PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

SPECIAL EDITION
CHECK-UP

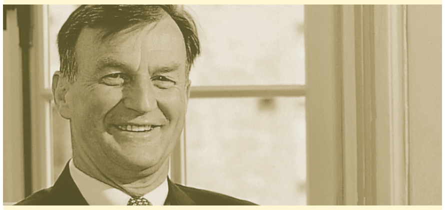
CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

CH-6000 LUCERNE 7 RUETLIGASSE 1 PHONE +41 41 249 49 29 WWW.REICHMUTHCO.CH NOVEMBER 2008

EDITORIAL

The fearsome autumn storm on the global financial markets prompted us to send you this special issue of Check-Up just two months after our last edition. Throughout the year, we have been looking at the credit crunch in our Check-Up. The title of our January issue was «US Credit Crisis has Global Impact», followed by «The Perfect Storm» in May and «Headwind – the Economic Downturn is Here» in September. Nevertheless, at hindsight our estimation one year ago that there was a 15% probability of a financial crisis was too optimistic.

In 2007, we were able to avoid losses completely. This has no longer been the case in 2008. All assets have slumped in the wake of the financial crisis, even gold and real assets such as real estate companies. History shows us that, after such a crisis, we have a few months' time to pick out the opportunities for the future. That is what we intend to do this time again, and we would be happy to discuss this with you.



Karl Reichmuth
General Partner

THE PERFECT STORM II

FROM CREDIT CRUNCH TO BANKING CRISIS …

For many years, everything in the world was rosy. Money was cheap, and risk premiums were very low. Risk was too cheap. We therefore sought to protect ourselves against a possible deterioration in this environment back in 2006. As a result, we were able to profit from the credit crunch in 2007 with the positioning of Reichmuth Matterhorn. In fact, around half of last year's performance of Reichmuth Matterhorn of more than 20% stemmed from this «insurance strategy». However, it did not remain a «normal credit crisis», and a banking crisis followed in the first quarter of 2008. We were able to protect ourselves rather well from this, too, given that we had low equity weightings and above all avoided exposure to financials. Yet, headwind prevailed, which then became a hurricane and led …

… to a systemic crisis

It began with the nationalization of half of the US mortgage market, and there seems to be no end in sight. Since Lehman Brothers went bankrupt, none of the banks trust each other any more. And when banks no longer trust each other, how can you expect clients to trust their banks? Panic ensued. Big banks teetered, and some were sold out of necessity or nationalized. This extreme form of crisis and its disastrous consequences were not as we had expected. Massive erosion of asset values took hold. The effects were felt across the board, and the portfolios entrusted to us unfortunately failed to escape unscathed as well. With the massive support packages totaling more than USD 3,000 billion the financial system appears to have been stabilized for the time being. Yet, confidence is gone.

… to a confidence crisis

Confidence is a precious gift. Once you lose it, it takes a long time to get it back. This is why a confidence crisis has major implications for the future. The obvious effects are massively lower asset values and unsatisfactory performance for all investors – even for clients of those banks that did not put their very existence at risk with own speculations.

Target returns – an absolute investment approach

Our investment approach has an absolute focus. This means that, depending on the individual risk profile, we position portfolios in such a way that the target

continued on next page

CONTENT

return can be achieved or exceeded on average over the investment horizon. Obviously, a target return cannot be achieved every year – but it should be manageable to achieve it on a 5-year average. Additionally, we also measure ourselves against our peers. We aim for a place in the first quartile over both three and five years. A look at Reichmuth Alpin and Matterhorn on pages 7 and 8, reveal that these have achieved their placing in the first quartile. For example, the return for Reichmuth Matterhorn has been comfortably within its target range of 8-10% per annum in its 11-year history. With Reichmuth Alpin, meanwhile, we are slightly below target after the strong decline in the third quarter.

Fear reigns

The record share price swings are being driven by fear. Currently, everything is sold, irrespective of the price. Only state-guaranteed fixed income instruments are in demand. Demand for physical gold is also rising, yet this is has no impact on the gold price as such. Experienced investors such as Warren Buffett take advantage of these phases. They do the opposite of what the masses are doing. Buffet is selling state-guaranteed nominal investments. They are a security illusion anyway. After all, it is the banking sector – the most heavily regulated sector – that is at the core of this crisis. Hence, does it make sense to rely on the state when it comes to investing your money? History shows us that we should know better.

Deleveraging

At present, reducing debt is still the order of the day. No bank offers new lending on an expansive scale. Healthy balance sheets and stable cash flows will be decisive for companies in the coming years. This will have an impact on the real economy. Both consumption and investment cycles have passed their peaks. Given the fear among investors, only states are in a position to further increase their debt.

Recession

Key pillars of the economy such as the real estate, construction, and automotive industries are facing major headwind. Private US and UK households are already feeling the financial strain. The emerging economies unfortunately remain heavily dependent on exports, so a noticeable slowdown in the global economy is inevitable. We are in the midst of the crisis. The US and Europe will not be able to avoid a recession. Even state-sponsored economic programs will not be able to change this.

Yet, it's not the end of the world

Recessions are there to reduce economic exaggerations. As soon as the excesses have been dealt with, the economies will grow again. Asia in particular is likely to continue catching up. The region's economies will increasingly shift their focus from exports to domestic markets. National debt in the West will continue to rise, posing the next challenge for our financial system in a few years' time. The simplest and most likely way of resolving the debt burden would be via inflation and currency depreciation.

Buy solid companies

This scenario means headwind for companies and their profit margins. Job cuts will be an issue in many sectors. However, the halving of share prices on the stock markets is already pricing in a recession. We assume that stock markets have already got more than three quarters of the setback behind them. Compared to the situation just one year ago, many stocks look cheap – assuming normalized profit margins.

Portfolio quality improvement

Right now, the focus is on improving portfolio quality. In the next phase – e.g. in 2009 – we intend to increase our allocation to equities. What we mean by «improving quality» is that, where stocks have suffered similar losses, we will switch into those offering higher quality. The latter are stocks with little or no debt especially in the utilities, energy, food, pharmaceuticals, and infrastructure sector.

Additionally, we are selling most structured products in favor of money market investments. With their asymmetric risk profiles, structured products have helped to limit losses. Certain products even contributed positively to performance since we anticipated falling share prices. However, interest rates are currently too low, while volatility and counterparty risks are too high. This means that there are scarcely any interesting ideas to structure products. The weighting of real estate investments is also now lower since these depend on debt financing. Alternative investments remain a key component in our asset allocation since hedge funds normally adapt quickly to new market circumstances and, hence, are able to exploit coming opportunities.

Precious metals have not fared as we expected in this crisis. We continue to hold them and will increase our positions on further pullbacks. As regards currencies, the outlook is very unclear. On the long-run, we remain positive on Asian currencies, neutral to negative on the USD and cautious on the EUR.

In such phases, discussions with you are important. We look forward to these.

Christof Reichmuth
General Partner

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

CONSENSUS	WORLD RECESSION	STAGFLATION	SYSTEM COLLAPSE	GROWTH
The financial crises continues, yet remains under control after the massive rescue packages. The economy weakens, in particular the European economies remain weaker than the US economy. The central banks continue to provide massive liquidity and hold base rates at very low levels since inflation is no issue.	The shortage of credit supply leads to further bankruptcies since debts cannot be refinanced. Unemployment rises, consumption falls and capital expense of firms dwindles. Only governments are still able to implement investment programs to stimulate the economy.	The extremely expansive monetary policy of the central banks leads to a rapid rise in confidence. The newly created Mega-Banks embark on an expansive credit policy and, against all odds, consumer confidence rises substantially.	The governments' rescue packages are of no use, fear spreads and further banks collapse. The social security and insurance systems falter as a consequence of falling bond prices. The real economy falls into a 1930-like depression and unemployment rises massively.	The financial crises abates slowly. Central banks are able to drain the previously provided liquidity over-supply of liquidity and start to raise rates again in order to fight inflation. Confidence returns. Economic growth rises in the US and therafter worldwide.
INVESTMENT IDEAS Infrastructure Utilities Japan Real estate stocks	INVESTMENT IDEAS Hold money market investments Bank bonds EUR inflation linked bonds Top equities without debt in the food, pharmaceutical, energy and infrastructure sector Avoid cyclical consumption Alternative investments (Distressed)	INVESTMENT IDEAS Inflation linked bonds Gold Short equities ETF EUR inflation linked bonds	INVESTMENT IDEAS Money under the mattress Short duration bonds Top equities (Nestle etc) Short equities ETF	INVESTMENT IDEAS Ultra-long equities ETF Banking and car stocks Emerging Markets
High Yield Spreads: 1000 bps	High Yield Spreads: 1200 bps	High Yield Spreads: 400 bps	High Yield Spreads: 2000 bps	High Yield Spreads: 300 bps
Probability: 30%	Probability: 50%	Probability: 10%	Probability: 5%	Probability: 5%

BUYERS OR SELLERS MARKET?

GREAT OPPORTUNITIES FOR THE FUTURE

The dramatic slump in share prices has seen the global equity index in CHF slashed in half within a year. Warren Buffett regards the stock markets as an offer – you can choose to accept it or not. Looking at the chart on the right, we do not see the current level as attractive for sellers. Quite the contrary is the case: it's a buyer's market. Therefore, we advise not to sell at these prices and instead recommend buying as soon as the bloodletting is over.

The chart at the bottom shows the credit spreads for companies with a low degree of creditworthiness. While greed is the dominant force whenever credit spreads are low, fear holds sway when they are high. Thus, financial markets decline when the curve is rising and rise when the curve declines. The best situation of all, therefore, is to be found at the peak of the curve, when spreads are high and are about to fall back. The last time this was the case was at the beginning of 2003. This year, we have the opposite scenario. Credit spreads are rising, and financial markets are in miserable shape. However, we have already reached historic highs on this curve. This is good news, since the time to buy risk (e.g. equities) is when the curve starts to turn around. This will probably happen next year. Then, you will be recompensed for the risk you take on.

WORLD STOCK INDEX HALVED WITHIN ONE YEAR

RISK HAS A PRICE AGAIN

INVESTMENT POLICY
NOVEMBER 2008

BASIS	CH	EU	USA	J	CHINA
Purchasing Power Parities					
Ned Davis Research		1.45	1.14	1.10	
GDP Growth					
actual	2.3%	1.4%	2.1%	0.7%	9.0%
6 months	↘	↘	↘	↘	↘
3 years	→	→	→	→	→
Inflation					
actual	2.9%	3.6%	4.9%	2.1%	4.6%
6 months	↘	↘	↘	↘	→
3 years	3.0%	4.0%	5.0%	2.0%	7.0%
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
Price/Sales	1.2	0.5	0.9	0.4	0.9
Dividend yield	3.1	6.0	3.3	2.8	4.5
Price/Book	1.7	1.1	1.8	0.9	1.2
Price/Earnings actual	25	8	20	10	7
Price/Earnings estimate	14	8	11	11	7

FORECAST	CH	EU	USA	J	CHINA
Money Markets (3 months)					
actual	2.9%	4.9%	3.5%	1.0%	4.2%
6 months	↘	↘	↘	↘	→
Swap Rates (10 years)					
actual	3.3%	4.3%	3.9%	1.5%	n.a.
6 months	↘	↘	↘	↘	n.a.
3 years	→	→	→	→	n.a.
Currencies					
actual		1.46	1.15	1.24	0.17
6 months		→	→	→	→
3 years		↘	↘	↗	↗
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
actual	4’680	4’300	880	800	5’800
6 months	↗	↗	↗	↗	↗
3 years	↗	↗	↗	↗	↗
Real Estate Market	→	→	↘	↘	↘

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: October 24, 2008

MARKET OUTLOOK
NOVEMBER 2008

Since the publication of our MARKET OUTLOOK for the 3rd trimester of 2008, the crisis on financial markets has heightened. There has been a further massive rise in the already very high credit spreads for banks and industrial companies, making borrowing practically impossible in an increasing number of cases. Given that this posed the threat of a complete collapse of the financial system and the interbank system, the key states and central banks decided to intervene with comprehensive support measures. These included making it easier for banks to obtain liquidity from the central banks, cutting key interest rates, and governments taking over bad debts. Some states have gone as far as taking a direct stake in banks and thus partially nationalizing them. This package of measures has had an impact. A systemic collapse has been averted, and the situation on the financial markets will gradually calm down. However, the state intervention has come at a price. Governments have obviously increased their influence on the economy, thus reversing the trend seen in recent years, which was characterized by the privatization of many formerly state-run operations such as postal services, telecom providers, utilities, etc. and by deregulation. National debt – which had been steadily reduced until recently in the European countries, for example – will also rise again sharply. This, coupled with the central banks' generous monetary policies, could strengthen the inflationary impetus again over the longer term. The financial markets are starting to function again, more or less, but the global recession is continuing to bite harder. In addition to the US, it will above all hit Europe, with the extent varying from country to country. Lower commodity prices mean that the commodity-producing countries are also feeling the economic downturn.

CURRENCIES

Repatriation of investments and deleveraging has led to strong currency shifts. The USD is trending firmer temporarily. The JPY is becoming very strong, and the CHF is also gaining against the EUR.

It is actually astounding that confidence in the USD has remained undiminished thus far despite the pronounced economic downswing, the burgeoning national deficit, and the still strongly negative current account balance. However, a weaker USD is to be expected over the long term. The shifts in exchange rates have above all been shaped by the unwinding of many carry trades, which have thus far favored the high-interest currencies.

INTEREST RATES

Central banks are ensuring a generous money supply, and the recessive economic trend is keeping interest rates doggedly low. Real interest rates will remain at very low levels.

The crisis on financial markets is forcing central banks to provide money markets with large amounts of liquidity. Therefore, even after the recent coordinated interest rate cuts around the world, interest rates are still more likely to be reduced further than increased again. The actual market rates (LIBOR, swap), which are still significantly higher than the headline rates and government bond yields due to the uncertainty on the markets, are likely to come back down somewhat as confidence gradually returns. This means that, despite the tendency toward declining inflation rates, real interest rates will remain negative for a longer period. Hence, a renewed rise in interest rates is only on the cards over the long term.

The exceptionally high risk premiums seen at present, above all in the case of borrowers from the financial sector, will ease back over time. These offer major opportunities for specialized investors.

STOCK MARKETS

Following the protracted and in some cases very turbulent downswing, stock markets seem to have established a foothold at a low level. We do not expect any further major slumps. Good-quality firms with no debts will benefit.

The stock markets are mostly down around 30-50% year-on-year. Volatility is extremely high, both in intraday terms and over several days, with week-on-week changes of more than 20% in some cases. Based on the data currently available, current valuations have become attractive on average. However, as the economy weakens further going forward, earnings will probably come under stronger pressure than is generally expected. Therefore, we expect the trend to remain more or less flat for the time being, with volatility remaining persistently high. Consequently, it is advisable to concentrate on investments in defensive stocks, i.e. companies with little fluctuation in their earnings, low levels of debt, and high, secured dividend yields.

Dr. Max Rössler

PORTFOLIO OF THE FUTURE

OUR FUTURE ORIENTED MODULAR CONCEPT

%	WHAT	HOW	RETURN*	VOLATILITY*
40%	Fixed Income	Money market investments Short duration Bonds EUR inflation linked Goverment bonds	2-4%	4%
22%	Equities	Scale in – Scale out concept. Stocks without or little debt and stable cash flows Country and sector ETFs, actively managed Food, Health, Energy and Utilities	8-10%	15%
5%	Structured products	Asia FX against EUR and USD, Japan bull strategy	10-15%	8%
25%	Alternative Investments	Reichmuth Matterhorn or third party instruments Reichmuth Himalaja	8-10% 10-15%	< 5% < 10%
3%	Real Estate	1/2 Switzerland, 1/2 Asia reits	5-8%	15%
5%	Commodities	Precious metal forwards / gold physical	8-10%	10%
		Total	**5-9%**	**approx. 6%**

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

REICHMUTH HIMALAJA – SHARE PRICE SLIDE IN ASIA

ASIA HAS NO DEBT PROBLEM – PATIENCE AND STAMINA REQUIRED

The Asian stock markets have also been hit hard by the current financial crisis, despite the fact that most of the region's companies are fundamentally healthy. They have no debts and high available cash reserves. Yet, panic selling has led to disproportionately high losses in this promising region. The impending recession in the US and Europe is putting pressure on Asia's export economy, wherefore much has already been priced in.

ASIAN STOCKS ARE CHEAP

24.10.08	Index	VALUE	P/B	P/S	P/E
Japan	Topix	-45%	0.9	0.4	11
China	HSCEI	-65%	1.2	0.9	7
Hong Kong	HSI	-55%	1.2	1.6	9
Vietnam	VNI	-65%	n.a.	n.a.	10
Singapore	Straits	-55%	1.0	0.9	8
India	Sensex	-57%	1.9	1.2	9

Asia continuing to grow

Thanks to its fast-growing middle class, rising incomes, and higher consumer demand, Asia is poised for much stronger growth than the West. We have been investing in Asia with Reichmuth Himalaja for nearly five years now. The portfolio invests mainly in equity-related strategies, and this has certainly taken its toll. With a performance of -24% up to the end of September, Reichmuth Himalaja was able to avoid half of the slump, where the Asian markets have lost 40% to 70%. While our alternative investment focus is increasingly on distressed securities in Europe and the US, we believe the greatest opportunities in Asia are on equity markets. Thus, Reichmuth Himalaja offers long-term investors an attractive investment opportunity focusing on Asia. Hence, we will probably be advising investors to increase their positions in the course of the next year.

Rolf Rathmayr

REICHMUTH ALPIN ALSO AFFECTED BY THE FINANCIAL CRISIS

LOSSES IN ALL ASSET CLASSES

Reichmuth Alpin is a strategy fund, which is in compliance with the Swiss OPP2 guidelines (BVV2). Our concept is based on broad diversification in terms of both asset classes and individual investments. In previous years, this has allowed us to exploit good investment opportunities while keeping volatility relatively low. The fund's approach to diversification means that its performance should fluctuate less than that of comparable investment funds. We target an average return of 5% per annum over a five-year investment horizon.

Financial crisis hits all asset classes

Since mid-year and in particular since September 2008, all asset classes – with the exception of government bonds and money market investments – have suffered under a panic-stricken wave of selling. Despite the broad diversification and a strategy geared toward difficult periods, Reichmuth Alpin suffered a negative performance of -4.6% in September and -10.5% year to date. Due to these events, the average return of +4.5% per annum over five years investment horizon is slightly below the target return.

REICHMUTH ALPIN IN COMPARISON

Data as of 30.9.08	YTD	Ø 5 Years	Volatility
Reichmuth Alpin	-10.5	4.5	4.4
Pictet BVG 40 Index	-9.5	4.0	5.9
CS Balanced	-14.2	2.5	7.5
UBS Balanced	-13.3	1.6	6.3
BAER Balanced	-14.2	2.3	7.3
Pictet Balanced	-14.9	1.7	7.1
Swisscanto Balanced	-13.5	3.1	7.0

PS: These values are based on the data as of the end of September. At the time of going to press (October 23, 2008), the Pictet BVG-40 Index was down 7% for October. The fund performance figures will probably be on a similar scale.

All are affected

In such crisis periods, the effects are felt across the board. Cross-comparisons do not make the performance any more attractive, but we are nonetheless ahead of the Pictet BVG-40 pension fund index (before costs) and comparable balanced funds offered by our competitors.

Were mistakes made?

Although our investment committee dealt with the scenario of a financial crisis at an early stage, we believed the probability of this becoming reality was too low to structure the portfolio in line with this shock scenario. Can this really be done anyway? And if it can, how long can it be maintained? One positive aspect was that we avoided riskier counterparties due to this scenario and, therefore, were not directly affected by the default of Lehman Brothers. We had already broadly diversified the portfolio of Reichmuth Alpin and given it a defensive positioning some years earlier. What is annoying, however, is that 2% of this year's negative performance was attributable to the precious metal positions in gold and silver that were build up as a hedge against a crisis period. The foreign real estate stocks (above all in Eastern Europe and Asia), which are based on real assets, also reduced the overall performance by more than 2%. In a very short term view, only money market and cash were good investments. The other assets classes – indispensable for any diversification – are aimed at the longer term.

Will losses be recouped?

The bulk of the negative performance will be recouped. As an example, let us take bank bonds. Their prices have fallen in the wake of the crisis. However, given that we are not expecting these banks to go bankrupt, these book losses will eventually be recouped. Non-recoverable losses are those that have to be realized. Nevertheless, losses on real estate stocks in Eastern Europe and Asia can probably only be regained partially given that they are having to carry out highly dilutive capital increases, and the scarcity of credit means they will be in a difficult position for some time. Precious metals, too, have led to book losses. Gold is down 10%, silver as much as 30%. With the current increase in money supply, we expect precious metal prices to rise in the future. This is likely to be the case as soon as the deleveraging process has been completed.

Many cheap pickings at present

Greed and fear offer poor counsel. Many investors are understandably afraid, but the financial system will not collapse. Against such a backdrop, there are good opportunities for future investment successes. Even in such a crisis our goals remain unchanged. Negative performance is not something anyone is pleased with, and we are not satisfied with it either. However, it is in fact because of the crisis that we are confident that we will be able to achieve or exceed the targets going forward. Investors who do not have to sell should not sell. We expect the performance of Reichmuth Alpin to bottom out late this fall, after which we will have positive results to report to you once again.

Philipp Murer

SOLID PERFORMANCE OF REICHMUTH MATTERHORN

MATTERHORN CONTINUES TO HOLD UP WELL IN 2008

Reichmuth Matterhorn has already mastered a number of market corrections and crises since its launch in 1997. That said, September and October 2008 undoubtedly presented its biggest challenge to date. This was due to the sudden systemic risks, which can hardly be hedged. Market losses can be recouped as long as you are not forced into realizing them, and counterparty risks can also be adequately dealt with in properly functioning markets. However, if several major financial institutions are teetering all at once, fear takes over, and the markets stop functioning properly. What follows is a barely controllable chain reaction with erratic markets and price slumps. In such an environment, it is all but impossible for anyone to operate normally – hedge funds included.

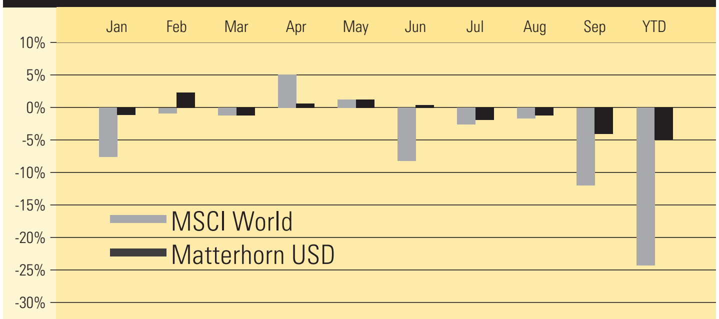
All-weather concept

Reichmuth Matterhorn is set up in such a way that it can generate positive returns in normal bear markets such as in 2001 and 2002. Yet, during a period of a global stock market crisis, we anticipate that it will participate up to one third in the negative performance. We have actually managed to fare better than that in the current crisis. In the year to the end of September, the global equity index lost approximately 24%. In the same period, Reichmuth Matterhorn slipped back just 5.5% (in USD).

Good performance irrespective of the starting point

Experience shows that, in crisis periods, the time horizons of investors quickly become unreasonably short. We can be satisfied to have relinquished only around a quarter of the excellent performance we achieved last year. The annualized performance in USD over the past five years stands at a very good 9.7%. This is within our target bandwidth of 8-10% over a five-year horizon.

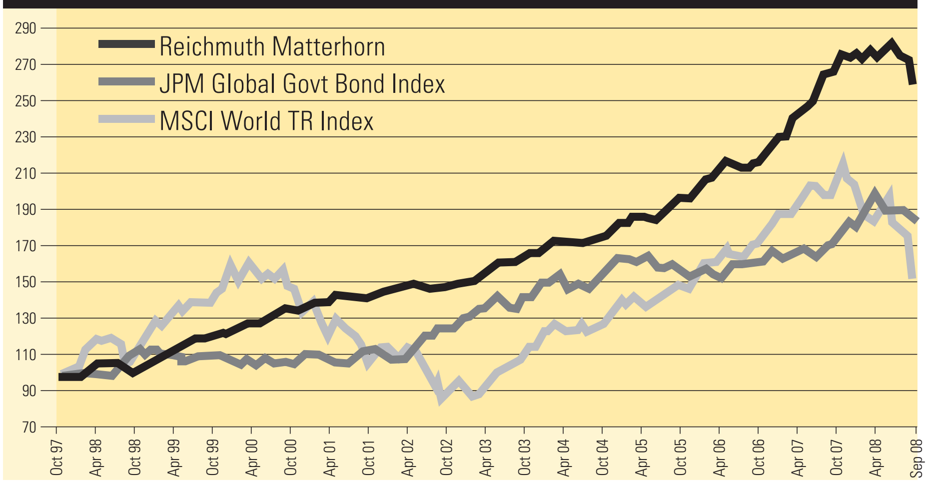
STABILITY – ABOVE ALL DURING DIFFICULT MONTHS



Forward-looking focus

The portfolio has been defensively positioned for many months now. Thus, we have held higher cash positions and avoided all highly leveraged strategies. We have also made judicious use of hedging strategies. There are now massive investment opportunities in both the credit and stock markets, the likes of which are only seldom seen. As the economy weakens, the default rates among corporate bonds will increase. This is an ideal environment for specialists in the field of non-performing credits, many of which are already trading at distressed levels. Added to these are securitized mortgage, consumer and takeover loans. Many of these have had to be sold in recent months at any price that could be obtained, and they are trading at a fraction of their fair value. Given these opportunities, we will increasingly be gearing the portfolio toward such strategies over the coming months.

REICHMUTH MATTERHORN WITH STABLE PERFORMANCE SINCE 11 YEARS



Very promising outlook

We expect to see further above-average volatility on financial markets in the coming months. Trust in the financial markets cannot be restored overnight. We will therefore be restructuring the portfolio gradually. The measures put in place and the slight easing in banks' CDSs (i.e. credit default swaps) offer grounds to be optimistic that the worst of this crisis is already behind us.

Patrick Erne