PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

The US credit and mortgage crisis has been in the headlines for months. Although we were unable to forecast this development, it did not strike us as being unlikely. Hence – as outlined in previous issues of Check Up – we implemented corresponding «insurance» strategies, and our clients were able to reap the benefits of these in 2007.

We are pleased at having made this timely and correct assessment of the situation. However, any such pleasure is ephemeral in our business, as the much more important question for the future is «What happens now?». In our article on page 7 we outline how we will be addressing this question. We would like to take this opportunity to wish you and your friends and family all the very best for the New Year.

Jürg Staub
General Partner

US CREDIT CRISIS HAS GLOBAL IMPACT

WHERE DO WE GO FROM HERE?

Comparable crises from the past can help when it comes to assessing the developments going forward. Yet that is not enough. Comparisons are frequently being drawn now with the credit crunch of 1998. Back then, the oil price fell to USD 10 as a result of the Asian crisis, and Russia was, therefore, no longer able to service its debts. However, only a few investors and individual hedge funds were affected then, and so the problem was well under control. Interest rates were cut at that time due to fears of a domino effect from the threatening default of a counterparty.

What crisis can 2007 be compared with?

The major slump after the tech bubble burst at the turn of the century also only affected equity investors. Once again, the real economy was bolstered with cheap money. Today, however, the entire US real estate market is affected, in addition to the financial sector. Therefore, this is a crisis on a massive scale, affecting a very large number of households in the US. Hence, the current situation is probably better comparable with the US savings & loan crisis of 1990. Back then, the US Federal Reserve steepened the yield curve by making sharp interest-rate cuts. This allowed the banks to clear up matters over time thanks to the high interest-rate margins. They received cheap money and lent it out expensively over the long term. Stock markets encountered some headwind but there was no crash or dramatic slump in the broadly based indexes.

Buying time with cosmetic measures

The current activism of the US administration and some big banks is little more than cosmetic. You could also interpret these crisis measures as an indication that the situation is worse than is currently known. Otherwise – we would assume – a rapid and drastic clear-out of the risky positions with subsequent capital increases would be the simplest way to improve the basis for the future. However, if the writedowns by the banks were to bring them under the threat of insolvency, their chance for acquiring fresh capital would be slim. Therefore, we keep a close eye on this activism in the US and are skeptical as to whether it will do anything more than gain some time.

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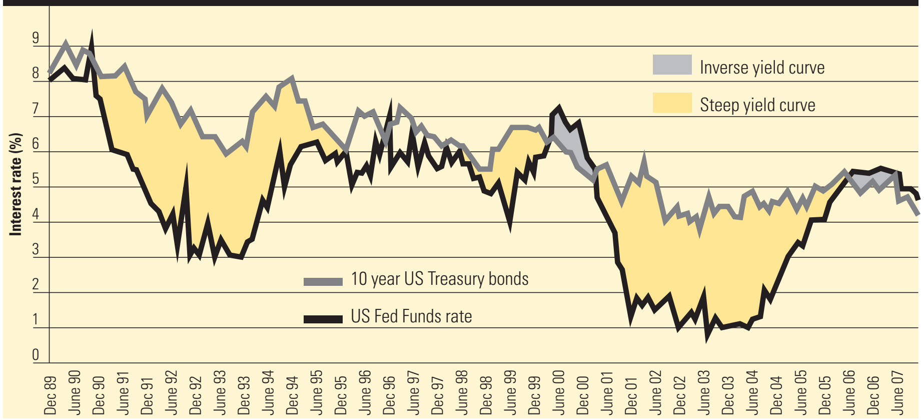
CONTENT

STEEP YIELD CURVES AFTER EVERY RECESSION



US recession and its consequences

According to our analysis, the US is already in a state of stagflation, if not even a recession. Of course, we will only be able to say this for certain in retrospect. The low yields on US Treasuries coupled with relatively high inflation indicate that this is the case. If this is the situation, then it means a slowdown in the global economy. This is not good news, especially not for Europe, which currently is still enjoying a boom. The high EUR exchange rate is also likely to become an issue in 2008. The export-driven growth in particular, has probably passed its peak in terms of order inflow. Together with the higher costs – wages and financing costs have also risen, in addition to commodities prices – this means that the record profits for companies are likely to be at an end for the time being. Only a productivity miracle could provide a positive surprise. We do not expect this to happen.

Bear market or sharp correction

It has, therefore, become difficult to agree with the often-cited low valuation of the stock markets. Even though the big banks are asserting that the writedowns are non-cash-affecting one-time events, this would mean that the wonderful gains of previous years were simply overstated. In the environment outlined here, only an inveterate optimist could seriously believe that business could continue in the same vein as over the past four years.

What can we expect?

We expect massive changes in the capital markets in the coming year. Yield curves will almost certainly become steeper worldwide, i.e. lower rates at the short end and higher rates at the long end. However, given that lower USD interest rates are only necessary for the US and not for the rapidly growing commodity-producing countries and emerging markets that are still part of the dollar zone, we expect pronounced changes in exchange rates. Asian currencies and those of commodity-producing countries are likely to gain not only versus the USD, but also against the EUR and CHF. We also expect companies to raise new equity capital by issuing new shares. Share buybacks are likely to be more a thing of the past. The same can be said for the high profits, as momentum in this regard will at least grind to a halt, if not even slip into decline.

Inflation or deflation

At present, we have reasons to believe that the disinflation in consumer prices seen over past decades is coming to an end and making way for a more inflationary trend. Meanwhile, inflation in assets could give way to disinflation. Therefore, we expect consumer prices to continue to rise despite the slowdown in growth. Capital gains strategies will become more challenging in this environment, and high secure cash flows as well as solid balance sheets will become more valuable.

What position are forward-looking investors adopting?

Fixed-income securities remain unappealing. Only the imminent non-performing bonds from excessively leveraged companies are likely to offer any opportunities in the coming year. We will take advantage of these via specialized funds in our money manager program Reichmuth Matterhorn. As to equities, defensive sectors should be chosen, with the focus on strong balance sheets and secure cash flows. There are still individual emerging markets that offer opportunities, as low interest rates are likely to support growth for the time being.

Volatility opens up opportunities

The higher fluctuations in share prices that are on the cards will also present opportunities. There are now ETFs available for almost all countries and numerous sectors, including some that can profit from falling prices. As regards to equity portfolios, more active management therefore offers promising potential. We remain confident with regard to our alternative investments. However, the above-average performance of the past year is likely to give way once again to results more in line with our targets. We will seek to take advantage of currency shifts via structured instruments, combining options on a currency basket with capital protection. Following the sharp corrections in 2007, real estate stocks are likely to offer opportunities again. As regards to currencies, we still avoid the USD, although it has now become rather cheap versus the EUR and CHF. Asian currencies are still part of our favored currency allocation.

In 2008, we will again endeavor to identify the signals at the right time and look forward to a challenging year ahead.

Christof Reichmuth
General Partner

MARKET OUTLOOK

1st TRIMESTER 2008

INTEREST RATES

Generous monetary policies of the central banks due to the financial crisis. Short-term USD interest rates will fall further. Increase in Europe and Japan is delayed. Scant changes in long-term interest rates.

Due to the crisis on financial markets stemming from the real estate market in the US, the central banks are currently being forced to increase their money supplies well above the usual levels, so as to keep money market rates close to their base rates. The threat of the US slipping into recession and other countries subsequently following suit is prompting them to ease their monetary policies. This is especially true of the Federal Reserve in the US. Short-term USD interest rates will, therefore, continue to fall over the near term. In the case of the European currencies and the JPY, the expected base rate increases have thus far failed to materialize. However, the inflation impetus from commodities prices – and in Europe increasingly also from rising wage costs – has strengthened, and rising interest rates are therefore to be expected in a later phase.

By contrast, there will be no significant change in long-term yields. The risk premiums for bonds without top ratings have shot up, and have in some cases become very high for financial sector securities or ABSs. Following the gradual return of confidence on financial markets, no further increase in these risk spreads is to be expected, but they are likely to remain high for some time.

STOCK MARKETS

Stock markets have held up surprisingly well – only the financial sector has been hit hard by the US mortgage market crisis. The markets will follow a sideways trend in 2008, with plenty of ups and downs.

In light of the financial market crisis stemming from the mortgage market in the US, stock markets have overall held up surprisingly well. The financial sector was naturally the hardest hit by share price declines. After several years of very good investment success with equities, the performance for 2007 is likely to close at around zero on average. Measured in terms of the usual statistics, the valuation level is reasonable. However, the still very high profit margins in most sectors are likely to come down in the near term. On the other hand, the generous monetary policy of the central banks is a positive influencing factor.

All in all, 2008 will probably not be a year for equities either and will instead see a more or less sideways trend with plenty of ups and downs. It is difficult to assess which sectors offer the best chances of success. The financial sector certainly has a difficult year in store, but the valuations are now correspondingly low.
Meanwhile, the positive outlook for energy utilities, for example, is already strongly priced in at the current levels. As regards to country allocation, Japan – which has appeared attractively valued for some time – has disappointed thus far. However, if the still very low profit margins were to finally increase and move in the direction of the ones in Western industrialized nations, Japan would offer significant upside potential.

CURRENCIES

End in sight for the appreciating EUR and the weak USD. Evaluation ahead for the currencies in Asia and commodity-producing countries.

As before, exchange-rate movements in recent months have been characterized by the weak USD and strong EUR. The low-interest currencies, JPY and CHF, which were previously under pressure, have recovered slightly. This was attributable to the fact that the volumes of carry trades – the primary reason for the weakness of these currencies – have declined due to the uncertainty on financial markets. That said, they are still undervalued. The upward trend of the EUR is now likely to gradually come to an end, giving way to rising exchange rates for the currencies with the highest current account surpluses. These are the countries in Asia, in particular China and Japan, and then the oil-producing countries in the Middle East, and also Russia. The central banks of many of these countries have thus far kept their currencies more or less tightly tied to the USD, thus keeping them artificially low. Sooner or later they will have to give in to upward pressure. Switzerland also has a very high current account surplus, and the CHF is therefore likely to trend firmer, supported by the monetary policy of the Swiss National Bank. The USD may be undervalued in terms of purchasing power, but it will remain weak if the Federal Reserve moves over to a pronounced low-interest policy to combat the current financial market crisis.

Dr. Max Rössler

INVESTMENT POLICY
1st TRIMESTER 2008

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.20	1.26	1.80	1.00	106
GDP Growth					
actual	2.9%	2.7%	3.2%	2.8%	1.9%
6 months	↘	↘	↘	↘	→
3 years	↘	↘	↘	↘	→
Inflation					
actual	1.8%	3.1%	2.1%	4.3%	0.3%
6 months	→	→	→	→	↗
3 years	2.0%	2.5%	3.5%	4.0%	1.5%
Stock Markets	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1.7	0.9	1.4	1.5	0.6
Dividend yield	2.1	2.5	3.8	2.0	1.5
Price/Book	2.6	2.0	2.3	2.8	1.1
Price/Earnings actual	14	13	12	18	18
Price/Earnings estimate	17	13	12	16	17

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	2.8%	4.8%	6.2%	4.9%	1.0%
6 months	→	→	↘	↘	→
Swap Rates (10 years)					
actual	3.3%	4.7%	5.1%	4.7%	1.7%
6 months	→	→	→	↗	↗
3 years	↗	↗	↗	↗	↗
Currencies					
actual		1.66	2.30	1.15	1.02
6 months		↘	↘	↘	↗
3 years		↘	↘	→	↗
Stock Markets	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	6’850	7’840	6’290	1’450	1’460
6 months	→	→	→	↘	↗
3 years	→	→	→	↘	↗
Real Estate Market	→	→	↘	↘	→

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: December 20, 2007

PORTFOLIO OF THE FUTURE

OUR FUTURE ORIENTED MODULAR CONCEPT

EX.	WHAT	HOW	RETURN	VOLATILITY
5%	Commodities	Precious metals	8-10%	10%
10%	Real Estate	1/4 Switzerland, 1/4 Europe, 1/2 Asia	5-8%	8%
25%	Alternative Investments	Reichmuth Matterhorn or third party instruments Reichmuth Himalaja	8-10% 10-15%	< 5% < 10%
15%	Structured products	Bullish strategy on Topix and Topix Small Cap Bearish strategy on DAX/IBEX Asian currencies against USD/EUR	10-15%	8%
20%	Equities	Scale in – scale out concept. Value stocks with stable cash flows and balance sheets Active management of portfolio of country and sector ETFs Infrastructure, Basic resources, Pharma, Food	4-6%	15%
25%	Fixed Income	Money market and short-therm bonds EUR Bonds 3-5 years complemented with SGD bonds CHF bonds with short duration and top quality	2-4%	4%
		Total	**5-9%**	**approx. 5%**

*Expected average return and volatility over the next 3-5 years

CONDUITS AND LEVEL 3 ASSETS

WHAT DO THESE NEW EXPRESSIONS OF 2007 MEAN?

We heard of the so-called «Conduits» and «Level 3 Assets» in 2007 for the first time. These expression did not sound very positive to us. «Conduits» are special-purpose vehicles, structured with more or less strong warranties of sponsors (banks). These «Conduits» purchase securities with borrowed capital, which they get at favourable terms due to the sponsors' warranty. Once securities have lost value, the warrantor is obliged to compensate potential losses. In consideration of this fact, these losses partially pose a threat to the existence of the warrantor. This development is truly elusive, especially within an overregulated banking sector and subsequent to the Enron-Crisis.

Model valuations

What is just as astounding is the proportion of the financial investments held by big banks that are valued according to models rather than market values. This has been bolstered by the development of increasingly exotic financial products. Under US financial reporting standards, banks must now state their assets according to valuation categories. Level 1 means valuation by market values, Level 2 means valuation by models, where the input factors can be tracked on the market, and Level 3 consists of purely model-based valuations. Therefore, the latter entail the greatest uncertainty. Although not everything in this category is worthless, the scale of the Level 3 assets compared with equity capital is disconcerting.

Patrick Erne

FIGURES BASED ON Q3 2007 IN USD BILLIONS

Bank	Level 3 Assets	Equity	L3 / EK	Total Assets	L3 / TA
Morgan Stanley	88	35	251%	1185	7%
Goldman Sachs	72	39	185%	1046	7%
Lehman	35	22	159%	659	5%
Bear Stearns	20	13	154%	397	5%
Citigroup	135	127	106%	2358	6%
Merrill Lynch	27	39	69%	1097	2%
JP Morgan	54	120	45%	1480	4%
Bank of America	28	139	20%	1579	2%
CS	68	35	194%	1139	6%
UBS[1)]	39	40	98%	2056	2%

Source: CLSA, own calculations / 1) only L3 Subprime

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

MARKET	RECESSION	INFLATION	FINANCIAL CRISIS	GROWTH
Altough the real estate crisis in the US affects financial markets, it remains under control. The US move towards a soft recession whilst global growth slows down just slightly. As a consequence of the support of central banks, market confidence returns gradually.	The lion share of the US population are affected by decreasing real estate prices. Demand weakens, and the financial crisis turns to a economic crisis, which impacts the global economy. As a result, various countries will fall into a recession.	Extremely expansive monetary policy of the central banks is the answer to the real estate crisis. This ends in increasing inflation. Given that the economy responds just moderatly to the expansive policy, it enters into a state of stagflation.	1) Banking crisis: US real estate continue to lose value and further ABS-structures drop out. This leads to a banking crisis. Recapitalisation becomes hardly feasible and states take over several banks in order to prevent a domino effect, which endangeres the financial system. 2) USD crisis: In the course of falling interest rates, the USD loses its status as international currency. 3) External shock: Terrorism, middle east war	The real estate crisis in the US gradually slows down, without an exceeding intervention of the central banks. Market confidence returns and economic growth in the US and the world gains momentum again.
Cash: Neutral Bonds: Neutral Stocks: Neutral Japan: Long Energy: Long Emma: Long Commodities: Neutral USD: Neutral Asia FX: Long Gold: Neutral	Cash: Long Bonds: Long Stocks: Short Japan: Neutral Energy: Short Emma: Short Commodities: Short USD: Short Asia FX: Long Gold: Neutral	Cash: Short Bonds: Short Stocks: Short Japan: Short Energy: Long Emma: Short Commodities: Long USD: Short Asia FX: Long Gold: Long	Cash: Long Bonds: Long (AAA) Stocks: Short, e.g. Fin. Japan: Short Energy: Short Emma: Short Commodities: Short USD: Short Asia FX: Neutral Gold: Long	Cash: Short Bonds: Short Stocks: Long Japan: Long Energy: Very Long Emma: Very Long Commodities: Very Long USD: Neutral Asia FX: Long Gold: Neutral
Probability: 40%	Probability: 20%	Probability: 20%	Probability: 15%	Probability: 5%

SET TARGETS – EXCEED EXPECTATIONS

MEASUREMENT OF THREE YEAR ROLLING AVERAGES

We aim to exceed awoken expectation. Thus, we continuously check whether we were able to exceed our targets over a three year rolling period. Due to the fact that final prices are not available until the begining of next year, the results shown below are as of the end of November. Likewise, the same prices are apparant in the investment report by the end of 2007. Alpin and Hochalpin implements our Reichmuth strategy in a conservative and a dynamic version, respectively. With an annualized performance of 10% and 12.5%, we were able to exceed our set targets of an average 5% and 10%, respectively. Further, both our Funds of Hedge Funds Matterhorn and Himalaja – important building blocks of our investment concept – achieved outstanding results of 15% and 19%, respectively. Both Instruments compete very successfully in the NZZ-ranking and retain their pole position. The results of the goal-oriented strategies over the last year were also remarkable. Since the beginning of this year, Alpin had a perfomance of +8.8% and Hochalpin +10.3% while Himalaja and Matterhorn achieved handsome returns of 20% and 22%, respectively.

SURVEY OF REICHMUTH INSTRUMENTS

PER 30.11.07	STRATEGY	PERFORMANCE 1 year	PERFORMANCE 3 years	VOLATILITY 3 years
Alpin	Reichmuth Strategy Conservative	8.8%	10.0% p.a.	3.4%
Hochalpin	Reichmuth Strategy Dynamic	10.3%	12.5% p.a.	5.8%
Matterhorn	Fund of Hedge Funds Worldwide	22.6%	15.0% p.a.	4.2%
Himalaja	Fund of Hedge Funds Focus Asia	19.9%	19.3% p.a.	7.5%
Pilatus	Small and mid caps CH	20.7%	29.8% p.a.	12.3%
Bottom Fishing	Equities worldwide	0.4%	15.6% p.a.	11.9%

Mathias Fleischmann

LOWER VOLATILITY THANKS TO BROADER DIVERSIFICATION

BETTER RETURNS THANKS TO PROPRIETARY INVESTMENT APPROACH

We describe our investment approach as being forward-looking, and market-oriented. Forward-looking, because we do not take the past as our basis, but instead look to the future, which we describe in conceivable scenarios. On page 6, you will see a summary that shows which developments are possible in our opinion over the coming 18 months. After an in-depth discussion and analysis of the situation, we base our investment strategy on the most probable scenario. And to do this, we use a very broad range of possible investment forms.

Portfolio of the Future

Our «Portfolio of the Future» is made up of different components. For each of these, we define our expectations in terms of returns and volatility. Although these parameters are never exactly accurate – just like with a business plan – they help to ensure that the objectives can be achieved more securely and corrections are made at the right time.

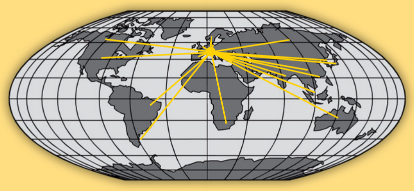
Fundamental assessment – money flows – sentiment

Then comes the selection of the individual investments within each component. Here we look for attractive risk/return profiles. The selection is made after an in-depth analysis based on a solid fundamental assessment, taking into account the key money flows over the medium term and market psychology that will have a decisive influence over the short term. Economic expertise and good common sense are always more crucial here than quantitative models.

Better returns with lower fluctuations

This is how we describe the objective of our concept. We achieve lower fluctuations thanks to broader diversification. Provided we are able to use all the components, our portfolios are much more broadly diversified than conventional strategies. We seek to achieve better returns with our investment philosophy and investment process. We develop our own opinions in-house. Our forward-looking approach with scenarios, our network of excellent investors across the globe and the large number of on-site visits we make should lead to better returns on average over a three year period. The results we have achieved in the past are our incentive to continue to follow this path in future.

WORLDWIDE NETWORK OF INVESTORS



FUTURE ORIENTED THINKING IN SCENARIOS

MARKET	RECESSION	INFLATION	FINANCIAL CRISIS	GROWTH
PROBABILITY				
40%	20%	20%	15%	5%

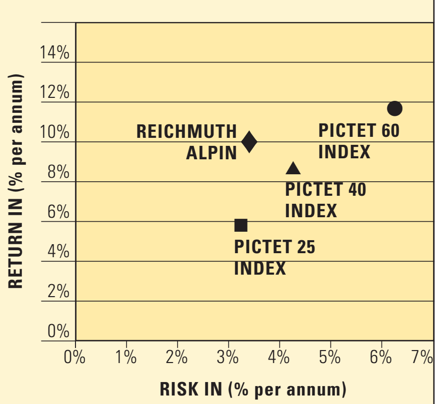
INVESTMENT APPROACH

FUNDAMENTAL ASSESSMENT	MONEY FLOWS	SENTIMENT
TIME HORIZON		
long-term	medium-term	short-term

FUTURE ORIENTED PORTFOLIO

CATEGORY	RETURN	VOLATILITY
Commodities	8-10%	10%
Real estate	5-8%	8%
Alternative investments	8-10% 10-15%	< 8% < 10%
Structured products	10-15%	8%
Equities	4-6%	15%
Bonds	2-4%	4%
Total	**5-9%**	**ca. 5%**

RISK-RETURN PROFILE (3 YEARS)



Christof Reichmuth
General Partner

COMBINING «HAVING» WITH «BEING»

KARL REICHMUTH ON ESTATE PLANNING

Wealth is – and will always remain – something personal. Identifying clients' needs and proposing a strategic structure is the core task of integral wealth management. Advice on such structures also includes timely estate planning, and this is often simpler than people think. The key lies in giving consideration to such matters at an early stage, discussing them as need be with a lawyer, fiduciary or banker.

The starting point is decisive

Our first example is a lady from a large family, who saved diligently. She never married and had no children, but her half-dozen godchildren were particularly close to her heart. In addition to charitable causes in her local community, she also wanted to remember certain friends in her will as thanks for the companionship she enjoyed with them throughout her long life.

Then we have another case of a married couple, the marital regime being that of separation of goods. The wife already inherited a nice sum from her father. She is a successful businesswoman, while her husband is self-employed and also successful. The first issue to be addressed in the estate planning is the two sons that do not work in the firm. Secondly, the husband wants to make charitable plans to promote a specific line of research and development, and there are also cultural interests that the wife wishes to support.

Fair objectives

Essentially, nobody has a claim against their ancestors. Nevertheless, in every discussion held with clients on preparing for «what happens when the time comes», fairness is always the top priority. No matter how different the two examples cited above may be, they have a common goal. The compulsory portion required under Swiss inheritance law is, therefore, fully compliant with reality. It is only in the rarest cases that it needs to be replaced by a marital property and inheritance contract. The objective of securing the future of a company is often just such a case. In addition to their families, many entrepreneurs also want to look after their employees, who have often contributed to building up their wealth over decades.

Differences in execution

Having a clearly defined starting point is more important than whether there is a will or not. In the latter case, the estate is distributed according to the parameters set down by law. The first example of the single lady proved to be exceptionally time-consuming. All her brothers and sisters had already died, and so had some of their children. Hence, including nieces and nephews, there were 71 people with a legal entitlement to inheritance. The second example of the wealthy couple (marital regime: separation of goods) may appear more complex at first glance, but it was in fact quite simple. Both issued legacies for those people without a legal entitlement but who were close to them and that they wanted to take into account in particular, such legacies accounting for 3/8 of the estate (non-compulsory portion). For the charitable causes, the most advisable course of action was to make lifetime donations via the Ruetli Endowment umbrella «to support non-profit activity».

Task of a private banker

Ensuring that a client's wishes are observed after they are gone is one of the most distinguished tasks of a private banker. We ourselves only look after the material aspects, leaving the formulation of the will to the lawyer chosen by the client.

Pros and cons of planning

Of course, it is possible to take planning to extremes as well, but it is nonetheless advisable to deal with such matters. What is important is to adjust your estate planning regularly, e.g. every two years, in line with any changes there may have been in your circumstances or situation. Other questions regarding planning for the future such as a living will, etc., also have to be considered. Our relationship managers therefore use the following checklist.

Checklist:

1. Personal details
   Do we have the addresses? (spouse, children, parents, brothers/sisters, nieces/nephews)
2. Personal documents
   Is there a will or mandate agreements?
   Are there marital property and/or inheritance contracts (contracts governing the waiver of a compulsory portion)?
   Have major advances on inheritances or gifts been made?
   Living will, possibly an organ donor card?
3. Powers of attorney
   Bank powers of attorney?
   Healthcare proxy?
   Proxy in estate matters (who is to be informed in the event of death or accident)?
4. Overall assets
   Current overview of assets, consolidated, with reference to direct holdings (companies, real estate)

Karl Reichmuth
General Partner