PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

«Market forces or the power of the state? It was the latter that dominated in 2013, and the result was illogically meager inflation despite unbelievable amounts of money being printed, and interest rates unprecedentedly low for good economic phases. Although neither the financial crisis nor the sovereign debt crisis have been resolved, appropriately cautious investing has been punished, at least from the short-term perspective.

In this issue of Check-Up we will be looking how far the consequences of these still lurking crises could manifest themselves in 2014. In any case, we will continue to do our utmost to achieve the mostly individual portfolio targets for the assets entrusted to us over the long term, supporting you in line with your needs. With our thanks for the confidence you continue to place in us, we would like to wish you all the very best for the New Year.»

Karl Reichmuth
General Partner

SOLOMONIAN NOBEL PRIZE

WHAT ARE THE LESSONS FOR THE EQUITY MARKETS?

What turnover does this firm generate and at what profit: I was asked that question about 15 years ago by an experienced businessman looking at one of our recommendations. I did not have the answer at hand; after all, back then I believed everything that I had learned at university and on my CFA course. The core assumption was that people are rational and markets efficient. Eugene Fama won the Nobel Prize in Economics for this in 2013. But my mentor taught me to look on share prices as an offer at a given moment in time, and that it's best to form our own opinions. After all, the situation can change depending on the valuation, and this may dictate whether the current price presents more risks or chance going forward. My mentor was certainly closer to Robert Shiller, the second of this year's three Nobel laureates. Contrary to Fama, he is convinced that people are not rational, and tend toward herd behavior. And precisely because of this, markets may exaggerate on the up and downside, and this is something that can be identified.

15 years of sideways markets

For the past 15 years, stock markets have moved up and down within multi-year cycles (see chart on page 2). The sobering experience for Fama investors came after the Internet bubble burst in 2000. While the bubble was building, they still had reasons to be cheerful. But from March 2000 onwards, the Shiller investors with low equity allocations counted themselves fortunate to have read his books. Over the longer term, it was better not to have participated in the formation of the bubble. Although this may not have been entirely right during all periods, over time these investors were able to keep their basis high. To coin a phrase, ultimately you have to decide whether you want to look foolish during the bubble or afterwards. As the zeitgeist shifts to the shorter-term, independent thinking becomes all the rarer. The career risks are too great, decisions too hasty and pro-cyclical.

The best environment for equities?

At the beginning of a structural equity bull market stretching over many years, interest rates are mostly high, profit margins and valuations low, and almost nobody wants to own shares. The bigger picture at present is different. Yet despite this, we continue to recommend a diversified portfolio with a strong equity weight. Why?

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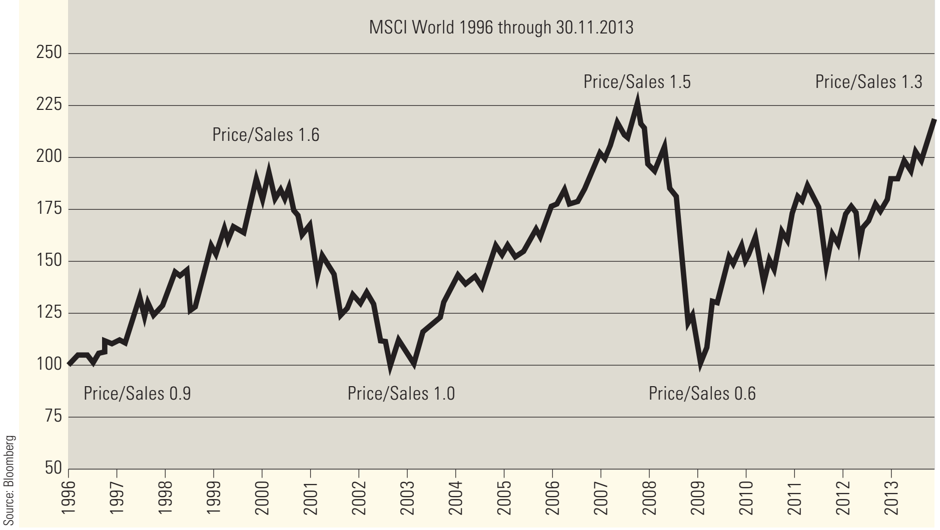
EUPHORIA 2000, DEBT BOOM 2007, LACK OF ALTERNATIVES IN 2014…?



Deleveraging phases spanning many years

Sovereign debt is too high, and the printing of money cannot continue like this indefinitely. We expect to see interest rates remain below nominal growth rates for several years to come. Therefore, sideway market will persist for some years yet, with temporary corrections. Valuations have not yet reached euphoric levels; hence, we do not expect a slump like we saw at the turn of the millennium, or during the major financial crisis five years ago. Challenges are much more likely to come from temporary corrections, unless measures were to be imposed from on high – e.g. capital controls, mandatory bond investments or expropriation – that would override the current financial market system.

Valuations determine future potential

Earnings yield of the Shiller P/E can be taken as a rule of thumb for the future performance of the equity markets. We explain this concept in detail on page six. With a Shiller P/E of 25, we can expect a return of 4% per annum over the next ten years. Compared to current bond yields this is about fair, yet no longer very attractive. Therefore market valuation must be taken into account in a strategic asset allocation. Owing to the fragile environment both geopolitically and on financial markets, we continue to recommend spreading investments across asset classes. This means that not only stocks but also bonds, precious metals, alternative investments, and real estate belong in a broadly diversified portfolio. Although such portfolio will be less well positioned in periods when only one asset class performs well – like equities did in 2013 – it is more important to be wrong less often. Over time, this delivers better results with lower fluctuations.

A dearth of alternatives

Unlike before, currently there are scarcely any interesting alternatives to equities. In 1998, for example, there were real estate investments – an opportunity we seized with the foundation of Mobimo – and also alternative investments. In 2000 there were attractive bond yields on offer, and through to 2010 precious metals were useful. Since 2009, however, we have first seen the bond markets become bloated and the equity markets now appear to be following suit. That said, they have only recently posted fresh highs, which means that the significant losses suffered on the equity markets have finally been recouped. Even a well diversified portfolio will now have surpassed the highs of 2007, fortunately with much lower volatility.

Equity euphoria?

Nobody knows precisely how the equity markets will develop, and it's also impossible to predict euphoria arising. In my opinion, we are not yet in a euphoric phase. Against the backdrop of the high levels of liquidity provided by central banks and the lack of alternatives, the chances of a development toward overvaluation seem relatively high. Bold investors are increasing equity positions in expectation of markets becoming more expensive, while the more jittery are reducing their allocations to a weighting they would want to hold through a correction. The challenge in 2014 will be to position portfolios in the right direction depending on the individual circumstances and appetites of the client.

Hold precious metals

I'm often asked whether we continue to stick to gold. Yes, we think that precious metals still make sense in a diversified portfolio. But we also know this is not a universally held view. Hence, if clients don't want this, their wishes have to be respected. Should the world finally find its way onto a growth path, it will become virtually impossible to keep consumer inflation low for long.

Time and Patience

In this environment, we are sticking to our stoic advice. We recommend a broad diversification, with regard to both asset classes and individual investments. Bonds still have little appeal, and equities are overdue for a correction. A correction mostly comes out of the blue, although the reasons are then quickly identified in retrospect. You should be happy if equity markets move toward overvaluations. But only hold the allocation that you would also be comfortable with if there were to be a 10-20% correction. And keep some cash to make additional purchases at lower prices, even if the performance is then negative.

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

CONSENSUS	STAGFLATION Time heals all wounds	THE DEBT CRISIS IS OVER Chances abound in Europe	NEW BEGINNING
Growth recovers slowly in the US, EU, and Japan. In southern Europe, the economy has passed the worst, but it will take years before the imbalances in Europe are corrected and the upswing becomes tangible. Inflation remains low. The Eurozone remains intact. Money market rates remain close to zero in all industrialized countries, while long-term interest rates rise slowly due to the reduction in bond buying by the Fed. The exchange rates among the major currencies remain relatively stable. The limit of CHF 1.20 vs. the EUR guaranteed by the SNB remains in force. Mixed showing in the emerging markets; growth will flatten off on the whole but will remain higher than in the industrialized countries. Debt reduction is postponed further into the future.	Growth remains low in the industrialized countries. Unemployment rates remain high, and unit labor costs rise in northern Europe as a result of regulatory intervention (minimum wages, bans on redundancies). Negative interest rates help to push newly created central bank money into the economy. The flight into real assets intensifies and leads to asset price inflation. Japan further weakens the JPY with a strongly expansionary monetary policy, and carries out structural reforms. Wages and prices begin to rise. The development of the emerging markets is a mixed bag. All in all, growth declines and the currencies weaken, thus leading to imported inflation. Higher inflation worldwide, coupled with interest rates being kept low, helps to curb the real burden of government debt.	The crisis hit countries in the Eurozone recover thanks to reforms. The valuation discounts in southern Europe also attract foreign investors. Risk premiums fall and the banks in the crisis countries are able to reduce their bad loans surprisingly quickly. Thanks to support measures from the ECB, the local banks are able to supply the economy with credit once again. Capital spending increases and stimulates growth. The US economy grows on the back of rising consumption and low energy costs. The Fed is able to normalize monetary policy in an orderly manner. This sends out a signal, and triggers an investment boom, also in the emerging markets. Inflation rises due to the improving economy. The world slowly grows its way out of the debt problems.	Growth in the industrialized nations does not recover and remains low. Unemployment remains high, particularly in Europe. Despite expansionary central banks, it is not possible to push long-term interest rates below growth rates. The debt burden continues to mount, and forces governments into drastic austerity measures. Pension promises and social benefits are cut back. This forces households to save more and leads to weaker consumption, stagnating wages, and falling prices. The economy slips back into recession. Government debt is restructured, with extensions and lower yields. In Europe there are writedowns, and exits from the Eurozone are no longer avoidable. Owing to the rising credit defaults, banks are increasingly nationalized.
INVESTMENT IDEAS: - Dividend stocks worldwide - Cyclical stocks, financials - Hedge funds (e.g. long/short equity) - Speculatively: equities in southern Europe or Japan	INVESTMENT IDEAS: - Global leaders among equities (global, pricing power, little regulation) - Precious metals - Selectively hedge funds (e.g. macro or long/short equity) - Real estate	INVESTMENT IDEAS: - Cyclical stocks, in particular in the infrastructure sector, financials - Stocks from southern Europe and emerging markets - Foreign currencies - Hedge funds (e.g. distressed securities in southern Europe)	INVESTMENT IDEAS: - Long bonds - Selectively hedge funds, e.g. short credit - Gold as a store of value in the event of currency reforms
Probability 6 months: 50%	Probability 6 months: 35%	Probability 6 months: 14%	Probability 6 months: 1%
Probability 18 months: 35%	Probability 18 months: 45%	Probability 18 months: 15%	Probability 18 months: 5%
Probability 36 months: 25%	Probability 36 months: 50%	Probability 36 months: 15%	Probability 36 months: 10%

«PORTFOLIO OF THE FUTURE»

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

%	WHAT	POT 1: COMMITMENTS	POT 2: PRESERVING VALUE	POT 3: SEIZING OPPORTUNITIES	RETURN*	VOLATILITY*
39%	Cash & fixed-income investments	Money market or cash in home currency			0%	1%
		Short-term corporate bonds	Inflation-linked government bonds in EUR, CAD, and SEK		0-2%	5%
1%	Structured products			FX Asia	4-8%	8%
35%	Equities		Stocks with high dividends and low valuations from the sectors food, energy, pharmaceuticals, and telecoms from our Global Leaders list	Small caps (Pilatus) Gold mining stocks Italian equity index Japan ETF RMB internationalization	4-8%	15%
2.5%	Real estate		Switzerland	Asien REITs	4-6%	15%
15%	Alternative investments			Matterhorn 3 / 24 or third-party products	6-8%	< 10%
				Reichmuth Himalaja	10%	< 15%
				Reichmuth Macro	10%	< 15%
7.5%	Precious metals		Gold (physically)	Silver ETF	8-10%	15%
				Total	**3-6%**	**approx. 6%**

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

INVESTMENT POLICY
JANUARY 2014

Economy	Switzerland	Germany	Italy	US	Japan	China
GNP in USD bn	632	3400	2013	15685	5960	8358
GNP growth	1.9%	0.6%	-1.8%	1.8%	2.4%	7.8%
Unemployment	3.2%	6.9%	12.3%	7.0%	4.0%	4.0%
Expectations 12 months	**Switzerland**	**Germany**	**Italy**	**US**	**Japan**	**China**
Economy	→	↗	↗	↗	↗	↘

Interest rates	Switzerland	Germany	Italy	US	Japan	China
3-month Libor	0.02%	0.27%	0.27%	0.06%	0.15%	5.5%
10-year govt. bond yield	1.1%	1.9%	4.1%	2.9%	0.6%	n.a.
10-year swap rate	1.6%	2.1%	n.a.	3.0%	0.9%	5.3%
Inflation	0.1%	0.9%	0.7%	1.2%	1.1%	3.0%
Expectations 12 months	**Switzerland**	**Germany**	**Italy**	**US**	**Japan**	**China**
3 months interest rates	→	→	→	→	→	↗
10-year interest rates	→	→	↘	↗	↗	↗
Inflation	↗	↗	↗	↗	↗	↗

Stock markets	SPI	DAX	MIB	SPX	TPX	HSCEI
Index level	7709	9389	18498	1810	1262	10629
Performance 1 year	21%	22%	16%	28%	53%	-2%
Performance 5 year	70%	99%	14%	127%	68%	49%
Performance 10 year	105%	151%	7%	109%	48%	294%
Valuations	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Price/earnings 2014	14.8	12.7	12.5	14.8	14.1	7.1
Shiller P/E	24.7	21.2	11.2	24.5	26.4	19.0
Price/book	2.4	1.8	0.9	2.6	1.3	1.2
Price/sales	1.7	0.8	0.5	1.6	0.7	0.5
Dividend yield in %	3.0	2.8	3.2	2.0	1.7	4.1
Profitability	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
ROE	13.8%	11.2%	3.9%	14.6%	9.3%	17.9%
10-year profit margins	8.6%	4.5%	5.3%	7.5%	2.7%	10.9%
Current profit margin	9.3%	4.5%	0.6%	8.8%	4.1%	10.4%
Drivers	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Monetary policy	Positive. SNB must take lead from ECB. Minimum exchange rate policy.	Positive. ECB key rate set much too low for Germany.	Negative. ECB key rate set too high for Italy, lending not functioning.	Positive. Reduction in QE program.	Strongly positive. BoJ has only just begun with QE program.	Negative. Government wants to curb credit growth.
Expectations 12 months	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Stock market	→	↗	↗	→	↗	→

Currencies		EUR		USD	JPY	CNY
Current exchange rate		1.23		0.90	0.86	0.15
Purchasing power parity		1.25		0.93	1.12	0.14
Influencing factors and forecasts		**EUR**		**USD**	**JPY**	**CNY**
Monetary policy		EUR-minimum exchange rate		Reduction in bond buying in the US should support the USD.	Strongly expansionary.	Less restrictive. Controlled appreciation vs. the USD.
Interest rate spread (carry trade):		no change		no change	no change	rising, but no open market
Current account:	12.1%	Germany 7.2%	Italy 0.4%	-2.5%	1%	2.4%
Expectations 12 months		**EUR**		**USD**	**JPY**	**CNY**
Currencies		→		↗	→	↗

Legend: ↗ = increasing ↑ = strongly increasing → = neutral ↘ = decreasing as of: December 20, 2013

MARKET OUTLOOK
1st TRIMESTER 2014

CURRENCIES

Exchange rates between the major currencies have remained relatively stable in recent months, and we do not anticipate any strong shifts in 2014 either. That said, the JPY will probably continue to weaken somewhat further due to the Bank of Japan's depreciation policy, and we can expect to see a slight recovery for the USD, which has been rather weak as of late.

The evenly directed and still very expansionary monetary policies of central banks, coupled with the ever dwindling inflation spreads between industrialized countries, will mean that the exchange rates between the major currencies will stabilize at their current levels for the time being.

Against the EUR, the CHF is continuing to move between CHF 1.20 – the limit guaranteed by the Swiss National Bank (SNB) – and around CHF 1.25. The market is confident that this limit will be maintained. Interventions to defend it have therefore been unnecessary for some months now. In light of the admittedly now smaller inflation spread between the Eurozone and Switzerland, coupled with Switzerland's enormous current account surplus, we can, over the long run, expect the SNB to abandon the limit or lower it. The result would be a corresponding appreciation for the CHF.

As regards the other currencies, the CAD and AUD weakened further due to falling commodity prices, and are thus even further from parity to the USD. Given that the decline in commodity prices is likely to gradually taper off due to cutbacks in production, we can also expect to see a stabilization in the corresponding currencies in the near term, followed later by a degree of recovery. The Asian currencies (except the JPY) have been fairly stable against the USD, and this is likely to remain the case over the coming months.

INTEREST RATES

The central banks of the industrialized countries are continuing as before with their extremely expansionary monetary policies, and have already committed themselves to maintaining them. That said, the US Federal Reserve wants to gradually reduce its purchases of long-dated bonds, and this has already led to a clear rise in long-term yields. Against the backdrop of modest, barely rising economic growth worldwide and low inflation rates, there will be hardly any increase in interest rates in the key currencies in 2014.

Inflation in the industrialized nations is still close to zero due to the low economic growth, high unemployment, and global competition. The central banks can thus continue with their very expansionary monetary policies for the time being without greatly jeopardizing monetary stability. Money market rates will therefore persist at their current low level for at least a year yet. Although long-term yields have risen somewhat, there is no significant further increase on the cards here either since the yield curves have become relatively steep. It is difficult to gauge what impact the extreme monetary policies of central banks will have over the long term, especially given that there is no past experience to go on. Under the pressure of mounting government debt, the goal of monetary stability will be viewed in a different light and ranked below new objectives such as modest inflation (e.g. 2% or 4%) or clearly negative real interest rates (e.g. with repressive investment regulations). This will undermine confidence in monetary stability, and will lead to a general rise in interest rates. In our view, we can at present only speculate on the timing, the exact circumstances and the scale of this interest rate rise.

STOCK MARKETS

Prices have risen further on most stock markets in recent months, and valuations have therefore become rather high in some cases. Market sentiment is optimistic, but without any speculative exaggerations as yet. The upward and downward movements are likely to roughly balance each other out in the coming months.

Although there is little prospect of further large gains with equity investments in the near future, they remain interesting relative to the alternatives (liquidity offers no return, fixed-income investments carry the threat of price losses if interest rates rise, gold has little chance of recovering as long as inflation remains near zero). The high dividend yields of many first-class stocks offer a worthwhile basic investment return, even if no price gains are achieved. As regards valuations, some emerging market countries such as South Korea or China appear attractive. The Japanese stock market is likely to rise further on the back of the central bank's ultra-expansionary policy.

The performance of the individual sectors has varied widely in some cases. Banking and insurance shares have risen sharply in recent months, but are now likely to have exhausted their upside potential. With the share prices of commodity producers having fallen markedly in some cases there is considerable potential for gains here. We continue to favor equities of globally active firms in the food & consumer goods, healthcare, energy, and telecom sectors.

Dr. Max Rössler

SHILLER P/E

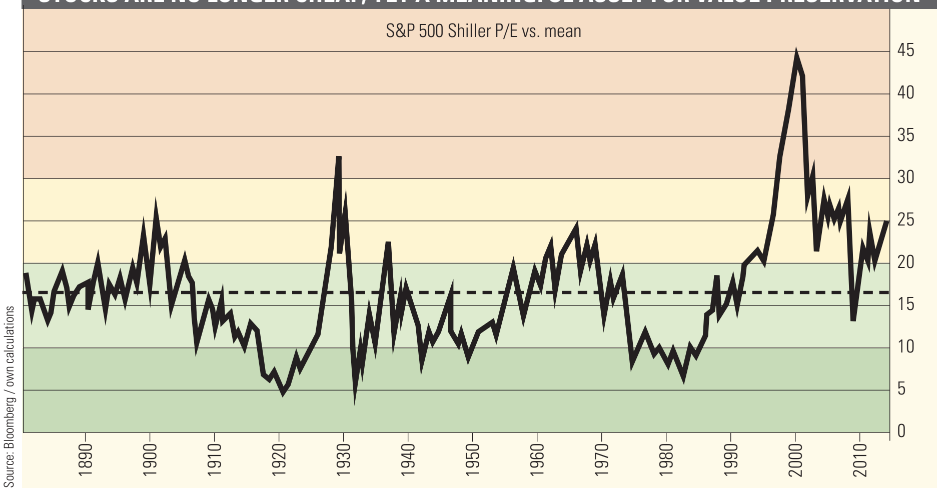
FOR VALUE INVESTORS, IT'S THE LONG TERM THAT COUNTS

Benjamin Graham, the founding father of value investing and former mentor of Warren Buffett, recognized at an early stage that companies' earnings are subject to economic cycles and can therefore fluctuate strongly. Investors should thus take a longer-term perspective when looking at earnings. The US professor and current Nobel Prize winner Robert Shiller subsequently took this principle further and developed the Shiller P/E ratio.

What is the Shiller P/E?

The Shiller P/E calculates the ratio of price to earnings not on the basis of the current annual earnings, which can fluctuate sharply, but on the basis of the average earnings over the past ten years, adjusted for inflation. This approach solves the problem of markets appearing cheap at the high point of an economic cycle due to bloated earnings, and allows for a more meaningful interpretation.

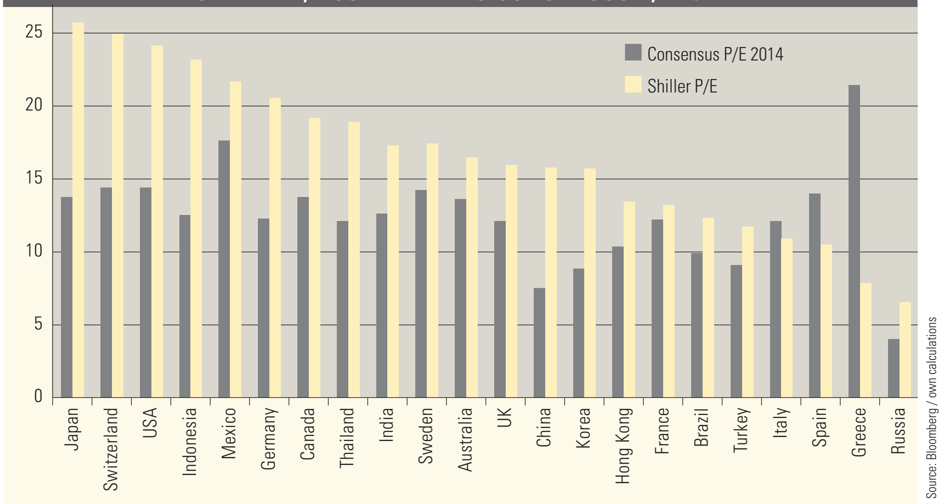
STOCKS ARE NO LONGER CHEAP, YET A MEANINGFUL ASSET FOR VALUE PRESERVATION



The Shiller P/E in retrospect

The chart above shows the Shiller P/E of the S&P500 over the long term. Since 1880, the average has been around 16.5. Hence, the current value of 25.1 using the Shiller method points to a rather expensive valuation. Empirical research shows that the Shiller P/E has in the past been a good indicator of the average performance to be expected over the coming ten years. If the Shiller P/E is tending on the high side, the return to be expected will tend to be on the low side, and vice versa.

SHILLER P/E COMPARED TO CONSENSUS P/E 2014



Expensive or Cheap?

The above chart compares the average estimated price/earnings ratio for 2014 with the Shiller P/E. Despite the high profit margins, analysts expect further earnings growth next year, which results in a cheaper valuation. However, if we use the Shiller method, adjusting the earnings across the cycle, we see that the markets are rather expensively valued, above all in Japan, Switzerland, and the US. Meanwhile, the countries in southern Europe and certain Asian countries look cheap.

Starting point is crucial for the future

We believe the Shiller P/E to be a good concept, serving as an indicator for the performance to be expected in the coming years. From a fundamental point of view markets are currently rather expensive. However, interest rates are very low worldwide and there is a dearth of investment alternatives to equities. This remains positive for equities in terms of money flows. Therefore we continue to see equities as the most attractive asset class. That said, we are sticking to our value approach, and are above all focusing on globally active firms with strong products, a good market position and accordingly pricing power, which are less exposed to potential pressure on margins and can also deliver more stable earnings in a difficult environment. We are avoiding stocks with very high growth expectations, as in such instances the price correction is usually excessively high if a disappointment does occur.

Silvan Betschart, CFA. CAIA

RÜTLI FOUNDATION, THE UMBRELLA FOUNDATION

MONEY IS WHAT MONEY DOES

Many people who are well off financially feel the need to give something back to society. They want to use their money to make a lasting contribution to a good cause over the long term, to create something that will endure. The state actively supports such activities with a range of measures, including the possibility of tax deductions.
Experience shows that there are increasing numbers of younger people setting up foundations with a view to pursuing charitable goals during their working lives. One thing they all have in common is the desire to see, experience, and influence the impact of the contribution they make.

Doing good – how to go about it and at what costs?
The obvious solution for pursuing charitable activities is to set up your own foundation. However, once this has been established, it is virtually impossible to make any changes to the by-laws or the intended purpose. In addition to the time involved, typically only part of the money reaches the intended destination since the administration automatically incurs corresponding costs.
For these reasons, we recommend that anyone thinking about setting up their own foundation have a minimum capital of CHF 5 million available, as this allows for a sensible ratio between costs and benefits.

The Rütli Foundation strengthens your charitable commitment
Reichmuth & Co Privatbankiers set up the Rütli Foundation more than ten years ago, with its registered office in Lucerne. It was designed as an umbrella foundation, and as such it is tax-exempt and supervised by the Swiss Federal Supervisory Board for Foundations.
The commitment of Reichmuth & Co Privatbankiers to philanthropy opens up a range of advantages for you. Firstly, the Rütli Foundation makes its expertise in the field and organizational/administrative assistance available to you free of charge. Secondly, you do not incur any costs in setting up the foundation.

The sub-foundation – 100% of your donation goes to the beneficiaries
With a sub-foundation, you determine how the money is to be used, just as you would with your own foundation. However, the key difference between the two is that with a sub-foundation you do not incur any costs. If we take an example of CHF 500,000 foundation capital and a return of 3% p.a. over five years, the whole CHF 75,000 can go to the cause you choose, and not the CHF 40,000 or so that would be available if you had to bear the costs yourself.
The sub-foundation solution is also suitable for younger people who are still working. For example, an entrepreneur set up a sub-foundation several years ago. Based on his tax-deductible possibilities, he pays into it every year and so tops up the foundation capital. The purpose of the fund is formulated so openly that he is completely flexible in making his donations, both now and in the future.

«Rendite für Gemeinnützigkeit» – using returns to support charitable causes, but not (yet) the capital?
The «Rendite für Gemeinnützigkeit» concept presents an alternative solution to the sub-foundation. With this platform, only the returns generated flow to the charitable cause of your choosing, but not your foundation capital.
You can make your foundation capital available for a certain time using a usufruct agreement, and can thus keep your options open if you are not yet sure whether you will need the capital at a later stage. Thanks to this agreement, you remain the owner of the capital and can recall it at a later date if need be.
Example: An entrepreneur wants to support an orchestra. Using a usufruct agreement, he pays CHF 1 million into his «Rendite für Gemeinnützigkeit» foundation. The gains generated on the foundation capital accrue to the orchestra every year. The entrepreneur can, for example, state in his will that the capital should pass to the orchestra after his death, provided he does not recall it before.
Neither the sub-foundation nor the «Rendite für Gemeinnützigkeit» solutions are subject to wealth or income taxes throughout the term of the agreement. And the beneficiary institutions are grateful for your support now.

It's never been easier
We would be delighted to support you in setting up the ideal form of foundation for your needs and running it year by year, quickly and with a minimum of bureaucracy. If you would like more detailed information, we will be happy to send you the Rütli Foundation brochure, or to advise you in person.
Our solutions will allow you to experience and enjoy the fruits of your philanthropic activities now, and we wish you every satisfaction in this regard.


Claudia Ineichen, CEO

UPHEAVALS AND CHALLENGES

JÜRG STAUB COMMENTS ON CURRENT QUESTIONS FOR THE BANKING INDUSTRY

Major challenges lie in store for the Swiss banking sector, with bank-client confidentiality a constant theme. Is it really a thing of the past?

JS: Switzerland decided in 2009 to adopt the OECD standard in the respective double taxation agreements and to offer foreign states legal assistance in the case of tax offences. This meant that what had long since applied to money from criminal activities now also applied to untaxed assets of foreign clients. Switzerland has thus lifted bank-client confidentiality with respect to such assets. Clients who still hold untaxed assets with Swiss banks are therefore advised to make a tax declaration in their country of domicile. Here the past cannot be papered over, and there is a considerable risk that Switzerland will also have to hand over information in response to legal assistance requests regarding past tax matters.

It appears that banks will have to reinvent themselves if their business model was based primarily on bank-client confidentiality. How does R&Co fare in this regard?

JS: We are very relaxed about this. R&Co can stick to its clearly defined strategy. Our focus has always been on taxed client assets from our two core markets: Switzerland and Germany. The current tax dispute with the US is therefore a side-issue for our bank. However, in order to clear any uncertainty regarding the past, we will be following the recommendations made by FINMA. Any potential payment would not be a burden for our current balance sheet since we have sufficient reserves.

MARKET PERSPECTIVES 2014

For a video recording of our Private Clients event on November 7, 2013 in the KKL, Lucerne, please see www.reichmuthco.ch (German only)

Can you still bear unlimited liability for the bank's balance sheet without any concern?

JS: Yes, thanks to our clear strategy, giving up unlimited liability is not an issue for us. That said, there are developments that are giving us pause for thought, and that are moving in the wrong direction. The issue of legal uncertainty is also making itself felt in Switzerland unfortunately. This is very damaging for a business that is based on trust and reliability.

Does R&Co have the critical mass required to remain independently active over the long term?

JS: Yes, independence is pivotal for us. The question of size has more to do with the strategy and business model. As far as that is concerned, I am convinced that we are very well equipped with our focused and stringent business model. What also helps here is our long-standing experience in outsourcing downstream activities coupled with our comparatively low fixed costs. Of course, we regularly take a critical look at both our strategy and structure. However, we have never had to make any major adjustments thus far, and we firmly believe that we are correctly positioned for our clients.

Where do the challenges lie for R&Co?

JS: The unresolved debt problems in the developed world and the unlimited printing of money by the central banks are creating a dilemma that will preoccupy investors for some time to come. Our biggest challenge is to provide advice and support to our clients in this fraught environment, so that they are ideally positioned with their investments and finances, especially should tensions mount in the future. As regards investments, investors are primarily caught between short and long-term objectives. Positioning for the longer term is the clear priority for most clients, and, hence, for us too.

Another development is that the governments of the western countries are increasingly fuelling the misconception that they can manage everything. The trend toward overregulation and more central government control is the logical consequence. Instead of promoting a sense of personal responsibility, citizens are being increasingly deprived of their say in matters. States and central banks are intervening in the markets, and the self-cleansing effect of the free market is no longer taking place. As private bankers dedicated to the spirit of liberalism, we tend to be rather critical of the state and are very much in favor of personal responsibility and free markets. The many discussions we have held with our clients convince us that we are on the right track in this regard, and this will spur us on to meet the challenges that lie ahead.

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