White Lighthouse
Investment Management

Newsletter | June 30, 2016

Dear Clients,

For those of you in the Northern Hemisphere (About 95% of you) we hope you have all had a fantastic start to your summer. There is a lot going on in the world between The Brexit vote, the US Presidential Election, the Copa America, UEFA's Euro 2016, the Rio Olympics, or perhaps better, just taking some time to relax with family and do a little traveling? In this newsletter we talk a lot about the Brexit, investing and what this may mean to your portfolio. A lot of things here are not new, some are; and as always we hope you find the newsletter informative and useful. If anything in here sparks you to ask a question, please don't hesitate to get in contact with any of us, Jonathan, Marina or John. Enjoy the read and apologies as it was much easier to write a long newsletter than a concise one.

Brexit: What does it mean for you?

It has been about one week since the British population have voted to leave the European Union, after over 4 decades of membership and I think no-one is more surprised that the British people themselves. To say it was shocking is an understatement: The world's stock markets (through sentiment), the Foreign Exchange Markets (through the Pound's relative strength), the London Bookmakers through their odds, as well as the international and British Media and the pollsters all were relatively certain that the British people would vote for stability and remaining in the EU, but alas by a margin of about 52% to 48% the British people voted to leave.

I have read and listened to so much news on the subject but speaking with many friends and clients who are British has been even more telling. The vote seems to be tearing at the fabric and definition of what it means to be British; causing inter-generational spats in families, arguments among colleagues and friends to stop speaking with each other. The fact of the matter is that this has significantly increased the "uncertainty" for individuals, companies and politicians and while many are fearing the worst, the true impact will take many years to be felt; it will be only the historians in a decade or more who will be able to see this with a clearer perspective.

In the short term, we will see the replacement of the two main party leaders, David Cameron of the Tory (Conservative) party and Jeremy Corbyn of the Labor party. The leaders of these parties are not elected by the people of the United Kingdom but rather by the party leaders. It appears likely that Theresa May, the current Home Secretary is somewhat more likely than Boris Johnson – (former Mayor of London and also former American citizen and after writing the newsletter we see his already withdrawn) to get the Tory leadership though other candidates are possible as well. As an outsider, what appears most difficult is for an unelected prime minister to invoke Article 50 to leave the EU, from a close but non-binding referendum whereby the results could mean the exit of the UK from the EU, the break-up of the UK itself (as Scotland and Northern Ireland are making a lot of noise about leaving the UK and remaining in the EU) and a rather uncertain and risky (for better or worse) economic future; especially for the city of London. I have to imagine that the next Prime Minister would be compelled to call a snap election and that leaving the EU (or not) would be one main plank in the party's political stance, and only then would the Prime Minister feel as though they would have the mandate to lead the UK down the path to exit.

This drama will unfold slowly with many hiccups along the way over the coming months and years. The EU politicians all seem rather upset about the vote itself and are clamoring to shout at the UK to move quickly when it seems clear that things will not. Ironically, if the UK leaves the EU, English it appears may also lose its status as an official EU language since Britain is the only current EU member to have nominated English as an official EU language.

It is too early to speculate with any precision the macro economic impact of last week's vote. The EU may actually end up as a stronger body with or without the UK; economic and immigration policies will certainly be impacted. The UK economy, which is already quite independent of the EU with their own currency, will remain a key trading partner with Germany and other EU states; the details to be worked out over years not months. The "Norway" or the "Swiss" model will likely be the basis of a framework and because much of the EU is really a trading or customs union; practical solutions will be found to keep trade going. The pound has weakened considerably and may weaken more in the short term, but outside of the EU, the Pound will likely strengthen after a few years as the UK has the tendency towards sound monetary and fiscal policy and may become more competitive with the Euro.

Many companies however will reconsider the location of their global offices and manufacturing in the UK and so many jobs may shift out of England; this could be recessionary for the UK but a benefit to Frankfort, Paris, Dublin, Amsterdam and other major cities for services and to several countries for the relocation of manufacturing plants. On an individual level; many UK citizens who are living in the EU, planning to study abroad or live part time in the EU may feel compelled to accelerate or change their plans; lives will be impacted.

What should we, as individual global investors do, if anything, with respect to last week's vote? The first advice is, as the late and great British Comedian Douglas Adams would advise, DON'T PANIC. Good investment strategy anticipates market volatility; strategy should not be made in the middle of a storm.

For most of us, the results of the vote will be “mostly harmless”. A vacation to England if you have any other currency than Sterling looks as though it has gone on sale, as does property in the UK if you were thinking of a second home there or moving back “home” for several of our clients. In the next section I will review some more of our long term, repetitive advice with respect to stock market investing. For most of our clients who have been investing for decades, nothing here will be new, though sometimes the reminders are helpful in times of change.

Investment Portfolio Management – Strategy, Impacts on Your Portfolio & Decision Making

With well over 150 individuals and families that we advise, we expect to hear from at least a few clients every time there is a major world event or a rapid decline in stock market valuations; the Brexit vote was no different. We had several clients who wanted to invest (relatively small based on their portfolio sizes) more cash. We don’t advocate market timing as a key element to strategy, but we are not at all against adding equities after a significant decline as long as the overall allocation is appropriate and the investment horizon is counted over years or decades. We had a couple of clients mildly concerned who were looking for assurance and one individual who was rather panicked.

We don’t recommend indiscriminant selling or a flight to safety in the middle of a major event; as has happened so many times in the past, some of the biggest up days in the stock markets come right after some of the biggest down days. The US markets have, like the Friday after the Brexit Vote, gone down by about 3% in one day almost 50 times in ~the past decade (A statistic I heard on Bloomberg this week). The chart below shows us what often happens after a globally “shocking” event. These are events that in the end have very little impact on Global GDP but may accelerate or reverse a market or economy that was trending in one direction.

SHOCKS TO THE SYSTEM: Market Declines and Recoveries Since WWII

	Closing Levels			Bottom			Days to
Market Shock Events	Prior Day	Next Day	% Chg.	Level	Days	% Chg.	Recover
Taper Tantrum: 5/22/13	1669.16	1655.35	(0.8)	1573.09	33	(5.8)	17
U.S. Debt Downgrade: 8/5/11	1199.38	1119.46	(6.7)	1099.33	90	(8.3)	144
Japanese Tsunami: 3/11/11	1304.28	1296.39	(0.6)	1256.88	3	(3.6)	6
Flash Crash: 5/6/10	1165.87	1128.15	(3.2)	1110.88	1	(4.7)	4
Lehman Bankruptcy: 9/15/08	1251.70	1192.7	(4.7)	676.53	121	(46.0)	285
Madrid Bombing: 3/10/04	1140.58	1123.89	(1.5)	1093.95	10	(4.1)	18
U.S. Terrorist Attacks: 9/11/01	1092.54	1038.77	(4.9)	965.80	5	(11.6)	20
Collapse of LTCM: 9/23/98	1066.09	1042.72	(2.2)	959.44	11	(10.0)	9
Iraq's Invasion of Kuwait: 8/2/90	355.52	351.48	(1.1)	295.46	49	(16.9)	82
Crash of 1987: 10/19/87	282.70	224.84	(20.5)	223.92	33	(20.8)	223
Reagan Shooting: 3/30/81	136.30	134.7	(1.2)	134.70	1	(1.2)	4
OPEC Oil Embargo: 10/17/73	111.30	110.05	(1.1)	109.16	6	(1.9)	10
Kennedy Assassination: 11/22/63	71.62	69.61	(2.8)	69.61	1	(2.8)	2
Cuban Missile Crisis: 10/22/62	54.96	53.49	(2.7)	53.49	1	(2.7)	5
Medians			(2.4)		8	(5.2)	14

Source: S&P Capital IQ. Past performance is no guarantee of future results.

The chart above is not at all about recessions or economic slowdowns; though shocks sometimes occur during those events.

With respect to the Brexit, we cannot yet add it to the chart completely, but at the time of finishing this newsletter we know the following: US and Global Stock markets as well as the pound had a run-up until the evening of the Brexit vote; despite a 600-point drop in the DJIA the next day, the US stock markets ended the week down only 1.3%. While the Friday and Monday following the vote were big down days in the stock markets, the next three days were up and erased more than half of the losses; though several sectors (e.g. European banks) remain down, perhaps rightfully so.

In several of the past newsletters we have written that we should always be prepared for a 25% drop in the stock market. We know that 10% drops happen on average at least once a year and that 20% or greater drops happen on average every 3 years or so. Interestingly, [statistics from this article on CNBC] if we look at the past ~70 years, since the creation of the S&P 500 Index in the 1950s, there have been over 15,000 trading days and 6.6% of those days the Index reached a new high. Only 19 times have investors had to wait more than 100 trading days for a new high; with the longest period being over 5 years starting in January 1973. We are currently at over 270 trading days, so in the top 13 time periods; though this is no indication at all of how long we may have to wait to reach a new high. It could be days, months or years away…

So now, let's review a few of the fundamentals that all seasoned value investors know through experience and reading. There is no return without risk. The return would be above what is considered to be the risk free rate at any time (currently something close to 0%; often estimated as the Fed Funds rate.) Risk is the change in value (up or down) from the current position. So in order to make investment gains, we need to be willing to have a risk of loss.

Depending on whose research is most accurate in predicting the future; something around 75%-90% of the return of an investment portfolio is explained by the asset allocation decision; basically how much to put in Stocks, Bonds, Cash, Metals and the like. Riskier assets fluctuate more in value over time. The remainder of the return can be explained by timing, security selection, manager skill, costs/fees etc.

For all of our clients we do not advocate investing in riskier assets where the cash to buy those assets may be needed in the "short term"; approximately the next 1-2 years. If you can afford to take long term risk, then building a diversified portfolio will help to spread risk across different investment classes. Diversification generally reduces risk of a portfolio for a given level of expected return. As most of you know and realize, we emphasize an approach that uses a lot of passive index funds (that also tend to be inexpensive and tax efficient for US taxpayers) and base each client's strategy on their particular circumstances. This will include cash and income they generate outside the portfolio, other assets outside the portfolio, family composition, age, health, upcoming cash needs and also risk profile.

Despite the fact that we, and most our clients, know that "staying the course" and not selling during times of great volatility tends to be the soundest advice for most clients, this may not be right for some people at some times in their lives. Their reasons may be rational or irrational to a neutral observer but that is not particularly relevant.

If your current portfolio allocation, volatility and your overall outlook are causing you a lot of stress and you think a more conservative approach would be better for you and your family's well-being, we advise you to contact us so that we can take a balanced approach in bringing you to a level of risk where you feel more comfortable. Reducing risk will give you a lower expected return; something that may be appropriate. Exiting risky investments to get a higher return (by thinking you can find a better entry point) has been shown to be a losing proposition for most individual and professional investors. The research out there shows an average long term under-performance of ~2-3% per year for this approach. This does not mean you may not get lucky...or be really good at timing, but as a consistent or periodic strategy, this tends not to work well.

Remember that markets are uncertain and unpredictable. Achieving gains in an investment portfolio require patience, making lots of small decisions well, and avoiding big and costly mistakes. One major thing in our control is the timing of cash flows and making sure we are not in a position where we are compelled to sell in a downturn. If any clients have big upcoming cash needs that are not covered by their income and savings, and will result in a withdrawal from their investments with us, please let us know as soon as possible.

Finally, congratulations to all of you who have taken this latest period of "crisis and uncertainty" in stride. I can guarantee that there will be many more events like this over the coming decades. Sometime in the future we certainly have many other economic and political problems than today to look forward to....inflation and high interest rates come to mind though I have been rather early on this prediction before; there will be sovereign debt crises, currency crises, political crises, terrorism and conflicts. Most of this is just noise and as always my most relaxed clients are the ones who spend little time watching the main stream media. Focus on your health, family, well-being, and doing what you enjoy surrounded by people who you enjoy being with. Money is just a tool; it is not the driver of happiness or a good measure of success.

One of our main services is to help clients make good decisions. We can't predict the future of the market or your individual circumstances but we do our best to help you make rational and well thought out decisions appropriate for your individual circumstances. We may not always agree but we do our best to deliver our advice objectively and professionally and appreciate our many loyal clients, new and old, for the confidence you have placed on our advice.

Is the S&P 500 Over-valued? Does it matter?

I am often asked if I think the stock market is over-valued. Any experienced investor or advisor could rightly answer "I don't know"; regardless of the myriad of statistics that one can look at, such as various price-to-earnings ratios; we can certainly be accurate looking backwards but if I lined up 100 of the most brilliant minds in finance and economics and asked half of the group to make a case for a stock market decline and the other half to make a case for an increase over any future time period, I would likely not be any wiser; there are always good arguments for a change from today's valuation of any asset.

The are many methods to try and determine the value of a given stock (and any basket of stocks such as the S&P500); The dividend discount model, the Net Present Value of future cash flows, using comparables to other companies, book value, comparing historical ratios etc. These methods can help to give you an estimate of company's value today and in the future. However, the further into the future you go, the more likely your estimate is to be off and your assumptions to cause exaggerated values. On any given day, the best way to value a publicly traded company is value at which a buyer is willing to pay you for a given share in that company; after all, having a willing buyer and seller who agree on a price is the key relationship needed in most cases to determine the value of any asset.

As long term investors, we take it on faith that eventually over time, stock prices will rise. After all, the risks we are taking by holding equities instead of cash are meant to be compensated by a higher expected future price. In a growing economy, with some positive level of inflation, history tells us that prices in the future on average will be higher and the longer out in the future, the higher the expected price. In a deflationary environment; this relationship may not hold up. I am not intending to get into whether the world has changed and we are destined to a life of deflation (many of the bears like to explain this as reason to hold only gold and not fiat currencies). The primary driver of economic growth, and company valuation is the consumption of goods and services, and doing so profitably as a company or economy. Population growth and movement up the economic scale to higher levels of consumption drive economic growth; lots of other factors are influential (e.g. speed of money through the economy, interest rates, taxes, trade policy etc.) but consumption is the key driver.

We are in a rather "strange" period of negative interest rates in some parts of the world, some level of deflation and a hangover from the financial crises. Bond yields are measly or negative out to ten years and further in some currencies. In the S&P 500, as of June 29th, the dividend yield is 2.1% and on a 10 year US Treasury Bond is about 1.46%. Which would you rather buy and hold for the next 10 years given the binary choice? 500 Large US Companies that will pay (assuming dividends stay flat) you 2.1% yield per year and you have the risk of any growth or decline in value or a 10-year government bond that will pay you 40% less income and guarantee you your money back (minus the impact of course of any inflation or deflation)? Something is askew. I think the era of cheap money as a monetary policy has just about run its course; and fiscal rather than monetary policy will need to change; in order to encourage growth.

Personally given the binary choice for anyone whose time horizon is greater than 10 years, I believe the S&P500 [Large company stocks in general] offers a better choice from a risk/return standpoint, even at today's price; which is historical price-to-earnings ratios looks to be a bit higher than fair value. In reality, of course, a diversified portfolio focused on the long term, and likely with a considerably higher stock allocation than bonds (adjusting for cash flow needs of course) is the right alternative for many investors; adjusted to their particular circumstances.

When 1 in 10,000 or more odds is just not good enough:

This is a personal anecdote and nothing to do with the stock market, but with his permission, a story that is both sad but a good reminder when making decisions. Two months ago my father, aged 73, went to a well-regarded eye doctor here in Massachusetts for optional laser-eye surgery. This was meant to be the first of two surgeries and his main motivation was to restore better vision so he would not have to use contact lenses. Unfortunately, 36 hours after the surgery, his eye contracted an aggressive infection. The infection was caught early enough to save his eye, but too late to save his vision. After several more visits to the doctor it has been determined that there was too much damage to his retina and he will not regain vision in that eye. My father is handling this far better than I would; and thankfully he can still golf and still drive. My mother and I were able to convince him to replace his old car with one that has a lot more safety features and he will start driving his new car today.

We have talking a lot more since the time of the surgery and besides some occasional discomfort, he is quickly adjusting to having sight in only one eye. We also discussed the odds of this happening; in his case he was the first case for this doctor, who has been doing the surgery successfully for over a decade. Given the odds, he had decided not to do the surgery when he was younger but now he felt it was worth the risk, but unfortunately the result here has turned out rather poorly.

As humans, and anyone who has read Daniel Kahneman "Thinking Fast and Slow" or his disciples work in Behavioral Finance, we are prone to making predictable mistakes when it comes to statistics and estimating the odds of something happening to us. We all rely on probability and statistics to make decisions, almost daily, and most of our choices have rather small consequences.

In a similar way, when people call and ask me what they should do in an adverse market event, I will always advise them of what generally happens in these downturns (that they reverse rather quickly) but that this could be a case where that does not happen and that the "wrong" decision could be to stay the course. Each person and family's circumstances are different and choices on investments or life don't only come down to statistics, but also to emotions and what is right of the individual; these may not all point in the same direction. Making good decisions is not about getting every decision right all the time, but having a good process of how to make decisions in the face of uncertainty, and ultimately having to live with the consequences if things don't turn out how you expect.

FBAR and Tax Return Tips for US Taxpayers – By Marina

With the FBAR [FinCEN 114 – Foreign Bank Account Reporting form] filing deadline behind us, we won't have to worry about bank account balances for the next six months. Yay!

Every year, clients want to know what they can do to minimize FBAR compliance stress next year.

These are a few simple recommendations:

- Download copies of monthly **statements for all accounts during the year, particularly if you are closing accounts or changing banks**. It can be difficult to obtain this information after the account has been closed, especially when you are no longer a client of the financial institution in which the account was held.
- Always keep in mind that **FBAR reporting includes more than just foreign bank accounts**: brokerage accounts, certain life insurance policies, foreign pensions and accounts owned through trusts or corporations may also require reporting.
- The FBAR is independent from the tax return. If you have **children with foreign accounts**, even though they may have no income to report, they may still **have an FBAR filing obligation** that can be easily overlooked. Make sure to check your children's account balances as your prepare the information for your own.
- **Save a copy of your e-filed FBAR** and at least one back up copy for at least six years (although we recommend that you keep them forever). Unlike the IRS**, FinCEN does not have a process for submitters to request copies of previously e-filed forms**, so if you fail to save a copy and you are examined, you are out of luck. Another advantage of keeping copies of your previously filed FBAR is that you can use it as the starting point for your next years' form: you'll only need to update the balance of the accounts you kept, delete the ones you closed the prior year and add the ones you opened during the year. This can save you a lot of time and minimize reporting omissions and errors.
- **Save a copy and back up copy of the FinCEN tracking number** assigned to your FBAR filing. This tracking number is your proof of filing and you must be able to produce it in case of IRS inquiry.
- Take note of **FBAR filing deadline changes coming next year**. The FBAR will be due on **April 15th**, at the same time as the US tax return, and for the first time ever, you will be able to request an **extension of time to file through October 15th.** Guidance from the IRS for next year's FBAR filing procedures is expected to be available by the end of the year.

Some of you may have already filed your 2015 US tax returns. Others may be on extension and will file closer to the October 17th 2016 deadline. If this is your situation, we want to encourage you to schedule a call to discuss your 2015 tax returns. We recommend that you upload copies to your Sharefile folder after you have filed them, even if you are not interested in having a tax discussion. Tax return review discussions can help identify tax planning opportunities for savings and optimization, and to confirm if compliance requirements are being met. This is part of the comprehensive services that we provide as your investment advisors and it is available to you at any time during the year.

Personal Financial Considerations / Opportunities

For Americans Overseas Looking to Buy Life Insurance, this could be interesting to you. As you know, we don't sell life insurance but we can help you to decide how much and which type is good for you (generally term insurance is what we recommend). Many of our clients are Americans living overseas, specifically in Switzerland, where life insurance is upwards of 3 to 4 times the price as in the US, for the same type of insurance. After many years, I believe I have found someone who is based in the US and can provide Life Insurance to American citizens in Switzerland and elsewhere; he had to do a lot of compliance checks and everything looks to have checked out. At the end of this document, page 16, is a summary by David Appel. Also, just to be clear, we do not get any fees, referrals or any other compensation or benefit for mentioning him or if you buy any insurance from him and his firm.

Mortgage Rates in the US have once again dropped to historic lows. If you have not noticed, 15 year fixed mortgages, if you have good credit, have fallen to 2.75%. Personally I decided to refinance for a 13 year fixed at 2.625% today; practicing what I preach to clients by paying down principal faster when rates are low. If you have a mortgage and want to assess whether it makes sense to refinance, this is something we can help you with too.

White Lighthouse Information & News

WLIM – Staff Participating on Panels & Publications

WLIM is currently scheduled to have panelists at two more events open to the public this year; Wednesday September 21 in Zurich (Jonathan) and Friday November 4th near Boston MA. If you would like more information, please let us know. There are likely to be more events as we have been asked by several organizations to provide speakers and will keep you updated in future newsletters.

White Lighthouse Investment Management Inc. & Sarl – Annual ADV Filings

Our ADV documents for 2016 (personal and corporate) as well as our Privacy policy are available for your review. You can find these documents on-line on the Sharefile system, on the disclosure pages of both our US and Swiss site or if you would like to receive a copy by e-mail or in print, please let me know and we will be happy to send them along. You can also find more information about us and our (US and Swiss firm) firm directly on the SEC website at this link: http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx

Market Wrap Up & Outlook for 2nd Quarter 2016

The S&P500 and Dow Jones Industrial Average were up 1% and 2% respectively for the second quarter of 2016 and are up 2.9% and 2.7% for the year. The Canadian market was up 4% for the quarter and 8% for the year while the Swiss Market Index (SMI) was up 3% for the quarter but is still down 9% for the year. The FTSE was up 5% for the quarter and 4% YTD (largely due to the drop in the value of Sterling) while the DAX and CAC40 were down 3% for the quarter and remain down10% and 8.5% respectively for the year. The dollar was up 1% against Swiss Franc and the Euro for the quarter. Gold had its best start to the year in many years as it was up 7% for the quarter and 25% year to date. The Shanghai Index was down about 2% for the quarter and is down 17% year-to-date.

Despite all of the turmoil in Europe these days, I think the markets will continue a slow grind upwards, with more speed bumps along the way. Bonds seem so unattractive with negative rates, most individual investors outside of the US have little reason to add to their bond holdings. Real Estate may continue to be attractive, if not over-priced in some areas. If you are profiting from low interest rates, make sure to pay down principal more aggressively, particularly if your debt ratio is too high. Cash for investment purposes is yielding nothing and there are apparently piles of it all over the world waiting to be invested at any drop in prices, this seems to be the case at each dip. Gold may have bottomed but for most people will just be a minor holding for diversification. Public and Private Equity in a lower for longer interest rate environment appears to be the least bad option, as long as you have a long term horizon. Markets could easily rally on less bad news: Certainty about the US Election, Less Uncertainty in European Politics; Stabilization in China and Japan; there is lots of room for positive surprises.

Alan Greenspan was speaking this week in Bloomberg about the possibility of inflation returning; though wisely would give no time horizon. It is often when things are least expected that the seeds of the next challenges are sown. In past newsletters I have admittedly been too early (wrong) on the potential threat of inflation; higher rates and inflation will return again…though it appears to be the quintessential 2 years into the future problem…no something to worry about today…

Equities in Europe and the Emerging Markets look relatively inexpensive; as they have been for a few years now when compared to the US; at some point these markets will start to rally again. Most clients have some exposure to international markets and one of these years, the US markets will no longer be the best performing major markets; but likely not before 2017.

Conclusion

If you have read this far, thank you for taking the time to read through our newsletter. If you have any questions on your reports or that pertain to your personal financial situation, please don’t hesitate to be in contact. Have a great summer and we look forward to talking and/or meeting with many of you in the coming weeks and months.

Best wishes,
Jonathan, Marina, and John

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Permanent Reference Information

1. Sharefile: How to access your White-Lighthouse Quarterly Reports & Other Public Information
2. Annual Privacy Policy & Form ADV Brochure Updates
3. US taxpayers – with non-US Financial Accounts – FBARs (Foreign Bank Account Reports)
4. Annual IRA Required Minimum Distributions (RMDs) for US Citizens over age 70 ½
5. Annual IRA Contributions for US Citizens with earned income
6. Tax Reporting

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1. Accessing Quarterly Reporting & Other Documents - Sharefile

All Clients of White Lighthouse Investment Management are entitled to have an account on our private server. Your account can be accessed at this link: https://wlim.sharefile.com. If you have forgotten your user name or password or would like an additional account for your spouse or other family member, please let us know. As a best practice for the security of your information we strongly recommend that you enable 2-factor authentication with your Sharefile account. It will be required as of 2019.

Your quarterly reports are generally ready by the end of 2nd working day of each quarter and will be copied to your private folders. Historical reports are also retained. The completion of the quarterly reporting is announcement but a short e-mail where you will also find the quarterly newsletter attached. Additionally, every client has on-line access and receives paper or electronic account information directly from the custodian bank or brokerage firm where the accounts are established. If you notice any discrepancies or have any questions on our reports, please be in contact as soon as you can, and we will research the questions.

White Lighthouse Investment Management does not hold custody of your assets and receiving reports both from us and your custodian is for your protection.

In addition to quarterly reporting other information available on Sharefile is:

a. Prior Newsletters
b. The latest ADV forms filed with FINRA for both Individuals and the Firm
c. Privacy Policy
d. Trade Errors and Proxy Voting Policies
e. Proxy Votes
f. Reference Material (e.g. how to read our reports)
g. Clients may also store information in their private folders, especially if this is information they would like me to keep on record.

If there is any other information you would like to see in the Public section of this system, please let us know.

2. Annual Privacy Policy & Form ADV Brochure Updates

The SEC (US Securities Regulations from the Securities and Exchange Commission) requires us to circulate, at least annually, our latest Privacy Policy and to inform you that our ADV Part 2 Brochures are available. You may request any of these documents in electronic or paper format. We will leave our Privacy Policy at the end of this reference section in each newsletter and allow this to serve as a regular reminder of our updated ADV forms. These filings change periodically throughout the year and for any material changes we will also announce them in our newsletter.

In the United States, if you would like to read additional disclosure and background information on any investment advisor, broker or firm, you can find more information at this link: http://www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd_SiteMap.aspx

3. US taxpayers – with non-US Financial Accounts – FBARs (Foreign Bank Account Reports)

October 15th was the new (as of 2017) annual deadline for filing of the FBAR reports for US citizens who have non-US financial accounts worth more than $10,000 at any time during the year. For Overseas Americans, this form seems rather intrusive, but it is mandatory and the fines for failure to file and failure to report income from these accounts are severe. The FBAR form is being replaced by the new form FINCEN 114.

Starting back on July 1, 2013, these forms must be submitted electronically, paper versions of the forms will not be accepted in the future. Please check with your tax preparer to see if you or they will be filing the FBARs for you. Below are some links where you can read more. The first one is ironic. The place that you go to file your forms is headed by "Financial Crimes Enforcement Network"; as though having accounts overseas makes you guilty until proven innocent by filing your forms:

> FINCEN link – Where forms can be filed:
> http://bsaefiling.fincen.treas.gov/Enroll_Individual.html
>
> IRS Announcement:
> http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Report-of-Foreign-Bank-and-Financial-Accounts-%28FBAR%29

4. Annual IRA Required Minimum Distributions (RMDs) for US Citizens over age 70 ½

Most US taxpayers who have IRA, 401k, 403b or similar accounts will be required to make an annual distribution by December 31st from their accounts or face a 50% penalty of the required amount from the IRS. For many of these accounts the broker will calculate the RMD amount for you and remind you about making the distribution. We can help to manage this process for you and arrange for the distributions to be sent out by check, transferred to a bank account, or transferred to an investment account. We generally make these distributions, unless otherwise requested or needed for income, in the 4th quarter. Monthly, quarterly, or on-demand distributions can also be arranged.

RMD amounts are re-calculated each year based on the account value on December 31st and IRS tables related to the ages of the account holders. Some accounts (e.g. inherited IRAs) often to not have RMD calculations from the broker since these can have somewhat more complicated distribution formulas. Other accounts such as Roth IRA's are not subject to RMDs.

If you have any questions about Required Minimum Distributions, please let us know.

5. Annual IRA Contributions for US Citizens with earned income

If you are a US tax-payer with earned income in 2018 or 2019 you might be able to contribute to an IRA account. If your employer pension plan is not tax qualified in the US (e.g. most plans outside the US) then regardless of your income, you will be able to make a "deductible" contribution to your IRA account. There are many different types of IRA accounts, Traditional, Roth, SEP etc. The general contribution limit for employees is $5500 per individual per year and $6500 if you are over 50 years of age in 2018 and $6000 per individual per year and $7000 if you are over 50 years of age in 2019.

You generally have until April 15th of the following tax year to contribute, though this deadline can be extended for SEP (generally for self-employed or employees of the self-employed) IRA contributions.

IRA Accounts are a great way to supplement your Retirement savings. For many clients, we help to make regular annual IRA contributions from their brokerage accounts to their IRA accounts. If you would like assistance with this or if you have any questions on whether your current year contributions have been made, please get in contact.

6. Tax Reporting US, Switzerland & All jurisdictions.

At White Lighthouse Investment Management, we encourage all clients to meet all their tax reporting and payment requirements in whichever local, state, or federal jurisdictions they must report and pay tax to. We are not tax advisors. We do not file tax returns for clients and cannot offer legal advice in respect to taxes though we know many competent advisors who can.

What we can do is help you and/or your tax advisor(s) to determine your taxable events for any given time-period using reporting directly from your bank or brokerage firm and/or from our own reporting systems. Don't ever hesitate to ask for our assistance here as our information systems contain a vast amount of information and flexibility in reporting with respect to your accounts.

At White Lighthouse Investment Management, we do have an in depth understanding of US taxes and use this knowledge to help our clients make good decisions. In addition, we understand the complications of cross border rules with respect to US citizens and tax-payers that live overseas, non-Americans living in the US and mixed nationality couples. We also have a good working knowledge of the Swiss taxation system.

Additionally, we can engage in tax planning both inside your investment portfolio and outside. This may have to do with what types of investments to buy or sell which investments belong in which accounts, the timing of events or gift and estate taxation. This type of planning work can be done together with you or in conjunction with other professionals such as tax advisors or estate planning attorneys.

If you have accounts with us in the United States, your most common tax reports (1099s) are generally ready by the middle to end of February. These will include dividends, income, capital gains, and losses and now my management fees that have come out of taxable accounts. Other information that will be reported will be IRA distributions. For IRA contributions, the form 5498 is generally produced by your brokerage firm but this is often done well after your tax return has been filed. If you have contributed don't forget to report it to your tax advisor.

For Swiss resident account holders who have accounts at Swissquote, by default, we started last year to request the bank to produce their official tax report. The bank charges 100 CHF plus VAT for this report. A few clients have opted out of this which may make sense when there are very few taxable events in each year. If you would like to opt out or confirm if you have done so already, please let us know.

White Lighthouse
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PRIVACY STATEMENT- 2015

White Lighthouse Investment Management, an independent financial planning firm, is committed to safeguarding the confidential information of it clients. We hold all personal information provided to our firm in the strictest confidence. These records include all personal information that we collect from you in connection with any of the services provided by White Lighthouse Investment Management. We have never disclosed information to nonaffiliated third parties, except as permitted by law, and do not anticipate doing so in the future. If we were to anticipate such a change in firm policy, we would be prohibited under the law from doing so without advising you first. As you know, we use financial information that you provide to us to help you meet your personal financial goals while guarding against any real or perceived infringement of your rights of privacy. Our policy with respect to personal information about you is listed below.

- We limit access to information only to those who have a business or professional reason for knowing, and only to nonaffiliated parties as permitted by law. (For example, federal regulations permit us to share a limited amount of information about you with a brokerage firm in order to executed securities transactions on your behalf, or so that our firm can discuss your financial situation with your accountant or lawyer).
- We maintain a secure office and computer environment to ensure that your information is not placed at unreasonable risk.
- The categories of nonpublic personal information that we collect from a client depend upon the scope of the client engagement. It will include information about your personal finances, information about transactions between you and third parties, and information from other sources as needed to provide our services on your behalf.
- For unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors, we also require strict confidentiality in our agreements with them and expect them to keep this information private. Federal and state regulators also may review firm records as permitted under law.
- We do not provide your personally identifiable information to mailing list vendors or solicitors for any purpose.
- Personally identifiable information about you will be maintained during the time you are a client, and for the required time thereafter that such records are required to be maintained by federal and state securities laws, and consistent with the CFP Board Code of Ethics and Professional Responsibility. After this required period of record retention, all such information will be destroyed.

Life Insurance for US Citizens Living Abroad

Are you a US Citizen living abroad?

Are you a US citizen living abroad on an ex-pat assignment?

Are you a US citizen that decided to make an international domicile lifestyle change?

Are you a NON-US Citizen with our without US ties?

Are you a non-U.S. citizen with ties to the U.S. via family, a trust or have ownership in a U.S. company or U.S. property?

Are you a non-U.S. citizen looking to acquire U.S. based life insurance or life insurance non-specific to your current country of residence?

Are you a non-U.S. citizen seeking life insurance out of your local country due to concerns of currency fluctuations, political and local market instability?

Are you a non-U.S citizen with meaningful non-liquid assets in the U.S., such as multi-million dollar second homes and/or businesses subject to the U.S. tax system with low exemptions?

If any of your answers to these questions are Yes! We may have some current solutions for you. Whether it's international life insurance carriers that have permanent universal life products, syndicates of Lloyd's of London that have multiple term life insurance options, U.S based life insurance carriers that are pro-active in underwriting non-U.S. citizens depending on the structure of ownership and beneficiary designations, we may have the right product structure that works for your particular desire and/or need. U.S. based insurance carriers typically have requirements for non-U.S. individuals including coming to the States to sign an application & complete a non-invasive insurance medical exam, having the owner be an Irrevocable Trust with an address in the States; and some limit to the use of their permanent life insurance plans versus term life insurance. Either way, the ultimate desired outcome is paramount around proper planning.

Please remember, each case we develop is situation specific and we do not look at any one international client case with a one size fits all cookie cutter approach, every circumstance can bring different opportunities or challenges, so we need to address those individually with our experience, expertise and knowledge in the life insurance marketplace.

David E. Appel CLU, ChFC, AEP® is Managing Partner of Appel Insurance Advisors, LLC located right outside of Boston in Newton, Massachusetts.

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