PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

«Do as you would be done by». This golden rule holds true throughout society, and if more people, companies and states were to adhere to it, many of our current problems would disappear.

The banking crisis has led to the present state financing problems and turbulence on the currency front. Despite this, we are upbeat about the future. We can see the realization slowly dawning that the paths that have been travelled to date are wrong in some cases, and new, better and more pragmatic approaches have to be sought.

This gives me grounds for optimism. The challenge facing us is to find ever better options and solutions, and by the time my children are teenagers, the everyday problems that trouble us now will be consigned to the history books. We would like to take this opportunity to wish you, your friends and family the best of health and every success in the New Year.

Jürg Staub
General Partner

BOUND UP BY THEIR OWN RULES

COMPANIES CAN CHANGE MORE FLEXIBLY THAN STATES

Two years ago, governments and central banks managed to prevent the collapse of the financial system. State finances are ailing, but not just because of the banking crisis; governments are also caught up in their own regulations. Central banks, therefore, have no other option than to pursue their extreme policies with low interest rates and generous money supply.

Government debts are deferred taxes

All the problems are well-known, we read about them every day. We even know about the unfavorable demographic trend, although its dampening effect on future growth is still being underestimated somewhat. It is already apparent that the battles over the allocation of resources will increase. States – in the Euro zone the ECB – still have sovereignty over money as a means for the transaction of business. However, cash is now no longer «en vogue» as a store of value. Government debt is ultimately always tantamount to deferred taxes. The only question is what scale of debt is credible over the long term and who will have to pay. Will it be us, our children, investors (via writedowns) or will inflation ultimately take care of part of the real burden? One thing is clear: government bonds of Western states are not really a forward-looking investment.

The dangers of unlimited guarantees

Ireland was once Europe's model pupil, until – at the height of the financial crisis – the country's finance minister guaranteed all senior bank loans. Guarantees can have a nasty habit of coming back to haunt you, and unlimited guarantees – even well-intentioned ones – are extremely dangerous. These guarantees have since triggered the nationalization of Ireland's banks, with a corresponding rise in government debt. Prior to the crisis, Ireland's sovereign debt was lower than that of Switzerland. Rescue packages and other crisis mechanisms in Europe that require similar unlimited guarantees from still strong countries do not solve any problems. All they do is buy time, while also increasing the risk of ending up like Ireland. The risks should not lie in more and more fresh guarantees, but instead with the investors. To this end, the states should shore up the banking system, for example by providing access to preferential capital. Any need for writedowns

continued on next page

CONTENT

MARKET OUTLOOK 2011
Video recording from Lucerne's Culture and Convention Center (KKL)

We welcomed more than 1,000 guests at this year's Market Outlook 2011 events. The main messages for next year were as follows:

1. Beware of long-term bonds
2. Dividend stocks are highly attractive
3. Asian currencies have strong appreciation potential
4. Hold gold as long as central banks continue their extreme policies and real interest rates are negative.

If you are interested, a video recording of the November 10, 2010 event is available on our website at www.reichmuthco.ch.

on own investments through restructuring of public debt would then not shake the bank to its very foundations, much more, the shareholders instead would have to foot the bill for this as the owners. Risks would then be where they belong. They would be quantifiable and this would put an end to the absurdity of ever more guarantees from ever more new, fictitious supranational entities.

Europe on the verge of a change in direction

We regard the rescue packages and the growing tendency in the Euro zone towards a transfer union as merely being intermediate phases. These are not long-term solutions. Next year the President of the European Central Bank will be replaced. A German and an Italian are being discussed as successors – interesting times lie ahead. Undoubtedly, the appointment will have an impact on our scenarios for next year.

State finances floundering – companies booming

A new divergence has been discernible for the past year. China is booming, corporate earnings are reaching record levels, southern Europe is struggling, northern Europe is growing, and the US is relentlessly stimulating growth using credit and freshly printed money. As a result, we are seeing very low interest rates, as well as handsome growth rates coupled with high unemployment. Many corporate managers were surprised by the economic downturn stemming from the financial crisis, and they reacted immediately. They were equally surprised by the rapid upswing, and, therefore, earnings will be very good. Most companies are solidly financed, and many are not restricted by national frontiers and can therefore focus on promising markets. This is not the case for governments. They seem to still be in a kind of experimental brainstorming phase, seeking to define the right policies.

Side effects of the extreme policy

Of course, the heavy doses of medicine being prescribed by the US with new money and low interest rates also have their side effects. The aim of reducing real interest rates has been achieved, and meanwhile they are already negative. In a newly inflationary environment, inflation expectations are mostly too low. Negative real interest rates are already a strong driver for precious metals. Gold in particular has no real use, but it is scarce and cannot be reproduced at will like nominal money. Other side effects are negative spin-offs such as the recent news that the copper market was squeezed due to the launch of an ETF backed by physical copper. This is grotesque for the real economy, which would prefer if copper continued to be used for real production rather than being mined only to be hoarded by pension funds. Keep a keen eye on real interest rates. If they rise, caution will be called for with precious metals.

China exporting inflation

US monetary policy applies 1:1 in those countries that have a fixed exchange rate with the USD, one such example being China. The effect of this is a boom in which wages and food prices are also rising in addition to the cost of commodities. We recently heard that in the past, Chinese firms knew their costs, and the only uncertainty was with regard to sales. Today, the exact opposite is the case: sales are estimable, costs are not. The Asian currencies are also under enormous pressure to appreciate. This mix clearly illustrates that China is likely to begin exporting inflation to the Western world as early as 2011, which means the era of ever lower prices for goods manufactured in Asia will gradually become a thing of the past.

Income, prices and currencies

In the current environment in particular, a forward-looking assessment of the markets and the opportunities and threats is essential. On page 7, you can find out why long-term bonds are very unattractive and why we are still holding dividend stocks, Asian currencies and precious metals. However, we also have to keep a close eye on currencies going forward. The EUR will not drop 25 cents against the CHF every year, and the Swiss National Bank (SNB) cannot distance itself from the global environment. Already once, back in 1978, the SNB was forced to follow the inflationary lead from abroad so as not to be left out in the cold. As a result, the CHF depreciated and, within three years, inflation rose from 0.3% to 8%. Diversification is of paramount importance, and will remain so. At the same time, we are also placing specific emphases (see box above) depending on your individual circumstances.

Christof Reichmuth
General Partner

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

DIVERGENCE	STAGFLATION	NEW GROWTH	CRISIS
Differing approaches are adopted to the growth crisis in the West. The US runs up debts and prints money; Europe tries to buy time, puts together rescue packages, keeps interest rates low and tries to save. Economic growth in the industrialized countries remains modest, unemployment high and inflation low. In the emerging markets, growth remains high and concerns emerge over inflation.	The extremely expansionary monetary policy leads to a rapid rise in inflation. Economic growth remains low, the financial markets move in a sideways trend and considerations of real value increasingly hold sway. The state debt problems ease somewhat thanks to the continuation of the low interest rate policy and the real debt relief, yet deficits remain high. In the emerging markets, inflation also rises but growth remains good.	The measures to clean up state finances take hold, confidence in government paper returns, the economy recovers, and rising economic growth reduces the burden of state debt, which is still high but decreasing relative to GNP. The central banks return to a normal monetary policy, interest rates and inflation remain relatively low. In the emerging markets, growth remains high.	The state finance crisis escalates. There is a new financial crisis with defaults and debt restructuring for states and banks. The economy weakens, with negative growth rates in the industrialized countries and lower growth in the emerging markets. High unemployment, social unrest, capital transfer restrictions, pronounced exchange rate shifts and deflation take hold. Interest rates remain low.
INVESTMENT IDEAS: Dividend stocks in northern Europe and Asia Hedge funds selectively Asian currencies Gold, silver	INVESTMENT IDEAS: Inflation-linked bonds Dividend stocks in northern Europe and Asia Hedge funds selectively Real assets (e.g. real estate) Gold, silver	INVESTMENT IDEAS: Government bonds of lower quality Stocks, in particular cyclical stocks Hedge funds selectively USD and EUR	INVESTMENT IDEAS: Cash in home currency Investments only in countries with low risk of expropriation Bonds of highest quality Stable dividend stocks Physical real assets Gold, silver
Probability 6 months: 70%	Probability 6 months: 10%	Probability 6 months: 10%	Probability 6 months: 10%
Probability 18 months: 40%	Probability 18 months: 40%	Probability 18 months: 10%	Probability 18 months: 10%
Probability 36 months: 10%	Probability 36 months: 60%	Probability 36 months: 10%	Probability 36 months: 20%

«PORTFOLIO OF THE FUTURE»

DIVERSIFIED AND FUTURE-ORIENTED – ADAPTED TO THE PREVAILING MARKET ENVIRONMENT

%	WHAT	HOW	YIELD*	VOLATILITY*
35%	Fixed Income	1/3 Cash and Money Market investments 1/3 Short-duration bonds 1/3 Inflation-linked Government bonds in EUR, CAD, SEK, USD	0-4%	5%
5%	Structured Products	Asia FX against EUR and USD	5-8%	8%
35%	Equities	Scale-in /Scale-out concept 2/3 Dividend stocks 1/3 Cyclical stocks with a focus on Asia and Gold ETF's	6-8%	15%
5%	Real Estate	1/2 Switzerland, 1/2 Asia Reits	5-8%	15%
15%	Alternative Investments	Reichmuth Matterhorn 3 / 24 or third party instruments Reichmuth Himalaja	6-10% 10-15%	< 5% < 10%
5%	Precious Metals	Gold and Silver, physical or via ETF's	8-10%	10%
		Total	**4-7%**	**approx. 6%**

* Expected average values over a 5-year time horizon - no guarantee

INVESTMENT POLICY
JANUARY 2011

BASIS	CH	EU	USA	J	CHINA
Purchasing Power Parities		1.50	1.11	1.12	
Ned Davis Research					
GDP Growth					
actual	3.0%	2.2%	2.6%	5.3%	9.6%
6 months	↘	→	→	↘	→
3 years	↘	→	→	↘	↘
Inflation					
actual	0.2%	1.9%	1.1%	0.2%	5.1%
6 months	↗	↗	↗	↗	↗
3 years	2.0%	3.0%	5.0%	1.0%	6.0%
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
Price/Sales	1.5	0.7	1.3	0.5	1.4
Dividend Yield	2.6	2.7	1.9	1.9	2.2
Price/Book	2.0	1.6	2.2	1.1	2.2
Price/Earnings actual	15	15	16	16	13
Price/Earnings estimate	14	12	15	16	13

FORECAST	CH	EU	USA	J	CHINA
Money Markets (3 months)					
actual	0.17%	1.02%	0.30%	0.19%	1.4%
6 months	→	→	→	→	↗
Swap Rates (10 years)					
actual	2.1%	3.3%	3.5%	1.2%	3.7%
6 months	↗	↗	↗	→	↗
3 years	↗	↗	↗	↗	↗
Currencies					
actual		1.25	0.95	1.15	0.14
6 months		↗	→	→	↗
3 years		→	↘	↘	↗
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
actual	5'880	7'070	1'260	906	12'510
6 months	↗	↗	↗	↗	→
3 years	↗	↗	↗	↗	↗
Real Estate Market	→	→	→	→	→

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: December 23, 2010

MARKET OUTLOOK
1st TRIMESTER 2011

CURRENCIES

The heightening crisis of confidence with regard to certain countries of the Euro zone exposes the EUR to high volatility. The currencies of countries with orderly finances, positive current accounts, and independent central banks strictly focused on monetary stability, will continue to tend firmer.

Exchange-rate volatility remains high due to the fact that the financial crisis has still not been fully overcome, with rapidly expanding government debt in many countries in particular. The USD fell to historic lows against the CHF and JPY in October, and, therefore, the latter appear rather overvalued over the short term. The key factors influencing the longer-term development of exchange rates are central bank policy, current account, economic growth, national deficit and its financing, purchasing power parity and inflation. From this perspective, we can expect to see the USD remain weak, with strong showings from the currencies of countries with favorable fundamental data. In Europe these are the CHF, SEK and NOK, in Asia the JPY, CNY, SGD, THB, KRW or TWD, and in the dollar zone the CAD, for example.

INTEREST RATES

The central banks of the key currencies continue to keep interest rates low. They will remain low in the coming months, and could gradually begin to rise later in 2011.

Most central banks are postponing the normalization of their monetary policy further into the future, and are keeping their key interest rates unchanged at a very low level. In countries where the economy is faring well – and where a tightening in monetary policy would actually be called for – there is the fear of excessive upward pressure on their currency, or in the case of Germany, of the negative impact on weaker members of the currency union. The low interest rate policy is likely to be maintained in the coming months, but if the divergence in the economic trends in individual countries continues to widen, we can also expect to see different interest-rate developments.

Long-term interest rates will also rise over the course of 2011. However, the interest-rate level will remain relatively low by longer-term historical standards given that inflation rates will probably only rise a little.

The credit spreads of the Euro zone countries mired in an acute debt crisis have shot up. Despite the support measures put in place by the EU, ECB and IMF, and the drastic cuts in spending and tax increases implemented in some instances, these premiums have eased back only slightly from their highs. In other words, confidence has not yet been really restored on financial markets. Ultimately, partial debt relief will probably be inevitable in some cases. It remains to be seen which categories of creditors will be affected and to what extent. Meanwhile, credit spreads of industrial companies are falling, these now being very well financed on average.

STOCK MARKETS

The stock markets have been in upbeat mood in recent months, with a few exceptions, and are closing 2010 in positive tenor. The upbeat trend could continue into the New Year, but persistently high volatility and increased divergence between the individual markets is on the cards.

The divergence in economic performance is widening, not just between the emerging markets with doggedly high growth and the old industrialized nations that are recovering only slowly, but also between the industrialized countries themselves. Germany and Switzerland, for example, are in an uptrend and unemployment is falling, whereas countries with high government deficits and corresponding savings measures are heading for a fresh recession. Companies have adjusted to the differing conditions with increasing flexibility, and can maintain or even improve their high profit margins. Measured using the normal indicators, stocks are attractively valued in fundamental terms, in particular by comparison with fixed-income investments. However, the gradual rise in interest rates that is to be expected will come to exert a negative influence. Profit margins could also come under pressure over time. Costs will increase due to high commodities prices and rapidly rising wages in the emerging markets due to the intensive competition and the increasing pressure from the state (e.g. in the healthcare sector). It will not be possible to pass these on in full onto prices. In this environment, the most interesting securities are those with high earnings and low volatility, i.e. stocks from defensive sectors with high and well-secured dividend yields.

Dr. Max Rössler

DIVIDEND STOCKS STILL ATTRACTIVE

TAKE PRICE FLUCTUATIONS IN YOUR STRIDE

You have been recommending dividend stocks for about a year. What do you understand by this term?
For us, dividend stocks are equities with good and secured dividends in the region of 3% to 7% and attractive valuations, for example a price/earnings ratio of 10 to 12.

What sort of dividend yields can be achieved?
Food companies and manufacturers of care products pay a little more than 3%, pharmaceuticals firms around 4%, oil companies about 5%, utilities around 6% and telecom stocks roughly 7%. However, some have a regional focus while others can harness the opportunities of globalization by relocating their businesses. We are not buying any dividend stocks in southern Europe, for example.

What would your recommendation to investors be if the dividend yield was 4% but the share price falls by 10%?
As long as the dividends are not at threat, we would advise holding on to these stocks or even buying more. We would only recommend a switch into more solid stocks if the dividend was in jeopardy or circumstances specific to the company were to lead to a lasting deterioration in the outlook.

What would you advise in the case of stocks in foreign currencies? Would you recommend hedging?
In principle we advise looking at the currency allocation separately, and taking this into account accordingly in the asset allocation. Dividend stocks in a currency with good potential for appreciation, for example in Asia, are very attractive, given that investors are being paid while they wait for the appreciation.

How certain are future dividends?
This depends on the individual company, its sector, the geographic focus and regulatory factors. It is always possible that dividends may be reduced or not paid at all. This is most likely in the case of financial stocks, which is why we are still avoiding these. Diversification remains the order of the day with dividend stocks, too. We are also keeping close tabs on the payout ratio, relative to both net profit and the operating cash flow.

What are the tax consequences of dividend payments?
Investors have to declare dividends as income. Withholding tax also has to be taken into account. Some countries such as Switzerland have high withholding taxes, while others such as Hong Kong or Singapore have none at all.

Can dividend stocks replace the bond allocation?
No, bonds are subject to less price fluctuation. Unlike bonds, where the coupons are fixed, in the case of dividend stocks it should be possible for the dividends to be increased. This would be analogue to rising coupons, so to speak. Added to this, we expect share price gains given that companies are less affected by currency depreciation.

Patrick Erne CFA

KARL REICHMUTH WINS RÖPKE PRIZE

HONOR FOR COMMITMENT TO A HEALTHY MONETARY SYSTEM

On December 3, 2010 the Liberales Institut awarded Karl Reichmuth the inaugural Röpke Prize for Civil Society. We are delighted at this award, which recognizes decades of commitment to promoting a healthy monetary system and combating the impact of inflation. You can find out more on this at www.realunit.ch.

At www.libinst.ch you can also read Karl Reichmuth's acceptance speech at the prize-giving ceremony, in which he shares some experiences from his professional life. Karl Reichmuth will also be happy to give you more information on this topical issue in person.

INCOME, PRICES AND CURRENCIES

FORWARD-LOOKING ANALYSIS OF PERFORMANCE ELEMENTS

2010 was a thoroughly decent year for investments. However, for investors who have the very strong CHF as their reference currency, the exchange-rate developments were unwelcome. The environment of extremely low interest rates led to developments that prompted us to analyze the historical showing of the various asset classes in terms of the three key sources of performance: income, prices and currencies.

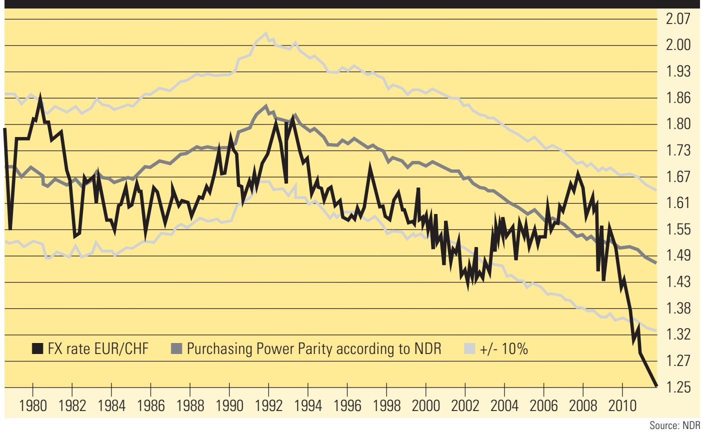
Falling interest rates, higher prices – rising interest rates, lower prices

The level of interest rates has fallen continually since the 1980s. As a result, long-term bond prices have risen steadily and many investors have enjoyed price gains. However, new investments can only be made in bonds with very low coupons. Interest rates can scarcely fall any further. Yet rising interest rates mean lower prices, and the very low coupons are then barely compensation for such price losses. Hence, we regard the earnings on bonds as unattractive, and the price risks as much too high.

Attractive returns with relatively positive price potential

Unlike bonds, many dividend stocks offer attractive returns at reasonable valuations. Added to this, the price risks are not as unfavorable as in the case of bonds, and we even regard them as being more on the positive side, especially for investors who do not allow the ups and downs of the markets to rush them into hasty action. Many of these stocks are now trading at similar levels as they were a decade ago, but are paying several times the dividends from back then. Hence, their P/E valuations are also less than half those of ten years ago. Further, dividend stocks in certain currencies, for example in Asia, also offer attractive opportunities for currency gains.

THE SWISS FRANC IS HIGHLY OVERVALUED



Comparatively attractive income, but considerable price risks in the case of real estate

Direct real estate holdings are still offering attractive returns, but the price potential is limited. The capitalization rate is already very low. If this rate increases in the wake of rising interest rates, this will create price risks on the negative side. In the case of indirect real estate investments, the premiums on the securities relative to the underlying real estate also have to be taken into account, as does the level of debt used. The price potential in Europe appears lower than in Asia in our view, and we are accordingly giving preference to Asian real estate investment trusts (REITs).

FORWARD-LOOKING ASSESSMENT OF THE PERFORMANCE

Asset class	Income (interest, dividends)	Prices	Currencies
Bonds-Swiss	☹	☹	
Bonds-foreign currencies	☹	☹	😐
Dividend stocks-Swiss	☺	☺	
Cyclical stocks-Swiss	😐	😐	
Dividend stocks-foreign	☺	☺	😐
Cyclical stocks-foreign	😐	😐	😐
Gold		☺	
Hedge funds		☺	
Direct real estate	☺	😐	
Real estate funds-Swiss	😐	😐	
Real estate funds-foreign	😐	😐	😐

☺ attractiv 😐 neutral ☹ unattractiv

The CHF is too expensive

In the case of gold and alternative investments, the potential is limited to price changes and they do not offer any current income. In 2010, many sources of performance were slightly positive, and gold was even strongly positive. However, this was not the case for foreign currencies, at least for CHF investors. The excessively strong CHF led to performance losses. Over the longer term, currencies develop very stable within the parameters of the inflation differential. The CHF is now too expensive and is likely to remain so for some time, but the time will come when foreign currencies will bring welcome added returns in this low interest-rate environment.

Silvan Betschart

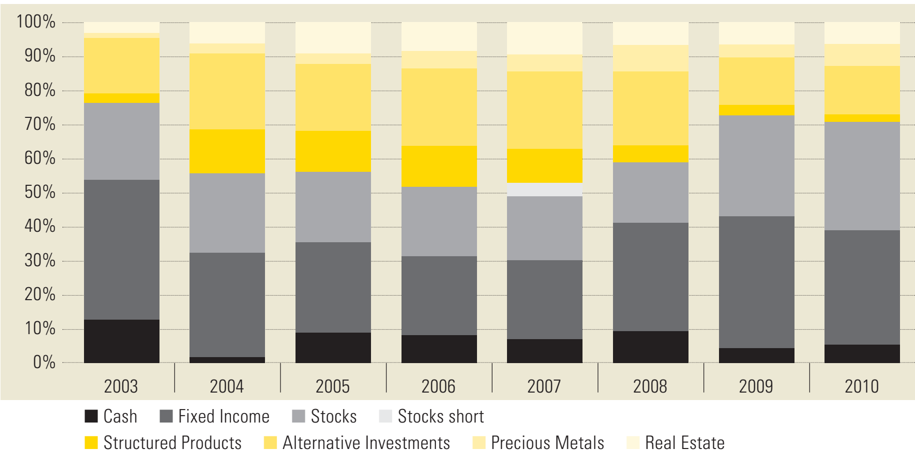
INVESTING RESPONSIBLY

ACTIVE DECISIONS ARE A «CONDITIO SINE QUA NON»

The financial industry is coming up with increasing numbers of new investment products aimed at adding value for investors. Here, the main focus is often not always the client or their needs. Much more marketing considerations play a significant role instead. Yet long term, a responsible investment approach is better for the client – and also for the asset manager.

Active decisions on asset and currency allocations are key to long-term investment success

For our clients, we focus on active decisions based on meticulous analysis of financial markets, adjusted in line with the client's needs. We're convinced that long-term investment success depends on how the asset and currency allocations are shaped over time. Clearly, financial markets are not only complex, they also change all the time. Hence, the responsible approach is to allow asset managers to adapt the asset weightings accordingly. Of course, they can only do this if the client's parameters allow for this. The charts of our dynamic strategy fund «Reichmuth Alpin» below show the active changes we have made to the weightings of asset classes and currencies over the past 7 years (launch August 2003) :



Scenarios as the basis for a forward-looking investment strategy

We regularly assess global economic trends and their impact on the markets using different scenarios. What changes could be in the cards? Where are there threats and opportunities? These questions and others help us to paint different pictures about the future. Thereafter, we consider the probability for each scenario, and deduct the respective investment consequences. This process forms the basis for our forward-looking investment policy. Consequently, we do not place much faith in many of the complex and purportedly sophisticated models that rely on the analysis of historical data. The failure of various such models during the financial crisis has confirmed us in this view.

compiling the index. This can have undesired consequences, e.g. clusters of risk in excessively expensive countries, sectors, currencies or individual securities. Therefore, we regard a diversified portfolio as more advantageous, and only make selective use of passive investments such as ETFs. Normally, our selection differs greatly from conventional indices. As regards bonds, given their price risk, we currently hold more short maturities and avoid government bonds – especially of those countries with a critical debt situation. In the case of equities, we are focusing primarily on dividend stocks from defensive sectors. We avoid financials and stocks from southern Europe. Meanwhile, we hold a higher weighting in the emerging Asian markets.

Reichmuth & Co investment approach: Responsibility as a basis	Traditional investment approaches: Models as a basis
Forward-looking analysis of the financial markets	Historical data series as the basis for the future
Flexible asset allocation	Static asset allocation
Active selection of individual investments	Passive tracking of an index

Active selection of individual investments

Many indices used as the basis for benchmarks and thus for passive investments, e.g. exchange traded funds (ETFs), contain excessively expensive components. Passive investment means choosing an index, mostly without knowing the underlying components or mechanism used in

Investing responsibly is more important than ever

Our investment approach is based on diligent analysis of financial markets, taking into account money flows and short-term market sentiment. The resulting investment policy always has to be brought in line with the client's objectives. Coupled with sound common sense and the assistance of the investor's best friend – time – this approach is likely to create clear added value compared with traditional methods in the future, just as it has in the past 15 years.

Sergio Hartweger CFA