



## ECHO FROM THE ALPS

4th Quarter Report - December 2009

By Daniel Zurbrugg, CFA / Alpine Atlantic Global Asset Management AG

Dear Readers,

We are pleased to send you the latest edition of our investment newsletter “Echo from the Alps”. 2009 has been another challenging year, but, the recovery of global financial markets from a steep fall in 2008 and Q1/2009 has helped ‘ease the pain’. Equity prices have risen by almost 50% from the lows seen in spring. In hindsight, it is now clear that the spring lows offered a tremendously attractive entry point for investors and we are glad we decided to increase our investment exposures to equities as well as global currencies and precious metals. The recovery that followed helped us to achieve a record return of +31.32% for our main global macro strategy, which is significantly higher than what we regard as the long-term return target for our strategy (10%-14%). We are very excited about the results achieved this year, and, while we do not expect to replicate this year’s performance, we believe there are reasons to be cautiously optimistic for next year as well.

This edition of our newsletter includes a general update on macroeconomic developments and the latest news and forecasts for global financial markets. We have also included some special items such as a report on opportunities in agriculture and the industry value-chain. We believe these are areas which will offer outstanding opportunities for the next few years. We have recently added exposure to fertilizer and crop-protection companies and have also increased our investments in various soft commodity producing firms.

Our report “Odd signals from financial markets – who is wrong here?” looks at various financial markets and compares the very mixed signals we get from these markets. After a strong rally this year, equity markets are hinting at a strong economic recovery to come, whereas the shorter end of bond markets still shows very low yields and few worries about inflation. Also, gold has been one of the top performers this year, but why should gold go up when the economic outlook is improving and inflation is not on the radar? We are going to look into this and try to interpret the signals and of these, at first glance, conflicting signals.

This newsletter contains the following reports:

- **Macro Update – where do we go from here?**
- **Outlook 2010**
- **Odd signals from financial markets – who is wrong here?**
- **Foreign Currency Update**
- **Rainy Day Trust Structure**
- **Opportunities in Agriculture**

We hope you enjoy reading this newsletter and we thank you for all the feedback we have been receiving from our readers this year. We would like to wish you all a happy holiday season, a merry Christmas and a great New Year 2010! A special thank you goes to our clients, employees, strategic partners and friends around the world, who we enjoy working with. We are looking forward to building our relationships with you all for many more years to come.

**Thank you & Season’s greetings,**  
**Daniel Zurbrugg**  
**Managing Partner**

Written somewhere in the Swiss Alps in December 2009

**“Macroeconomic Update – where do we go from here?”**

The year 2009 has again shown investors that the signals we get from financial markets and those we get from macroeconomic factors can sometimes be very far apart in the story they tell. This year has also illustrated how crucial it is to always look at the present in order to get guidance for the future. The past year has been outstanding in many ways. Especially noteworthy has been the magnitude of the economic contraction, with GDP falling between 2%-5% in major economies, a situation the likes of which has not been faced in recent history. Comparing this slowdown and market crisis to previous corrections or market collapses might help to explain some of the aspects of this crisis, but, we think looking at past events alone to predict the future is often too simplistic since every situation is largely unique. Many prognosticators today predict that we are just experiencing a temporary recovery and that the “mother of all crises” will soon be upon us. We shun this view for several reasons but do agree that the magnitude and implications of the present crisis are likely bigger than those of most any comparable historical event. It’s very easy to get confused by today’s market environment and hearing many prominent “doom-sayers” claiming that the end is near. It’s even worse because we are now faced with a changing world order with far reaching implications for decades to come. We are an independent investment manager and therefore try to use independent thinking when we analyze markets and make investments. We are not selling investment products or funds or publications. We are not therefore interested in participating in flashy media shows or making big headlines - in order to move product. To the contrary, we think it is absolutely essential to keep a clear focus, and, despite so much “noise“ in financial markets today, believe we can find a clear path to future success.

The basic story hasn’t changed; the global economy is going through a period of rapid change and the centre of the world, both economically and strategically, is moving to the East, mainly Asia. We are moving toward a multi-polar world order, much different to the bi-polar world we have



**Market Update**

**PRICES AS PER DECEMBER 21<sup>TH</sup> 2009**

<b>Global Equity Indices</b>	<b>Last Close</b>	<b>YTD %</b>
Swiss Market Index	6504.44	17.5
Swiss Performance Index	5584.7	22.3
Eurostoxx 50	2926.2	41.7
German DAX Index	5930.5	23.3
FTSE 100	5294.0	19.4
CAC40 Paris	3872.1	20.3
Standard & Poors 500	1102.5	22.1
Dow Jones Industrials	10328.9	17.7
Nasdaq 100	1828.8	50.9
Nikkei	10378.0	17.1
Topix	903.1	5.1
Hang Seng	21092.9	46.6
All Ordinaries	4724.4	29.1

<b>Government Bond Yields 10Y</b>	<b>Last Close</b>	<b>YTD %</b>
USA	3.8	49.4
EUROPE	3.5	-7.7
U.K.	3.9	14.2
SWITZERLAND	2.4	-3.6
JAPAN	1.2	14.0

<b>Libor 3 Months</b>	<b>Last Close</b>	<b>YTD %</b>
USA	0.25	-79.0
EUROPE	0.67	-78.0
U.K.	0.6	-66.0
SWITZERLAND	0.25	-75.0
JAPAN	0.28	-65.0

<b>Exchange Rates</b>	<b>Last Price</b>	<b>YTD %</b>
US Dollar / Swiss Franc	1.0465	-1.9
Euro / US Dollar	1.4304	2.2
US Dollar / Japanese Yen	91.27	0.7
Euro / Swiss Franc	1.4965	0.2
Pound Sterling / Swiss Franc	1.681	9.8

<b>Commodities</b>	<b>Last Price</b>	<b>YTD %</b>
Crude Oil	72.47	62.5
Gold	1093.6	24.1

<b>Alternative Investments</b>	<b>Last Price</b>	<b>YTD %</b>
Tremont Hedgeindex	412.64	17.5
Goldman Sachs Commodities	502.0	45.5
LPX Private Equity	70.72	48.0
Global Property	386.0	54.5

been living in at the end of the last century. We expect that world GDP growth will accelerate to about 4% in 2010 and that more than 70% of that growth will come from new markets such as China, India and Brazil. Capital will flow to markets that experience a stronger economic growth pace; this is a basic law of finance and is proven by the growing capital flows to these markets. These capital inflows have helped push up equity prices in those economies by 50% to 100% in the last couple of months and many investors now believe that these markets are overvalued. We strongly disagree but do admit that these markets might look expensive when compared to western markets. However, investors need to realize that we are dealing with a strong and very powerful paradigm shift here which could result in chronically high demand for investment in these regions for many years to come. We think investors will talk a lot about the emerging market bubble in the years to come and yes, there will be corrections along the way, but we feel that these would be good buying opportunities. Don't get us wrong, we are not of the opinion that everything is great in emerging markets, we do see things we don't like and have some concerns as well, but, economics is seldom about things being perfect. As global growth recovers toward a more normal rate, we do believe that western economies will recover. There are, however, going to be significant differences in countries' relative performance during this economic rebound. We are most concerned about the United States as well as some European nations. On the other hand we are very upbeat on countries such as Australia, Norway and Switzerland for various reasons. Also, accelerating global growth will help to drive up corporate profitability and we believe that the earnings over the next couple of quarters could surprise to the upside since corporations have generally a very high degree of operating leverage and therefore increased sales will translate into even higher profits.

Many investors have missed the market rally this year and are still on the sidelines, waiting to enter the market when markets consolidate. This seems to be one of the reasons why markets seem so well supported to the downside at the moment. When did we have the last significant 3%+ move to the downside? It's been a while. And, when stories like investor darling Dubai running out of money don't even cause a market sell-off, the market is probably not too badly protected on the downside. With the global economy in recovery mode, ample cash sitting on the sidelines and corporate profitability on the rise, we believe there is a good chance to see further upward momentum in equity markets next year. Of course, our scenario is based on the assumption that we do not get any surprise shocks next year – internal or external to financial markets. What could be a possible shock in the future? A terrorist attack a pandemic flu or another geopolitical event? It could be any of the above, but, with markets being quite resilient we think even in such an event the consequences should be predictable and manageable.

After all the difficulty of the last two years, markets and investors have become quite adept at handling all different sorts of crises. We are more concerned with the health of some nations given the burden of being some of the biggest debtors in the world. We think that the next big theme will be in credit markets with investors getting increasingly concerned about the health of states and countries. For a long time, government debt was considered a risk-free asset, since the common view was that established countries don't go bankrupt because they can always raise taxes and/or print money to pay for it. In a globalized world this is not the case and it's actually a very unrealistic assumption. Raising taxes makes a domestic economy less competitive and will result in companies moving to other countries and excess money printing will destroy the wealth of a nation and the value of its currency. Neither option is a valid sustainable one, which means that the correction needs to be made eventually via spending cuts. As an example, the current US debate over more government spending on healthcare and other items goes in the wrong direction since government services (e.g. expenses) need to be cut dramatically in the long-run in order to manage debt. At the same time demographic shifts in western nations will lead to an explosion of costs for healthcare and social security. We believe that more and more countries will struggle with these adjustments and we think that the present debt situation with Greece is just the beginning.

Another change we are watching for in 2010 is a relatively strong upward pressure on energy and commodity prices. A normalization of global growth in combination with the unique supply and demand curves for energy and commodities will result in an exponential price increase. Gold and other precious metals are a special case and are driven by other factors. The concern about the global financial system and the generation of ample (and probably excess) liquidity by central banks around the world has increased concerns about paper money as a store of value. These concerns are valid in our view and we don't think gold is overvalued at current prices considering all the factors previously explained. We can see gold prices taking a breather here for a couple of months with the most likely scenario being trading within some range. Eventually, rising inflationary pressures, which we can see emerging in about 2-3 years, could eventually help in driving the price of gold to USD 2'000.

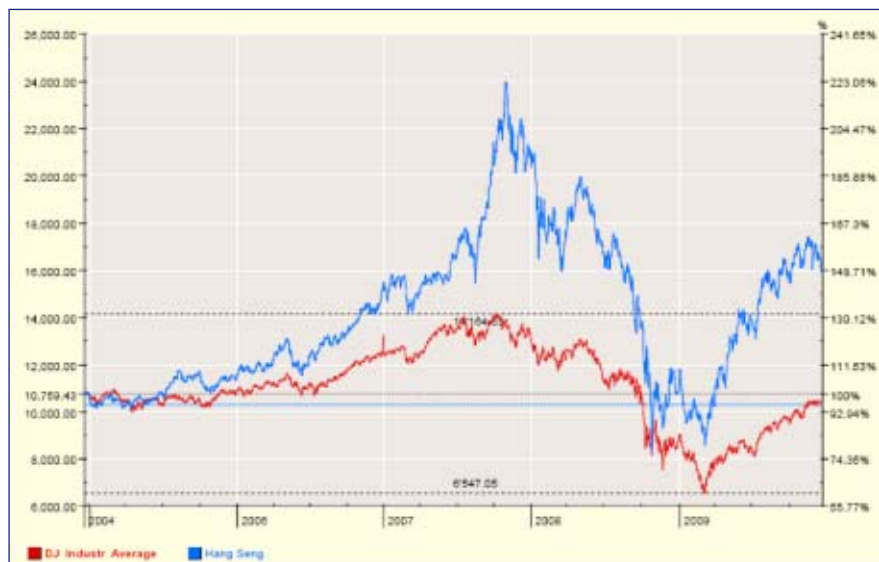
### **“Outlook and Forecasts for 2010”**

- Taking all of these factors into consideration, we expect the following in the coming year:
- Global growth to normalize at around 4% GDP, mainly driven by growth in emerging markets
- Equity markets to rise another 10%-20% in coming months due to increased corporate profitability and operating leverage
- Re-pricing of risk in bond markets, especially sovereign debt
- Short-term rates to remain low for another few months but to rise strongly later in the year
- Long-term rates to move higher, but more moderate than short-term rates
- Inflation to remain at very low levels for another 12-18 months
- Energy prices to move higher with oil breaking USD 100/barrel in the first half of 2010
- Soft commodities to move sharply higher with upside potential of 30%+ in 2010
- Gold to consolidate after strong upward move, trading in narrow range in Q1/2010
- Gold to continue upward trend in second half of 2010
- U.S. Dollar to move lower, despite temporary upward bounces

### **Odd Signals from Financial Markets – who is wrong here?**

Interpreting the various signals sent by financial markets remains a puzzle, a quite tricky one in fact. Equity markets have rebounded by 40%+ since the trough in spring 2009 and it seems difficult to justify this strong upward move by just looking at commonly used value measures. The Dow Jones rose a stunning 4'000 points since spring alone and Asian markets basically doubled in the last 9 months – it's hard to explain such large movements looking at the economic challenges we still face. It seems that normal markets have already priced in a very impressive recovery. Subsequent to the market's rapid rise, many investors, having missed the run up, are reluctant to put money back into markets after such a huge rally. The fact that gold has moved to new record levels at the same time seems confusing, since it is considered to have defensive character in investor portfolios. And then there is the question of interest rates. The rates are still at very low levels and central banks are keeping a lot of liquidity in markets in the hope that this will eventually bring credit markets back to life. These are conflicting signals and it's hard to explain all of those movements within the same context. We feel that each of these movements does indeed make sense. Our interpretation is that the recent recovery of equity prices needs to be seen as an exceptional movement, a recovery from a “once in a century” type of event, which caused a huge over-reaction of general markets. Where does the Dow stand today? The answer is around 10,500. Where did it stand in 2004? The answer is around 10,500. Then again, where was the index in the year 2000? The answer – you guessed it: around 10'500. It's been a lost decade for purely domestic equity investors in the U.S, but not for other markets. Where is

the Hang Seng index trading today? Answer: around 22'000 points. Where was it 5 years ago? Answer: around 11'000 points. And where was this index about 10 years ago? Answer: Below 10'000 points. Equity markets still offer a lot of value, but, often this value must be sought out in new markets – the ‘field’ of play has become global. The following chart shows the relative performance of the Dow compared with the Hang Seng, Hong Kong’s main index.



When one looks at interest rates around the world, things start to make sense in a larger context. Central banks will keep ample liquidity in markets for the time being and will not start hiking rates immediately – global growth is still too fragile. Of course, short-term rates have to eventually rise in 2010 and we think this will happen in the second half of the year. Again, however, the situation needs to be seen in the context of dealing with a “once in a century” crisis. Gold has recently moved to record levels and it has been one of the best performing investments in the recent past. Should investors be worried about the upward trend of gold and take it as a sign that there is trouble ahead? In our view the answer is no, we wrote about the changing importance of gold in our previous reports and do not think that gold is all that expensive at current levels. Again, once current prices are seen in a historical context, considering inflation and the weakening U.S. Dollar, gold is not expensive at all. Also the obvious willingness of emerging markets and their central banks to use gold as an additional way of diversifying their reserves will be highly supportive for the yellow metal in the years to come.

### Foreign Currency Market Update

Our preferred currencies for 2010 remain Aussie Dollar-AUD, Norway’s Krone-NOK, Canadian Dollars-CAD and Brazil’s Real-BRL. We continue to like the Chinese Yuan and the Indian Rupee, where we are going to add exposures shortly. The strong underlying trend towards currencies of commodity and/or countries with economic surplus will in our view continue. Most of these currencies have rebounded strongly against the U.S. Dollar in the last couple of months (as per chart below), but, the weaker U.S. Dollar was helping here quite a bit.



We continue to see more downside for the U.S. Dollar in 2010 but would not be surprised to see some temporary rebounds along the way. Fundamentally, we are still not seeing any supporting factor for the U.S. Dollar. Its role as the world’s number one reserve currency is diminishing, the interest rate differential is negative, compared to most other major currencies, and the debt burden is huge and growing further. Although we think that the remaining downside is less than 20% in the near future, we still think it is highly critical for USD denominated investors to diversify the currency risk and keep the USD exposure small. We don’t think that many investors have an interest in a strong U.S. Dollar despite conflicting statements from politicians and central bankers. The U.S. in particular should not have an interest in a strong U.S. Dollar in a time when it has a big and growing burden of debt. An orderly devaluation combined with a higher inflation rate long-term would be a good recipe to restore financial health. However, such a move would come at the expense of lower wealth of private households. We have become a little bit more cautious on the Euro lately and feel that there is more trouble to come from some of the weaker member states. Greece is only one concern here. Other countries are likely to follow in the Grecian footsteps soon and this will hurt the value of the Euro temporarily. However, in terms of taking excess liquidity out of the banking system, we feel more confident with the work of the European Central Bank in comparison to the Federal Reserve in the U.S. The small rebound of the USD in recent days wasn’t too surprising, it seems like many U.S. based investors realizing their currency gains before the year end. However, we think that in 2010 we are going to see the structural weakening to continue.

**Opportunities in Agriculture and Soft Commodities**

We think one of the big themes in 2010 will be investments in agriculture and soft commodities. We feel that due to the unique supply/demand dynamics of these markets, a normalization of global growth will result in relatively large price increases. The Goldman Sachs Commodity Index has recovered to levels around the 500 point mark, compared to about 350 points at the through. However, this is still far away from the all-time high of 890 points seen in 2008 when prices were driven by a lot of speculation. This time we think things are different and that current prices are very well supported. There is probably going to be more

speculative money flowing into commodity markets again in 2010 but considering the supply/demand situation, we think soft commodities could easily go up 30%+ in 2010 and still not look overly expensive. There are various ways how investors can play this opportunity but investors should look along the whole value chain in agriculture and not just invest in futures or ETF's. Some investments are a more leveraged play on rising agriculture prices - one of our favorite investments is fertilizer companies. They are in our opinion at the sweet spot of this development, since the rising world population requires a rapidly expanding supply/production to keep up with demand. In order to increase the efficiency it is essential to use more fertilizer to keep soil fruitful and achieve rising harvest yields. The amount of land which can be utilized for the production of many agriculture products is relatively limited, therefore increasing production and efficiency is crucial. In anticipation of rising prices, increasing margins for producers, there is going to be more money available for fertilizers and crop protection products. Many of the companies in this area are still trading at attractive levels and we feel that prices of many of those companies could double within the next 12-24 months.

### **The Rainy Day Trust Structure**

When it's raining, we have the umbrella!

Alpine, together with two of our strategic partners, have launched the "Rainy Day Trust Structure", which is a turnkey solution for investors looking to get offshore asset protection and a professional investment management service. The turnkey solution is designed to address your basic planning and structuring needs including professional legal advice, the setup of an asset protection structure and the opening of a Swiss private bank account. Clients can then select from various investment strategies and get access to a web-based online reporting system. The price for this solution is almost 50% below normal costs and gives you excellent offshore asset protection and global investment diversification in one package. Product Fact Sheets are now available, all you have to do is to register on our web site: [www.alpineatlantic.com](http://www.alpineatlantic.com) and ask for a copy or you can send an e-mail directly to [info@alpineatlantic.com](mailto:info@alpineatlantic.com).

#### **About Alpine Atlantic Global Asset Management AG**

[www.alpineatlantic.com](http://www.alpineatlantic.com)

The company is an independent asset management company located in Zurich, Switzerland. The company offers "turnkey solutions" for offshore asset management, asset protection and banking, helping its clients to diversify assets globally.

Daniel Zurbrugg is the Managing Partner of the company. In his 20 year long career he managed assets for the Philip Morris Group and Compagnie Financière Richemont. Prior to joining Alpine Atlantic he was the head of asset management for Zurich based private bank "Bank Frey & Co. AG".