INNER CIRCLE INTERVIEW:

Mark Nestmann with Curtis Childs

Mark: Welcome to this month's Inner Circle interview. Today I have the pleasure of interviewing Mr. Curtis Childs. Mr. Childs is a managing partner of Bellecapital International AG, an asset management firm headquartered in Zurich, Switzerland.

Curtis is an American living in Europe, with over 25 years' experience in asset management in the US, UK, and now Switzerland. He began his career at Shearson Lehman Hutton, spent 16 years at Prudential Financial, and prior to joining Bellecapital International, was managing director responsible for wealth management at Eden Financial in London. At Bellecapital, Curtis holds executive responsibilities and, together with the team, manages client portfolios.

Curtis, welcome to the Inner Circle.

Curtis: Mark, thank you. It's a privilege to be invited to speak to your wider audience.

Mark: Curtis, perhaps you could begin by letting our members know how long you've been with Bellecapital and what attracted you to the company when you moved there from London.

Curtis: I started with Bellecapital in September 2011. I initially started talking to the team here in April 2011. One of the attractions was, being an American and living in Europe, being based in the UK for the past 23 years, the possibility of joining a start-up very specifically focused on dealing with US clients with offshore assets from a very intriguing location, Switzerland, was an opportunity that I thought was terrific.

Combine that with the fact that I love the Alps, I love being outdoors, my kids are in university, I was at an inflection point with my previous company, and Switzerland offers what I consider a much fairer tax system, particularly for people that are earning income.

The combination of things worked out perfectly and we set up the legal entity of Bellecapital International in July 2011, got our SEC registration about the same time, and we started with a blank piece of paper to focus on a very unique market but a very large market, which is US clients with offshore assets.

Mark: I take it you're a US citizen still, Curtis, or not?

Curtis: Yes, I am. I'm a tax-paying American. I've lived outside the United States for 25 years and have filed 25 tax returns in the US, but I'm also a British citizen by virtue of the fact that my father was born in the United Kingdom in 1934.

Mark: I see, so you're dual, so that would make any immigration issues for getting into Switzerland much easier to overcome.

Curtis: Exactly correct. Switzerland is part of what's known as the Schengen Treaty. That's a treaty between European countries to allow free movement of labor. While Switzerland has recently put a question mark around immigration policy, the fact is that if you have a unique skill set that can contribute to the Swiss economy, there are still possibilities. Obviously, as a US person it would be much more difficult.

Mark: Right. As a US citizen you have to deal with all the different aspects of living abroad like any other US citizen living abroad, and we'll get into that in a bit, with things like the Foreign Account Tax Compliance Act and the difficulties of opening accounts and so on. Just as a practical matter, have you found it difficult to exist financially by virtue of the fact that you are an American working abroad? Has that caused discrimination against you in terms of obtaining financial services and similar situations?

Curtis: That's a very good question. By virtue of the fact that we deal exclusively with US clients, many of whom are partial or full-time residents in Europe, and many in Switzerland, I am very empathetic to the challenges that Americans face. Clearly, as you mentioned, we're going to talk about FATCA, but the implementation of this extraterritorial extension of the US legal system has caused many financial institutions worldwide to make the decision not to service US clients.

This legislation, in my personal opinion, has done a lot of damage because clearly organizations that are in a position to service US clients have to put in enormous architecture from a technology and corporate governance point of view to run a business servicing those clients. That's not just for a simple checking account, but it's also for a securities account, to get a mortgage, even to do cross-boarder finance.

There are fewer and fewer options that are available for US citizens, and you'll hear of this from CEOs of multinational US corporations living in Europe, to people in the military that are working and serving say in countries like Germany. These are very common complaints.

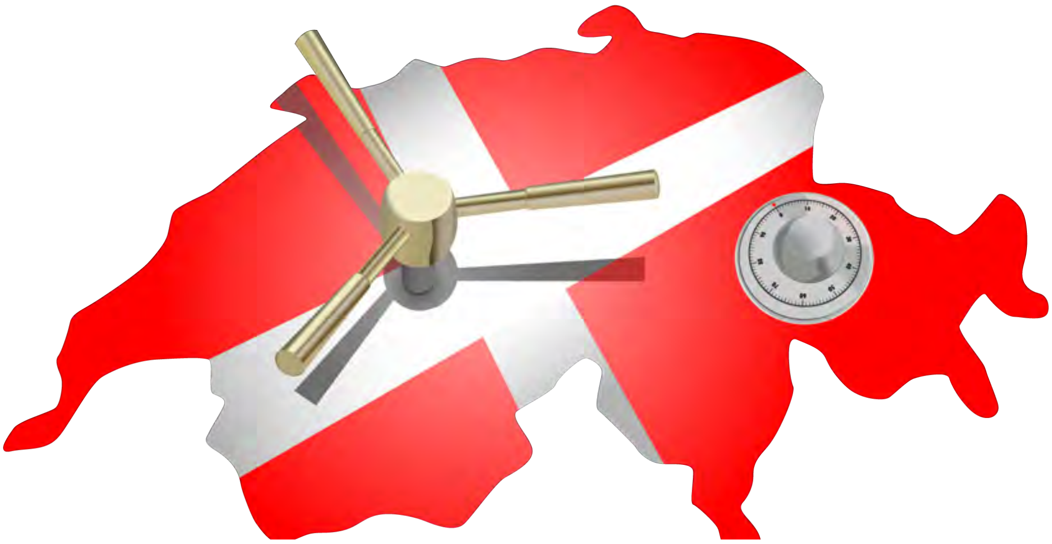
Mark: It's one that I hope at some point our government can deal with, although I'm not holding my breath.

Curtis: It's a legislative over-reaction to the problem with tax evasion, which is a real issue. Clearly, it's not just a US issue. This is an issue that plagues countries around the world. The US has taken a very aggressive legislative approach to bringing all US-connected persons into the IRS catchment, but that's come at a clear cost to some of the civil liberties that we should be able to enjoy as independent financial beings and being able to bank anywhere in the world we want.

Mark: I agree. Getting back to Bellecapital, Curtis, on your website at www.bellecapital.com you make it clear that Bellecapital is an SEC-registered asset manager, and you mentioned that a bit earlier. Why in the world would a Swiss asset manager make the decision to submit to SEC jurisdiction?

Curtis: You've got to understand the distinction between the SEC and the IRS. The SEC is mandated to provide territorial protection to US investors. The SEC registration allows us to work with, advise, travel to, and work directly with US residents. Those residents can be US citizens or they can be non-US citizens resident in the United States.

For us there's a significant opportunity, because the United States is the largest economy in the world. It's the largest, in absolute terms, generator of new wealth in the world, and there's an enormous capital base in the United States. There are approximately 7 million US passport holders that are living outside the United States. The United States has a history of immigration and emigration and US citizens and companies are significant global investors, so there's an enormous amount of US wealth that's invested around the world.



Because Switzerland has a world-class international banking infrastructure, by virtue of that fact and the fact it is home to a large number of global multinational companies, Switzerland is the host to a significant amount of American capital.

Mark: So your part of the company that you work with, Bellecapital International, works only with US residents, then? Then I suppose US citizens as well? Is that correct?

Curtis: There is a number of dimensions to working with US citizens or US-connected persons holding assets overseas. The SEC registration is one dimension. The second dimension is obviously working with a company that has a good understanding of what banks are capable of providing the right infrastructure for US taxable assets. US taxable assets can be for US residents or a US person who's not resident in the United States. The third piece is working with an asset manager that has a strong and firm understanding of the IRS tax code and the implication the tax code has on any investment decision making.

Mark: How much US money is your firm now managing on behalf of US clients, would you say?

Curtis: As of the 31st of December we were at US$520 million.

Mark: That's quite impressive for just three years, Curtis. You've been very successful at that. Can you give us a profile of your typical US client? Who is a good candidate for your services?

Curtis: A typical client would be somebody clearly who has a multinational or more cosmopolitan outlook. Our clients tend to be looking for a number of things that they cannot necessarily always get in the United States. One of them would be custody diversification. Clearly after Bear Sterns and Lehman Brothers there was a significant concern about counter-party risk, particularly in the securities industry.

Geographic diversification of assets and investments is also an important part of what we do here. Using a Swiss bank, clients can access markets and invest in securities in many different currencies. In the United States, the bank they work with, the securities firm they work with, the discount broker they work with, often restrict activity to more dollar-based investments.

Then in terms of the demographic of the average client that we look after, they tend to be people that are self-made, have international connections, and have a specific reason to hold assets outside of the US. We have a lot of entrepreneurs. We have a lot of senior executives of multinational companies. We have clients with European family connections and may have inherited wealth from a prior generation, and they might be the first or second generation in the United States.

Our typical client tends to be somebody who has an asset base in the United States and they might want to set up some sort of asset protection strategy where they can put some assets into another jurisdiction where they get a little more protection from civil litigation risk.

It's a pretty wide profile. They tend to be people that have some sort of a connection to Europe or want to have a connection to Europe, and Switzerland in particular.

Mark: You mentioned asset protection. Do your clients typically open accounts in their own name or do they use some sort of structure? If they use a structure, what elements would that structure have typically, Curtis?

Curtis: That's a very good question. I would say that probably 2/3 of the accounts that we work with are set up under some sort of a structure. An area that we've seen a lot of growth and a lot of interest in lately is in the concept of asset protection.

Asset protection strategies, as I'm sure you're well aware of and perhaps many of your clients are aware of, are legitimate estate planning vehicles, where a client can fund a structure, and after the statute of limitations is passed the assets technically fall outside of their estate from the civil litigation point of view.

These are totally transparent from the IRS point of view, so the client is named, the beneficiary is named, but you've got a structure in place, which helps the client in terms of making sure that the assets in the structure are secure from spurious legal claims in a civil trial.

Mark: Is this typically an offshore trust or an offshore LLC or a foundation?

Curtis: Typically it's going to be an offshore trust.

Mark: Then the client would be one of the beneficiaries of that trust, I assume.

Curtis: That's correct.

Mark: Interesting. Then once you set up a mandate with Bellecapital, what happens next? The client comes to you and says, "I want to invest some money with Bellecapital." How do you determine first if they're a suitable client, and how do you determine what to do next in terms of managing their money? You are money managers, so how do you make that determination?

Curtis: That's a good question, Mark. This firm is a private firm, so we're an owner-managed company, and all the shareholders have deep experience in banking and asset management and for various reasons decided that we wanted to have our own company.

Part of having your own company is working with clients that you want to work with, so we don't have internal targets on how many new clients we have to help and what our asset growth goals are. Remuneration in the firm is not tied to that. It's tied to the profitability of the firm. So we're in a fortunate situation that we don't have to do business with everybody, we will do business only with people that we want to do business with.

Again, we're a small firm. We're not a corporation, we are a practice and we want to have a personal relationship with our clients. That means that the time that we will spend up-front to get to know them, to understand what their financial ambitions are, what their risk tolerances are, and what sort of communication policy they want to follow is really important.

In terms of where we would bank with a client or what the next step would be once we accept whether or not we can do business or not – again, we have minimum thresholds to open an account. We only manage segregated accounts. We don't manage a collective fund. We're not a fund management firm. We only manage discretionary or larger advisory mandates on a segregated basis. We would help a client identify an appropriate bank for their assets.

I know that you want to talk about banking, so I can kind of segue into that. We have relationships with eight banks, of which four we do a significant amount of business with. Part of the due diligence that we undertook to identify banks that we thought were appropriate for our clients was to look at on the board level of the bank, is there a commitment to service US clients?

That's kind of binary. Without board-level commitment, you cannot do business. There are a lot of institutions that say, "Yes, we can do business with US clients," but unless there's a strategic initiative at the board level to do it, we will not do any business with those banks.

Second, you want to really look at the technology infrastructure the bank has to service US clients. Again, with US clients, IRS-compliant tax reporting is essential. We spend a lot of time looking at the 1099 reporting, we look at gain/loss statements, and whether or not they can account for currencies separately, and that's a big part of the due diligence process.

Then we get to know the bank team, and whether or not the team t they understand the uniqueness of servicing US clients. We will look at the balance sheet of the bank, the credit rating, ownership structure, and main business lines to determine how appropriate an institution is work with.

Rather than say to a client, "Here is the bank that you should go to," we set down on a piece of paper a list of possible banks we work with including features, and benefits of each one. You can choose, and we'll help you make that choice. Once you make that choice, we will introduce you to that bank."

You have to remember that we're not a bank. We do not hold client money, so our only ambition is to make sure the client has the right institution holding their offshore assets. The client establishes a bank account and has a direct relationship with the bank. The bank and the client would then enter into a tri-party arrangement with Bellecapital, a limited investment power of attorney, for Bellecapital to manage the client assets in their own bank account.

Mark: So, the only authority you have over those funds is to trade the assets. You have no authority whatsoever to withdraw money from the account at all, correct?

Curtis: That's correct, except that you would charge a quarterly management fee, which the client would agree to in writing.

Mark: I see. A lot of these banks will have their own asset management departments. How would you distinguish your services, let's say, from an asset manager or asset management department associated with a bank?

Curtis: That's a good question, Mark. There's a number of different styles of asset management that I've seen in my 25 years in the industry. I think it really comes down to what is the primary driver for a client.

Bellecapital is an asset management company; that's all we do. So, we have no interest in selling products. We don't invest in hedge funds, private equities, structured products, or 3rd party actively managed funds. We have no incentive to hold client cash and lend it out. We are not interested in generating trading commissions. We are purely paid to generate performance for clients, and that's risk-adjusted performance.

There's a number of things that we do that are probably a little bit different from banks. One is we are fundamental investors, we research companies, and we invest directly in securities. We do not buy engineered financial products. We don't have proprietary products. We're totally independent, and clients at Bellecapital are invested directly in securities: equities, fixed income, convertibles, precious metals, and cash.

From a cost point of view, direct investment is much more efficient than layering in additional fees through 3rd party product. Secondly, and probably even more important, unlike funds, investing directly allows us to control the tax consequences of the investment decision making – an important consideration for US taxable accounts.

What I've seen over the years is not only products and funds and a sort of top-down more-mechanistic approach to investing clients, because if you're a bank and you've got 20,000 clients with Strategy A, you've really got to run your product in a very sort of mechanical top-down way. That's not how we work.

And again, I think it's really important, particularly in Switzerland where there are not a lot of choices for clients for independent asset management, that we very much view the capital that we invest – we invest as owners. When we buy a company for a client, we very much look at owning the company for the long term. Again, as a US taxpayer I'm sure you're appreciative of this, compounding your gains tax-deferred is a very effective way to earn money.

Mark: Absolutely. Speaking of that, do you also accept IRA and 401K mandates? If someone comes to you and says, "Curtis, I have a couple million dollars of IRA money, or a couple million dollars of self-directed 401(k) money," can you accommodate those types of investments?

Curtis: Mark, I would like to say yes, but the reality is that we've had that question a lot, and the fact of the matter is that Swiss banks are not capable of doing direct US qualified retirement plans. If the client was interested in doing that and having Bellecapital manage the fund, we would have to have a relationship with the US bank that would allow the client to appoint Bellecapital to manage their IRA or their corporate retirement plan in the US. Unfortunately, this is a big issue and it's a whole other topic.

In fact, last week I had a very interesting discussion with one of the larger US tax firms here in Switzerland about the complexity of US persons like myself living offshore, working in a country that has its own qualified retirement savings program, and the fact that the IRS does not recognize virtually any of these And vice versa. For people like myself that make regular IRA contributions, the fact is that the Swiss tax authorities don't recognize the US retirement programs either.

There's a significant problem for forced savings programs that are tax-advantaged for Americans living overseas and for Europeans and non-Americans living in the United States with offshore assets.

Mark: That's unfortunate, but given the reality of what's going on in the US, I can certainly see that that would be an issue.

Curtis: That was a long-winded answer to say generally the answer is "no."

Mark: Okay. What rules does Switzerland have in place to ensure that in the event of a bank insolvency, customer funds are protected?

Curtis: In Switzerland all the banks – particularly the banks that we work with – aside from cash or unallocated gold, hold all client assets segregated from the bank's balance sheet. Furthermore, none of the client accounts are co-mingled, which means you don't have any client counter-party risk, and you don't have bank balance sheet risk if you open up a segregated account.

Mark: Just from a nuts and bolts standpoint, does that mean that you get paper certificates for the shares, or put them in a vault somewhere? How do you actually ensure the integrity of the actual positions that you're maintaining for people?

Curtis: That's a good question. For many of the banks in Europe, not just in Switzerland, you set up an account with a bank and then you've got a number of precautions. One is the cash that you invest in the bank or you deposit in the bank, if you need it as cash, that cash can be accessed, lent to other customers, and ultimately is co-mingled with the bank's balance sheet.

So typically what we will do for larger accounts, if they're not comfortable with the counter-party risk of the bank, we will do what's called a fiduciary deposit, which means that we will identify banks that we're very comfortable with, and via the client's bank account we will go to a 3rd party bank and make a time deposit. The actual physical cash leaves the depository bank and is held in a 3rd party bank that we identify.

All the banks in Switzerland, and actually it's a global banking convention, have sub-custodian relationships. So part of the due diligence that we do is when a client wants to be in a particular bank that we're not familiar with, we're very interested in who they do their sub-custody with.

For instance, if you buy US securities through a Swiss bank in a segregated account, the securities that you hold are not co-mingled with the bank's balance sheet; it's held in a client account. So there's no way that the bank's balance sheet or any malfeasance in the balance sheet can contaminate the account for the client.

The sub-custody of that is typically held with a US custodian bank. So in the case of almost all the banks we work with, Brown Brothers Harriman in the United States is the sub-custodian. So say in a worst-case scenario the bank is insolvent, your customer funds are actually not held on the balance sheet of the bank. They're held in sub-custody with a 3rd party bank.

Sub-custody rules are very strictly regulated in Switzerland, and you'll find that all the banks tend to hold their securities with the highest credit quality sub-custodian possible. You can understand that with the very public defaults in the US banking system, why it's important that you manage counter-party risk. You have to look not only to a custodian bank, but you have to look through to the sub-custodians.

Mark: That's fascinating. I really appreciate you walking us through that, Curtis, because this is certainly not just one of my concerns, but a lot of our Inner Circle members have similar concerns as well.

Turning again to investor safety, obviously asset managers such as Bellecapital must be regulated in some respect as well. What sort of rules does Switzerland have to ensure that you guys behave properly and don't abscond with client funds and that sort of thing?

Curtis: We're in a fairly unique situation, because we have two regulators, obviously. We have the SEC and we're subject to SEC governance and oversight, which has its own very strict prescribed rules. Then in Switzerland you have something called the Swiss Association of Asset Managers. It's a self-regulatory body, which reports up to FINMA, and we are under the supervision of VSV, which I won't pronounce in German because it's quite difficult. But we've got an independent or self-regulatory body that does an annual audit of our books and records.

Similar to all countries, we also are very strictly regulated on two sides. One is to know your clients, so we have to obtain detailed knowledge of the clients we service and, importantly for anti-money laundering purposes, we have to understand the provenance of the wealth. We have to do a deep dive into ambitions, tolerance for risk, financial means, what percentage of the assets represent a percentage of the client's net worth, are there any outstanding significant liabilities, and so on and so forth. The regulator will come in and they will pull files, and they will look to make sure that we have adequately profiled clients from a regulatory governance point of view.

We also are subject to what's called the anti-money laundering rules. We call it AML in the industry. This is a strict set of guidelines to combat criminals from using the banking system to launder money. So again, part of the vetting process – getting back to one of your earlier questions – is we have to be very careful who we do business with. We have to know the source of wealth. We have to know the background on the client: what businesses they're in, what education they have, and what experiences they've had with prior financial institutions.

Part of what we do here in this firm, being an owner-managed firm, is we've got real skin in the game. We have to be very careful, because if something goes wrong, it's not one of the large banks that's going to write a check for a significant amount of money, it's us personally. The combination of an owner-managed firm combined with the Swiss regulatory authorities and the SEC means that the governance and oversight in this company, I think, is very good.

Mark: That's very reassuring, Curtis. Thank you for walking us through that. A lot of our Inner Circle members are extremely interested in assets that are sort of nontraditional investments outside the financial system. The one that always seems to come up are investments in precious metals, especially gold and silver.

The question I have is are the banks that you deal with set up to purchase gold and silver on behalf of clients, and are the metals fully segregated again from the bank's own assets and balance sheets and held in an allocated format?

Curtis: The answer to your question is yes and yes. As you can imagine, Switzerland is a repository for a significant amount of the world's wealth. Many of the people that come to Switzerland to bank have made significant amounts of money in their life, and they're looking for asset protection strategies. I don't mean that in the legal sense, I mean that in the real sense.

What that means is that all the banks that we deal with have safe deposit boxes where clients can buy collectibles, precious metals, and they can keep them in physical form in their bank in a segregated account.

Just to be clear, Bellecapital is an asset management firm. That's not a business that we're in. We will facilitate that for clients, but we're active investors. We have an allocation to gold in our model portfolio, so most of our clients have some gold, but it is part of a managed portfolio.

What we don't do as a firm is we don't take clients that want to buy physical gold and have it put in a safe or in a vault or put it up in the mountains in a storage facility. That's not our business. We can introduce clients to banks that can do that and institutions that can do that, but that's not a core business for us.

Mark: All right, but the gold that you have in your model portfolio or just ordinary portfolios that are outside that, that would be held off a bank's balance sheet in an allocated form, so that any counter-party risks are reduced.

Curtis: That is correct.

Mark: Great. Switching gears just a little bit, one of the comments that I get from our members that are banking offshore is that they get sticker shock. They're saying the banking fees and commissions outside the US are so much higher than I'm paying at Ameritrade or E*Trade or something like that.

Could you walk us through the fees that Bellecapital and the banks that you deal with charge clients, and also is there anything a client can do to reduce those fees?

Curtis: That's a good question, and it's a true comment. There's a number of things you want to look at. One is the fact the US dollar is a currency that has depreciated somewhat against the Swiss franc over the past 20-30 years. I'm sure, Mark, you're well aware of that.

So one, you've got a country like Switzerland, and I just want to position this. Switzerland is an incredibly stable country from a geopolitical and economic point of view. It's a country that really is a physical paradise. You've got relatively low taxes compared to the United States and Western Europe. You've got unemployment running at 3.1 or 3.2% and stable. You've got positive GDP growth. The country never went into recession when Europe was in the doldrums. You've got a trade surplus and the government runs a budget surplus. Switzerland is quite unique, because you've got very high GDP per capita. I think it's $79,000 to $80,000 right now.

I'm kind of positioning this in that the infrastructure of the country is not cheap. I've experienced this too. When I moved here coming from London – with London being an international money center that competes with New York – Switzerland has a history where many of the clients that came to Switzerland came for different reasons. They didn't come because they were looking for the lowest price option. They were looking for safety, and safety comes at a price.

The fact of the matter is, for taxable accounts – and this is not just for US clients, but for taxable accounts in any part of the world – Switzerland is a high-cost option. Taxable accounts can go anywhere, and the fact of the matter is that Swiss banks recognize this, and we're seeing significant changes in the way that banks are pricing their business, particularly for US clients, where US clients are much more price competitive.

Typically banks will offer two different types of pricing models for clients. One is called "all-in." All-in pricing means for one fixed fee, a percentage of your assets, based on the size of the account, you will get custody, administration, transactions, and tax reporting. A client knows exactly how much they're going to pay.

The second way banks charge is called "modular" pricing, and that means they sort of compartmentalize each item of cost. They have separate fees for the custody, administration, transactions, tax reporting… etc. Administration is corporate actions, dividend collection, clipping the coupons, so on and so forth. Transactions, you pay a commission each time you trade, and then they charge you sometimes a fee to produce your 1099 tax reports, and oftentimes there's an annual account charge. It depends on the size of the account and which bank we work with, but we will negotiate those fees for the client.

Bellecapital, the firm itself, has over $3 billion in assets under management. We are one of the largest independent asset managers in Switzerland and have very strong relationships with some of the key banks we work with, so we have negotiated rates which are beneficial for clients, but clearly if you go to E*Trade you're going to get it cheaper. That's a totally different business model.

At Bellecapital we charge an asset management fee, so we charge a percentage of assets, and again it's totally scaled to the size of the account. There are significant economies of scale in our industry, as there is in banking.

What happens is a client who opens an account in Switzerland with a Swiss bank will have a bank charge independent of Bellecapital, and they'll have a Bellecapital charge. Typically, we try to get it to be all-in, between – again, it totally depends on the size of the account, but it can be anywhere from all-in 1% to maybe 1.25%.

Mark: That may sound very high to some of the people listening to this interview, but in my experience that's quite reasonable.

Curtis: Again, Mark, I think it's worth mentioning that we're not a retail firm. We're not set up to deal with a lot of accounts. We're not in the consumer market, so our clients tend to be higher net-worth clients that have got significant assets. Again, they come to

Switzerland and they come to Bellecapital knowing that the infrastructure here is going to be a little more expensive, but the cost/benefit for them is well worth it.

I think it's worth mentioning that you want to have your assets with an institution that's profitable. I think a lot of people beat up banks and they go to the low-cost option, but the fact of the matter is, this is your life savings, and you want your life savings to be deposited with a bank that's profitable.

I think it's trying to strike the right balance. We're on the other side of the coin. We're agnostic on which bank to use, other than making sure that we get the right service, the right infrastructure, at the right price for a client.

Mark: Excellent. That's very reassuring. Thank you for walking us through that, Curtis.

The next question is sort of an investment question. When I first learned about Swiss banking years ago I thought, "This is pretty cool, because you can literally buy or sell any security on the planet through a Swiss bank account that is set up to trade securities."

Is that true, and is that something that Bellecapital can do? If a client comes in and says, "I'd like to buy some stocks in Uganda" or Vanuatu or something like that, can you help them do that, or can the banks that you work with help them do that?

Curtis: First of all, we are discretionary investment managers, so we tend to direct what securities are held or what the content of a client portfolio is. But to answer your question, yes, Swiss banks are unique in the world in that they're set up to deal with clients from all over the world.

Switzerland is a country with 8 million people, but it banks for wealthy people throughout the world. People that come to Switzerland oftentimes will want to have their customer accounts denominated in their home currency, be it dollars, Mexican pesos, Canadian dollars, Japanese yen, Korean won, and so on and so forth.

What's quite unique and special about Swiss banks – and it's not true for every bank – but generally the larger banks and the more specialized banks in private banking – and again, there's a distinction between the full-service multi-line banks and the pure private banks – but generally what you'll find is the ability to have your account denominated in any currency you want, and you can hold almost any security in any currency you want.

That's quite special and it's quite important for us, because we're global investors. We invest in all major geographies, and we will hold securities, when we can, in their own currency. Again, that's part of the diversification and return strategy at Bellecapital. When you look at certain macroeconomic drivers of global growth, oftentimes they'll be in countries and in segments and industries and companies that are not in the United States, and we want to own those securities for our clients in their natural currency.

Mark: That's very helpful. In investing, what risks or opportunities are you looking at right now in terms of markets? Specifically, do you see any opportunities in some of the emerging markets that have been beaten down pretty heavily in the last few months?

Curtis: Mark, you're asking a very good question. Our thesis right now is and has been – to answer your question back to front – we are not exposed directly in emerging markets. We have multinational companies we invest in that have emerging market exposure.

Our view right now is that 2014 is going to bring probably the first synchronized global economic upturn in many years, and that's going to be because Europe comes out of recession. You might have seen the trade data today, where the stock market was down 3.3%. China has been a real driver of emerging market returns, because many of the emerging markets are resource-based economies.

As China was growing at 9-11%, China was driving global demand for natural resources – iron ore, coal, rubber, palm oil, and so on – and that engine has slowed down, and the market has been pretty efficient in anticipating this. Simultaneous with that you have this accommodative monetary policy from the Federal Reserve in US dollars, which has made financing incredibly cheap, so you see this huge jump in credit demand and debt-to-GDP level for many of the emerging market countries, particularly in China and Brazil.

We've seen markets getting very nervous. We've seen currency corrections in Southeast Asia, you've seen it in India, Russia, Brazil, Argentina. What's interesting is that while emerging economies are still growing, we're in a period of slowing, but positive growth.

We've focused more or less on North American markets over the last few years, and then early last year, we made a significant shift toward Europe. We see the European economy coming out of recession have a particular focus on owning companies with significant domestic Europe exposure.

It's quite interesting, because you can take the US economic model and what happened in the stock market, and you can almost replicate it here in Europe. Europe is probably 2 to 3 years behind the United States in terms of the business cycle. So what we've done is we've bought a lot of the early cyclical stocks in Europe and shifted out of the cyclical stocks in the United States where the valuations now reflect stable economic growth.

The big bets that we have on right now – and when I say 'bets' I don't mean that in the gambling sense, I mean that in the strategic sense – we have a significant position in US equities, Euro-zone equities, and Japanese equities. We have one position in China right now, which has been troubling, but we are convinced China has the potential to surprise on the upside. At the moment, unusually, we're out of emerging markets, which has been quite prudent.

Mark: Excellent. You had mentioned earlier interest rates beginning to rise with the wind down, the quantitative easing in the United States and perhaps some other countries. What risks or opportunities do you think that provides from the investment perspective?

Curtis: Mark, that's a very good question. It's been interesting, because you've got accommodative policy right now in a number of countries. In Japan you've got probably one of the largest monetary stimuluses taking place in history, coupled with major fiscal and structural reforms, so you've got real potential to see the economy turn for the better.

You've got the European Central Bank (ECB), which has not engaged yet in a major quantitative easing program, but they've kept rates down and they've kept inter-bank lending rates artificially low. In the United Kingdom they've been successful in stimulating through fiscal and monetary policy. In the United States you've got an unprecedented enlargement of the federal government's balance sheet through what they call quantitative easing, which is basically just printing money and buying bonds.

The risk that markets have is that you've got a lot of complacency right now. We are in the fifth year now where interest rates in the United States are virtually zero, and it's given consumers and businesses not just in the United States but many dollar-linked economies – and remember, most commodities in the world are dollar-linked; many economies in the world, their currencies are pegged to the US dollar – so what happens in the Federal Reserve and the stimulus programs in the United States, they have indirect consequences in other countries by encouraging credit demand and expanded borrowing. Pretty ironic the Fed has combated the aftermath of the credit bubble by encouraging credit demand.

Even in Janet Yellen's last testimony, she mentioned that her concern is with the US economy – and the Federal Reserve is not employed to concern themselves with what happens outside the United States – but the fact of the matter is, rates will have to normalize.

Normalization of interest rates could take place over the course of several years. It could be managed very successfully to get back to 3-4% money in the United States, or you can have a situation where the markets overwhelm the Federal Reserve. They stop the bond buying program, and you have a shock move in interest rates.

In both cases there's no question that rising rates will be hard for equities to digest, and that potentially could end this bull run in the US equities market. One of the reasons why we like Europe right now is because the growth rates in Europe are substantially less than the United States, which means that interest rates in Europe will probably stay lower for longer than the United States.

Mark: That's very helpful again. Let's switch gears again. We started out and we talked a little bit about FATCA – the Foreign Account Tax Compliant Act – and we'll finish up with that as well. As you know, the withholding tax rules under FATCA come into effect on July 1, 2014. Under the rules, some outbound money transfers from the US to other countries will be subject to a 30% withholding tax.

Apparently, Switzerland has signed the type of FATCA agreement that allows the banks to exchange data with the IRS and become FATCA-compliant, but it's not done on a government to government basis. It's very bank specific. For the banks that you're dealing with for your US clients, is it part of your own due diligence to make sure that they are FATCA compliant and they are set up to provide the IRS the data that they need to provide in order to avoid the 30% withholding? Is that true?

Curtis: That's correct. All the banks that we deal with were originally QI's – Qualified Intermediaries. All the clients that we deal with are taxable accounts. One of the pre-conditions for us doing business with any of the banks is that they have an IRS-compliant and that means FATCA-compliant infrastructure.

FATCA has clearly provided significant technological challenge, and there's a significant amount of capital banks have had to invest to update their systems to make sure that they've got the adequate reporting information. But the fact of the matter is that to work with US clients with offshore assets, you have to be a FATCA-compliant bank, without question.

If any listener has an account and they're not sure if their bank is going to be FATCA-compliant, they really, really need to make that call now, because as Mark points out, if any transfer, any cash that goes through the US banking system for a US-connected person and the institution is not FATCA-compliant, you'll have a 30% withholding tax.

That's not 30% on interest or dividends or a capital gain. That's 30% of the consideration that moves through the banking system. So it really is an extremely punitive mechanism the Treasury is using to combat tax evasion. So without question, every bank we work with is FATCA-compliant, and we have it in writing from all our banks.

Mark: That's excellent. That's all the questions that I have, Curtis. Any closing comments you'd like to make, things that maybe I should have asked and didn't?

Curtis: I think one of the interesting things I've learned with being an American living in Europe for all these years is there seems to be a growing perception in the United States that holding money offshore or outside the United States is either illegal or immoral. The fact of the matter is, the United States is a free country. If you're a citizen of the United States you are free, and you can hold your money and you can live your life anywhere you'd like.

All you've got to do is to do due diligence to make sure that the institution you're dealing with from an asset management point of view or from a banking perspective covers your tax reporting obligation and understands the IRS tax code. There's no reason why, if you need diversification and want diversification, that you can't seek options outside the United States. I think that's a really important point.

I travel in the United States 4, 5, or 6 times a year. We have a lot of very interesting clients. Most of them are very well-educated. They're international people, and this question comes up all the time: "Curtis, I didn't realize I could have an account in Switzerland." The fact is, you can.

Mark: Curtis, thank you again. If any of our members would like more information on Bellecapital and your services, what's the best way to contact you?

Curtis: Probably the best way is to go to our website, which is www.bellecapital.com. Through that, you can see the firm; you can see who we are. On the website you've got my information, including my email address. You can just click on that and drop us a line and we can get back to you.

Mark: Okay. Curtis, that's all I have. Thank you again for being part of our Inner Circle interview for this month, and have a great day.

Curtis: Mark, I appreciate the opportunity and wish you well. Bye.

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