

Comments 2006

December 2006

Some clouds have appeared on the investment horizon: The correction in the US construction market points to a slow down or even a recession in the economy, the US dollar is weak and some sectors of the stock markets have started to correct. It is quite possible, that equities face a tougher environment in the future. However, we do not try to time the market. We just search for investments at attractive prices. Financial stocks like Royal Bank of Scotland fit the bill. They are cheap, have high dividend yields and should be able to hold their value even in a difficult time. Siemens also looks attractive. There are negative headlines in the news because of a corruption charge. On the other hand, management is striving hard to improve profitability of the various business parts or to get rid of them, if this is impossible. We tend to give them the benefit of the doubt. Fairfax, which was mentioned in an earlier commentary, recovered strongly and we sold part of our position.

November 2006

A friendly mood still prevails in stock and bond markets. Inflation seems to be moderate. However, some companies have reported slightly disappointing profits (UBS, Depfa, car manufacturers, some technology firms). Insurance companies on the other hand have reported better than expected results, but investors have reacted coolly and assume, that these healthy profits may not be sustainable. Question marks concern the US economy after the burst of the real estate boom. Will the landing be soft or disruptive and how will the Dollar fare? Uncertainties about the unsuccessful US policy in the Middle East are a growing concern for investors. We hope that authorities are able to guide World economies through these mine fields without giving rise to a major financial, economic or political crisis. Bonds still yield little but fortunately many good quality stocks trade at reasonable prices and provide an attractive yield. In a downturn they would also suffer, but they should recover and prosper even under difficult conditions.

October 2006

Markets have remained friendly in the period under review. Investors have turned more positive. In view of the many uncertainties we remain cautious and would not be surprised by a change in sentiment. Fairfax, one of our holdings, is a Canadian insurance group. It is quite an inexpensive stock at \$130, with a book value of \$162 and earnings for 6 months of \$22. The Company recently filed a lawsuit against one of the biggest hedge fund operators, SAC Capital Management and its owner Steven Cohen. In the suit it alleged that SAC and Cohen have heavily sold short the Companys shares and then tried, by spreading false rumors and issuing very negative research reports, to further drive down the shares and eventually to bankrupt the Company. Should these allegations be proven accurate it would be a very disquieting development. Hedge funds have huge amounts of capital at hand and can increase the sums by leveraging them. There is now a dearth of investment opportunities available to achieve fast profits. If they employ questionable or illegal methods it could render the financial system much more volatile in the future. We think that the huge growth in these funds, which are difficult to analyze and control, is not a positive development.

September 2006

JOLIMONT VALUE FUND

Fund incorporated in Switzerland

Recently the landfall of hurricane Katrina in New Orleans was vividly remembered in the US and worldwide. After this disaster every tropical storm heading for the Caribbean, the Gulf of Mexico or the US East Coast is being pursued by politicians, scientists, the media and the public in anticipation of similar or even worse destruction and tragedy. The human mind, after a deeply hurting misshape, is convinced of the inevitability of its reoccurrence and prepares for such an event. Everybody is also convinced of a steeply rising trend in the occurrence of the hurricanes in the future. Nobody can predict how nature will act, but after some reflection it is clear that we have had an exceptional concentration of deadly storms over the last few years and that their average number and intensity will revert, if not to the mean then probably slightly above it. In addition individuals, communities and states are, if not perfectly, nevertheless much better prepared mentally and physically. The insurers have also drawn their conclusions out of the events and are much more prudent in their exposures. We are therefore optimistic for this business sector and expect it to have a quite satisfactory year.

August 2006

We have now entered the hurricane season (August and September), so far with small loss experience, but the main events are ahead of us. So far insurance companies have reported good results. Recently we have bought Medtronic Inc., the largest manufacturer of implantable medical devices (heart defibrillators and valves, stents, neurological, spinal and diabetes devices). The shares have dropped from \$60 at the beginning of the year to \$44.50 because growth in sales and profits has slowed down. With a P/E of 18 (versus up to the high 40s six years ago) this is a solid and attractive investment. We have also added to Fairfax, a Canadian insurer, who recently came under pressure. While it is not a blue chip company it is nevertheless a good operator and has a decent track record. The Company claims that hedge funds try to bankrupt it by disseminating untrue, negative rumors. The upside is considerable and we think the firm will survive. We have also added some Lebanese bonds now when prices are low.

July 2006

The mood in financial markets is still marked by caution because of inflation and rising interest rates. Optimism, speculation and with it trading volumes have dropped and cooled down. Those who seek the fast buck stay on the sideline. We like that. Our quality stocks have also declined, but only to a limited extent. Earnings and dividends will increase in the future and eventually stock prices will follow. We have recently bought a position in Zimmer Inc. It is the company that has bought Sulzer Medica. They manufacture artificial knees and hips. Authorities are investigating the company and its main competitors because they suspect anticompetitive arrangements. There is a cloud overhanging these shares, but their price is very low and the long term outlook promising. We also see the first signs of rising risk premiums among high yielding bonds. Turkish bonds have declined because of surprisingly high inflation and a policy of tight money there.

June 2006

Inflationary pressures and rising interest rates have shaken complacency and overconfidence in the stock and bond markets. Traders wonder whether they should quit the markets as the going gets rougher and fast and easy profits seem less likely. We think that the problems are real - higher energy and raw material prices, higher cost and less abundant supply of credit, rate of profitability high but near a peak and likely to decline somewhat, political instability - but as prices decline we find more promising investments. Big, well financed companies with an attractive

Kraemer, Schwab & Co. AG, Lauriedstrasse 7, CH-6304 Zug

Telephone +41 41 726 50 50, Fax +41 41 726 50 49

info@kraemerschwab.com www.kraemerschwab.com

JOLIMONT VALUE FUND

Fund incorporated in Switzerland

economic outlook have underperformed recently and are available at reasonable prices. We have confidence in them even if the present turbulence should persist.

May 2006

In the last year, European companies had profited from a strong USD, which has now weakened. In addition interest rates have moved up but seem to pause at the moment. On the positive side, earnings reports have been mostly favorable and dividends have been raised among insurance companies and banks. We have bought a position in the bond 5.875% Lebanon 2012 in EUR. In addition we have also invested in the shares of Microsoft when they plunged after the quarterly report. Microsoft is well positioned in the software sector and should report growing profits in the future, despite occasional setbacks. Overall we continue to invest defensively and for the long term, preferentially acquiring our positions at bargain prices.

April 2006

The economy continues to develop well, but interest rates are continuing to climb slowly, putting a damper on equity prices. We try to invest in defensive values with strong profitability and attractive dividends. Among our stocks, Heineken rose after reporting decent results and further cost reductions. Most insurance companies reported better than expected profits and dividend increases. We think further improvements are likely if catastrophe damages fall to more normal levels. An exception has been Fairfax, a Canadian insurance company. It suffered losses due to hurricanes, reserve strengthening in US and European runoff contracts and additional reinsurance losses. We hope these adverse developments are now under control and have added to our position.

March 2006

Insurance stocks have shown a rising trend over the last few months. However, today Swiss Re reported slightly disappointing earnings and the market punished the stock strongly, although the outlook for the future according to management is promising. An additional negative seems to be the approaching big capital increase to finance the takeover of GEIS from GE. Other insurance stocks suffered in sympathy. We think this is an opportunity with low valuation and good dividend yield for long term investors. Nestle also looks attractive to us. Bonds on the other hand give insufficient yields in view of potential inflation. We want to keep some liquid reserves for possible corrections.

February 2006

After a long, favourable run, markets are likely to take a breather at any time. In the US the FED has a new President. Markets could test him. President Bush, in his state of union speech acknowledged that the US as probably the most industrialized nations faces a limited or a more expensive energy supply. Other raw materials are also up in prices. A consolidation or even a correction is no reason to panic or sell out. It is much more a chance to add to positions at lower prices, an opportunity to acquire stocks at bargain prices. Of course, nobody knows when it will end and living through a week period is for most investors frightening. But it is an essential part of any market and a crucial period for the long term investor to prove his staying power and to take advantage of undervaluations.

January 2006

Kraemer, Schwab & Co. AG, Lauriedstrasse 7, CH-6304 Zug

Telephone +41 41 726 50 50, Fax +41 41 726 50 49

info@kraemerschwab.com www.kraemerschwab.com

JOLIMONT VALUE FUND

Fund incorporated in Switzerland

The year ended on strong note. Insurance stocks moved higher. They are still not expensive but more reasonably priced now. There is no end in sight for high energy costs and other resources could rise in price as well. Bonds with low yields do not look very attractive; we prefer good quality stocks with a dividend yield of 2 to 3% and earnings and dividend growth of about 5 to 7%. Added together a satisfactory yield of about 8% is a realistic expectation. The US dollar, considering the huge current account and trade account deficits, looks vulnerable to a correction. Bonds, while safe, offer only unsatisfactory yields. There is still the possibility that interest rates will move higher. Many investors are now bullish after 3 prosperous years. Most economies are doing well and profitability is highly satisfactory. We as contrarians, while acknowledging the favourable developments, remain prudent and alert, because problems may be underestimated.

Kraemer, Schwab & Co. AG, Lauriedstrasse 7, CH-6304 Zug

Telephone +41 41 726 50 50, Fax +41 41 726 50 49

info@kraemerschwab.com www.kraemerschwab.com