Competition by Denigration Continues

Those horrible, wonderful Fixed Index Annuities

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Imagine that you and your spouse are currently in the market for a new car. You have your three grandchildren several days each month, along with two large dogs, 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 *reeee-ally* overrated; 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* magazines proving the popularity of trucking in the United States, 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 yourself. "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, "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 percent of whose advertisers sell mutual funds and risk-based products), slamming most annuities as products sold to the naive 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 have 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 more than $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 seven years ago. He was writing to tell me that he had just calculated his 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 percent, 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 percent 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 that 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 doing so? Hmmmm?

(Next month: Part Two) ■

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