Newsletter | December 31, 2023

Dear Clients,

As I start to write our quarterly newsletter, it is December 18th, and I am at the Swiss lounge at Logan Airport for a 10-hour stay, since the Nor'easter delivering lots of rain and high winds has long since knocked out the power and internet at my home office. I decided to come to the airport early to be productive. Afterall, it is thankfully not two feet of snow, just a few inches of rain that should stop hours before the 22:00 scheduled flight to Zurich.

"What a long, strange trip it has been" these past two years. Was it all just a big over-reaction to the >24% drop in the S&P 500 in 2022 and almost 35% in the Nasdaq? The S&P500 just closed at 4740.56, a mere 1.2% below its all-time closing high of January 3, 2022, at 4796.56. [The S&P 500 intraday in the last week of December was within a few points of its all-time closing high and ended the year about .5% below.] Afterall, interest rates rose around the world and in the US from around 0% to over 5% and yet, no recession (in the US), an earnings dip and employment has stayed robust throughout this latest economic cycle.

I am curious to see if the new high will come in before the 2-year mark. I often quoted that it has been rather uncommon for the S&P500, since its inception in 1923, to go more than 2 years without hitting a new high. This year the talk has been all about the Nasdaq, which is up over 40% (but still about 9% below its all-time high), despite the "magnificent 7" stocks. Even the Dow Jones Industrial Average, with mostly "old economy" stocks, made the news this December as the first of the major 3 US averages to hit a new high this year on December 13th, after the Fed's decidedly dovish meeting where not only rates held steady, but they also already lightly started talking of up to 3 interest rate cuts in 2024. [Now that does not sound very data-dependent unless their crystal ball is suddenly working.] More on the markets in the next section.

There have been far more serious things going on in the world this year than the level of the various stock markets, while most of them do not worry me on the economic front. However, as a rational, sane, and compassionate human being, I am appalled. The attacks on civilians in Israel on October 7th were barbaric. The continued Russian assault on Ukraine's population and sacrificing of so many of their own people is largely incomprehensible. The extremist elements and their popularity in so many governments and other institutions, not only in Russia and Gaza, but also the US, Israel, China, and the Netherlands, to name a few, is certainly keeping all news channels busy. As much as they appreciate many freedoms, the willingness of so many people to lie, be uncivil, and commit crimes of all sorts, in-person and online, based on dogmatic beliefs makes tighter regulation and control a necessity. The internet that was supposed to level the playing field on information availability has been severely corrupted. Civility and rational thought seem to be in great decline.

While I tend to be an optimist by nature and think that, in general, humanity is headed in the right direction, this year has been more trying than most, and these trends will continue into 2024. I can understand why politics and government jobs may not be interesting to most people, but I fear that if we continue to let more extreme elements of political parties dominate governments, we will end up having government policies and "values" that most people anywhere close to the center won't be happy to support.

Over half of the world's population live in countries where elections (some freer than others) will take place in 2024, and China is not included. I expect that 2024 and beyond will give us increased political risk, increased potential for conflict and instability though I anticipate that large businesses will mostly roll with the punches and continue to increase profitability, especially once interest rates start to fall.

As I bring this introduction to a close, which I like to do on a positive note, I do believe we collectively have the ability to impact the path of our elected leaders as well as the thoughts of people we meet every day. While I think this starts with good intentions, it is actions that will matter for most. Voting, when you are able, is important. Support and encourage reasonable people or to quote John Stuart Mills:

> "Let not anyone pacify his conscience by the delusion that he can do no harm if he takes no part and forms no opinion. Bad men need nothing more to compass their ends, than that good men should look on and do nothing. He is not a good man who, without a protest, allows wrong to be committed in his name, and with the means which he helps to supply, because he will not trouble himself to use his mind on the subject." [This quote is originally from 1867 and should indeed be updated to include all people of course, not just the masculine.]

As you enjoy the holidays, be grateful indeed for family, friends, good health, freedom, and many more things, but also consider getting involved, donating time, money, wisdom, experience and more. Be open to talking with people who may have different viewpoints and do your best to keep a positive attitude (watch less TV, especially the news). I don't pretend to have the answers on how to reverse some of these more concerning elements, but I do know that small and more frequent efforts are part of the next step.

Personally, I am grateful to you, our clients, for the trust you place in us, for sharing so much of your personal lives and for allowing us to serve you in our pursuit of helping all of our clients to make good choices, especially around personal financial decisions. Thank you very much to my highly dedicated team for their highly professional work, amazing work ethic, and great attitude. We look forward to working with all of you in 2024 and wish you a bon continuation of your holiday season!!

Markets, Interest Rates, Inflation, and Central Banks

According to The Economist, year over year, inflation in the US as of the end of November, excluding housing (which is the largest component of CPI), was a mere 1.8%. Right on target for the Fed. Rents are falling in the US and new home sales, which are low in volume are also not adding to inflation at a high rate. The Fed may well achieve its 2% target, or close in the first half of 2024, with no recession, no spike in unemployment and without having to raise rates any further. For all the criticism of the Fed in the last couple of years, it seems to me they have largely done their job well, with more than a little bit of luck for the many factors that they do not control (e.g. supply of oil, global supply chain improvement, etc.)

On the other side of the Atlantic, the European Central Bank is sounding more dovish than the Fed. The economies there are not doing as well. In Germany, the economy contracted slightly in the 3rd quarter and may be headed for a technical recession if this trend continues into the 4th quarter. One traditional engine of growth, the construction sector, has had its worst sentiment reading since 2005. France's economy is doing somewhat better than Germany, ending the year on a slight upward trend in sentiment, but from a low level. On the other hand, the Greek economy, historically much weaker than its northern counterparts in the EU, has been growing at a healthy rate, but this will not be enough to balance out the rest of the EU.

The US Stock market (S&P 500) recovered almost all of its losses from its all-time high, closing the year with a gain of over 24%. The Nasdaq was up over 40% in 2023 but is still well off its all-time high and the DJIA was up 13.7% in 2023. The Economist had another interesting article profiling the S&P493 (subtracting out the big 7 tech firms which account for about 30% of the S&P 500's value and the bulk of its gains in 2023). The "rest" of the US stock market has not been nearly as volatile and in the last two years, and certainly leaves plenty of room for growth, beyond the tech sector as the US economy remains healthy and interest rates are likely to come down.

Looking beyond the US, the SMI was up only 3.8% in 2023 due to its lacking in large tech stocks and the 9% gain of the CHF on the USD in 2023. The CAC40 and DAX were up 16.5% and 20.3% respectively with the FTSE up just under 4%. The Shanghai composite was down about 4% on the year.

Despite the strong rebound in US stocks, which I anticipate will continue, this is always a good point to recognize some contrarian thinking. We, and a wide body of research, don't advocate market timing, but please do expect that we will have a correction (defined by a 10% or more decline from a recent peak) in the markets in 2024. Corrections happen on average at least once per year, tend to be driven more by sentiment (fear of the unknown and its impact on profits), and a normal part of market progression. One of the challenges though, it is really impossible to know if the markets will go up another 15% or more before the next 10% pullback or perhaps it will start tomorrow. This is one of the elements that leads to our approach of only recommending stock market investing for those people who can afford to take a long-term (at least two years) horizon.

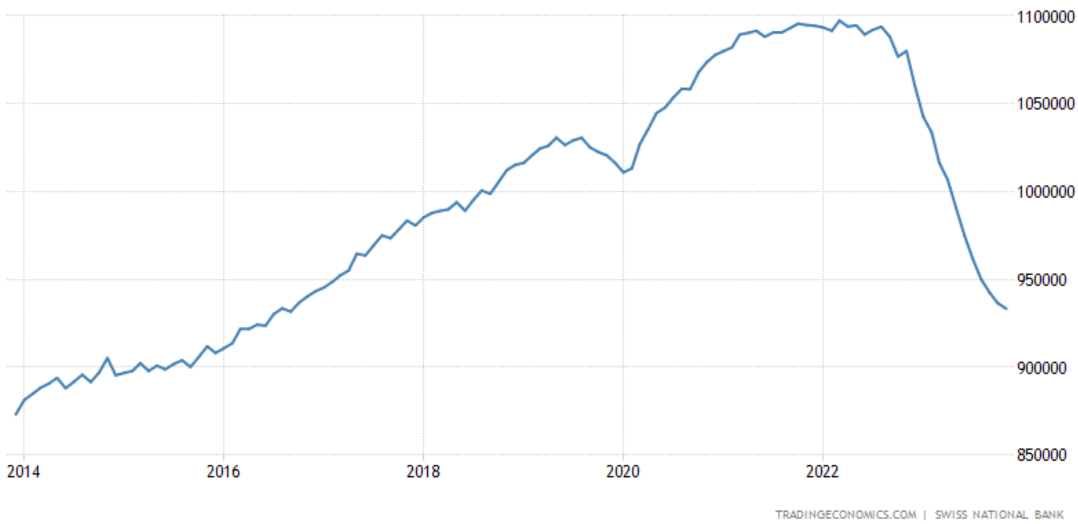
While I look ahead to 2024 and beyond, I am going to go out on a limb and postulate that within a couple of years, we once again will be more concerned economically about price deflation in many sectors than inflation. As interest rates come down, energy supplies increase, and companies adapt to less available employees in many sectors, technology and particular software will drive innovation and efficiencies across a wide array of businesses. Prices in most goods and services tend to be sticky to the downside, but when competition heats up and companies start to lose market share, prices adjust. Most downturns set the stage for the next round of economic growth and these past two years should be no different. Instead of central bankers, inflation, and interest rates, which will continue to fade from the headline news, expect more news on political changes and a wide array of global conflicts and challenges.

A final note on markets here has to be on the Swiss Franc. Something strange, maybe unprecedented, is going on, most likely with the Swiss National Bank (SNB). The SNB has closely followed and "adjusted" the exchange rate as it controls money supply in CHF and its own balance sheet. The Swiss Franc has appreciated over 5% against the USD in the past couple of weeks and 9% in 2023. The CHF is up significantly against the Euro too, 8% in 2023. My best explanation is, the same as in the last newsletter, that the SNB is exporting inflation by allowing the CHF to rise, mainly out of fear of raising interest rates on the CHF further. A CHF interest rate increase would put more pressure on the mortgage/housing market.

The SNB, unlike the Fed and the ECB, is much less transparent about its policy. While it has been reported about the interventions in the currency markets, one thing that is less reported on is the money supply of Swiss Francs. Looking at this chart below, you can see a substantial drop in money supply of CHF (about 15% in the last year), clearly orchestrated I believe by the SNB.

Just like supply and demand in any normally functioning market, reducing the supply of Swiss Francs has driven up its value against just about everything in 2023. This appears to have had a much bigger impact in 2023 in driving up the value of the Franc than the selling of foreign currency and assets by the SNB. Money supply is measured in a few different ways, but it is essentially all of the cash and bank deposits in a country's economy. Central banks who control their own currency have a variety of tools to impact money supply, a topic that was more reported on during the "quantitative easing" during the financial crisis. It appears likely that the SNB is stealthily contributing to the reduction of supply though other factors too are likely at play (e.g. companies and consumers saving less and keeping less cash on hand).

Switzerland Money Supply last 10 years – CHF



The big questions to me are why is the SNB doing this and what other factors are at play? Is something more concerning for Switzerland behind this? Is this a temporary or more permanent move? What do SNB policy makers know (or worry about) that is not yet widely known by the public and the markets? Undoubtedly the strong franc, while good for some things (e.g. foreign travel and shopping for consumers and paying down foreign currency debts) is bad for others. The strength will hurt a lot of Swiss businesses including large multinational companies, exporters from Switzerland and the tourist industry. This is something we will continue to monitor closely, hoping that these moves by the SNB are transient and the Swiss economy is not facing a graver threat to its stability.

The New York Times, News, and Freedom of Speech

Most of you know that I often advise to read, rather than watch news [reading is mostly much less stress-inducing than TV and online news] and do so from the most reliable and apolitical sources. So many "news" providers are really just selling advertising and peddling fear and drama, designed to agitate and addict their audiences. While I read a very wide variety of news sources on a regular basis, the foundation of my news comes from The Economist, Wall Street Journal, The Associated Press, and Financial Times. I read other sources from a wide array of European and other global news sources as well as a glimpse of The Atlantic, NY Times, CNN, and other outlets, though I refuse to use social media for news, despite its incredible popularity.

It is not (should not be) common that the "news" makes the news, but I found one of the top articles I read this year is from this past month, "When the New York Times lost its way". This is an insider's chronicle of how The New York Times lost its independence, to quote the author "The Times is becoming the publication through which America's progressive elite talks to itself about an America that does not really exist".

This article is a long read (over an hour) and I would consider it a must-read for anyone who considers themselves an intellectual; and especially if The NYT is one of your primary news sources. While I am not suggesting to people to stop reading The NYT, quite the contrary, just to read more news sources with the heightened awareness of how any of us, no matter how smart we are, are influenced by the media despite trying to stay "neutral.

The central person in the article is James Bennet, the current Lexington columnist for The Economist and the former The Atlantic Editor-in-Chief (for 10 years) and the Editor of the editorial page of The New York Times from 2016-2020, until his forced resignation for The NYT's decision to publish an op-ed from Senator Tom Cotton who had the "audacity" to call for the use of Federal troops to protect civilians and businesses from rioters. The story is the flash point leading to Bennet's firing and is part of a larger chronicle in this article where much of the main news media has gone from liberal to illiberal. If you struggle to understand how people who have an extreme ideology think (this could be for example far-right or -left politics) and seem impervious to logical persuasion or the common sense that they, or their beliefs may be incorrect, understanding the distinction between liberalism and illiberalism is a great place to start. Instead of even trying to paraphrase the article, I have extracted a few of the more memorable quotes:

1. "The newsroom's embrace of opinion journalism has compromised The Times's independence, misled its readers, and fostered a culture of intolerance and conformity."
2. "Illiberal journalists are not out to achieve social justice as the knock-on effect of pursuing truth; they want to pursue it head-on. The term "objectivity" to them is code for ignoring the poor and weak and cosying up to power."
3. "A journalism that starts out assuming it knows the answers can be far less valuable to the reader than a journalism that starts out with a humbling awareness that it knows nothing."
4. "The Times's problem has metastasised from liberal bias to illiberal bias, from an inclination to favour one side of the national debate to an impulse to shut debate down altogether. All the empathy and humility in the world will not mean much against the pressures of intolerance and tribalism without an invaluable quality that Sulzberger did not emphasise courage" .

5. “Maybe if the Times would put more trust again in the intelligence and decency of Americans, more Americans would again trust the Times. Journalism, like democracy, works best when people refuse to surrender to fear. “

While I have written many articles in the past (unpaid) for The Wall Street Journal, Bloomberg, and several other publications, I believe my role is primarily to educate while also expressing informed opinions. I realize here and there, in the many years of writing this private newsletter, that I may make mistakes, though my intent is to never mis-inform or offend. My audience is mostly super well-educated and reasonable. The vast majority of comments I receive are positive and even inspirational, though occasionally I seem to touch a nerve (even receiving a multipage admonishment for daring to use the word “Darwinism” from someone who would feel right at home in The NY Times newsroom described by Bennet).

I think an article like this, and a “liberal” (contrasting to illiberal, not conservative) way of approaching any issues, is critical for the survival of the open liberal democracies of the West. The many conflicts we see around the world and at home will not be solved well with extremism and as a society we are facing mounting challenges that will require rational disagreement and compromise. As 2024 approaches with lots of uncertainty, I am hoping especially that governments as well as the gate keepers at our information technology and news reporting institutions will find ways to counter the increasing polarization of people and ideas.

The United States, most European countries, (and most liberal democracies and representative republics around the world), have as two of their pillar’s free speech and a free press. Though, like all freedoms, they are not and should not be taken as absolute freedom, though in principle should be fiercely defended for those who believe in the freedoms most of us easily take for granted in our countries today. In the US, freedom of speech limits (rightfully) became more ingrained in the law after too many people falsely yelled “fire” in crowded theatres causing panics and many deaths. [On a related topic, it is incomprehensible to me that the US cannot implement sensible firearms laws and enforcement to greatly curtail the amount of high-powered weaponry, in the hands of its population, but this is a topic for another day.]

Freedom of speech and thought appears to be under serious threat from the illiberal mindset of many people and organizations on both the right and left of the political spectrum. The New York Times example was just one prominent case, and it certainly has impacted many large and small companies and organizations, not to mention the institutes of “higher” learning. Laws don’t have to change for freedoms to be stifled. This topic has a direct impact on us as stock market investors do. Companies are required to dedicate more and more resources to both well-meaning and spurious corporate initiatives as they signal their virtues on all manner of social issues from the environment to free speech to the “protection” of customers and employees.

Companies seem to have ever longer employee handbooks and codes of conduct, disclaimers for the use of their products and websites and caveats to the results of their annual reports. This is another area of surprise to me that the internet, rather than being only a leveller and provider of more real information has also been a tool to create more information silos. Will individual investors and citizens alike be able to find reliable information as they are caught between governments and large companies all competing for data and voice?

All the sudden, the internet feels more and more like the wild west, a free-for-all environment where hardworking, as well as scandalous individuals, and organizations thrive. Perhaps there is room in the West for a counterbalance to the online craziness of social media and all its manipulative forces like the Chinese social credit system. As AI, cryptocurrency, and other large trends seek to address deficiencies of the current system, there seems to me to be room for great improvement in trying to ascertain the reliability of the news and information we find online. Freedom of speech in both ideas and facts are valuable only if people can reasonably assess the likelihood of what they see as being something close to the truth.

A look around the world in 2024, economics, political risk, free speech, and more

One of the dominant themes throughout 2024 will be the US presidential election. While one week is a "lifetime" in politics, it seems that the two front runners, Presidents Biden and Trump, barring any health issues or something very surprising, will top the ticket of their respective parties. This is a shame. In this election, I think that it is likely that a third-party candidate as well as voter turnout will be a big factor, not that I think a 3rd party candidate is likely to win, but it is whom they will draw votes away from. I think that a 2nd Trump presidency will add much greater uncertainty to the US and the world and will further challenge the democratic "norms" of the United States. Whoever wins, I just hope that there is a divided Congress to keep some degree of checks and balances.

Now the President Xi has eliminated virtually all competition in China, both in the Communist Party as well as business leaders, he has to get back to the real business of managing the country and answer to over a billion of his citizens. I think that his agreeing to meet President Biden and business leaders in the US was out of need rather than anything else. The Chinese economy seems to be teetering on top of a mountain of debt and on the edge of a real estate crisis that could make the US 2008-2009 period look familiar. This could provoke enormous domestic instability while the economy continues to weaken. President Xi seems to be trying to attract more foreign business, yet business leaders certainly realize that China can be a rather hostile environment for business and individuals who make any sort of misstep. [Lots of multinational leaders will look at the business they lost in Russia over the past couple of years as a comparison of risk.] The Chinese stock market is close to a 52-week low, capital, both domestic and foreign, is flowing out of the country and a deflationary environment has set it. I remain bearish on investing in China [legal system, the forced disappearance or divesture of many successful or corrupt business leaders, the relative lack of predictability of the rule of law compared to the West, the hostility towards foreigners etc.], though a small bright spot is that deflation there should help to further ease inflation in other parts of the world in 2024. Leaders have been known to instigate wars to improve domestic popularity, but this is risky. I expect that China will continue growing its military capability, but attacking Taiwan would seem to be something that is counterproductive; they have bigger issues to deal with…hopefully.

Presidents Biden and Xi do seem to be trying to tone down the rhetoric and improve ties, if anything superficially, since neither of them seem in the strongest position domestically. If business flows smoothly around the world, it is good for both countries.

Another big risk in 2024 and beyond will be in Elon Musk-owned companies. I am truly in awe of what his leadership has been able to accomplish (SpaceX, Tesla, Starlink, and more) and at the same time, he seems to be losing his grip on reality, especially around everything having to do with the social media platform X, formally known as Twitter. [Has there ever been a major rebranding of a major company, Rock Star or Brand that has gone on to be more successful than its previous peak? Seems like the sporting equivalent of a Hail Mary pass in football.] I still don't think Tesla is worth more than most of the rest of the car industry and while its pioneering success is amazing, there is a very good chance Tesla will not be a leader in electric cars and self-driving software 10 years from now.

I am by no means an expert on the economies of the Middle East. I am impressed by the global airlines and the cities that have been built out of the desert and the continuing attempts to diversify very significantly the economies there. However, the region is losing its grip on the pricing power of energy markets, it relies on a lot of foreign labor, and most people don't have a say at all in government and policy. Wealth and power are highly concentrated, alliances seem to be shifting, and there are many competing factions. While the conflict between Israel and its neighbours is a known risk, I think this region over the coming years and decades could foster some highly unexpected risks. This may produce some amazing economic success or regional conflict, probably both. This region, like China, presents extra risks for foreign investors.

Artificial Intelligence, looking ahead….

It seems that almost every other article about technology in the last year has had something to do with artificial intelligence (AI), as though this was some brand-new technology that arrived from another planet. Perhaps, in my sophomoric opinion, artificial intelligence is really only one branch of the continuum of the evolution of software/technology development sprinkled with a degree of over-hype in ways it will change, threaten, and enhance the world.

As technological progress marches ahead and more of our world moves “online”, I believe that the themes of privacy, authenticity, and relevance will all manifest in different ways as bulwarks to the many threats we individually and collectively face from both bad actors as well as institutions (companies, governments, and others) that delve further into our private lives and the data we produce. Undoubtedly technological development improves efficiency, health care, productivity and so much more, as it has mostly done during each technological revolution, and as with each new generation, comes new and familiar risks. One risk is about the potential loss of jobs, and like any other large scale technological change, AI will probably replace a lot of jobs, it will almost certainly help to create many new jobs too and enhance many of the jobs that are done today.

We have already seen many companies in the chip sector have explosive stock price growth. First NVIDIA, but they have already drawn a lot of competition from AMD and Intel in AI-focused chips, undoubtedly there will be others. The real impact though will likely come from how AI models are applied to enhancing existing businesses. New product and service development and making existing businesses more efficient will be transformative and this could easily have considerable positive impacts on profitability and labor force productivity (think stock market valuations). On the downside, many higher paying white-collar jobs from software development to legal and financial services could be greatly modified or replaced. All professions will likely be impacted over the coming decade. If you are a knowledge worker and have more than a few years left in your career, keeping your skills fresh and being ready to look for new opportunities (both at your current or other employer) is something to be prepared for.

McKinsey, a global consultancy firm, has published an interesting report, The Economic Potential of Generative AI, the next Productivity Frontier. The report, at 68 pages, is worth at least a browse if you want a very high-level look at the potential impact of AI on a variety of industries. McKinsey’s research estimates that $2.6 trillion to $4.4 trillion of annual productivity enhancement could happen globally and that 75% of that would come from just 4 industries: customer operations, marketing and sales, software engineering, and research and development. If you are a software engineer, prepare for a lot of change ahead! If you have dealt with a customer call center recently, we can only hope that quality and wait times will improve or that the ever-present chatbots can be improved to do more than the average 8-year-old.

I expect that I will write a lot more about AI and technology in future newsletters and how they will shape the world and the economy. Today, I don't share the concerns of AI "taking over the world from humans". I think there are far more pressing problems with the use of today's technology that need addressing. I do think that software and its integration with the physical world will continue to enhance and change our lives allowing humanity to continue improving in many ways but also impacting many of our clients' jobs too. Maybe AI could even be used to improve legislation, specifically the tax code…wouldn't it be great to be able to free up our legislator's time and simplify the world's legal and tax systems? Back to the real world in the next section.

US Tax Issues and Update

This past year has been the most challenging for taxpayers and tax preparation firms in the US that I can remember. Never have we seen so many people struggling to meet the December 15th deadline for the filing of their prior year tax returns. This was by no means unique to one or two firms having troubles, it seemed to be all of them; well done to those of you who made it for the June or October deadlines. These delays should perhaps come as no surprise with the increasing complexity of the tax code as well as struggles hiring and retaining competent staff, not to mention gathering the increasing amount of information to file returns.

When filing in December, electronic filing is no longer allowed, so the tax return must be sent in the old-fashioned way, by mail. With a properly filed extension, a taxpayer can avoid late-filing penalties, but taxes are still due on time, and interest may accrue too. With the large increase in interest rates, IRS interest payments are hovering around 8%, which, if compounded over several months and tens of thousands of dollars in underpayment, could result in some unpleasant surprises. Virtually all correspondence with the IRS that involves your tax preparation firm to spend more time, will undoubtedly cost more money too.

Some taxpayers (like me) can't stand to have the tax return not filed on time or early, so we try and file as soon as possible (This is not always possible when relying on other individuals, firms, or other entities to report critical data). When you are an overseas American, you are often waiting for your foreign tax return to be completed before even starting the process with your US tax return. While the IRS understands this and gives an automatic extension in time to file the return until June 15th, the clock is always ticking when it comes to making timely payments, even if you have imperfect information.

With tax firms struggling to keep up with their work, many do not spend a lot of effort in ensuring a taxpayer will pay estimated tax payments and avoid penalties and interest and many will not get started on your return until you have all the data needed. What can you do to lessen the chances of paying penalties and interest even if you don't have all of your documents in a timely manner? There are a couple of strategies that a taxpayer can use to avoid interest and penalties on top of the already heavy tax burden that many of us face.

One method is to "keep money in the system". One of the advantages of overpaying and paying early is that this is a virtual guarantee of avoiding late payment penalties and interest. This may not be desirable for you, many people have a strong reaction to this method such as "I don't want to give the government a loan" and, the government does not pay me interest (though the Taxpayer Advocate has recommended that they do.)

Another method is to make sure you pay the safe harbour tax payments on time. The IRS safe harbour rules are that if you pay 100% of the tax that you owed in the prior year or 90% of the tax you owe, on time, then you can avoid an underpayment penalty. Timely payments still need to be made, and this is often where the challenge comes in with overseas taxpayers, especially in years where they may have a one-off impact.

One area that we, as financial planners, can help you with, is getting you a ballpark number of your current year US tax liability and helping to guide you through the steps to avoiding interest and penalties. Nobody likes to pay penalties and interest but avoiding them may also have a cost (time spent, and extra billable hours if your accounting firm is doing extra work). Sometimes, making a proforma tax return (this is much easier with software due to the infinitely complex rules, which I note, as we still have a few hearty souls preparing their tax returns by hand) with high level estimates on major items on the return can get you reasonably close. Please don't hesitate to reach out to us if you want to get a head start on your 2023 taxes and trying to avoid penalties and interest.

The Net Investment Income Tax (NIIT) tax went into effect in January 2013 as a way to raise more taxes from taxpayers [mostly to pay for rising Medicare costs] who have both higher levels of earned income and higher levels of investment income. The calculation only comes into play if you have earnings that are above $125,000 to $250,000 (depending on your filing status) and then the tax, is 3.8% of the lesser of their net investment income, or the amount by which their modified adjusted gross income exceeds the statutory threshold amount based on their filing status.

Overseas Americans, especially those in high tax countries, have often been upset about this tax since up until this year, foreign tax credits could not be used to offset this tax. Additionally, because Medicare is not a benefit that can be used outside the US, it was especially seen as an unfair tax, which adds to the long list of ways that Americans overseas are not considered by legislators.

In October a small victory for some overseas Americans came about in the court case, Christensen vs United States where the US court of Federal Claims ruled that, due to the income tax treaty between the US and France, that indeed foreign taxes paid could offset the NIIT. The language in this treaty also exists in other treaties with the US including the UK, the Netherlands and Germany but unfortunately not in the US/Swiss Treaty. American Citizens Abroad (ACA) has also highlighted news on this area in October and November and it is an item that has been on our radar with members of Congress and the IRS as inherently unfair for overseas Americans. We are, of course, hoping that this could be extended to taxpayers in all countries, or at least all countries with tax treaties and will keep you informed if we learn anything more.

For those of you who own a significant amount of an overseas company, and have been impacted by the GILTI tax (this mostly applies to small business owners, not investors in publicly traded companies), there is another interesting court case: Moore v. United States. This one is a bit more technical and applies to a rather smaller subset though it has a lot of people excited as to whether the Supreme Court will upend a lot of tax law as it ponders what is the definition of "income". The GILTI tax imposed, what many small business owners consider, very unfair (especially if they had retained earnings and/or not a lot of control on distributions) as it taxed profits rather than distributions from overseas companies. If the US tried to do this to US-based companies undoubtedly this would be the start of the next Boston Tea Party, but it would run across all 50 states. The final verdict is not in on this case, you can follow the news or this page to keep tabs on updates. If there is anything that will impact our clients, we will be sure to give an update here too.

In 2019, the US Congress passed the Corporate Transparency Act which will impact many owners of businesses (including LLCs, LLPs, Trusts) as well as beneficiaries of trusts and other structures in the US. The goal of the legislation is to create a record of who are the real owners of all US entities. Some entities (e.g. those that are registered with the SEC, publicly traded, etc.) do not have to report since the government already has methods to determine ownership or the risk of money laundering is quite low. The Corporate Transparency Act has similarities with FBARs, but this time instead of overseas account holders, it is domestic shareholders and beneficiaries. And for those of you who file your own FBARs and feel rather insulted that this is done through FINCEN (The US Financial Crimes Enforcement Network), you guessed it, they are also responsible for enforcement of the Corporate Transparency Act.

Accounting firms and law firms have been having heated internal discussions on whether they should still be in the business of creating companies and other legal structures for clients, or should they assist clients in filing the necessary forms with FINCEN to comply with the Corporate Transparency Act's beneficial ownership reporting. Some firms are reportedly moving away from these services, while others see a business opportunity with yet more government reporting. Lots of questions on the reporting requirements and exemptions can be found here on the FINCEN website. Some firms don't see the reporting as a big deal, and firms like Corpnet are going to offer budget pricing for filing (a couple of hundred dollars).

For many people, the first step is figuring out if they have a filing requirement, and the link to the Corpnet site above has some great resources and additional links on that subject. For businesses formed before January 1, 2024, they have until January 1, 2025, to file but for businesses that are formed starting on January 1, 2024, they will only have 90 days to file. Just like the FBARs, the penalties are rather severe, and the details have yet to be worked out. Even small changes are currently required to be reported, such as a change of address, change of passport number, etc. While enforcement is likely to take a while, we think it is prudent for entity owners and beneficial owners to add this filing requirement to their radar rather sooner than later.

Well, that is a lot to digest on taxes!!!

It is never too early to get started on tax planning, from tax loss harvesting, IRA contributions, managing capital gains, gifting and so much more. We welcome tax questions year-round and will do our best to complement the tax services your accounting firm is providing.

Interesting links from this newsletter:

The Economist Click to read	When The New York Times Lost Its Way – The Economist	NIKKEI Asia Click to read	China deflation signs deepen with latest consumer price data – Nikkei Asia	McKinsey Digital Click to read	The Economic Potential of Generative AI: The Next Productive Frontier – McKinsey Digital
Click to read	Court Rules Taxpayer Can Offset Foreign Tax Credits with NIIT Liability Under Tax Treaty – Tax Controversy 360	RSM Click to visit	US Supreme Court Hears Moore Case, Raising Questions About Income Taxation – RSM US	CorpNet Click to read	Beneficial Ownership Information Reporting – CorpNet

White Lighthouse Investment Management (WLIM) Information

Congratulations to John York for being asked to join the Executive Committee of American Citizens Abroad (ACA). We thank and encourage John for volunteering his time to ACA and using his extensive international tax experience for the greater good. John will also be serving, on an interim basis, as the finance director of ACA and, with time permitting, may take this on as a full-time responsibility. At White Lighthouse we continue to support ACA and the important work we do in Washington for Americans around the world. I had the pleasure of meeting my co-chairman at ACA, Charles Bruce (he formerly worked for the Senate Finance Committee, amongst many other experiences in his distinguished legal career), recently in London, and he reports that there is indeed increasing interest in D.C. in many quarters including getting hearings on tax reform impacting overseas Americans. Most advocacy work in Washington moves slowly and takes a lot of persistence, and so we remain hopeful as yet another year comes to a close.

In additional news, we have made a verbal offer, that was accepted for a new financial planner and client relationship manager at White Lighthouse. We searched wide and far and had a few great candidates. As White Lighthouse has a unique niche, we were focused on finding someone who would have complimentary skills and work well with the rest of the team (remotely). We will let you know her name once all the paperwork is signed. We are anticipating a March 1st start date. She currently lives in the UK, ran her own Swiss tax practice for a couple of decades in Geneva, and also has UK tax experience. We will provide her training on financial planning, both formal and on the job, and we expect she will work closely with our other advisors, especially John York. More details to follow!

Last quarter we wrote about the ACA events in Switzerland at the end of September. The presentations are available online at this link on the ACA website.

As a reminder, our new office address in Massachusetts is 5 Dutton Lane, Bedford MA 01730. In Lausanne we still have two offices for regulatory reasons and will be investigating the consolidation of the two offices and if this is not possible, we will likely, with some emotional difficulty, change the Av d’Ouchy 29 office which was where White Lighthouse was started almost 18 years ago. We will keep you posted!

Miscellaneous Topics: How Does Charles Schwab earn any money with free trading, Life Expectancy & Retirement Planning, Atari, Charlie Munger, Valiant Bank (opening a Swiss account from Abroad)

A few clients have asked us over the years, and during the aftermath of the Silicon Valley Bank collapse, how Charles Schwab and Company earns their money when most of their services are free. Trading is free or virtually free on most items, many money movements are low cost or free and custody is also free. Additionally, there is no stamp tax on most trades too. This is "shocking" to many Swiss investors and bankers where trading, stamp tax and custody fees alone can easily approach ~1% of the account value per year and this is before fees on the products, investment management fees etc.

While Charles Schwab does earn some money on trading, on the fees insides its low-cost funds, wire transfer, and foreign exchange, the bulk, by far of its revenues come from the interest rate spread on cash in client accounts. What I mean by this, is that Schwab, like many banks today, still pays very low interest rates on cash deposits (less than 1%) and they re-invest the cash in government funds earning today about 5%. Schwab has many millions of clients and trillions of dollars under custody, this interest rate spread has generated the bulk of their profits for many years. Domestic clients can have their cash "swept" into a money market fund and for international clients, this does not exist, though when you see us buying SHV, a very short-term bond fund, this is about as close to a money market fund that we can get in ETF format. This article from CNBC has more and for those who are interested in reading more, you can find the Schwab annual report on-line too.

Part of being a financial planner is helping clients plan for the future and for many people, the largest expense they need to plan for, far larger than college education in the US for children, is the cost of retirement. Retirement planning would be easy if we only knew the answer to a handful of variables: How much will our money earn per year, what will our expenses be, what will future inflation and tax rates be and how long will we spend in retirement? In order to be a good analyst, not only do we have to be able to project reasonable numbers and understand history, but we also need to be able to customize these to each client's situation. Each of you, as our clients, have many similar and many unique challenges. While no one can predict the future, with any high degree of certainty, good analysis can help you plan for the majority of likely outcomes. Resilience is often needed, as life can throw each of us some very unexpected twists and turns.

In the past I have written about life expectancy and each time I think about this topic, I do consider not only the high-level statistics, but our many individual clients, some of whom are living healthily into their 80s and 90s and others who have sadly passed or are facing terrible illnesses. One of our roles as your advisor is to help plan for these eventualities, and many cases, I worry not about the first years or decade or two of retirement, but those years beyond. The further out an analysis tries to predict, the more likely it will be incorrect. Having a healthy ratio of spending to income or spending to total assets is critical for helping most people to achieve their goals of not running short of money in retirement.

One of the biggest financial risks to retirement for many people is having to downgrade one's lifestyle compared to the time they were working, especially if they live longer than expected. It tends to be much easier to adjust to excess income than a decrease in income. Our client base tends to be much better educated and much more financially successful than the 'average' person and so life expectancy statistics are just a starting point.

In 1900, the average life expectancy was about 32 and by 2021 this had increased to 71, for well over a century, this has meant an additional 3 months of life expectancy for every year that passes. While many people have predicted that this could not continue, it seems that for large parts of the population, as people make better health choices, medical technology marches ahead and a large part of the world is not in a war zone, people are living longer. There were many reports that since COVID arrived, that these numbers have stalled, though a recent Wall Street Journal article very much calls this into question.

The article makes the distinction between the statistics of “Life Expectancy at Birth” versus “Period Life Expectancy”. In the United States, a female child born in 2022 has a life expectancy of 86.5 years and a male child, a life expectancy of 82.2 years. Though the statistic most often reported in the press will read something like this report from the CDC: In 2021 US life expectancy decreased to 74.8 years for men and 80.2 years for women. The problem with the second measure, is that it tends to overestimate what happens in one year and project that forward: Will we see as many people passing in the future from COVID and drug overdoses, unlikely.

If you are contemplating retirement today and you are in your 50s or 60s and in good health, we certainly have to plan for several decades of your money to work for you. We can do those projections for you at any time, though for many people we work with, it is not just about the money, but also how they will spend their time if they decide to not work any longer.

From looking forward to looking back, I do have some fond memories of playing some of the first video games…if you are younger than 40 you may not get it, but I was thrilled when I read that Atari 2600 and original games are being re-introduced. I am not much of a gamer (Scrabble and Chess… "BORING", as my kids would say), ok I used to like D&D too. I went to Atari’s website recently only to find the favorite games of my childhood were already all sold out. This was going to be a holiday present for my children 😉…I guess I will have to wait for another excuse in the new year.

While most investors have heard of Warren Buffet, far fewer seem to know his equal at Berkshire Hathaway was Charlie Munger, who passed away at age 99 on November 28th. The WSJ had an excellent article on Mr. Munger. Buffet’s approach to buying companies was looking for companies that were cheap, regardless of the businesses fundamental value. Munger on the other hand would look for great businesses at acceptable prices, and it was his influence that won over Buffet in their future investment approach. Buffet, who studied under Benjamin Graham was quoted as saying "I have been shaped tremendously by Charlie," Buffett said in 1988. "Boy, if I had listened only to Ben [Graham], would I ever be a lot poorer." The investing world has lost one if its most influential leaders in 2023.

For those of you who live outside of Switzerland, have a strong connection to the country (citizenship, ownership of property, pensions from a first or second pillar and more) and are having trouble maintaining a Swiss bank account, this link from Valiant Bank may be of interest to you. While we do not have experience opening accounts there, they are mentioned on the Swiss Abroad website as a bank that is open to working with people abroad, which is unfortunately a population that many Swiss banks have stopped servicing.

Some interesting statistics:

1. ~40% of American homeowners have no mortgage and 66% of American residents are homeowners.
2. ~43% of Swiss residents are homeowners and 91% of homeowners have a mortgage (39.3%/43%)
3. Swiss VAT will increase to 8.1% in 2024.
4. $18,000 the new 2024 level of gifting in the US with no tax or reporting requirement.
5. $7000, the new 2024 IRA contribution limit, $8000 for those 50 and over.
6. 1.8% the Inflation rate in the US, excluding housing, through November 2023.
7. 48%, the number of Americans with a Passport today (compared to 5% in 1990)

Is Cash a good investment? A good store of value?

One of the most common questions we are asked is, "What should I do with extra cash?" Which has ancillary questions such as, "Is cash a good investment?" and "Is cash a good store of value?" This often gets a little more complicated for people, like a large part of our client base) who have financial lives around multiple currencies. It also gets more complicated depending on the currency and government(s) one is exposed too. Occasionally currencies are replaced or debased, gradually or quickly. All investments or stores of value have risks, even cash.

The simple answer to the questions in the title is cash, in most stable currencies, most of the time, is a good short-term store of value but a poor investment (when thinking of risk versus expected return). Cash gradually loses purchasing power over time, though it tends to be much less volatile, and its value is much more certain over short periods of time. Cash tends to earn slightly less than inflation over time, so cash, gradually loses purchasing power even if the interest earned is saved or re-invested. If you earn 5% on cash and inflation is running at 6%, you are losing 1% of purchasing power per year, even more actually since interest is taxable...so if your tax rate is 40% on interest, you are actually losing 3% on an after-tax basis in purchasing power. If the interest rate is 5% and inflation is 3%, like now, you can rest assured that interest rates won't stay at this level for a long time, unless inflation peaks or if the future is very different than the past for central bank policy.

Most of our clients and most businesses are exposed to the US dollar, that is for now, and for many decades a reality of global investing. The US dollar is, indeed, used in many countries other than the US, though it is US inflation and government policy that drives USD interest rates and its relative value to other currencies. Many of our clients are also exposed to the CHF, EUR, GBP, AUD, and other currencies. The USD since WWII has been one of the most stable and strongest currencies, only outpaced in strength by the Swiss Franc. I won't get into a big discussion here on why the strong CHF (or really any strong currency) is very mixed in value to Swiss residents, but it certainly is a very expensive country for most goods and services and a difficult place to build home equity.

Back to the question of "What I should do with cash?" and investing, especially in CHF and USD. For known spending (and emergency cash reserves), over the next couple of years, there is nothing that beats a stable and predictable salary, an annuity (social security or private from a solid financial institution), or savings (in a reputable bank) in that currency to meet those obligations. Cash and cash flow provide great short-term matching of risk (very little short-term) versus known spending. Holding a lot of cash in a currency that you don't regularly spend in has risks (exchange rates and inflation) and holding a lot of cash in the same currency you spend in still has long term risks (inflation eating away at purchasing power), and it will gradually lose value as prices go up. Interest earnings on cash after taxes rarely (for any extended time) keeps up with inflation. A diversified portfolio of mostly noncash investments can be an effective way to earn investment returns that well outpace inflation over time.

So, what you should do with cash really depends on you, and what you need the cash for, what is your time horizon, and how does this fit in with your overall financial situation. Are you holding a large amount of cash in an irregular currency for you (one that you don't normally spend in)? Why? Would you buy this amount of currency today if you did not hold it? Trying to guess the future value of exchange rates is challenging to predict for governments, traders, investors, and individuals. Guessing the future interaction of countries strength, tax policy, interest rates, public debt, market perceptions, and market interventions makes even the day-to-day direction difficult to guess. Today's rate in most cases, incorporates the culmination of all of the different factors that drive rates. The market, being a great place to see the result of the intersection of lots of data, is enormous for currencies, at over $7.5 Trillion per day. Far out pacing any other market in terms of size and information.

If you have any questions related to cash, whether you should generate more (by selling investments) or what to do with excess cash, as always, please get in touch and we will help you to make a good decision based on your circumstances.

Market Wrap up for the 4th Quarter of 2023

Index	Quarter	Previous 12 months
S&P 500	⬆ 11.2%	⬆ 24.2%
Dow Jones	⬆ 12.5%	⬆ 13.7%
Swiss Market Index (SMI)	⬆ 1.6%	⬆ 3.8%
FTSE	⬆ 1.6%	⬆ 3.8%
DAX	⬆ 8.9%	⬆ 20.3%
CAC40	⬆ 5.7%	⬆ 16.5%
Shanghai Index	⬇ 4.4%	⬇ 3.7%
$USD against CHF	⬇ 8.1%	⬇ 9%
$USD against €Euro	⬇ 4.4%	⬇ 3.2%
US Federal Funds rate 5.25%-5.50%		

Conclusion

I would like to conclude again by thanking my team at White Lighthouse for the excellent service and teamwork and all of our clients for your patronage. We appreciate the opportunity to provide our financial planning and investment management services and we look forward to talking with many of you in person and on-line during 2024.

A very Happy and Health New Year's wish to you and your families!

Thank you,

Jonathan and the White Lighthouse Team

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Travel & Vacation Information:

Jonathan

January 30 – February 7	Working in Lausanne
February 19-23	Vacation
March 25 – April 2	Working in Lausanne
April 8-19	Working in Lausanne

John Wanvig

January 21 - February 2	Vacation New Zealand

John York

Otto Rivera

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 73
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 email 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 73 (formerly 72 and previously 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 2023 or 2024 you might be able to contribute to an IRA account and this contribution may be tax deductible. 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 $7000 in 2024 [previously $6500] per individual per year and $8000 if you are over 50 years of age [previously $7500].

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- 2024

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 the firm's 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 execute 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 2024 – 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 online login 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 is 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 http://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 email 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?*