

Rochdale Investment Insight

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Offshore Investment Management: Asset Protection and Risk Management for High Net Worth Clients



A conversation with Neal B. Rubin, Managing Director,
Rochdale Offshore Investment Management

Highlights:

- The main emotional hurdle to clear for an offshore account occurs when the account is established. It would even be tough for me to give up control of the assets to a trustee and then, in effect, send the money on a boat or on a plane to Switzerland where it's going to be living permanently or semi-permanently. It is a difficult process for everyone at first.
- Prior to the new regulation, people heard the term offshore and thought about money laundering or the movie "The Firm." Now, people assume this business is not tax compliant and that's simply not the case. However, this is what gets the headlines. This presents new challenges to us in that we have to change the mindset that offshore is non-tax compliant or illegal in some way.
- The fact of the matter is it's becoming difficult if not impossible for a U.S. citizen to go an attorney, a CPA, or to an advisor and then to go directly to one of these Swiss banks and open up an account. With that, we've been getting business now from various sources that we never got before because we have these relationships now that are long-standing.
- The great thing about offshore is you have this structure where you have the responsibility to choose between individual parties so that no one party can really do something without somebody else seeing it. We have no signatory authority over the asset. We cannot move the money. For people that are concerned about the scandals that have happened this past year, that should be a tremendous comfort.
- If you are looking to build a wealth practice, this is an incredible way to differentiate yourself because I will tell you that nobody is talking to their clients and/or your prospects about this. Notwithstanding last year and the declines you saw in the market, a significant risk to your clients or your prospects is losing a litigation.

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The following discussion is moderated by Elizabeth Dooley, Portfolio Manager of Rochdale Investment Management. The below is a transcription from Rochdale's November 19, 2009 Advisor Forum Conference Call.

Q: Neal, let's start with the basics. Can you please explain the structure of an offshore account and how exactly this is set up?

A: Sure. It really is pretty simple. The key to most of the offshore accounts we deal with is that they are based around an offshore asset protection trust. The trust can be in any jurisdiction and the jurisdiction is selected by the attorney who sets up the structure. So, the first component is having the trust itself in some jurisdiction outside of the United States. The next piece is having that trust or an LLC that is owned by the trust open up a custody account with a bank outside the United States. We tend to use banks in Switzerland. Last but not least, most of these accounts are looking for some sort of third party management and this is where we come in.

So you could look at it as three legs of a stool: you have the trust; you have the custody account to hold the liquid assets of the trust; and then you have the manager to manage the assets within the trust that are held with the custodian. It is important to note that there is an attorney involved in this process from the start.

Q: If an advisor has a client who is a potential candidate for offshore, apart from giving what the attorney needs to draft the trust, is there specific information that they have to gather to start this whole process? Where could you point them to get started?

A: Well, I think the real key and this is something that I did when I was at Credit Suisse. I worked for Credit Suisse Private Advisors, based in Zurich, and I interfaced with the high net worth dealer network for Credit Suisse First Boston in the United States. So that was the old Dillon Reed in the First Boston brokerage distribution chain.

The thing I did then was discuss which clients are the best candidates for offshore and then help identify those clients. This offering is a great way to differentiate yourself because very few know this business or understand it. You are talking about protecting 100% of someone's capital and this is multiplied by magnitudes above what you can do as a money manager.

So, the first step is trying to find out who the prospects are that are concerned about litigation. Anybody that is classified as wealthy should be concerned about litigation.

Number two, rather than trying to navigate the maze of providers in the space, because there are a lot of people that talk about doing offshore or doing asset protection generically (offshore or onshore), rather than trying to figure out who the good guys are and the not so great guys are, whether or not you want to use us here at Rochdale Offshore, just pick up the phone and call me.

I have spent the past nine years trying to learn about anybody that does this business in the United States. I think I can safely say that here at Rochdale, we know who the top attorneys are. We know the top trust companies, we know the top protectors, and we know the right custodians. So, whether or not somebody actually wants to use us as the manager, and obviously we'd love to be the asset manager, we are more than happy to talk to people and help them navigate through the process.

Q: Well, you said that one of the main reasons for doing this is for asset protection. From an asset allocation standpoint, which is really the Rochdale piece of it, are there specific assets that are best held in an offshore trust? Also, are there other types of non-traditional investments that you could hold within this trust?

A: When we talk to people about Rochdale Offshore Investment Management, their first thought is that we are investing in assets that are located offshore. What we do for most clients is start with the same process Rochdale has been utilizing for over 20 years; discuss and understand the client's specific risk-return tolerance and preferences.

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We are looking to be that global manager for clients that manage their goals and objectives in a risk appropriate manner. Interestingly enough, most of the clients we have offshore give us all their liquidity. As a result, they are looking for fairly broad diversification. For the most part, our offshore portfolios look exactly like the Rochdale onshore portfolios. Most U.S. citizens do not want to have a very large concentration of investments outside the United States; as we know their lives are based here in the U.S. To expose them to too much away from the dollar can be very risky, even though the dollar does not seem to be very popular right now.

Having said that, we do have distinct opportunities for people. We have the opportunity, for example, to have physical gold held in Switzerland. We can open and manage multicurrency accounts. We also have the ability, since the trusts are not U.S. people, to give accounts access to strategies and managers not normally available to U.S. investors.

So there are some things we can do that are different, but by the same token, we also have clients that hold only bonds in their offshore trust. It's really driven by the client and most of our clients look and feel exactly like the clients of the advisors that are on this conference call.

Q: On a recent call, we discussed handling client emotions and instilling investor confidence because I think everybody is having the same uncertainty as we are working our way through this recovery. How have you found your clients during this period? Is there any specific emotion that they have because their accounts are held offshore or is it just the same general assessment that we are hearing from U.S. clients?

A: For the most part, I think it is the same sentiment. I know we are talking about Rochdale Offshore, but one of the reasons why I was attracted personally to Rochdale Investment Management is the way we manage client money and the way we focus on risk. Before last year, I think people became glazed over when you talked to them about it.

Again, every client for Rochdale Offshore goes through the same process which begins with determining a risk budget for them. We talk about downside volatility and we create a structure that meets their volatility preferences. As a result, our client accounts held a lot of cash last year.

The main emotional hurdle to clear for an offshore account occurs when the account is established. It would even be tough for me to give up control of the assets to a trustee and then, in effect, send the money on a boat or on a plane to Switzerland where it's going to be living permanently or semi-permanently. It is a difficult process for everyone at first.

When an individual gets over that initial hurdle, sees the reporting, deals with the trustee, has online access to us, asks for distributions, and receives them, they become comfortable rather quickly. I think the one concern that clients may have had, and it was a very small number of clients (it may have been the same on the domestic side) was when the Madoff situation occurred and the fact that there were a lot of Swiss banks involved with him. It just became very confusing as to what was going on. People wanted to know where their money was and how it was held and some people wanted to thoroughly review that.

The great thing about our structure, both offshore and domestically, is that it is the "anti-Madoff" structure. Madoff held the money, he managed the money, and he was reporting on it. Again, if you go back to your first question, which was an excellent question, the right place to start, you segregated those responsibilities. The trustee is the owner and a separate company from Rochdale. The custodian holds the money; the custodian is a separate company from Rochdale and it is separate from the trustee.

Within an offshore account, everybody is monitoring each other. The trustee needs two signatures to initiate a distribution. The Swiss banks are very precise. They will not let a penny out unless the "i's" are dotted and the "t's" are crossed.

Furthermore, when you open up a custody account, as I am sure most people here on the phone call know, that's not an asset of the bank. The banks we work with do not really make loans. They have a great business as they get 40 to 50 bps for custody alone.

We never had bank risk to worry about. Our portfolios are being managed to the volatility preferences of our clients and we have tremendous checks and balances. In many ways, you can argue that our setup is more secure and straightforward than what goes domestically.

Q: October 15, 2009 is now a date that has great significance to any client, financial advisor, or anyone involved in any kind of offshore banking or investing. For those of you who are unaware, this date represents the deadline for Americans to disclose to the IRS about any money they have in offshore accounts. Has this changed the business at all or changed the mentality towards the business and how it is managed?

A: It is really a change, I think, in terms of perception here in the states and it is a big change in Switzerland. The net benefit is really to us and here is why.

As long as I've been in the offshore business, whether it was with Credit Suisse or here at Rochdale, everything's been fully compliant. This means reporting W-9s, W-8s, 1099s, K-1s, and cap gain/loss reports. I have never had any knowledge of any client ever being audited and all clients have done their Report of Foreign Bank and Financial Accounts (FBAR), their 3520, and their 3528. The good attorneys that set this up give their clients and their CPAs a roadmap for how to report.

Now having said that, not everybody is Rochdale. UBS had an actual business where they actively marketed non-compliant tax strategies to U.S. people. The Swiss banks had a long history of providing non-tax compliant strategies to people around the world. Every one of them, except for UBS, was smart enough not to actively market this. I think that ticked the IRS off.

Prior to the new regulation, people heard the term offshore and thought about money laundering or the movie "The Firm." Now, people assume this business is not tax compliant and that's simply not the case. However, this is what gets the headlines. This presents new challenges to us in that we have to change the mindset that offshore is non-tax compliant or illegal in some way. If someone doesn't have the understanding and knowledge of offshore or does not perform the proper due diligence, they will tend to have that bias because of what they have read in the paper or hear on the news.

Offering non-compliant services is not something that we do or have ever done. In fact, the banks that we deal with would never open an account for us without a W-9 and the indication of tax compliance. So, a negative from this is that our business is hurt because people hear the term offshore and don't even begin to think about participating in these strategies which can be incredibly beneficial and are legal and compliant.

We have been helped, interestingly enough, by the fact that the Swiss have been scared straight. So our banks, which prior to this, would take U.S. investment management mandates even if they were not licensed and regulated to do so, they've all sort of gotten religion and now my Swiss banks, which were always my suppliers of custodial services are actively giving me referrals, which is quite the change.

Additionally, the aggression of the IRS and some of the recent political happenings here in the United States have concerned many wealthy people to the extent that they are now looking at offshore tax-compliant strategies because they are hoping to obtain geographic diversification. They want to have their custody outside the U.S. because it gives them diversification and flexibility down the road.

The entire situation has very much been in the news and as most things in the news, it has been covered in a way that sensationalizes and does not tell the whole story. It has made me wonder whether or not I shouldn't change the name of the business to Rochdale International Investment Advisors because that term's a lot less toxic now than offshore.

Having said all that, since we have been always tax compliant, the net benefits are going to be very, very positive as time goes on.

Q: With Rochdale being one of the very few, if not the only SEC-registered investment advisor with an offshore platform, has this helped to relieve some of that pressure? Does it not make any difference because we're all dealing with the same headlines?

A: You know, I think back to Bernie Madoff for a minute and I know it doesn't seem like it makes sense, but he was covered by the SEC for a long time and they missed what he was doing. So, I think being registered and licensed is helpful in a lot of ways but in some ways, people don't put as much faith in that as they might have before.

I think what helps us is, again, interestingly, whereas before you could have a few million dollars, maybe 3, 5 and up, as a U.S. person you could go to Switzerland and you could walk into a Swiss bank and they would open up an account for you, compliant, non-compliant. It is more and more difficult to find a bank that will do that now. In fact, one of our banks basically sent out a now infamous letter to all their clients saying not only are we not going to take U.S. clients, but we don't think anybody should invest in the United States for a variety of reasons.

The fact of the matter is it's becoming difficult if not impossible for a U.S. citizen to go an attorney, a CPA, or to an advisor and then to go directly to one of these Swiss banks and open up an account. With that, we've been getting business now from various sources that we never got before because we have these relationships now that are long-standing. The bank that sent out this infamous newsletter and said they will not take U.S. clients has one exception to that rule and it is us.

So, you're right. I do not know of any SEC registered investment advisor that does what we do and that has this platform. Now that's not to say there aren't any, but I just happen to not have come across them. If there are, I don't know if they have the access to the banks that we have and that's becoming incredibly valuable currency now. It has made a significant, positive difference for us this year.

Q: Since it's now becoming more and more difficult to do this directly and you need somebody like Rochdale to facilitate the process, do you see – on our end – the qualifications becoming more rigorous? Is it going to be more expensive for us to do this so the fees will be more expensive?

A: No. The Swiss are expensive already and I don't know if they can become more expensive. I'm hoping that they become less expensive over time as they have to compete more on sort of a normal basis. Our minimum is a million dollars. We will go below that where it makes business sense to do that.

In addition to being strong investment managers, we try to be very good business people also. Therefore, we're going to take business that makes sense for us. There have been clients for one reason or another that we have not taken because of the background information we found out or they simply just were not good clients to have. There are clients we let go for the same reason.

Economically, nothing has changed. We are constantly working to try to get the costs down. Within our fee, we incorporate the Swiss bank custody fee. When I set up the business, the custody fee was anywhere from 30 to 60 bps. We negotiated down to 25 bps or less and that is just for the custody fee alone. Here in the U.S., custody fees usually hover around 3 bps. I don't know how the Swiss can possibly make things more expensive.

We should be able to continue to do the business the same way we've been doing it. At the beginning of the year, we tried to do some scenario planning and at one point in time, I was wondering whether or not the Swiss would continue to do business with anybody in the United States. I mean it was looking sort of that ugly; we now have options now that we could pursue in New Zealand and in Singapore, if for some reason there's a problem with Switzerland. It does not look like that's going to come to pass but we have those options now.

Q: Earlier, you mention the FBAR. These are the new regulations that were very confusing in the beginning. Have things cleared up? Has it made it more difficult for your clients?

A: I don't think it's more difficult for our clients, per se, because their structures are pretty straightforward and they've always been filing FBARs. It has become more complicated for everybody else as before, it was very focused because if you had a foreign account, you had to do an FBAR. Now, it has expanded to any sort of connection with a foreign account.

So people that are protectors now, the question going around is, you know, do they have to fill out FBARs? We have a couple of offshore hedge funds and we have always been doing the FBAR. However, do other people at the firm have to sign the FBAR?

My clients have always been doing it, nothing has really changed. For some of the people in the periphery and other people that are involved offshore, I think it has become very complicated and will probably continue to do so as I do not think the service is going to reduce reporting requirements offshore.

Q: You have mentioned a couple of times that Rochdale's offshore accounts are always fully tax compliant and tax planning is something that we do for all clients whether they're domestic or offshore. Are there any specific strategies that only offshore clients can do or is it really the same requirements whether it's offshore or onshore?

A: Well, I'm not a CPA or a tax expert, so I may not be familiar with all the strategies. Having said that, the only tax compliant tax savings strategy that I know of involves insurance and you can do that offshore or onshore. For clients of the size that we typically deal with, it's all going to be private placement so you can do Private Placement Variable Universal Life Policy or you could do Private Placement Deferred Variable Annuity.

We have the expertise and the ability to manage monies, securities, and liquidity that are in both those structures. We do not sell insurance but we do know people that do and we can make referrals.

Typically, we get our clients from attorneys and CPAs and they have already gone through the tax planning exercise. These are the only strategies that I have seen that I am comfortable with. The attorneys and CPAs that we deal with seem to be comfortable with these strategies in terms of tax planning. They can be very effective.

Q: You have alluded to the fact that it's no secret that the offshore industry as a whole has been receiving some very unfair press as of late. I want to give you a chance to defend the industry and what benefits you think it gives to the economy or to clients in general.

A: This whole business was started a long time ago, long before I got involved with attorneys in the United States that defend people from civil litigation. The U.S. has the most civil litigation in the world. Oftentimes, litigation is totally justified but there are times when it's not and every one of my clients has worked their entire life to build up their wealth, making whatever sacrifices necessary to become wealthy.

I've heard absolute horror stories about people who've been sued for no good reason and could have lost everything. The establishment of an offshore trust is just an extension of classic estate planning. People partake in estate planning all the time with revocable and irrevocable trusts, life insurance trust, and by giving money to spouses and foundations and this is no different.

It's not anything special. This planning involves taking advantage of the laws of other jurisdictions; you are simply giving your money away to a trustee and you become the beneficial owner. That is not something you can do in the United States. You can do it in the Cook Islands. You can do it in Nevis. You can do it in the Isle of Man. You can set up a foundation in Liechtenstein. You can do all these things and there is nothing illegal about it. The U.S. government does not care about it as long as it is tax compliant.

This allows people that are in more high-risk professions or circumstances to protect themselves. I once had a prospect at Credit Suisse who was a very well known venture capitalist and he would fund start-ups, which went through multiple rounds of financing which he would not be involved in. The company, if successful, would end up going public and he would sell his shares because like most VCs, he did not want to be in the public markets, he wanted to redeploy his capital.

Subsequently, when those companies, five or ten years later, would miss earnings, he would be sued. That is clearly beyond the pail but that is what attorneys do. They look for any deep pocket; he won every suit but he had to defend himself each time.

If you're a CEO or a CFO of a publicly traded company, (with Sarbanes-Oxley now) you're personally signing off on financials and if you miss, and a certain percentage of people are going to miss, not because they were lying or cheating or stealing or anything but just because somebody made a mistake or circumstances changed, they're going to be sued. The guys who were in the Board of AIG who arguably didn't know what was going on and arguably maybe should have, but regardless the D&O insurance didn't cover them for what happened and they each had to pony up \$15 million.

You can spend your entire life building up a business and sell it to somebody and have them run it into the ground and then sue you. I have wealthy clients that are concerned about their children getting married and having somebody take the money in a divorce. We have clients who are actually entertainers who feel they are targets.

If the divorce rate in the U.S. is 50 percent and in Hollywood it has to be 99 percent. Our setup allows people to protect whatever they want: 5 percent, 50 percent, or even 100 percent of their liquid assets and their illiquid assets. It allows them to go on and live their lives and not have to worry about attorneys and protecting themselves from litigation and losing everything.

There is a clear benefit to the individual and I think, economically, there are benefits because it allows people to be risk takers. In that regard, it's very helpful and I guess the small role we play is we keep the money management in the United States versus having it go to Switzerland or offshore.

Q: We're all familiar with Switzerland, the Cayman Islands, the Cook Islands. However, when banking offshore is done in a fully compliant manner and, obviously, considering all of the increases in regulation, are there specific locations that you would recommend? In other words, what locations will give clients peace of mind?

A: I think you always want to stay with the more established jurisdictions. The key jurisdiction to worry about is the United States so you want to make sure you're compliant here first and foremost. You want to make sure your CPA knows how to do the reporting because the penalties can be very steep for a non-compliant individual in terms of reporting.

We can custody the money anywhere we have faith in the banking system. We didn't want to be too close to the U.S.

The Swiss have been banking for over 200 years and I can go to just about anybody in the United States and say "I have your money in Switzerland" and everyone knows where it is. But, if I say I have your money in Lichtenstein or Luxembourg or Singapore, maybe not so much. Everybody is very comfortable with that jurisdiction.

Most of us probably know who the Prime Minister of Germany or England or France is, but don't know who the Prime Minister of Switzerland is.

The Isle is not so much the steward of the nation as the CEO of the country. They are really focused in that regard. It is stable country with a tremendous rule of law and a long history of well-established, well-known banks, which is reassuring. I never really liked the thought of setting up custody in the Caribbean or in Panama. If Switzerland became unavailable, I would be very comfortable with New Zealand or Singapore.

In terms of the trust itself, that is obviously critically important because that is the owner of your money so you really want to be very, very comfortable there. I've been to the Cook Islands three times and I'm going again in January and I'm not going and haven't gone because it's a great place to go. I mean it's not a bad place but that's where the trust companies are and those are ultimately our clients and you have to be there. However, those jurisdictions are picked by the attorney. They have done their due diligence. They understand the law and a vast majority of them, I'd say over 90 percent, utilize the Cook Islands.

I think if somebody wants to do this, I'd recommend to people that they spend the money and take the time and go to the Cook Islands and meet the people. The people in the trust companies there are first class.

The bank is really a commodity and, again, we have done due diligence on the banks. It is easy to do due diligence on the banks. They don't make loans; they safe-keep assets and manage money and if you're getting 25 to 40 bps on custody, it's tough to mess that up as in an economic entity. It's tough to come up with a scenario where one of those guys goes out of business. If they do, our assets aren't in their balance sheet anyway.

So, the real key jurisdiction is the United States and the accompanying reporting, and then making sure you're comfortable with your trustee. One way many of clients become comfortable with trustees is through something called a protector. The protector has the ability to fire the trustee and they also have the ability, if desired, to sign off on any distribution from the trust.

If you're concerned, which I would totally understand, about putting \$20 million with a trust company in the Cook Islands, you can get a co-trustee and/or a protector. It can be a relative in the States. It can be an attorney. It can be a professional trustee outside the United States and that makes people a lot more comfortable.

Q: So the protector can be anybody but the beneficiary of the trust?

A: You could make it the beneficiary of the trust. That would not be a smart thing to do and not many attorneys would let you do that or want you to do that. It really shouldn't be anybody in the U.S.

Having said that, if there are no clouds in the horizon and if there is no litigation, the protector can be there and when something starts to happen, they can resign and you can have a professional trustee in Switzerland or somewhere else take over. But, yes, it definitely should be somebody else just like you should never be a trustee of your own trust. You don't want to control it. The whole thing is you're giving up control and therefore when somebody tries to take it from you, you don't have it so they can't take what you don't have. That is the basic tenet of asset protection.

Q: Could you elaborate on your asset management a bit and, in particular, liquid assets?

A: Liquid assets are very easy to manage. They are outside the United States. However, many people have their wealth in real estate or art or receivables and those are in the United States. Now, one can set up an offshore trust and it can own a house and/or investment property.

But, if I get sued and I lose, a judge could do whatever he or she wants and they could take that asset regardless of how it's titled. They have that power. That's a little bit of a hole in the plan; that's a problem. What some attorneys in this area have come up with, which is a great idea I think, is the ability to leverage those assets to strip the equity away. One of the trust companies we work with has an active program with outside lenders who can lend up to 95 percent of the value of the equity in the property. In that way you make the property ugly and you're able to have it in the trust, and if somebody wants to attach it, there's really nothing to attach. So, again, that's not something we do but something we're aware of and we could point people to that direction.

Q: One other thing that you mentioned earlier today was the Sarbanes-Oxley Act. There has been such a focus on corporate scandals. Individual investor criminal activity seems to have been overlooked. Do you foresee such an act for individual investors going forward?

A: Well, I know they're talking in Congress right now but the focus is on consumer protection. I think you are going to see discussions more along those lines for the individual investor and the individual consumer.

Again, one of the reasons that we've done so well in this business is that we're an SEC-registered investment advisor which makes people more comfortable. We're easy to research and we're here in the States. It makes people very comfortable and at the end of the day, nothing is more important. You really need to be with people you can trust, not because there's a law or a regulation because we've seen enough people get around those, but because you're dealing with people in an institution that have integrity, and I think that describes Rochdale as a whole very well.

The great thing about offshore is you have this structure where you have the responsibility to choose between individual parties so that no one party can really do something without somebody else seeing it. We have no signatory authority over the asset. We cannot move the money. For people that are concerned about the scandals that have happened this past year, that should be a tremendous comfort.

I do think you're going to see more coming down the road. Again, if you are offshore, I think you have tremendous protections already.

Q: Basically, we're managing within the specific set of rules regardless of whether it's onshore or offshore?

A: Yes. If you are familiar with Rochdale, you know that we set up an investment policy statement after the clients have filled out a questionnaire. That investment policy statement for offshore goes to the trustee who runs it by the beneficial owner.

Yes, there is a very well defined set of rules from Rochdale. The banks have done a great job in designing a set of rules for distributing the assets. In the trust company in the Cook Islands and other jurisdictions, there is a strong regulator who watches those people. It's a significant business for the Islands. I think it's a third of their GDP and they want to protect it.

Q: I have a client who is an Austrian citizen and had lived and worked in the U.S. for years. He is applying for U.S. citizenship now. All of the source incomes is here in the U.S. as well. But he does have a need for the asset protection scenario you talked about here? Does having that type of dual citizenship give him any added advantages?

A: No. Basically, if you are a United States citizen and you are living and working here, the U.S. is taxing you. So I think the advantage it gives him is that if he's a dual citizen and he has two passports that, he can make a decision as to which country he wants to live in. If at some point in time he doesn't like things that are going on here, he can renounce his U.S. citizenship and easily go back to Austria.

If his money is offshore – if you want to draw a very bleak picture where 10 years in the future the U.S. government needs money so much they start to confiscate capital, if his money's already offshore he can renounce his citizenship. He already has a second passport and he has received more than asset protection. However, there is no particular tax or asset protection advantage from being a dual citizen.

If he has plans to be working in the States for a discrete period of time, perhaps 10 years, and then his plan is to go back to his home country. We could buy securities for him or construct a portfolio that was dollar minimized versus dollar focused.

Q: A different client had almost the reverse situation. He had a U.S. citizenship but had some source income outside the U.S. at about a million dollars per year and he wanted to utilize some of that in the U.S. without actually bringing it in. He was looking for solutions there and we did talk about the offshore variable life situation. What are your thoughts on this particular situation?

A: Again, I'm not a tax expert, but if you set up an offshore private placement variable universal life policy, it will grow tax-free and you can take tax-free distributions through loans. So, if you're able to set up one of those policies, you could take a loan out of it and then use that money in the U.S. Beyond that, I really can't think of anything.

The U.S. taxes people on worldwide income. Unless you're a corporate entity and you set up an organization outside the States and you don't repatriate the earnings, you will pay U.S. taxes.

Q: Neal, is there anything that you'd like to add in terms of closing remarks?

A: I think if you are looking to build a wealth practice, this is an incredible way to differentiate yourself because I will tell you that nobody is talking to their clients and/or your prospects about this. Notwithstanding last year and the declines you saw in the market, a significant risk to your clients or your prospects is losing a litigation. Unfortunately, in this country it is not always about who's right or wrong; it could just be who has the better attorneys or who has more money or who has the more sympathetic jury.

This is an extremely effective and efficient way to protect assets and it's very flexible. A couple of years ago, we had a client set up an offshore trust with \$23 million in it with a husband and wife. Over about two and a half years, they spent it all. So, it's not like you're putting it on a boat and it's never coming back. There is a lot of flexibility there but by the same token, if you are ever sued, it's a very effective barrier.

Offshore can help you grow your business and can do a lot of good things for your clients. Most importantly, it is fully tax compliant.

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