT OF 2ND-PILLAR PENSION PLANS

Since the beginning of 2006, the Pension Funds Act (OPP2) has given investors free rein to make investment decisions. This applies to the portion above the mandatory limit, i.e. above an annual salary of CHF 116,100. Thanks to specially negotiated agreements with the authorities, we have already been able to offer freedom of choice in investment in PensFlex for the last six years. We use this valuable experience gained with this solution in order to stay one step ahead of the competition in the pensions market. What makes PensFlex unique in the area of pension plans for managers and entrepreneurs?

Customization

The insured person sets the investment strategy for the non-mandatory part of the pension plan, on the basis of his personal goals and risk appetite. This allows us to fine tune this investment strategy with the existing investor's private assets. For pension plans with over CHF 0.5 million, PensFlex even offers individual investments.

Complete transparency

At the end of each year, each individual investor receives a tailored portfolio statement. Transparency is guaranteed for capital invested as well as for costs of investment.

Income credited in full

Insured persons are credited with the entire performance of their investment. General reserves resulting from fluctuations in value are not deducted. Since its launch six years ago, this has allowed those insured with us to profit from a markedly better growth of their pension capital, despite some difficult times for investments. For example, the mixed OPP2 portfolio offered by PensFlex achieved a performance of between 6.6% and 16.4% last year. In contrast, for traditional Bel-Etage solutions offered by insurance companies, the return in 2005 was only 2.5% to 3%, despite excellent conditions on capital markets.

No general financing deductions

Once again, conventional providers have used a large portion of the positive value growth last year to create general reserves for value fluctuations, or to reduce the technical interest rate. At the same time, you must know that as an insured person you have no claim to these reserves when you start to draw your pension, or if you change your pension fund due to a change of job! This is a major advantage of PensFlex.

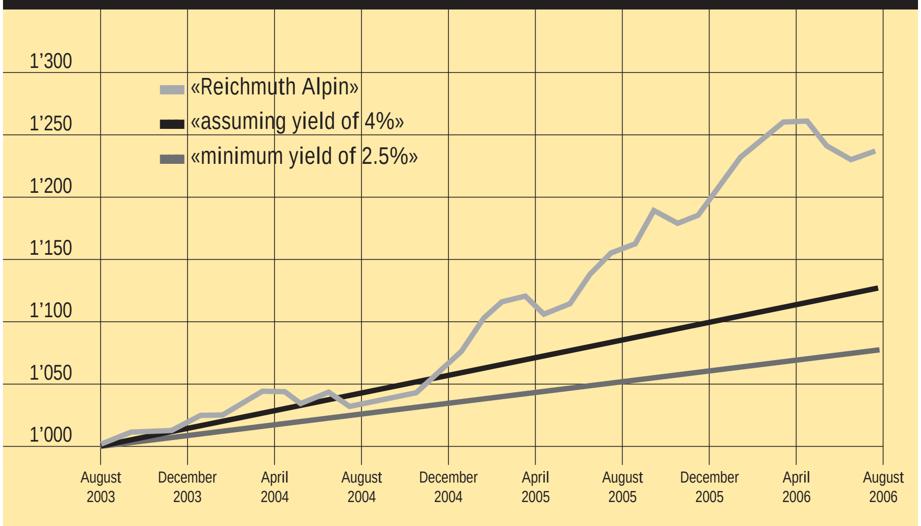
New: Pens3a - 3rd pillar

Based in Schwyz, the Pens3a fund has been operational since July 2006. This fund was founded for customers who also wish to benefit from the complete transparency and high-degree of customization in 3rd pillar plans, or for those who want to profit from the lowest level of withholding tax (the Canton in which the foundation is domiciled determines the tax rate) when they move abroad.

Performance per 30.6.06	Reichmuth Alpin	Low Risk	Medium Risk	Higher Risk
6 months	2.1%	-2.1%	-0.8%	0.1%
1 year	8.7%	-0.2%	4.3%	8.5%
Ø 3 years	7.8%p.a.	3.4%p.a.	6.1%p.a.	8.9%p.a.

We recommend that interested customers who want individual and efficient management of their pension plans, make an appointment for an informal meeting with the person responsible at PensExpert AG (Tel +41 41 226 1229), or www.pensexpert.ch We look forward to speaking with you.

REICHMUTH ALPIN – SUPERIOR RETURNS



Jörg Odermatt, CEO PensExpert

WEALTHY INDIVIDUALS - PERSONALLY

DAVID SCHÄRLI TALKS TO KARL REICHMUTH

David Schärli: Karl, while I'm the youngest on the Reichmuth team, you're the oldest. You have over 50 years of experience in this business, yet you still enjoy getting on with your daily work. Why is that?

Karl Reichmuth: Working hard for the assets of wealthy clients does not just demand a certain understanding and knowledge of the market, but also a certain amount of intuition and heart, too. This is where our satisfaction comes from. More than 10 years ago, this led us to define our services as «Integral Investment Management».

DS: Do people always understand the word «Integral»?

KR: Integral investment management is a philosophy. The integral approach to services is very demanding. You need market experience, yet at the same time you need to know the real needs of the clients, in addition to pure performance.

DS: From my job interview, I remember being told how important attitude and the human factor are.

KR: Money is and will remain something very personal. People who have saved everything up for themselves, will treat their wealth quite differently to entrepreneurs, for example, who have had to weigh up opportunities and risks all the time when building up their businesses. The latter wants to see you as a true business partner. In addition, customers have structural questions, like «What do I need to do in terms of tax efficiency?» «What about my estate planning?» or «How can I prepare my children and grandchildren for the responsibilities involved with this wealth?»

DS: Is this part of my work, as a lawyer working at Reichmuth & Co?

KR: No. We concentrate on «Integral Investment Management». Working out the necessary legal wording is the job of the teams of trustees and lawyers that most customers have already assembled. Therefore, when we select our employees, we place less emphasis on their training and skills, yet a lot more on their willingness towards high customer identification. This motivates our portfolio managers to provide advice in structural questions of wealth management, in addition to providing market advice.

DS: Is there a checklist we follow to tell us how to do that?

KR: During each of the stages in their lives, all customers have different needs in terms of advice. There are no off-the-shelf solutions. The important thing is to listen to the customer and to understand what the customer's real needs are. In comparison, we use a lot of time in training our people so that they attain the level of market knowledge that is required, and, in addition, our organizational approach supports the concept of a high continuity of our employees. In contrast to most banks, our portfolio managers implement the investment policy for each client themselves rather than simply selling the plans that have been thought up by others.

DS: So our client relationship managers are also portfolio managers?

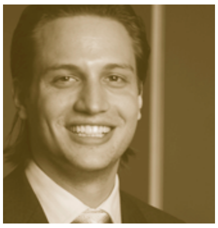
KR: Precisely. What else does the customer want other than having someone help bear the responsibilities associated with a large fortune, and what is more fulfilling for our staff than meeting these direct responsibilities?

DS: It seems to me that awareness of responsibility is very important to you?

KR: Responsibility leads to trust, trust leads to wealth. One aspect of our concept that we want to improve, though, is the way in which we prepare young people who suddenly have to take on responsibility for inherited wealth. I would like to provide you, as a representative of this generation of inheritors, with the appropriate training for such eventualities. In the often unexpected wealth transfer errors can and do occur. Hence, we want to improve our services for such occasion as part of our integral investment management. I am sure that this is in the best interest of our customers.

DS: This sounds like very complex solutions.

KR: Complex, maybe, but probably not as complicated as it sounds. There are primarily three areas in which guidance must be given. These are structure, strategy and the day-to-day business. Once we have understood the ideas and captured the needs of the owner of the wealth, we have to find the right structure. Depending on the domicile and aims of the customer, we will soon be able to find a solution or probably a combination of solutions that meet the customer's needs. This then has to be unified with the corresponding investment strategy. Finally, we have to determine how to implement this and decide what reporting needs the customer has. Sometimes paper reports are sufficient, at other times we need face-to-face meetings, with the participation of additional members of the family or other parties. In upcoming editions of Check-Up we will describe some case studies concerning these areas.



David Schärli

Karl Reichmuth
General Partner