ECHO FROM THE ALPS

3rd Quarter 2011 Investment Update
By Daniel Zurbruegg, CFA / Alpine Atlantic Global Asset Management AG

2012 – THE TURNING POINT TO BRING REAL CHANGE

We believe that the coming months and the next year will be a real turning point for the global economy, global financial markets and world politics. The recent equity market selloff was only the first phase of a longer-term process. Economic growth in the western world is likely to remain weak and possibly remain so for a longer period of time. Asset prices have seen extreme moves in the recent past with gold moving to USD 1'900/ounce, interest rates are virtually zero in a number of western markets and equity valuations have fallen dramatically in the last decade. The same can be said about currencies, as illustrated by the extreme weakness of the Euro and the U.S. Dollar in recent months. We are dealing with economic and political imbalances, also prices of certain financial assets, such as gold and bonds, have gone to extreme levels. We believe the near future will bring some large adjustments in the areas mentioned. These adjustments can take different forms, maybe we will see a real change in U.S. elections next year, maybe a surprise comeback rally of the U.S. Dollar, a severe recession in the western world or even a sharp correction of precious metals? We don't know yet, but we will try to answer these questions on the following pages.

The month of August was the most volatile month so far this year. The equity market selloff seen in the first half of the month was severe but not unexpected.

(Major equity markets in 2011)

After a very busy and eventful first half of the year, most investors were hoping for things to get more stable but as we now know, things even got worse last month. Global markets experienced a severe correction with most global equity markets falling between 15% and 25% in early August, since then we have been seeing a recovery which has so far cut the losses of equity markets to around 10 percent or even slightly less. The August correction did not come out of the blue but is the logical consequence of a series of events that happened in the last couple of months. I would like to repeat some of the comments that were made in our Q2 update in April 2011:

Quote: In our Q1 report at the beginning of the year we said that we expect the liquidity driven market environment to weaken and that investors should be prepared to hedge or sell some of their positions…we have implemented active hedges for some of our equity exposures in mid March…the coming weeks will see an intense debate about the U.S. deficit situation… we expect the debt limit to finally be adjusted and moved upwards, but this will hurt the creditability of the U.S. and further weaken the position of the U.S. Dollar…

In the meantime, markets did correct and it was wise to hold less equity exposures or hedge existing positions. The U.S. debt downgrade was not the main cause of this correction, it was just making things worse and was just the spark that started the fire. We too were surprised to see this downgrade come so quickly, although, based on fundamentals, we think this should have happened a long time ago. The fundamental problems that caused this market crisis are the huge debt problems in Europe and the U.S. The fact that there was an intense battle in U.S. politics about raising the debt limit only added fuel to the fire. The last minute deal achieved in the end was too little too late and the worst possible scenario for investor confidence. The whole world was watching the political debate in Washington, this made everybody realize how big the mess really is. In a time when a country is so dependent on foreign capital, it should make sure to build trust and confidence among international investors. The August correction in global equity markets is different from the correction in 2008 when most major equity markets fell by 30-40%. In 2008, the main problem was the global banking system and excess leverage by companies. This time, the main problem is that the sizes of government debt has reached and exceeded critical levels, in some cases the debt burden is as big as GDP and keeps growing. While governments still need to figure out how they can balance their budgets, households in the western world are already in a process of deleveraging, therefore adding to the overall weakness in the economy. This will result in a further rise of unemployment numbers and continued weakness in real estate markets in coming months.

Many western households and governments lived above their means for a long-time. Eventually debt problems need to be addressed and adjustments to spending and/or income need to be made. A very good example is the crash in real estate prices in the U.S. in the recent past. In reaction to the market crash and the recession in 2001, the Federal Reserve, as well as most major central banks, lowered interest rates significantly and created a lot of liquidity. Banks too, were willing to lend money and give mortgages to people even when their financial standings would clearly be insufficient to qualify for a mortgage. This created an enormous bubble in the housing market that burst at the onset of the 2008 crisis. The correction we have been seeing in recent years is now reversing this excess, leaving millions of households with large debt burdens. Many people even used money from home equity loans to support their consumption spending, a situation that was simply unsustainable. Governments around the world are not doing a better job and also behave in a similar, unsustainable manner. Administrations around the world have a tendency to overpromise (in order to get elected), to overspend (to remain in power) and to under-deliver (often making political compromises with special interest groups). Governments in the western world have extended current and future social benefits to the point where countries eventually have to get in trouble. In the U.S. a lot of baby boomers are starting to retire and there are more than 70 million following in coming years. The situation in many European countries looks even worse. This change in demographics and the fact that social welfare costs are exploding is a recipe for disaster.

So is there a way out of the current misery? Can we solve the enormous economic challenges we have ahead of us? I think that we can make the outcome less painful, but, the economic adjustments have to be made. Governments will try to balance budgets in coming years through significant spending cuts and measures to increase tax revenues, however, this will not be enough in my opinion. In order to carry the heavy debt burden, countries in the west will need higher levels of inflation. This will be like an extra tax on everybody, reducing the net worth of people's savings and making it harder for people who are already living at the absolute minimum. I don't think that any western government will go bankrupt in coming years, but there will be a lot more money printing in the future. The Federal Reserve and the European Central Bank can print money forever and this has already started in recent years. The consequences are visible today, with the U.S. Dollar and the Euro falling sharply, a long-term trend that will not be reversed anytime soon, although temporary recovery rallies are always possible.

What should investors do in this challenging environment? First of all, I think everybody needs to realize that the time of "buy & hold" is behind us, at least for the foreseeable future. Western equity markets have not gone anywhere in the last ten years (!!) and interest rates have been falling for most of that time and are now trading at record lows. Keeping a lot of cash longer-term is not wise either since the ongoing currency destruction will likely result in a loss of purchasing power. Investors also need to compare different assets prices on a relative basis. We strongly believe that global equities are becoming much more interesting now that interest rates have fallen to historically low levels. Compared with fixed-income related investments, stocks are now offering significant value because many companies look much healthier than a few years ago with stronger balance sheets, higher profits and a better market positions. In our view, only a globally diversified portfolio with a good mix between international equities, foreign currency bonds and a reasonable allocation to precious metals has the potential to generate real returns. Investors need to think very carefully about their strategic asset allocation. Also, investors need to be very flexible and review and adjust their tactical asset allocation on a regular basis. When it is hard to find compelling investment opportunities in the west, one needs to start thinking global.

We feel that investors have to get ready for real change in 2012, both politically and economically and, last but not least, in the way investments are being made.

Thank you & Gruss from Switzerland

Daniel Zurbrügg, CFA

Market Update

PRICES AS PER AUGUST 31, 2011

Global Equity Indices	Last Close	YTD %
Swiss Market Index	5'558.31	-13.6
Swiss Performance Index	5'047.98	-12.8
Eurostoxx 50	2'262.01	-19.0
German DAX Index	5'760.03	-16.7
FTSE 100	5'448.43	-7.7
CAC40 Paris	3'293.30	-13.4
Standard & Poors 500	1'227.03	-2.4
Dow Jones Industrials	11'686.26	0.9
Nasdaq 100	2'251.01	1.5
Nikkei	9'060.80	-11.4
Topix	778.28	-13.4
Hang Seng	20'585.33	-12.2
All Ordinaries	4'382.70	-9.6
Government Bond Yields 10Y	**Last Close**	**YTD%**
USA	2.04	-24.4
EUROPE	2.03	-21.3
U.K.	2.44	-22.3
SWITZERLAND	0.93	-34.5
JAPAN	1.07	11.5
Libor 3 Months	**Last Close**	**YTD%**
USA	0.33	151.7
EUROPE	1.54	165.9
U.K.	0.89	64.1
SWITZERLAND	0.00	-99.7
JAPAN	0.19	60.9
Exchange Rates	**Last Price**	**YTD%**
US Dollar / Swiss Franc	0.7991	-14.2
Euro / US Dollar	1.4236	6.4
US Dollar / Japanese Yen	77.10	-4.7
Euro / Swiss Franc	1.1373	-8.8
Pound Sterling / Swiss Franc	1.2901	-11.4
Commodities	**Last Price**	**YTD%**
Crude Oil	88.81	-2.8
Gold	1820.54	28.1
Alternative Investments	**Last Price**	**YTD%**
Tremont Hedgeindex	472.7	7.1
Goldman Sachs Commodities	674.7	6.8
LPX Private Equity	830.3	-10.7

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INVESTMENT PERFORMANCE AND GLOBAL MARKET UPDATE Q3/2011

Our core model's investment performance for the first half of 2011 was a positive 6.57% after achieving a 2010 performance of +16.23%. Comparing our half-year results with the result for the full year 2010, our average monthly return is slightly lower but now more in line with our long-term target return of 8-10%. Since early July and the severe market correction in the first half of August, we have achieved a performance of +1.61%. Given the fact that we hedged most of our equity exposures in March, the downside risk for the portfolios was always well protected. We were also experiencing losses in the first half of the month, but those losses were very limited and now at the end of the month, the performance is a positive 1.61% again.

This selloff was a real stress test for our portfolios and I think we passed that stress test quite well. The global investment diversification, the very broad asset allocation and the proactive hedging of market risks have all contributed to the sound performance. How does our performance compare to other markets and designated benchmarks? While it is relatively easy to compare our strategy to major equity markets, it is probably a better option to compare our strategy against the Dow Jones Credit Suisse Core Global Macro Index. This benchmark is down more than 3 percent as per the end of August 2011. Although we are not a hedge fund, our strategy is similar to the strategies followed by the hedge fund managers included in this index. The obvious question you might ask here is: "Well, how is Alpine Atlantic different from a hedge fund?" With the exception of the way we manage our investments, we are a lot different from a hedge fund. First of all, all our clients have their own private banking accounts with one of our selected partner banks, therefore, clients do not invest in an investment pool as in the case of a fund. Clients never give up control over their assets and Alpine Atlantic as the investment manager is mainly focused on the investment management work. Also, most of our clients have customized investment portfolios, this means that the core portfolio is made up of investments that are part of our global macro strategy, but we then customize the portfolios based on the unique needs and circumstances of our clients. For example, a client with a lot of real estate investments would typically not want any real estate exposure in their portfolio. A client that owns a business in the energy sector will typically not have a lot of energy related exposures in his account. Our mission therefore is to build a globally diversified investment portfolio around existing assets/investments that the client already owns and wishes to keep. Also, we keep in touch with our clients not just by sending out glossy image brochures and monthly fact sheets, but by regular communication and personal meetings, that is what we understand to be a true investment partnership.

We currently hold an above average position of cash in our portfolios (up to 30%) and only hold a moderate equity exposure of approximately 10-15%. For the last couple of months, we have kept hedges in place and during the selloff in early August, we were able to benefit from those hedges as they protected us from the equity correction and limited the negative impact on our performance. Also in the last couple of weeks, we have sold a number of individual equity positions, some of them that we had kept for a long time but have now taken profits. We reduced the more cyclical positions in our portfolios, for example, stocks of oil drillers and energy service companies. On the other hand, we kept our global fixed income positions, here our focus is on high quality bonds in currencies such as AUD, NOK, NZD, SEK just to name a few. The average duration of those positions is now fairly short (below 2 years) and therefore we have very little interest rate sensitivity. In hindsight, we should have kept a longer duration, but we did not expect to see such extremely low levels in the longer maturities. Who would have thought that a 10 year US

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treasury note would only yield 2%? Our remaining exposures are in commodities and precious metals and those exposures have been doing extremely well, thanks to the advance of gold prices to the new highs seen in early August. We have had a strong allocation to gold for a long time and while we are certainly very content with our investments, we are getting more cautious with regards to the future development of precious metals prices.

So, what are our plans for the coming weeks and months? From a macroeconomic point of view, we think that the current soft patch in western economies could develop into a real recession in coming months. The current dismal performance of western economies certainly does feel like a recession to many already but we feel it may get worse in coming months. The Federal Reserve still thinks that GDP growth in the U.S. should be around 2.5% next year, we remain concerned that the actual number could be significantly below that. In a time when most households are in a process of deleveraging, governments are forced to cut spending and companies are reluctant to invest, it's hard to believe that we will see any meaningful growth in the near future. Whether GDP growth will eventually come in at 2% or 1% or 0% does not make a big difference, the economic momentum is not strong enough to create any meaningful number of jobs and therefore we expect the jobless rate to go up further, the same situation we see for European countries. It looks like Asia and Latin America will remain the only growth engines for the world economy in the near future.

Our macroeconomic outlook is certainly turning more bearish for the near term but this does not automatically imply that we are not seeing any interesting investment opportunities. Actually, we are starting to like broader equity market valuations and think that we might be close to attractive entry points for a number of our investment targets. Comparing equity valuations after the recent selloff to the levels seen at the lows in spring 2009 shows that we have come close to the valuations we had back then. However, many companies are in better financial shape than a few years ago, this is in sharp contrast to public finances which was the main driver behind the latest corrections. We expect some more weakness in equity prices later this year and early next year, but then we think investors need to have a very hard look at opportunities to selectively build up positions again. 2012 could be a big year for equities, if we are able to avoid a severe recession. A dismal macroeconomic outlook does not automatically imply poor investment perspectives, like good companies don't necessarily make good investments.

One last comment we would like to make about the tactical investment strategy. In the past 3 years, we have mainly been in a "buy & hold" mode and have only recently started to take profits. We think, however, "buy & hold" might not be a good strategy in coming years. We don't think that global equity markets will advance very significantly short-term, but that we will see more volatility and short- and mid-term trends developing, therefore a slightly more trading oriented approach seems appropriate.

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"OUTLOOK AND FORECASTS FOR THE REMAINDER OF 2011 AND 2012"

We expect the following market trends / economic developments for 2011 and beyond:

- Weak growth (Soft patch) in western economies to continue, significant increase for a recession (30-40% probability), emerging markets to remain the sole growth engine for the world.
- Short-term equity market recovery in coming weeks after the huge selloff in early August, however, eventually we expect another move to the downside which should lead us to levels that might be attractive entry points
- USD and EUR to remain structurally weak but downside potential now limited for the time being (5% to 10%), we would prefer the Euro over the U.S. Dollar if the two currencies were our only choice. Both of these currencies have some significant potential to recover in the next 12 months, however, we would see such a recovery as only a temporary move.
- Oil prices to remain flat but eventually we see lower prices ahead as recession risk for western markets is increasing. Also here we think that investors will eventually get very attractive entry points.
- Gold to consolidate at current levels, further upside only in the event of renewed market uncertainty. Very possible to see USD 2'000 limit to be broken in coming weeks/months, however, in our view the downside risks are increasing rapidly.
- Interest rates in western markets to remain low and real rates to actually remain negative. No significant risk for strong upside pressure in coming months, longer-term we are convinced that the inflation potential for the future is significant.

GOLD & SILVER UPDATE – MORE VOLATILITY AHEAD

During the recent equity market selloff in early August, gold hit a new high at USD 1'900/ounce. In our last update in late April we said that gold needed another driver to continue its strong upward trend. The equity market correction proved to be the triggering event for another jump in gold and silver prices.

Since that move in August, prices have consolidated somewhat and are currently trading around USD 1'820/ounce. The long-term upward trend remains in place, however, we expect higher volatility of precious metals in coming weeks. The reason for this is that we currently have a market environment, where people are very unsure about what happens next. From a macroeconomic point of view, we don't know whether we are going to find ourselves in the midst of a recession next year or whether we are able to muddle through somehow, this is what the Federal Reserve refers to as "soft patch" economy. A recession would cause some deflationary pressure initially and we would expect this to be bad for equity markets, bad for precious metals (although not as bad as for equities) and probably U.S. Dollar positive. On the other hand, if we continue to see modest growth in the coming 12 months, I think that equities will do very well eventually, despite the risk of a further selloff in the near future. Under such a scenario, precious metals should be well supported and gold will most likely approach and possibly exceed the USD 2'000 mark/ounce, with silver being strong as well. For the U.S. Dollar, this would probably mean continued weakness versus most major currencies (Swiss Franc = special case). Despite the fact, that the longer-term outlook for precious metals remains in place, short-term there could be significant downward pressure, especially if economic momentum turns out to be more positive. Also external factors, such as increased margin requirements or speculation about a gold tax, could bring the gold rally to an abrupt end. Given the increased uncertainty in coming months, we think investors should still hold a significant position in precious metals, but also look to take profits on rather extreme moves to the upside. Cash generated through such profit taking can be invested in stocks of large precious metals mining companies. These companies are trading at compelling discounts to the spot metal prices and these stocks have recently started to outperform the broader stock market. The reason for this is very simple, in a time when equity markets are correcting, the increased correlation of gold mining stocks will cause prices to fall as well. At a later phase, however, investors are starting to realize that higher gold prices lead to a significant increase in profit margins for those companies just as we are seeing now. Also, gold companies will most likely increase their payouts significantly in coming years, therefore make a gold investment more interesting, because investors also get paid attractive dividends. So we don't make a call to significantly reduce precious metal exposures but we do think about alternative ways to profit from the high prices we are seeing.

A DEBT DEAL THAT WILL NOT CHANGE ANYTHING

In early August, the U.S. Congress, after weeks of intense discussions, was finally able to agree on a debt deal. The deal will raise the U.S. debt limit by at least USD 2.1 trillion and significantly cut federal spending in coming years. Agreed spending cuts will amount to at least USD 917 billion over the next ten years. On top of that, a congressional committee will work out a plan that would cut the deficit by an additional USD 1.5 trillion. The additional funding provided with the increase of the debt limit should give the U.S. government enough funding to operate until 2013, this means that after the next election a new debt deal needs to be made. It was a very intense battle between Democrats and Republicans and the possibility of a debt default created a lot of uncertainty in recent weeks. This uncertainty was felt very directly in financial markets and caused global stock markets to move lower and the U.S. Dollar to lose further ground against most major currencies. With the debt deal now in place, can we expect a recovery rally in the weeks ahead and hope that everything will be just fine again? What is needed to improve things to the better in the long-run?

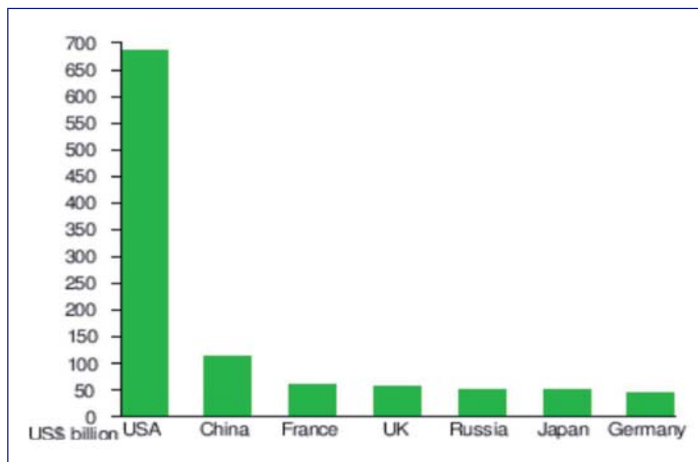
US Dollar Index

Unfortunately, there are a lot of factors that suggest that we have to be prepared for more market volatility and economic uncertainty. The problem is, in my opinion, not so much the debt limit and the spending cuts that now have been agreed. The main problem is that the latest battle about the debt limit has caused severe damage to the confidence international investors have in the U.S., this comes at a time when the need for foreign investment and capital is bigger than ever before. Also it seems that neither Republicans nor Democrats are truly happy about the deal negotiated, although each party tries to sell it as a victory, but clearly for Republicans the spending cuts are not enough and Democrats are not happy because there are no tax hikes included in the deal. While the problem can be viewed from different angles, it was the actual public debate about how to solve the debt limit problem that is causing real economic damage. For a few weeks, investors around the world kept their eyes on the U.S. debt crisis and the political fight about it. Raising debt limits is something that has happened many times in the past few decades. Just since the early 60's, this happened more than 70 (!!) times and most of the time it was not a big deal…BUT…this time it is a different situation. The sheer debt number, which has now exceeded USD 14 trillion is scary enough, but it always needs to be seen in the overall context, that means in comparison to the size of GDP and here the story gets really alarming. The size of the overall federal debt has now exceeded the size of GDP and continues its strong upward trend and is now approaching levels not seen since the late 40's. In the 50's, 60's and 70's the size of the debt burden fell to levels of less than 40% of GDP but since the early 80's, this trend has reversed. The only time since then when the debt level (as percentage of GDP) was falling was in the late 90's, primarily driven by strong economic growth.

The current debt level ranks among the highest in the world, of course there are other nations which look even worse, for example Japan (225%) or economic heavyweights such as Saint Kitts and Nevis (185%), Lebanon (150%) or Jamaica (123%). Other major economies such as Germany and France do not look much better with debt levels of around 80%. The difference to a country like Japan is that most of their debt is being held by Japanese investors, therefore they are able to finance that debt domestically. Also recently, China has started to make significant investments in Japanese government bonds while cutting back heavily on its purchases of U.S. treasury bonds, a further indication that investors are becoming reluctant to buy additional U.S. debt. Despite the fact that the U.S. debt deal is a step in the right direction, the problems are far from over. The deal reached now is not perfect, it seems like neither Republicans nor Democrats are really happy with

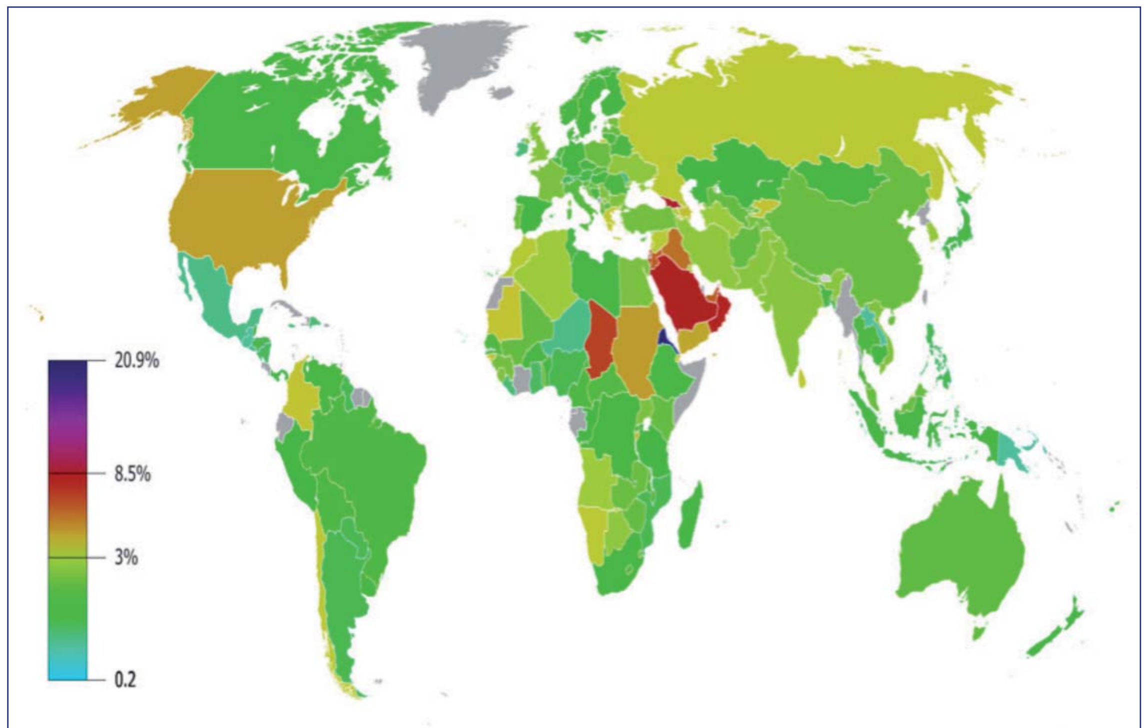
the deal, but it was the best possible compromise that could be made given the current circumstances, but in the future further spending cuts will need to be made and the debate about future tax increases will most likely be the next big battle in Washington. The problem now is that the increased spending cuts will hurt the economy even further at a time when the economy is not able to generate enough jobs and prevent the jobless claims from going up. Also private households are in a long-term process of deleveraging, which will keep consumption growth at moderate levels. In order to bring down the unemployment rate, the economy would need to grow at a rate of at least 3.5%, right now it looks like GDP growth is going to drop below the 2% mark in the near future, possibly dropping back to zero later next year. A lackluster economy will also result in lower tax income which will make it harder for the government to service their debt.

So how can this problem be solved? Is it even possible to do something about it? In my opinion the answer is YES. This situation can be improved dramatically in the next ten years, IF Republicans and Democrats work together to define and execute a plan which makes sense economically and truly works in the best interest of the people. The problem with the current discussion is that very few people differentiate between spending and investment. Investment means spending money on something that adds true economic value over time. People are willing to pay taxes, but they need to see benefits for it in return. Foreign investors will keep lending money to the U.S., but they need to see that this money is spent wisely and not just wasted. Let's for example look at the enormous cost of defense. The U.S. is currently spending about USD 700 billion per year for its armed forces. In total, the wars in Iraq and Afghanistan have cost almost USD 3 trillion in recent years and as per the end of 2010 almost 5% of GDP were defense related spending.



Figures based on 2010 budgets (SIPRI)

It is more than 10 times what Russia spends on defense, although in terms of percentage of GDP, also Russia spends more than 4%. Most major countries today spend between 1.5% and 2.5% for its armed forces.



It is therefore not surprising that a big portion of the now agreed spending cuts come from defense but even after these cuts the amount of money spent here are enormous. It is understandable that a growing number of Americans are not in agreement with this spending policy and feel that money should be better used to improve things at home rather than spending it on wars in countries like Iraq and Afghanistan. While the U.S. is spending too much in some places, it is not investing enough for other items, especially infrastructure related projects. Infrastructure is the kind of investment that tends to truly add economic value in the long-run and provide benefits for everybody. Clearly, looking at the condition of today's infrastructure (roads, bridges, electricity grids) it becomes obvious that there is tremendous need for such investments. Also, finding investors for such projects will be a lot easier.

What the United States needs is a sound long-term economic development plan, much like the Marshall Plan in the late 40's. It has got to be a sound economic development plan that cuts spending in areas that do not make sense economically and encourage spending in areas that result in true economic value long-term (infrastructure, education, etc.) and such a plan needs to be supported by both major political parties. The investment spending created through such an economic development plan would immediately provide benefits for everybody, increase economic activity and therefore also create jobs and eventually increase tax revenues without the need to hike rates. In order to work out and implement such a plan, Republicans and Democrats need to work together for the benefit of all Americans.

SWITZERLAND TO INTRODUCE GOLD COINS AGAIN?

Switzerland has always been among the countries with the highest gold reserves. Despite reducing their reserves in the last two decades, Switzerland has still the highest gold holdings per capita and the Swiss Franc, has been the top performing currencies in recent years. The strength of the currency has many reasons, but despite the vast amount of gold reserves that Switzerland owns, even the Swiss Franc is just a paper currency. In one of my

previous articles, I wrote about the many factors influencing the value of currencies. Today, all currencies are basically paper currencies, so their relative value is determined by factors such as political stability and competitiveness of the domestic economy just to name a few. However, in a time like today when many big governments are dealing with record amounts of debt, the incentive to "print" money is certainly a lot bigger. The world's two largest reserve currencies, the U.S. Dollar and the Euro, are currently in a process of structural devaluation, which has caused these currencies to fall significantly in value. More and more people in the U.S. and Europe would want to have a new type of gold standard, which would protect the purchasing power of their savings and incomes. This is very understandable, since a forced currency devaluation acts like an extra tax on every citizen.

In light of this, it seems surprising that in a country like Switzerland that has such a strong currency, a parliamentary initiative has been launched to setup a new Swiss Gold Franc creating a dual currency system. I personally think a return to a worldwide gold standard is unrealistic, but when I heard about the Gold Franc idea, I thought that would be a very interesting alternative and that's why I would like to tell you how the Gold Franc dual currency system would work. The plan is that private institutes/banks, with the permission from the Swiss government, would issue gold coins, so called Gold Francs. Each coin would contain a core with a fixed amount of real physical gold, the rest of the coin is made from a cheaper type of metal. For example, a 500 Swiss Franc coin would contain 50 grams of real gold, with today's gold prices this would be worth approximately 2'000 Swiss Francs (fiat currency). The plan would be to also issue coins with smaller nominal values that have a lower gold content. The purpose of this would be to give everybody a cheap and easy way to purchase gold, also these coins would be easy tradable. The idea is not to have these new coins introduced as a replacement of the existing coins but as an alternative to the paper currency Swiss Franc, therefore introducing a dual currency system. Another interesting point is that these gold coins would need to be issued by private firms/banks that have a license from the Swiss government. The gold needed to produce these coins would need to be bought on the open market by these private issuers.

What is also interesting about the idea is that this new gold currency would be independent from the Swiss National Bank. The reason for this is that the Swiss National Bank has recently come under a lot of pressure because of its investment strategy. Switzerland's economy is heavily dependent on exports, which is the reason why the recent Swiss Franc strength is such a heavy burden for the domestic economy. In an attempt to weaken the currency and try to stop a further appreciation, the Swiss National Bank sold huge amounts of its own currency against the Euro. This strategy is highly problematic and led to an intense political discussion of what the role of a central bank should really be. But one thing is already clear, by investing heavily in the Euro, the Swiss National Bank has accumulated large losses and with the outlook for the Euro being more uncertain than ever, the chances that the central bank can recuperate these losses are very small.

The Swiss idea of introducing a gold currency comes at a time when more and more people are calling for a return to the gold standard, which would be a radical change from today's system of fiat currencies. In my view and despite having some sympathy for this idea, this is a very unlikely scenario today. The old gold standard was brought down by politicians and I don't think that politicians have any interest in reintroducing the gold standard. However, I think ideas like the Swiss gold currency system show that gold and other precious metals are becoming a much more important investment class and many investors today already look at gold as a currency. Also, the fact that central banks worldwide have recently become net buyers of gold shows that there is renewed interest for precious

metals. Despite the fact that there has been a lot written about precious metals recently and the fact that these metals have shown such a strong performance, I think we are only in the early phase of a long-term upward trend for these metals. This does not mean, however, the we can see larger correction in the coming months and years.

I think it would really be interesting to have a Gold Franc here that could be used as a legal tender but I have my doubts that we will ever get it. So many people worldwide will seek to invest money in assets that are truly protecting the purchasing power of their money and this will continue to create an enormous demand for precious metals. Ben Bernanke was recently questioned by Congress about the role of gold and why people buy gold… his answer was that they buy it as protection against tail risk: really, really bad outcomes. Well, Mr. Bernanke, maybe the chances of getting these really bad outcomes are bigger that what you may think.

INVESTMENT OPPORTUNITIES IN THE ASIAN HEALTHCARE MARKET

Despite the outlook for U.S. and European economies being highly uncertain, the U.S. Dollar and the Euro remain the world's dominant currencies. However, the importance of these two currencies is diminishing, which is not surprising given the huge debt problems in both markets. In order to hedge against a further devaluation of the two currencies, investors are increasingly looking beyond their own borders to find attractive investment opportunities. Currency diversification should be a key focus, that's now obvious for everyone, but what should you do once the Dollars or Euro have been exchanged to Singapore Dollars, Norwegian Crowns or Swiss Francs? While holding cash in those currencies certainly seems to be an option short-term, people need to find investment ideas where they can put their money to work longer-term.

It is admittedly a rather difficult task to find good investments today, this is especially true for equities. With the U.S. and Europe looking less attractive for the reasons mentioned above, investors naturally need to start looking at some emerging markets. There they can still find good companies with excellent growth potential and attractive valuations. From a geographical point of view, it seems to make sense to diversify into emerging markets, but what industries are attractive in those markets? Selecting investments and looking for investment opportunities doesn't get much easier if one compares different industries. For example, investments in banking stocks seems very unattractive in many markets given the fact that there is a global trend towards stricter banking regulations and requirements to hold higher capital reserves. Globally, regulators hope to make the world's banking system more stable by requiring banks to hold more capital. From an investment point of view this means that many of these companies will probably see a prolonged period of time with moderate or even disappointing profit growth.

In some of my previous articles, I have written extensively about some interesting markets and industries such as commodity and agriculture related investment opportunities. Today, I would like to make a strong investment case for Asian healthcare companies, I believe this is an industry with tremendous growth potential in the next decade (and most likely beyond that), however, few people are aware of the exciting opportunities there… and "yes, I know", many probably can't hear the word healthcare anymore, there has been too much negative noise about it in connection with the healthcare bill in the U.S. However, with western countries struggling to control their rapidly increasing health care cost, the dynamics in the Asian healthcare market are very different. People in Asia have a

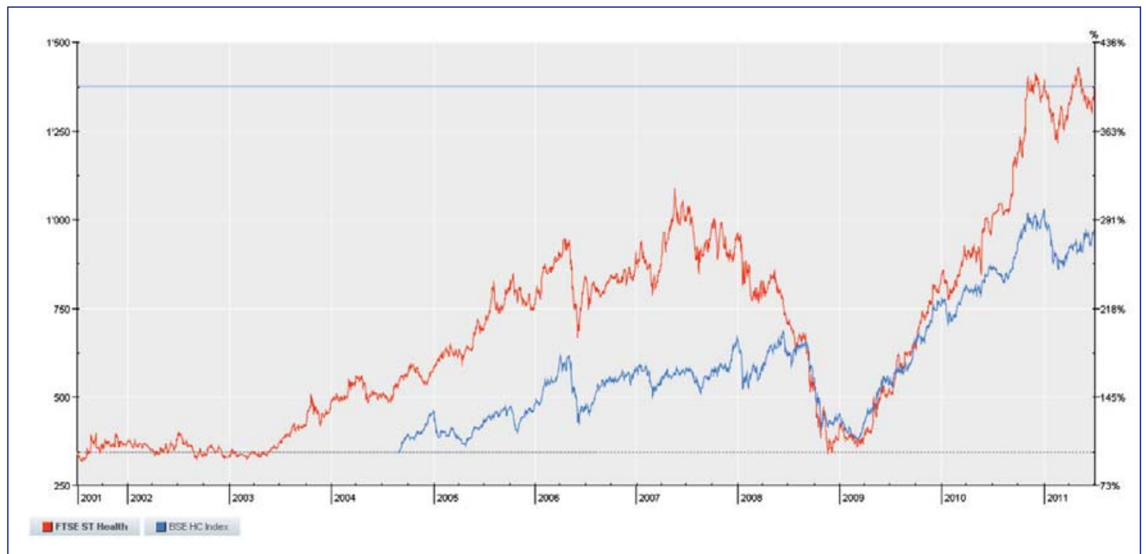
fundamentally different relationship to healthcare, for many people having access to good medical facilities is viewed as a prestige thing. This also explains the fact why Asians spend so much money for lifestyle medicine and plastic surgeries. With fast growing middle classes in many Asian countries, the demand for good quality healthcare is rising very rapidly.

The global healthcare market consists of various sub-sectors that include pharmaceutical companies, hospital operators, biotech and medical technology companies just to name a few. While growth rates in western markets are slowing, the healthcare industry in Asia is growing at a rate of about 15% annually, some sub-sectors experience even higher growth rates. Healthcare penetration is still low in most Asian countries and very few people have private health insurance. Also, healthcare infrastructure is well below western levels, India for example only has 1.27 hospital beds per 1'000 people, that is less than half the global average of 2.6 and far away from the four beds per 1'000 people recommended by the WHO. Demographic factors as well as increased government and private sector activity will increase healthcare penetration. This will initiate a massive amount of investments in the sector, again to take India as an example, it is expected that about USD 180bln will be spent in the next five years on healthcare infrastructure alone.

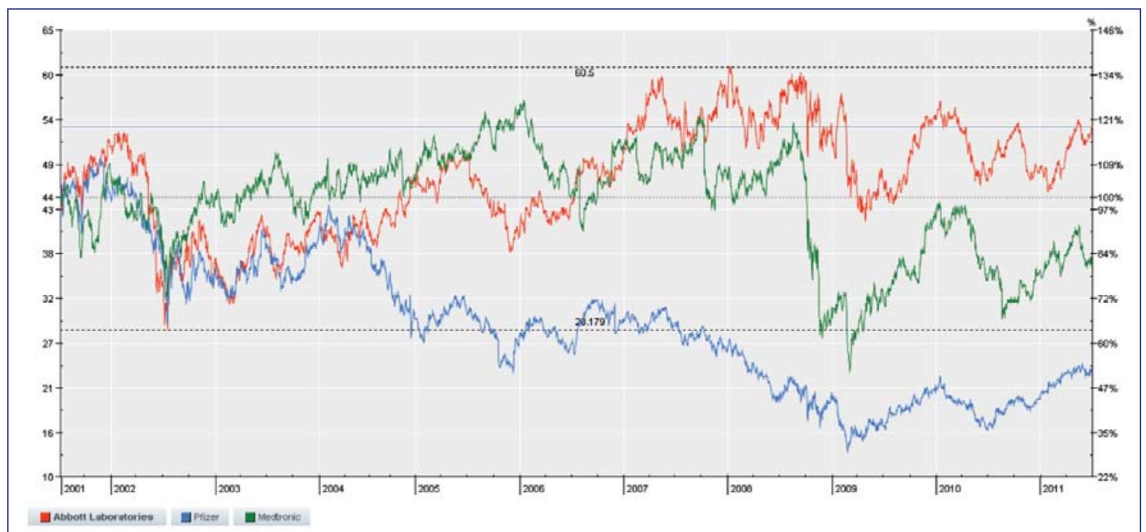
There are enough positive domestic drivers that make the Asian healthcare market attractive, however, on top of the domestic factors there is also increasing demand coming from other sources such as medical tourism. With more and more people in the west struggling to afford medical costs, the incentive to look for treatment abroad is growing quickly. For example a hip replacement procedure costs between USD 25'000 to 40'000 in North America and Europe. The exact same procedure costs around USD 10'000 in places like Thailand or India. So for many people, this becomes a real option, maybe even the only option. Current data suggests that the medical tourism market is growing at a rate of about 40% annually. This will add further momentum to an already booming market and the underlying demographic trend suggests that the Asian healthcare market will continue to grow at a rate of about 15% for at least another decade.

There are various ways how investors can take an exposure to this promising market, but the most obvious way is to invest in Asian healthcare companies or western companies with a high exposure to this booming market. In our view it makes sense to select companies that have a diversified business model across several key markets in Asia. Given the fact that government's role in regulating healthcare in each of these Asian countries is still very important, the political risk should not be underestimated. Also investors should carefully review each company and its actual business, here again it is probably not ideal to select smaller companies with a very narrow focus on one small niche, this is often the problem with some of the medical technology companies. Among our favorite investments are larger, well diversified companies that can generate returns from a number of different markets and from various business channels. We currently view hospital and clinic operators as one of the best ways to invest in the growth of the Asian healthcare market.

The chart below shows the price development of two of the most popular Asian Healthcare market indices, the FTSE ST Healthcare Index (Singapore) and the BSE Healthcare Index (India). Both indices have rallied strongly after the sharp correction in 2008, however, both markets have achieved attractive returns in the last couple of years.



This is in sharp contrast to most large-cap healthcare stocks that are primarily focusing on western markets. The chart below shows the historical performance of three of the most popular healthcare stocks in North America (Abbott Laboratories, Pfizer, Medtronic). Many of these companies have performed very poorly in the last decade and have even generated negative returns for investors. Of course, the last decade certainly saw a time of disappointing stock market returns, but it is surprising that not even rather defensive plays like healthcare companies have been able to generate decent returns.



There are of course also western healthcare companies, which will benefit from the growth in Asia and other Emerging markets. Therefore some of these western companies could also see better times ahead, both in terms of their sales and profits and hopefully for investors in the form of higher stock prices. Investors have to realize that a direct investment in Asian healthcare companies has more risk and these markets and the individual stocks are usually more volatile than their western counterparts.

The rise of Asia will be one of the dominant investment themes in the next 20 years. The increased political power, rapid population growth and rising income levels will present a large number of attractive investment opportunities, BUT, with high return potential also comes higher risk, that is the reason why investors need to carefully select their individual investments. The Asian healthcare market is one of the most interesting investment themes today, a structural trend that will go on for many years and presents a great investment diversification for western investors.