PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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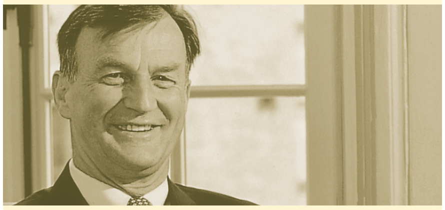
EDITORIAL

«Money burns a hole in their pockets» said Felix von Schumacher, referring to the behavior of mercenaries in the French service, who would eagerly squander their pay as soon as it was given to them.

This phrase could just as easily be applied to present-day economics. Many central banks, especially the guardian of the global currency, the US Federal Reserve, actually encouraged such behavior in large sections of the population. The result is a deficit amounting to more than 5% of gross national product that has persisted for years. The Fed's policy of offering cheap money prompted America to live beyond its means.

With many other currencies pegged to the USD, this artificial wealth effect spread throughout the dollar bloc. As a result, the correction phase will last an especially long time. Lets us try our best, then, to ensure that our money does not burn a hole in our pockets. To put it another way: cash is still king.



Karl Reichmuth
General Partner

HEADWIND

THE ECONOMIC DOWNTURN IS HERE

Financial markets have been under pressure for almost a year, and there are currently three major problems for us to deal with: The credit crunch, fears of inflation, and the weakening global economy.

Credit crunch – two thirds still to come

The credit crunch triggered by the US mortgage market last year grew into a full-blown banking crisis in 2008. New writedowns are being published on a weekly basis. As Patrick Erne writes on page 7, at least half of the crisis is still to come – more probably as much as two thirds. The credit crunch is no longer news in itself. It is common knowledge, so a system collapse no longer seems to be a serious threat. That said, people seem to be underestimating the extent and duration of the problem at the moment. We are most concerned about the second-round effects of falling house prices and continued de-leveraging. De-leveraging means reducing debt exposure, usually by selling assets and using the proceeds to pay back debts. Banks are attempting to take the pressure off their balance sheets on a large scale. On top of this, there are huge capital increases. The resultant increase in the supply of financial assets is set against lower demand. After all, how many banks, hedge funds, and private investors are willing or able to ratchet up their risk appetite in the present climate? Prices tend to fall in such a situation, often regardless of the underlying fundamentals, which can give rise to attractive opportunities.

Inflation – temporary respite

Early this summer, inflation was dominating the headlines. Oil and commodity prices rose sharply, followed soon after by food prices. Inflation replaced carbon emissions as the hot topic in politics. One question remains unanswered: Do these price increases constitute relative price shifts, or will higher wages make up for the loss in purchasing power? In the former case, we in the West would become somewhat poorer, while the commodity-rich countries would get richer. In the latter, we would enter a price/wage spiral. This would be negative not only for inflation, but also for interest rate expectations and thus stock markets as well. For the time being, however, we do not see this happening. Falling asset prices (real estate) and de-leveraging have a deflationary

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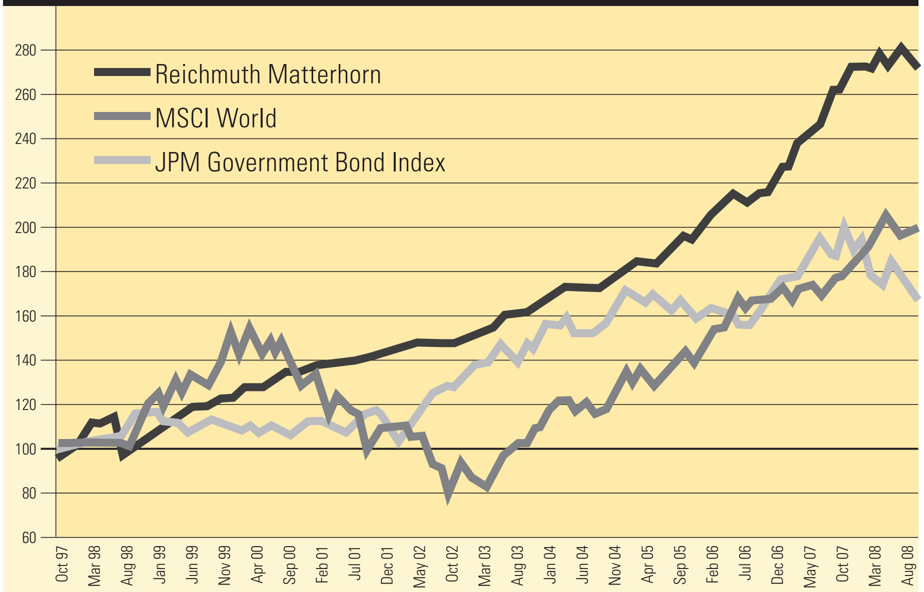
REICHMUTH MATTERHORN – A STABLE CORE INVESTMENT



effect, not an inflationary one. The base effect should also have a positive influence as oil and commodity prices are showing signs of falling for the time being. Moreover, rising unemployment in the US is likely to keep inflation in check as well. In Europe, on the other hand, the unions are stronger. We still expect to see higher inflation rates over the longer term. Thus, inflation-linked bonds in Europe look like a good buy over the course of the next few months.

Economy weakening

The current weakening of the economy is what worries us most. It is only being acknowledged gradually, and earnings expectations are still too high. Falling house prices in the US affect everyone, even those who do not have mortgage problems. Everyone's house has lost value. The biggest driving force behind the US economy, consumption, seems to be faltering. Investment will not be able to take up the slack. At best, the US's activist economic policy might be able to boost spending via government infrastructure projects. If Barack Obama is elected President, protectionist measures would also be on the cards. These would have an inflationary effect over the medium term. Only US exports are booming thanks to the weak dollar.

What do we expect?

In assessing the markets, we distinguish between fundamental factors, money flows, and market psychology («sentiment»). From a fundamental perspective, it seems clear to us that the global economy is faced with headwind. Stocks are no longer richly valued, assuming that earnings forecasts will be met, but we doubt that they will. At any rate, stocks are hardly cheap either. Financial markets always look to the future, and they will – as ever – take a turn for the better before the real economy does. As explained above, things do not look so positive from a money flow point of view. Aside from de-leveraging, there is also the fund redemption cycle. What we mean by this is fund shares being redeemed due to weak performance. This further increases the supply of financial assets. Market psychology, or sentiment, is also negative – very negative, in fact. Since it is a counter-indicator, this is in fact good news. That said, we can expect nothing more than strong rallies within a bear market. All in all, we are not expecting upbeat stock markets, and anyone who is not prepared to maintain their current equity allocation in the event of a further slump of 20-30% should even reduce their allocation somewhat during such rebounds. Everyone else, meanwhile, can start preparing for the future right now and successively increase their equity allocation on moves to the downside over the next 12 months.

Existential fear or eager anticipation

As always, the right asset allocation needs to be found for everyone individually. One extreme suggestion would be a choice of two portfolios: One for the cautious and one for the bold. In simple terms, the cautious investor would be invested to a third in the money market, a third in short-dated government bonds (half inflation-linked), and a third in our fund of hedge funds, Reichmuth Matterhorn. The bold investor eagerly looking to the future, on the other hand, would be invested to a third in equities, a third in real estate companies, and a third in Reichmuth Matterhorn. They would also buy the hardest-hit stocks such as banks, car manufacturers, and companies in India, China, Vietnam, etc.

It is interesting to note that Reichmuth Matterhorn plays a key role in both extreme portfolios. The reason for this is that we can implement strategies in the fund that are optimally positioned for the environment that is now taking shape.

We are not recommending either of these extreme portfolios. Instead, we are following our broadly diversified investment approach with our «portfolio of the future». This has proven its worth in both good and bad periods and promises the best chance of delivering good results over time.

Christof Reichmuth
General Partner

THE BIG PICTURE
OUR SCENARIO ANALYSIS IN A NUTSHELL

CONSENSUS	WORLD RECESSION	STAGFLATION	SYSTEM COLLAPSE	GROWTH
The financial market crisis last longer than anticipated and spills over to other countries. Yet, the crisis remains under control. The economy cools down in the US as well as in Europe. The central banks continue to provide large amounts of liquidity yet do not increase interest rates despite rising inflation.	Real estate prices in the US, UK, Spain etc. continue to fall while consumption slumps. Corporations try to save and cut costs. Banks continue to write down and/or sell assets and some banks are taken over by the government. The real economy ceases to grow and many countries enter into a recession.	The low interest rate policy of the FED and the worldwide coordinated actions taken by central banks to save the banking system lead to a massive expansionn of money supply. This is followed by inflation. The economy no longer reacts positively due to a lack of confidence and enters into a stage of stagflation	The crisis on real estate and financial markets continues and spills over worldwide. Central banks are no longer able to establish confidence. A few large banks col-lapse and only the small creditors are protected due to governmental intervention. The real economy slumps into a depression just like in the 1930s.	The financial market crsisi slowly abates. Central banks are able to drain the previously provided oversupply of liquidity and to raise interest rates (in order to combat inflation). Confidence returns. Economic growth rises in the US and thereafter worldwide.
INVESTMENT IDEAS Infrastructure Utilities Japan Asia FX Real estate stocks	INVESTMENT IDEAS Barbell Cash / Alternative investments Government bonds AED Money Market USD hedged Short ETFs	INVESTMENT IDEAS Inflation linked bonds Gold Short ETFs	INVESTMENT IDEAS Barbell Cash/Alternative investments Government bonds AED Money Market USD hedged Short ETFs	INVESTMENT IDEAS Ultra long ETFs Banking and car stocks Emerging Markets
High Yield Spreads: 600 bps	High Yield Spreads: 900 bps	High Yield Spreads: 400 bps	High Yield Spreads: 1200 bps	High Yield Spreads: 300 bps
Probability 25%	Probability 40%	Probability 20%	Probability 10%	Probability 5%

SAFETY AND APPRECIATION POTENTIAL
MONEY MARKET INVESTMENT IN DIRHAM

The Western banking system was saved, among others, by sovereign funds from Asia and the Middle East. Here, in particular, the Middle East can be envied. For example, as long as the price of oil remains above USD 100, the capital transfer to this region is well above USD 600 billions a year.

Safety

Our base assumption is that if the Middle East is able to save the Western banking system, then their banking system is a safe place to be. A good example for this is the National Bank of Abu Dhabi which has a AA rating. However, much more important than such rating is how solid this bank's balance sheet looks. The Bank is primarily owned by the government of Abu Dhabi – just one of those countries that currently profits healthily from the USD flow from oil sales.

AED's appreciation potential

Currently, the Dirham (AED) is pegged to the USD. The exchange rate has remained stable despite the fact that oil has meanwhile risen from USD 10 to well over USD 110. This makes no economic sense. Hence, one may expect the United Arab Emirates to revalue their currency at some point in order to keep inflation under control.

USD hedge

As long as the Dirham remains pegged to the USD, a non USD investor, e.g. a Swiss Franc investor, should hedge his Dirham exposure by selling USD against the CHF. By doing so, the investor can enter de facto into a CHF money market investment at one of the safest banks of the world while at the same time having a «free option» for an appreciation of the AED against the USD, should at some time the AED/USD pegging be abandoned. We would be pleased to discuss the details of this investment idea during one our next personal meetings with you.

Jakob Schaller

INVESTMENT POLICY

3rd TRIMESTER 2008

BASIS	CH	EU	USA	J	CHINA
Purchasing Power Parities					
Ned Davis Research		1.35	1.16	1.03	
GDP Growth					
actual	3.0%	1.5%	1.8%	1.0%	10.1%
6 months	↘	↘	↘	↘	↘
3 years	↘	↘	→	→	↘
Inflation					
actual	3.1%	4.0%	5.6%	2.0%	6.3%
6 months	→	→	↘	→	↗
3 years	2.0%	3.0%	4.0%	1.5%	7.0%
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
Price/Sales	1.5	0.7	1.3	0.6	1.9
Dividend yield	2.5	3.9	2.4	1.8	2.8
Price/Book	2.0	1.6	2.4	1.3	2.3
Price/Earnings actual	28	12	26	16	14
Price/Earnings estimate	17	12	15	16	13

FORECAST	CH	EU	USA	J	CHINA
Money Markets (3 months)					
actual	2.7%	5.0%	2.8%	0.9%	4.3%
6 months	→	→	→	→	↗
Swap Rates (10 years)					
actual	3.3%	4.7%	4.6%	1.6%	n.a.
6 months	→	→	→	→	n.a.
3 years	↗	↗	↗	↗	n.a.
Currencies					
actual		1.62	1.09	1.0	0.15
6 months		↘	→	↗	↗
3 years		↘	↘	↗	↗
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
actual	5’870	6’240	1’280	1’215	10’900
6 months	→	→	→	→	→
3 years	↗	↗	↗	↗	↗
Real Estate Market	→	→	↘	→	→

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: August 22, 2008

MARKET OUTLOOK

3rd TRIMESTER 2008

CURRENCIES

The USD has recovered slightly. The Eastern European currencies are overvalued relative to the EUR. As commodity prices have fallen recently, so have the currencies of commodity-producing countries, i.e. the CAD and AUD.

In spite of the recessionary economic trend in the US and the country's persistently high current account deficit, the USD has recovered slightly from its lows, not only against the EUR, but also against the Asian currencies. From a fundamental perspective, however, the Asian currencies have longer-term upside potential. The threat of rising inflation and overheating economies in Asia is already being borne out with the boom in construction and investments, high wage increases, and the flight into real assets. This is the main reason for the temporary weakness of the Asian currencies.

The Eastern European currencies have gained further ground against the EUR, even though their economies are showing similar signs of overheating to those in Asia. In contrast to Asia, however, they are still very heavily dependent on imported capital. Thus, these currencies have potential to depreciate significantly.

The commodity-dependent CAD and AUD have fallen in tandem with commodity prices. If the global economy weakens further, this downtrend will continue.

The CHF remained virtually flat versus the EUR, although its long-term appreciation potential is rising steadily in view of purchasing power parity and current account considerations.

INTEREST RATES

The central banks are keeping headline rates low due to the persistently difficult situation on financial markets. They will have to become more restrictive over the longer term because inflation is way above their targets.

The ongoing crisis on financial markets is forcing the central banks to inject huge amounts of liquidity into the money markets in order to avert a collapse of the global financial system. Since inflation rates have risen due to high commodity prices, they are in some cases higher than nominal interest rates. In other words, real interest rates are negative. This applies especially to the USD and the currencies of Asia and the Middle East that are closely pegged to the USD, while this effect is less pronounced in Europe because of the ECB's somewhat more restrictive monetary policy. As long as global economic growth continues to slow and inflation does not set a wage/price spiral in motion, both money market rates at the short end and bond yields at the long end will remain low. In the long run, rising interest rates can be expected.

Risk premiums for bonds from banks and industrial firms, so called CDS spreads, have fallen sharply from the highs they reached at the height of the financial crisis at the end of March 2008, but they are still well above their historical averages. Since the financial crisis is far from over, risk premiums are likely to remain high for some time yet. This opens up some interesting buying opportunities that can be exploited through careful credit analysis and meticulous corporate bond selection.

STOCK MARKETS

Stock markets appear to have bottomed out at a low level. We expect the markets to remain more or less flat on balance amid further high volatility.

Stock markets have lost more than 15% on average in the year to date amid high volatility, with considerable differences between individual countries and especially between individual sectors. Financial stocks have naturally suffered the biggest slump as a result of the financial crisis. The current valuation multiples are no longer high, even if we assume that they are based on over-optimistic earnings estimates, but they are not particularly attractive either. As a result, stock markets will probably trend sideways in the coming months, with the mood swings caused by the financial crisis making for further high volatility. Interest rates, which will probably rise going forward, could depress the trend slightly.

As regards countries and sectors, it is not easy to pick favorites. Relatively safe, defensive stocks like those in the pharmaceuticals and food sectors with solid dividend yields only have modest upside potential, while selected financial and real estate stocks, and certain emerging markets that have suffered massive falls, have high risks attached but also very good recovery prospects.

Dr. Max Rössler

PORTFOLIO OF THE FUTURE
OUR FUTURE ORIENTED MODULAR CONCEPT

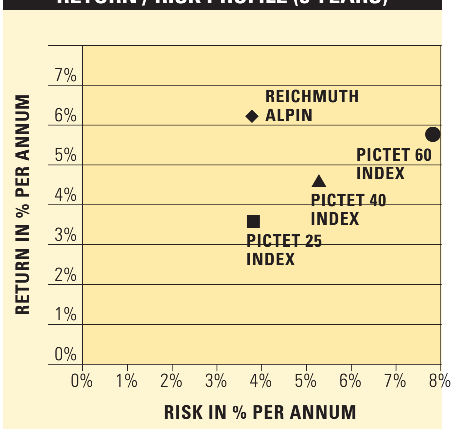
%	WHAT	HOW	RETURN*	VOLATILITY*
20%	Fixed Income	Large allocation to money market investments Short term bonds Inflation linked bonds in Europe	2-4%	4%
20%	Equities	Scale in – Scale out concept. Value stocks with stable cash flows and balance sheets. Country and sector ETFs, actively managed Infrastructure, Pharma, Food, Utilities, Middle East	4-6%	15%
15%	Structured products	Asian currencies and AED against EUR and the USD DAX/IBEX bear market positions Topix and Topix Small Cap bull market positions	10-15%	8%
25%	Alternative Investments	Reichmuth Matterhorn or third party instruments Reichmuth Himalaja	8-10% 10-15%	< 5% < 10%
10%	Real Estate	1/2 Switzerland, 1/2 Asia Reits with high dividend yield (Japan, Singapore)	5-8%	12%
10%	Commodities	Precious metals forwards / physical Gold	8-10%	10%
		Total	**5-9%**	**approx. 5%**

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

CELEBRATING FIVE YEARS OF REICHMUTH ALPIN
OUR TARGET-ORIENTED CONCEPT PAYS OFF

Five years ago, we launched our strategy fund, Reichmuth Alpin, as a conservative embodiment of our investment strategy designed to comply with Swiss pension fund regulations. We could thus invest both our clients' and our own pension assets in line with our forward-looking concept.

RETURN / RISK PROFILE (5 YEARS)



Reaching or exceeding targets
Back then, interest rates were between 0.5% and 1.5%. The main question asset managers were asking was this: «How can we earn 5% a year on average over the next five years in the current climate on financial markets?» It seemed clear to us that a rigid asset allocation with a high bond weighting was not the answer. Therefore, we chose a flexible asset allocation with a view to maximizing the probability of achieving or even exceeding our performance targets over a five-year horizon.

Broad diversification across asset classes
The more broadly a portfolio is diversified across the various asset classes, the lower its risk. We started allocating a share to alternative investments at an early stage, and this has proven worthwhile ever since. At the same time, real estate stocks, precious metals, and structured products with asymmetrical return/risk profiles also feature in this broad diversification.

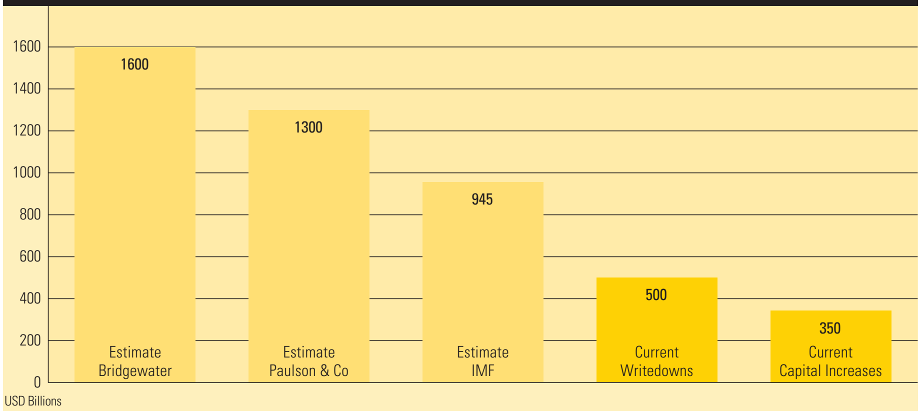
6.1% a year in the first five years
We have exceeded our targets in the first five years with a return just over 6% and even achieved an annual return of 4.9% in the difficult environment of the past three years. We are happy with these average results and convinced that this concept will continue to work in tough years thanks to our scenario-based forecasting.

Philipp Murer

A THIRD OF THE CREDIT CRUNCH IS BEHIND US …

… MORE WRITEDOWNS TO FOLLOW

ONLY ONE THIRD OF THE LOSSES HAVE BEEN BOOKED



Hardly a day goes by without more bad news from financial institutions, and the wave of writedowns continues unabated. The troubles in US subprime mortgages are still not over, but already new problems are popping up in such areas as prime mortgages, consumer loans, car leasing, and even corporate bonds. These will lead to further provisions and writedowns.

Losses totaling USD 1000-1600 Billion

Nobody knows how big the final loss figure will be. Even the experts' estimates differ by a wide range. The International Monetary Fund (IMF) expects losses of approximately USD 945 billion. John Paulson, whose hedge funds geared to the current crisis brought us such rich rewards last year, thinks they will add up to at least USD 1300 billion, while Bridgewater Associates puts the figure as high as USD 1600 billion. With writedowns to date standing at roughly USD 500 billion, we can infer that, at best, half of the crisis is behind us. In the more realistic worst-case scenario, on the other hand, we are only a third of the way through.

Capital increases stalling

The banks, which were able to raise USD 350 billion in new capital, can count themselves lucky. Rather less fortunate are the investors who put up this money to rescue the banks, all of whom are currently facing losses on their new investments. It comes as no surprise, then, that investors' appetite for these capital-raising measures has given way to queasiness. Recently, Halifax Bank of Scotland (HBOS) was only able to place 8% of its capital increase of about CHF 8 billion with the public. The investment banks which had underwritten the issue had to take on the rest, in spite of a significant discount. This is of course not what they wanted, since they, too, are looking to unburden their balance sheets. The window for capital increases thus appears to have closed for the time being, and the banks will increasingly be forced to sell off assets in order to improve their balance sheets. If even this proves unsuccessful, the last resort will be a more or less «transparent nationalization».

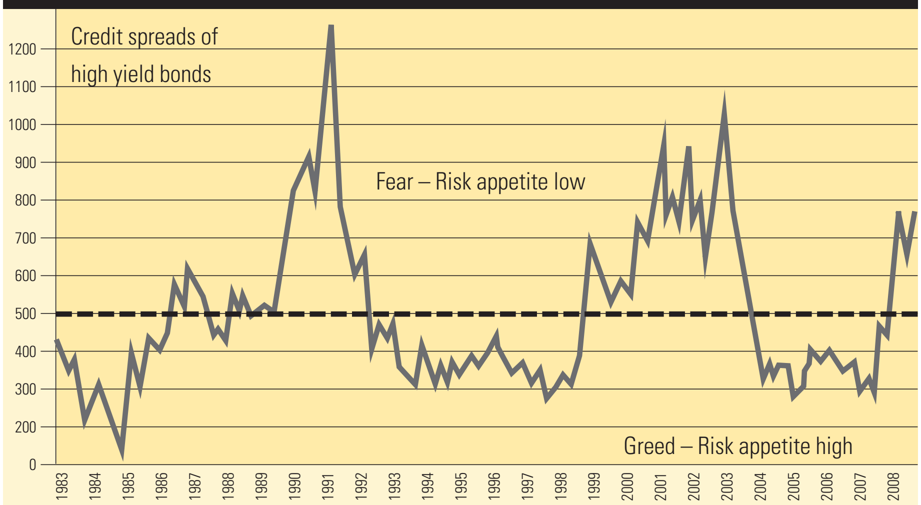
Economy negatively affected by more restrictive lending

While banks flooded the economy with credit in recent years, they have now cut back on their lending almost completely. Central bank interest rate cuts are of little use in this respect. The combination of higher financing costs and a tight supply of capital is putting pressure most of all on smaller companies and those with troublesome balance sheets. Default rates in corporate bonds are thus likely to rise as well.

The price is what you pay – the value is what you get

In terms of credit spreads, we estimate that a mere half has already been priced into the market. Hence, spreads on high-yield paper could rise from the current level of 7 percentage points to more than 10 percentage points. This process is likely to last at least another six months, possibly even a whole year. This opens up excellent investment opportunities in the long-run.

RISK PREMIUMS AT ATTRACTIVE LEVELS



Patrick Erne

CLOSER TO OUR ZURICH AND INTERNATIONAL CLIENTS

JÜRG STAUB ON THE OPENING OF THE ZURICH BRANCH

You are opening your branch in Zurich today. What prompted you to take this step?

Zurich is the biggest and most important economic area in Switzerland. Many of our clients are business owners or top managers. The idea behind this step is to be closer to these clients. Zurich is also close to the airport - hence, we can now welcome our international clients in Zurich at our own premises.

Why now, in the middle of major turmoil in banking and a crisis of confidence?

Timing is not the most important aspect for us. Much more important is that our philosophy and culture are properly represented in Zurich. We have built up a team with this in mind, and now we are ready. The fact that we are additionally profiting from the current banking crisis thanks to our structure with General Partners is more of a coincidence.

So what are you doing better than your competitors?

We want to be able to look our clients in the eye with just as much integrity in ten years' time as we do now. Identifying with them and taking responsibility are the be all and end all for our relationship managers. Our staff has no sales or revenue targets to meet. The focus is always on finding the best solution for the client.

Which services are you offering out of Zurich?

All our services for private clients are available in Zurich. These include integral investment management, overall strategy advice and consolidation, family office services, and structured solutions for families and entrepreneurs. We will also be offering unique and innovative pension fund solutions for top managers and self-employed professionals domiciled in Switzerland together with PensExpert. Finally, our Rütli Endowment offers some attractive solutions for wealthy private clients.

How do you ensure that the team in Zurich follows the Reichmuth & Co philosophy?

Primarily through leading by good example and a meticulous selection of employees. Our daily morning meetings are another key factor in keeping the culture, know-how, and market view up to date. Thanks to the quality of today's videoconferencing systems we can comunicate with the Zurich team as if they were in the room with us, and everyone is encouraged to bring ideas to the table right from the outset.

You have grown in recent years - too quickly, perhaps?

Dealing with growth is always a big challenge in a labor-intensive business. We are consciously pursuing organic growth rather than acquisitions. On top of this, we are restricting our growth to a level that allows us to ensure integration. It is crucial that existing clients only feel the positive effects of our organic growth.

Will you be opening any more branches?

No more are planned for the next few years.

What sort of clients are you looking for in Zurich and why?

Anyone who shares our client and investment philosophy, i.e. people who like to go their own way. Yet of course, the best thing to do is to get to know us by visiting us at our new branch in Zurich or in the «von Segesser Haus» in Lucerne.

Jürg Staub
General Partner

WELCOME TO REICHMUTH & CO IN ZURICH

We opened for business at Toedistrasse 63 in Zurich on September 1, 2008. Urs J. Beck (Head) and Antonio Lovecchio (both from October 1, 2008) as well as Remy Reichmuth, Patrick Seifert, and Nadine Kenzelmann look forward to welcoming you to our offices or arranging to visit you wherever you wish for a consultation. Our team subscribes to the Reichmuth & Co philosophy and will be glad to explain this and hopefully many other exciting ideas to you face to face. Simply visit or call us.

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