ECHO FROM THE ALPS

3rd Quarter Report 2009

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

Dear Readers,

We herewith provide you with our latest newsletter "Echo from the Alps", an investment publication which gives you a general financial market update, taking into consideration the latest global macro-economical, political and strategic information that we have received and analyzed in order to define our investment strategy and make qualified decisions.

The investment year 2009 has been a very successful time for us so far. With a year-to-date investment performance of +26.5% (as per October 6, 2009) for our core strategy, we are more than satisfied and have been rewarded for our investments made in spring when prices were hitting a bottom. But today's investment world is more complex and uncertain than ever before and a simple "buy and hold" strategy is not appropriate. We like the fact that a more active strategy and more independent, sometimes even unconventional, thinking is required.

We are keeping our focus on the global economy and financial markets and will continue to carefully interpret signals and data we receive - always putting our own independent thinking into it. While we are keen students of economics, we do not want to be seen as devotees of any one specific economic group, be it the Austrian school of economics, Keynesian theory or any other sort of economic 'belief' system. We are not chronically biased towards optimism or pessimism, but, feel rather that all sound theories are perfectly legitimate, have their pros and cons and are all worth considering in trying to understand today's investment world and make successful investment decisions. History and economic models and theories are our teachers, but, nothing is achieved without having an objective, unbiased and balanced view on things which can only be achieved by educated and independent thinking.

In this issue of "Echo from the Alps", we focus on the following key topics:

- **What is a Global Macro Investment Strategy?**
- **General Market Update**
- **Opportunities in Emerging Market Currencies**
- **The U.S. government's War on 'Tax Havens' - counterproductive?**
- **Lower Consumption, lower Economic Growth and the changing importance of Healthcare**
- **What's next for Gold and the U.S. Dollar?**
- **Preview of the launch of an exciting new Turnkey Solution**

In our work we gain insights from analyzing economic data and complex information to form and define our investment strategy, this is our work, but also a passion. Nothing, however, can replace the joy we have in working with our clients and strategic partners. We value these relationships greatly and enjoy the discourse, input and feedback that we gain from them. It has always been and remains our ultimate goal to form mutually beneficial partnerships with our client and partners, which is in our opinion the basis for long-term success.

Yours truly,
Daniel Zurbrügg
Managing Partner

Written somewhere in the Swiss Alps in October 2009

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"Chameleon Investing" – defining "Global Macro"

Alpine Atlantic is a "Global Macro" style investment manager. We are looking world-wide for macro economic changes and then seeking to identify the investments that will allow us to leverage those changes thus unlocking the opportunities they create. We focus on long-term structural changes in the global economy and identify the value drivers created thereof. Our individual investment decisions are thus always a part of a bigger picture of the world and how we see it changing in the future.

Our investment universe is very broad and our investment position can sometimes change quickly and significantly, depending on changing market outlooks, much like a chameleon changes its color in order to adjust to a changing environment or circumstances. The chameleon uses this extraordinary ability as camouflage to protect itself. That's much like what we strive to do for our clients in investing. We are convinced that the only way to preserve and grow investment capital long-term is to remain highly flexible and change and adjust over time. Macro value can be manifest in many ways; therefore, we invest in currencies, commodities, stocks, fixed-income securities, real estate and other assets. We usually customize individual investment portfolios, based on unique wishes and circumstances, but, we always maintain enough leeway to move relatively freely among various asset categories. That's the only way how a portfolio can be actively managed and help protect against adverse impacts. In early 2008 we received several rather pointed inquiries as to why we had reduced our equity position so dramatically and why we kept so much cash. At that time we found it extremely hard to find new investment opportunities and, since markets had started to fall, we had reached almost all of our predefined stop-loss levels (a simple yet important protection built into our strategy). Although we had clearly underestimated the scope of the economic crisis and the severity of the market correction, most of our risky investments were already gone by the time things really got difficult. In the middle of the crisis we could still find enough arguments which would have supported purchasing some of our favorite investments, but we never bet against a market that WANTS to move lower. While no one can be right 100% of the time, prudence will always triumph over time.

Market update

PRICES AS PER OCTOBER 09TH 2009

Global Equity Indices	Last Close	YTD %
Swiss Market Index	6308.2	14.0
Swiss Performance Index	5451.1	19.9
Eurostoxx 50	2897.1	18.2
German DAX Index	5734.5	19.2
FTSE 100	5154.6	16.2
CAC40 Paris	3816.4	18.6
Standard & Poors 500	1057.6	17.1
Dow Jones Industrials	9725.6	10.8
Nasdaq 100	1779.8	46.9
Nikkei	10016.4	13.1
Topix	897.8	4.5
Hang Seng	21516.2	49.5
All Ordinaries	4754.5	29.9

Government Bond Yields 10Y	Last Close	YTD%
USA	3.2	41.4
EUROPE	3.4	-8.5
U.K.	3.4	-1.2
SWITZERLAND	2.0	-24.9
JAPAN	1.2	-12.9

Libor 3 Months	Last Close	YTD%
USA	0.28	-76.7
EUROPE	0.74	-74.0
U.K.	0.55	-70.6
SWITZERLAND	0.29	-70.4
JAPAN	0.34	-59.5

Exchange Rates	Last Price	YTD%
US Dollar / Swiss Franc	1.0303	-3.5
Euro / US Dollar	1.4736	5.3
US Dollar / Japanese Yen	89.2700	-1.6
Euro / Swiss Franc	1.5186	1.9
Pound Sterling / Swiss Franc	1.6491	7.7

Commodities	Last Price	YTD%
Crude Oil	71.69	60.7
Gold	1045.4	18.6

Alternative Investments	Last Price	YTD%
Tremont Hedgeindex	391.7	11.6
Goldman Sachs Commodities	472.62	37.0
LPX Private Equity	70.52	45.5
Global Property	393	57.8

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General Market Update

When markets reached a bottom this spring, we realized that an interesting change was happening. The way the market absorbed new information was changing slightly and bad news was having less of an impact - i.e., driving price declines. That's when we got interested again. Now on top of our compelling and thoroughly researched investment ideas, we got extremely compelling valuations and a market that was beginning to respond more positively to news of any kind, even bad news wasn't so bad anymore. That's when we entered the market again and started to build up our equity and corporate bond positions. Of course, there were and are still enough negative factors out there that we don't know currently whether we are in for a long-term recovery here…BUT, no matter what the reason is for rising prices, we want to be in markets that go up and we are not betting against markets that WANT to go higher. Honestly, sometimes we don't know all the reasons why a market is moving upwards but I guess nobody does – all though many of today's financial "gurus" will tell you they do. It is, however, important to realize that markets can't be explained only with economic data and logic. When we spoke at various investment events and conferences in April 2009, we realized how skeptical people were when we told them that we had started to buy back into markets. Now, five months later, global markets have risen between 40% and 60%. While we still do not think that everything looks rosy, avoiding the pessimism of the masses yielded great results and we now get to lock in those returns. So, while many investors missed this rally, and are probably still trying to talk it down, we continue to monitor markets carefully. We have recently moved our stop-loss levels closer to actual market prices. This way we make sure to leave the party early enough, just in case there is a sudden 'last call'.

So what can drive equity markets higher from here? It is clear that the market needs some sort of additional stimulus in order to keep moving upwards. We think that the upcoming earnings season will be somewhat mixed but probably be more biased towards the upside. The reason for this is, in our view, the increased operating leverage and efficiency that many companies have achieved in the past decade. The current crises forced many of them to get even leaner and increase efficiency even more. This will result in rapidly expanding profits when the global economy starts recovering – a process which we expect to see over the next 24 months. However, it will likely be an uneven recovery, with emerging markets and the BRIC countries accounting for two thirds of global growth. We anticipate emerging economies leading the global economy out of recession and experiencing a rather quick return to normal growth rates. For parts of the western world and the U.S. in particular, we see a longer and more moderate recovery path. We should also need to keep in mind that the market recovery in the past few months has been driven by relatively small volumes and huge amounts of cash have not yet been invested. We believe that the longer the current recovery remains in place, the more robust and well supported equity prices will become.

What does a gradual recovery of the world economy mean for inflation? Should we be worried about upcoming inflationary pressures in the western world? The answer in our view is: not yet. While we are vigilant with regard to the threat of inflation, we are not rushing to join the vast majority of people who think that all this money printing must result in strong inflationary pressure or even hyper inflation. We regard this as a somewhat oversimplified view since monetization of debt does not automatically result in inflation. This is especially the case when the lending activity of banks is still low and only slowly increasing. Although we are worried that central banks might not be willing or able to withdraw excess liquidity on time, we feel that most central banks are taking a more proactive approach that in the past. The Central Bank of Australia has already started to hike rates and I think other central banks are soon to follow as the economic recovery gathers momentum. The forecasts made in previous issues of our newsletters have been pretty successful, with the only exception being that we did not expect long-term interest rates to move down so significantly. Our specific forecasts for the next 6 months look as follows:

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- **Global economy to show modest growth again**
- **Emerging economies to make up for most of world GDP**
- **Global equity markets to recover a further 10-20%, emerging markets to outperform**
- **U.S. Dollar to remain structurally weak and fall by another 5-10%**
- **Sharp price increases in energy and soft commodities**
- **Oil to move upwards and possibly break above USD 100/barrel**
- **Gold to move towards USD 1,300 mark**

Readers who have been following our publications are realizing that most of these forecasts have been made already earlier this year and that most of the projected developments have indeed taken place and are expected to continue in coming months.

Opportunities in Foreign Currencies: Chinese Renminbi and Brazilian Real

Since investing in foreign currencies is a critical component of our global macro investment strategy, we would like to present you with a few ideas and updates every quarter. In this issue we look at two of the most promising foreign currency investments that we hold: The Chinese Renminbi and the Brazilian Real. We think foreign currency exposure should be treated as a separate value driver in a portfolio since its impact on investment performance is significant and often bigger than the performance of the underlying security when the exposure is taken by buying stocks or bonds.
Among the most attractive long-term opportunities we see are investments in the Chinese Renminbi and the Brazilian Real. Both economies are, in our view, in a long-term economic uptrend, albeit for different reasons. The Chinese economy is still growing at around 8% per year and its pace has only slowed marginally during the last couple of quarters, despite the global recession. This success can be attributed to the Chinese Central Bank and the government, which have reacted very swiftly by providing the necessary liquidity and an enormous amount of investment spending. There is increasing evidence that China and Asia's business cycle are becoming increasingly independent and less correlated to the rest of the world. China, long known for its primary strength as a low cost producer for all kinds of products is now also becoming interesting as a market for selling products. Its rising significance is evident in the fact that it has surpassed the U.S. as the most important sales region for cars and a rapidly increasing number of people moving up to the middle class will mean more and more purchasing power for Chinese consumers. Brazil is as interesting but for different reasons. Brazil's economy has grown strongly in recent years and it possesses huge quantities of just about every commodity there is. The Brazilian Real, originally introduced in the early 90's, hit a historical low in 2002 but has recovered since the election of Luiz Inácio Lula da Silva as president. Lula (as he is popularly know), a member of the labor party, was expected to make what was a bad situation in Brazil even worse. He has, however, been the main driver behind a Brazilian success story: After slowly building stability and credibility for more than seven years now, confidence in its policies is strong and a vast amount of natural resources put Brazil in a very competitive position for many years to come. Both currencies will appreciate in the long-term. Due to currency controls, the only way people outside those countries can participate in their success is by investing in an NDF. An NDF or 'non-deliverable forward contract' is an instrument with a price agreed today for an exchange at a day in the future - a cash settlement (exchange of currencies) takes place upon maturity. Typically these NDF contracts are available for anything from 6 months up to three years.

The counterproductive U.S. War on Tax Havens

The new administration in the U.S. is trying hard to increase tax revenues in any way they can. The war on tax havens which was declared a while ago can be felt by global offshore financial centers worldwide. Switzerland might have received the most attention so far, mainly because of the UBS story, but the situation is very similar for all offshore financial centers. But let me clarify one thing, there really is no such thing as a tax haven –'haven' is a relative concept for each of us. In practical tax terms, it simply means that these so called haven countries have their own taxation system and

legal and regulatory frameworks. In an attempt to achieve full transparency for financial transactions, and thus tax liabilities, the IRS in the U.S. as well as some of the larger European countries are demanding an increased exchange of bank account and financial transaction information. Politically, it is relatively easy to get support for such aggressive measures during times of financial distress and economic difficulty. Finding something or somebody to blame for the current trouble gives at least temporary relief and probably more votes for politicians that claim to fight that war on behalf of its people. Today's society and individuals have an almost chronic habit of trying to find somebody or something to blame for its own problems rather than take responsibility for one's own action. This behavior might in fact be the root of many of today's problems, and, what might seem an appropriate solution today might be a very serious mistake in the long-term. We believe that the current aggressive measures against offshore financial centers will be very destructive to the economies of countries calling for such drastic regulation. Did you know that under the proposed law even Swiss citizens could become liable for U.S. inheritance taxes if U.S. securities are owned at the time of death? This is a good reason for foreign investors to stay away from U.S. securities in my opinion – a big negative for U.S. investment markets. If you consider the almost "toxic" inheritance tax rates in the U.S., I think this makes a very convincing case against owning any U.S. securities at all. We think that the current administration in Washington is making several mistakes. The bottom line is that this means it will get harder for U.S. corporations as well as the government to attract foreign capital at a time when the need for foreign capital is bigger than ever. A higher cost of capital is the ultimate consequence of such policies and this will in turn decrease competiveness and worsen the deficit of a country.

Lower consumption, lower economic growth and the changing importance of healthcare?

Private household consumption is weak among most western economies. While this might only be a temporary situation for some of them, other nations are faced with a structural adjustment of consumption. For example, consumption has been the main driver of the U.S. economy in the past 20 years with consumers buying and spending everything they could get. This has resulted in a situation where excess consumption was financed by rising asset or home equity prices or in many cases even worse, increased borrowing from credit cards and other sources. Long-term, this is not going to work and we are now starting to see this situation getting corrected, for many it is quite a painful adjustment. After a huge destruction of wealth in the past two years, many people are only left with one choice and that is savings from their income, provided that they still have an income. We expect this to continue for a number of years, with the share of consumption as a percentage of GDP falling significantly. So therefore the outlook for GDP growth is very bleak you might say, right? Not necessarily we think. Falling consumption spending can be compensated by increased investment spending and rising net exports. While we are relatively optimistic on net exports (partially supported by a weak and falling U.S. Dollar), we are less optimistic on investment spending. The various economic stimulus packages have in our view failed to address this enough. Economic theory tells us, and historical evidence supports this view, that spending on infrastructure actually can increase GDP longer-term. It goes without saying that the need for infrastructure spending in the U.S. has been neglected far too long and there is an urgent need to upgrade infrastructure. Did you know for example that the U.S. electricity grid is by far the oldest in the western world? So money would be better spent on such investments that provide the basis for long-term economic growth rather than wasting money on simply redistributing wealth, over-regulating the economy or pursuing 'pet' political initiatives. With the U.S. having the highest tax burden among western economies, taking into consideration income and inheritance taxes, it would be time to completely overhaul the tax system before even thinking and possibly increasing healthcare programs. Increasing financial pain and worries about how to finance increasing healthcare is a common problem among most developed economies. While many people think that the cost for healthcare has reached a level which is unbear-

able, we think that the costs will continue to grow for a long-time. The main problems here are changing demographics, improved medical technologies and often wrong incentives within the health care system that keep costs rising. Let's face it, we all appreciate the fact that our life expectancy has grown so rapidly over the last few decades. Now that we have the medical options to not only increase our life expectancy but in most cases also the quality of our life, we are prepared to spend extra money on health care. The flip side of the coin is that we need to be prepared to work more years before we can retire. We see this as the only way to manage surging healthcare costs and pension liabilities.

What's next for Gold and the U.S. Dollar?

In our May issue of our newsletter we looked into the changing importance of and outlined our investment case for gold. At that time, we made the following forecasts:

- Trading within narrow range (USD 860-950) for Q2, 2009
- Move towards and eventually breach the USD 1,'000 mark in Q3/Q4, 2009
- Increased supply/demand shortfall
- Increased demand as inflation hedge

Now, about six months later, these forecasts have become reality

Half a year after we made these forecasts, we can tell that they were pretty accurate. As we are writing this report here in early October, Gold has not only broken the psychologically important USD 1,000 mark but has actually moved upwards to USD 1,050 already and continues to follow a strong upwards trend. In our previous reports we have mentioned several times that gold, although it is a non-interest bearing investment, is a very compelling investment case since its relative importance is increasing quickly. The main reasons for this are investors demand for an inflation hedge and as protection against another very severe crisis. Also, in an attempt to diversify investment holdings, Asian investors and central banks are buying large quantities of the yellow metal. Considering the almost chronic supply shortage, we think there are several factors at play which should continue to drive the gold price towards USD 1,500 in coming months.

It goes without saying that part of the gold price advances were also caused by further weakness of the U.S. Dollar. Is the Greenback now finally finding some support at current levels? We have our doubts and continue to be bearish on the U.S. Dollar for several reasons. Although we think that the risk for strong inflationary pressures have fallen somewhat, it is clear that the U.S. does not have too much interest in a strong currency. With the amount of government debt now at record levels, the last thing the U.S. wants is a strong currency. Also, the U.S. Dollar's role as the world's sole leading currency is coming to an end, and, although it will remain an important currency, its share of world currency reserves is going to fall further from here. The recent rumors that the Greenback will be replaced as the "Oil Currency" gives clear evidence that the relative importance of the U.S. Dollar is falling. Although the current amount of government debt is almost mind blowing, we don't think that it is a hopeless situation. Compared to the size of the U.S. economy it is still manageable but in our view drastic measures to correct the unpleasant situation need to be taken. These measures must include spending cuts and increased spending discipline as well as steps to promote real economic growth since it is unrealistic to hope that inflation and spending cuts alone will rebalance the deficit. Unfortunately the measures taken so far are targeted at either redistributing wealth, increase spending or at protecting the domestic economy. Although probably relatively popular politically, these measures are counterproductive and will not help to improve the situation. We remain bearish on the U.S. Dollar and expect another 5-10% decline in the next six months before it is possibly finding a new equilibrium price around 1.60 against the Euro.

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STAY TUNED…for an exciting new Turnkey Solution

Imagine you could get an offshore trust structure combined with excellent legal advice and a professional asset management service in one package. You get access to a team of experts, which has more than 100+ years of experience in global asset protection and investment management. The trust can choose from various investment strategies and the services also includes the opening of a Swiss private bank account. Now imagine that you can get all this services at an incredibly competitive price, which is almost 50% below what such a setup would normally cost. Protecting your assets is as important as preserving and growing your wealth. Alpine Atlantic has teamed up with two excellent international partners to launch this very exciting new service package in early November 2009…please contact us to get further information about this turnkey solution.

About Alpine Atlantic Global Asset Management AG
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 Zurbrügg 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".