PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

Looking back over the year has never been so hard. The private banks that focus entirely on serving their clients escaped the effects of the crisis for a long time. In October, however, even we – and thus also, we are sorry to say, you – began to suffer under the worst financial turmoil since the Great Depression. And then in December we were hit by the worst case of fraud in history.

That said, this issue of Check-Up aims to take a longer look back and put everything into a wider context. The past year has once again painfully demonstrated that, in our society, nothing works without trust: trust in values, in markets, and in the people we work with. We would like to thank you for placing your trust in us. Ensuring that we deserve this trust day by day remains our primary goal.

Jürg Staub
General Partner

TOMORROW ALWAYS COMES

A LIFE WITHOUT CONFIDENCE IS NO LIFE AT ALL

The financial crisis brought with it unbelievable events in 2008. Asset values fell dramatically around the world. New orders went from record levels to a standstill. Confidence took a beating after various scandals, causing consumer and investor sentiment to take a turn for the worse.

One crisis after another

The credit crisis dominated in 2007, the banking crisis in 2008, and an economic crisis looks set to be the big story of 2009. The world's central banks, governments, and politicians have been spurred into action. The US Federal Reserve, the Swiss National Bank, and the Bank of Japan are now offering money virtually for free. However, most firms are hardly in a position to take advantage of this money in view of the gloomy economic outlook, and those that are have to pay a much higher price for it because credit spreads, which are supposed to reflect risk levels, are higher than ever (see chart on page 2).

Putting a higher price on risk

Three years ago, the price of risk was far too low. We therefore hedged against the expected price increase. This led to a very good 2007 performance for Reichmuth Matterhorn, our fund of hedge funds, which gained more than 20%. The price of risk is now higher than at any time in history, higher even than in the 1930s. We see this as a clear sign that it is now time to exploit this unique opportunity on the downside. Unfortunately, however, the events of 2008 mean that only a very small number of investors can afford to bring up the courage to bet on falling risk premiums.

Crisis of confidence

The problem is very deeply rooted: there is a lack of confidence. So much confidence was lost after Lehman Brothers went bankrupt that the stock markets shed about a third of their value within a month. New orders slumped, marking the start of a genuine demand shock. Commodity prices, which had still been rising sharply earlier in the year, tailed off markedly, dragging inflation expectations and thus also central bank interest rates down with them.

What will 2009 bring?

Interest rates will remain low in the new year. Inflation will fall, too – if only as a result of the basis effect. A significant year-on-year fall in the price of

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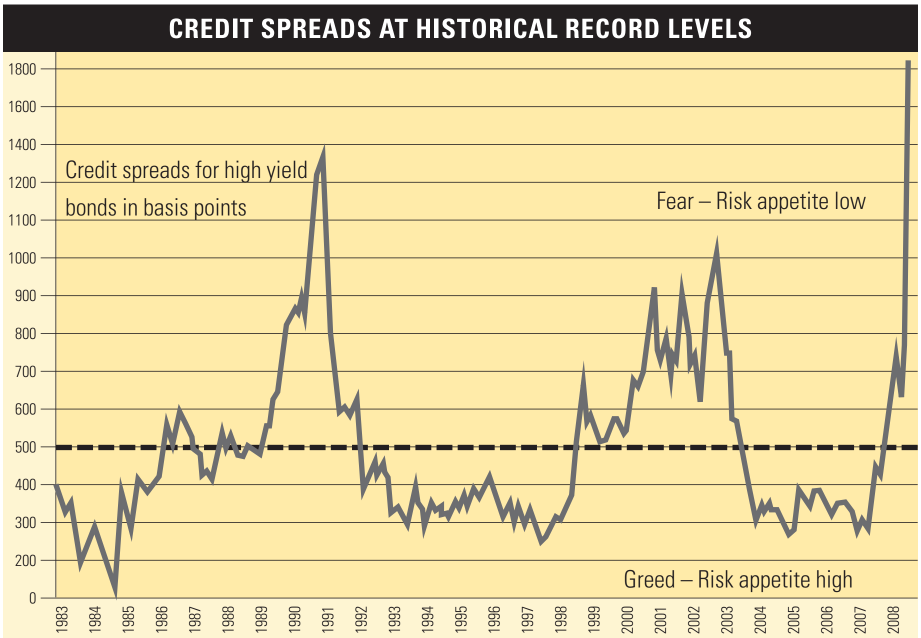


commodities (including oil) will see to this. Further bad news is on the way in 2009. Companies will cut costs, and unemployment will rise. Earnings expectations are also under pressure. Things will get especially tough in the new year for firms that have debts to refinance. Refinancing will be scarce and at best expensive. Meanwhile, mortgage rates for conservatively financed homes will be attractive in 2009.

Yet, tomorrow always comes

And yet, once again, the world will not come to an end. Overcoming the global economy's current troubles will of course take time. Patience will be a virtue going forward. Markets will show a tendency to exaggerate on both the upside and the downside. The outlook for the real economy remains poor, but the financial markets' prospects will improve.

Monetary and fiscal policies to have delayed impact

We cannot expect the central banks' considerable efforts to have an immediate effect. The impact of governments' economic packages will also come with a certain time lag. When the effects do start to emerge, which is unlikely to happen before the second half of 2009, equities and higher-yielding bonds will be the assets to hold. This environment should provide outstanding opportunities for alternative investments such as hedge funds. That said, however, pressure from redemptions around the world will make it hard for them to take advantage of these opportunities. We continue to advise holding gold, for example through funds (ETFs) that hold physical gold. Structured products are less attractive. They are mostly combinations of money-market paper – for which interest rates are currently too low – and options – which are currently too expensive. In addition, they involve a counterparty risk, which should be reduced in the present environment through broad diversification.

Will expansionary monetary policies work?

Monetary policy always has an impact first of all through the banking system. Since, at present, this is barely able to pass on low interest rates (apart from for completely safe loans), the impact of lower rates will be limited for the time being. Once the banking system stabilizes, which will probably require further nationalizations, the full effect of monetary policies will be felt. Central banks have already begun to break entirely new ground. They are now lending on lower-quality paper. It seems that they will soon no longer be merely lending on such paper but in fact buying it outright. This will make them asset owners, and the money supply will be increased. In principle, they can buy other assets so as to bolster the money supply even more. The question then, however, will be how long confidence in currencies can be maintained. Caution is thus advised on the currency front.

Investment concept for 2009

The banking crisis is not over yet. This means that diversification remains paramount. Cash is king, but only from a short-term perspective. A large cash position was helpful in restricting the losses during the disastrous investment year of 2008, but the money market is now paying virtually no interest at all. Aside from a few isolated opportunities on the money market, short-dated corporate bonds are attractive. The rule here is to buy bonds from companies that have lots of customers and thus strong cash flows. In equities, large caps should be favored for now, preferably those with little or no debt. These are to be found in sectors that cover basic needs such as food, energy, and healthcare. In alternative investments, strategies such as those in distressed securities look attractive for the coming years. However, these are not so liquid, and alternative investments are currently undergoing a wave of redemptions, the impact of which is hard to gauge at present. All in all, 2009 is set to be another difficult year, marking a watershed where either the world languishes in deflation or the attempts to re-inflate the economy start to work.

Christof Reichmuth
General Partner

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

CONSENSUS	CYCLICAL DEFLATION	DEPRESSION	STAGFLATION	GROWTH
The financial crisis is followed by an economic crisis, but this does not spiral out of control. The economy weakens. Central banks continue their liquidity injections and reduce headline interest rates toward zero. Inflation is off the agenda for the time being. The economy gradually gains a foothold.	There is an economic crisis in 2009 with a lot of firms going bankrupt and unemployment rising. Inflation falls, if only due to the basis effect. Central banks fight deflation with extreme measures (quantitative easing, buying of assets). Deflation ends in 2010, giving way to a gradual economic recovery, but also to renewed inflation.	Governments and central banks fail to restore confidence. The economic crisis spreads. Pension systems collapse. Bankruptcies and unemployment take on massive dimensions. The deflationary spiral speeds up. Investing in assets is avoided wherever possible.	The central banks' extremely expansionary policies keep core inflation rates well above zero despite a further downturn in the economy. Confidence in the central banks and the value of money evaporates. The economy only recovers slowly and weakly.	The financial crisis subsides. There is no economic crisis, just a brief recession. Central banks drain back excess liquidity. Confidence is slowly restored. Economic growth returns to positive territory around the world in 2009.
INVESTMENT IDEAS Diversified money market Corporate bonds ETFs in high-yield bonds Low-valued stocks (Japan and Asia)	INVESTMENT IDEAS Diversified money market Bonds from firms with strong cash flows Stocks with no debts and high dividends Inflation-linked bonds once deflation bottoms out	INVESTMENT IDEAS Government bonds Stocks of surviving firms Farms with land Precious metals	INVESTMENT IDEAS Inflation-linked bonds Real estate with good yields Stocks with dividends Precious metals	INVESTMENT IDEAS Short bonds High-yield bonds High-beta stocks Emerging markets Commodities
High Yield Spreads: 1800 bps	High Yield Spreads: 2000 bps	High Yield Spreads: 3000 bps	High Yield Spreads: 1000 bps	High Yield Spreads: 500 bps
Probability: 40%	Probability: 40%	Probability: 10%	Probability: 5%	Probability: 5%

PORTFOLIO OF THE FUTURE

DIVERSIFIED AND FUTURE-ORIENTED – ADJUSTED TO PREVAILING MARKET CONDITIONS

EX.	BUILDING BLOCK	IMPLEMENTATION	RETURN*	VOLATILITY*
40%	Fixed Income	Money market investments short duration Bonds Corporate Bonds of secure banks and firms with stable cash flows EUR inflation-linked Government bonds	2-4%	4%
25%	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	10%	15%
5%	Structured products	Asia FX against EUR and USD, Japan bull strategy	10-15%	8%
20%	Alternative Investments	Reichmuth Matterhorn or third party instruments Reichmuth Himalaja	8-10% 10-15%	< 5% < 10%
5%	Real Estate	1/2 Switzerland, 1/2 Asia Reits	5-8%	15%
5%	Commodities	Gold and Silver physical (ETF ZKB or Julius Baer)	8-10%	10%
		Total	**5-9%**	**approx. 6%**

*Expected average return and volatility over the next 5 years – no guarantee

INVESTMENT POLICY
JANUARY 2009

BASIS	CH	EU	USA	J	CHINA
Purchasing Power Parities					
Ned Davis Research		1.52	1.16	1.11	
GDP Growth					
actual	1.6%	0.6%	0.7%	-0.5%	9.0%
6 months	↘	↘	↘	↘	↘
3 years	→	↗	↗	↗	→
Inflation					
actual	1.5%	2.1%	1.1%	1.0%	2.4%
6 months	↘	↘	↘	↘	→
3 years	2.0%	3.0%	3.0%	2.0%	5.0%
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
Price/Sales	1.1	0.5	0.9	0.4	1.2
Dividend Yield	3.2	5.4	3.3	2.7	3.5
Price/Book	1.7	1.2	1.7	1.0	1.6
Price/Earnings actual	27	10	19	13	10
Price/Earnings estimate	19	11	12	18	10

FORECAST	CH	EU	USA	J	CHINA
Money Markets (3 months)					
actual	0.7%	3.0%	1.5%	0.9%	1.9%
6 months	↘	↘	↘	↘	→
Swap Rates (10 years)					
actual	2.5%	3.7%	2.5%	1.3%	5.8%
6 months	→	→	→	→	n.a.
3 years	↗	↗	↗	↗	n.a.
Currencies					
actual		1.50	1.05	1.16	0.15
6 months		→	→	→	→
3 years		↘	↘	↗	↗
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
actual	4'530	4'700	870	860	7'800
6 months	→	→	→	→	→
3 years	↗	↗	↗	↗	↗
Real Estate Market	→	→	↘	↘	↘

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: December 29, 2008

MARKET OUTLOOK

1st TRIMESTER 2009

INTEREST RATES

Central banks will cut rates further toward zero. Long-term yields may also fall a little further. Over the longer term, a rise in rates is to be expected.

Central banks are still under pressure to maintain highly expansionary monetary policies in order to combat the financial crisis. Headline rates have rarely been cut so quickly and in such large steps. At present, given the sharp decline in commodity prices and the economic downturn, central banks have no grounds to expect a negative impact on the inflation front. Government bond yields have fallen to very low levels by historical standards, reflecting strong demand for secure investments against an uncertain backdrop, even though they barely offer any return. However, the huge increases in the money supply conceal the risk of a surge in inflation further down the line. While central banks stress that they will normalize their monetary policies again as soon as confidence returns to the financial markets, a certain amount of re-inflation effort is probably needed to overcome the debt problems. Therefore, from a longer-term viewpoint a renewed increase in rates must be anticipated.

Yield spreads on corporate paper relative to government bonds are extraordinarily high. Hence, very high default rates are priced in. If governments and central banks succeed in averting a protracted economic crisis and thus a spate of bankruptcies, bonds from selected, well financed companies with strong and stable cash flows will be attractive investments at their current, high yield levels.

CURRENCIES

The USD is tending toward weakness. The EUR is profiting from comparatively high interest rates. The JPY has become strong.

It was only to be expected that the financial and economic crises, which originated in the US and are having the biggest impact there, would put the USD under heavy pressure. The longstanding imbalances in the current account and capital flows have remained in place or even worsened. The USD in fact held up astoundingly well for a long time and has only recently started trending weaker again. From a long-term perspective, the USD can be expected to fall further, since the US's key creditors, namely China and Japan, are unlikely to allow their USD investments to keep growing.

The EUR is being supported by high interest rate levels relative to the other main currencies. It initially recouped more than half its prior sharp fall against the CHF from summer 2008 onward but has lost it again recently. Over the long run, a rate around or below CHF 1.50 is to be expected.

The commodity currencies AUD, CAD, and ZAR depreciated sharply to begin with but have stabilized at low levels of late. The RUB, on the other hand, which is heavily dependent on the oil price, is only now coming under considerable pressure. Demand for commodities will wane due to the global economic downturn. These currencies are thus likely to remain weak.

STOCK MARKETS

Equities had one of their worst years ever in 2008. Corporate earnings are falling sharply. A lot of bad news is priced in.

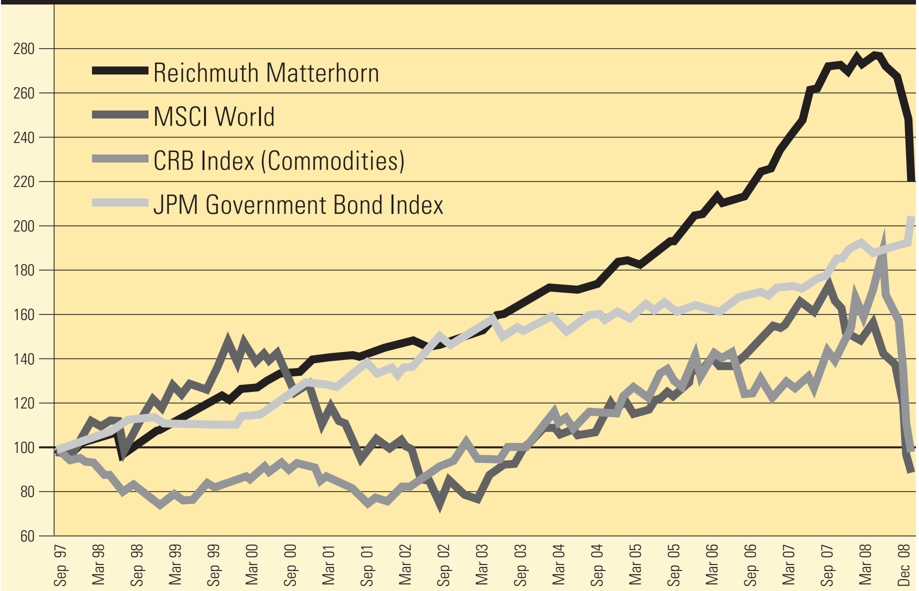
Stock markets have lost further ground in recent months. Most equity indexes fell by almost half in 2008. The financial sector above all was affected at first, then other sectors suffered badly later on when the financial crisis spilled over into the real economy. Highly leveraged companies in particular are feeling the effects of the banks' extreme reticence as regards lending and are having increasing difficulty ensuring the continued financing of their business. However, companies with sound finances are also seeing their earnings fall due to a drop in order intake and insufficient capacity utilization. Meanwhile, stock market valuations are now very low and in some cases well below net asset value. Equity markets should thus trend more or less sideways in the near term while remaining highly volatile in view of the considerable uncertainty over how the economy will develop going forward. With this in mind, it is advisable to take a cautious approach for now and focus on quality in stock selection. Price exaggerations on the downside may present buying opportunities. Stock prices can definitely be expected to stage a strong recovery over the very long term.

Dr. Max Rössler

ARE HEDGE FUNDS ATTRACTIVE OVER THE LONG TERM?

SHORT-TERM HEADWIND FOR HEDGE FUNDS

REICHMUTH MATTERHORN COMPARED TO STOCKS, BONDS AND COMMODITIES



The fraud case involving Bernard L. Madoff has further shaken investors' confidence at an already difficult time. What does this mean for alternative investments and the hedge fund industry in general?

No one is safe from fraud

Fraud cases are sadly not uncommon. At the start of the decade, high-profile cases included Enron, Worldcom, and Parmalat, all respected, publicly owned companies that were listed on the stock exchange. Stockholders and bondholders were the ones who suffered back then. As regrettable as such losses are they are no reason to turn your back on a whole asset class. We believe the same is true for hedge funds in the wake of the Madoff scandal.

Downsizing and clearing up

The hedge fund industry has been undergoing a clear-up process since the credit crisis began. Among the reasons for this is the general loss of confidence on the part of the investors and the increased «deleveraging». When the financial crisis came to a head in the fall of 2008, this process speeded up further. The wheat will be separated from the chaff going forward, and the number of hedge funds may well be halved once the unsuccessful providers are out of the picture. In spite of the painful losses incurred due to the Madoff fraud case, we have shown with our Reichmuth Matterhorn fund of hedge funds that we are capable of finding good hedge fund managers.

7.4% Performance per Year

Matterhorn outperformed the hedge fund benchmark in 2008, even after accounting for the Madoff losses, and has posted a respectable annual return of 7.4% on average since its inception in 1997. We are convinced that we will be able to enjoy further success in our manager selection in the future, choosing hedge fund managers whose specialist knowledge in specific market segments adds lasting value for investors. So which strategies will we be following?

Attractive strategies

Currently, we view the «distressed securities» segment as attractive. Credit spreads are at record highs, and prices for these securities are low. With distressed strategies, managers acquire non-performing loans and bonds from companies in need of restructuring at discount prices. They then actively exert their influence and implement restructuring measures to steer these companies toward a turnaround. Once the debts are restructured, the securities can be sold on at a profit. In the current climate in particular, with investors avoiding all risks and very high premiums being paid to anyone who will take on risk (see chart on page 2), we believe the prospects for distressed strategies are very good.

Market crises are always opportunities, too

We also see further opportunities amid the current turbulence on the markets due to certain investments being grossly misvalued. «Global macro» managers attempt to exploit these valuation inaccuracies. A good example from the past is George Soros, who successfully bet against the Bank of England on a devaluation of the British pound at the start of the 1990s.

Positioning of Reichmuth Matterhorn

We intend to gear our alternative investments component to these highly promising strategies. At present, it is impossible to gauge the full impact the current outflows from hedge funds will have on this intended repositioning. We will inform our clients and investors directly of the latest developments in this regard as they happen.

Dr. Ricardo Cordero
Partner

OUR GUIDELINES FOR A DIFFICULT YEAR

WEALTH CAN ONLY BE BUILT UP ON THE MARKETS

Last Christmas, I was writing for my book «Weg aus der Finanzkrise – Entscheid und Haftung zusammenführen» (translation: Ways out of the Financial Crisis – Reuniting Decision-Making Powers and Accountability), in which I anticipated hard times for governments and banks. Like almost everyone, however, I did not imagine a crisis so severe that it would shake our entire financial system to its foundations. What happened was that a lack of confidence brought lending to a standstill, and the value of investments plummeted.

The difficulties will continue into the new year until confidence returns to markets and thus also among investors. This makes it all the more important to observe the following rules for long-term asset preservation:

1. Stop being (too) short-term oriented
It is understandable that nearly all investors are disappointed with their portfolios after a year such as the one just ended. Rather than bemoaning what they have lost, however, they should be thankful for what they still have. They must not forget where it came from, i.e. the good years in which a carefully thought-out diversification allowed them to achieve a performance far better than those who merely put their money into savings accounts, as our comparison of various investment funds shows (see chart).

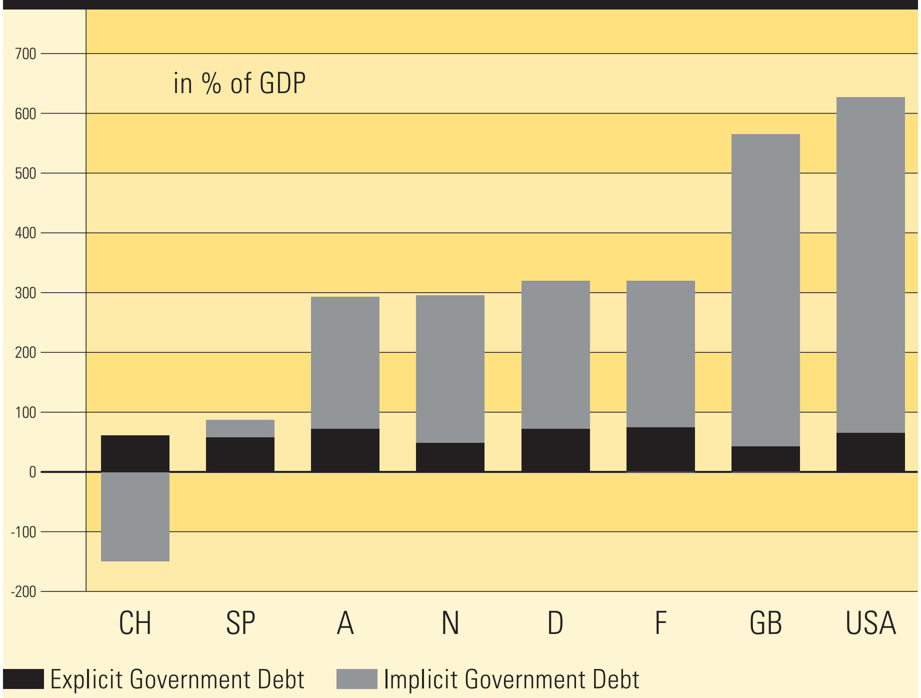
Sadly, it is a sign of the times that we measure success year by year or even quarter by quarter, especially when it comes to investments. In most cases, this bears no relation to an investor's true time horizon. It is bad for the portfolio and does nothing to improve the investor's sentiment. We have to remember that building up assets is a long-term process, although it goes without saying that the money must remain available at all times for upcoming expenditures.

Whoever thinks in terms of generations, must consider that at all times there has been inflation. Over the last 15 years, financial assets have been able to gain in value. At the same time, base inflation remained modest. Hence, last year's market slide of approximately 40% can be viewed as a correction of the profits accumulated over the last 15 years. For example, ever since 1993, after the mortgage crisis in Switzerland, the Swiss market indices rose by approximately 145%, even when taking last year's correction into consideration. Hence, the financial crisis has just reverted financial markets back to normality, after they had taken off from the real economy since 1993.

2. Question excessive faith in the state
In the last year, only those who put all their faith in the security of the state were able to protect themselves against losses. Western states took on debts in truly inflationary style in order to prop up their financial systems. Over the long term, however, they will not even be able to afford the pension and healthcare payments they had already committed to, as the chart detailing the key countries' implied national debts shows.

Unlike anyone else, the state can print new money because it controls the national currency – yet this rarely ends well. Over the longer term, it leads to inflation or a currency reform. We can see this if we take a look back. Before the First World War, the Gold Standard – which had ensured stable or even falling prices during the 19th century – collapsed. After that, the Germans went through three currency reforms, and the French stroke off two, and the

INTERNATIONAL COMPARISON OF EXPLICIT AND IMPLICIT GOVERNMENT DEBT



Source: Stiftung Marktwirtschaft / NZZ

SEVEN-YEAR COMPARISON IN CHF (THROUGH NOVEMBER 2008)

	Strategy Funds	2002	2003	2004	2005	2006	2007	30.11.2008	Cumulative
UBS	Balanced	-12.7%	10.1%	3.7%	11.6%	5.4%	-1.8%	-19.9%	**-7.8%**
CS	Balanced	-14.5%	11.1%	2.9%	16.6%	6.3%	-0.7%	-21.0%	**-5.0%**
Swisscanto	Balanced	-11.5%	10.1%	4.2%	14.5%	6.0%	2.4%	-18.6%	**2.7%**
Julius Bär	Balanced	-9.8%	8.2%	6.4%	15.4%	6.3%	-2.6%	-22.5%	**-3.8%**
Vontobel	Balanced	-11.4%	7.0%	1.4%	13.4%	8.2%	1.7%	-17.4%	**-0.9%**
Reichmuth[1]	Balanced (BVV2)	-4.9%	12.8%	5.5%	13.5%	7.6%	7.0%	-17.7%	**21.7%**
Pictet-OPP2 40 Index[2]		-9.8%	9.9%	4.5%	13.8%	5.6%	0.7%	-15.1%	**6.5%**
Cantonal Bank savings acc. (yearly average)		0.4%	0.6%	0.6%	0.4%	0.4%	1.0%	0.6%	**4.1%**
5-Year Cantonal Bank Bonds[3]		1.6%	1.6%	1.8%	1.6%	2.2%	2.6%	2.5%	**14.7%**

Source: Bloomberg, [1] 2002 and 2003 comparable portfolio, as of 2004 Reichmuth Alpin, [2] before costs; for comparison reason deduction of a TER of 0.75%, [3] after deduction of 0.2% of custody costs

Italians actually three zeros from the face value of their banknotes. Even Switzerland had to devalue the franc by 30% in 1936 to cope with the crisis.

Now we are once again witnessing a race to devalue as quickly as possible. This is because governments can bolster exports with a weak currency as well as pay off big state debts. This is reason enough to mistrust the states and their veneer of security!

3. Maintain diversification

The Madoff fraud case shows how important it is to spread risks broadly. It may have battered our confidence, but it has not annihilated all assets. The only fund that was directly affected, Reichmuth Matterhorn, still beat its benchmark even after this one-time loss of 8.6%. Thanks to diversification, this loss only dented the performance of individual client portfolios by 1.5-2.5 percentage points on average.

STOCK MARKETS IN PERSPECTIVE

Performance in local currencies

Index	2008	5 Years	10 Years	15 Years	20 Years
SPI	-34.0%	15.3%	1.6%	144.5%	384.6%
S&P 500	-37.9%	-11.7%	-14.2%	155.8%	404.3%
DAX	-40.4%	21.3%	-3.8%	112.2%	262.2%
TOPIX	-40.6%	-12.1%	-11.7%	-30.5%	-15.0%
Equities World	-39.7%	0.0%	-1.7%	103.1%	210.1%

So what conclusions can we draw from the painful experiences of the recent past? Should we avoid the markets and their risks and turn instead to the stability of states? Quite the contrary is the case, as we saw above. I believe the current crisis can be compared to the recession in the 1970s. Then, after President Nixon called of the convertability to gold of every dollar, the US flooded the world with its paper money, like now. The value of the USD dropped from CHF 4.43 in 1974 to CHF 1.60 by 1978. However, between 1974 and 1982, Swiss equities gained 40% while US equities gained a full 72%. This inspite of a fall in GDP in Switzerland of over 6% in 1976. I already saw at that time, as branch manager for a large bank, how important broad diversification is. Swiss inflation was almost 6% a year, yet savers were being paid less than 4% interest on average. Hence, they were suffering huge losses in real terms.

Only during the period between 1873 and 1896 was there a «happy Deflation» and a tragic worldwide depression between 1929 until 1934. I regard a comparison of today's situation with the one of 1929 as highly improbable. At that time there was no social net like the one provided by the unemployment funds, etc. Further, we must consider that the government leaders of that time did exactly the opposite of today, i.e. they reduced money supply by moving back to the Gold standard, while today they are pumping money into the system.

I expect the central banks' concerted global actions to combat deflation or the start of a depression to be successful by 2010 at the latest. This, however, means inflation. Even the best nominal securities such as government bonds will offer no security then. If you want to preserve and increase your assets, you must brave the markets – with a long-term view and prudent diversification. All investors must stand by their own decisions, while of course taking personal advice on board.

We are happy to offer this advice, especially in these difficult times, and look forward to the dialogue with you.

Karl Reichmuth
General Partner