

New Private Bank

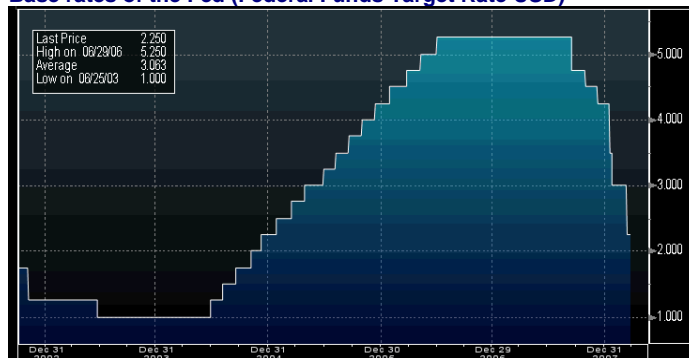
Rescue of the banking system at the cost of price stability? Gold as an inflation shield and a safe haven

- The rather panicky monetary measures of the US Federal Reserve to stabilise the international financial and banking system give rise to fears of sharply rising inflation. However, the effects of the current credit crisis also strongly dampen inflation, whether because of the high liquidity holding of the banks or due to the declining consumer demand as a result of assets being destroyed (the real estate crisis). As the recent price setbacks show, investments in commodities are not a one-way street either, given that apart from the sharply higher real demand, "speculative" money is flowing into precious metals, energy and agricultural commodities. Even though fears of inflation appear to be exaggerated, investments in precious metals are likely to remain interesting in the medium term because more and more investors are regarding them as one of the few safe havens.

Taps turned on full by central banks

It appears that the US Federal Reserve and its chairman Bernanke are not shy of any means to return the unstable financial markets, caused by the mortgage crisis in the US, on to an orderly track. Within just a few months, the Fed has cut the base rate by a full 3 percentage points to 2.25%. In addition, the central banks have been supplying the commercial banks with huge sums of short-term money because the financial institutes are only granting loans to each other with a great deal of hesitancy. In order to shore up the stability of the banks and particularly to secure their liquidity, the Fed has expanded the securities serving as loan collateral to mortgage-secured papers. All these measures have led to a sharp increase in the money supply (M2 in \$). The Fed seems to have fully subordinated the aim of stabilising the banking system to combating inflation.

Base rates of the Fed (Federal Funds Target Rate USD)



Source: Bloomberg

Commodity prices driving inflation

Mainly due to the significant rise in prices for oil and agricultural commodities, the past few months have brought a sharp increase of overall inflation in almost every country. Examples are that inflation on an annualised basis has risen by 4% in the USA and 3% in Europe. In China, where the consumption of energy and agricultural products makes up a much higher proportion of the basket of goods, annualised inflation has leapt to more than 8%. Many investors on the international capital markets seem to be convinced on the basis of those figures that those of us in the USA and Europe are on the brink of stagflation with sharply rising prices and low growth rates. Rapidly rising commodity prices and sharply falling share prices reflect this opinion on the market. By the same token, inflation-protected treasury bonds, which reflect the inflation expectations of the players in the market, have also risen sharply in value in recent months. It appears that our financial system can only be rescued at the price of heavy inflation, circumstances in which - as a market strategist from one of the major investment banks said recently - investors appear to believe only in God and gold.

Gold price since 2005



Source: Bloomberg

The threat of inflation must be taken all the more seriously because monetary policy in America does not stop at its own front door. Particularly the many states in Asia and the Middle East which are still booming and whose currencies are bound in one way or another to the US Dollar see themselves deprived of an effective monetary policy due to the low interest rates in the USA. The result is that several of those nations have had to adjust their base rates downwards to stabilise the currency exchange rates, even though rising inflation rates should have been a recommendation for an increase.

Sinking asset values have an inflation dampening effect

Numerous economists therefore believe that against this background, inflation will be forced to rise further or, at least, stick at a high level. What needs to be considered, at least, is that the current inflation figures are less a result of the monetary policy exercised by the central banks but primarily reflect the sharply higher prices of oil and agricultural commodities. In view of the enormous amounts with which the central banks are flooding the economy, one must also not forget that - as history confirms - falling house prices and very restrictive lending also have a strongly dampening effect on inflation. Along with this comes the fact that as a consequence of weak economic growth and rising unemployment figures, households in the USA have less disposable income, so there is less pressure on prices from the demand side. There are several indications that core inflation (without energy and food) has already passed its peak in the USA and Europe (1.8% in Europe, 2.3% in the USA). Somewhat higher inflation rates must be expected merely for the rapidly growing economies in Asia and the Middle East, whereby even in China, core inflation is "only" at 1.8% at the moment. As far as medium-term inflation prospects are concerned, a lot will also depend on how quickly the central banks pull in the monetary reins after stabilising the banking and credit system and withdraw the surplus liquidity from the markets.

Rising gold prices with and without inflation

On the other hand, the market currently appears to see only the risks of inflation; the price of gold - which is viewed as the traditional shield against inflation - has veritably exploded in recent months. As the recent collapse of several commodity prices have shown recently, even investments in precious metals, oil and agricultural commodities are by no means a one-way street. It has to be assumed that via hedge funds and structured products, a lot of "speculative" money has flown into commodity markets in recent years. Correspondingly, the current commodity prices reflect, on the one hand, the change in global scarcity due to the sharply higher demand in Asia and Latin America. On the other hand, the discovery of commodities as an investment vehicle has triggered additional price rises, whereby short-term profit taking can give rise to significant price fluctuations. If success were to be achieved in regaining the trust

of market players in the stability of the international financial system and stabilising the Dollar, the gold price would almost certainly come under pressure. Nevertheless, there are good reasons to believe in further rising prices for gold and other precious metals in the medium and long term. The sharply higher expectations of inflation certainly exert a supporting influence on the gold price. In view of the repeated experience with unstable financial markets, investors will continue to place considerable value on gold and other commodities in the future, regardless of inflation expectations and purely for reasons of diversification and safety. This is particularly true of investors from Asia and the Middle East who have the highest savings ratios worldwide and have always held precious metals in high regard as an investment.

Investment strategy: When is the trend going to change on the stock markets?

Not very promising economic prospects

There are many indications that as a consequence of the real estate crisis in the USA and the restricted lending by banks, economic growth in America will cool down considerably for quite a while. Particularly Europe, but Asia too, will be unable to stay remote from the US economy, even though current indicators outside the USA point to a continuation of robust growth for the time being. Given the rather bleak economic outlook, do we have to reckon with further setbacks on the stock markets, even though most of them have already recorded a massive collapse and some of the individual markets, such as the Chinese Blue Chip Index (HSCEI Index) have almost halved in value since the peak last autumn?

Near collapse of Bear Stearns as the harbinger of a U-turn?

Stock markets usually discount economic developments in advance. If one compares the movements in share prices during earlier economic cycles, it becomes apparent that share prices usually collapse very early in the cycle but almost always anticipate a recovery the same kind of time in advance. Conspicuously often, the point of the U-turn in earlier crises was triggered by dramatic events or the collapse of individual companies or financial institutes. One might therefore speculate that the near collapse of the renowned brokerage house Bear Stearns could represent the turning point on the international stock markets. Hopes of better times are nourished by the fact that, above all, the US Federal Reserve has done just about everything possible until now to stifle a smouldering fire in the banking system. Now that a few banks have been massively supported in terms of their refinancing, one now expects, having seen the rescue attempts for *Wallstreet*, some help for *Mainstreet* too, i.e. the affected home-owners, not least of all to prevent a massive economic collapse. A glance at the valuation of the stock exchanges also shows clearly that in the meantime, we have arrived at a level which has to be regarded as cheap in historical comparison. An example is that the price-earnings ratio of the DAX, based on the profits anticipated for 2008, is at about 10 (the multi-year average is more than 15). Even if one presumes that a few companies will have to correct their profit expectations further downwards, the current prices are strongly supported by the low valuations.

Development DAX and P/E ratio (green line)



Source: Bloomberg

It must also not be forgotten that low interest rates (in the USA, the real interest rates have become negative in the meantime) exert a positive influence on the profit dynamism of companies. In any case, the low fundamental valuations indicate that it is too late to sell now that the bear market on several stock exchanges is already in its eighth month.

Instability on the financial markets as a sword of Damocles

Although it nevertheless seems inadvisable to begin a massive build-up of shareholdings due to the low valuations, this is simply because of the continued high level of uncertainty in the banking system. The near collapse of Bear Stearns and the enormous write-offs in the investment banking system (amounting to over 200 billion Dollars to date) are indicators of high instability in the banking system. Further, heavy write-offs are going to be necessary, given that the credit crisis in the sub-prime segment has now lapped over on to other credit segments which are far more significant in terms of volumes. At the moment, therefore, no-one is really in a position to make reliable forecasts about the ultimate results of the credit crisis. In these circumstances, the central banks will continue to be under pressure, whereby the Fed, in particular, deserves applause for the measures it has undertaken to date.

Recommendation of investment funds: NPB Finaport Dynamic Fixed Income Fund
Product description

NPB, together with Finaport AG, has launched a new fund for fixed-interest investments, the NPB/Finaport Dynamic Fixed Income Fund. The basic thinking behind the launch of the new fund was the possibility of offering a fund for fixed-interest investments which, thanks to the very broad and flexible investment opportunities in every kind of interest situation - particularly when the rates are rising - enables the achievement of a positive yield.

The new fund is conceived as a fund-of-funds and therefore pursues a multi-manager approach. Apart from traditional investments in bonds (the fund can invest up to 20% of its assets in individual titles) which are handled primarily through attractive index tracker funds, investments can also be made in alternatives based on interest instruments. This opens up new and, above all, uncorrelated investment opportunities. These include, for example, catastrophe bonds, life insurances or asset backed securities ("ABS"). In addition, up to a maximum of 20% can also be invested in interest-based, structured products.

Due to the current situation on the financial markets with the sub-prime crisis, asset-backed securities are not enjoying popularity among investors at the moment, although there are many investments which are

fundamentally in excellent health. We are therefore not making investments in the NPB/Finaport Dynamic Fixed Income Fund until the market again places rational value on securities of that kind. We are however convinced that in this investment too, the near future will provide a number of promising opportunities. At the moment, the fund is invested exclusively in funds with borrowers of best quality, supplemented by two individual bonds and two structured interest products which can be acquired significantly below par. In the current circumstances, interest rates also react to every piece of news, which increases the volatility of fixed-interest investments. Thanks to the broad diversification of the NPB/Finaport Dynamic Fixed Income Fund, that volatility is however smoothed for investors in the fund.

Key details of the fund

Launched:	7.03.2008
Initial issue price:	EUR 100.-
Liquidity:	daily
Fund management:	LB(Swiss) AG
Deposit bank:	Bank Sarasin AG
Auditors:	PriceWaterhouseCoopers AG

Recommendation of structured product: Gold Pick-up Note
Product description

In times of heightened uncertainty, products with a capital guarantee are at the centre of attention. Simultaneously at such times, gold is increasingly in the spotlight, as reflected by the development of the gold price in recent months. The Gold Pick-up Note beneficially combines these two components. The basis is formed by a note with a term of 3 years, paying a guaranteed coupon of 1% (CHF) or 1.5% (EUR) and a 100% repayment on maturity. However, at a gold price of more than USD 1,000.-, the coupon can amount to 6% (CHF) or 8% (EUR). What matters is that at a defined cut-off date defined in advance, the gold price is more than USD 1,000.- per fine ounce. Based on the current economic situation, one can presume a continuation or even a further increase of the gold price. We therefore believe that the chance of coupon payments from the Gold Pick-up Note above the minimum coupon of 1% (CHF) or 1.5% (EUR) is very high.

The advantages of the product at a glance:

- A relatively short term of 3 years
- 100% capital guarantee on maturity
- 1% (CHF) or 1.5% (EUR) guaranteed coupon per annum
- Maximum 6.0% (CHF) or 8% (EUR) coupon per annum

Key details of the issue

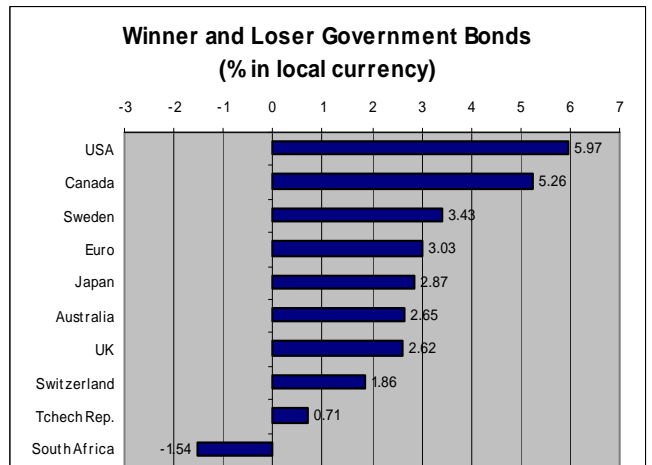
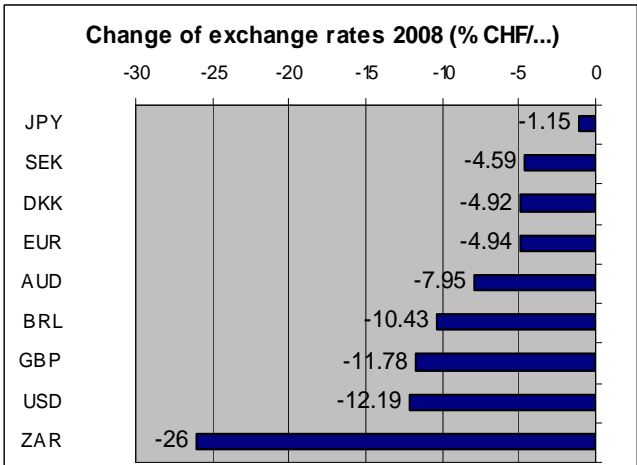
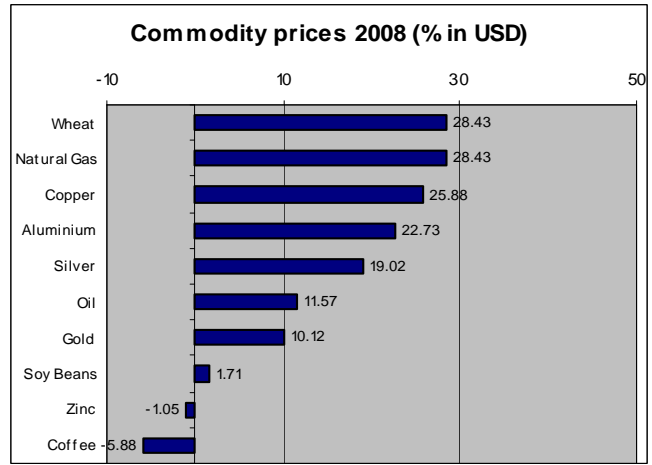
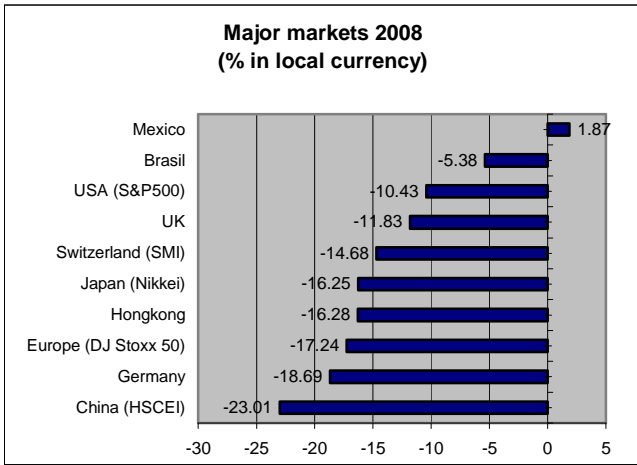
Issuer:	Lehman Brothers
Rating:	A1/A+ (Moody's / S&P)
Currency:	CHF / EUR
Launched:	12.03.2008
Initial fixing:	28.03.2008
Final fixing:	28.03.2011
Repayment:	100%
Cut-off dates:	annually on 28.03.
Coupon dates:	annually on 11.04.
Minimum coupon :	1.0% (CHF), 1.5% (EUR)
Maximum coupon:	6.0% (CHF), 8.0% (EUR)
Maximum coupon:	Falls due if the gold price on the cut-off dates lies above the initial level (indicatively USD 1,000).

Agreement on the obligation of due care (VSB)

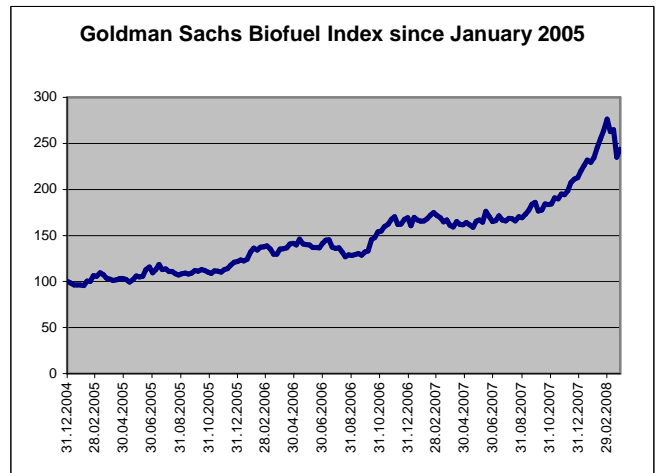
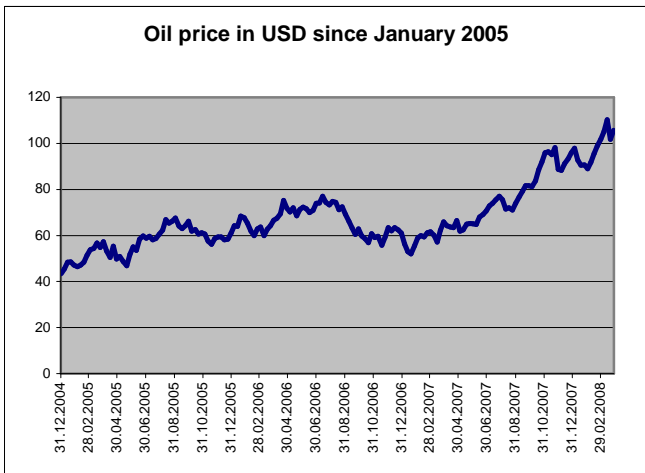
Since its establishment in 1977, the agreement on the rules of the profession regarding the obligation of due care of banks (VSB) has been reviewed and adjusted every five years. With the seventh edition, the VSB 08, the agreement celebrates its 30th anniversary. It takes effect on 1 July 2008, together with the revised money laundering ordinance of the Federal Banking Commission (EBK). Even if the definitive text of the VSB 08 is still pending, it is noteworthy that the opportunity is being used to codify what has proven itself in practice and thus to achieve clarity and

legal certainty. With the introduction of a regulation for immaterial cases, concentration on the material, core matter takes the front seat in place of exaggerated federalism. The objective of all the editions of the VSB was, and still is, that the client as a contractual partner is clearly identified by official means and, in case of doubt, the economically entitled party is also placed in file by means of a special form.

Market moves in the first quarter 2008



Interesting charts



Source: Bloomberg