HELVETIC TRUST

Family Office & Asset Management

How was the year 2008 – and what market trends do we see for the year 2009?

January 2009

Dear Clients,
Dear Sir or Madam,
Dear Friends,

We take this opportunity to thank you most warmly for the confidence you have placed in us over the past year. We are delighted that in the year 2009 we will once again be able to offer you our services in conjunction with your assets.

We are looking forward to the year which has just begun with great anticipation. We are pleased to provide you with a concise look back at the past twelve months together with an outline of our expectations for the coming stockmarket year.

Review 2008

We identified the looming recession in the USA in the second half of 2007, and highlighted this in our outlook for the year 2008 (*"...and the signs of recession in the USA which have been apparent since the end of November 2007 in den USA could push the global financial system to the brink of collapse").*

It was already apparent back in 2007 that the global financial system was likely to be hit hard; since then, governments have indeed unfortunately been forced to spend billions in an attempt to prop up their banks, insurers and industrial corporations.

In line with our expectations, during the course of the year 2008 we focused strongly on building up and expanding our positions in physical gold, not least in order to provide a hedge against the US dollar. As anticipated, the value of the dollar continued to slide during the course of 2008. Our decision to increase our exposure to gold has indeed proved to be a "golden opportunity".

Within the energy sector, we focused on oil and gas stocks as well as the commodities of natural gas, oil and uranium. Our favourites

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Review 2008
(continued)

in 2008 also included commodities of all kinds, particularly those in the soft commodities sector. We were also optimistic about the outlook for Asia (mainly China) as well as for emerging markets (with their substantial economic growth potential).

Summary

In retrospect, we are very pleased with our forecasts for the year 2008. Up until 15 July 2008, our trend allocation also significantly outperformed the markets. Our financial market performance forecasts were very accurate up until this date. From August 2008 onwards, though, markets were at the mercy of powerful manipulative forces and substantial state intervention.
During the period from August to December 2008, markets responded irrationally and completely without logic. In particular, many hedge funds attempted to recover from their financial distress and spectacular losses with concerted actions on futures markets – negatively influencing commodity exchanges with huge simultaneous contracts. These investors took substantial short positions which completely overwhelmed the real equity market, causing prices to collapse across the board within a short period of time. The highest-profile victim of these machinations was Volkswagen, whose share price rocketed without warning to around EUR 1,000.00 in November 2008, and a few days later was trading again at below EUR 400.00. In retrospect, this price fluctuation is perhaps not so surprising, as the volumes which were being traded over this period were greater than the capitalisation of the entire automobile sector!

From 15 July 2008 onwards, shares in the sectors “Materials” (base metals and precious metals) and “Energy” suffered hugely. As a consequence of the aforementioned machinations on futures markets, even healthy companies with above average liquidity lost between 80% and 90% of their stockmarket value by the end of 2008

In the case of almost all mining stocks – after a certain period of time had elapsed – the underlying price of the physical raw materials also began to collapse. The weakly-capitalised sector of gold mine shares was unable to resist the turbulence to which it was

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Review 2008 (continued)

exposed during the second half of the year. Despite the aforementioned attacks, the year 2008 ended for this sector with an average annual loss of 30%, which was still much better than the market as a whole.
The situation was very different for physical gold. It ended the crisis-ridden year 2008 with a positive performance, even though it did indeed slip sharply into negative territory during the period between August and December 2008.

Outlook 2009

We are firmly of the view that an allocation which focuses on the long trend will once again secure added values during the course of the current year. Unlike previous years, the key in 2009 will be to take profits, even from short upwards movements.
The market is no longer exposed merely to the forces of the free market. Many states have turned themselves into dominant market players by printing money as well as by taking various acquisitions and stakes in banks, insurers and other corporations. These states are not shying away from intervening in markets, and change the rules of the game from day to day. As a result, markets are no longer entirely independent, and are instead being heavily manipulated by state influences.

The huge expansion of money supply seen since the middle of July 2008 has already caused extreme drops in the value of certain currencies. In the case of the US dollar, for example, we see this reaching parity with the Swiss franc in the longer term due to the factor of inflation. For this reason, it is our assumption that the global currency system will need to be subjected to far-reaching reforms. Gold will be the winner of these reforms. Gold remains a "currency" which is independent of central bank influences. And as a means of payment it is moreover recognised by simple peasants as well as by central banks alike.

We believe gold will have an increasingly important role to play when it comes to solving the enormous problems facing financial markets. Measured against the British pound sterling, the Australian and New Zealand dollars or the rouble, the price of gold has already reached all-time highs. If one assesses the ratio between physical gold and the valuation of gold mine stocks, the crass un-

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Outlook 2009 (continued)

dervaluation of this investment class becomes apparent. We also see good performance opportunities for investments in gas and oil stocks, as well as in the base metals sector. This not least due to the huge state infrastructure programmes. By contrast, agricultural commodities (soft commodities), will need to be viewed selectively in the year 2009.

Summary

In many respects, 2009 will be a year of path-breaking decisions and changes. The influence exerted by individual countries on markets will become increasingly apparent. However, they will not be able to put up all of the billions which are needed to prevent the economy collapsing completely. What are needed are root-and-branch reforms of the financial system. Furthermore, the huge expansion of government debt unfortunately means there is little hope of the situation stabilising in the near future.

In view of these considerations, we will be focussing even more strongly on long-term trends such as commodities (soft commodities, mining stocks and energy stocks) as well as on physical gold and gold mine shares.

The year 2009 will challenge us in every respect.

We shall continue to actively monitor market developments in order to take the right investment decisions on your behalf. If stockmarkets experience dramatic events, we shall immediately contact you by suitable means.

If you have any questions, please do not hesitate to contact us at any time. We are looking forward to answering any queries you might have, and shall do all we can to provide you with optimum support through what could be a very turbulent time.

We thank you most warmly for the confidence you have placed in us, and remain

Yours sincerely

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