



FALCON PRIVATE BANK
SWISS PRIVATE BANKING

DR. THOMAS LIPS, CHIEF INVESTMENT OFFICER

May 2009

Falcon Viewpoint

SWING IN EXPECTATIONS

Some horrible numbers came out a few weeks ago: First quarter US GDP declined by an annualised 6.1%, whereas Germany's economy contracted by 6.9% (year over year); Japan reported fourth quarter 2008 growth of - 12.4%! This was one of the weakest post-war economic performances. But the equity markets did hardly react on this disastrous news and soon resumed their uptrends. Investor's very low expectations were the main reason for this at first sight surprising outcome: Investors had already anticipated negative fundamental data. Some even feared a depression-like scenario like in the thirties of the last century. As this did not seem to materialize, they were relieved. After Lehman's bankruptcy in September and the subsequent freeze of the financial markets, the fear of an adverse economic impact has grown into real panic. Some financial institutions and other investors had no choice but to sell securities at fire sale prices. Behavioural finance tells us that investors can get carried away. When most investors are doing the same thing, which either leads to a panic or an euphoria, the risk for a sudden change in the market's direction is highest!

Unfortunately it is not possible to directly measure expectations. Nevertheless some indicators are available, like the call/put ratio, sentiment indicators, moving averages among others. But there is ample room for interpretation. Looking at the current situation, we experienced one of the most remarkable reversals in the equity markets regarding its size (30-40% from the March 2009 lows) and the speed (in only two months). Expectations have definitely turned for the time being. But despite shorter term rather overbought markets there could be more room left for the rally. This is because there is plenty of liquidity on the sidelines, many hedge funds are still cautiously positioned and quite a few benchmark-driven investors are still underweight in equities. After the current relief rally has run its course, it has to be seen if fundamental economic developments and corporate profits can catch up with the swing in expectations. The faster equity prices rise, the sooner the market will be in for a correction. The further deleveraging of the US consumer sector and the steep increase in government debt might take its toll on growth in the developed world.

Dr. Thomas Lips
Chief Investment Officer

May 20, 2009

Falcon Private Bank Ltd. This document has been prepared solely for information purposes and for the use of the recipient. The facts presented in this sheet have been carefully researched, but we cannot provide warranty for their accuracy. This term sheet does not identify all the risks (direct or indirect) or other considerations which might be material to you when entering into the transaction. Certain information content forecasts, prognosis and other future statements; they do not represent any actual result and they are mainly based on theoretical assumptions which are retroactively applied on historical financial information. The information used in this publication does not constitute an offer of or an invitation to any person to buy or sell any product. The development of the values mentioned in this document originates in the past. Past performance is not a guarantee for future performance. This publication must not be distributed into the United States of America or to US persons. Duplication of this material, or parts thereof, in any written or electronic form is permitted only with a specific mention of Falcon Private Bank. Every use of this material is prohibited without the prior written consent of Falcon Private Bank.