FinancialFITNESS

Market-Linked Interest Without the Market Risk
Some of the Gains, In Exchange For None Of The Losses

by Thomas K. Brueckner

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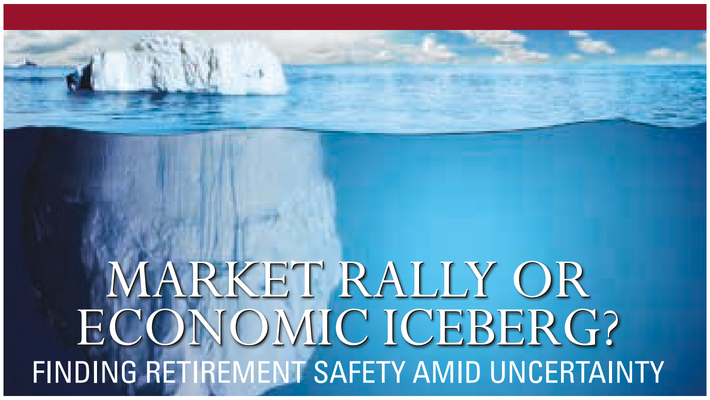
As we enter 2014, last year's bull market faces multiple problems. It's overvalued, subsidized by the Fed, with the quality of earnings being driven less by sales than by labor force reductions, outsourcing, technology, more part-time workers, and wage stagnation. The debt bubble we are in requires Yellen's Fed to keep the QE apparatus humming. If rates were allowed to rise, governments, corporations, banks, and individuals would be subject to tremendous stress, resulting in bankruptcies, business failures, and foreclosures. The Fed is hoping the world economy improves in time to prevent the inevitable. It's a colossal gamble on a massive scale, with unthinkable consequences if it fails.



With the economy barely growing at 2%, how is it possible for the 500 companies representing that economy to be up 24%?

We employ safe-money strategies that shield our clients from market downturns while earning a portion of the market's increases. More importantly, they are assured that the savings it took them decades to accumulate are protected against those losses.

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Individual investors face challenges too. Conditions last seen in early 2000 and late 2007 all bode poorly for those trying to convince themselves that the coming "correction" will be shallow and short-lived. As an old mentor once told me, "The only thing we learn from market history, is that investors repeatedly refuse to learn from market history", so don't expect scar tissue to deter the foolhardy.

Logic, experience, and common sense should dictate that now would be an opportune time to take some profits, and perhaps move to the sidelines. The older you are, the less your risk tolerance. We often ask those with sufficient assets for retirement and age-inappropriate risk exposure, "If you've already won the game, why are you still out on the field?" Many believe that "we can't afford not to be at risk, since only equities historically outpace inflation over time…" Yet inflation is currently at 1.2% and has averaged less than 2.3% for a decade.

A savings platform first developed by insurance companies in the mid nineties credits market-linked interest during years when the indices advance, retaining gains amid a sell-off or meltdown the following year. Fixed Index Annuities, or FIAs, protected their owner's account balances during both the -51% "tech wreck" sell-off in 2000-2, and again during the -57% decline that followed the subprime mortgage crisis on Wall Street. They have grown so much in popularity that some brokerage firms that once maligned them have recently partnered with the companies that developed them, for the benefit of their more risk-averse clients, lest their advisors lose such clients to other firms.

FIA firms guarantee their client's original principal, any bonus monies credited (in exchange for a longer enrollment), and each year's market-linked interest gains against losses. An FIA owner will see their account value grow or hold—and only decline when they take a withdrawal. Although they'll never again hit a market home run, they'll hit a lot of singles, doubles, and triples, while never losing the retirement game.

Regulators, CFPs and actuaries maintain the older an investor gets, the less risk they should be taking. Getting market-linked interest of 3-9% knowing they'll never lose those gains to another massive sell-off, makes for many a retiree sleeping very well at night. Whatever Yellen or the ECB have up their economic sleeve in 2014, we all know that the reality of a stagnant world economy will eventually overtake the euphoric fantasy that was 2013.

The only question is whether you'll have protected yourself this time.