

KRAEMER, SCHWAB & CO. AG

Investment Management

Investment Outlook July 2003

Financial markets are very liquid, because the US Federal Reserve Bank is trying to avoid a deflation at any cost. Interest rates are very low. Debt levels are high (consumer debt, mortgage debt), but low interest rates alleviate this problem. Economic activity, including construction, is not great, but satisfactory.

However, structural problems persist. All the dislocations of the preceding boom have not been corrected. Budget deficits are soaring. Debt levels are too high to be sustainable. Sooner or later inflation will come back. Higher interest rates will eventually pose a serious problem for public and private debtors.

Due to the generous availability and low cost of funds we see speculation reappear. Markets have performed very well since end of March of this year. We remain cautious and are of the opinion, that we are still in the lean years. However, good quality stocks like Unilever, Nestlé and Altria, which in the present bullish phase are being neglected, are attractive. In addition, some financial stocks like Berkshire Hathaway, American International Group or European Insurers like Swiss Re and Munich Re have potential for the long run. As value investors we like to buy positions when they are on sale. There should be opportunities in the future, despite the present bullish sentiment.

Roland Schwab