PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

For more than 50 years I have been dealing with questions relating to money, and seldom have I experienced a period as exciting and challenging as the present. There are changes of gigantic scale on the horizon. In recent months, I have been able to present my thoughts on money and my pragmatic solution «RealUnit» at various events in Germany and Switzerland. I am convinced that it offers savers a better store of value than fiat money.

We have always been able to put together individual portfolios for our clients. For us, the key aspect in doing so is focusing on the future, unlike the traditional investment models that look to past history. I am advising my grandchildren to invest their nest eggs in shares or in RealUnit, but not in a savings account. In this issue of Check-Up, you'll find out why.

Karl Reichmuth
General Partner

DANGER SPOTS: «OIL» AND THE «USD»

FINANCIAL MARKETS REMARKABLY ROBUST

Arabian revolutions, the earthquake in Japan unleashing a devastating tsunami, a nuclear catastrophe – against the backdrop of these major and unexpected events, it comes as a surprise that the equity markets have held up quite well since the beginning of the year. The still unresolved problems in the eurozone have in the meantime increasingly receded into the background. The EUR is trading higher against both the USD and the Asian currencies. The fact that two further countries – Ireland and Portugal – have sought the aid of the EU rescue package in the past six months has scarcely had any impact on the markets or the EUR.

Foreseeable development in Europe

Two possible options for restructuring the excessively high debts of Europe's problem countries have now emerged. One involves the electorate voting out their governments, with the new policymakers following the path so often trod by those newly elected to seats of power, namely blaming the whole mess on their predecessors and questioning the tenability of old agreements. The other would be for these debts to be progressively transferred to supranational bodies such as the IMF, ECB or the EU rescue fund. The legacy debts would then be replaced by debts at lower interest rates and longer maturities than the market would demand.

Change in government and restructuring

We expect to see further political upheaval in Europe, with changes of government and subsequent restructuring efforts. Both of the above alternatives ultimately result in debt restructuring. We would also not be surprised if one country or another were to prefer the benefits of having their own currency in fraught times rather than the political construct such as the Euro. For investors, this still means that investments in southern Europe are to be avoided, and they should also refrain from buying government paper from countries at risk of restructuring.

Countdown – threat of a USD crisis

The United States continues to live beyond its means. It remains to be seen whether President Obama's recently announced road to recovery is more than political maneuvering, or whether it will be adhered to even with a weakening economy and high unemployment. The

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BRENT OIL IS OVER 50% MORE EXPENSIVE THAN 6 MONTHS AGO

Source: Bloomberg

«money printing program» QE II (Quantitative Easing II) expires in mid-year, and the political prospects of a QE III are not very high at present. Last year, the US central bank bought around 70% of the new US government debt issues. Hence, the question we ask is who will finance the still growing US debt and who will buy US government debt issues at the current yields of around 3.5% for ten years, if the US central bank no longer will? China is also showing little appetite for this, and Japan must first finance its own rebuilding. Eventually, the OPEC may help out given that it is profiting from USD inflows thanks to the higher oil price. What is clear is that the threat of a USD crisis has increased markedly, and so too has the danger of sharply rising US yields at the long end of the curve.

Rising oil price – energy getting dearer

The Arabian revolutions and the expansive monetary policy of the US have caused the price of oil to rise. Brent now costs over 50% more than six months ago, and the threat of the oil price soaring upward has still not been dispelled. This would be the case if the unrest in Arab countries were to spill over into Saudi Arabia, or in the event of a USD crisis. Among the factors pointing to higher oil demand are the still relatively low consumption of energy in the emerging markets and also the foreseeable end to nuclear power in Western democracies following the nuclear catastrophe in Japan. Rising oil prices will drag the price of gas and coal higher, too. None of these are CO2 neutral fuels, and would thus do little to help the unresolved problems of global warming. However, higher energy prices are good news for all those who are environmentally friendly, as they represent the only way for non-fossil fuels to become economically viable. After all, even if a measure appears politically expedient, it will only have lasting success if it also makes economic sense. Higher energy prices will help in this regard. Therefore, we recommend a high weighting of energy firms, especially those in the oil and gas sector.

Two unknowns: China and Japan

Too many dollars and higher energy prices naturally have side-effects. Food and commodity prices have risen sharply, and this has hit countries that spend a high proportion of their GDP on food and infrastructure particularly hard. Therefore, the emerging markets of Asia – above all China – have little to be pleased at in this respect. Inflation is increasing, and there is also a structural rise in wages. We thus expect to see higher inflation rates in the emerging markets over the longer term, with an impact on their exports to us. China is exporting inflation! In the West, wage rises are not yet pointing to an inflationary spiral, but depending on the political developments, this is still an entirely conceivable scenario. In Japan, it remains as yet unclear how the rebuilding is to be financed. National debt is already very high, and the temptation to fund reconstruction by printing money is considerable. We are therefore advising investors to avoid the JPY.

Stagflation portfolio

With our views on the various scenarios, we remain convinced that we can expect to see stagflation over the medium term, i.e. a stagnation of the real economy coupled with higher inflation rates. To avoid being affected by a possible USD crisis, we recommend steering clear of the USD and long-term USD bonds, and gearing portfolios in line with our primary expectation: stagflation. High on our list of recommendations are dividend stocks in the food, pharmaceuticals and telecom sectors and, as mentioned above, the energy sector in particular. These are especially likely to profit from the trend toward higher energy prices. As long as real interest rates remain negative, we advise holding precious metals and gold mining stocks. In the case of normal bonds we would choose short maturities, or inflation-protected instruments. The CHF is too expensive and most foreign currencies – above all those in Asia – will post positive performance contributions going forward. The coming months will be an exciting time, and we will be happy to discuss matters with you and help with any questions you may have.

Christof Reichmuth
General Partner

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

DIVERGENCE	STAGFLATION	USD CRISIS	RECESSION
Strong economic growth in northern Europe, recession in southern Europe, below-average growth in the US, and pronounced weakening in Japan due to insufficient power supply. The ECB makes its first cosmetic moves towards interest-rate hikes, the EU works on restructuring bad state debts in keeping with the Brady model. The US remains expansionary and seeks a way out with some inflation. The oil price continues to rise, inflation in Asia increases.	The US sticks to its low interest-rate policy and starts QE III due to disappointing economic and job market data. This leads to higher inflation and reduces the debt burden in real terms. A debt crisis can be averted for the time being. In the industrialized countries, deficits remain high across the board and economic growth modest. In the emerging markets, inflation also rises but growth remains good.	China does not want to buy any new US debt, Japan has to repatriate more money for rebuilding, and the US Fed ends the QE II program, during which it bought up around 70% of new US government debt issues. As a result, US yields rise sharply at the long end, the subsequent weakening and rising unemployment are combated with QE III, and the USD becomes massively weaker. The Asian currencies loosen their ties to the USD.	Economic growth is too weak, debt can no longer be sustained. There is a new financial crisis with defaults and debt restructuring for states, further banks are nationalized. The economy weakens, with negative growth rates in the industrialized countries and lower growth in the emerging markets. High unemployment, social unrest, restrictions on the movement of capital, pronounced exchange rate shifts, and deflation take hold.
INVESTMENT IDEAS: Blue chips, above all energy firms Commodities Gold, silver Asian currencies Selectively hedge funds	INVESTMENT IDEAS: Inflation-linked bonds Stocks with high dividend yields, especially energy Real assets (e.g. real estate) Gold, silver Selectively hedge funds	INVESTMENT IDEAS: Stocks of US exporters via futures or with USD hedge Commodities via futures Selectively hedge funds	INVESTMENT IDEAS: Cash in home currency Investments only in countries with little risk of expropriation Only best-quality bonds Stable dividend stocks Physical real assets Gold, silver
Probability 6 months: 50%	Probability 6 months: 20%	Probability 6 months: 20%	Probability 6 months: 10%
Probability 18 months: 30%	Probability 18 months: 40%	Probability 18 months: 10%	Probability 18 months: 20%
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	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 ev. temporary tactical hedging of market risks	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
MAY 2011

BASIS	CH	EU	USA	J	CHINA
Purchasing Power Parities		1.45	1.08	1.11	
Ned Davis Research					
GDP Growth					
actual	3.1%	2.0%	2.8%	5.3%	9.6%
6 months	↘	→	→	↘	↘
3 years	↘	→	→	↗	↘
Inflation					
actual	1.0%	2.7%	2.7%	0.0%	5.4%
6 months	↗	↗	↗	↗	↗
3 years	2.0%	3.0%	5.0%	2.0%	6.0%
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
Price/Sales	1.5	0.7	1.4	0.5	1.4
Dividend Yield	2.5	3.0	1.8	2.1	2.2
Price/Book	1.9	1.6	2.3	1.0	2.1
Price/Earnings actual	16	13	16	14	13
Price/Earnings estimate	13	11	14	13	11

FORECAST	CH	EU	USA	J	CHINA
Money Markets (3 months)					
actual	0.19%	1.3%	0.27%	0.20%	4.0%
6 months	↗	↗	↗	→	↗
Swap Rates (10 years)					
actual	2.4%	3.6%	3.5%	1.3%	6.0%
6 months	↗	↗	↗	↗	↗
3 years	↗	↗	↗	↗	↗
Currencies					
actual		1.29	0.89	1.08	0.14
6 months		↗	→	→	↗
3 years		→	↘	→	→
Stock Markets	**SPI**	**DAX**	**S&P 500**	**TOPIX**	**HSCEI**
actual	5'920	7'250	1'330	840	13'650
6 months	→	→	→	→	→
3 years	↗	↗	↗	↗	↗
Real Estate Market	→	→	→	→	→

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: April 21, 2011

MARKET OUTLOOK
2nd TRIMESTER 2011

CURRENCIES

The EUR has recovered in 2011, and doubts over its survival as Europe's main currency have abated somewhat. Meanwhile, the USD remains persistently weak. Countermoves are not improbable over the short term due to the sharp deviations from purchasing power parities at present, but over the long term we can expect to see a weak USD given the very high twin deficits of the US and the extremely expansionary monetary policy being pursued by the Federal Reserve.

The stubbornly large current account and budget imbalances are resulting in exchange rates deviating markedly from purchasing power parities. To balance this out, the deficit countries should actually be pursuing a restrictive monetary policy with correspondingly high interest rates to make their currencies more attractive. Yet in fact, the opposite is the case: the US, for example, is keeping interest rates extremely low, and various emerging markets and commodity countries whose currencies have shot up have increased interest rates to combat rising inflation. As long as these imbalances persist, exchange rates will remain unstable and volatility will thus be high. In an investment policy focused on the long term, it is advisable to overweight currencies of countries that have no problems as regards their budget or current account, are politically stable, and have central banks that are independent and focused strictly on monetary stability; examples of such currencies in Europe include the CHF, NOK and SEK, in the Americas the CAD, and in Asia the SGD.

INTEREST RATES

With the exception of the ECB, which decided to make an initial interest-rate hike, the central banks of the main currencies have thus far adhered to their extremely low interest-rate policies. However, long-term yields have already started to rise. In the coming months, the first increases in base interest rates are on the cards in Switzerland and the UK, and later also in the US and Japan, and generally speaking the trend will head higher both for short-term and - to a lesser extent - long-term interest rates.

The economic recovery is continuing across the globe, with the exception of countries that face acute problems financing their high government deficits. High commodity prices have already led to a rise in consumer prices, and will be reflected even more strongly in higher inflation rates over the near term. The central banks have therefore started to normalize their expansionary monetary policies. However, they are in some cases under heavy political pressure to take into account the high government deficits and the still precarious state of the banks, and therefore cannot all be quite as restrictive as the primary goal of securing monetary stability would demand. Confidence in the currencies is suffering as a result.

We can expect to see the base interest rates of the main currencies rise by around 25 to 75 basis points by the end of 2011. Long-term yields will also rise. This trend will be less pronounced in Europe, where yields are already substantially higher in the year to date, than in the US. By long-term historical standards, however, the level of interest rates in the main currencies will remain relatively low.

STOCK MARKETS

The trend in share prices on the key equity markets has been predominantly upbeat since the start of the year, with the only countries trading lower on balance being Japan (due to the effect of the earthquake and its consequences) and to a very minor extent Switzerland and Sweden. On average, equity valuations are moderate or even attractive in some cases, which points to a continuation in the slightly rising basic trend over the coming months.

The economies in most countries are faring well: the industrialized nations have recovered from the crisis, and growth in the emerging markets remains strong, even though the threats from capacity bottlenecks, high commodity prices and rising inflation are increasing. Against this backdrop, most companies are posting good earnings. Measured using the normal ratios, stocks are attractively valued in fundamental terms, in particular with regard to their dividend yields compared with fixed-income investments. However, there are negative factors, such as the expected rise in interest rates and the doggedly high imbalances on the financial markets, which mean a fresh financial crisis cannot be completely ruled out. Interesting stocks are to be found in the energy and commodity sectors, for example, among the suppliers and equipment manufacturers for expanding capacities in these sectors. That said, stocks from defensive sectors with high and well-secured dividend yields are also attractive investments.

Dr. Max Rössler

COMMITMENT TO A HEALTHY MONETARY POLICY

GROWING INTEREST IN NEW SOLUTIONS

Since the «Liberales Institut» awarded the Röpke Prize to Karl Reichmuth last December, various liberal bodies and state-critical organizations have staged events covering the issues of the «monetary system» and «market money». Karl Reichmuth's contribution to this debate has been consistently based on the view that the central banks are increasingly pushing the monetary function of «storing value» into the background, placing the primary focus on short-term solutions for urgent problems relating to the current imbalances in the global economy. While forward-looking investment strategies offer wealthy private clients the best protection against wealth devaluation, the RealUnit offers savers an alternative to a savings account.

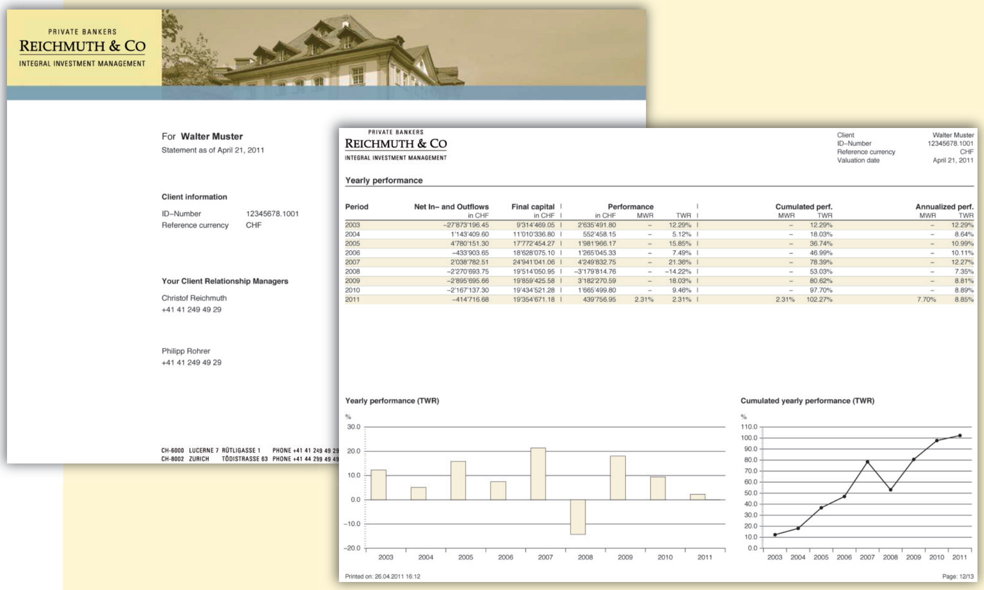
If you are interested in reading more on these topics, you will find more in-depth information on the websites of the «Liberales Institut» (www.libinst.ch) and the «Friedrich von Hayek Gesellschaft» (www.hayek.de), as well as the RealUnit website (www.realunit.ch).

ANNOUNCEMENT: «Money rules the world – who rules the money?»

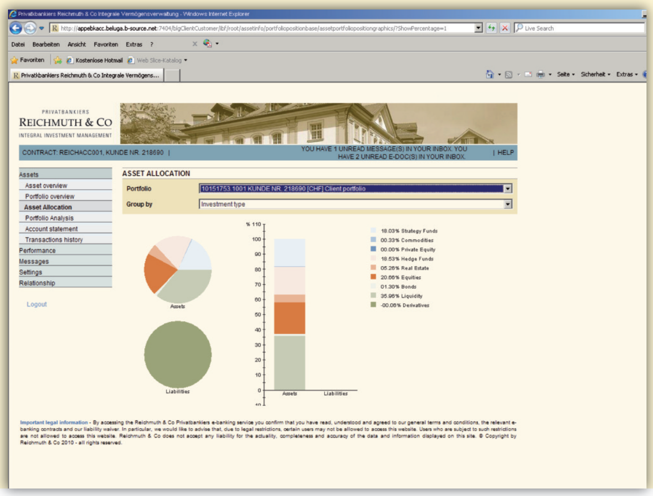
Every year we support a special feature issue of the publication «Schweizer Monat». The topic covered by the May 2011 issue has been of major interest to us for many years, and the articles on the subject of money are well worth reading.
We will be happy to send a copy of the May issue (German only) to any interested clients, and orders can be placed with your relationship manager.

WE ARE JUST A CLICK AWAY

NEW CLIENT REPORTING AND NEW E-SERVICES



«E-SERVICES»



Our new IT platform went live on January 1, 2011. We have made the asset and transaction statements easier to understand and more informative. Depending on the investment strategy chosen, clients will receive a brief report, a fund-specific report, individual reporting or detailed performance reports with key risk data.

Web access from June 2011 on

One new feature is that our clients can check their portfolios around the clock using e-services, and receive statements in electronic form. For security reasons, we are deliberately refraining from offering Internet-based transaction services. Your relationship manager will be happy to tell you more about these services.

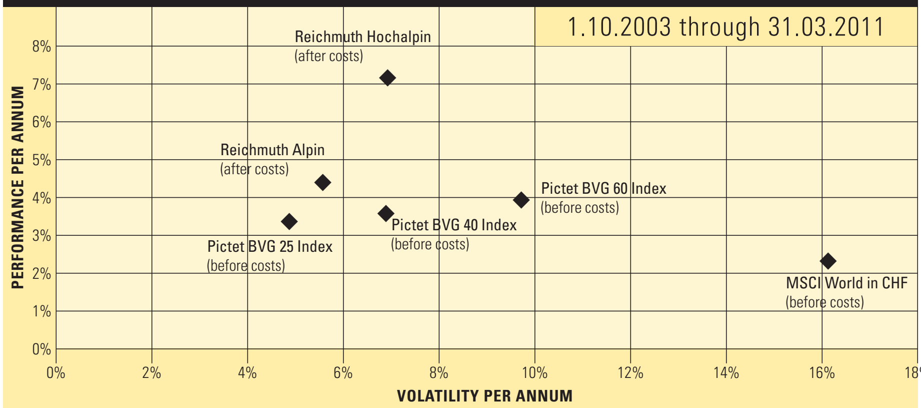
Dionys Berwert

FORWARD-LOOKING INVESTMENT STRATEGY

IMPLEMENTED INDIVIDUALLY OR VIA STRATEGY FUNDS

We have long been convinced that a forward-looking assessment is an essential prerequisite for long-term investment success. None of us knows what the future holds; therefore, we think in terms of possible scenarios (see page 3). We draw up corresponding investment strategies for each of these, and then seek to position the portfolios for the most probable outcome.

ATTRACTIVE RETURN / RISK PROFILE OF FUTURE-ORIENTED STRATEGIES



Source: Bloomberg

The means of implementation is of secondary importance

This Reichmuth investment strategy can be implemented via individual asset management mandates or using strategy funds. With the former option, clients can work together with our relationship managers to determine their own targets, and the investment parameters are set individually in line with the overall wealth. Meanwhile, the strategy funds have their own objectives and the investment parameters, as defined in the fund regulations, are the same for everybody. Strategy funds are thus not specifically structured in line with your overall portfolio; yet they offer the advantage of making it possible to implement the forward-looking Reichmuth strategy even with smaller asset volumes (e.g. in a vested benefits foundation or pillar 3 retirement savings account), while also enjoying broad diversification.

Scope for active decisions

Whether the strategy is implemented via an individual mandate or with strategy funds, clients benefit from our flexible changes to the asset allocation that reflects the prevailing environment while keeping within the investment parameters. We take on this responsibility for our clients and investors, and continually seek to make the best possible investments, freeing clients from having to make such adjustments themselves. We draw a distinction between two decision-making levels.

Flexible component concept

On the one hand, the various components of a portfolio (liquidity, bonds, shares, precious metals, real estate, and alternative investments) have to be adjusted in line with the envisaged target, but also with an eye to the market environment. This is what we refer to as flexible asset allocation. For example, we reduced the equity weighting prior to the major EUR crisis in April 2010, and then built it back up again at a later stage. This year we again cut the equity weighting back by around 10% at the beginning of March. On this occasion, our rationale was that too many market participants were bullish on stocks, and above all because the Arab revolutions threatening to spread to Saudi Arabia represented too high a risk for a sharp rise in the price of oil.

Selective approach to sectors and individual securities

On the other hand, within each component you also have to select the right sectors and securities, e.g. individual stocks or bonds. This is what we call active selection. We took action here, too, before the financial crisis. Back then we sold banking stocks, and to date we hold hardly any equities of financials. Meanwhile, we have a very strong weighting in dividend stocks from defensive sectors.

Adding clear value

Using this responsible, forward-looking investment approach, we have been able to add clear value for our clients in the past. This approach is aimed at providing better results over three to five years, rather than each month. We measure the added value in terms of the performance achieved, and also the risk incurred in doing so. The corresponding return/risk charts have shown a very pleasing picture for some years, and we will be doing our utmost to make this even better in the future.

We invest for you

Irrespective of whether you have an individual mandate or invest in one of our strategy funds, we continually analyze the financial markets and make adjustments in the asset allocation or the selection of individual securities where required. Particularly in periods fraught with change and uncertainty, a forward-looking approach is crucial for long-term success. We will be happy to meet with you to discuss the various possibilities and investment focuses in person.

Marcel Wickart

NEW: USING RETURNS TO SUPPORT NON-PROFIT ACTIVITIES

INNOVATIVE RÜTLI FOUNDATION

Ten years ago we set up the Rütli Foundation as an umbrella foundation offering our clients an efficient, focused solution for their philanthropic activities that also offers the necessary performance controls.

Earmarked funds in the umbrella foundation

Back then, the Rütli Foundation was one of the first of its kind. As a non-profit foundation, it is tax-exempt and is supervised by the Swiss Federal Supervisory Board for Foundations in Bern. The clients can thus have their own individual funds managed in line with the purpose they determine. The costs of the foundation are borne by the bank, enabling our clients to make their philanthropic donations without incurring the additional expenses involved in setting up, managing and monitoring a foundation.

Tax-exempt donations

Donations made to the individual funds are tax-deductible, with the maximum deduction varying from canton to canton. The Rütli Foundation thus supports the philanthropic activities of our clients in a tax-optimized manner.

Innovative structure: using returns to support non-profit activities

What is entirely new is the solution developed by the Rütli Foundation whereby returns are used to support non-profit activities («Rendite für Gemeinnützigkeit»). With this solution, the money is donated to the foundation temporarily, i.e. only for a set period of time. The foundation thus acquires the right to use the money, and the temporary donation and all earnings are transferred to the charitable organizations chosen by the client. After the agreed period of time, or at the latest when the client dies, the assets donated to the foundation revert to the client and are available to him or his heirs. This means that during the term of the agreement, the clients do not incur either wealth taxes or income taxes, and the organizations that profit from the returns are grateful for the financial support.

Supporting a professorship

A married couple with no children who believe in the importance of a strong Swiss economy concluded such an agreement with the Rütli Foundation. The returns generated are to be used to support a professorship for management of Swiss small and medium-sized companies. The capital is also to be available for this purpose, provided they do not need it themselves. The couple can therefore take pleasure in making donations to the professorship free from wealth and income taxes, without having to decide yet on whether to give away the capital entirely.

Supporting a symphony orchestra

A music lover concluded such an endowment agreement, with the returns going to a symphony orchestra. The orchestra received the income for a few years, and was thus able to finance the strengthening of part of the ensemble. Then the donor's requirements changed and he therefore had to terminate the agreement. After doing so, he could once again dispose of the assets he had transferred.

A win-win situation

This unique platform thus allows the beneficiary organizations the prospect of annual income and possibly capital, while at the same time enabling the donor to enjoy their philanthropic activities during their own lifetimes without compromising their own security. After all, nobody knows what care needs they might have in their old age. This dual win-win situation therefore has only a small risk. If the assets – which are invested in accordance with Swiss pension fund regulations – were to suffer a loss, the shortfall would be deducted from the capital repaid. This platform is thus above all suitable for longer-term charitable activities, and less so for donations for one or two years.

Charitable activity is the prerequisite

It all starts with the desire to work for an ideal in a charitable manner. The Rütli Foundation is aimed at putting this requirement into practice in a tax-optimized and innovative way. We would be very happy to meet with you to discuss the various options available.

Markus Mosele
President of the Foundation Board of the Rütli Foundation