Newsletter | March 31, 2023

Dear Clients,

If you stopped watching the news and the stock markets on January 1st and started again just now at the end of the first quarter, you could assume that there was not much going on in the world. Central Banks continued raising interest rates with the Fed indicating they are near the end, inflation is coming down (at least in goods, energy, food, and housing…but not other services), most stock markets are up a little from the beginning of the year. The "recovery" must be under way.

Well, when policy shifts dramatically (the Fed has raised interest rates almost 5% in a year), some parts of the market can get unsettled, in dramatic fashion. This is exactly what we have seen with the 2nd largest bank failure (and bailout), of Silicon Valley Bank (SVB), in US history, a couple of other banks going bankrupt or needing considerable help, and then, on the other side of the Atlantic, the biggest victim yet. Credit Suisse's spectacular demise leaving the Swiss Banking industry and the government's reputation in tatters, the reverberations of which will be felt for years or decades to come.

It has been quite a long time since we have gotten questions from clients about their cash being "safe" in banks, and now several people are checking in on one risk (of many) that always comes up in times of bank bankruptcies making headlines. Bank runs, company failures, and government intervention are nothing new; perhaps this is why the stock markets have largely reacted with a shrug with only a few percentage point moves. This does not look anything like the financial crisis of 2008, after all in the case of SVB, it was the "forced" sale of long dated government bonds combined with a classic (enhanced by technology only) bank run that lead to their demise.

In times of greater economic uncertainty, it is quite common to see company failures; these are often the weakest or most poorly managed companies who are exposed to a heightening of a particular risk or a large loss in confidence of shareholders and customers. In the newsletter below, I will cover in detail the SVB and Credit Suisse stories as well as a number of other topics such as inflation and interest rates, US retirement accounts and social security treatment in Switzerland, and an update on what is going on at White Lighthouse.

Thank you all for the many great questions we have received in the past few months. The entire team at White Lighthouse is very service-minded and appreciate questions of all sorts, so we encourage you to get in touch with whatever is on your mind. We hope you enjoy our latest newsletter!

Silicon Valley Bank, Credit Suisse, what is going on with the banking industry, and should I be worried?

Money, whether in cash or in our bank accounts, is often taken for granted. Much like breathing oxygen, cash is not a problem until you can't get enough. On an individual basis, this may be because of bad luck, a job loss, medical problem, or unsustainable financial habits. If we are financially fortunate and responsible, which is you, our clients, people don't tend to worry too much about money/cash in our bank accounts on a day-to-day basis. This can change, rather abruptly, during a banking crisis, and history is full of examples of the loss of confidence in individual banks or the entire banking system of one or multiple countries.

Bank failures are nothing new and they can be unsettling; there are many examples from the past. The US, for example, has about half as many banks (though many were merged or bought and did not fail) as it did during the Savings and Loan Crisis in the 1980s, and during the Financial Crisis in 2008 some rather large financial institutions failed. Silicon Valley Bank (SVB), Signature Bank (with former Congressman of Dodd-Frank fame, Barney Frank on the board), and Silvergate (a bank serving the crypto industry) all failed within a one-week period in early March with SVB being the 2nd largest bank failure in US history. On the other side of the Atlantic, Credit Suisse experienced a dramatic loss in confidence with the share price cratering, prices on their Credit Default Swaps (insurance on Credit Suisse's debt) skyrocketing (due to concerns of bankruptcy), and the share prices of large and small banks around the world retreating significantly. Ultimately, we see that Credit Suisse's situation became so desperate that with a lot of government intervention, changes of laws at the last minute, and irregular regulatory decisions, UBS will now own Credit Suisse for better or for worse.

Before we get into the specifics of SVB, Credit Suisse and what, if anything, we should be worried about or act upon, let's look briefly at the fundamentals of money and the banking systems. Money at its core is any medium of exchange that is accepted for the payment of goods and services. Money could be commodity-backed, historically this could have been by precious metals like gold, corn, seashells, etc., and more recently "fiat" money. Fiat money such as the US dollar, the Swiss franc, the euro, and other currencies which is based on people's perception of its worth, which today is dictated by the relative strength of governments, their taxing authority, legal system, inflation, and interest rates, etc.

Fiat money systems rely on banks, and specifically loans to "create" money though the fractional reserve system. Essentially it works like this, if a consumer deposits $10,000 into a bank account, the bank can use that deposit to create roughly $9000 in loans, depending on the reserve requirement, which is how much cash a bank has to keep on hand to satisfy withdrawal requests. There are a lot of good resources to go in depth here such as this YouTube video from Five Minute Finance. Banking works very nicely to grease the wheels of economic activity, and occasionally suffers from somewhat dramatic losses in confidence. When this happens to one or multiple banks, and depositors panic, trying to withdraw a lot of money at the same time, this creates a bank run.

A bank run is exactly what happened at Silicon Valley Bank with over 25% of the entire deposit base withdrawn in 24 hours. Most banks could not withstand this type of withdrawal pressure and as such a crisis in confidence unfolded the bank was shut by Friday, March 10th. By Monday, March 13th, it was announced by the FDIC (The Federal Deposit Insurance Corporation), after taking control of the bank, that all depositors could withdraw all of their money, even those with more than $250,000 (the FDIC insurance level). The federal government was confident that the bank had enough assets to cover most, if not all, of the deposits, though shareholders in the bank would lose everything and bond holders would also sustain losses.

Let's look a little more closely at what happened at SVB to cause this bank run. To set the scene, those of you who have read Malcolm Gladwell's book *Outliers*, may recall that in Chapter 7 he suggests that in general plane crashes are a series of about 7 consecutive failures rather than one discreet event. A bank failure is similar and certainly a lot of things went wrong in causing the SVB failure.

At the beginning of March 2023, Silicon Valley Bank was the 16th largest bank in the United States with close to $200 billion in assets and here are a list of the major factors contributing to its failure:

1. SVB's deposit base grew very quickly from about $44b to $189B from 2017 to 2021.
2. Over 90% of SVB's deposit base was uninsured (e.g. above the FDIC limit of $250,000), they had relatively few clients, with very large deposits compared to banks their size. Their clients had a high concentration in the venture capital industry in Silicon Valley.
3. SVB had a relatively low amount of loans, growing from $23B to $66B from 2017 to 2021.
4. SVB invested most of the cash in longer-dated (10-30 years), higher yielding US Treasury Bonds. The safest of safe, from a credit standpoint, but still subject to interest rate risk.
5. In 2022 and early 2023, the Federal Reserve raised interest rates by a whopping 450 basis points. This caused "paper" losses to bonds, as bond prices go down when interest rates go up.
6. On March 8th, the bank announced it was seeking to raise $2.5 billion in additional equity due to unrealized losses on its balance sheet.
7. On the same day SVB sold about $21 billion in bonds to shore up its cash levels and realized a loss (about 8.5%) of $1.8 billion.
8. It appears that the rating agency Moody's was "threatening" to downgrade SVB's credit rating, which is what led to the hastily organized sale.
9. A significant number of large depositors were active on Twitter, and specifically mentioning the concerns about SVB and that they would be withdrawing large sums of money.

And thus, the bank run was started...not with hundreds of angry and worried depositors lined up at a bank branch, but rather individually at their computer screens, moving money out, over $40 billion in one day from SVB.

One thing is for certain, this is not the same source of risk that started the 2008 Financial Crisis. In fact, the bank was invested in "super safe" US treasury bonds. They did however mismanage their balance sheet. Ultimately, it was interest rate risk along with a series of unfortunate steps that brought the bank to insolvency. While the story is still being written and there is a lot of finger pointing going on, this failure seems to be not criminal, but rather lacking in total risk management. Undoubtedly there will be some regulatory changes, especially for mid-tier banks in the US but more importantly in the short-term, is what will be the fallout and risks to the wider financial system.

The three bank failures in the US within a short time has prompted a lot of shifting of focus of regulators, investors and risk managers trying to figure out what other investments and specifically financial institutions may be at risk; and are there systemic issues that may cause wider panic?

Reviewing most bank stock share prices from March 1st to March 31st, it will be easy to see which banks investors are most concerned about. Some of these concerns are over blown, some are not. Credit Suisse in Switzerland and First Republic Bank in the US are (as of March 18th while I am drafting this) the most concerning, both are receiving support and both are fighting for their existence.

Credit Suisse – Part 1 – Written March 18th – Pre Takeover

[*I have left this section, written on March 18th intact, though the situation has changed dramatically. Part 2 below on Credit Suisse has the updated information*].

Credit Suisse, for those who know the bank well, was founded in 1856 and is one of the two remaining large Swiss Banks. Credit Suisse's problems however are nothing like SVB. Let's start by looking at a share price graph of the bank:

Credit Suisse's problems have been a couple of decades in the making. Like any large bank they have some great people and businesses that perform very well, however in aggregate the bank has suffered from many scandals, a bifurcated risk culture of high risk, and resistance to change. Multiple CEOs have been unable to improve the shortcomings in the bank's businesses and culture. If Credit Suisse is still a stand-alone entity a year from now, I will be surprised; I am just hoping for an orderly wind down, because if it is disorderly, this will cause a lot of unnecessary pain for clients, employees, and counterparties, not to mention another big mark on the Swiss financial industry.

On March 14th, the head of the Saudi National Bank said in an interview that they would not provide any further assistance to Credit Suisse, the share price promptly dropped another 24% in just one day. Ironically, less than 6 months ago, the Saudi National Bank invested $1.5 billion for a 9.9% stake in Credit Suisse and representatives were quoted as saying things like "we got in at the floor price", "it is a steal". Well, if their entry point was the floor, they are many stories underground now with a roughly 50% loss in their investment in just 6 months. The Saudis may still consider their investment "a steal" but as the victims, not the perpetrators, as they clearly have lost confidence in the management in a very short time. I wonder who was in charge of their due diligence before making this investment? [On March 27th, the Chairman of the Saudi National Bank, Ammar al Khudairy, resigned for "personal reasons", presumably due to this poor investment in Credit Suisse.]

On March 15th, in what I think was a rather underwhelming release, it was announced that the Swiss National Bank (SNB) would "support" Credit Suisse and this in the form of a loan of 50 billion Swiss francs to Credit Suisse. This was called a "decisive action to pre-emptively strengthen its liquidity", I call this "lipstick on a pig". This is a band-aid while the patient is on life-support, and it does not reflect well on Credit Suisse or the Swiss National Bank. [We now know other actions were being planned behind the scenes.]

There are so many things to respect and like about Switzerland, the Swiss banking and regulatory culture is not one of them. With extensive experience working with Swiss bankers and within the regulatory framework, I think they are firmly grounded in the 20th century and not well-prepared to serve consumers and the general public. Like a glacier slowly melting due to increasing temperatures, the Swiss financial system gets its strength from past success while the foundation is slowly disintegrating; more problems are in the future. There is still time to change things, but inertia and myopia is holding back improvements.

Ok, enough bank and regulator bashing, I always like to bring the macro level issues down to practical steps that our clients can take. Let's start with the safety of cash deposits and even before getting into details, if you have a lot of cash still at Credit Suisse, please strongly consider moving it out. [Too late now, though we have been suggesting this for many months to clients where we knew this to be the case.]

In the United States, bank deposits are guaranteed up to $250,000 but as is evident this week, the Federal Reserve and FDIC implicitly are protecting depositors at a level much higher, if their bank is systemically important. Very much like a Mario Draghi moment, the US government "will do whatever it takes" to maintain stability in the system. On the other hand, Switzerland does not have any government insurance for bank deposits. If a Swiss bank goes bankrupt, there is a self-insurance scheme in place where all the other banks contribute, based on their size, to make depositors whole only up to 100,000 CHF, and this is limited to an aggregate amount of 8 billion CHF after the failed bank's assets are used. Many of the cantonal banks are in fact safer, with the cantonal government insuring deposits, though BCV (Vaud), BCG (Geneva) and BKB (Bern) do not participate.

My expectation (as I am drafting this on March 18th) is that executives at Credit Suisse and also at the SNB and FINMA (Financial Markets Regulator in Switzerland) are preparing emergency plans in case Credit Suisse becomes insolvent. There are rumours that UBS or other companies may be lining up to take over part or all of Credit Suisse's business. Part of me wonders who would bother paying, even a discounted price, when so much of the business is migrating for free without acquiring the problems that come from buying the assets.

This section would not be complete without at least a brief review of assets on deposit at any financial institution. All investments, cash, stocks, bonds, real estate, private equity, options, gold, etc., have risks. Each has a different risk profile and often the best way to prepare for all risks in aggregate is **diversification**.

1. Cash on deposit at any financial institution is subject to the risks of that institution's solvency. To mitigate that risk, insurance such as FDIC or Swiss deposit insurance managed by Esisuisse.
2. Non-cash assets held in custody at financial institutions are not subject to the risk of the institution's solvency, these are "ring-fenced" and the biggest risk (of gain or loss) tends to be price changes.
3. In the US, SIPC insurance protects against securities missing from client accounts (e.g. by fraud). We believe that Charles Schwab and Company has the best guarantee in the industry for loss due to cybercrime and other non-market risk loss.

We have had a few questions from clients this month about the banking turmoil, nothing alarming, but when news headlines are about bank failures, it heightens our awareness to risks that we may not be considering, such as the bankruptcy of a bank. These risks are in fact always there, and in many cases, insurance would cover our cash balances and our investments will be ring-fenced and not subject to loss if the custodian runs into trouble. If you have any questions, please don't hesitate to reach out to us. The Esisuisse website, especially the Frequently Asked Questions, had a lot of detailed information about Swiss deposit insurance.

So, should you be worried? Maybe a little bit if you are holding large amounts of cash at any one financial institution. I would not be worried about the entire global financial system collapsing, which was a real concern back in 2008. We can expect to see more companies, including banks, go bankrupt, more legislation and some of the more normal challenges that come towards the end of an economic downturn before the next up cycle.

Credit Suisse – Part 2 – Written after March 19th - Oh My !

Oh my, March 19th will likely go down in history as the beginning of the transformation or end of an era in Swiss banking. In the short-term the consequences are significant and a large embarrassment for the industry (both companies and government) with conflicting reputations for scandal and stability.

As most of you now know, on the evening of March 19th, a panel of Swiss government leaders along with the Chairmen of both UBS and Credit Suisse addressed the world that UBS would be taking over Credit Suisse with enormous government support. As a Swiss taxpayer, citizen, and industry participant and analyst, I consider the decisions of March 19th to be both largely necessary (due to past and glaring business and government failures) and an embarrassment will likely create more problems than it solves.

In the short-term, the measures taken appear to have brought a fragile stability to the global banking industry (stock markets had relatively benign moves, though there were larger stresses in credit markets) as two global and systemically important banks, UBS and Credit Suisse, become one entity. For this, government officials and the financial industry, as a whole, breathed a collective sigh of relief. However, I believe the fallout from this move will be, on the whole, bad for Switzerland in many respects.

The major components and risk to what happened on March 19th are the following:

1. Government officials in Switzerland saw a share price crash and a total loss of confidence in Credit Suisse, and determined that the bank, though still solvent, was too close to the danger of failing, so they acted before a run on the bank could get further momentum.
2. UBS will acquire (was forced by the Swiss government to acquire) all of Credit Suisse, for 3 billion Swiss francs delivered in UBS shares (not cash). This is a small fraction of what the bank was valued previously. A year ago, it was valued at over 25 billion and historically it

had been valued at well over 100 billion CHF. Credit Suisse shareholders will receive 1 UBS share for every 22.48 Credit Suisse shares.

3. UBS will have to absorb the first 5 billion CHF in losses (presumably from lawsuits) related to the merger and the Swiss government (taxpayers) will be on the hook for the next 9 billion CHF of losses. After 14 billion CHF, it will then be back to UBS's responsibility.
4. Holders of AT1 Bonds of Credit Suisse or Contingent Convertible (Cocos) bonds were completely wiped out for 16 billion CHF. This is the riskiest level of debt and means that UBS will not have to pay back the bondholders (unless presumably they lose a lawsuit(s) that will likely be filed).
5. FINMA, the financial markets regulator in Switzerland (our regulator too), decided that bond holders of this risky debt would get nothing even when shareholders get 3 billion CHF. This is virtually unheard of and will have repercussions on the Swiss legal system and Swiss reputation for decades to come. In corporate hierarchy, it is well-established in corporate law worldwide that shareholders take more risk than bond holders and bondholders have the priority over shareholders in the event of insolvency. It appears that FINMA acted "legally" (some laws were changed in Switzerland the previous week to make this deal happen) as the Credit Suisse prospectus for these AT1 bonds indicates that shareholders may be prioritized over AT1 Bond holders if the bank fails. (Each bank issuance of AT1 bonds is different.) The repercussions of this decision is what will lead many investors to question the reliability of the Swiss government in corporate law in the future. Here it seems that the government chose to favour shareholders (CS executives, many Swiss residents and pension funds and several middle Eastern governments, who combined owned 25% of CS shares) over the AT1 bondholders (largely international financial institutions). FINMA's director, president, and three of its board members are former Credit Suisse employees. It is evident to many people in industry that the Swiss regulators appear to favour the larger banks and financial institutions over smaller firms. Undoubtedly there will be many inquiries going forward and hopefully positive changes in supervision and the regulatory structure.
6. On March 15th the Swiss National Bank publicly made 50 billion CHF in additional liquidity available to Credit Suisse, but privately they made more than 100 billion in additional liquidity available.
7. The Swiss National Bank (SNB) has offered UBS additional liquidity of up to 200 billion CHF. This means that UBS will be able to borrow, an additional 200 billion CHF from the Swiss central bank, in case they need to access cash quickly to meet withdrawal requests, which avoids them having to quickly sell assets. Strangely the SNB did not disclose the interest rate that the bank would be subject to.

8. UBS and Credit Suisse employ about 125,000 people and about 30% are in Switzerland. It seems clear that far more than 10,000 employees will lose their jobs. I would guess 15,000 to 20,000 or more in Switzerland alone (between Credit Suisse and UBS), and this would be above the 9000 in worldwide job cuts that Credit Suisse already announced. This will likely be ~10% or more of all banking jobs in Switzerland that will be lost due to this forced merger.
9. UBS has become far too big for Switzerland, both for the government and for the domestic Swiss Market. The combined assets of UBS and Credit Suisse in 2021 were about $2.6 trillion where Swiss annual Gross Domestic Product (GDP) was about $800 million. UBS, after completing the merger (without any divestiture) will have a balance sheet about double the size of annual Swiss GDP. By contrast the largest US Bank, JP Morgan Chase, is less than 15% of US GDP. UBS has become too big to fail and too big to save. If they run into trouble again, like they did 15 years ago during the financial crisis, the Swiss government may not have the capacity to save them. Maybe they ought to consider their relationship with the US government even more carefully or encourage UBS to be managed much more conservatively?
10. In the Swiss domestic market, the combined bank will have over 30% market share. This is not good for competition and risk management. In fact, the banking insurance of a maximum of 8 billion CHF would potentially be insufficient to cover UBS account holders in the event that UBS ran into serious trouble. For all clients in Switzerland with a UBS account, I would ask you to consider a second bank to diversify risk. If you hold large amounts of cash, it is safer to split this between two banks. I think the Swiss government should make some changes such as requiring UBS's domestic Swiss operations to be an entirely separate company, and then to further restrict the largest domestic bank to have no more than 20% market share in any business line they compete in. Swiss legislation has continued to favour large Swiss financial institutions over smaller ones, this is bad for customers, taxpayers, and business owners.
11. The Swiss regulators are allowing Credit Suisse to award bonuses that were granted in 2022, but some executive bonuses granted before 2022 would be "temporarily" suspended. The executive board (thankfully) waived their 2022 bonuses.
12. One of the changes in the law from this month in Switzerland was that the takeover by of Credit Suisse by UBS could happen by waiving the right to a shareholder vote on the proposal. Another large deviation from standard business practice. The government also waived antitrust laws due to the potential severity of not getting a deal completed.
13. During the press conference a couple of the panellists indicated that Silicon Valley Bank and Twitter "caused" the debacle at Credit Suisse. Management did not own the

responsibility, and this is a highlight of one of the biggest problems in the Swiss Banking culture. They blame so many of their problems on foreign forces (e.g., US government) without understanding that their formerly successful model of working is not going to carry them through the 21st century.

14. After the 2008 Swiss Government Bailout of UBS, the Swiss government vowed never to bailout a bank again. In the March 19th press conference, the government explicitly said that this deal with UBS was "not a bailout". If it looks like a duck, swims like a duck, and quacks like a duck it is probably a duck. Make no mistake, this was a bailout.
15. On March 29th, UBS decided to replace its CEO Ralph Hammers (Dutch CEO of UBS 2020-2023) with the former CEO of UBS (2011-2020) Sergio Ermotti. I believe this was done to have a "Swiss" CEO to help navigate [though this is denied by the UBS board] what will be a complex restructuring balancing the interests of the bank, the employees, the clients, and Switzerland. This might be a reasonable short-term (2-year) move but if UBS is going to thrive as a global bank in the future, I think they will need a CEO who is willing to make dramatic and modernizing changes to the bank and the company culture.

John Mack the former CEO and Chairman of Morgan Stanley (during the financial crisis) and also a former CEO of Credit Suisse was on the news recently being interviewed about the current environment. His time at Credit Suisse was challenging, he stated that the board had told him that he was the most arrogant person they had ever met; he retorted that they were the stupidest people he ever met. Credit Suisse's failure was primarily due to bad management over a long period of time and failure to adapt. This is not a reflection on the many fine employees it has and had over the years, but it should be a lesson for government and executives alike.

As soon as the Swiss stock market opened on Monday, March 20th, after the announcement, UBS shares fell about 17% but recovered and closed higher the day after by about 12% above their Friday, March 17th closing price. UBS seems to have gotten Credit Suisse assets (and a big reduction in debt) at a bargain price. It will however take many years to see if they can successfully integrate and restructure operations. Investors in UBS should proceed with caution and the Swiss government needs a regulatory framework to ensure that in the next banking crisis, UBS is not a threat to the entire country.

Interest Rates, Inflation and Central Banks

On March 22nd, the Federal Reserve announced that they were raising rates by .25% and by all current indications (subject to change based on new data), that they foresee raising rates only one more time by .25% which may well be the peak of this interest rate cycle. Inflation data on services is still running too high compared to the Fed's 2% target. Chairman Powell indicated that the latest banking turmoil is likely to slow the availability of credit, with the knock-on effect of slowing the economy further and hopefully helping to bring inflation down, mitigating the need for further interest rate increases.

On March 23rd, the Swiss National Bank raised interest rates to 1.5% (from a low of negative .75% last year) and has indicated that rates are likely to go higher. This will impact housing prices and the cost of mortgages, especially Saron (Swiss, Average Rate Overnight, floating rate, formerly Libor) as well as rents which can be raised by contract when interest rates go up.

The ECB raised rates to 3.0% on March 16th. ECB President Christine Lagarde strongly stated that the ECB had the tools to fight inflation (mostly interest rate increases) as well as promote financial stability (confidence and liquidity in the banking system). Words that were echoed a few days later by Chairman Powell. The US seems further along the path of the inflation curve and so I would anticipate more increases to come from European Central banks than the US Federal Reserve.

Central Banks play a key role in not only interest rate policy but also financial stability. If, in fact, this entire "crisis" in banking has seen its peak of fear, I would say this is rather a resounding success for central banks and governments to quickly be able to address a potentially devastating loss in confidence. I suspect however that the focus will turn now to regulations and enforcement, which have had some serious deficiencies on both sides of the Atlantic.

Miscellaneous Topics

Before the SVB and Credit Suisse dramas, this quarter was almost feeling "normal" as we, hopefully, are coming to the end of the interest rate increase cycle, at least in the US. Beyond the headlines are some more interesting things.

Warren Buffet's annual Berkshire Hathaway letter to shareholders came out, and it is a great read (pages 3-11 of this link). For those of you who have followed my newsletter for many years, and who understand my investment philosophy, you will know that I like to take a relatively "boring" approach to investment management, using the principles of Modern Portfolio theory, diversification, low-frequency trading, and not relying on market timing, trying to choose winning and losing companies, or chasing the latest fads. Nothing, other than my personal experiences, are unique in my thinking, though in an industry dominated by the sales of financial products and cheerleading fear and greed in the media, it is easy to pass by the real legends of the industry. In addition to Warren Buffet, who I have a lot of respect for, Benjamin Graham and Jack Bogle both were thought leaders and pioneers whose ideas and record are worth a look for anyone interested in sound investment principles. The ideas and insights from these famous investors often get lost (people are more interested in Buffet's wealth than how he actually got there…which is, as he will admit, through making a lot of mistakes and having a few very fortunate investments).

For our many clients who live in Switzerland, you know that everything feels expensive, from housing to food to babysitters, etc. Even when you are earning a "good" salary, you often feel that you are surrounded by wealthy people. The Swiss government collects some great statistics, so if you are interested to know how your salary compares, check out this article from TheLocal.ch. At this link there is an interactive graph by Canton. For example, in 2019 if you earned more than 346k Swiss Francs (before taxes) you were in the top 1% of the whole country but it would take 449k CHF to be in the top 1% in Zurich or 404,000 in Vaud. It would take 167,000 CHF to be in the top 5% for all of Switzerland. The graph is interactive and updated annually though the data is a few years old.

Are you interested in some of the history behind the Swiss Franc? This article entitled "When the franc had to learn to float" is a good read. The Strong Swiss Franc is really a double-edged sword for Swiss residents and the Swiss government. Financial stability is great, extraordinarily high costs of housing and labor is not so great.

The Wall Street Journal had an interesting article on why so many accountants are quitting the profession. While the reasons are varied and if you are not an accountant, you may think this will have little significance, but you may employ a firm to do your tax returns, and here is where it matters. Everyone it seems dislikes the tax preparation business. The rules get more complex each year, penalties higher, timeframes compressed, employee retention is challenging, clients are rarely delighted, and prices go up. I say be nice and understanding with your tax preparation firm, it is not so easy anymore to find qualified people who are able to juggle all the responsibilities on top of being super responsive, and at a reasonable price. It is clear that changing tax firms is sometimes advisable but what we do see behind the scenes is more firms "quiet firing" clients too. What ever happened to filing a tax return on a postcard?

Ok, for the next couple of links I may get a little slack, but they are definitely worth reading especially if you tend to react to these subjects (in any positive or negative way). The first, is from the WSJ on "Why It Is So Hard to Be an ESG Investor" which clearly expresses the challenges of ESG investing. While we do offer an ESG option to clients using ETFs, we express the limits of this approach (which are highlighted in the article too) and continue to suggest that while many of the goals of ESG investing are positive, we believe people can have even more personal impact outside of their investment portfolio and that there is a lot of "green washing" in the industry. In Switzerland where over 50% of investment funds are labelled as "green", with the same labels appearing across the world, it is understandable that investors are confused. ESG definitions, measuring of company's performance and credentials are all evolving and should continue to have a positive impact on the world though ESG investment funds and labelling of big companies on these measures has its limits.

The next article is an opinion piece from the WSJ about a decision by the Board of Trustees at the University of North Carolina who voted to create a new school at the University, dedicated to free inquiry and open academic discourse. I believe this is a bold and necessary move as freedom of speech and thought appears to be under attack from the political extremes on both sides of the spectrum. While I can mostly avoid broadcast news, it is impossible for my children to avoid the impacts at school where they come home regularly with the latest iterations, which seem to be a rather big distraction from the learning that should be taking place. Whatever your place on the political spectrum, I think this article is worth the read.

IRA Accounts, US Social Security and Swiss tax implications

At White Lighthouse we have over two hundred American clients living in about 12 different Swiss cantons, this is a large subset of our client base and so we do the best we can to stay informed and write about relevant issues. Swiss cantons and their relative tax authorities don't always treat transactions in a consistent manner, especially with non-Swiss accounts, and the tax laws and treaties often leave room for interpretation. We are not attorneys or tax preparers, though we work with many of these professionals and due to our experience, we have opinions on how we think things should work and be handled. We have been asked a number of questions again this year about IRA accounts in Switzerland and so I am writing a brief summary and of course we will be happy to discuss your individual situation with you and/or your tax professional as needed.

The US tax laws have created many different retirement accounts, though they broadly fall in two main tax categories. Traditional (tax-deferred, though they may have US tax basis) and Roth (non-taxable) in the US. There are also three distinct time periods that have different implications. Contributions, on-going investments, and distributions.

A Roth account, for Swiss purposes, we believe should be treated just like any ordinary investment account (so, not as a retirement account). This account will be tax-free in the US, but in Switzerland it should be reported as part of the taxable wealth, and dividends and interest income should be reported on a Swiss tax return annually. Capital gains in these accounts are generally not taxable in Switzerland. Contributions to a Roth for Swiss purposes are just like moving money from one account to another, and so are distributions, so these events are unremarkable for Swiss tax purposes. Roth accounts are the most straight forward so we will move on for the rest of this section into traditional retirement accounts. (401k, rollover, contributory, 403b, SEP etc.)

Contributions to a US traditional retirement account, while living and working in Switzerland are often possible. In some cases, it may be beneficial to ask for these to be treated as tax deductible in Switzerland and we have seen positive results for this treatment, for example, with a SEP IRA, for self-employed individuals. Swiss tax deductibility for annual IRA contributions is generally not needed, since in most cases we see a reduction in Swiss income taxes will just lead to an increase in US income taxes for a given year. US tax deductibility, with the right income conditions met, is unchanged.

While money is invested in a traditional US retirement account it is generally not included on a

Swiss tax return for wealth tax and all income inside the account is tax-deferred. For individuals under the age of 70, then contributions and on-going accounts are relatively straight forward in traditional accounts. It is once age 70 is reached and/or when distributions begin, that some complications may arise.

Before we go further, let's back up and compare some US and Swiss retirement accounts. US 401k accounts are similar but not the same as a 2nd pillar. A contributory IRA is somewhat similar to a 3(a) pillar. All of these accounts are somewhat similar in that they give certain tax benefits at the time of contribution and while the account holder is not yet in retirement/withdrawing, tax-deferred growth. In Switzerland, 2nd pillar, and 3rd pillar accounts are not co-mingled when changing employers. In the US employer retirement accounts (401k, 403b) can be moved into IRA accounts though with some caveats. By the age of 70, 2nd and 3rd pillar accounts will need to be withdrawn or annuitized or a combination of both. Special very low rates apply to lump sum distributions of 2nd or 3rd pillars (they are a little different) depending on your canton, the amount you are withdrawing etc, though rates are generally at the 5% to 15% rate. This is much lower than "income tax" rates and appears to be designed for the Cantons to capture some revenue from departing foreigners. For Swiss residents, they will be subject in most cantons to wealth tax on the withdrawn capital, so eventually these withdrawals will accumulate a higher overall tax.

The withdrawal options are where the US and Swiss systems diverge the most and where some challenges in interpretation lie. Up until recently, the US had age 70 as the time when required minimum distributions would have to start, in most cases, from a traditional retirement account, matching the age in Switzerland, 70, by which 2nd and 3rd pillars would generally need to be withdrawn or annuitized. The US recently upped the age to 72, then 73 and it will eventually go to 75. In Switzerland, the retirement system will likely change, but no changes have been made yet that impact the withdrawal ages.

Most clients we have seen in Switzerland, who have a traditional IRA account that has started regular IRA distributions, will report their IRA distributions as income on their US and Swiss tax return and continue to not report this account for wealth tax purposes in Switzerland. This has been widely seen and accepted.

There has been some concern expressed from some tax advisors in Switzerland that if a US person waits until age 72 or 73 to start withdrawals, that the Swiss may consider that this is not correct or allowable. This is untested from everything we can tell, though a mitigating approach would be to take RMDs at age 70 instead of waiting until later.

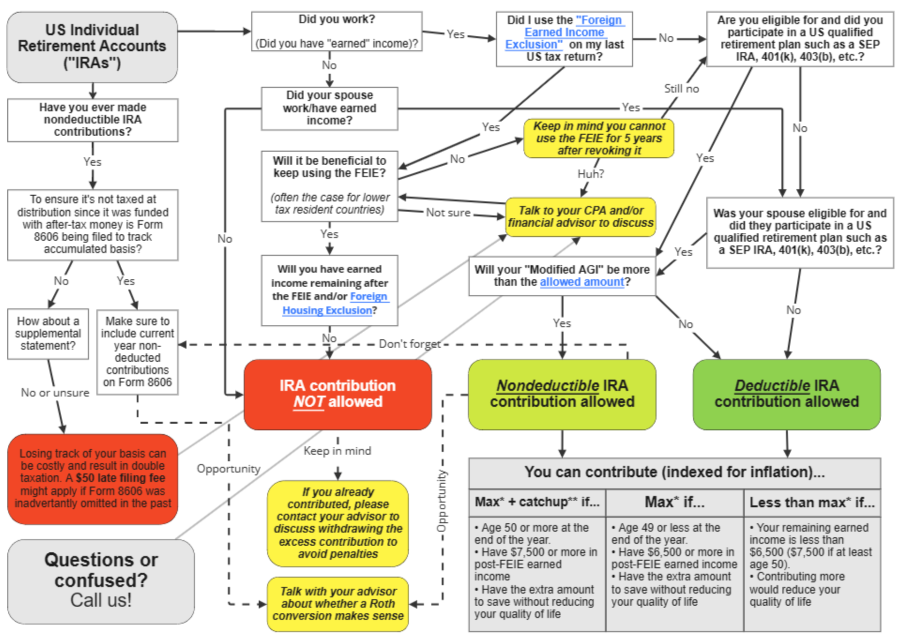
For individuals who cash out their entire IRA account in one year, claiming the reduced tax in Switzerland rather than income tax treatment, is also acceptable. For non-US taxpayers this can be very interesting (due to the US and Swiss tax treaty) or for US taxpayers who have a small IRA account that does not incur a lot of US tax by withdrawing the entire amount, this may also be interesting.

Another method of “withdrawal” that could be considered (and may be most legally comparable to the Swiss tax system) would be the following: Consider the entire traditional retirement account withdrawn (by age 70) for Swiss tax purposes (without actually taking the money out) and claim the Swiss lump sum taxation. Then, on an on-going basis, treat the account like a Roth account for Swiss purposes. From the US side, there would be a foreign tax credit (from the Swiss tax paid) which could be carried forward. Then, from the US side, take annual RMDs, which would only be taxable in the US. We have only seen this once and for people with larger IRA accounts, we would suggest a Swiss tax ruling before taking this approach.

We know that the US and Swiss income tax treaty is in the process of being negotiated and we are not sure that issues like this would be resolved, so we expect it will be on a case-by-case basis for each individual taxpayer. As these issues arise, please feel free to reach out to us with questions and we can suggest dialogue and questions for your Swiss tax preparer and/or your Swiss cantonal authority.

As we are talking about retirement income and Swiss taxes, a few questions have come up recently about how the Swiss will tax US Social Security income. If you are receiving US social security income and you are a Swiss taxpayer, according to the agreement between the two countries, only 57% of your US social security income will be taxable in Switzerland. If you are a non-US taxpayer, the US will withhold 15% in taxes on your social security income and so the Swiss calculation becomes 100-15 = 85 and Switzerland taxes 2/3 of the 85 which equals 57%.

For those readers who are US taxpayers and who are working, some visual fun is in the chart to the right.



The due date for funding an IRA is the **unextended** due date of the tax return **(April 18th, 2023 for 2022 tax returns)**

"**Nondeductible" IRA** refers to IRA contributions that did not get deducted on your US tax return and that were reported on Form 8606. Similar to Roth IRAs, they are funded with after-tax dollars and therefore should not be taxed at ultimate distribution or Roth conversion. Only the growth, whether appreciation, interest, or dividends, will be taxed as ordinary income. **"Deductible" IRAs** provide a current year deduction for contributing and will instead be taxed at the year of distribution or Roth conversion at ordinary income rates. **"Roth" IRAs** are also funded with after-tax dollars. Their growth, interest, dividends, ***and*** distributions are sheltered from US taxation. Rollovers to Roth IRAs should only be done in specific circumstances and after fully understanding the tax impacts, particularly for residents of countries without friendly US tax treaties.

Max* was $5,500 from 2013 - 2018, $6,000 from 2019 - 2022, and $6,500 for 2023+
Catch up** contributions have been $1,000 since 2002

Use this chart to see if you are eligible for an IRA contribution. If you are wondering if you can contribute to an IRA account and if it is deductible, it is not too late for the 2022 tax year, April 18, 2023, is the contribution deadline.

Please don't hesitate to check in with us if you have any questions or to confirm if your 2022 and 2023 contribution has been made.

Retirement age in France – and why this matters beyond French borders

Emmanuel Macron and his Prime Minister Elisabeth Borne are trying to force through legislation reforming the legal retirement age, using a rarely used article in the French constitution, 49.3, that puts the government's survival at risk. From an outsider's point of view, it appears rather obvious that in the near future there will not be enough workers to pay for France's retirement system and that raising the age of legal retirement from 62-64 would in itself only be a stop-gap measure. As people live longer and the workforce shrinks with baby-boomers retiring en masse, accelerated by the pandemic, many countries are likely to see changes to their retirement system.

There are only so many levers that can be pulled when it comes to reform of any retirement system, and these are:

1. Time spent in retirement – It is much easier and more politically acceptable to impact when retirement starts as opposed to when retirement ends, though one wonders about this in France when looking at the garbage piling up on the streets.
2. Decrease the amount of retirement benefits – This is easiest to do by slowing the inflation adjusted amount below the rate of inflation.
3. Increasing the work-force size – Immigration or birth rates, each with their own challenges.
4. Raising taxes on individuals and companies – Politically popular until companies and high-earning individuals depart to other countries. Tax increases have their limits and are used not only for retirement.

For most of us, these issues will impact our retirement in one way or another. Retirement ages are not set in stone, neither are benefits. We should be prepared to live longer, save more, and be more and more responsible for our own financial security in retirement, not on the government. If you are in the top 10% or so of income earners in any particular country, you are the target when it comes to tax increases. There are not enough billionaires around, and they are harder targets. There are a lot of employees/families earning low 6 six figure incomes or more, and you guessed it, the government and the rest of the population considers you rich and your income as a target for taxation.

Our client base on average is really great at saving and investing for the future. Our planners are there whenever you would like to do a check-in to see if you are on track to meet your financial goals in retirement. If you are under the age of 55 or so, and are expecting to retire at age 65 in good health, then you have to plan for at least 2 ½ to 3 decades of healthy life expectancy, this is a long time to not work. You should also expect that by the time you get to "retirement age" that the goal posts may have moved. While you don't have much control over government policy, you do have control over your expenses and savings, this is something we are happy to discuss at any time.

Interesting links from this newsletter:

Click to read	What Is Money? Definition, History, Types, and Creation - Investopedia	Click to read	How Banks Create Money - Five Minute Finance YouTube Channel	Click to read	SVB collapse was driven by 'the first Twitter-fueled bank run' - CNN Business
Click to read	How Much Do You Need to Earn in Switzerland to Be Considered Wealthy - TheLocal.ch	Click to read	Why It's So Hard to Be an ESG Investor - The Wall Street Journal	Click to read	The UNC Echo Chamber Fights Back - The Wall Street Journal

White Lighthouse Investment Management (WLIM) Information

The first quarter of 2023 has been another busy one here at White Lighthouse. Mãlina, our new employee in Romania, is doing a great job learning our business and supporting the other members of our back-office team. We are expecting further expansion in our back office and are currently interviewing candidates for an operations specialist to work closely with Kathy and the whole team in compliance, advisor support, reporting, and general administration. While we continue to use a lot of different software to support our operations, one that has scant little use has been our fax software, so effective this quarter, White Lighthouse will no longer have a fax number.

In January of 2023, one of our many regulators, contacted us to conduct a surprise anti-money laundering audit. The good news of course is that the audit results showed us and our clients to be perfectly compliant. We had a new auditor and he remarked that his audits normally take a minimum of one full day on site (and more time before and after) for a firm our size. He was done in 5 hours and very complementary on our organization, for which I greatly thank our clients and our team.

On the negative side, I find the entire AML process in Switzerland to be overly burdensome for our clients and our back office with excessive checks for clearly compliant accounts and clients. No less than 5 organizations (4 of whom we finance) review our client files for AML purposes, all looking at the same information, going back into files over a decade old and duplicating all the work that the banks also do in this area. We apologize to our clients (impacts are mainly with clients using Swiss custodian banks) that we have to ask so many questions and are reviewing options on how we and our clients can stay compliant with AML laws without such intrusive and costly processes.

In the afternoon of March 31st, we found out that Swissquote bank has raised their custody fees for accounts with over 1 million CHF in assets to .03% per year. This was not communicated well to us (buried in the fine print of an e-mail from 5 months ago) and our relationship manager has promised to find a better solution next week for our clients who are impacted. We will also look for alternatives, such as Interactive Brokers (likely through their UK entity which is also supported out of Zug, Switzerland) for our clients that can provide the same or better level of service for a lower price. Swissquote, like many of the banks in Switzerland, seems to be going in the wrong direction with respect to fees.

We are happy to report that the Swiss office of our US entity, White Lighthouse Investment Management (WLIM) Inc. received its authorization from FINMA in January. As of March 2023, WLIM Inc. is one of only two representative offices of a foreign portfolio manager and trustees to be authorized by FINMA. The latest lists of all authorized firms can be found here. This authorization is somewhat easier than for Swiss-based firms, though most foreign firms seem to be unaware of their registration requirements.

For Swiss-based firms, our entity WLIM Sarl is about to enter year 2 from which the application was first submitted. The entire process is, quite frankly, demoralizing. The regulators clearly stated several years ago that they wanted to shrink the industry and have seen that close to 40% of independent investment management firms in Switzerland have left the business, and even 90% of the remaining ones have 6 employees or less. The industry becomes much more costly to serve as a provider and forces worse choices on smaller investors since most small firms will choose not to serve them. In the case of our firm, we will end up spending around 200k CHF just to continue serving our clients in the same way and getting the necessary license, there will be on-going annual costs too. All of this would be more acceptable if it improved quality for clients or the industry as a whole, and in my opinion it does not.

Our compliance attorney “congratulated” me earlier this month that we have passed all of the “legal’ requirements for the license…I asked him to wait on recognizing any milestone until the authorization is granted as the regulator dug up 7 new questions after having our files for a year…They said that they are “still learning” themselves. Each round of back and forth takes a couple of months for the regulator to respond, and I know of other firms who are already being told not to expect their license until next year. Again, so many things to love about Switzerland, but the financial system is not one of them. We will keep you informed of course and since we have met all of the requirements well in advance of regulatory milestones, we are legally able to continue to operate as independent investment managers in Switzerland.

Concluding this section on some positive news. After 17 years of trying, we finally have the domain name of whitelighthouse.com in addition to white-lighthoue.com We are not changing any email addresses but you will be able to find our website additionally at www.whitelighthouse.com.

Market Wrap up for the 1st Quarter of 2023:

Index	Quarter	Previous 12 months
S&P 500	⬆ 7.0%	⬇ 9.3%
Dow Jones	⬆ 0.4%	⬇ 4.1%
Swiss Market Index (SMI)	⬆ 3.5%	⬇ -8.7%
FTSE	⬆ 2.5%	⬆ 1.6%
DAX	⬆ 12.2%	⬆ 8.4%
CAC40	⬆ 13.1%	⬆ 10%
Shanghai Index	⬆ 5.9%	⬆ 0.6%
$USD against CHF	⬇ 1.2%	⬇ 1.1%
$USD against €Euro	⬇ 1.6%	⬆ 1.7%
US Federal Funds rate 4.75%-5.00%		

In addition to our regular Index tracking above here are some additional notes. The Nasdaq (with a lot of technology stocks) was up about 16% since the beginning of the year. Bitcoin (I am still not a crypto enthusiast, but it is interesting to follow the market sentiment) is up almost 70% year to date but down 40% in the last 12 months.

On the Bond side, the "yield curve" is a lot less inverted. The long-term average of 10-year US government bond yields is about .90% higher than 2-year government bond yields. When this difference is negative, meaning that a 10-year bond yields less than a 2-year bond, the yield curve is "inverted" and it is often (not always) a recession indicator. In early March 2023, the difference troughed at -1.03% and has since shot up to -.55%. What does this mean? In brief, the bond market is indicating softer economic growth later this year, while stock market investors seem to think the worst is behind us. Investors will continue to watch inflation numbers to get an indication of how quickly rate increases will turn into rate reversals.

Conclusion

I really hope you enjoyed reading our latest newsletter and found it both entertaining and educational. I appreciate all the comments and suggestions that continue to come in and as always welcome additional suggestions at any time. For our new clients, a reminder, all of our previous newsletters are available in the \Public folder when you log into your White Lighthouse Sharefile account.

I would like to thank each of our clients for their patronage and support. We know many of you have continued to face challenges in your personal and professional lives and we standby as always ready to support and answer your questions in way we can help. I know that I speak for the whole team that we all feel very fortunate to work with so many great people from all over the world. We wish you all a wonderful spring and look forward to hearing from you soon!!

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 file 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 IRAs 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 2022 or 2023 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 increasing to $6500 in 2023 [previously $6000] per individual per year and $7500 if you are over 50 years of age [previously $7000].

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- 2023

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 2023 – 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 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. 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?*