

# HORIZONTE

CLIENT NEWSLETTER FROM MAERKI BAUMANN & CO. AG

JANUARY 2010



ENVIRONMENT AND OUTLOOK FOR 2010

## Further development on the existing solid foundation

After a turbulent year for investors, 2010 will, in the view of our Chief Investment Officer, be the “moment of truth” for the global economy. We expect interest rates to remain at their current level or marginally higher and think that capital markets offer moderate upside potential. On balance, we cannot assume that consumer confidence will soon return to pre-crisis levels. As your partner in money and investment matters we at Maerki Baumann will do our utmost to provide you with professional advice and assistance in this environment.

As a family-owned company with a long-term focus, we shall remain true to our philosophy of “security over return.” With regard to our organization, after successfully pushing ahead with and completing our strategic re-orientation in December we are confident that we are well positioned for the future. In 2010 we intend to continue with the steady expansion of our private banking unit in Zurich. To further cultivate our client focus, I shall henceforth be directly responsible for this core business of our bank. Maerki Baumann’s private banking unit in Ticino has been successfully established under the management of Gianmarco Lepri. Investment Solutions & Services, our services and competence center headed by Stephan A. Zwahlen, has responsibility for our offering of attractive investment solutions, which

has recently been complemented by mortgage products.

In 2010, as in the past year, you will be able to draw on the comprehensive range of services offered by the Maerki Baumann Group and our network of external specialists for advice and assistance in all your financial concerns. Our competent specialists both at the “front line” and behind the scenes look forward to applying their transparent and professional service to solving your needs.

On page 2 you can learn more about the key elements of our advisory approach. The interview on page 3 introduces our new Chief Investment Officer; you will find his brief assessment of what lies ahead for financial markets in the new year on page 4. We look forward to keeping you even better informed about market events and developments through personal contact and through the pages of our new investment publication *Investment Horizonte*, the first issue of which appeared in December 2009.

*Dr. Rolf W. Aeberli*  
CEO

### Dear Clients

In the past year the private bank Maerki Baumann & Co. AG took decisions that will shape the company’s future development. Although the business environment remains demanding, the bank has succeeded in building up the staff and organization to meet the new challenges and has expanded its competencies and offerings for you, our clients. In so doing, we have never lost sight of our tried and proven core values of independence, solidity and sustainability.

On this basis we look forward to advising and assisting you in all your needs relating to the management of your assets. We shall do our utmost to make you feel you are in good hands.

On behalf of my family, the Board of Directors and the Executive Board I wish you all success in the new year.

Sincerely yours

A handwritten signature in blue ink, appearing to read 'H. Syz-Witmer', written over a light blue horizontal line.

Hans G. Syz-Witmer

Chairman of the Board of Directors



## ADVISORY PROCESS

# The profession must also be a passion

**One consequence of the huge financial setbacks suffered since the outbreak of the global financial crisis is the partial loss of confidence in bankers, or even in the banking industry as a whole. At Maerki Baumann, winning and keeping the confidence of its clients is an ongoing commitment.**

Since the abrupt end to the last economic boom, numerous investors have raised questions about the professionalism and credibility of financial advisory services. Even today, many investors have still not regained complete confidence in the banking world. If bankers want to win the confidence of their clients, they need to do more than sign asset management agreements. Rather, as we at Maerki Baumann are deeply aware, this confidence has to be earned and reinforced by solid work over a long period of time. The fundamental elements of this commitment are sustainably solid and professional service, reliability and honesty.

To achieve this, Maerki Baumann expects its own advisors to make their clients the focus of their activities, listen to them, and understand both the financial and personal aspects of their clients' needs and goals. Often new ideas emerge from these discussions that serve as an incentive for us to try out pragmatic and innovative methods. In determining and implementing our actual invest-

ment strategy we follow a systematic process (see box on asset allocation).

We are firmly convinced that only providers which do not develop and sell their own products are able to give independent advice and, thus, create genuine added value as credible partners in financial matters. Therefore, we make use of "open architecture," i.e., we select the best investments and partners, and in the case of special themes we draw on our broad network of experts in the Maerki Baumann Group – and, if necessary, also on external specialists.

In addition to all processes and products one essential ingredient must not be lacking: the personal enthusiasm and passion for our profession! This is what helps us, day after day, to continue developing suitable solutions for our clients and step-by-step to achieve the investment goals we have set together.

*Dr. Rolf W. Aeberli*  
CEO

*Gianmarco Lepri*  
Head of Private Banking Ticino

### Asset allocation

Asset allocation is the term used to describe the distribution of investments across different asset classes (cash and money market investments; fixed-income securities; equities; and alternative investments such as private equity, hedge funds, real estate and commodities). In the *strategic* asset allocation process, a long-term investment strategy is drawn up. The first questions to ask concern the individual investor's risk tolerance and risk capacity, performance goals and liquidity requirements. In addition, the question of the currencies, markets and regions to be considered within each investment category must also be examined. The next step is to express in percentages the weightings of the individual investment categories that have been selected to achieve the investors' goals. Moreover, *strategic* bandwidths (minimum, maximum) are defined for any temporary adjustments, depending on the market conditions.

The *tactical* asset allocation gives concrete expression to the specifications of the strategic asset allocation. It makes it possible to exploit short-term opportunities by deviating from the strategic asset allocation and, within the bandwidths, overweighting or underweighting individual asset classes or investments. The goal is always to outperform the relevant benchmark. In making their decisions the investment experts take into account independent research reports, a range of stock market indicators, and current economic and political developments.

“My objective is to achieve for our clients the performance targets that we have set.”



INTERVIEW WITH DR. ANDREAS HOMBERGER, CHIEF INVESTMENT OFFICER (CIO)

## An investment philosophy centered on independence, sustainability and transparency

**A few months ago you gave up your job at a big bank to join Maerki Baumann.**

**Why this move?**

What appealed to me in particular were the bank's solidity and transparency and its clear strategic focus. Aside from that, the job of CIO fascinates me. The various positions I have held as specialist and manager in the investment field in the past ten years have prepared me well for my new role.

**To what extent will the clients be aware of the “new broom”?**

We want to gear our investment expertise more closely to our clients on a more regular basis. To this end, we have created our new publication *Investment Horizonte* and will make greater use of events and the media to explain our investment philosophy and investment ideas. Moreover, in the first quarter of this year we are launching a new investment solution designed specifically for clients with a need for regular, sophisticated investment advice.

**What is your investment philosophy?**

In line with our bank's over-arching guidelines, the core elements are independence, sustainability and transparency. On principle, we pursue medium- to long-term goals. Our core investment strategy is built around our market assessment for the next few years. If short-term opportunities or risks materialize, we shall adapt our strategy accordingly.

**How do you ensure that you can live up to the bank's credo “security over return”?**

We foster a conservative investment style with a medium-term horizon. We pay close attention to liquidity and regular tradability, and invest our clients' funds only in investments that we understand fully. In the current environment the principle of “security over return” means, for instance, that – despite a favorable medium-term outlook – we are underweight in equities after the recent powerful rally and continue to hold gold, the classic crisis investment, in our portfolios.

**How does Maerki Baumann arrive at its investment opinion?**

Although we also make use of the standard resources such as studies prepared by the major brokerage firms, in keeping with our investment principles we mainly draw on material from independent research institutions and economists. The bank's investment opinion is a synthesis of our own analysis and the insights of our independent providers.

**Your advice for clients in 2010?**

The new year will show whether the economic upturn is sustainable. At present a cautious approach to equities is called for, as they have rallied more quickly than warranted by economic developments. We see greatest potential in commodities, in particular agricultural com-

modities. Basically, we are positioning our portfolios for sideways-trending markets and remain broadly diversified.

**What strategy do you follow in your personal investments?**

I am a typical buy-and-hold investor. My portfolio is well diversified and is made up primarily of equities, equity funds, cash and a few hedge fund investments. In addition, I also practice a form of time diversification, i.e., I invest smallish amounts at regular intervals. All in all, my own portfolio fits what is called a dynamic risk profile pretty closely.

**What personal challenges do you see in your new job?**

The first, of course, was the new environment in all its aspects. But I adjusted to that quickly. In the longer term – and this is my main task – my objective is to achieve for our clients the performance targets that we have set.

**How do you relax after work?**

With my partner and young daughter on the one hand and on my racing bicycle on the other. One of my passions is cycling up and down mountain passes – and I put a lot of time into this hobby. For me, physical fitness is essential for my sense of well-being. Moreover, when I am on my bike I can switch off, and yet it's also where I get my best ideas.

# 2010 – the year of truth for the world economy

The consequences of the financial and economic crisis dominated financial market developments in 2009. In the first three months of the year alone equity markets declined by about 25 percent, but since bottoming in March have risen by more than 50 percent. Meanwhile, corporate bonds enjoyed the best year in their history. Whereas the US dollar continued to depreciate, the Swiss franc remained stable. Commodities have also benefited from the recovery; for example, in the past year oil and gold prices rose by about 70 percent and 25 percent, respectively. This development was fueled primarily by the enormous liquidity created by governments' fiscal stimulus programs.

## Sustainable turnaround in consumption and investment essential for recovery

The moment of truth for the global economy will come in 2010. Monetary and fiscal policy cannot remain so accommodative – the recovery will only become self-sustaining when it is driven by consumer spending and investment. This transition is difficult and will involve a great deal of uncertainty. The forecast global economic growth rate of about 2.5–3 percent is not high enough to have any substantial impact on unemployment. The emerging countries, in particular China, are the driving forces behind economic growth. Despite loose monetary policy, the reduction of debts and very low capacity utilization mean there is little risk of inflation.

## Equities

On the basis of our evaluation criteria, equities valuation is somewhat rich at present, and after the spectacular rally we are waiting for a

correction in the range of 10–15 percent. A sustainable rally in 2010 will require a considerable increase in corporate profits based on higher sales. The prerequisite for this is, in turn, a sustained recovery in the labor market and household consumption.

## Bonds

We do not regard government bonds as very attractive because on the one hand central banks will have to raise interest rates in the medium term and, on the other, the rapid increase in public borrowing is generating a large supply of debt paper along with increased credit risk. The risk premiums on corporate bonds are fair; however, these securities offer little scope for further capital gains.

## Currencies

The US dollar is still under pressure. However, we assume that a countermovement will develop in the medium term as the dollar is now clearly undervalued. We expect that the euro and the Swiss franc will maintain their current strength for the time being. The pound sterling is also undervalued; even modest signs of economic stabilization are likely to trigger a recovery.

## Commodities

The outlook for commodities is very closely tied to the outlook for equities. We see moderate upward potential of about 10 percent. At around 75 US dollars a barrel the oil price is at a reasonable level; large price increases are not to be expected in the next few months, whereas the rally in the gold market could well continue. The outlook for agricultural

commodities is solid, and the rally in base metal prices could continue a while longer if the global economic recovery continues.

## Conclusion

In line with our core scenario, the outlook for stock markets in 2010 is unspectacular overall. Nevertheless, there is always a possibility of positive surprises, particularly if consumer spending and investment become the driving forces behind a sustainable economic recovery, and governments and central banks gradually move towards an orderly withdrawal.

*Dr. Andreas Homberger*  
Chief Investment Officer

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