

bulletin

special

The Credit Suisse Magazine February 2007

Value

Objects of Desire Collecting Creates Value

World View Value Systems Are Changing

Trendsetter Puma CEO Jochen Zeitz on Brand Value

Passion for perfection. –
attention to detail.



Table: SPIRIT Chair: MOOD
Stefan Westmeyer, Team Girsberger

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What is of value to you? The answer to this question depends greatly on where you live and on your financial circumstances. A person who is freezing or hungry sets different priorities than someone who must merely turn up the heating or open the refrigerator in order to keep warm or to satisfy their hunger.

Or let us consider values such as tolerance or openness. People who feel secure are prepared to open up, are tolerant toward others, and accept a wide variety of modes of living. On the other hand, those who feel insecure close themselves off and accept only what some authority to which they feel subordinate holds to be correct.

It is only when people must no longer fight for their very survival that they can cultivate values that are becoming ever more important for many people in rich countries: In addition to tolerance, this means values such as freedom and democracy, environmental protection, or equality between men and women.

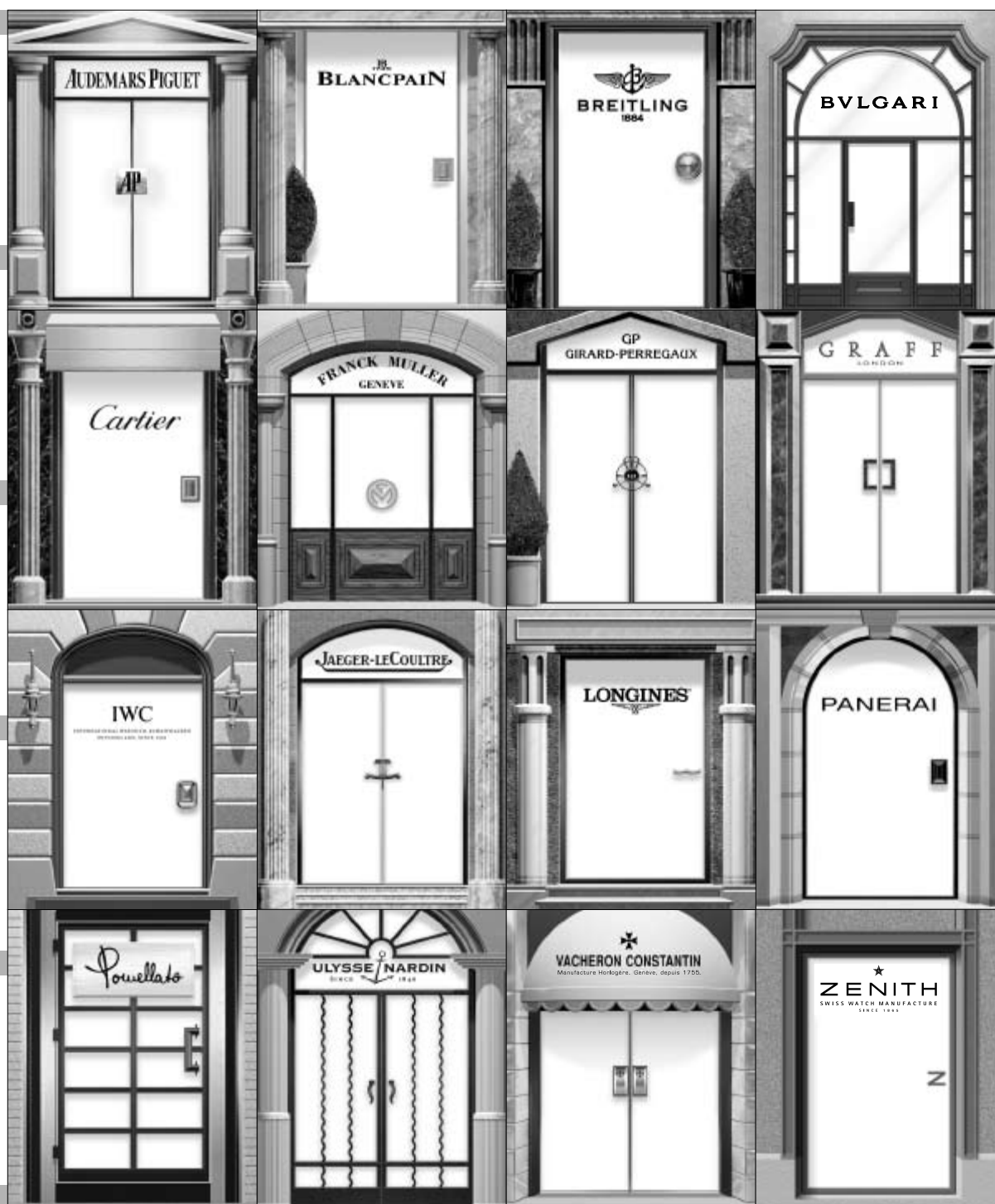
Values are also subject to constant change. What is valuable today will perhaps be cast aside tomorrow – and vice versa. It also depends on which values we are talking about: personal or emotional values, cultural values, market values, work values, social values, female or male values, to name just a few.

Collectors, for example, often talk of emotional values when they describe their collections. They collect teddy bears, watches, art, porcelain or cars because they take pleasure in such items, or because they wish to preserve a piece of their own or the collective past – and only seldom because they expect any lucrative rewards.

And what is the most important value in a person's life? For the American Professor Ronald Inglehart, who has been investigating different value systems all over the world for 30 years, it is welfare. He instilled the following in his children for their journey through life: "Only those who take into account the concerns of others become really happy."

Walter Berchtold, CEO Private Banking Credit Suisse

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A Sotheby's showroom staff member in London displays the rediscovered "Portrait of Sir Thomas Wyatt the Younger" by Hans Holbein the Younger. The painting (1541) – depicting the son of the reputed lover of Anne Boleyn – is a testament to the political and intellectual turbulence that surrounded Henry VIII's reign. It was expected to sell for 3.6 million to 5.5 million dollars at an auction on July 5, 2006, but failed to find a buyer.

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Publishing Details: **Publisher** Credit Suisse, P.O. Box 2, 8070 Zurich **Editors** Michèle Bodmer (mb) (Project Lead), Marcus Balogh (ba), Dorothee Enskog (de), Regula Gerber (rg), Daniel Huber (dhu), Matt Knaus (mk) (intern), Mandana Razavi (mr), Andreas Schiendorfer (schi) and Sebastian Schiendorfer (sds) **Contributors** Peter Hossli, Anja Hochberg, Hubert Lienhard and Markus Machler **Marketing** Veronica Zimnic **E-mail** redaktion.bulletin@credit-suisse.com **Internet** www.credit-suisse.com/emagazine **Proofreading** text control **Translation** Richard Hughes, Credit Suisse Language Services **Layout** www.arnolddesign.ch: Daniel Peterhans, Urs Arnold, Petra Feusi (Project Manager) **Advertising** Yvonne Philipp, Strasshus, 8820 Wädenswil, phone 044 683 15 90, fax 044 683 15 91, e-mail philipp@philipp-kommunikation.ch **Printing** NZZ Fretz AG **Reprinting** permitted with attribution "From Credit Suisse Bulletin Magazine"

Value

Most of us
are collectors.

Not surprising, considering our
history as hunters and gatherers.

What we collect –
whether it be works of art
or old computers – tells us much
about ourselves and our society.

Professor Susan Pearce,
who has studied the process of
collecting for years, has a lot
to say about our
relationship to the material world
and about the value
we bestow on the objects
of our desires.



How do you define the term “collectors”? If a person thinks of himself or herself as a collector, than that is what they are. There are lots of academic views, but in my opinion, the subjective view of the given individual is the best definition.—

Are some people predisposed to collecting? It is definitely a psychological thing. We did a survey of people in England a few years back and 66 percent of the 1,500 people we interviewed described themselves as collectors. That means about two-thirds of the people in Britain collect, and it is no different in the US or Canada. It is different in the rest of the world because of their relationship to material things. This level of collecting is slowly becoming true for some Asian countries, including China, Japan and Taiwan, but it is not true for South America or Africa. It likely reflects the amount of disposable income and the number of material things that one has access to.—

What compels people to collect? This is the big question. An individual may collect things in order to create his or her own identity. In exactly the same way, an institution like a church or a museum may collect things in order to create a corporate identity. For example, people from a certain country will identify with the collection in the national museum because it is part of their own history. Identity can be created at every level from the individual to the local community, to the regional and national communities, but not normally at the international community level.—

What about individuals? They tend to collect things from the past which has some relevance to them. They may collect things from their own past, or from another person's past that they believe has personal significance. Structuring one's past is a very important part of structuring identity. For example, knowing where we come from and where we belong. Or, they are doing it to structure the way they present themselves to the world or to structure where they live.—

In what way? Collections furnish a home. They are physical, touchable, tangible things. They help create your environment, and again, your environment is a very important part of your identity.—

What does what we collect say about ourselves or the society in which we live? I think collecting is a way of creating value in things. Today's collection of obsolete items, which were yesterday's big thing, might have value tomorrow. There was a time when you couldn't give Pre-Raphaelite paintings away, but a few people hung on to them and now they are worth millions. Everything goes through a lifecycle.—

Do most people collect for a profit or to keep for themselves? The motives are mixed. They like to know their collection is increasing in value, and they sometimes sell things, but they rarely do it to make their fortunes. It's about emotional value.—

What roles does financial value play? For most people the fact that things are currently disregarded and have no financial value is a motive to collect. Part of the fun is the chase, tracking things down and buying for a song. There is a strong hunting instinct in all of this.—

So it all goes back to hunting and gathering? That's right. You can argue that this is one of the ways that we cope with our most ancient instincts. Another reason is that we are simply human beings and are ruled by what I call the “lust of the eye.” We just like bright, shiny things, and we collect regardless of social class, but gender plays a big role.—

Men and women collect different things? I did a survey asking men and women what the most important thing they owned was, and without exception, the women replied a piece of jewelry owned by their mother. And, virtually all of the men said their car. It's absolutely stereotypical, but true.—

Do men and women also collect differently? Very differently. Women generally collect things that on the whole reflect their own personality or that of their families. Often, family means their mother or their grandmother. They display what they collect to help make the home. Men, on the other hand, have their collections in the loft, shed, spare room or office for example. In other words they keep their collections separate and somewhat private. This also illustrates that the home is still much more the woman's domain.—

Do you collect anything? No, and I think this is because I was a curator for 20 years, and on the whole, curators don't collect as it is regarded as a potential grey area. But for most people, collecting is their fun thing, and for curators collecting is a job. mb



Susan Pearce is a professor of Museum Studies at the University of Leicester, England. At Oxford University, she studied history and archaeology. She has written seven books about the process of collecting as a major social and individual phenomenon.

Wine Collector

Seeking Out Vintage Gems



Waimun Tye is not a supporter of wine “infanticide”, or drinking wines before they mature. This preference for aged wines was one of the reasons why she started to collect, the other was more of a practical nature: “It takes much less time to buy a few cases of wine than it does to drink it, so before long, my collection grew to the point that I had to store the wines commercially.” At age 8, Tye’s parents offered her a glass of Châteauneuf-du-Pape and she instantly developed a liking for fine wines. Today, she collects wines from around the world, but she prefers old European wines, especially French, because they remind her of that first glass. At last count, her personal collection had reached several thousand bottles; 1,000 or more of which are stored in five wine refrigerators at her home in Singapore and the rest with wine merchants and in professional storage facilities in Singapore and London. Part of Tye’s joy of collecting is sharing her love of wines and her expanding stock with friends. “On looking at my inventory with one storage company, my doctor – who is a friend – commented that I have more wine than I could drink in my lifetime. He is being conservative! He also claims that my high off-the-range HDL score is due to red wine.” But, she says laughingly, her doctor has no need to worry. Waimun Tye might love chasing down rare wines and adding them to her collection, but she doesn’t indulge in a glass everyday. This connoisseur prefers to share her gems with good friends who are also wine lovers, sometimes over a themed dinner, which could focus on a country or region, a vintage or a specific grape variety. Tye is convinced that the best way to learn about wine is by sharing experiences with others who share her passion. “Of course I read, attend wine dinners and courses, but the most important path to knowledge is to drink.” Her impressive collection includes curiosities and precious wines such as a Château Pétrus 1990, but she hasn’t sold any of her wines yet. To Waimun Tye, her prized collection has immense emotional value, and her first impulse is to uncork a bottle and savor its contents, rather than to sell it and take profit. “It’s a great feeling to rediscover a bottle that I had forgotten, and to find that it’s ready. It is the ultimate reward for the years of patience of storing the wine until it is mature.” **rg**

Teddy Bears

An Unbearable Love for Teddies

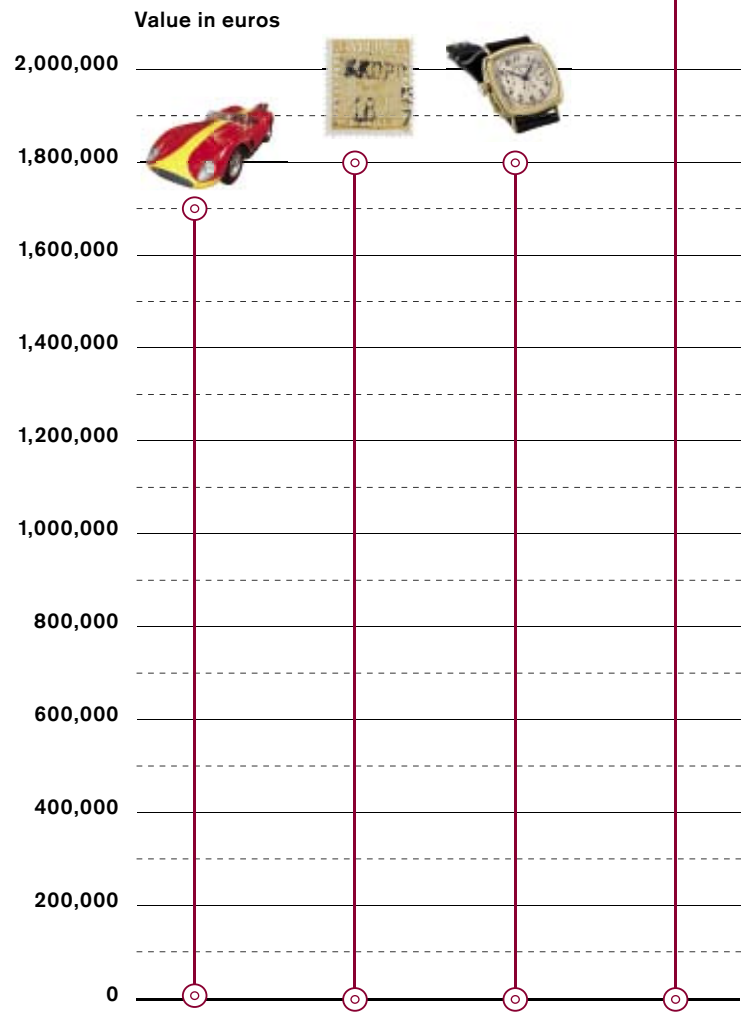
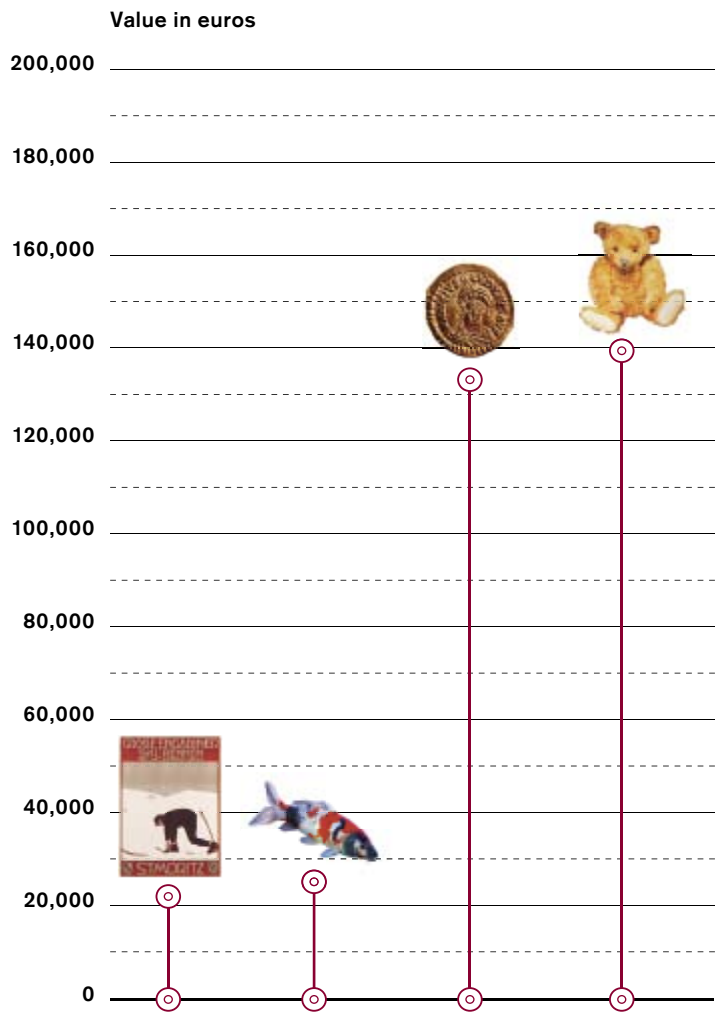


For a whole year, **Gigi Oeri** shared her contemporary home with around 2,000 teddy bears. To make her these cuddly creatures more comfortable and to reclaim her home, Oeri went on the search for an ideal location to house her growing collection. As luck would have it, she was able – at a good price – to purchase a building at the famous Barfüsserplatz in Basel. It now houses the world's biggest teddy bear museum. Oeri enjoys coming to the museum, which she calls a lovely fantasy world that might be described as bordering on kitsch. The route to her personal office snakes its way through the museum – and she often can't resist being a fly on the wall for a few minutes, to see children excitedly pressing the buttons that bring the occupants of the showcases to life. The bears reside in huge glass showcases that are subtly illuminated by fiber-optic lighting when a button is pushed. "UV rays and temperature fluctuations are absolutely fatal for the bears," explains Gigi Oeri. Over the past 20 years, she has acquired an impressive knowledge of the teddy bear scene. "The teddy bear, according to folklore, got its start with a 1902 cartoon showing President Theodore Roosevelt refusing to shoot a baby bear. This cartoon inspired a New York-based couple to make a bear they called 'Teddy's Bear,'" she explains. The teddy bear expert has always collected things. "First it was pebbles, then soccer cards, and then – when I was already a grown-up – doll houses, which I renovated with my own hands. I did one house after another, one kitchen after another, but they lacked life. That's when the dolls arrived – and the bears. First it was one bear, then another. Then more and more bears. They're now my biggest passion." She's particularly fond of those made by Steiff – the ones with the legendary button in the ear. After the sinking of the Titanic, Steiff brought out a limited series of black mourning bears to give to survivors. Five of those priceless rarities are housed in Basel. But even a teddy bear costing 100 Swiss francs can be a unique, precious item. "It's the history behind it that makes a teddy so valuable," says Oeri. She gazes around the museum at the many other bears – doubtless they too have stories to tell. **sds**



Collecting, for Love or Money?

Some people collect objects for pure pleasure, while others see their collection as an investment. Collecting can be a lucrative investment as the table below shows. It's all about acquiring the right item at the right time.



Original price (not adjusted for inflation) or estimated price prior to auction. Exchange rate: 1 euro = USD 1.32 | 1 euro = CHF 1.59 | 1 euro = £ 0.68 | 1 euro = HK\$ 10.2

Vintage Posters A poster by Wilhelm Burger for the Great Engadine Ski Race cost less than 1 euro in the year it was issued, in 1913. In 2004, it fetched around 23,000 euros at auction.

Koi Fish Young koi fish with the potential to grow into jumbo koi fish today cost around 110 euros each. Four-year-old fish normally attract a price of 5,000 euros, with exceptional specimens going for up to 25,000 euros.

Antique Coins A Roman Olybrius gold coin from the year 472 A.D. at the time cost the equivalent of a worker's weekly wage. In 2006, the same coin fetched a price of 132,100 euros at auction.

Teddy Bears Steiff bears retailed for around 2 euros when production began in 1902. In 1994, a teddy bear made in 1905 reached a price of 138,220 euros at auction.

Sports Cars A Ferrari 500 TRC Spider could be bought for 7,575 euros in 1957. In 2006, the same model of sports car was sold for 1.7 million euros.

Stamps A Swedish three-skilling stamp from 1855, printed in yellow rather than green, at that time cost less than 1 euro. In 1996, it achieved a price of 1.8 million euros at auction.

Watches A Grogan wristwatch produced for left-handed people by Patek Philippe cost 1,330 euros in 1927. In 2006, it achieved a price of 1.8 million euros at auction.

Paintings Van Gogh's portrait of Dr Gachet, dated 1890. The painting was initially sold by Van Gogh's sister-in-law in 1897 for about 44 euros. In 1990, the picture achieved a price of 62.5 million euros. [de](#)

Koi Fish

Collecting Calmness and Serenity



Koi radiate calmness and serenity. Paul Buser has 30 examples of these ornamental carp splashing about in a pond at his home. In their native country of Japan, a veritable cult has grown around them. There, top specimens can change hands for over 100,000 dollars. But not everyone who likes art has a Picasso hanging in their living room. And it's exactly the same with koi. A nice example can be bought by anyone for just a fraction of the sums that are often bandied around. That's important to Paul Buser: "People get the wrong impression, otherwise." Even though he spends 10 percent to 15 percent of his income on his hobby, he has little interest in the financial value of his fish: "I wouldn't give up a single one of the koi you see swimming here." For him, the true value is something totally different. You get a sense of pleasure and pride when a fish grows into an 80-centimeter or more jumbo koi over the years. Or when a fish manages to stay at the peak of its beauty for a long time. Paul Buser also develops a fondness for particularly trusting specimens. Fish have always fascinated him, and over the years he has filled his house with aquariums for all types of ornamental fish. He discovered koi 15 years ago, when there were virtually no more dry parts left in the house, and the glass display cases disappeared. Five years later, he built a spacious extension with an internal installation. If you keep koi, you need to be prepared to wait a while. Their full splendor only becomes apparent when the fish are approximately 18 to 25 years old. After that, their colors gradually fade. However, this detracts little from the gracefulness of great specimens. Anyone wishing to keep koi must possess two character traits: persistence and patience, says Buser. Tend and care for your charges properly, and you can ultimately get pleasure out of a fish for 40 to 60 years. Paul Buser exudes both these characteristics. That's the way it should be. Because the most rewarding time with his koi lies ahead of him: All of his charges are still years from reaching their prime. mk

Rolls-Royce

Infected by the “Roller” Bug



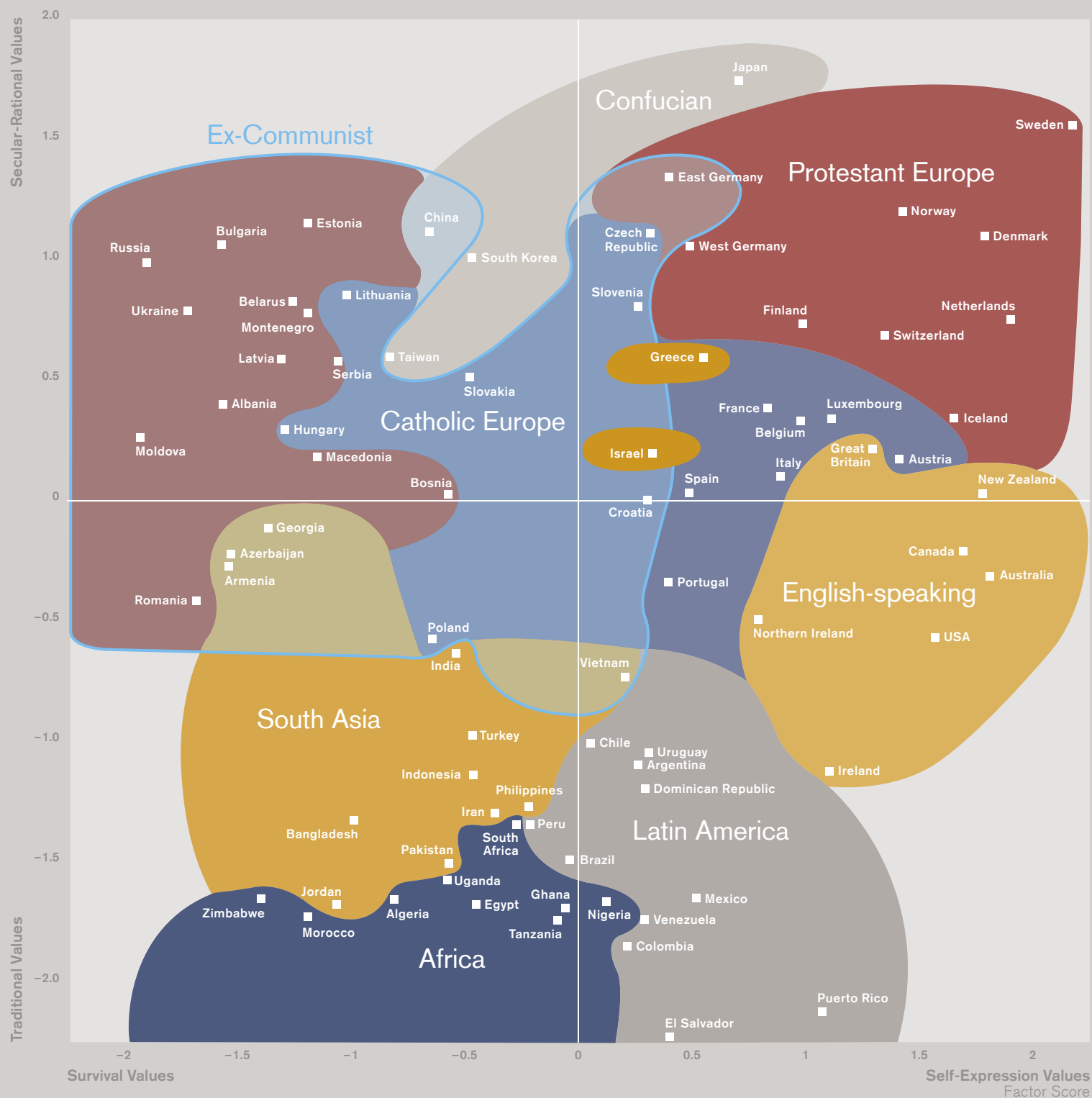
“A Rolls-Royce is a heritage item,” says **Walter Steinemann**, 68. His wife Susi, 59, adds: “We’ve both caught the Rolls-Royce bug.” Indeed, the former member of the St.Gallen Cantonal Parliament and National Council fell victim at a very early stage in his life. Even as a child, he collected model cars like other kids collected soccer cards. By the time he was able to afford his first Rolls-Royce in 1976, it was all over for him. Barely three months later, he added his second “Roller” – and that was followed by a whole string of them. Today there are 35 Rolls-Royces and Bentleys in Steinemann’s garage. All are road-worthy. “I’m not the sort of collector that keeps his prized possessions behind locked doors. I want the public to be able to get a glimpse of these cherished symbols of the past. If they’re exercised, they tend not to break down so often. So they get used for weddings and other events. It’s a sensible way of using them, and means I’m not the only one to get pleasure out of them.” Steinemann has often allowed his passion for technology to get the better of him. He obtained a pilot’s license, piloting single- and twin-engine planes before moving on to helicopters and seaplanes. He took part in aerobatics and was even a flying instructor. But Steinemann’s cars are his only true addiction. His collection is considered one of Europe’s finest in terms of the completeness of its model line-up. He’s especially fond of a number of rarities: for instance, the 1967 Rolls-Royce Silver Shadow Convertible, which once belonged to singer Vicky Leandros, the pale blue 1939 James Young Saloon Coupé, which last year won first prize in its category in the Concours d’Elegance at Villa d’Este, a 1925 Silver Ghost valued at about 300,000 Swiss francs and the oldest item in his collection, the bright red 1937 Phantom III and the black 1965 Silver Cloud III “Chinese Eye” Convertible. The value of the collection as a whole cannot be quantified. “It’s impossible! There isn’t a big market for these cars. It would take me years to sell all of them.” Steinemann clearly has no plans to break up his collection. He’s not really interested in adding to it either: That’s because he possesses at least one example of virtually every single model series ever produced. **ba**

Scarabs

The Past at Your Fingertips



The scarab bearing the motif of the Asian-Egyptian goddess Astarte on horseback is one of **Othmar Keel's** particular favorites. Scarabs are seal amulets made from stone in the shape of a dung beetle, and were heavily used by the Egyptians between approximately 2100 and 500 B.C. The Egyptians used them to mark their property, or wore them as jewelry around their necks. Amulets like this were supposed to strengthen positive energies and ward off negative ones. Or they were intended to symbolize political belonging or sympathies – especially in relation to gods. They were also buried alongside the deceased. Countless numbers of scarabs were made and circulated at the time. It is Keel's firm belief that "they represent people's first means of mass communication." He arrived at this conclusion when traveling to the Middle East as a student in 1964 and 1965. There, he was struck by the large number of motifs he recognized from the Bible. Since this is a new book relative to the Ancient East, he questioned how the images got from the walls of the Ancient East to the authors of the Bible. "I concluded that messages must have been conveyed in the form of scarabs and cylinder seals." At the time, he put everything he had learned in writing in a book that has now been on sale for 35 years. Though his passion for scarabs had already been kindled back then, it was 10 years before Keel bought his first one: The aim was to be able to show his students an original when he was professor at the University of Fribourg, Switzerland. Since then his collection has grown to 700 specimens, all of them from Palestine. He's making selected pieces available to Europe's unique "Bible and Orient" collection at Fribourg University. There he has been doing outstanding scientific work for years, including analyzing scarabs, for which he was awarded the Marcel Benoist Prize in 2005. Keel realizes his good fortune in being able to combine his hobby and his profession. He says he'll never sell his collection of scarabs, but will one day donate them to the university. Carefully, he returns the specimen of Astarte riding horseback to its box: "Through the scarabs I'm able to relate to what life was like back then. I feel I've got a piece of reality in my hands. And this treasure can't be translated into any currency in the world." **rg**



The Inglehart-Welzel Cultural Map of the World visualizes the striking correlation between values of different cultures. Allowing for minor overlapping, the map distinguishes between the following cultural areas: the ex-Communist states, Confucian states, English-speaking states, Catholic Europe, Protestant Europe, Latin America, Africa, and South Asia. Despite an almost unlimited number of values, in 30 years of research Inglehart has established that 70 percent of these variables can be grouped along two axes within a single integrated system. The horizontal axis represents the development from survival values to those of self-expression, and the vertical axis runs from traditional to secular-rational values. Due to the substantially higher birth rate among religious women, assumptions about global secularization that were still taken for granted in the 1970s have not materialized. On the contrary, the proportion of thoroughly secular people is declining.

As Life Situations Change, So Too Do Values

Text: Peter Hossli

That happiness does not lie in money alone is something that Professor Ronald Inglehart can prove scientifically. For 30 years, the American political scientist has been studying global value systems. What has emerged is a clear trend toward self-expression.

Ronald Inglehart instilled an important value in his children for their path through life: "Think about others." Of course, it was important for them to work hard at times and to brush their teeth every day. "But only those who take into account the concerns of others can become really happy."

He should know. After all, no one knows more about values and their meaning than Ronald Inglehart. The American political scientist is virtually obsessed with asking people what they really want. "Values are about what motivates us, and what we would like to have," says Inglehart, an affable-looking fellow whose face is dominated by a friendly smile. In professorial fashion, he is sitting in front of a crammed set of bookshelves in his cramped, sunlit office at the University of Michigan in Ann Arbor, one hour from Detroit. It is from here that he runs the World Values Survey, a network of 180 social scientists conducting surveys in 95 countries. Between them, they assess the values of around 80 percent of the world's population. "To know how others experience the world" is what Inglehart says he is after. "As a kid I always had this desire to slip into other people's bodies so that I could see what they saw."

Now this childhood fantasy has been replaced by questionnaires. Every five years for the last three decades he has dispatched these around the world. This global and oft-repeated comparison highlights trends and changes. Universal values become apparent, such as a love of art or religious faith. "Everyone likes seeing beautiful things and listening to music," observes Inglehart. "Everyone wants to understand where they come from and where they are going."

There Is an Enormous Bandwidth of Values

Universal aspects are the exception. When Inglehart compares countries and continents, what emerges is "an enormous bandwidth of values." For example, whereas the relationship between the richest US state of Connecticut and the poorest US state of Mississippi is 2 to 1 in terms of wealth, the difference between the richest and poorest countries of the world is 1 to 100. "People

who are hungry develop an entirely different strategy and thus different values from those people who are well-fed." Those who are physically threatened by rebels see protection for themselves and their family as the most important value. People who can turn the heating on when it gets cold and turn on a lamp when night falls can afford to devote their time to other things than basic survival.

As life situations change, so too do values – this is the thesis that forms the very heart of Inglehart's research. What interests him is who sets what priorities where, and under what circumstances the order of desires can change.

Values Are Impacted by Financial Status

Two factors bring about change. On the one hand Inglehart cites economic and physical security. The person who has enough to eat and is not threatened can act in a far more independent way and can devote more time to self-expression. Values such as tolerance, democracy and environmental protection replace the values of survival. On the other hand, the type of work a person undertakes defines the nature of their values. People who cultivate the soil are at the mercy of the weather. Only the intervention of a higher power can affect the matter, which is why religious values play a key part in an agrarian society. When the conveyor belt replaces the plough, central planning takes on God's role. Industrialization displaces religion and values become more secular. Even more powerful are the marks left by the knowledge society, as Inglehart describes the countries of Western Europe, North America and Japan. People in these countries are currently subject to a breakneck pace of change, and must continually adapt, which in turn demands innovation and creativity. Self-expression becomes an obligation.

To break down the world's "complex and multifaceted" value systems, Inglehart has developed a simple model with two axes. On the one hand he measures the shift from traditional/religious values to secular values, while on the other he measures the change from survival values to self-expression. Wealthy nations without >

exception score high values on both axes. People in these countries tend to think in a secular way and are in search of self-expression (see graph on page 14).

Each wave of surveys costs several million dollars to implement. Local opinion research institutions identify 1,500 people to act as a representative segment for each country. Each person surveyed answers between 300 and 400 questions. Inglehart personally travels to as many countries as possible to improve the way the results are classified. This long-term study is financed for the most part by a foundation set up by the Bank of Sweden, and the Dutch foreign ministry currently pays for a survey to be conducted in all African countries that have no opinion research institutions of their own. This year, Inglehart will survey people in Burkina Faso, Mali, Ethiopia, Zambia and Rwanda for the first time.

Breaking new ground like this is something that pleases the 72-year-old researcher from Milwaukee, Wisconsin. "Every new country comes up with surprising value systems." Asked what had surprised him most over the course of his 30-year project, Inglehart replies: "That religion has not died out, but has actually become more important worldwide." In the early 1970s, all social scientists believed the world was heading in a secular direction. "But we were wrong," confesses Inglehart. The birth rate of religious women was underestimated. On average, they have five or more children, while their secular counterparts average less than two. Not only is the proportion of "unbelievers" declining, it is also falling in real terms.

It is true that industrialization strengthens the secular trend. This is again being slightly reinforced in knowledge societies. At the same time another form of religious drive is emerging in terms of individual search for meaning away from traditional churches. Those who find self-expression make their own decisions about personal values such as sexuality, abortion and divorce, points out Inglehart. "Such a person chooses their own religion rather than following the dictates of a priest." Faith now brings not security, but autonomy.

Self-Expression Builds Tolerance

The most important value change of people who have achieved self-expression manifests itself in growing tolerance. Nowhere is this more evident than in the acceptance of homosexuality. Thirty years ago, more than half the people surveyed around the globe by Inglehart responded to the question as to whether gay and lesbian people would ever be accepted with a simple "No." A number of countries now recognize same-sex marriages. As Inglehart sees it, this underlines how changes in values can often lead to legislative change. "Those who feel secure open up, those who are afraid close themselves off" – this is how Inglehart explains the trend toward greater tolerance. He was not surprised to find out that Iraq was cited in a recently completed study as the most hostile country to foreigners. "Iraqis currently feel extremely insecure."

In addition to the increased acceptance of foreigners, gays, and lesbians, Inglehart discerns a growing equality of the sexes. "Men are no longer considered to be better leaders, and are no longer given priority when deciding to whom a job should be given." As he sees it, the more we move away from industrialized societies toward knowledge societies, the greater the influence of women. US universities are already attended by more women than men. As a result, the value system of women has been turned inside out. When the domain of women was predominantly the house, the stove and the church, women tended to have conservative values. "Today, women

think and vote more progressively than men," says Inglehart. "They are benefiting from change." As they have become more economically independent, they are finding self-expression.

Does economic security make you happy? "Happiness is an interplay between what you desire and what you actually have, or between values and experience," says Inglehart. Here he contradicts those biologists who only consider the feeling of happiness in genetic terms. "Your life situation is what defines happiness," he continues. Particularly as the differences in the sensation of happiness are much greater between individual countries than they are within any one country. "Those who pursue the genetic argument assume that happy Danes are genetically different to unhappy Russians," says Inglehart. "It is more a case of Denmark being a free and tolerant society."

Money Can't Buy Happiness

It is true that people in rich countries are often happier than those in poor countries, but this is not exclusively the case. Rich people in rich countries are only marginally happier than those who are less rich. "A man who doubles his income does not double his happiness," points out Inglehart. "Bill Gates may have 10,000 times more money than I do, but he is at most 10 percent happier." Here the political scientist underlines the old adage that money can't buy happiness. "It is better to have it than not to have it," says Inglehart. "But does it lead to continual happiness? No."

Feelings of happiness increase enormously for poor people if they are able to feed their hungry children. Once the standard of living has reached the level of Portugal – Western Europe's poorest country – there is no longer a correlation between greater income and greater happiness. Increasingly it is friends and family, together with the individual's personal life, that dictate how content a person is. Only then do issues such as job and income come into play. The level of education and intelligence is particularly important in forming the values of people in wealthy knowledge societies. The widely held view that money makes you happier is a "snare." "No doubt the first million feels terrific, but only for a while, and those who are still unhappy when they have 10 million are not likely to find it once they have 100 million."

To Inglehart, it was no coincidence that multi-billionaires like Bill Gates and Google founders Larry Page and Sergey Brin have turned to philanthropy. "They are rich, their work has changed the world, and they are now trying to achieve something different in a new field that will make them happy." Inglehart warns that even billionaires are not totally happy. This is a good thing. "Evolution doesn't permit it – otherwise we would stagnate and soon die out."

As the marginal utility of newly acquired happiness wears off over time, people set continually higher goals. This drive is most apparent in the US, the richest but not the happiest country. The continual "pursuit of happiness" is even anchored in the wording of the American Declaration of Independence, the document that first established the US in 1776. "It is almost un-American not to continually strive for greater happiness," points out Inglehart. Yet the happiest people in the world live in Scandinavia and Latin America. Despite their unenviable climate, the people of the northernmost lands in Europe are extremely content. This Inglehart attributes to equitable government and well-functioning institutions. As he points out, the level of tolerance and responsibility toward one's fellow citizens is greater in these countries than elsewhere. He reaffirms

that there is a connection between happiness and democracy. "But democracy does not automatically lead to happiness. In fact, those who are happy are more open to democratic values."

Latin America is a conundrum. "All Latin-American countries and particularly those of the Caribbean are happier than their wealth would lead one to believe," says Inglehart. Certainly the weather has a role to play. But more importantly: "People have many more friends and spend a great deal more time with them." At the bottom end of the happiness scale are the former communist countries, particularly Russia. The collapse of the Soviet Union exacerbated this trend. "With the end of communism the Russian value system fell apart, making people very insecure and unhappy," says Inglehart. In any case, catastrophes always leave their mark on values. For example, the terrorist attacks on the US on September 11, 2001, and the ensuing war on terror led to insecurity on a global scale.

Islamic Isolation Apparent After 9/11

While the drive toward self-expression is increasing in most countries, Islam is stagnating. Neither democracy nor tolerance toward women and homosexuals is on the rise in Islamic countries, despite the fact that many of these countries are very rich. Inglehart explains the lack of progress in Islamic countries with the phrase "the curse of natural resources." "Anyone sitting on 50 percent of the world's oil reserves does not need to modernize." Society can remain trapped in the Middle Ages, as no strong middle class emerges that can urbanize a country and lead to a knowledge society.

The data that Inglehart assesses in his Ann Arbor office gives organizations such as the World Bank and the United Nations good indications of how the world might develop. The professor is optimistic. "Apart from the negative trend of terrorism and the response to it, there is hope." As he sees it, people worldwide are becoming richer, more secure and happier. In countries where extreme poverty once prevailed, such as China and India, a middle class is emerging. Trade barriers are coming down and capital and technology are on the move, which creates new jobs everywhere.

But are people becoming happier? In developed countries in particular, consumption of antidepressants is rising dramatically. Inglehart has no time for the argument that this is a sign of unhappiness, however. "We can afford the pills, so we take them." <



Ronald Inglehart established his reputation in the 1970s with his Theory of Value Change. A political scientist at the University of Michigan since 1978, Inglehart has published more than 200 articles and books, most recently "Modernization, Cultural Change and Democracy" (2005) and "Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies" (1997).

Photo: Johannes Kremer

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Personal Values

Roy Chapman has been running marathon after marathon for charity for the past two years. The full-time IT specialist has traveled around the world at his own cost, and each kilometer he runs is sponsored. He's not a born runner – but he is energized by the knowledge that he has two healthy daughters, and that through this creative outlet he can help others who have been less fortunate.

Text: Regula Gerber

Bulletin: What is more important to you, finishing marathons or knowing you've raised money for a good cause?

Roy Chapman: Both are challenging issues, and both are important to me. After I've finished a marathon, the next challenge is to track down people who sponsored each kilometer for the money. To be honest, there is a little bit of selfishness in running as well. I don't know if I'd have been quite so motivated if the 12 marathons had been in the UK. A lot of it was selfishness in wanting to travel on my part, but it was also a chance to do something creative to encourage others to give money to charity.

What motivated you to start running for a good cause?

I had passed the halfway mark in life. Looking back, I realized that I had not really done much for anyone other than my immediate family. I was fit and healthy, and I considered this energy I got from my midlife crisis as an opportunity to do something for others. If you can combine helping others with something you really enjoy doing, then there is no reason not to get out and do it.

How good are you?

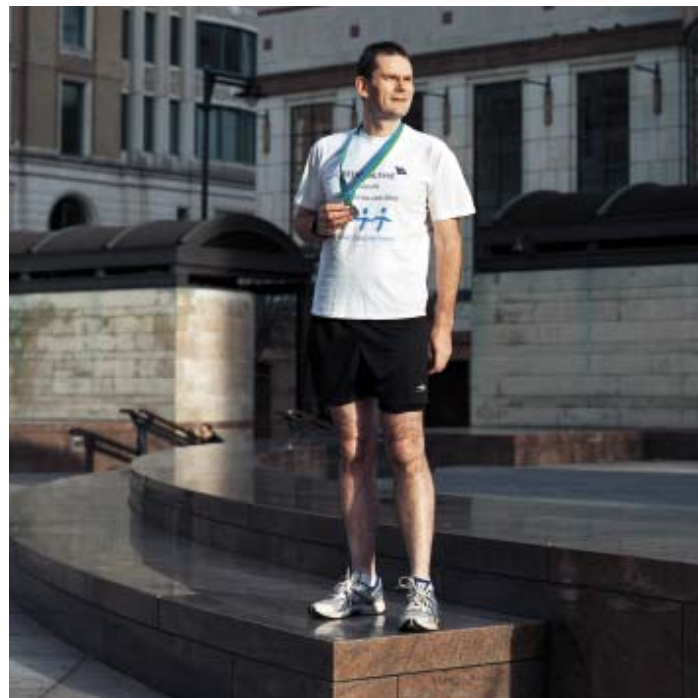
I run very slowly, but I finish.

You mainly use the funds you get from running to support the Teenage Cancer Trust (TCT). Why this particular charity?

I ran for TCT because I can relate to what they are trying to achieve. They are trying to create special-care units for teenagers with cancer. Currently in Britain, a teenager suffering from cancer gets the same treatment as children and adults. They can't really relate to either. TCT has realized that teenagers have different needs, and these special units create a special environment where they can listen to music, lie-in in the mornings, and just talk with other teens who understand.

And this appeals to you as a father of teenagers?

As a parent, you look closely at what you've got. Some parents are very lucky and some are very unlucky. Those who are very lucky should care about the others and do something to help.



During his lunch break everyday, Roy Chapman runs four miles around the docks in Canary Wharf where he works for Credit Suisse in London. In 2006, he ran 12 marathons for charity. Getting to the finish line isn't easy, but he would never consider giving up. "I get an incredible rush when I've finished a race. It's addictive."

What have your children learned from your work with TCT?

At first they thought I was a bit crazy for what I wanted to do, and they didn't believe that I could follow through. Since then, they have learned more about TCT and they have realized that it pays to put your heart and soul into something you believe in.

Do you believe that enough is been done for charity?

In the UK, there are more and more sponsored events and collections for charity. But I feel that people have to be more creative to encourage others to be generous. For example, this year one guy said he would run 26 marathons in 26 days with 26 pounds on his back to raise funds for charity. These are things which make people put their hands in their pockets for charity.

What are the values that count most in your life?

To feel that I am not doing everything just for myself. To enjoy life, and to see life through the eyes of a child. A child's view of life is uncomplicated and innocent. When you have kids, you start to see the world from their perspective and it isn't quite as glum as you imagine. But when cancer takes away that innocence, it is robbing a child of something they will never recover.

What are your plans for the next year?

I am going to give people's wallets a rest next year. I will do a couple of things for myself – nothing sponsored – and then try to think of something new to take on in 2008. <

Cultural Values

Shahrashoub Razavi has great understanding of different cultures and their value systems. For the last 13 years, she has worked as research coordinator at the United Nations Research Institute for Social Development (UNRISD) in Geneva. Through her work and her own experiences, the native Iranian has learned the importance of cultural tolerance. She believes certain values are universal, and her goal is to pass this message on to others.

Text: Mandana Razavi

Bulletin: How do you define cultural values?

Shahrashoub Razavi: I prefer to use the term values rather than cultural values because the added baggage of "culture" often tends to freeze the notion of values as static and unchanging. I see values as shifting, diverse, contested and often universal. Values such as equality, for example, which are very much at the heart of UNRISD's mandate, are shared by people and social movements across cultural and national boundaries.

Which cultural values are important to you personally?

Equality and human dignity are values I cherish. How we understand equality and how we think equality can be achieved, can and does change, but over time, these values have become more and more important to me personally.

How important are cultural values for the personal identity of a human being?

I think values are very important to how we define and see ourselves. The dangerous side of talking about cultural values is when these become not just about what you and your community are about, but also about what you and your community are against. This is when we enter the dangerous territory of identity politics – the idea that your culture is superior to others and must take over the others. This was and is embedded in many different political ideologies that are about cultural identity: The superiority of Aryans over Jews was at the heart of Fascism and Nazism, and it led to large-scale genocide in Europe; the idea that one group is superior to another is one of the factors that fuels ethnic hatred and war in many parts of the world today.

Do different cultural values have a significant influence on gender equality?

Interestingly, many so-called cultural values have direct or indirect implications for gender equality. Many cultural values are about how women and men should behave in order to constitute a good society.

Many religious values, sometimes talked about as family values, touch on or are directly about gender: Notions of good motherhood or marital duty and fidelity or male heads of households are for example deeply embedded not just in Muslim cultures, but also in Christian, Jewish and Hindu ones, and very often these are not framed in a gender-equitable manner. These cultural constructions are, and have been, contested and challenged by women's rights advocates in many different places and at different times.

How have you experienced the differences between Middle Eastern culture and European culture?

I am not very comfortable with the phrases Middle Eastern culture or European culture – I think both have so many diversities within them that these terms don't really mean much. Even thinking about Iranian culture is difficult because once you start seriously thinking about it, you realize that there are so many Irans within Iran. Because of these diversities, I don't like to think about value systems in these terms because very quickly it leads to a stereotyped view of European versus Middle Eastern values that are caricatures. I don't find this very helpful.

Do you believe that universal, culture-spanning values exist?

Yes. Equality, gender equality, justice, human rights are all universal values that are shared by many people across countries and time zones. <



Shahrashoub Razavi left Iran in 1980 at the start of the eight-year war with Iraq to study in England, where she finished her PhD at Oxford University. She moved to Switzerland in 1993 to work for the United Nations Research Institute for Social Development (UNRISD), where she coordinates global research on gender equality.

Social Values

Andrés Fränkel is the sales manager for the Danish company Dalum Papir. This company with a 125-year history is specialized in the manufacture of environmentally friendly recycled paper. This strategic decision to focus on sustainability has paid off, explains Fränkel. Not only has Dalum reported solid profits for several years – this choice has also had a positive effect on employees. “Our employees are noticeably more motivated,” he says.

Text: Daniel Huber

Bulletin: The paper industry is regarded as a sector characterized by tough competition and price wars. What is the key to the success of this relatively small firm?

Andrés Fränkel: We went through a difficult time in the 1990s, when we were part of a big corporate group. At that time, we sustained losses year after year. Seven years ago, we were sold to a group who believed in our future enough to invest a few million euros.



Andrés Fränkel, 46, is the sales manager for Dalum Papir's offices in Austria, Switzerland, Italy, Spain and Eastern Europe. The world traveler lives near Vienna with his wife and two children. He believes that businesses should do their part to conserve natural resources whenever possible.

Restructurings like that usually involve redundancies.

It's true that 100 jobs were cut – that's a quarter of the total payroll. We had to make that sacrifice in order to secure the remaining 300 jobs for the long term.

So improved cost management was instrumental in the company's success?

That's only part of the story. Much more important was our corporate strategy, which is completely focused on sustainability. All of the paper we produce is either made entirely from recycled pulp or, if no other option is available, of FSC-certified* timber.

Is this based on ethical principles or are you simply exploiting a lucrative market niche?

Far more than just economic criteria are involved. It might sound a little trite, but it's a good feeling to be working for a firm that cares about the environment. That's also why I am willing to work harder than would actually be needed.

But don't you yourself harm the environment by jetting around Europe to see clients?

That's true. But if I walked everywhere, I couldn't do my job properly. It is important that we're successful; however, it was important to also conserve natural resources. Let me give you an example: Not long ago, we switched from gas to woodchips for our energy supply. That's not only more environmentally friendly, but it also saves us 2 million euros a year. Our aim is to be profitable in the long term and safeguard our employees' jobs – and, wherever possible, to do something for the environment.

Who buys your recycled paper?

Definitely not companies that always want the cheapest solution. We're the wrong partner for them. What we offer is paper that comes with an extra message. It's all to do with corporate identity. No concessions should have to be made in terms of quality. Our recycled paper is a natural white. To whiten it when producing the pulp we don't use toxic chlorine but oxygen peroxide. Our paper contains no harmful substances.

Are there any regional differences in the popularity, for example, in the acceptance of environmentally friendly paper?

Switzerland is the European leader in the use of environmentally friendly paper. Swiss firms are very green and are proud of their track record. Other countries are years behind in this respect.

And what about the former Eastern bloc countries?

There, our products are used almost exclusively by international companies. Owing to a shortage of resources, in the former Eastern bloc countries you often used to see nothing but recycled paper, although this was of extremely poor quality. That gave it a negative image hard to shed. Overall, Hungary has made the most progress. Generally speaking, it's true that environmental awareness increases in step with prosperity. <

***FSC (Forest Stewardship Council) is a quality seal certifying that the wood in question originated from responsibly managed forests and did not entail the destruction of primeval forests or illegal logging. Certification is awarded for compliance with internationally agreed environmental, social and economic standards.**

Work Values

Raymond H. Wong has been exposed to diverse work cultures. Vietnam-born Wong is of Chinese origin, but grew up in the United States. He has been living in Hong Kong since 2002, where he owns and manages the Vietnamese restaurant Nha Trang, a lively brasserie-style eating place in the bustling central district.

Text: Marcus Balogh

Bulletin: Whenever I come here, the place is packed. What is your secret of success?

Raymond Wong: Good food at decent prices. We offer good value for the money. And the dishes on our menu are new to Hong Kong, which makes them popular.

Well, 80 percent of the shops in Hong Kong would claim to offer the same. Is there a secret ingredient to your place?

Maybe the way we focus on the customer. We are not a stylish restaurant, because that is not what I want. We are an informal, easygoing place, but we still deliver outstanding service.

How would you define “outstanding service”?

We are polite, very attentive and make the customer feel that their voice is being heard. It is not about perfection. It's about being there, reacting quickly, and fixing things if they have gone wrong.

How do you manage to cater to expectations?

My staff is quite large, with 22 employees. But watch them for a few minutes and you will realize that their workload is quite high, as our turnaround time is quite short. You can only achieve what we have set out to do if you are in constant communication with each other, as well as with the customer. At the end of the day, our customers are our most important assets.

Would you agree that customer satisfaction is the most important work value for someone in the restaurant business?

It is certainly among the most important values. I think that a lot of values are connected to each other, or maybe, they can only be understood in combination with other work values.

In what way?

Almost everybody goes to work because he or she has to earn a living. Earning money is therefore most probably the most important personal work value. Self-expression, independence, creativity or recognition are values that are strongly influenced by this basic work value. They only enter into the equation if you earn enough money to survive. Having said this, I think that the real currency we are talking about is security.

Do you think that this applies to all cultures, worldwide?

I can't really say. Maybe there are societies where people feel a lot



Raymond H. Wong, 41, is a latecomer to the restaurant business. After selling his Los Angeles-based garment company, Wong traveled around the world and settled in Hong Kong, because he liked the city. Friends urged the food buff to open a Vietnamese restaurant. So far, Raymond Wong has no reason to regret his decision to give the restaurant business a try.

safer and do not care so much about fulfilling the need for security through external means, by that I mean money. But yes, I think it applies to most cultures.

With this point of view, Hong Kong would have to be a rather unsafe society. People here certainly work a lot harder than in many other places and values like self-expression or interpersonal relations seem to be less important than money, power and recognition. Where do you see the roots for this behavior?

I may not be the best person to ask. After all, I am a manager, not a sociologist. Making a wild guess, I think that Chinese society has always been a rather agricultural society, up to this day. The Chinese are not hunters or soldiers, they are farmers. We have only been industrialized for a few decades. A farmer's way is to pile up stocks. There is just one harvest per year, after all, and you've got to keep your things together, not waste them. You need to be prepared for tomorrow, for winter, for the following year, but also for floods or droughts, for catastrophes and wars. Coming from that historical background, they love saving.

There is also quite a significant emphasis on the accumulation of wealth. In fact, the only thing that is better than saving is saving more. When you combine this with an inherently competitive society plus the standard of living you have here in Hong Kong, you end up with a society where work is king. <

“Fair Value” – A Useful Compass in the Financial Market Jungle

Text: Anja Hochberg, Head Global Economics

The discussion of values also has its place in the sphere of financial analysis. Though at first glance this looks like an unusual blend of philosophical profundity and the no-nonsense world of figures, closer inspection reveals it to be wholly compatible and very instructive.

Just as the values debate in the sociocultural sphere seeks to identify a moral anchor for both the individual and society, so too does the concept of value in financial analysis seek to “get to the heart of things.” The focal point in this sphere is the concept of “fair value,” or the determination of a theoretically “correct” price for a financial instrument, be it a stock, a bond or a derivative. This process involves discounting future income streams using an internal rate of return in order to calculate the time value of the investment and thus its theoretical present value.

Financial Market Values and Standards

Just as with values in the politico-philosophical sense of the word, fair values established through financial analysis give rise to standards and behavioral imperatives, even if these are viewed with much greater flexibility than their counterparts in the sphere of ethics. If the current market price of an instrument is greater than the fair value, an investment is deemed to be “expensive.” By contrast, if the current value is below that of the fair value the instrument or asset class is considered “cheap.” These labels should not automatically be viewed as “selling” or “buying” signals, however, as the price of an investment over a long period can often deviate very significantly from the fair value. The dynamics of financial market pricing in this sense do not differ fundamentally from the general pricing mechanisms that apply in flexible markets. Where demand is too high in comparison to supply, this tends to drive prices up until the point is reached where this demand falls away and the pricing trend reverses.

Short-term exchange-rate movements appear at first glance to be arbitrary, both in terms of their direction and their extent, and dominated above all by technical factors. However, even critics of currency forecasts can appreciate that longer-term currency movements are driven by fundamental factors. A classic example of such a currency valuation model is the so-called purchasing power parity (PPP) model, which is based on the idea of goods arbitrage. With purchasing power parity, the external value of a currency is measured by examining the different price levels of traded goods that apply in different countries. For example, if a comparable basket of

goods costs 125 dollars in the US and 100 euros in Europe, a euro/dollar exchange rate of 1.25 would be theoretically justifiable. If the exchange rate falls below the 1.25 euro/dollar level (i.e. the dollar appreciates), the goods denominated in euros become cheaper. The increase in demand for goods leads to a greater demand for euros and a corresponding decline in demand for the dollar, as the dollar-denominated goods are more expensive for euro investors. As a rule, this causes the euro to appreciate against the dollar, thereby bringing the currency pair back into equilibrium.

This intuitively plausible concept contains a number of snares in the real world of financial markets, however. For one thing, currency flows are only partly driven by direct trade flows. In addition, in today's increasingly service-dominated society, not all goods can be traded internationally.

The Enhanced USD Valuation Model

Credit Suisse has responded to this situation by expanding the traditional PPP models to include market-relevant factors. We take into account not just the global goods-oriented demand for US dollars, but also investor demand for both portfolio investments (equities, bonds) and direct investments. The latter are driven largely by long-term productivity trends, whereas portfolio investments are influenced by interest rates. In addition, we have also taken into account external imbalances such as the US trade deficit (balance of payments). When all these figures are considered, a euro/dollar exchange rate of around 1.12 can be considered “fair,” making the currency look cheap at the current time. In view of the current uncertainties surrounding the US economy, the undervaluation of the US dollar may well persist into the spring. If the outlook for growth were to brighten, however, the dollar could be expected to move back toward its “fair value” mark (see Figure 1).

Quo Vadis, Swiss Franc?

The turning point in terms of the US dollar's development can also be expected to mark the reversal of current interest-rate expectations. Interest-rate developments also mold the development of the Swiss franc – particularly in relation to the European single

currency. Given the current economic and inflation situation, the European Central Bank (ECB) appears to have a stronger inclination to raise interest rates than the Swiss National Bank (SNB). As the interest-rate gap between the Eurozone and Switzerland increases, demand for EUR-denominated interest-rate investments increases and the CHF weakens. However, we consider this to be a purely temporary phenomenon. On the one hand, structural factors such as the surplus of Switzerland's balance of payments and the competitiveness of the Swiss economy point to long-term strength on the part of the franc. On the other, powerful integrationist forces in international trade are likely to result in a fundamental decoupling from European interest-rate trends. Modeling fair value of the franc against the euro can therefore basically be undertaken with the traditional PPP model. With inflation remaining low for structural reasons, the franc can be expected to trade higher than its current level in the long term.

Changes in Market Valuations

Constancy is another core criterion when defining "fair value." Nonetheless, fair values are also subject to valuation changes over the course of time, or what are termed structural changes. A structural change does not involve any fundamental economic laws being nullified, but rather places existing causal relationships in a new context. A striking example of this is the fair – or macroeconomically justifiable – oil price (see Figure 2). Our model is based on the global demand for crude oil. While the prevailing economic parameters made an oil price of 28 dollars per barrel look justified at the end of the 1990s, the equivalent fair value of the same barrel in 2007 works out at between 60 and 66 dollars. This great appreciation of the "fair" oil price is due to the vastly increased demand for oil from China. If the Asian economies continue to expand at the growth rates seen thus far, it is unlikely that we will return to the old price bandwidths for oil. In other words, the causal mechanisms in the oil market have changed little, whereas the element of Asian demand has become much more significant.

A similar break from traditional valuation bandwidths has also been evident in the bond market. Traditional interest-rate valuation models attempt to reflect the fair nominal interest-rate levels in the capital markets via an economic component (real interest rates), interest-rate expectations and the element of risk. Up until around 2002, a "fair" interest rate ascertained by this method was considered a good valuation measure for current interest-rate developments. Since then, the gulf between fair values and market interest rates has increased, and no reversal of this trend is appearing on the horizon. The fact that these models now fail to paint a correct picture is due to one simple economic fact, albeit one that is heavily influential: The demand for bonds in general has undergone a structural increase. The supply of government bonds has been unable to keep up in an era of generally greater fiscal discipline. This has resulted in a scissors effect, whereby the price of bonds has risen and interest rates have fallen. We have accordingly expanded our fundamental model to take this demand factor into account. In general terms, the interest-rate trend still points upward, albeit to a much lesser extent than in earlier valuation models (see Figure 3).

Overall, therefore, market values and value observations do not represent absolute or autonomous structures in financial analysis, but must always be included as changeable parameters that are themselves open to interpretation. <

Figure 1

Dollar Undervalued Against the Euro

Credit Suisse has expanded the traditional purchasing power model to include market-relevant factors. When comparing the dollar against the euro, this produces a fair value of EUR/USD 1.12. Source: Credit Suisse, Bloomberg

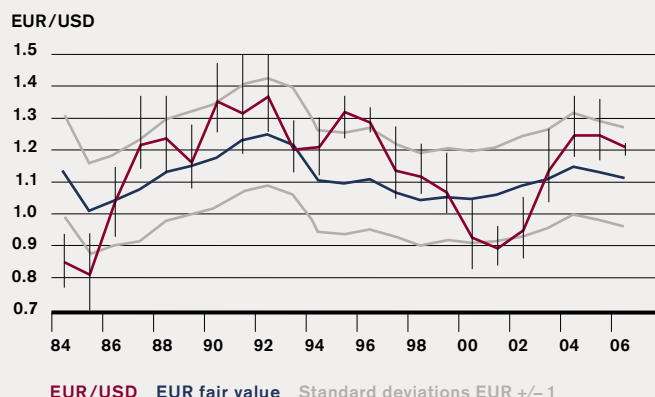


Figure 2

Fair Price of Oil: 60 to 66 US Dollars per Barrel

The oil price model used by Credit Suisse includes fundamental demand and supply factors that affect the oil market. Increased demand, particularly from Asia, has also led to an upward shift of the "fair" oil price. Source: Credit Suisse, Bloomberg

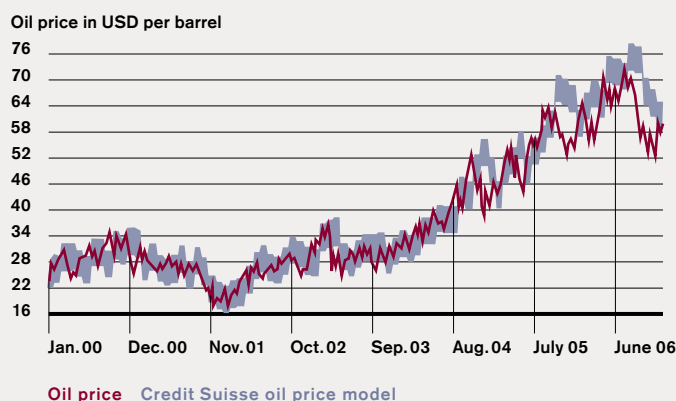
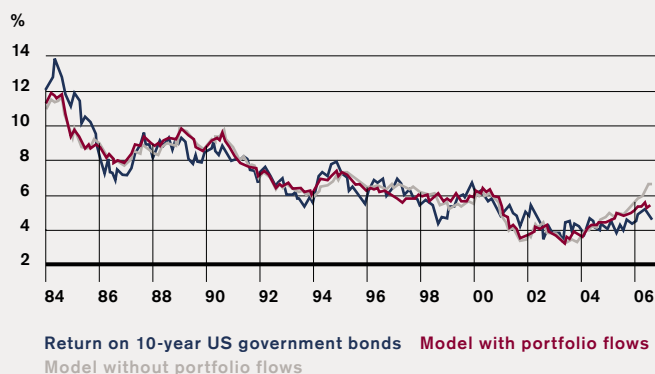


Figure 3

Demand Putting Pressure on US Interest Rates and Fair Value

The traditional interest-rate model (without portfolio flows) points to a markedly higher "fair" interest rate than the portfolio-flow-enhanced model used by Credit Suisse.

Source: Credit Suisse, Bloomberg





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A Passion for Financial Values



As you can read throughout this magazine, the discussion of values can take on as many forms as the word has meanings. For us, as one of the world's leading banks and asset managers, the generation and preservation of pecuniary (financial) value is not only our core business – it's our passion.

In the custody and development of pecuniary value – or, to put it more succinctly, asset management – many different techniques and vehicles are at our disposal to ensure our clients' needs are met. One of the most efficient is the discretionary mandate, whereby the client can not only take full advantage of our expertise and experience, but also gains a further invaluable asset: time.

With a discretionary mandate, we have the possibility to use anything from straight bonds and equities to sophisticated financial instruments and alternative investments to create the best solutions for our clients.

Everything begins with the client. After all, the client not only entrusts money into our care, each client also has very specific and individual ideas and needs. By recognizing and understanding these needs (in other words: by understanding a client's values), we can create the investment styles and techniques best suited for each client. And so we come full circle. As a bank and a client's asset manager, we cannot be successful without being familiar with a client's values in the broadest sense, therefore our clients are our foremost priority.

On the following pages, I would like to share some of our values with you: passion, commitment, professionalism and sophistication.

Andreas Russenberger, Head of Credit Suisse Premium Mandate

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Determining Value

How is the value of the financial markets determined? Arun Ratra, the chief investment officer (CIO) of Credit Suisse MACS (Multi Asset Class Solutions), provides answers about managing client portfolios, understanding the different categories of risk, and the next regions to watch for long-term value.

Interview: Hubert Lienhard, Discretionary Mandates

Bulletin: How do you define value?

Arun Ratra: My point of view is very much defined by my professional life. On the one hand, value has a lot to do with how much someone is willing to pay. On the other hand, I think of valuation, that is, of how the price someone is willing to pay relates to its actual value as measured by some kind of objective calculation. In the case of a stock, this can be an estimate based on future earnings potential, for example.

What significance does the marketplace have in determining value?

As we're talking of financial value, the significance is central. The financial markets allocate global resources more efficiently than other mechanisms, making money available to those who need it in the form of investments and allowing all to profit. This creates value.

But the financial markets also destroy a great deal of value.

Trillions of dollars were lost when the stock market crashed at the turn of the millennium.

Yes, trillions that were first created in the markets. But in this context it is important to note that the tech bubble, which caused that destruction of value as it burst, happened in one part of the global financial markets, namely the stock market, and even there it hit some areas – tech, etc. – stronger than others. Even though it was possible in that time to mitigate the effects by having well-diversified portfolios across different asset classes, whose returns are more independent of each other.

Which makes the whole thing rather complicated ...

Exactly. That is where we come in. Expertise and experience are essential ingredients to the successful generation and maintenance of value in the financial markets, which is a fair definition of our business of asset management. It is our job to make sense of the increasingly complex and diverse financial markets and find the best way, not only of generating value for our clients, but also of managing their risk. It's about finding a comprehensive solution.

Even experts get it wrong. After all, fund managers and other investment experts lost a lot of money when that tech bubble burst. And they regularly lose money in less spectacular circumstances.

This brings us to the heart of the matter. There are a number of ways to make money, whereby it can't be said that one is better than the other, they're just different. It is a question of what a given investor is more comfortable with. One investor looks at returns in relation to the returns on cash. This is what we call total-return oriented. On the other hand there are investors who look at returns in relation to equity and bond markets. Both are going for positive returns, though on different time horizons.

What is the total-return investor looking for?

Total-return investors want to see a positive return every year, and must be willing to sacrifice some longer-term return for that. The one who is looking more toward market returns is willing to have negative years, but

has a longer time horizon to capture the risk premium that financial markets offer.

What's the main thing investors should keep in mind?

What is important in all this for any investor is to decide on a style – on an investment plan and then to stick with it. There will always be times when one style is outperforming the other and vice versa. If you keep switching, you are running after the action, dropping performance and increasing transaction costs.

What are the drawbacks of switching?

Switching is tied with risk. What is risk? Risk is very subjective, meaning different things to different people. The fluctuation in the value of a portfolio is one form of risk, so is the probability of falling short of a certain return over the longer term. If you look at fluctuation, equities tend to be riskier than investment-grade bonds. Some risk can be eliminated by diversification, or by spreading one's investments across a number of asset classes, regions, countries, styles and issuers. The remaining risk is called systematic risk and cannot be eliminated. So, some portfolios remain riskier than others, but offer a higher return over the longer term. This is a general trade-off – higher longer-term returns mean on average that you need a longer investment horizon.

Once an investor has decided what kind of risk level is acceptable, with our help or without, we can then help in using the risk level optimally. One thought in this context is that there is such a thing as over-diversi-

Arun Ratra has been CIO of Credit Suisse Asset Management, Zurich, since 2005. Prior to coming to Credit Suisse, he was chief operations officer and executive director of asset management for Pension Factory NV, a subsidiary of Swiss Re. From 1998 to 2002 he was CIO and member of the executive board at Blue Sky Group, the pension fund manager of Dutch airline KLM and Lucent Netherlands. Ratra holds a master of business economics from the Free University Amsterdam.



fication, where the return of a portfolio is simply taken down to the market return, which may not be appropriate for a given investor's goals and time horizon.

Let's get back to the human element.

How does that factor in?

Our profession is no more immune to mistakes than others. This is one reason that I, as CIO, insist on a structured investment process. Such a process has a number of advantages. Next to acting as a check on our work as investment professionals, it enables us to bring in all the different factors that determine the value of our asset classes into a holistic and consistent system. These factors take on many different forms, from so-called soft factors to the outputs of highly sophisticated quantitative models. It is in the interpretation of these factors where the art of portfolio management lies.

You are the CIO of MACS. What exactly is it that you do?

As CIO, I decide on the asset allocation in our discretionary mandates. Put simply, I determine whether we invest relatively more in bonds, equities, cash or alternative investments, also on the allocation of different sub-asset classes, such as credits, hedge funds or private equity, regions, countries and styles, such as value or growth stocks.

How do you reach these decisions?

First of all, we are a whole team of different specialists who constantly monitor the markets and what influences them. We look at valuations, economic indicators, the output

of a number of quantitative models as well as soft factors such as investor and business sentiment. All these factors flow into our investment process.

We then take these results into a committee comprised of the most senior management of Credit Suisse, as well as other strategists in the bank. I then decide how to bring the output of this body into our mandate portfolios. All this takes place on a monthly basis, though if we deem some kind of action to be indicated outside of this cycle, we can certainly do so.

What is a discretionary mandate and how do I get one?

A discretionary mandate is one of the most efficient ways of managing the assets of private clients. With their relationship managers the clients go through a detailed advisory process which is designed to determine the needs of our clients as closely as possible. Of course some clients already have a very concrete concept when they come to us, which we can then take up. This way we learn how risk-tolerant a client is and what kind of return expectations he or she has. We learn about preferred markets or asset classes, or securities and markets the client would rather exclude. We can determine the best mandate for the client, according to which we then manage his money.

How individualized can you make a mandate?

It depends on the type of mandate. Some mandates, which are available from a relatively small initial investment, are standardized to a certain degree. But even here, dif-

ferent risk-return profiles, different regional focuses and different styles lead to a good degree of individualization. As investments grow bigger, we move into the realm of true customization, with the possibility of setting up a genuinely individual portfolio, with unique characteristics and its own benchmark.

Basically, the clients give their money to the bank who invests it according to the client's wishes.

Putting it simply, yes. Obviously, this requires a great deal of trust on the client's part and a great deal of discretion. As one of the largest Swiss banks with a 150-year history and as a leading global money manager we are well aware of our clients' needs and expectations. And through our comprehensive and understandable reporting, we can give the clients full transparency into their investments at any time.

Finally, where do you see the potential for long-term value? Or, of what regions should investors be aware?

As I said before, as CIO I am responsible for the asset allocation decisions, or the big picture of the markets and asset classes, though in previous jobs I also was responsible for stock and bond selection. I can say, however, that we are excited about the LEA (Latin America, Eastern Europe, Asia) regions. The growth engine of the world is clearly shifting from the developed countries to such countries as China, India, Brazil or Russia. We are getting in early and want to ride the growth curve over a 10-year horizon. <

Discretionary Mandates

Text: Hubert Lienhard, Discretionary Mandates

The Discretionary Mandate Classic and the Discretionary Mandate Funds and Alternative Investments (AI) offer the clients a comprehensive investment solution suited to their needs. The clients benefit from great expertise, a clearly structured process and transparent reporting and communication.

In asset management, two of the most basic laws express 1) the trade-off between risk and return and 2) the possibility of risk reduction by diversification. In our core products, the Discretionary Mandate Classic and the Discretionary Mandate Funds and AI, these two laws display their effect through the use of a number of investment profiles on the one hand and through the distribution of investments on the other.

In a discretionary mandate, the clients, after a thorough evaluation of their needs and preferences, put their financial assets into the bank's care to be managed accordingly. There are many different possibilities within the universe of discretionary mandates, whereby our global core products are the Discretionary Mandate Classic, which invests directly in single stocks and bonds, and the Discretionary Mandate Funds and AI, which invests solely in funds, following the best-manager approach. Depending on the

investment profile, which the clients choose according to their needs, these mandates invest in equities, bonds and alternative investments and liquidity in different quotas.

The higher the equity quota in a portfolio, the riskier it is, for example, the greater the fluctuations in value can be. In the longer term, however, the investor who is willing and able to shoulder this risk should be rewarded by better returns. Within a given profile, risk is optimized through diversification. By spreading our investments over a number of asset classes, regions and issuers, we can eliminate the so-called title-specific risk, while the portfolio risk remains.

Additionally, we offer Asian mandates that follow a similar logic of risk/return profiles and diversification. These mandates concentrate on Asian securities and enable clients to take advantage of the exciting growth rates and the increasing sophistication and development of many local financial

markets. However, it is important to note that Asian markets generally have a higher volatility than global markets and political and reform risks are often major concerns. For this reason, a higher minimum investment is necessary to attain an appropriate diversification effect.

With a discretionary mandate the clients profit from the experience and expertise of over 300 financial-market specialists and portfolio managers working within a structured investment process. <

A wide selection of investment solutions for every need can be found at: www.credit-suisse.com/portfoliomangement. We will be happy to advise you.

Minimum Investments

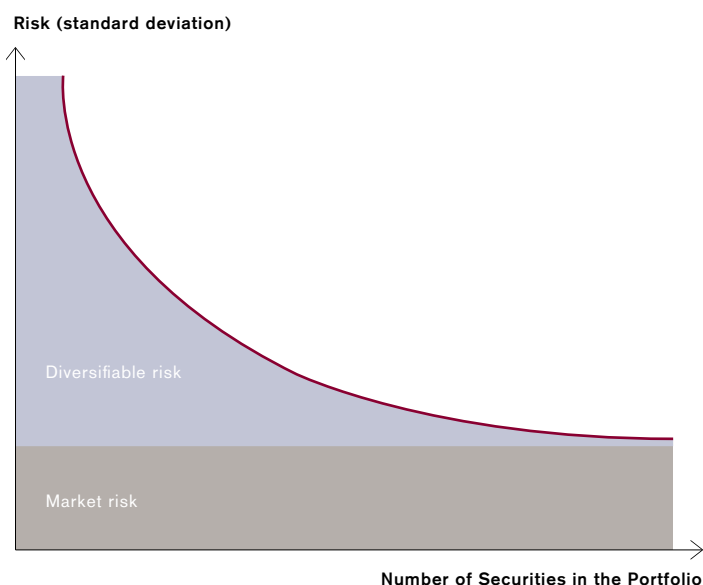
Funds & AI 250,000 Swiss francs or equivalent

Classic 500,000 Swiss francs or equivalent

Asian 1,000,000 dollars

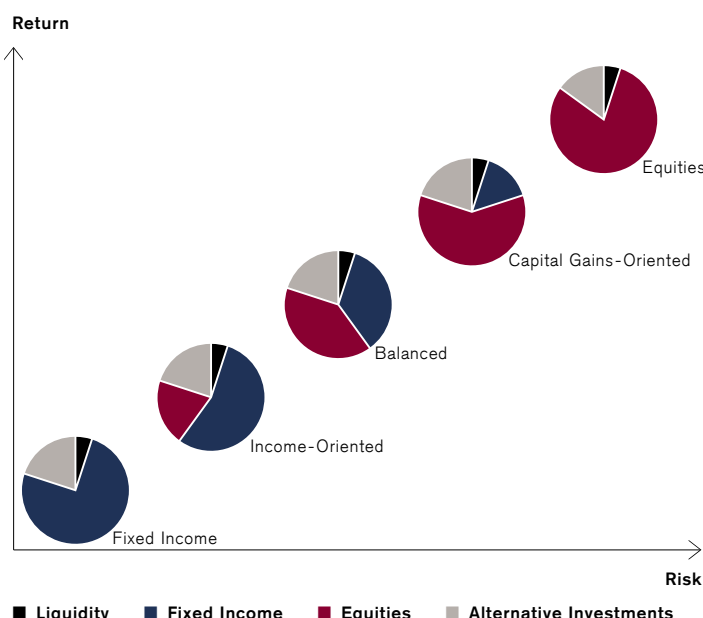
Investment Profiles in Discretionary Mandates

Different asset classes carry different risk/return profiles. By allocating more equities to a profile, it becomes riskier but the expected return rises as well. Source: Credit Suisse



Risk Can Be Reduced by Diversification

By diversifying one's holdings across a number of asset classes, regions, issuers, etc., some risk can be diversified, while the market risk remains. Source: Credit Suisse



Premium Mandates

Text: Hubert Lienhard, Discretionary Mandates

Premium mandates are the top line of discretionary mandate products offered by Credit Suisse. It is an offer for clients wishing to invest more than 5,000,000 dollars or equivalent and is designed to meet these clients' needs as specifically and individually as possible, while still letting them enjoy one of the main advantages of a mandate: knowing that experts you can trust are looking after your assets.

With premium mandates, Credit Suisse is able to offer true customization to clients. This starts with the definition of the clients' needs and investment goals, over the construction and subsequent monitoring or adjustment of the portfolio concerning performance and risk to the individualized reporting, which can also take the shape of regular review meetings with the portfolio manager.

Premium mandates are available in many shapes and forms. We offer everything from investments in certain regions, markets or asset classes, to broad-based investments following a classical asset management approach, to specialized contracts such as nontraditional products.

What they all have in common is the highly individual and professional approach to the management of the clients' assets by dedicated portfolio managers. In the following descriptions we would like to pick out two such concepts:

1) Global Opportunities

The Premium Mandate Global Opportunities is designed to be the solution for investors who believe that the structural trends out of the BRIC (Brazil, Russia, India, China) countries will come to dominate the global economy and increasingly the financial markets. The integration of global capital and labor markets, demographic change and the increasing importance of strategic policy decisions are in favor of BRIC countries.

Developed world economic growth and financial strength is deteriorating relative to emerging markets. The portfolio invests in all traditional asset classes, markets and sectors with additional exposure to emerging market bonds and alternative investments. The aim is to allow investors to profit from the opportunities associated with the rising importance of BRIC in a risk-controlled manner.

2) Premium Mandate Short-Term Credit-Linked (STCL)

STCL is a mandate for investors searching to outperform money market and fiduciary investments by accepting only a small amount of extra risk. Investments are exclusively focused on fixed-income securities by our experienced fixed-income portfolio specialists, pursuing a multistrategy approach.

The mandate is absolute return-oriented for investors looking for a steady and attractive income while combining traditional fixed-income instruments and structured credits (e.g. CDO, CLO, CDS, ABS, RMBS). The product's aim is to deliver consistent outperformance against 3m Libor (e.g. model portfolio EUR Libor +148 bps, USD Libor +126 bps).

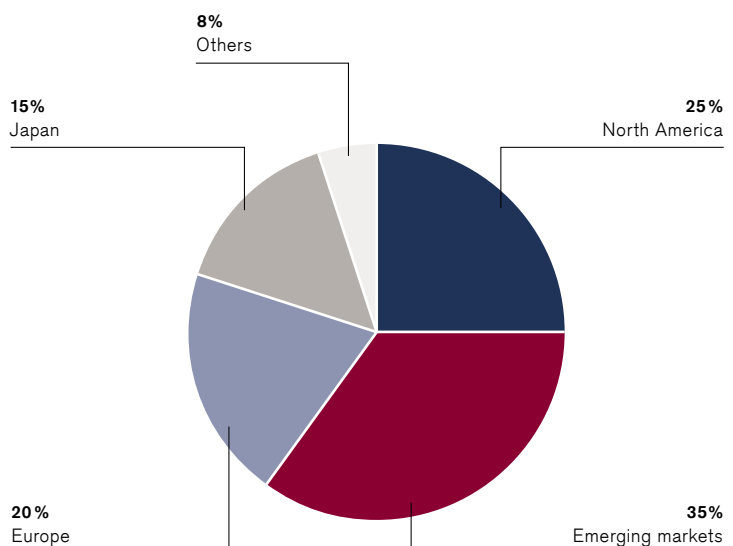
These are just two of the models with which the investment professionals at Credit Suisse Premium Mandates can help

clients pursue their investment goals. Of course, it is also possible to build a client's portfolio from scratch, creating a new investment concept which is measured against a personal benchmark. In establishing such a concept, the clients also choose their degree of involvement in defining the investment parameters, for example, which decisions should remain the clients' and which should be under the discretion of Credit Suisse's experts. <

A wide selection of investment solutions for every need can be found at: www.credit-suisse.com/porfoliomanagement. We will be happy to advise you.

Global Opportunities: Indicative Equity Allocation

While the goal of Global Opportunities is to enable the investor to profit from the rise of the developing markets, many opportunities to do so are located in the developed world. Source: Credit Suisse



Focus LEA

Text: Hubert Lienhard, Discretionary Mandates

LEA stands for Latin America, Eastern Europe and Asia, home to the fastest-growing and most dynamic economies in the world. Focus LEA is a discretionary mandate that invests in these regions and harnesses their performance for private clients in a risk-controlled manner.

Developed world economic growth and financial strength is deteriorating relative to emerging markets. The emerging economies of Latin America, Eastern Europe and Asia are proving highly attractive to growing numbers of investors. In spite of the uncertainties that come with rapid social and economic development, these regions impress by virtue of their above-average growth figures and their favorable prospects for the future.

As you can see in the chart below, the equity markets in these regions have already outperformed the developed markets significantly over the past. This is not a fad, but a long-term trend. It is still possible to get in relatively early and ride the growth curve over the next 10 years.

Diversified Investment in Growth Markets

Our Focus LEA mandate takes into account your desire to share in the above-average

growth potential of the LEA markets while at the same time achieving a suitable degree of diversification. The goal of Focus LEA is to offer you an investment that combines extraordinary potential returns with a broad range of investment vehicles. With Focus LEA you do not invest directly in equities or bonds, but indirectly via investment funds and alternative instruments.

With a minimum investment of 250,000 dollars, Focus LEA enables you to benefit directly from the expertise of our finance specialists. Our well-established and clearly structured processes are geared to identifying favorable investment opportunities involving funds and alternative instruments within your asset management parameters. The investment strategy for your mandate is constantly reviewed and adjusted by our strategy experts and economists, enabling us to promptly and flexibly profit from market developments.

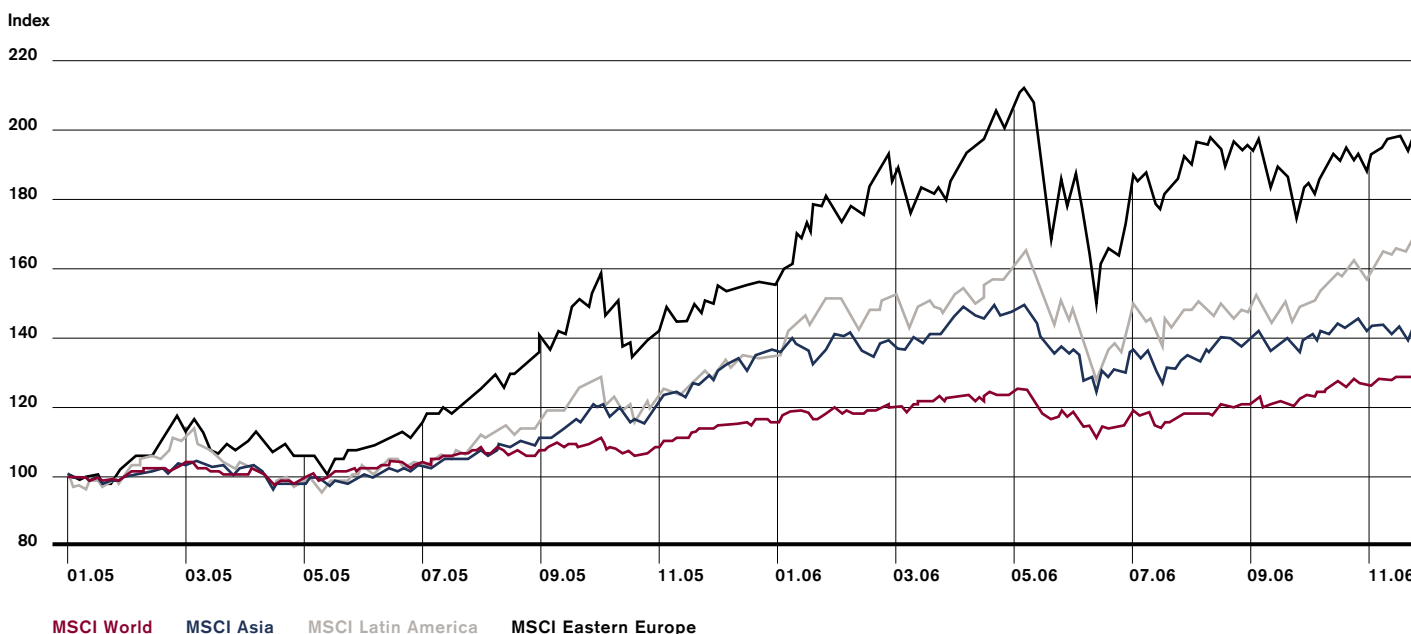
Enjoy the Benefits of Focus LEA Now

Let Credit Suisse's experts help you with your asset management strategy. Your personal advisor will be happy to give you detailed information on how Focus LEA can help to optimize your personal investment prospects. <

A wide selection of investment solutions for every need can be found at:
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LEA Equities Versus Developed Markets

LEA equities markets have outpaced the developed markets over the past couple of years, but they have also shown greater fluctuation. Source: Bloomberg



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Future Generation

Text: Hubert Lienhard, Discretionary Mandates

Imagine being able to give your money, like the endowment funds of American universities, to a group of highly experienced and successful financial professionals, whose explicit goal it is to manage your assets in a way that is independent of market conditions and generates attractive long-term returns in a risk-controlled manner. This is Future Generation.

Independent of Market Conditions

The Future Generation concept is absolute return oriented. What does this mean? Future Generation does not have a benchmark, which in some way reflects the positions in the portfolio. Instead, the asset managers have a specific target return (in this case LIBOR +300 bps, that is, they want to beat the LIBOR rate in the respective currency by 3 percent and determine a definite range of risk that would be acceptable. These parameters remain constant regardless of market conditions. It is the goal of Future Generation to achieve its absolute return whether equities rally or crash, and whether bond prices rise or fall.

Generates Attractive Long-Term Returns

The Future Generation target return is LIBOR +300 bps, or 3 percent above the rate in each currency that is usually thought to be close to risk free. Over the past couple of

years this would, on average, have worked out to about 3.9 percent for Swiss francs, 5.4 percent for euros and 7.1 percent for dollars.

Future Generation invests in funds and other collective vehicles and in all asset classes including alternative investments. Additionally, by pooling some of the investor's assets into investment vehicles that were created specially for exclusive use in the Future Generation concept, the portfolio managers can gain access to very exclusive and desirable fund managers whose funds normally remain closed for most investors.

Risk Control Is Key

Risk control and monitoring is an important component of the Future Generation concept. Next to the construction of the portfolio itself, which strives to minimize risk at the given target return, the actual investments are collective instruments chosen

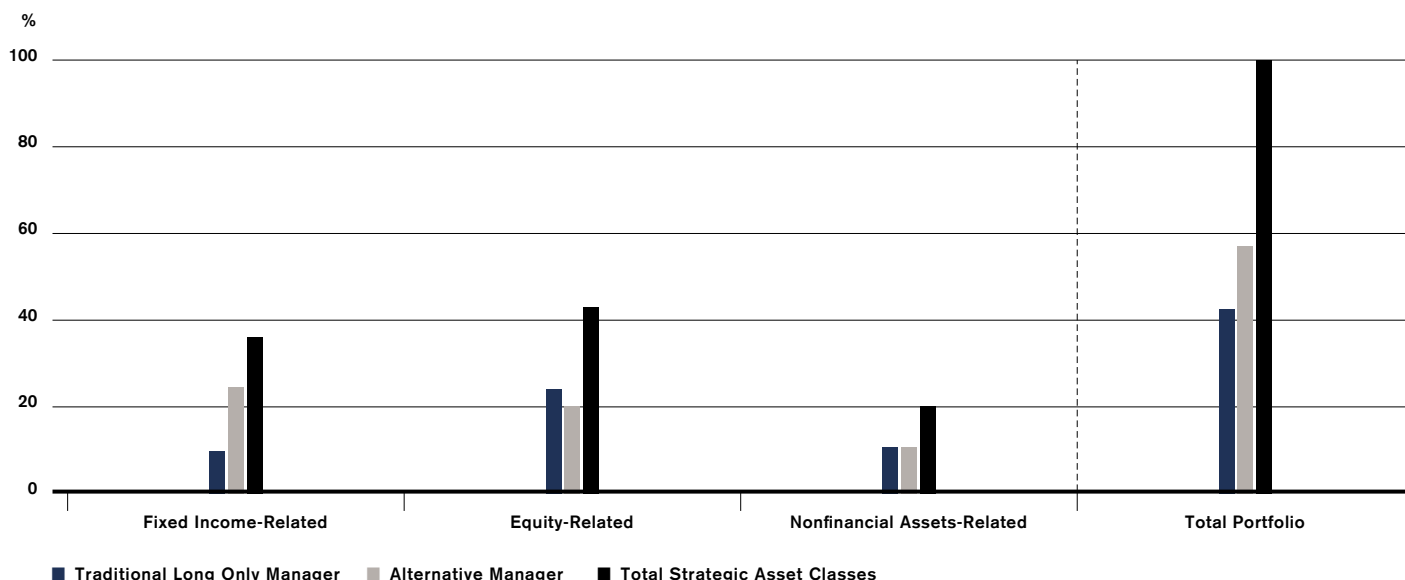
according to the best-manager approach. This means any vehicle bought into Future Generation has undergone rigorous testing in many criteria, and continues to be reviewed once it's in. This results in a minimal shortfall risk over any two-year period.

The Future Generation concept is available as a discretionary mandate in Swiss francs, euros and dollars starting at a minimum investment of 250,000 Swiss francs or equivalent. It is also available as a certificate in Swiss francs and euros, with a minimum of 1,000 in the respective currency. <

A wide selection of investment solutions for every need can be found at: www.credit-suisse.com/portfoliomanagement. We will be happy to advise you.

Asset Allocation Future Generation

In the Future Generation concept, the three strategic asset classes (fixed income, equities and alternatives) are incorporated using traditional and alternative managers. Source: Credit Suisse



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“A Brand Is Like a Living Creature That Changes and Evolves”

Interview: Michèle Bodmer

Jochen Zeitz is a man with drive. He takes on as many challenges in his free time – what little there is – as he does in business. The pilot and marathoner took on his biggest quest in 1993 at age 30 when he was elevated to chief executive officer of Puma, a company that was bankrupt. Back then, the wild cat was hibernating, today its jaws are firmly locked around the global marketplace.

Bulletin: What was the state of the brand when you took over in 1993?

Jochen Zeitz: It had lost its value even though it was well known. It had been hibernating for a very long time, so people forgot what it was about. That's history now.

At that point, was reviving the brand the biggest issue you were faced with?

We couldn't really focus on brand value at first because the company needed to be completely restructured and engineered as it was close to bankruptcy. After eight years of consecutive losses, we needed to create positive cash flow and generate a positive earnings stream. Parallel to that, we tried to eliminate everything that was negative for the brand, such as its low-price positioning, the fact that it was sold in undesirable distribution channels, and that it was marketed with the wrong tools from an endorsement and advertising point of view.

How long did that take?

After six months we were profitable again, followed by four years of record earnings. During those four years another challenge

was reestablishing our credibility in the financial community. That was quite difficult. To do that, we also had to restore the balance sheet from minus 45 percent equity to positive 55 percent, get rid of all our debt and just put the company on sound financial footing. We had to be competitive.

Six months is a remarkable turnaround, not to mention the following four years.

Can you go into more detail about what you changed first?

We just turned over every stone in the company. In order to become competitive again, we outsourced the entire production, mainly to Asia. To raise desirability we increased the average price point of our products and virtualized the development set-up. A staff cut by over 30 percent was also necessary. Additionally, we internationalized the whole set-up and closed unprofitable subsidiaries. In other words, we went the whole nine yards to turn Puma around.

Those were the weakest points of the company when you took over. What were the strongest?

The brand and the logo. The animal that stands behind the word Puma and the potential power of the logo were tremendous assets that I strongly believed in. They were what made me join Puma in the first place.

Although the Puma logo as it is today was designed in the '70s, you never hesitated to keep it?

That's right. I never seriously considered changing the logo. We kept what is the most valuable to our brand. We believed that the Puma logo had incredible potential and a name that is understood globally. The logo just needed a new story built around it.

What was that new story?

Puma had a successful history in sport and that heritage was an enormous asset. We decided to reposition Puma as a brand that mixes the influences of sport, lifestyle and fashion to increase its desirability.

Did you immediately know that was the formula you wanted to pursue?

We first needed to fully understand the Puma brand in order to decide what its potential could be for each of our five- >



Jochen Zeitz broke a four-generation family tradition of studying medicine to attend the European Business School, where he graduated in 1986 with a degree in international marketing and finance. His first job in marketing was with Colgate-Palmolive in New York and Hamburg. In 1990, he joined Puma as business manager of marketing for footwear and, just a year later, was made head of marketing. Two years later, at the age of 30, he became the youngest chairman and CEO in German history to head a company on the German Stock Exchange. Six months into his first year as CEO, the company delivered its first profitable performance since 1986. Today, Puma is one of the highest ranking athletic apparel companies in the world.

year phases. This was not something that could be figured out within a few months. A brand is like a living creature, it changes and evolves. After managing the financial turnaround we decided to reposition the brand based on new values. Coming up with those values and implementing them took some time and it created the need for a revolutionary mind-set within the company. A lot of people internally and externally felt that Puma was solely about performance and sport. To transform Puma into a real sport lifestyle brand was not accomplished over night. First, we tested this concept in one category. Once that was proven successful, we took sport lifestyle across the company and made it our brand positioning.

What was your inspiration for focusing on lifestyle?

Consumers were looking for a less formal way of dressing and the macro trend was that people were pursuing healthier lifestyles. Doing sports was just on the move and we believed that people like to portray their individuality through an individual dressing style. As a company based in sport, we were able to bring fashion into the equation and provide products that combined design, fashion and functionality that appealed to athletes and to individuals who just wanted to wear comfortable products that are stylish.

How big of a role did innovating product design play?

The company in 1993 was very manufacturing-driven with a primary focus on functionality. We changed that mentality dramatically, making sure that Puma, although it had its roots in sport, became meaningful and desirable to today's consumers and their changing taste. Innovative designs played a very important role in that, because it was our opportunity to differentiate ourselves from other companies that had more money to spend overall.

When putting more of the focus on design, was there a risk that people might believe that performance was sacrificed?

I wouldn't say that. The consumer never had a problem with the change of focus, but the investment community, retailers and even our competitors did. They didn't think we could do both. When you talk about design in our business, you need to start talking about fashion and lifestyle and those were words that were not in the sporting goods industry's vocabulary until we proved the formula of sport lifestyle we had created for

Puma to be successful. We believed that we needed to completely revolutionize our way of thinking to create value.

To start, you brought in two completely different designers, the very established Jil Sander and a skateboarder.

We decided that the Puma animal stands for power and sport, but also for elegance and individuality. That meant that there were several consumer groups that we could target. At the time, sport was defined in a very conservative and traditional manner. Our definition of sport was living an active lifestyle. Others considered skateboarding as just an activity, but we said it was a sport. Skateboarding was also a lifestyle phenomenon with untapped potential, so we created skateboarding shoes by revitalizing shoes from the '70s and the '60s in order to cater to the original look and then combined old styles with contemporary design elements. The Jil Sander cooperation successfully supported our goal to generate credibility with the more fashionable consumer by merging sport and fashion in what was then an unheard-of approach.

What exactly led you to skateboarding?

The person who at the time was in charge of our sport lifestyle category happened to be a skater. Today, Antonio Bertone is our global head of brand management.

How old was he when he came on?

He was 22.

So, you not only restructured the company, you rejuvenated it with many younger employees.

In the early '90s, age was an issue because Puma had a very old-fashioned mind-set, one we just didn't want to embody any longer. Therefore, the median age level had to drop dramatically. Now that we have created a clear mind-set, we would never say that age matters. We have established a corporate culture, and anybody who joins the team, regardless of age, must fit into that culture. In general, people today are a lot more open-minded than 15 years ago.

You became the CEO for Puma at age 30. Was it difficult to gain acceptance?

When I became CEO, I didn't care much about my age, although the press and the public made a big deal about it. I'm sure there were a lot of people in and outside of the company who asked how a 30-year-old could take on that much responsibility. This was absolutely unheard of at the time in Germany, where you had to be at least 50 to be considered for a board. Looking back,

my age did help me because I wasn't stuck on the way things were. I was able to see things more freely – without the baggage that age sometimes brings.

Did Puma's German roots make it easier to reestablish the brand in Europe than in the US where Nike is the leader?

The brand had to deal with a lot of negative baggage in Europe. That wasn't the case in the US because the brand had completely disappeared. Building on nothing is hard, but building something surrounded with negativity is also very difficult. We had to establish different goals in each region, but ultimately, I would say it was as challenging in Europe as it was in the US.

How important is the Asian market to the brand?

Very important. Asia is a very influential and growing market. In fact, Puma has always had a very strong presence in Asia, in particular in Japan. In the early '90s it was still a very strong market for us because our licensees had decided to part from the mother brand and avoided most of the mistakes it had made by running the business independently. They managed rather successfully, so we've been well positioned there. Trendsetting is generally very important for the Asian consumer and that has helped us over

the years to expand our overall presence in the Asian markets.

Are you marketing the brand differently in Asia than in Europe or the US?

In principal, we have developed a global approach with some local adaptations.

Has the changing consumer spending in Asia had an influence on the brand?

Asia is a very diverse region and we can't look at it as a whole. Japan and China for example are at a completely different stage economically. The Japanese consumer has a long history with luxury goods and with sports goods, while the Chinese consumer is just building purchasing power in order to get in touch with those types of businesses and products.

And how does India factor in?

It's an important growing market for us – the same as China. That is why we set up a subsidiary in early 2006 as a long-term, high-potential market for Puma.

Asia holds a lot of potential for Puma, but does it also present threats, such as pirating?

Of course, counterfeit products also affect Puma, but we have built strong protection against this development and I think global legislation and the reinforcement are getting better by the month. The fact is, when you

are a desirable brand, you will always have to face that challenge.

What other potential threats are there to the brand today?

Companies are always challenged by the future. Our business is product-driven, so you are only as good as the last product line that you launched. Our biggest threat is not being able to keep up with your own success. That's why we have to innovate every day, every month and every season.

Innovation is one of your corporate values. How do those corporate values influence the brand?

If you want to be what we are, you have to have an open attitude toward innovation and to everything you do. You need to live what you want your brand to represent. Therefore, I think our corporate values are very important. The values and the culture that you establish ultimately have an influence on the brand and vice versa.

How do you define your corporate culture?

It is a culture defined by teamwork, openness, self-belief, entrepreneurship, no politics and no bullshit.

Is that your personal management motto? "No bullshit"?

(laughs) I guess it starts at the top. <



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“This Brand Says Everything About Me!”

Displaying brand names has become a means of international, nonverbal communication. Brands reflect people’s attitude to life, their social status, and their sense of belonging to a particular group. Virtually no other product embodies this form of self-expression better than the car. For many people, the car is a status symbol.

Text: Markus Mächler

Be it on a car, a leather bag, sunglasses, jeans or a pair of shoes, a brand name always represents something special because the production run will be limited in order to enhance exclusivity. A study from the University of Berne highlighted the “cult brands” that are particularly prevalent in the clothing, fashion, consumer goods, technology, automobile and motorbike sectors. A cult brand differs from a “regular” brand in that it represents a specific attitude to life or culture. A brand’s image needs to be created, fostered and nurtured in a systematic way. With this in mind, it would come as no surprise if the world leader in the manufacture of luxury goods, LVMH (Moët Hennessy Louis Vuitton) were to add an auto brand to its already extensive product portfolio. One such option may be Aston Martin – a brand that arouses emotion, and whose client base is so exclusive that price is of only minor importance.

There Is No Single Recipe for Success

There are often regional differences in preferences for individual brands. In the US, for instance, Toyota’s upscale Lexus brand enjoys similar status to Mercedes or BMW. But in Europe, the brand is not recognized in the same way as in America despite the extensive efforts made over the years. This has nothing to do with the qual-

ity or technology involved: Lexus proved long ago that it is as good or even better than its rivals.

A successful brand can prove resistant to economic cycles. Even in economically more challenging times, those who can afford to will still wish to show off their financial status. Branded products also tend to exhibit higher margins, which helps boost the quality of corporate earnings. For that reason, investors are willing to pay a premium for the manufacturers of leading brands.

What lies under the skin of brand is sometimes viewed as secondary, provided quality and performance are up there with the rest of the competition in the luxury segment. Porsche has proved this since the mid-1990s with its Boxster. Fewer than 1 percent of the 35,000 or so units of this entry-level model shifted by Porsche each year are actually made by the sports car manufacturer itself. The successful model rolls off the production line at Valmet in Finland, with only a few components – primarily the engines – still being made in Germany. That doesn’t trouble its customers too much, because they’re using their hard-earned cash to buy a status symbol – and at the same time getting a car thrown in for free.

How Is Brand Value Calculated?

The question of how the value of a brand can be calculated remains a conundrum. Numerous studies accord a high, double-digit-billion value to brand names such as the global leaders Coca-Cola, Microsoft and IBM. In a lot of instances, the cost of marketing is aggregated and added to the total – though this says nothing about the true success of a brand.

We believe the value of a brand is based on the capitalized margin differential that can be generated on a product with identical quality under different names. A good example of this would be Apple’s iPod, which has developed into a lifestyle product and for which higher selling prices can be achieved than for devices offering identical functionality. A counter-example is Sony, which at one time achieved major success in the same segment with its Walkman, but failed to nurture the brand and is now realizing this to its cost.

The value of a brand is particularly acute in the textile and sports sector. Here it is crucial to focus on a specific segment. Adidas, for instance, has decided to concentrate on team sports, while Puma no longer limits itself to sports articles and has successfully moved in a lifestyle direction (see interview on page 35). This transition isn’t easy for most brands. In fact, when a name is identified with a specific segment, it becomes near impossible to change this image. For example, the restaurant chain McDonald’s has been struggling to shake off its junk-food image for years. Whether the group

Most Valuable Global Brands

Source: Interbrand

Coca-Cola (USA)	USD 67.5 bn
Microsoft (USA)	USD 59.9 bn
IBM (USA)	USD 53.4 bn
General Electric (USA)	USD 50.0 bn
Intel (USA)	USD 35.6 bn
Nokia (Finland)	USD 26.5 bn
Disney (USA)	USD 26.4 bn
McDonald’s (USA)	USD 26.0 bn
Toyota (Japan)	USD 24.8 bn
Marlboro (USA)	USD 21.1 bn



Just about everyone will recognize a Louis Vuitton bag. Even the red leather skirt pictured above is a creation from the same maker. As the world leader in luxury goods, LVMH Moët Hennessy possesses a portfolio of 50 prestigious brands. It is actively considering expanding its portfolio with an auto brand. Not many car brands would fit into the exclusive mix that LVMH offers. However, Aston Martin has what it takes to fit the mold.

will ever succeed in being perceived by the population at large as a provider of healthy food is a moot question.

Copycats Pose a Risk for Big Brands

A growing problem for manufacturers of brand names is the increasing number of copies that encroach on the market. And this trend is not confined to the automobile industry. In terms of replacement parts in particular, the original is now more or less indistinguishable from copies. The drawback, however, is that guarantees or insurance policies will not cover costs if nonauthorized parts are used. It's an industry that knows no limits: Images of a copycat BMW X5 recently popped up in China, for instance. Anyone buying this almost identical-looking vehicle for a price equivalent to 14,000 US dollars can obtain a set of BMW emblems from the dealer. In response to international pressure, China is now taking action against these counterfeiters. However, the penalties are not nearly enough to offset the costs to the injured parties, and also have no deterrent effect.

There are still differences in quality between the original and the copy, since the counterfeiters often lack the right production expertise – a situation that can nevertheless quickly change. It would then become more difficult for consumers to spot the difference between originals and copies. The industry is preparing itself for this eventuality. In the foreseeable future, every component is likely to come equipped with an RFID chip that gives precise information about the origin and production of an individual product. <

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In 1923, when inflation in Germany was at its peak, workers collected their daily wages in a rucksack or wheelbarrow. People used the extremely devalued paper money for fuel, because wood was far more expensive. Sometimes children even used bundles of banknotes as blocks.

When an Egg Costs 150 Billion

Text: Andreas Schiendorfer

A kilogram of bacon cost 20 trillion dinars in Serbia in 1993. In 1946, Hungary released the Szazmilljo B.-pengő (100,000,000,000,000,000,000), the banknote with the most zeros in history, and in Germany, an egg cost up to 150 billion marks in 1923. These are just a few examples of the history of hyperinflation, a condition in which prices increase rapidly as a currency loses its value. There are many modern-day cases as well.

The combined fortunes of all the people on the Forbes list of The World's Richest People, led by Bill Gates, total 2.2 trillion dollars. I myself have recently become a trillionaire, a man with 12 zeros to his name. No, I didn't win the lottery. What I did was buy an 80-year-old banknote at online auctioneer Ricardo.

When the Reichsbahn issued this bill on November 2, 1923, the price of a single egg had reached 150 billion. The bill reads: "Eisenbahn-Hauptkasse Frankfurt a.M. pledges to pay a trillion marks to the deliverer of this note as soon as legal tender becomes available. This voucher will be accepted by all our cashiers' offices." Two weeks later a currency reform was effected to combat hyperinflation in Germany. The Rentenmark was introduced, followed by the Reichsmark (Goldmark) in October 1924. Any assets people may still have had were destroyed.

"My" trillion mark note was only worth a single (Renten-)mark; there were 4.2 marks to a US dollar. Even though they are not particularly valuable, these souvenirs of a sad past have now become collector's items. There are still so many of most of them that they aren't considered a rarity, even though people ended up using the banknotes to fire their stoves because they were worth less than wood!

Around 3,000 people were employed in producing approximately 10 billion government-issued inflation notes. Thirty factories made the paper, and toward the end 133 other companies with 1,783 printing machines were working day and night for the Reichsdruckerei, the German mint. All in all, the Reichsbank issued 524 quintillion marks (a quintillion has 18 zeros). Added to this were another 700 quintillion marks that 5,800 towns, communities and companies had printed to serve as their own emergency currency.

Financing Government by Printing More Money

The whole thing started back in 1914. As World War I began to look more and more likely, the population withdrew gold coins with a "real" value of 100 million marks from the Reichsbank. In response, the bank stopped paying gold for banknotes and secondary coins (Scheidemünzen). The government decided to finance itself by

printing more money. By the end of the war, the volume of money in circulation had increased fivefold, while the proportion of coins had decreased to half a percent. The vast costs of the war, 164 billion marks, were only marginally covered by war levies and tax increases. Instead, various forms of debt paper were used. The idea was that once Germany had won the war, the debts would be paid back by the losers...

As we know, things didn't turn out that way, and in April 1921 the Allies demanded reparations of 132 billion Goldmarks, to be paid in dollars, sterling or francs. An impossible task for the government of the young Weimar Republic: Debt servicing costs alone amounted to 126 percent of government revenues.

Church Collections in Laundry Baskets

Despite all this, inflation was kept at bay for quite some time. When the war began in 1914, a dollar was worth 4.2 marks. It took five and a half years for the dollar exchange rate to increase tenfold, and another two and a half years for that to happen again. After the murder of foreign minister Walther Rathenau on June 24, 1922, all the dikes finally burst, especially as the Allies were demanding that reparations be paid in kind and the French occupied the rest of the Ruhr area in early 1923 to be able to better enforce their demands. It took only eight days for the dollar exchange rate to increase tenfold from 440 million to 5.06 billion marks in October 1923!

No wonder wages were being paid on a daily basis, and everyone was trying to turn their cash into tangible assets as quickly as possible. Restaurant bills could double before diners finished their meal, and ministers passed laundry baskets around for the collection in their church.

The Roaring '20s may have followed on the heels of the currency reform, but it was 1928 before average incomes regained their levels of 1913. The global economic crisis of 1929 destroyed with one blow all the gains that had been so laboriously achieved, laying the foundations for a terrible totalitarian regime.

In Germany inflation was so severe that people often forget that other countries also suffered tremendously from inflation, among >

Hyperinflation is a form of inflation in which prices skyrocket; as a rule of thumb, by at least 50 percent a month. It happens when the economic causes of inflation are intensified – with grave consequences – by serious disturbances of the economy as a result of wars, civil war or social upheaval.

them Austria, Hungary and especially Poland and Russia. Even the victorious Allies – the US, UK and France – at times had to struggle with inflation rates of 20 percent.

The highest denomination of a note during Germany's period of hyperinflation was 100 trillion (100,000,000,000,000) marks. The tragic world record was held by the pengő, the Hungarian currency created during the 1920s currency reform, in circulation between 1927 and 1946. When it was first issued, 1 pengő was worth 12,500 crowns, and 3,800 pengős were worth a kilo of gold (although they could not actually be exchanged for the precious metal). After World War II Hungarians suffered even more extreme hyperinflation. On August 1, 1946, when the currency was reformed, 1 forint came to replace no fewer than 400 octillion pengős (a four followed by 29 zeros). The largest denomination banknote was 1 billion B.-pengős (a one followed by 21 zeros).

The word inflation comes from the Latin and means just that, blowing up. So it's no surprise that the old Romans were familiar with the phenomenon of constant price increases and runaway declines in the value of money. It's true that Caesar was the richest man in history, according to the latest calculations. But around 214 A.D. the emperor Antonius (Caracalla) issued a double denarius (Antonianus) because of Imperial Rome's huge debts. Its silver content shrunk continuously until it finally ended up as a copper coin with only the thinnest layer of silver plate. From the end of the third century onward, the empire was virtually flooded with coins of low quality. They may have had fancy names like gold Solidus and silver Siliqua, but they were in reality no more than silver-plated copper. Because the political situation was so unstable, many people buried huge numbers of coins to keep them out of the hands of plundering "barbarians." This is why we keep finding hoards of coins today, although they are of questionable value.

France Had Two Waves of Hyperinflation

China introduced paper money in around 650, and in 1166 the empire suffered serious inflation. But in 1275, Marco Polo was repeatedly enthusing that "everybody likes to carry a paper bill, because wherever people go in the lands of the great Khan they can use it for buying and selling as if it were pure gold." Despite all this, it took until the end of the 17th century for a European country – Sweden – to start issuing paper money. Scotland would be next. In

1705, John Law suggested founding a national bank whose banknotes would be backed only by land rather than by physical gold. The Scots were hesitant, but not the French regent Philippe of Orléans, who had inherited massive debts from the Sun King. The Banque Générale issued vast quantities of notes, backed up by the (supposed) wealth of France's colonies. The shares of the Company of the Indies, founded in this connection, skyrocketed, and the money in circulation reached the incredible sum of 3 billion livres. The bubble burst in 1721, when the royal bank stopped its payments and the majority of the population lost their fortunes. Law emigrated to Italy.

Sixty years later, memories of the loss had faded and the need for money had grown again. In December 1789, the revolutionary National Assembly decided to confiscate church assets and use them to pay the government debt. Since it would have been too much to expect them to be able to sell their property holdings in such a short time, creditors were given "assignat" (assignment) notes, which started out as interest-bearing government bonds. But by the time the revolution was a mere one year old, the effect of this economic boost had evaporated and interest was no longer being paid. Those who protested put their lives at risk. All the same, in April 1795, when the value of the assignats had fallen to 8 percent, more and more tradesmen were refusing to accept paper money. Workers, who received only assignats as wages, were growing increasingly poor. The following year the assignats were replaced at an exchange rate of 30:1 by "mandats territoriaux" limited to 2.4 billion. But they quickly collapsed as well, and on May 27, 1797, all assignats were declared valueless.

There Are Also Plenty of Modern Examples

Fast-forward: On May 12, 2006, the government of Zimbabwe declared inflation had reached a record level of 1042.9 percent in April. And let's not forget how the Argentinians suffered for decades under a combination of military dictatorship and hyperinflation. While at the beginning of 1935 you could get 251.1 billion dollars for a billion moneda nacional, at the beginning of 2005 you would have been able to get only three US cents if the same currency had still been in circulation. Inflation was particularly bad in 1989, at 4,900 percent. Introducing the peso in 1991 did not resolve the crisis; only when the unnatural dollar parity was abandoned in 2002 did the situation start to slowly improve.

Bosnia-Herzegovina also suffered under hyperinflation during and after the bloody conflicts in Yugoslavia, and Serbia-Montenegro was even harder hit. Between 1989 and 1994, they had to introduce various currency reforms. In 1993 alone, inflation came to more than a billion percent. In December the cost of living was already 2,839 times higher than the month before, and more than six billion times higher than at the start of the year.

More examples of runaway inflation in recent times include Bolivia (1985), Nicaragua (1988), Poland (1989), Brazil (1989–90), Peru (1990), Zaire (1990–94), Russia (1990), Georgia (1992–94) and Angola (1994–97).

For years now, there have also been many doomsayers prophesying a murky future for the US in which the economy would collapse under hyperinflation. There is little chance of that happening. The US has learned its lessons and has a good grip on monetary mechanisms. Anybody buying a trillion dollar note these days has the TV show "The Simpsons" to thank. <

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