

# CHECKMATE

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## QUOTE FOR THE TIMES:

*“(A sound investment) is one which, upon thorough analysis, promises safety of principal and an adequate return.”*

**Investor Benjamin Graham,  
Teacher to Warren Buffet**

## COMPETITION BY DENIGRATION CONTINUES

# Those Horrible Wonderful Fixed Index Annuities

by Thomas K. Brueckner

Imagine that you and your spouse are currently in the market for a new car. You have two large dogs and your three grandchildren several days each month, so you're logically thinking that a minivan or SUV would be appropriate and safe. Yet when you walk into your local dealership to explain your needs, the salesman replies, "Oh no, those minivans and SUVs are *reeeeally* over-rated; what you want is simply a good pick-up truck — step right this way..."

You turn to your spouse incredulously, wondering aloud what part of your needs analysis

this salesman missed. You patiently explain that you want neither your dogs nor your grandchildren riding openly in the back of a pick-up truck, exposed to the elements, unrestrained during cornering or braking, and you repeat your request to be shown a variety of minivans and SUVs. Incredibly, your salesman disputes your rationale, citing studies done by *Pick-up Truck* and *Four-Wheeling* magazine proving the popularity of trucking in the U.S., along with several articles slamming minivans and SUVs as products sold to the clueless and easily-duped, and he concludes with this whopper: "Minivans and most

SUVs are bad for you; in fact, *I don't know of a single person for whom such vehicles are appropriate...*" You leave the dealership stunned at such a biased lack of professionalism, and drive home questioning your own thinking. "Maybe we'll just drive our old car for another year or two..."

Sound implausible? The scenario I just described has been repeated annually in the offices of major brokerage firms around the country for decades, but especially during the last 14 years. Clients nearing retirement and looking for safety from market risk, have approached their brokerage firms saying,

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# Those Horrible Wonderful Fixed Index Annuities

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"I attended an educational seminar last week, and the (CFP/ advisor/ CPA) mentioned that Fixed Index Annuities credit market-linked interest when stocks advance, but can't lose those gains in a subsequent downturn. Given the huge losses we've suffered in the last 14 years, *why haven't you ever told us about such vehicles?*" Out come the biased market studies and derogatory articles from investment magazines (90% of whose advertisers sell mutual funds and risk-based products), slamming most annuities as products sold to the easily-duped, preyed upon by the caricature of the unscrupulous insurance agent. "Haven't you heard?" asks your broker. "Most annuities are *bad* for you, sold by profit-hungry insurance companies; *in fact, I can't think of a single client for whom such vehicles are appropriate...*" Many a client has left such encounters questioning their own common sense, wondering why their desire for safer yields was so horribly wrong.

Our firm has done decades of due diligence on every product and strategy that we offer our older clientele. I personally own many of the solutions that we recommend to our clients, and have done as well as they have in such products, including four of my own Fixed Index Annuities (FIAs). They are "a tool in our toolbox", they solve a specific need, and they have steadily become the most popular product/strategy we offer, growing to over \$240 million of FIA dollars now on our books.



Last week, I received an unsolicited email from David, one of our FIA clients. This man is an avid market-watcher/investor, a retired engineer, and a Ph.D. who spent many months doing his "homework" on our recommendations before becoming a client nearly 7 years ago. He was writing to tell me that he had just calculated his IRR (internal rate of return) on his FIAs, and was surprised to discover that it was 9.1 percent annually to-date. "I just thought you should know", he wrote. Considering that the 85-year history of the S&P 500 is 8.3%, David is thus far "out-performing" the market without any downside risk, truly a remarkable achievement even as most of our longstanding FIA clients are averaging between 6 and 8 percent annually.

Consumers of financial products should ask themselves a basic question. Of the 309 million people living in the United States, over 119 million benefit in some way from annuities or pension funds, their functional equivalent. These annuities are offered through major insurance companies, an industry that employs hundreds of thousands of people, and is heavily regulated by the states which employ additional thousands to do so. Q: How plausible is it that *all* of these people are selling, servicing, or regulating "bad", harmful products — and *thriving* in business while doing so? Isn't the routine fleecing of one's clients an unsustainable business model?

In 2010, six Ph.D.s at the Wharton School of Business conducted a two-year study of FIAs compared to four other asset classes over the prior 14 years. In an interview after the study concluded, the lead author, Dr.



David Babbel, stated that the FIA's "performed quite well, ...indeed they dominated the alternatives", and that "some have performed better ...than (bonds), equity-funds, (and) money markets in any combination..."

As John Adams said, "Facts are stubborn things; whatever may be our wishes or the dictates of our passion, they cannot alter the state of facts and evidence..." Now if only those biased brokerage firms would get a clue. 🐼

# Will You Need *Long Term Care*?

by Thomas K. Brueckner

**N**ovember is *Long-term Care Awareness Month*. As you spend this holiday season with those you love, we encourage you to take a moment and honor someone you know who has put their own career or personal life on hold to provide care for a family member. Reflect on what will happen to those you love if you ever need care over a period of years. According to government statistics 70 percent of people turning age 65 can expect to use some form of long-term care during their lives.

I have worked with far too many people over my twenty-five year career who asked for my help only *after* they were faced with the prospect of needing long-term care. Although each person's situation was unique, they shared two things in common: all were successful financially, and all who suffered a long-term care event were absolutely convinced—beyond any doubt—that it would *never* happen to them.

Unfortunately, these individuals did not know that providing care would

quickly become all-consuming to those they loved. Nor did they understand the precarious financial situation their families would be placed in when paying for their care.

The only way to prevent this from happening to your family is to create a plan *now*, which could keep you safe at home while preserving the emotional, physical and financial well-being of those you love. 📌

## Pensions and Social Security

### GET THE BIGGEST BANG FOR THE BUCKS YOU'VE PUT IN

by Jennie Bond

**O**ver the years we have seen how important it is that our clients are well informed about pensions and Social Security election. The pension election discussion between spouses can be a challenge and it's extremely important that all parties involved understand the many options available to them. For example careful consideration should be given as to whether electing the full survivor benefit is a financially sound decision.

As with Social Security, you paid a certain amount of money into your pension throughout your career in order to build a lifetime income stream. Of course you are hoping to live a long time and thus receive a much larger benefit. The strategies we

offer which could work best for your individual needs come down to a few key factors: your and your spouse's health, age, and history of family longevity. Once that is established, we can examine alternatives to maximize those dollars you and your spouse are paying monthly.

Did you know there are 81 ways for a couple to elect their Social Security? Did you also know that making the correct election could mean having the income stream needed throughout retirement? Social Security is a large part of everyone's retirement. Your beliefs that it will be reduced or eliminated in the future may influence your decisions about election, but our goal is to give you all the information

you'll need based on today's rules and benefits.

One option could be to defer one of your elections until 70. By allowing your benefit to grow 8% per year from full retirement age (65, 66, 67) to age 70, you are not only maximizing your payout, but your spouse can take the larger amount at your passing. There are other ways to leverage that payout against other assets so you're able to wait until age 70 and determine whether or not you will need to spend down those assets – assets it took you 40 years to save. 📌

*For more information on this subject, please call us to schedule an appointment to talk with Thom.*



# CHARITY EVENT – December 2014

**O**n Tuesday, December 9th we will be hosting our 2nd Annual Holiday Lights Christmas Cocktail Party at Ruth's Chris in Scottsdale. This year it will benefit The Society of St. Vincent de Paul whose programs strive to 'Feed, Clothe, House, and Heal deeply and meaningfully.' Donations made will aid their wonderful services such as their Dining Rooms, Thrift Stores, Family Eviction Prevention, Help for the Working Poor programs, Medical and Dental Clinics and so much more.

We encourage you to stop by and spread the festive spirit with a cocktail and some appetizers to

learn more about this charity and how you can help our local community. For those of you wishing to contribute, they accept monetary donations as well as non-perishable goods such as canned goods, peanut butter and pasta.

The invitation for this event will be mailed to you right after Thanksgiving and will confirm the time and venue information. Last



year's event was a great success and we hope more of our Client Family members will be able to join us this year for some holiday cheer! Our goal is to continue events such as this on a yearly basis in an effort to further our contributions to the community in which we serve. If you have any questions please feel free to give us a call.

For those of you who are unable to attend and would like to learn more about this wonderful organization please visit <http://www.stvincentdepaul.net/>.

## 2014-2015 SEMINAR SEASON:

The first seminar of the season will be at Red Mountain Ranch Country Club in Mesa on **Thursday, November 6th, 2014**. We would be delighted to see you there and please feel free to bring a guest who would be interested in hearing

what Thom has to say. Please contact our office at (480) 661-6800 to RSVP as seating is limited. You may also visit our website at [www.go2knight.com/seminars](http://www.go2knight.com/seminars) for a list of our educational events by location.



**STRATEGIC**  
ASSET CONSERVATION

## HOLIDAY SCHEDULE:

Strategic Asset Conservation will be closed in observance of the following holidays:

**Veteran's Day:**  
Tuesday, November 11th

**Thanksgiving:**  
Thursday & Friday,  
November 27th & 28th

**Christmas:**  
Wednesday & Thursday,  
December 24th & 25th

**New Year's:**  
Close at Noon on Wednesday,  
December 31st and  
Closed all day on Thursday,  
January 1st, 2015

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