PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

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

In retrospect, 2006 looks much brighter than originally anticipated. Were we too cautious at the beginning of 2006?

Skepticism in our profession is beneficial. We believe that long-term solid investment results are best reached with decision making that is based on a future-orientated investment strategy combined with a healthy portion of skepticism. Paradoxically, doubts can also increase security. Consequently, diversification is a key element of any investment strategy. Only by diversifying can we guarantee security – and security is what is needed in a world undergoing major changes. Hence, what once was considered as absolutely safe is nowadays only guaranteed to lose purchasing power taking into consideration rising prices of goods and services worldwide within an environment of low nominal interest rates.

We wish you a good 2007 – personally as well as for your finances – hopefully striving for a good balance between return and security.

Karl Reichmuth
General Partner

WITH MOMENTUM INTO THE NEXT YEAR

TURNING POINTS IN 2007

2006 was a mixed financial year – yet with a happy end. Following losses in stocks and bonds during the first half-year, new record highs in the SMI and Dow Jones thereafter lifted investor's mood. In the mid 90s, it was said that any upswing must first start in the minds of consumers and investors. And this is what one could feel during the second half of the year – the mood improved and people started to feel better again.

Selective Cognition

News about new records are the spice in any press release. This year, the SMI reached and even surpassed previous highs – levels already reached back in 1998. This means that a passive index-based investment strategy has not made any money for over 8 years! Another comparison is interesting. The MSCI World, converted into EUR and CHF, this year only returned +6% and +9%, respectively. At the same time, performance reached with European, Asian and Russian stocks was splendid. The weak USD almost erased the performance of US stocks, and Japan – after its stellar performance of the last years – was disappointing due to a negative stock market and a weak JPY. Finally, bond's performance contribution was minimal. Yet, despite these unequal developments, 2006 ended on a positive note and most portfolios show a nice performance – albeit not comparable to the good results reached in previous years.

Shifts in the Price Structure

Major shifts in the price structures bring along threats – yet also great new opportunities. One good example is Russia. Back in 1998, when the price of oil fell to USD 10, Russia was technically bankrupt. Today's situation, with the price of oil at USD 60 and beyond, is completely different. The Russian economy is booming, and the huge inflow of USD, immediately converted into RUB, leads to an immense money supply and a giant boom in asset prices. Whoever, back then, realized that a rise in the price of oil could lead to such boom, and invested in Russia, despite its special political risks, is a happy investor today. Hence, today's question is where new and significant price shifts will occur. In our opinion, while energy and commodities already have experienced large price shifts, the next important shifts will occur within the currency system. The graph shows the huge sums in USD that have been accumulated by the central banks of Japan, China and Russia over

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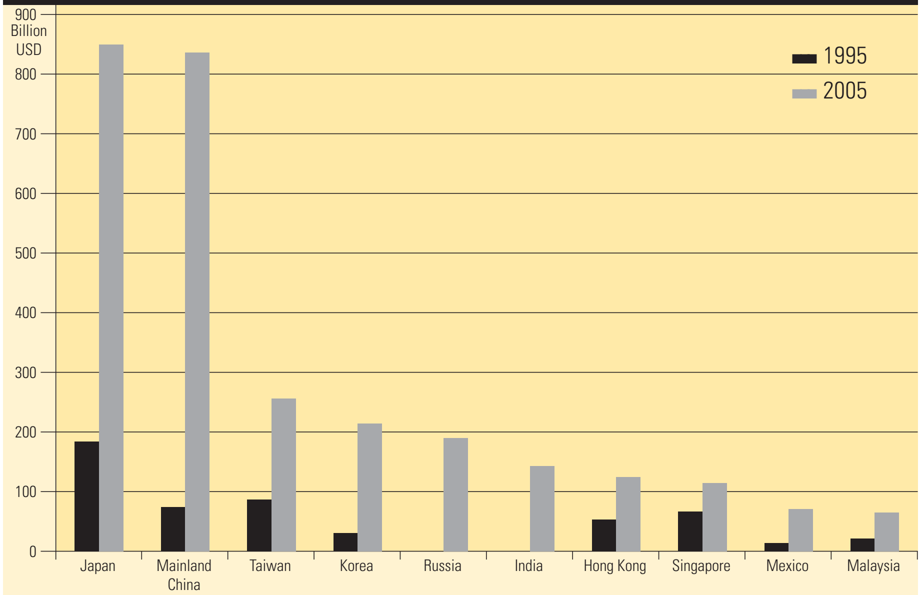
DEVELOPMENT OF USD RESERVES SHOWS IMBALANCE



the last 10 years. This development cannot continue endlessly. Hence, sometime, it will be stopped or reversed leading to a dramatic shift in the currency system.

Bargains in cheap currency

For us as value investors, assets at depressed levels and in a relatively cheap currency are an optimal combination. Japanese small and mid caps are currently such assets. These stocks – which performed very well over the past years – were quite a torture in 2006. At book values of only 1.3x and price/sales ratio of 0.5, these stocks look attractive. The only factor we dislike are the relatively low profit margins. Yet, we believe that these companies will be able to raise their profit margins in the future. Consequently, and assuming a rise of the JPY from its depressed levels, we recommend to hold on or even increase these positions.

Credit-Bubble – Debts are much too cheap

After the high tech balloon of 2000, and the real estate boom of 2003 – 2006, we now see a debt bubble emerging. As a result, the financing volume for company take-overs and for real estate is increasing. New financing structures via debt securitization led to a boom in real estate prices, especially in the US. In our opinion, credit spreads, i.e. margins charged for debts of lower quality borrowers, are much too low. Consequently, we do not invest in securitized financial products such as CDOs or CLOs. The only winners of this structuring hype are large investment banks which earn indecent sums of money when issuing such papers. Hence, once this balloon implodes, the obvious losers will be return-hungry investors from Asia and Europe.

«Private Equity» Mania

Private Equity clearly profits from this boom in cheap credits. After the bull market in stocks, which by now has lasted over 3 years, raising equity capital has become easy. According to estimates, over USD 300 billion of equity was raised in 2006 alone. This, combined with large sums of cheap debt, lead to some of the largest take-overs by the big LBO players. It may still be too early to make a call for a private equity bubble. Yet we clearly recommend a cautious stance towards this asset class.

Bet on an Euphoria?

As an anti-cyclical, value investor, the actual financial markets' environment is challenging. Should we go with the flow and hope that the current M&A boom will lead stocks to new, euphoric highs or should we stick to our cautious view, diversify and be more humble with our return expectations? As you know, our investment decisions are never based on any market euphoria. This game is much too risky. However, we keep our positions and let the profits run in successful themes such as energy, Russia, Vietnam, etc. Since finding undervalued assets or themes is quite difficult at the time, we stick to our proven modular concept developed over the last years when structuring clients' portfolios individually. This concept is still the best guarantee when striving to reach our customers' goals.

Outlook 2007

At present, fixed income investments remain relatively unattractive. Current yields hardly compensate for inflation, taxes and bank commissions. Due to the flat yield curve, bonds are purely a security cushion, and, hence, we only invest in bonds with short duration. The excellent stock selection of the last few years becomes increasingly difficult. Undervalued stocks can only be found with a good portion of fantasy. Energy, power and infrastructure have become mainstream investment topics and are no longer valued at the once attractive levels. We implement our investment strategy by following the proven «scale in, scale out» method and continue to actively search for value stocks. Our allocation to alternative investments remains high. After the good results of 2006 (Reichmuth Matterhorn +12%; Reichmuth Himalaja +16%, in USD terms), we remain positive to reach our performance goals in 2007. We remain invested in real estate where about a third of this part is invested in Switzerland, Europe and Asia, respectively. Finally, we hold on to our investments in precious metals – a good hedge should we face turbulence on currency markets.

Your Reichmuth & Co Team

MARKET OUTLOOK

1st TRIMESTER 2007

INTEREST RATES

The US interest rates have started to turn down from their top and will slightly decrease in 2007. In Europe and, with some delay, in Japan they continue to go up. Long-term yields remain low.

The world economy continues to grow well, but the trends are different from region to region: China und Asia remain the locomotives, in the United States the growth is decreasing but stays positive, whereas the economies of the European countries are strengthening. In Switzerland there are even already some signs that the labor market and capacity utilizations are stretched. As there are still no indications that inflation rates might soon pick up, the central banks are basing their money supply policies mainly on the trend in the real economy. In the United States therefore we expect money market interest rates to decrease, whereas in Europe they continue to go up. In Japan the upward trend has only just started, and it will go on slowly but for an extended period of time.

The long-term yields have gone down in all major currencies in the recent months, particularly those in USD. They are now at a level which is unattractive for new investments in fixed-rate bonds. We expect yields to move up slightly in the coming months. Nevertheless, in a long-term historical perspective, due to the low inflation rates which are likely to stay low for quite some time, we expect long-term yield levels to remain low.

CURRENCIES

The USD will continue to go down in the long run, particularly against the Asian currencies. In Europe the CHF will overcome its weakness against the EUR.

Seen from the purchasing power parities the exchange rates among the main currencies are at relatively fair levels, but with relation to the current accounts they are in a severe imbalance (huge current account deficit of the United States, surpluses in Asia). The current slight weakening of the US economy may help to improve the picture slightly, but the bulk of the current account imbalances will have to be corrected by other measures, and in the long run there is no way out from a correction. It is very difficult to see how such a correction can be achieved without a substantial depreciation of the USD relative to the Asian currencies, especially to the JPY. The interest rate differentials in favour of the USD help the capital flows, which are necessary to finance the current account imbalances, to continue for the time being, but they become smaller. We therefore expect the exchange rates to remain relatively stable for a while, but in the long run the USD will become weak and the Asian currencies, particularly the JPY, strong.

The EUR/CHF exchange rate has continued to go up in the recent months and is now at the upper end of its range over many years. From a fundamental point of view, looking at the inflation difference, the current account differences and the growth trend of the economies, the CHF should be substantially stronger, but the large amount of operations based on the interest rate difference (so called «carry trades») up to now has resulted in the opposite, a weakness of the CHF. In the long run however, we expect the exchange rate EUR/CHF to go down to 1.50 or lower.

STOCK MARKETS

Based on the current level of profits equities are not overvalued, but sooner or later we expect profit margins to decrease, which will lead to corrections of the stock prices.

Almost all equity markets except Japan have continued to go up over the past months, helped by very good business results. The profits generally are, in a historical comparison, at very high levels, whatever method is taken to measure them: as a percentage of sales (=profit margin), as a percentage of invested capital (return on equity or total capital) or overall compared to GNP. In open financial markets with free competition this situation is unsustainable in the long run, and the equity markets will react correspondingly. Given the current marked optimism of most market participants, the price levels of today might prove to be somewhat vulnerable. Nevertheless, as there have not been any clearly speculative excesses so far, we do not expect the markets to crash.

In Japan the situation is different from what has been said above. There the equity market is still far below its top level 16 years ago, and the profit margins are much lower than in the Western countries. We therefore think that Japanese stocks, particularly also in view of the low JPY, offer the best chances among stocks in all industrial countries. Some other selected Asian countries look, based on fundamental criteria, attractive as well.

Dr. Max Rössler

INVESTMENT POLICY

1st TRIMESTER 2007

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities Ned Davis Research	1.47	1.00	0.64	1.00	107
GDP Growth					
actual	2.4%	2.8%	2.7%	3.0%	2.7%
6 months	→	→	↘	↘	→
3 years	→	→	→	→	→
Inflation					
actual	0.5%	1.6%	2.4%	1.3%	0.4%
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	1.5	0.7	1.3	1.5	0.9
Dividend yield	1.6	2.6	3.9	1.8	1.1
Price/Book	3.0	1.9	2.6	2.9	1.9
Price/Earnings actual	19	14	18	18	20
Price/Earnings estimate	17	14	13	16	21

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	2.0%	3.7%	5.3%	5.3%	0.5%
6 months	↗	↗	→	↘	↗
Swap Rates (10 years)					
actual	2.7%	4.0%	5.0%	5.0%	1.7%
6 months	↗	→	→	→	↗
3 years	↗	→	→	→	↗
Currencies					
actual		1.60	2.39	1.21	1.03
6 months		↘	↘	→	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	6’920	6’590	6’225	1’425	1’670
6 months	→	→	→	→	↗
3 years	→	→	→	↘	↗
Real Estate Market	→	→	↘	↘	↗

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: December 20, 2006

STOCK RECOMMENDATIONS JANUARY 2007

	SECTOR	SWITZERLAND	EUROPE	USA	REST OF WORLD
ENERGY	**Oil & Gas**		Statoil / OMV Royal Dutch Shell A Total / ENI / Repsol	Oil ETF (XLE)	Gazprom / Lukoil Surgutneftegaz
	Infrastucture & Services			Oilservice ETF (OIH)	Keppel Transneft
BASIC MATERIALS	**Chemicals**	Clariant Ciba	DSM Yara		
	Construction Materials	Holcim	Lafarge Italcementi pref		Siam Cement
	Commodities			Sherritt	Anglo American Norilsk Nickel Vedanta
INDUSTRIALS	**Capital Goods**	ABB	Siemens IWKA		Toshiba
	Transport & Services				Hutchison Whampoa
CYCLICAL CONSUMPTION	**Automobiles**		DaimlerChrysler		
	Cyclical Consumption	Vögele			
	Media	Publigroupe			
NON-CYCLICAL CONSUMPTION	**Food**	Nestlé Emmi	Südzucker		CP Foods
	Non-cyclical Consumption				
HEALTH CARE	**Pharma & Biotech**	Novartis Roche GS	Pharma ETF Bayer	Pharma ETF (PPH) Schering-Plough Pfizer	
	Medtech			Myriad	
FINANCIALS	**Banks**	Credit Suisse	Almancora Raiffeisen Internat.		State Bank of India Topix Banks ETF
	Insurance	Swiss Re Zurich	Munich Re Hannover Re		
	Financial Services		ING		
TECHNOLOGY	**Hardware**		Philips		Samsung pref
	Software			Oracle	
UTILITIES	**Utilities**		E.On / RWE Iberdrola / Endesa Fortum		NTT
	Telekom	Swisscom	Belgacom BT Group		
CERTIFICATES	**Index**				Singapore ETF (EWS) Taiwan ETF (EWT) Malaysia ETF (EWM)
	Style	Pilatus			Bottom Fishing RIM CC Bioscience

INVESTMENT STRATEGY

1st TRIMESTER 2007

RETIREMENT

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-10% various currencies, incl. precious metals

Categories

- Bond maturities 3-5 years
- Up to 5% dividend stocks
- Up to 5% structured products with capital protection
- Up to 5% real estate stocks
- Up to 10% alternative investments

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

HARVESTING / BVG ABSOLUTE

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- Up to 10% JPY
- Up to 10% various currencies (e.g. SGD)

Categories

- Bonds
  - EUR und CHF bonds
  - Good quality
  - Short duration
- Equity portfolio
  - Value stocks and dividend stocks
  - Energy and infrastructure stocks
  - Normal weight for small caps
- Opportunities
  - Japan: Topix und Topix Small Cap
  - Groi on Asian currencies
  - RUB/USD Groi
  - S&P500 Bear Groi
- Up to 25% alternative investments
- 5-10% real estate stocks (Switzerland, Europe, Asia)
- Up to 5% private equity

SPORT / HOCHALPIN

Currencies

- Long JPY/CHF
- Long Asian currencies/USD
- Long RUB/USD
- Long Gold/USD

Categories

- Bonds
  - Short durations only for temporary investments
- Equity portfolio
  - Long energy stocks
  - Long infrastructure stocks
  - Taiwan, Thailand, Singapore, Malaysia
- Opportunities
  - Small caps Japan
- 20-50% alternative investments
- 10% real estate stocks (Switzerland, Europe, Asia)
  - J-REITs
  - Singapore REITs
- Up to 10% private equity

REICHMUTH INVESTMENT FUNDS

PERFORMANCE ABOVE TARGET

Investors can look back on 3 good years. Since year-end prices of funds are only available in January, the table below and account statements show performance as of November 2006.

Alpin and Hochalpin, implement our investment strategy in a conservative and a dynamic manner, respectively. Their performance of 8.9% and 14.6%, is clearly above our target of 5% and 10%. The same applies for both our fund of hedge funds, Matterhorn and Himalaja which achieved returns of 10.1% and 14.5%. Both funds, a core investment in our modular concept, systematically rank in top positions of the league table published by the «Neue Zürcher Zeitung». Positive stock markets helped our two niche funds, Pilatus (Swiss small caps) and Bottom Fishing (contrarian strategy) to also achieved good results: 27.9% and 18.8%, respectively.

REICHMUTH INSTRUMENTS AT A GLANCE

AS OF 30.11.06	STRATEGY	PERFORMANCE 1 Year	PERFORMANCE 3 Years	VOLATILITY 3 Years
Alpin	Reichmuth strategy conservative	8.2%	8.9% p.a.	3.1%
Hochalpin	Reichmuth strategy dynamic	10.7%	14.6% p.a.	5.6%
Matterhorn	Fund of hedge funds global	13.1%	10.1% p.a.	3.2%
Himalaja	Fund of hedge funds Asian focus	22.4%	14.5% p.a.	7.1%
Pilatus	Swiss small caps	29.2%	27.9% p.a.	10.3%
Bottom Fishing	Global equities	15.1%	18.8% p.a.	11.3%

Mathias Fleischmann

INTEREST RATE – A FUNDAMENTAL INVESTMENT FACTOR

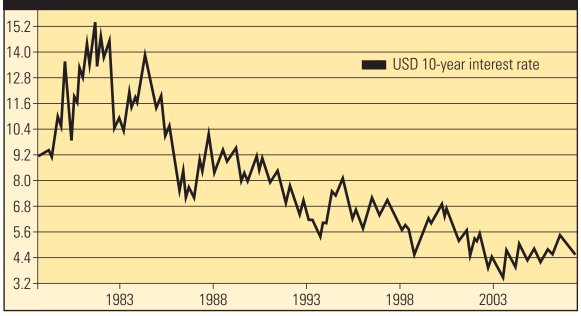
A FEW KEY FACTORS DETERMINE THE GREAT PICTURE

We characterize our independent and future oriented investment approach as a solid analysis of fundamentals, taking money flows and market psychology into account. These two factors just mentioned influence the short- and medium-term market trends and therefore are important for the portfolio management. In the long run however, the asset prices are always mainly determined by the fundamental factors.

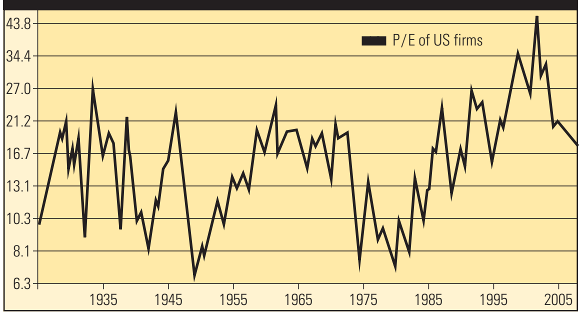
Thinking in scenarios

Our market assessment always starts with the analysis and discussion of a number of different scenarios of how the economy overall and in the various sectors might develop. We analyze all important factors, possible results and consequences for the main markets and investment categories. Finally we are weighing the scenarios with their probabilities, and in the end we base our investment strategy on the scenario with the highest probability.

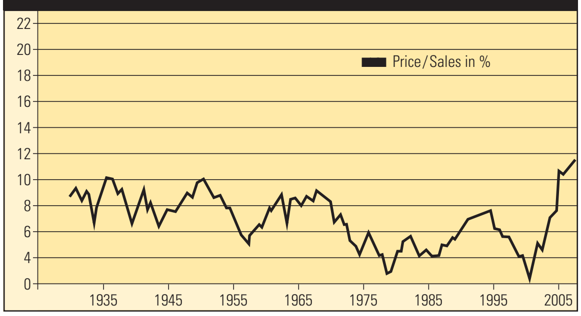
1. INTEREST RATES ARE LOW ...



2. ... P/E RATIOS ARE HIGH



3. AND THIS DESPITE HIGH PROFIT MARGINS



The multiplier is dependent on the interest rate level

The interest rates are the deciding factor for the valuation of financial assets, and they do that mainly via the multiplier. In the real estate sector the term capitalization factor is used, for equities it is the price/earnings ratio (PE). The multiplier is the inverse of the interest rate; therefore it is high when interest rates are low, and vice versa. Without risk premium an interest rate of 5% for example corresponds to a multiplier (or PE ratio) of 20. Interest rates have been low for several years now already (see exhibit 1) and are likely to go up only very slowly. We therefore expect the PE ratios to stay relatively high, but not to increase (exhibit 2). How can we profit from increasing prices when the PE ratio remains constant? Clearly the profits have to go up.

Sales (=top line) and profits (=bottom line)

The profits increase when sales go up with the profit margin (= profit divided by sales) remaining stable or when the profit margin goes up. As we are assuming that the worldwide economy will be weakening, sales will increase only slightly. Now a look at the profit margins in the United States is very interesting (exhibit 3): these margins are very high and even on a top level in historical perspective. The conclusion therefore is that a continuation of the increasing trend of the equity markets can be expected only with very much imagination, because the profit margin is a ratio, and ratios always follow the law of mean reversion. Mean reversion means fluctuating around a long-term average. It is obvious that currently we are at the upper end of the range and are likely to come down with increasing competition (globalization) and a weakening economy.

The equity markets are expensive

Although the equity markets are fairly valued based on the current record profits, they have no tail wind from the development in the world economy or from profit margins. We therefore expect markets to go sideways, with very limited potential to go up, and with setback risks. In this environment consistently good results are possible only with a skillful sector selection and a good portfolio management strategy. We are very happy to show you how we can do that for you.

Christof Reichmuth

General Partner

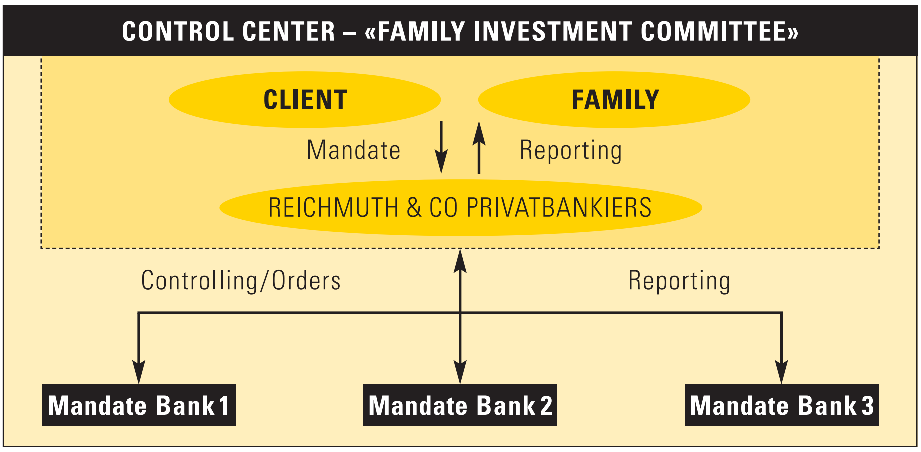
COMBINING «HAVING» WITH «BEING»

JÜRG STAUB PRESENTS THE «CONTROL CENTER» – A SOLUTION FOR FAMILIES

When we founded our bank 11 years ago, we based our business model on three goals:

1. Make money for our clients
2. Make a difference in our industry
3. Align human being and money.

Our first goal was especially well achieved during the difficult financial markets of 2000 through 2002. As to our second goal, we happily quote from a compliment of a well-known connoisseur of Swiss banking: «You are the most innovative bank with a conservative bias». Our third goal, forms the basis of our philosophy – our systematic identification with our clients' goals. This includes achieving good results in investment management and optimally structuring a client's total wealth. While investment management comprises finding investment solutions, structuring a client's overall wealth includes finding solutions across generations.



During, for and beyond one's own time …

Already in 1996, we had our first «case study». One of our clients, wanted to secure the financial well-being of his heirs and achieve that his successors would be able to assume responsibilities as entrepreneurs. His liquid assets were distributed among various banks. Yet he lacked a consolidated overview. All investment decisions were taken by the client alone, and while his wife was informed, their children had no insight into their father's strategy and results. Hence, together with the client, we created a cross-generation structure focused on the following key points:

- Create a consolidated overview of wealth
- Formulate long-term goals
- Create an overall, consolidated investment strategy
- Organize a «Family Investment Committee».

… do not only plan, but also train

We proposed to henceforth conduct quarterly meetings where all family members, in particular all successors, should attend. While proposing this, we bore in mind that you only learn to swim once you're thrown into the water. Over the 10-year period, many family members became financial experts.

Decision making in the «Family Investment Committee»

We still conduct family meetings and the agenda is structured as follows:

- Review of consolidated performance
- Analysis of financial markets
- Review of asset allocation and performance attribution
- Financial market outlook and strategy adaptations
- Discussion of general economic topics.

It is satisfying to see that the goal set – i.e. that family members can now take over responsibility for managing their wealth – was achieved thanks to the periodical family meetings. Performance over the 10-year period – which included some difficult markets – was approx. 7% per annum, leading to a doubling of this family's wealth.

Control center – setting the course

We define this process as «control center». The control center sets the course for the wealth of a family. The main element is a consolidated overview of a clients' assets: liquid assets, e.g securities deposited at various banks, participations in family-owned corporations, real estate, art and all types of further assets. Depending upon factors, such as domicile or jurisdiction, an optimal structure for the family's wealth needs to be found. For this purpose, we work closely with specialized lawyers and tax experts that are also accustomed to thinking in cross-generation terms.

… individualize

Wealth is and will always be very personal. This is why we place great value on structuring individual solutions fully compliant with our client's goals. In our next edition of the Check-Up other examples of our integral investment management will be presented.

Jürg Staub
General Partner