Newsletter | September 30, 2022

Dear Clients,

We hope you all had a nice summer and are able to take all of the volatility in the markets in stride. At the end of last quarter and into July, stock markets seemed to be starting a recovery, outlooks were brightening and volatility, while elevated, was starting to subside. Then in August, one measure on inflation was up .1% instead of an expected reduction of .1% and this cascaded into a 4% decline in markets in one day and has led us down to new lows in the stock market for 2022, with the S&P 500 closing the quarter down almost 25% year to date, ouch! It is no doubt that when looking at our investment accounts and seeing big losses relative to the beginning of 2022, things don't feel good, no matter how patient we feel that we can be.

In the meantime, interest rates around the world are rising, inflation is still very high in many places, the war in Ukraine has progressed but is more uncertain than ever and energy supplies in Europe for this coming winter are a large concern. Mortgage costs are skyrocketing and house prices in many places are falling...this could be good or bad depending on the type of buyer, seller, or borrower you are.

The news however is not all bad. Prices in many commodities, shipping rates, timber for home construction and oil remain well off their lows, employment remains high, governments are subsidising energy, and corporate earnings have yet to buckle in most companies. The big question I get these days is along these lines: We know all the factors that are leading to this volatility, and we are patiently waiting for markets to recover, but when will this start to happen?

In the following newsletter we will explore many of the topics above in more depth along with an update on taxes, estate planning and many more topics. In 2022, we have unfortunately had a much higher proportion of clients, than in any other year, pass away or face life-threatening illnesses. Our best wishes are with all of you and your families during these trying times and my team and I continue to be here to help you through good times and bad.

I continue to be very thankful for all of the positive feedback we receive about my team, our services and our quarterly newsletter, and we hope you will let us know if there are any topics that you would like us to discuss in more depth in a future publication. One final thought is that I believe the financial planning and investment management profession, done well, will add more value in difficult times than in good times, this goes both for the stock markets but also for the individual challenges we face. If you are concerned about anything, anytime, we encourage you to reach out to anyone on the team, our job is to try and help in any way we can. Thank you for taking the time to read our newsletter and I, as an optimist, am seeing a lights on the horizon for smoother sailing ahead...I just can't tell if it is 3, 6 or 9 months away...but I don't think it will be much longer than this...

Stock Markets Valuation

What is the right way to determine the fair value of any investment or purchase decision? A house, a stock, a business, dinner, gasoline? I like this definition:

> *"The fair market value is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts."*

The fact is that depending on what you are trying to value, there are many different inputs with some of the most common being: Recent price history for a similar transaction, future income, or utilization capacity, when the transaction takes place, as well as any emotional component that a buyer or seller brings to the table. The price is what something costs, the value is what you receive or as Benjamin Graham, the father of value investing said "Price is what you Pay and Value is what you get". In a similar vein, what many financial regulators require investment fund providers to state, "Past performance is not indicative of Future Results".

When valuing stocks, the most widely accepted theory is the Efficient Market Hypothesis (EMH) which states that current asset prices reflect all available information. More technical analysts will use elements such as Price to Book, Price to Earnings, Dividend Yield, or other comparable measures. All the theory (from my days studying finance and economics at NYU) is interesting but like most long lasting theories, they tend to work most of the time, but not all of the time. Other important components in the real world include sentiment (collectively and at the individual level), comparable investments (e.g., cash and bond yields, real estate, private equity, collectibles, and other investment alternatives). Another very important component is interest rates, especially what is known as the "risk free rate" (a close proxy of which is considered the rate paid on short term US government debt). All of these factors above converge into marketplaces and ultimately make up the values that you see of individual stocks, and these get aggregated into Indexes such as the S&P500, the Dow Jones Industrial Average, the Swiss Market Index, the FTSE and many more.

While all of this theory is interesting to some and boring to others, how far does it really go to explain how lousy many of us are feeling when we experience the emotions associated with loss in a down market? What should be clear is that experiences of loss and gains are asymmetrical. From 2017 to 2021, the annual returns of the S&P 500 have been 21.8%, -4.4%. 31.5%,18.4% and 28.7%. Now in 2022 we are experiencing a drop around 23% and for some of us, even if we have been investing for many years, all of those gains in the past don't seem to make us feel better than the current drop we are experiencing. These lousy feelings can affect our sleep, our confidence, and many choices – big and small – as they do also, but in different ways, when markets are going up. Fear and Greed at work.

As investors in the stock market, most of you have heard (or read) us repeat the investment principles we are guided by and one of the most important is that investors should have a "long-term" horizon when investing in stocks. Stock prices are volatile which is how investors profit, by taking risk; there is also a risk of loss though is best mitigated by patience and a long-term horizon. While many of you have lived through many ups and downs in the markets, like us, the question that we would all like to know the answer to, is when will this year's volatility end and the market's return to a more "normal" level. Or when will my accounts stop showing all this red and when will we start making profits again?

The most truthful answer is that nobody knows, though history gives us some tell-tale signs to look for and this is what I think:

- The peak of this interest rate cycle has to be much clearer. Investors / Economists expect US rates to go up to about 4.6% next year. If rate expectations go higher, more volatility ahead, if they moderate, stop and start to go down, a large stock market rally is likely.
- Interest rate outlooks in the US will not be clearer until there is more confidence that inflation is under control.
- There is a big mismatch between the two: Interest rates impact the future and inflation statistics are a lagging indicator and today we are caught in the middle. This mismatch (due to imperfect information) can cause central banks to raise rates too high (or not high enough).
- It seems strange that many companies are increasingly profitable (at least for now and at a declining rate), economies are close to full employment, business is booming and yet markets are down. This latest downturn is driven more by the fear of an interest rate induced recession, more guesses about the future.

January 3, 2022 is the last time the S&P500 reached a new closing high of 4818.6 This was 9 months ago. Since WWII, the S&P 500 only had two periods where it took more than 2 years to reach a new closing high, this mark is still 15 months away. Will this be the 3rd time? My crystal ball says most likely not. Interest rate increases are blunt tools which can sometimes lead to recession, but there are many other measures not only central banks can take but also governments in terms of tax cuts and financial stimulus as we have seen multiple times in the last couple of decades.

If the Federal Reserve overshoots on interest rates, it is certain that they will have to reverse course, maybe aggressively. If inflation moderates, a "soft landing" is still possible. In either case, interest rates will eventually come back down and just like other big themes in the news, inflation, interest rates and stock markets will take a back seat in the news headlines. Interestingly, this week, Fed Governors from Boston to Chicago to San Francisco and a few others have been publicly making statements that indicate (in some whispers) that the Fed is concerned about overshooting which may mean they are starting to prepare the markets for a slowdown in the torrid pace of interest rate increases…as of the writing of this newsletter, it will be too early to tell what the latest inflation reports look like, but a reasonable recovery off of these lows is definitely possible in the next 3-6 months…we will have to be a little more patient.

The Federal Reserve – Interest Rates – Will there be a recession?

On September 22nd, the Federal Reserve announced, unsurprisingly, a third straight .75% interest rate increase to a new target range of 3% to 3.25%. The forward looking "dot plot" has this rate rising to about 4.4% by the end of 2022 and peaking at 4.6% in 2023; both of these are higher revisions than were previously forecast at lower levels back in June. The Fed is raising rates aggressively because this is the most effective policy tool, they have to bring down inflation.

The Fed is by no means alone in raising rates, with the Swiss National Bank also raising rates from negative .25% to positive .50%, a .75% increase which followed the surprise June hike of .50%, which was the SNB's first rate increase in 15 years. The SNB has not ruled out further interest rate increases and has noted that inflation, for Switzerland, remains elevated. The UK's central bank raised their rates for the seventh time this year to 2.25%, though the Pound has reached its lowest level against the dollar since 1985. The ECB has raised rates to 1.25% though has promised further rate increases, the Euro is also trading at multi decade lows against the dollar. Other Central banks around the world including Sweden, Canada and Japan have all been raising rates too to combat inflation.

While inflation (a lagging indicator) remains high and interest rates are going up there are definitely some early signs that inflation could start to moderate soon. Oil prices have fallen, from a recent high of over $120 a barrel, to below $80 a barrel with gas prices falling well off their peaks (in the US). Retailers of all sorts including Walmart and Target are reporting excess inventory (which often leads to price cuts) impacting everything from clothing to consumer electronics. According to the Fed, Supply chain pressure has improved considerably though still has some ways to go to return to its long-term average.

The main area where inflationary pressure is still strong is the employment market which remains tight though wage growth and job growth have been moderating in the past several months. The Fed has anticipated that unemployment will rise to 4.4% in 2023 to 2024, suggesting that about 1.5 million people in the US could lose their jobs by 2024. While there have been some announcements of large companies who will decrease their workforce, it would seem that this is the slowest moving indicator with unemployment staying low and the number of job openings, for now remaining robust.

More and more articles are appearing in the press questioning whether the Fed is now getting too aggressive and not giving interest rates enough time to work their way through the economy; investors now seem to be fearing a Fed induced recession (by raising rates too much) in 2023. If you are into economic theory, one of the more interesting articles I read, from economics professor Tyler Cowen, discusses the Quantity Theory of Money, suggesting that money supply and velocity may be having a bigger impact than just interest rates alone and looking at these measures, the US economy is likely to experience lower inflation as M2, a measure of cash and cash like investments, continues to fall.

As interest rates increase towards their next peak, Bond investors are already claiming the "best" bond market in a decade or more, with prices low and yields more fairly compensating investors for their risks, compared to the ultra-low interest rate environment that we have just exited. Some headlines are even starting to appear suggesting deflationary fears may soon re-emerge; this feels a bit dramatic…though not unrealistic. Bond yields are definitely much more attractive than they have been in a long time, which is clearly a result of the worst bond market downturn in close to a century.

What is clear is that stock and bond market volatility, which has been elevated for most of this year, will not subside until the path and the peak of the interest rate cycle are clearer. While it is impossible to predict exactly when this will happen, I anticipate that within the next 3-9 months we should start to see some considerable slowdown in inflation and with any luck, by the spring, inflation worries will hopefully be behind us.

Everything Else Impacting the Global Economy: Ukraine and Russia, China and their Real Estate Market, Oil and Energy, Food, The US & Swiss Housing Market

At the risk of repeating my last couple of newsletters, it seems like many of the issues impacting the world economy are indeed moving in slow motion. The stock market volatility would have us believe that we are in the middle of a major world calamity but what it is really saying is that the world seems like a much more uncertain place than it normally is, the US economy is too strong compared to most of the rest of the world, and the Federal Reserve will do everything they can to slow it down to lower inflation.

The war in Ukraine, of course, had the major developments of the Ukrainians reclaiming a large part of their territory, effectively using intelligence, weaponry, and training from their allies. Grain supplies continue to flow out of Ukraine (and not make the news) which is positive for food supply especially in the developing world and also for global prices. European governments, companies and the population, as a whole, are preparing for tough times for the winter and energy supplies. The many mobilization efforts here should mean longer term stability for European energy needs but with continued concerns as the winter months approach. The biggest fear element though is that Russia is adding considerable uncertainty with conscription of at least 300,000 people into military service, sign of weakness, or even desperation, for Putin and his government. While hopefully Putin is bluffing in his threats to use nuclear weapons, this is not the only big uncertainty;

a disorderly transfer of power in Russia is also an increasing possibility with a very unknown path impacting millions of people, many countries and Russia's export of natural resources.

On October 16th, more than 2000 people will attend the Communist party congress. China has been having a challenging time in the lead up to the Congress, there is growing unrest over harsh COVID policies, a real estate market teetering on the brink of implosion, risks of political and military confrontation with the US and their allies, and various internal changes impacting financial markets. It is highly likely the President Xi will continue as the leader for an additional five years and once the Congress has completed, there will likely be some degree of increased stability coming from China as the President will be able to act with more authority. This will not be good for everyone, and I remain a sceptic as to whether foreign investors in China (and many domestic ones too), companies and individuals will be able to profit from the economy while the Communist party presumably strengthens its grip further on power.

Oil is generally priced in US dollars and the cost of a barrel of oil has dropped below $80 a barrel, after peaking above $120 a barrel earlier this year. Gasoline and Diesel prices in the US have also dropped significantly from their recent peaks. Lumber prices in the US have dropped by over 70% and are back to their pre-pandemic levels and the deceleration in the S&P Case-Shiller home price index slowed at its fastest pace ever in July as reported just this week. This is all excellent news for inflation as gasoline and real estate are not only important parts of the inflation statistics but psychologically, they are extremely noticeable and important to most consumers.

If your local currency has not gone down a lot against the dollar (over 20% for the Euro and Pound and only slightly for the Swiss Franc), then the drop in oil and gas will not be nearly as significant. The Euro zone and the UK are likely in for a much more challenging period with respect to energy prices and future interest rate increases though they will also likely see real estate prices dropping as interest rates rise. The UK does not seem to have done itself any favours on the inflation front with a massive tax cut package; this would seem to be a populist move with terrible timing; the pound could easily reach parity with the dollar and is already at an all-time low.

When interest rates are rising or expected to rise, this can impact many different asset prices and in no other place is this more evident than the cost of a mortgage and of buying a home. For many years real estate prices in the US, Switzerland, and elsewhere have been rising as interest rates went to zero or below. Now as interest rates are rising, house prices in many markets in the US are starting to see considerable drops, and rental prices in the US have also started to fall. From an inflation standpoint, this is very positive. If you are in the market for buying a new home (and financing a large part), selling a home, or paying a variable rate mortgage, things could be challenging; this is the period we have been warning about when talking to people over the past decade about how much they can "afford" for a home.

While I don't expect this higher interest rate period to last forever, you should be prepared for it to last at least a few years. If you are trying to make a choice on whether to buy, sell or wait…please get in touch, the real estate markets, slower moving than the stock markets, is getting interesting. Prices tend to be sticky on the way down as sellers saw past valuations (high points) and use this as their benchmark; with many reluctant to mark down prices…pressure generally gives in, and markets do eventually correct. If you want to buy a home, my guess is many houses will be much cheaper 6-12 months from now than they are now…you may have to bear a few years of higher interest, but this could be well worth the cost if you can pay 10-20% or less for your next home purchase.

US News – Midterm elections around the corner

In addition to the inflation story and the stock markets, the US mid-term elections are less than 6 weeks away. Historically in the mid-term elections, the President's party has lost on average 4 Senate seats and 26 seats in the House of Representatives. After the 2020 elections, The Democrats had a small lead in the house and a very slight lead in the Senate; and they have managed to pass some major legislation in the past two years. After a rough first year or so, the President is doing better than expected as the mid-terms approach.

I always seem to find myself gravitating towards Nate Silver's website, (Five Thirty Eight) as major elections approach. Nate Silver is an American statistician who was named one of Time Magazine's 100 most influential people in 2009 based on an election forecasting system he developed, which has been relatively more successful than other well-known polling systems, which are often more known for their propensity to get election results wrong. Currently on the 538 site, they have the chance of the Democrats winning the Senate as 72% and the Republicans at 71% for winning the House of Representatives. Political pundits are expecting one of the "weirdest" mid-term elections in a while. Afterall, with Trump still largely in the picture, the tail end of the COVID pandemic still lingering and the Fed fighting a war against inflation, things are bound to be interesting if not a little weird.

A divided government is what I tend to like best as it forces change at a slower pace and more compromise is needed. While 6 weeks is a "lifetime" in politics, a divided Congress is certainly not the worst outcome we could hope for after this tumultuous year. If the results of the election and the period following eventually lead to two new Presidential Candidates in the 2024 election that would be even better, one can only hope!

An enormous hurricane is hitting Florida as we are preparing the end of quarter and our best wishes for our many clients and team members who live throughout the state and hoping you and your families will all remain safe.

US Tax Update & the Tax Preparation Industry

Congress is still working on the Secure 2.0 act and so there is no more news to report there, though if this is passes, it will have a number of implications that we will cover in detail, especially as it relates to retirement planning.

Almost every quarter however, there seems to be some legislation that impacts taxes. This time it was the “Inflation Reduction Act” which was signed into law and has a few pieces that impact individual taxpayers, but mostly in the US. If you want to read more from the Taxpayer Advocate or US News and World Report, both explain these items in more detail:

- The Affordable Care Act has been extended (funded) through 2025, which allows taxpayers to buy insurance with lower premiums though the Health Insurance Marketplace.
- The $500 once in a lifetime Energy Efficiency credit has been replaced by a $1200 annual credit.
- Credits for new Electric Vehicles ($7500) have been extended to 2032 and a credit up to $4000 for used Electric Vehicles though these are phased out for higher earning taxpayers.
- About $80 billion in new funding for the IRS over the next decade for improving systems and responsiveness but with $45 billion of this earmarked to improve “enforcement”; I guess we can expect more audits.

At White Lighthouse, while we are very experienced in US tax issues, we deliberately do not prepare tax returns. This is a thankless industry, between taxpayers who are often unhappy and confused about tax rules and their returns, the IRS (I don’t need to say more) and for larger firms, management who are often focused more on profitability than anything else.

We know and work closely with a lot of tax-preparers and while each year brings its new challenges, I think this past tax season has been the most challenging I can remember, and things are not likely to improve soon. In addition to keeping up the myriad of tax changes, new software, delays and inaccuracies from the IRS, impossibly long hold-times, employee turnover (and leaving the industry) and ever shortening windows of time between the receipt of information and relative due dates, the industry is in crisis mode. More and more tax returns will be prepared offshore, and many firms will only want to work with taxpayers who are prepared to pay higher and higher minimum fees and also who are reasonable to work with (which is most but not all clients). I have a lot of sympathy with our colleagues in the tax preparation industry and understand why many are either looking to change industries and certainly are steering their children to make a different choice.

At White Lighthouse, we continue to search out tax firms for our clients and where we can we try and help match our clients to a tax firm that is a good fit for their situation. We never receive payments, referral fees or any compensation, we just look for firms that on average provide very good service. If you are looking for a new tax preparer or know an excellent one, please don't hesitate to reach out to us. Thank you! Just in case you are curious: historically I would prepare my own tax returns. But for "insurance" reasons, I have paid to have my returns done for over a decade despite being very knowledgeable, I sleep better at night that way and see the cost of tax preparation as a buffer between me and the IRS – an agency I don't want to get to know better.

Currency Exchange, The Swiss National Bank - Interest Rates, USD to CHF Exchange Rates and Swiss News

One of the more common questions we are asked is "now a good time" to sell or buy a currency, normally involving Swiss Francs and US Dollars, but also Euros and Pounds, and a few other currencies too. Currencies like any other product are subject to supply and demand and the key drivers of the relative strength or weakness of a particular currency are:

1. Interest rates in that country (driven by the Fed, ECB, SNB etc.)
2. Relative strength and size of the economy
3. Amount of government debt
4. Inflation rate
5. Political stability and overall confidence
6. Balance of trade

Living in a country with a strong or weak currency can have its pros and cons. A strong currency can make travel or overseas purchases feel cheap, but it often means that housing and other services at home are relatively expensive. There are always trade-offs.

Currency markets are enormous, much larger than stock markets with daily trading reaching $3-$6 trillion equivalent in many days over the past few years. The "best" information is the actual price today as it factors in all the public and, presumably, some non-public information too.

If you hold cash in one currency and need to spend that cash in another, especially in the short term, not trading is essentially speculating/gambling that the rate would go up. If you need to pay a large bill, say 100,000 Swiss Francs in 2 months from now and are holding dollars, we generally advise to buy the Swiss Francs now, or soon. Just ask this question. If you were already holding the 100,000 Swiss Francs, would you instead by dollars with the hope (gamble) that the dollar will increase in value?

The daily rates often fluctuate more than the transaction costs to exchange currencies. Banks and other financial institutions can charge large mark-ups for trading currencies. Some firms will negotiate fees, others like Charles Schwab will not. We like firms such as www.wise.com where the rates and fees are 100% transparent. Some institutions can charge a 1% to 3% markup (100 to 300 basis points), so it can pay to ask questions and be careful.

It is clear that the US Dollar (and Swiss Franc) remain very strong against most other currencies, they in fact have been the two strongest currencies since WWII with the Swiss Franc being by far the strongest. [You can thank this strength for the very high house prices in Switzerland]. The US Federal Reserve, the SNB and the ECB have all raised rates recently and are likely to continue doing so until inflation is under control.

Since the de-pegging of the CHF from the Euro is appears to me that the SNB has really been trying to keep the Swiss Franc in the range of .92 to .98 to the US Dollar and it seems to stay there most of the time…. When the dollar broke parity over the summer, the Swiss National Bank announced a surprise 50 basis point increase. Last week, the SNB wasted no time raising rates another 75 basis points after the Federal Reserve announced the same sized increase. The SNB stated that rates may go up further as inflation is higher than their target, we will have to wait and see. During this period, Switzerland and the US have maintained strong currencies relative to their major trading partners, which should help towards moderating inflation.

We talk about currencies with many of you and if you have any questions as it specifically relates to your situation, please reach out to us. Our crystal ball is not particularly better than anyone else, but we can certainly help you to make a good choice.

US and Swiss Income tax Treaty and Federal Benefits

For the past fifteen years or so I have kept informal contacts with the US Embassy in Bern, occasionally organizing for staff to attend ACA events or answering questions on various cross-border tax and related issues. A somewhat surprising piece of news is that the US-Swiss Income tax treaty is once again up for negotiation and discussion.

The last time this happened, less than a decade ago, was mostly due to FATCA and many of the imperfections in the treaty were ignored, especially updates using model treaty language to fix imperfections in how retirement accounts are treated. (The UK and Canadian treaties with the US, to name a couple of countries, have much better treatment for each other's retirement accounts to avoid tax inefficiencies and double taxation.). I will do my best to stay informed on potential changes and have offered my assistance in the process; I plan to try and visit the Embassy in the next month or two and will again offer assistance in trying to improve the treaty, which could be very impactful for Americans living and working in Switzerland.

One comment I also heard is that the Swiss side does not think that access to financial services for American taxpayers in Switzerland is a problem any longer. I tend to disagree and would encourage anyone who has had problems in Switzerland in the last two years in terms of getting a service or opening an account to contact me with the details so I can provide more feedback into this process.

Many Americans overseas who have had to get a social security number for themselves or a family member or who reached retirement age and wanted to claim social security will have worked with one of the various Federal Benefit Units (FBU). To better understand what an FBU manager is responsible for, the State Department lists the responsibilities which mainly fall under benefits from Social the Security Administration (SSA), the Department of Veterans Affairs and various other agencies whose employees benefits fall outside of the SSA.

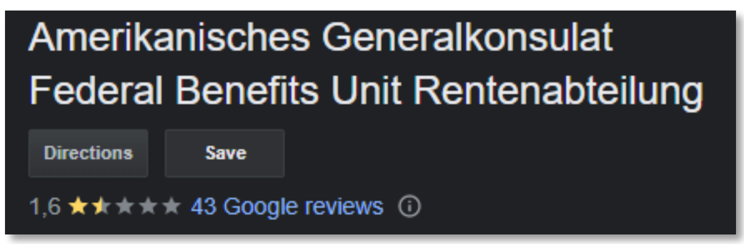
Historically Switzerland had a Federal Benefits Unit at the embassy in Bern, but due to budget cutbacks, the personnel working in this unit were re-assigned and at the time Americans in Switzerland were directed to contact the FBUs in Frankfurt or Paris. The current FBU webpage in Bern directs Americans in Switzerland to Paris. However, the Frankfurt FBU site, also references Switzerland and directs residents to the FBU in Warsaw Poland.

The pandemic-related closures dramatically increased waiting times for FBU processing and we understand that in some cases the backlog is many months longer than normal. We know of many clients who had to wait over a year to get their SS numbers though anecdotally, things seem to be improving.

Federal Benefits and getting a new Social Security Number Overseas

Our colleague John York and his wife recently welcomed their first child, Enna, born in Germany and so he is going through the process of getting a new Social Security number for his overseas American daughter...and he writes:

Congratulations to clients with upcoming births of children and grandchildren in 2022 and early 2023! By our count, we'll have at least half a dozen new "dependents" on your next US tax returns, increasing those refundable credits and lowering tax rates. Along with the excitement of a growing family, I want to make sure you're aware of how best to navigate the upcoming bureaucracy you're facing.



Full disclosure, I have a conflict of interest in that I'm about 10 months into my personal experience with the Frankfurt Federal Benefits Unit (FBU). This has included about a dozen emails and a dozen calls with a grand total of zero responses. Your US tax dollars might be hard at work somewhere, but not at the Frankfurt FBU.

The Frankfurt FBU has at least acknowledged its shortcomings. The Poland FBUs at Warsaw and Krakow are "also providing assistance to residents of Germany, Switzerland, and Austria". We've heard that France might be able to help as well.

Whether it's your first child or not, navigating their passport and social security number process is an ever-changing obstacle course. The first step is to get a Consular Report of Birth Abroad (CRBA) appointment. This is not done by the FBU but rather the "normal" embassy services. You can apply for your child's passport simultaneously, which we recommend. It's illegal for a US citizen to enter the US with a foreign passport. Once you have received the CRBA, you'll be ready to get their social security number. Hopefully, you'll have better luck finding an open appointment on their calendar than I have had. Even if you do get the appointment, expect several months (or a year) before actually receiving the social security number.

Technically, you're supposed to have the social security number issued (as if we'd be able to know when that was) prior to the end of the tax return filing year. So, if you're having a child in 2022, please get the SSN before December 31, 2023 (the year you file for 2022). Given that's later than the tax filing due dates, you can always file without the dependent and then amend after, but amending is always better to avoid if possible.

Here are the options of avoiding the Frankfurt FBU:

- Wait until you're visiting the US and do it locally.
- Go to one of the other country's US embassies (with an FBU, not all embassies have them).
- We've also heard that the Swiss embassies are also helping, although it is not advertised on the Frankfurt FBU website. Thanks to the client who shared their colleague's experience going this route... and apologies that they misspelled your child's name.

Interesting links from this newsletter: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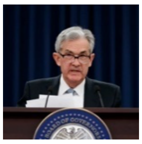
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Long term care, critical illness, and estate planning

2022 has been one of the most challenging years for several White Lighthouse clients, dealing with serious illnesses, deaths of a loved one and the intense challenges of being a caregiver and/or managing the estate settlement process. Each situation is unique and presents its own challenges, though being prepared can help to lower stress. Having a network of friends, family, and professionals along with being well-organized on home administration are all important elements of being prepared. Your team at White Lighthouse can help with several aspects and below are some things to consider:

1. Download (and complete) from our Public Folders (Sharefile) or ask us to send you a copy of our Estate Planning Organizer.
2. Review your estate planning documents: Wills, Trusts, Health Care Power of Attorney etc.
3. If something unexpected happens to you or your spouse, would you know where to begin in terms of finding home health care, finding an assisted living facility, or settling an estate?
4. Where are your documents located? You can always store a copy on the White Lighthouse Portal.
5. Are your beneficiary elections up to date in your wills, financial accounts, life insurance etc.?
6. Do you know which of your assets would be subject to probate?
7. Are accounts titled the way they should be?
8. Does each spouse have access to cash in case a financial institution freeze's accounts due to an unexpected passing?
9. Can someone access your computer in an emergency if this is where critical information is stored?
10. For clients with Schwab accounts, a Full Power of Attorney or View only access can be provided and for US Residents, a Durable Power of attorney (needed during incapacity) can also be organized.
11. If you may need a long-term care facility in the next 5 years, have you started to do your research? One of our clients mentioned the firm Senior Care Authority in the US for firms that help clients to choose a facility and make it their business to know the state of current management.
12. Are your facing a critical medical challenge and are having trouble locating the right hospital / doctor / specialist, another client recommended this non-profit organization in New York.

13. Are there discussions that you should be having with children, parents, a spouse, or other loved ones with respect to your planning?
14. Is anything regarding your future estate planning or long-term care planning keeping you up at night? Maybe now is the time to give us a call, organize your affairs and/or contact an estate planning attorney.

Preparing for declining health and eventual death is not enjoyable, it can be hard work and emotionally draining. Postponing until next month or next year is not unreasonable for many people, but it all depends on your current situation. If you have read through this section and find that now is the time for you to make some progress on your future planning, we would be happy to set up a time to talk and see how we can help you.

Inherited IRA Rules

You may be the beneficiary of an IRA account or may wonder what will happen if you or someone you know becomes the beneficiary of an IRA account. Here are a few things to know:

IRA accounts are part of a taxable estate. So, IRA accounts may, in some circumstances be subject to both an estate tax and then an income tax on distribution. For planning purposes, especially for the potential beneficiary, it is important to understand the before and after-tax value.

Generally, only a death certificate and a proof of identification are needed to claim funds when you are the beneficiary of an IRA Account.

If IRA accounts have a proper beneficiary designation, the IRA will not pass through the probate process. If the beneficiary is the estate, then a will (or intestate rules) dictates who the beneficiary is, and then the IRA would go through probate.

If you are the beneficiary of an IRA, there are different rules if you are a spouse or not a spouse and if the account holder was under or over age 72 and there are some variations for Roth IRAs. This article from Charles Schwab and Co. describes the rules and alternatives in detail, a summary is below.

The main choices available upon inheriting an IRA are as follows:

1. Spousal Transfer into your own IRA. This is only available to spouses who inherit an IRA, and only available where the spouse is the only beneficiary. If non-spouse beneficiaries are co-beneficiaries with a spouse at the same level (e.g., primary or secondary), then Schwab has a workaround to enable the Spousal transfer.
2. For non-Spouse Beneficiaries the choices are:
   a. Open an Inherited IRA and use the 10-year method: Any time up until December 31 of the 10th year after the decedent has died, all of the proceeds must be

b. distributed. These can be taken in various lump sum amounts, there is no annual RMD just a requirement that everything is distributed by year 10.
c. Distribute all assets outright.
d. Open an Inherited IRA and use the Life Expectancy Method, but only in certain circumstances is this still allowed. When allowed, RMDs will happen annually and must start by December 31 of the year the decedent would have turned 72. For non-spouses to elect this option, the beneficiary must be:
    i. A disabled or chronically ill person
    ii. A child who has not reached the age of majority
    iii. A person not more than 10 years younger than the IRA account owner

If you have not looked at your IRA beneficiary elections in a while, you may want to check them. We can help you to understand the planning around IRA beneficiary elections and recommend that you click on the link above as you consider naming your beneficiaries. One additional note is that a beneficiary will need either a Social Security number or a Tax ID number to inherit the IRA and so yes, non-Americans can inherit an IRA account, and, in fact, the US-Swiss treaty has some favourable provisions for Swiss resident non US taxpayers regarding IRA and other retirement accounts.

White Lighthouse Investment Management (WLIM) Information

Congratulations to Heather Carbone for her 1-year anniversary at White Lighthouse. Otto Rivera fresh off of his passing the CFP® exam will now start more detailed US tax studies to become an enrolled agent. In the next 12-15 months, we are hoping to add at least two more people to our team. As soon as we have more news, we will let you know.

Market Wrap up for the 3rd Quarter of 2022:

Index	**Quarter**	**Last 12 months**
S&P 500	↓ 5.3%	↓ 16.7%
Dow Jones	↓ 6.7%	↓ 15.1%
Canadian Market	↓ 1.8%	↓ 8%
Swiss Market Index (SMI)	↓ 4.4%	↓ -11.8%
FTSE	↓ 3.8%	↓ 2.7%
DAX	↓ 5.2%	↓ 20.6%
CAC40	↓ 2.7%	↓ 11.6%
Shanghai Index	↓ 11%	↓ 15.2%
$USD against CHF	↑ 3.3%	↑ 5.8%
$USD against €Euro	↑ 8.3%	↑ 16.9%
Federal Funds rate 3%-3.25%		

Conclusion

I would like to close out this newsletter by thanking my team at White Lighthouse. This year we have been asked by many of our clients to help them as they or their loved ones have faced both unexpected major medical challenges and/or the unexpected passing of a loved one. Financial Planning as a profession puts our team in the position to be able to assist our clients in both good and bad times and I appreciate the trust that you, our clients have placed in us and the responsiveness and professionalism of my colleagues. If there is any aspect of your planning that is causing you concern or if you would just like to discuss and ensure everything is in place, we look forward to hearing from you.

We wish you a healthy autumn as the end of 2022 approaches and hope for some less exciting times ahead in both the markets and the news.

Jonathan and the White Lighthouse Team

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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 72
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 username 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 is now required and Sharefile will force weak passwords to be changed.

Your quarterly reports are generally ready before 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 is the 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 72 (formerly 70.5 and for individuals who turned 70.5 in 2019 or earlier)

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 do 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 taxpayer with earned income in 2020 or 2021 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 $6000 per individual per year and $7000 if you are over 50 years of age in both 2020 and 2021.

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 taxpayers 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
Investment Management

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PRIVACY STATEMENT- 2022

White Lighthouse Investment Management, an independent financial planning firm, is committed to safeguarding the confidential information of its 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.

White Lighthouse Investment Management, Inc.
Business Continuity Plan 2022 – Client Copy

White Lighthouse Investment Management, Inc. has developed a Business Continuity Plan on how we will respond to events that significantly disrupt our business. Since the timing and impact of disasters and disruptions is unpredictable, we will have to be flexible in responding to actual events as they occur. With that in mind, we are providing you with this information on our business continuity plan.

Contacting Us – If after a significant business disruption you cannot contact us as you usually do by phone, email or Skype, you should call our office manager Kathleen Quintero 201-394-9067 or go to our website at https://www.white-lighthouse.com/who-we-are .**Error! Hyperlink reference not valid.** and contact another member of the team. If you cannot access us through either of those means, please contact your custodian or use your on-line log in to access your accounts.

Our Business Continuity Plan – We plan to quickly recover and resume business operations after a significant business disruption and respond by safeguarding our employees and property, making a financial and operational assessment, protecting the firm's books and records, and allowing our customers to transact business. In short, our business continuity plan is designed to permit our firm to resume operations as quickly as possible, given the scope and severity of the significant business disruption.

Our business continuity plan addresses: data backup and recovery; all mission critical systems; financial and operational assessments; alternative communications with customers, employees, and regulators; critical supplier and counter-party impact; regulatory reporting; and assuring our customers access to their funds and securities if we are unable to continue our business.

Varying Disruptions – Significant business disruptions can vary in their scope, such as only our firm, a single location of our firm, the business district where our firm is located, the city where we are located, or the whole region. Within each of these areas, the severity of the disruption can also vary from minimal to severe. Since our firm is a "virtual firm" and our employees are all in different locations, the likelihood of this type of disruption effecting our whole business in minimal. If the significant business disruption is so severe that it prevents us from remaining in business, our clients can contact the custodian directly by phone, access their account online or if available use their checking and debit card capabilities to access funds.

For more information – If you have questions about our business continuity planning, you can contact us at 508-471-4431 or email: lachowitz@white-lighthouse.com or kquintero@white-lighthouse.com

Customer Relationship Summary

White Lighthouse Investment Management is registered with the Securities and Exchange Commission (SEC) as an investment adviser. Brokerage and investment advisory services and fees differ, and it is important for you to understand these differences. Free and simple tools are available to enable individuals to research firms and financial professionals at investor.gov/crs. This site also provides educational materials about broker-dealers, investment advisers, and investing and we recommend that you visit this site as part of your decision-making process on choosing a financial services provider. We are happy to answer any questions that you may have about our firm, pricing and services.

What investment services can you provide me?	We offer investment management, financial planning, and comprehensive wealth management services to Individual investors. Our specialty is serving international clients and global families including overseas Americans, non-Americans living in the United States and clients who require a global perspective. In order to provide investment management services, we conduct a discovery process to understand the clients' income and net worth, their goals, risk tolerance and other factors that inform the investment policy that guides the design and management of clients' portfolios. We create diversified portfolios with a custom designed asset allocation mostly composed of low-to moderate cost, high quality, liquid investments, mostly in the form of exchange traded funds from companies like Vanguard, BlackRock (iShares) and others though we may use or retain individual securities, mutual funds and bonds. We recommend the opening of securities brokerage and retirement accounts through independent custodians and use their trading platforms to manage investments. We do not work with annuities, insurance products and do not facilitate alternative investments like hedge funds, private equity and direct real estate holdings. We monitor our client accounts and investments every three months at a minimum and provide more frequent monitoring as needed or in agreement and coordination with the client. Our clients have the option to give our firm discretion to buy and sell securities on their behalf according to a mutually agreed asset allocation in the client's best interest. This authority can be given by the client at the start of the relationship and it will be active until a time where the client decides to withdraw it and notifies us. If the client decides not to give our firm discretion to buy and sell securities on their behalf, they need to understand that it is them who make the ultimate decision regarding the purchase and sale of investments. We provide financial planning services such as tax, retirement and estate planning, with a focus on US cross-border issues, either on project basis for clients who we do not manage assets, or on an ongoing basis for investment management clients and wealth management clients. Examples of specialized financial planning services include outbound and inbound US planning due to international relocations, business planning for professionals and owners with operations in multiple countries; rental real estate planning in and outside the USA; expatriation(surrendering US citizenship or green cards) and naturalization planning; estate and tax planning for beneficiaries of foreign trusts or complex structures and tax compliance review, including IRS international compliance programs. We have a minimum annual fee of $7,500 for new clients though the minimum may be higher or lower based on service level or special circumstances. For additional information, please see our website at www.white-lighthouse.com and Form ADV 2a.	***Conversation Starters:*** *Given my situation, should I choose an investment management service? Why or why not?* *How will you choose investments for me?* *What is your relevant experience, including your licenses, education and other qualifications?* *What do these qualifications mean?*

What fees will I pay?	For on-going investment management services, clients will pay (quarterly in arrears after the end of each calendar quarter) a percentage of assets under management and/or a fixed fee. In some cases, the client will only pay a fixed fee. For Project work, clients will only pay a fixed fee or an hourly fee. If you are charged a percentage of assets under management, the more assets that are in your account, the higher your fee will be and the firm and individual manager may therefore have an incentive to encourage you to increase the amount of assets in your accounts under our management. All White Lighthouse fees are stated in the contract for services. There are other costs to clients associated in working with us that could include custodian fees, trading fees, interest, wire or asset transfer fees, tax reporting fees and product level fees such as the fees charged inside of an exchange traded fund or mutual fund More details on our Fees can be found on our ADV 1 Section 5E, ADV 2a Pages 4-6 and on our web site www.white-lighthouse.com/pricing You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.	***Conversation Starters:*** *Help me understand how fees and costs might affect my investments. If I give you $10,000 to invest, how much will go to fees and costs and how much will be invested for me?*
What are your legal obligations to me when acting as my investment manager? **How else does your firm make money and what conflicts of interest do you have?**	When we act as your investment manager, we must act in your best interest and not put our interest ahead of yours. At the same time, the way we make money is charging fees based on a percentage of the amount of assets under our management. This creates some conflicts with your interests. You should understand and ask us about these conflicts because they may affect the recommendations or advice, we provide you. Here is an example to help you understand what this means: If we recommend you to move money or financial securities into an account that we manage the more the account will be worth and the higher your fee will be. More specifically, if we make a recommendation to rollover your employer retirement plan into an IRA account managed by our firm your fees paid to us increase since we will be managing more assets. We are fiduciaries under ERISA and follow these special rules. See form ADV 2A - Retirement Account Rollovers. Our firm does not receive compensation based on recommendations of products or any other advice or services. The firm does not have or offer any kind of proprietary products.	***Conversation Starters:*** *How might your conflicts of interest affect me, and how will you address them?*
How do your Financial Professionals make money?	Our financial professionals are compensated through a salary and/or direct revenue earned by the firm from the clients the advisors service and may receive standard benefits such as health insurance, retirement fund contributions and expense reimbursement for normal and customary business expenses. Investment managers therefore earn a higher salary directly based on the amount of investments they advise on or manage. When doing project work, our advisors may earn more money based on the time spent on a project. Our advisors do not earn any compensation based on products sold, sales commissions. Neither the firm nor the individual receive compensation based on recommendations of products or any other advice or services.	
Do you or your financial professionals have legal or disciplinary history?	No, none of our financial professionals have any legal or disciplinary history. Visit investor.gov/crs for a free and simple search tool to research us and our financial professionals.	***Conversation Starters:*** *As a financial professional, do you or anyone on your team have disciplinary history?* *For what type of conduct could an advisor get a record for discipline?*
Additional Information	For additional information about our services, visit our website: http://www.white-lighthouse.com/ If you would like additional, up-to-date information or a copy of this relationship summary, please call +1 508 471 4431 or e-mail Kathleen Quintero at kquintero@white-lighthouse.com	***Conversation Starters:*** *Who is my primary contact person?* *Is he or she a representative of a registered investment advisor?* *Who can I talk to if I have concerns about how this person is treating me?*