



# **FOGLER ANNUITIES**

***ALL YOU NEED TO KNOW ABOUT ANNUITIES  
AND INVESTMENTS***

***PLUS 10 INVESTMENTS SENIORS SHOULD AVOID***

## THE POWER OF TAX DEFERMENT

Consider an investment of \$100,000 in a CD, offering 5%. At the end of 10 years, if left to accrue through compound interest, that \$100,000 would be \$139,029. This is because, after taxes, the 5% would, in reality, be 3.35% (assuming a 33% tax bracket).

The same \$100,000 placed in a 5% tax deferred annuity would be worth \$162,889, a difference of \$30,850 on an average additional yield of \$3,086 per year.

At the end of 20 years, the difference is \$193,290 for the CD, as against \$252,694 for the annuity, again a gain of \$59,404. The power of the tax-deferred growth is responsible for the increase.

To illustrate this even more sharply, consider a 5% CD as against a 5% annuity. After 5 short years, even after taxes, you would gain 11% more with the annuity than with the CD. This is all due to deferred taxation on the annuity.

The money can be annuitized to provide you with an income as long as you live.

## QUALIFIED VS NON-QUALIFIED ANNUITIES

A qualified plan is any retirement plan established under the Federal Income Tax code which permits the exclusions of plan contributions from current income tax (pre-tax funds) i.e. IRA, 401K, SEP, 403D, etc. Funds placed in these vehicles are deducted from your income before taxes are computed (with the exception of Roth IRA's).

Since the contributions were made with pre-tax funds, you have not paid income tax on the money that has been deposited into the annuities. Interest accrues, tax deferred, until it is withdrawn on all types of qualified plans. You will pay income tax on both the premium paid in and interest earned when the money is taken out of the annuity.

All qualified funds can be transferred from one qualified annuity to another qualified annuity without creating a taxable event by using a 1035 transfer order form. This is called a **roll over**.

A non-qualified plan is a regular annuity, purchased by you to provide systematic growth for a specified period of time. Non-qualified annuity



contributions are made with money on which you have already paid taxes. Interest accumulations grow tax-deferred (interest compounded on interest and the amount of tax liability due in other types of investments – a double compounding benefit) until you use the money. You have already paid income taxes on the money placed into this annuity, so taxes are paid only on the 'interest gain' when you take money out.

Money from a non-qualified annuity can also be transferred from one annuity to another via a 1035 transfer order form without creating a taxable event.

## **ANNUITIES & TAXES**

- 1) All interest is tax deferred
- 2) You do not pay taxes until you take the money out.
- 3) The money you use to start the annuity is never taxed (non-qualified) upon withdrawal.
- 4) A 10% Federal penalty may apply if you take money out prior to age 59  $\frac{1}{2}$ .
- 5) Annuity funds can always be transferred from one company to another without creating a taxable event, by using a 1035 TAX-FREE EXCHANGE.

Taxes in annuities are governed under the rules in Section 72 of the Internal Revenue Code. When we refer to payments, we mean all regular payments made to you after you annuitized an annuity. Annualizing means choosing a systematic schedule of periodic payments resulting in the liquidation of a principal sum. In plain language, you receive a set amount of money each month depending upon your choice of how you want it, for the length of time that you choose. Under this rule in Section 72 you can only be taxed on the portion of each payment that is interest. The portion that you deposited to begin with cannot be taxed again since you paid taxes on it before you put it into the annuity. The portion that you put into the annuity is called the cost basis. It is not taxable.

The part of each payment that represents the interest earned, or the gain that has been accumulating during the tax deferral growth period is called the taxable portion.

If you select payments consisting of interest only, these payments are not previously taxed, therefore, they are taxable in full. The government always wants its share, one way or another.



You can be taxed on money that does not fit the IRS classification of money received as an 'annuitization' or regular payment. These payments may be lump sum settlements of cash surrenders, death benefit from non life insurance policies, guaranteed refunds under a refund life annuity settlement, etc.

To be considered as 'amounts received as an annuitization', certain requirements must be met to show that these payments can be taxed only in the non-cost basis portion.

These requirements are:

- 1) Payments must be received on or after the start of the regular payments.
- 2) Payments must be received at regular times for over a year.
- 3) The amounts that you receive must be determined either from the terms of the contract, compound interest tables, mortality tables, or some combination of these factors. If any money from the annuity does not meet all of these requirements, then the money you get is all taxable.

## **FIXED VS EQUITY INDEXED ANNUITIES**

There are basically three types of annuities available. These are (1) Fixed Annuities, (2) Variable Annuities and (3) Equity Indexed Annuities.

Fixed Annuities are flexible cash accumulation vehicles that offer you a declared rate of interest, guarantee of principal, and withdrawal option. These vehicles also provide the opportunity to accumulate money on a tax-favored basis. These are a very good, very safe, conservative investment with no risk involved, other than fluctuation in interest. Every State mandates an interest floor, below which interest cannot fall. In Florida, you cannot receive less than 2 ½%.

To sum up:

- 1) A fixed annuity is a contract between you and an insurance company.
- 2) The insurance company guarantees all money that you deposit.
- 3) Interest is guaranteed for a definite period.
- 4) After the guarantee rate period, the interest reverts to the base rate, but never below the State of Florida mandated rate.
- 5) Some fixed annuities offer a bailout rate. This means if the interest drops to this predetermined rate, you may withdraw all funds without early withdrawal penalties.



- 6) Fixed Annuities can be single premium or flexible premiums. In a single premium, you can put funds in only at the initial conception, but in a flexible premium, you can add funds at will.
- 7) No market value risk since these annuities are NOT dependant on the stock or bond markets.
- 8) Usually, there is a premature withdrawal charge.
- 9) Annuities are creditor proof in FLORIDA.

Retirees have been severely impacted by the recent decline in interest rates. Most seniors have seen their income cut in half or more. To compensate for the loss in monthly income, retirees are turning to other investment vehicles that have a degree of risk associated with them. Retirees, primarily because of risk to their principal investment, had previously avoided these other investments. Many senior investors are currently left wondering where to safely place their assets.

One of the safest, most overlooked investment choices for retirees today is the fixed annuity. This tax advantaged savings vehicle has been around for over 100 years and is only issued by insurance companies. Similar to certificates of deposit issued by banks, the annuity fixes the principal, allowing you to accumulate interest or to receive a monthly interest check.

The safety record of this conservative investment vehicle is unequalled. Not only is your principal guaranteed at all times, the interest rate received, or credited to your account, is also guaranteed. No one has ever lost a single dollar in a fixed annuity.

Unlike many investments, the annuity allows you a choice of when to pay taxes on the interest earned. With the annuity, taxes are paid only when interest is withdrawn. This allows for **a triple net compounding of interest** that provides an accumulation of money over a shorter period of time.

Fixed annuities offer seniors the flexibility they require. You can add money to the account or withdraw principal; take a monthly interest check or allow interest to accumulate. In addition, there are no up-front sales fees or maintenance fees. These contracts also pass to beneficiaries 100% probate free. Combine these attractive features with competitive interest rates (currently between 3 and 3.5 percent) and you have the best-kept secret in the financial industry.

## VARIABLE ANNUITIES



Variable annuities should be avoided by anyone who is beyond the age of market speculations. These annuities have cash accumulations based on the performance of a pre-selected portfolio of investments such as stocks and bonds.

While the annuities advertise a hedge against inflation and an opportunity for growth, there is also the risk that the investment performance will be poor. You will lose money if the market declines. Variable Annuities are considered a security, while Fixed and Indexed Annuities are not. All securities are subject to market gains and losses.

Also, there can be hidden charges and management fees involved in variable annuities that may eat up most of your gains. You should not invest in variable annuities unless you understand the risk, and you are prepared to assume the risk of loss of your retirement funds. Variable annuities perform much like mutual funds and, in recent times, that performance has been unsatisfactory when measured by a standard for the safe returns demanded by prudent retirement planning.

Variable Annuities are advertised to guarantee principle. The truth of the matter is the guarantee only applies to a death benefit. Dying is the only way to recover your principle. Variable annuities are mutual funds, wrapped in an insurance policy. S.E.C. and NASD reports are critical of the high commissions paid to brokers that have helped drive sales of variable annuities as well as similarly higher fees and surrender charges of mutual funds without the insurance death benefit.

## MAJOR INDEXING METHODS

It must be understood that there are several different designs for determining how index gains will be credited, no matter how the crediting is accomplished, for example: participation rates, caps, averaging, spread yields, vesting or limited liquidity. The important fact is that all designs forfeit some of the upside potential in order to provide downside protection. In other words, the insurance company wants you to make money!

**ANNUAL RESET METHOD** This is the most profitable and most often used indexing method. Each year, the equity indexed annuity is credited with an interest rate equal to the percentage increase (in the particular index used) since the previous anniversary date, multiplied by the participation rate for the year. This rate is then adjusted, if necessary, to not be less than zero (or



the floor rate if higher). Sometimes a downward adjustment is made so that the interest rate will not exceed a stated cap rate in the annuity.

Since the starting index point is reset each year, the carrier's cost of hedging is higher. Usually a cap, averaging, or asset fee is used to reduce the cost.

The participation rate, cap and floor are declared annually for the upcoming annuity year.

Each year, the index changes are measured by the level reached at the end of the prior year. This type of annuity has a starting and stopping point on each anniversary: a stopping point for the previous years calculation and a starting point for the next year's calculation.

If the index falls below the original starting point of the annuity, the reset features allow for the new lower starting point of your annuity. The reset feature allows for the low point to be the new starting point at each anniversary date of the annuity. Each following anniversary date will use the ending point of the previous anniversary date as the starting point for the coming index period. Thus, each index period has a chance at a profit for that particular period. Once a profit is registered, it is retained and cannot be lost back in a future down-market year. Any upward movement in any one year can bring you a nice profit that is 'locked-in'. Two good years out of five or six years can result in huge profits, and you can never lose money.

A simple formula to determine growth of your annuity would be to subtract the annuity starting point from the year's index point and divide the remainder by the starting point. For example if the index period started at 1100 and ended at 1500 the increase would be 36%. Assuming an 85% participation rate of growth for that year, you would make 30.6%. If there is a 12% cap, then the growth would be restricted to 12% for the year.

If the values were reversed, starting at 155 and ending at 1100, the growth would be zero unless a 2½% floor was involved. Because of the annual reset method, it is possible for growth to be negative for several years, but then, because of the new lower starting point each year, you could end up with a nice increase due to one or two good years. Since increases are 'locked-in' and cannot be lost, this is an important feature.

**THE HIGH WATER ANNIVERSARY MARK WITH LOOK BACK.** With the 'High-Water-Look-Back', an annual point-to-point method is used rather than an annual reset. At the end of the annuity term, or index period, the highest



anniversary value reached is used to compute the total index return for your annuity. The 'look-back' feature scans the history of the index during the entire annuity period to determine the highest point reached by the index. That highest point is then used to compute the gain for your annuity. If the highest point is below the starting point, your annuity is credited with the minimum interest amount mandated. Your money is always guaranteed at the minimum interest.

**POINT TO POINT METHOD** This method can be the most profitable, but it is also the biggest gamble. With this method of indexing, two points in time are used for determining the index value. These two points in time are the starting point of your annuity period and the ending point of your annuity period. Market fluctuations in between are irrelevant. The difference between the starting and ending point is then multiplied times the participation rate to determine the equity linked interest rate that will be credited to your annuity. This method is somewhat like rolling dice unless the 'high-water-mark-look-back' method is used.

**MONTHLY AVERAGING POINT TO POINT** With this method, the values on the monthly anniversary dates of your indexed annuity are averaged at the end of each anniversary year, and the difference is multiplied by the participation rate. If a cap is involved it is then applied to the result.

It must be understood that with the point-to-point method, and the averaging point-to-point method, if the end value, or the average of the average end value falls below the level of the starting point, a 'Zero' is registered, and minimum guarantee (or floor) values would be paid. If the ending point, or the average ending point is above the initial starting point, a gain is registered. Under no circumstances can you lose money. Some amount of interest is always guaranteed.

**INDEXING SUMMATION** Indexing is an investment strategy that seeks to match performance of a defined group of securities to create a bench mark that tracks the prices of consumer goods to measure the over all market performances.

The most commonly used benchmark for prices of consumer goods is S&P 500, which is comprised of 500 stocks. The S&P 500 minimizes volatility of owning high concentrations of stock in a specific market by using stocks that represent 70% of the old US Equity Market.



Indexed annuities are taxed advantaged annuities that balance risk and reward with inflation fighting returns that are locked in and cannot be lost back by a market downturn. Once you make a gain, market downturns cannot wipe it out.

A revealing snapshot of the S&P 500 performance following 'Negative Return Years'

1977	-11.50%	Next 3 years +	9.14%
1981	-9.73%	Next 3 years +	33.43%
1990	-6.56%	Next 3 years +	37.83%
1994	-4.54%	Next 3 years +	85.38%
2000	-10.14%	Next 3 years	???????

If history repeats itself, anytime is a great time to put money into an Indexed Annuity and let it sit to maturity.

Although the future path of the market has yet to be walked, Indexed Annuities have proven to offer safety in bad times and extraordinary potential for growth in good times.

## BONUS ANNUITIES

One of the most exciting and important product innovations is the bonus annuity that offers an up-front bonus on the entire sum of money deposited. This bonus can be used to offset penalties that may occur when moving an annuity from one company to another in order to capture a better interest rate, or to offset recent stock market losses.

The bonus increases the base for future compounding; significantly increasing future yields. For example: an initial amount of \$50,000 invested without a bonus and compounded for ten years at an annual rate of 8% produces a portfolio of \$107,946. The same \$50,000 invested in a 10% bonus annuity, (creating an initial deposit of \$55,000) compounded for the same period at the same rate (8%) produces \$118,740 for your retirement portfolio, an additional \$10,794.

## SETTLEMENT OPTIONS

One of the biggest advantages of annuities is that you are able to wait until later in life to decide what payout options to select. This feature allows you to make this decision when you are in possession of more facts concerning the status of



your financial situation. The longer you are able to wait to start drawing regular payments the larger the payout you receive will be.

The rule of 72 simply shows how fast money will grow at an interest rate. Using this rule, assume that you put \$100,000 into your annuity at 5% (simply divide the interest rate received into 72) your \$100,000 would be \$200,000 in 14.4 years. At 8% your \$100,000 would grow to \$200,000 in 9 years. At 12% interest your annuity doubles in 6 years. Thus the higher your interest rate, and the longer you can sit and wait, the larger your payout will be.

**PERIOD CERTAIN** In this case, you receive the regular payment for a predetermined period of time. This period certain can be 5 years, 10 years, 15 years, 20 years, etc. At the end of the period you chose, the funds are depleted and the payout ends. It is important to be aware that, if you die before the certain period of time selected expires; the balance of the payments will be made to whomever you have selected as beneficiary. Thus, if you select a five-year period certain of \$1,000 per month and die after two years, the remaining three years of monthly payments will be made to you beneficiary.

**LIFE ONLY** Regular payouts will be made to you for the remainder of your life. If payments start at age 65 and you live to be 100, the payments would continue until your death. However, if the payments start at age 65 and you die 6 months later, the payments would cease and the remaining account balance would be forfeited to the insurance company

**LIFE WITH A PERIOD CERTAIN** In this case, payments are based on your life expectancy. You will receive payments for life. However, you and the company must agree on the certain period of years for which the payout is guaranteed, (i.e. 5,10,15, or 20 years). If you die within the selected guaranteed certain period, the remainder of the payments will continue to your beneficiary. If you live beyond the period certain, payments cease with your death.

**JOINT AND SURVIVOR** With this option, you and your survivor receive payments for as long as either are alive. At the death of one, payments will continue to be made to the survivor for as long as that person lives. This option is available, although not frequently chosen. In many cases, it is possible for the survivor to select a lump sum payout in lieu of payments.

**REGULAR WITHDRAWAL OF INTEREST** You may prefer to draw the monthly accrual of interest as income, and leave the principal intact for your beneficiary. This does not prevent you from annuitizing at a later date.



## IMMEDIATE VS DEFERRED ANNUITIES

### **Immediate Annuities**

A single lump sum investment, in which immediate regular payments begin at the end of the first month and continue for a period of time, is called an immediate annuity. Immediate annuities are available with monthly payouts of 5 years, 10 years or 20 years. The most common are 5 and 10-year payment annuities. Payment ratios vary from company to company. It is wise to obtain quotes from 3 or 5 companies before a selection is made. Once your payments begin, interest rates and payment amounts cannot be changed.

### **Deferred Annuity, Single Premium**

This is an annuity into which you make one payment, but with a regular payout to begin at some future date. Usually regular payments cannot begin until your money has been in the annuity for at least one year. You can usually start receiving monthly interest at the end of the first month. Interest may fluctuate until regular payments are selected or until the funds are withdrawn. Interest accrual is tax deferred.

### **Deferred Annuity Flexible Premium**

This annuity contains the same features as the single premium deferred annuity, however, additional deposits can be made at will. This type of annuity can be used as a retirement fund accumulation vehicle into which regular deposits are made until retirement age at which time it is annuitized.

### **Split Funded Annuities**

This is a combination of an immediate annuity and a tax-deferred annuity. The goal is receiving an income stream for a set period of time from the immediate annuity, and then, at the end of that time, the tax-deferred annuity will have grown to equal the original investment amount. For example: if you invest \$10,000, \$2,500 into an immediate annuity and \$7,500 into a deferred annuity, you receive a monthly income of \$48.63, or \$585 per year from the immediate annuity. At the end of 5 years you have netted \$2,925.00 in payments, and the \$7,500 invested into the tax deferred annuity is then worth \$10,037 (invested at 6%). Thus, with a \$10,000 investment you would end up with a lump sum of \$10,039, and would have received \$2,925.00 in cash flow over a 5-year period. The Split Funded Annuity is a pretty smart and safe investment, offering peace



of mind, tax favored monthly income, no brokerage fees, and tax-deferred growth and should you die, no probate costs.

## **TAXES, SOCIAL SECURITY AND ANNUITIES**

In 1983, congress legislated that up to 50% of social security income could be taxed when your income exceeded certain threshold limits. This ruling came into effect because bureaucrats realized that half of social income was from contributions paid by employers and therefore should be considered taxable. In 1993, the law was amended again to allow up to 85% of your social security to be taxed under certain conditions.

Current income thresholds are dependent upon whether you are single or married.

If you are a single person with an income between \$25,000 and \$34,000 you would pay tax on 50% of the excess above \$25,000, to a maximum of \$4,500.

If you are single with an income of \$34,000 you would pay tax on 85% of the amount above \$44,000, to a maximum of 85% of the total amount received from social security.

The IRS is limited in the amount that they can tax on your social security. The amount taxed cannot exceed 85% of the total income that you receive from social security.

It is important to note here, that all income received is considered threshold income except income from annuities. Deferred annuities are the only interest producing assets that allows interest to grow without being included as threshold income. The interest produced inside an annuity will not count towards social security threshold limits. Replacing your taxable interest from CD/s money market accounts, passbook savings, credit union savings, etc. with deferred interest from an annuity could help reduce or eliminate the tax on social security. Your taxes can be reduced simply by placing 100% of your taxable interest assets into an annuity, where interest will accumulate, tax deferred.

## **ANNUITIES AND LONG TERM CARE**

Today, in the United States, over 90% of the dollars spent on long term care are from two sources. (1) Out-of-pocket, and (2) Medicaid. It is apparent that many people are self insuring their long-term care risk whether they realize it or not.



You may recognize the need for this long-term care (which includes nursing home as well as home health care) but maybe you are reluctant to buy this coverage. It is costly, and you feel that you may never need it. Why should you spend thousands of dollars on the coverage when it may never be used? However, there is that nagging fear that a major infirmity could wipe out your estate.

The answer is a tax-deferred annuity that provides long-term care benefits. This annuity grows tax deferred and a portion of the monthly interest is used by the insurance company to purchase long-term care coverage for you. The amount of coverage grows with the growth of the annuity.

Underwriting is simplified, and many people who could not purchase LTC coverage can qualify for this type of annuity.

Generally, with many policies of this type, for every dollar that you put into the annuity you get three dollars worth of benefits, which will provide you with a 6 year Long Term Care program. A portion of the annual interest earned by the annuity is used to provide the Long Term Care product. This type of product provides a bucket of money that can be used for Nursing Home Care, Home Health Care, Assisted Living Care, Day Care, Hospice Services, Personal Care Services, or Homemaker Services, often issued to age 85.

If your need for long term care never arises, upon your death all the money in this type of annuity goes to your selected beneficiary, avoiding probate.

If you do not have LTC – you should look into this type of annuity.

## **ANNUITIES AND MEDICAID**

Medicaid rules differ slightly from State to State but in each state they are fairly simple to understand and follow.

Annuities are a very effective vehicle to use to assist seniors in preserving their assets, while still qualifying for Medicaid.

When assets are held in annuities instead of CD's, stocks, bonds and mutual funds, generally Medicaid does not require the amount of money in properly annuitized annuities to be spent down before its owner can qualify. Often Medicaid simply looks to the monthly income to go towards a share of the cost.



In many cases, the annuity income can be made unavailable for a share of Medicaid cost if it is paid to the 'at-home-spouse' and that person can meet certain qualifications. Stocks, bonds and mutual funds however must be spent down before Medicaid payments can begin.

Smart planning can help seniors preserve assets for their spouse or even heirs, and yet still qualify for Medicaid for the one in a nursing home.

## **COMMON INVESTMENT MISTAKES**

When considering investment options for retirement funds, especially seniors, there are certain types of investments that you should avoid. Your investments of retirement money should be conservative, non-speculative types that provide peace of mind through the knowledge that your investments are safe, yet profitable. We suggest that you stay away from the following:

### **Gambling In The Stock Market**

Some people have made big money in the stock market, but it is usually a result of luck rather than good judgment or smart advice. In recent years, the market has been in turmoil and too risky for retirement money. Changes in market activity and stock values are subject to many factors, most importantly, news events which are totally unpredictable. Reading business publications provides a daily stream news and supposed insight into why the markets are performing at current rates and what to anticipate in the future. Reading investment analysis performed by Nobel laureates at the University of Chicago, Wharton, Harvard, MIT and elsewhere provides a different view. Professor Samuelson, noted noble laureate, says you best avoid the markets and brokerage houses. Professor... after in-depth study of 50 years of trading stocks says your odds of winning in the markets equal your odds of winning at the roulette tables which is about 39:1, not the kind of gambling odds appropriate for retirement money and long term planning for the best years of your life.

to on An excelled rule of thumb is to subtract your age from 100. The resulting figure is the percentages of your estate that could be safely invested in the market, i.e., a 75 year old should have no more than 25% of that persons total estate (excluding the value of their home) invested in the market, whether stocks, bonds or mutual funds.

A person in the 30's or even 40,'s can wait out a crash or severe decline. If you are a senior, you may not have the time left to wait it out. Your golden years should be free from worry, with peace of mind in the knowledge that your



money is secure and is producing a steady income stream. After spending a lifetime acquiring funds, you should not place them in jeopardy.

### **Money Market Account.**

Interest in a money market account is taxable during the year in which it is earned. It is not tax deferred. Money market accounts historically pay the lowest interest available.

### **Investing In CD's**

Here again interest from CD's are insured up to \$100,000 by the FDIC, there is no assurance that in a deep recession, the FDIC would be able to meet all of it's obligations. It has been estimated that the FDIC could only pay off 20 cents per dollar. With regard to taxes, a 5% interest rate could really net 3% after taxes. Also there are severe penalties for early withdrawals.

### **Investing In Variable Annuities**

These annuities are tied to investments in the stock market. Your money is not guaranteed. You should avoid them like any other investment in the stock market. The hidden costs can also be excessive. Surrender periods are extremely long and surrender charges for early withdrawal are very steep. When an agent tells you that his variable annuity guarantees the principal, what he isn't telling you is that you must die to have the annuity restored to the original principal. Also the original principal is used as the cost basis when figuring taxes on the beneficiary's inheritances. When a retiree begins withdrawing money from a variable annuity, the money is taxed as ordinary income, instead of at the lower capital-gains rate.

Some agents will push variables on seniors because of the extremely high commissions. They have more concerns about their own pocketbook, than they do about the senior's pocketbook.

### **Limited Partnerships**

These are often speculative investments that could result in a gain or a loss of your money. In most cases it is a long-term arrangement that you should avoid since more times than not, they result in a loss. Many scams use limited partnerships.



## **Investing in Schemes Which Promise Fast and Unusual Large Profits**

You should keep two points in mind when approached with 'these get rich quick schemes' (1) If it sounds too good to be true it usually is and (2) there is no free lunch. Everyone must pay something, sometime, for anything.

## **Off Shore Investments**

These are generally not safe since they are not governed by any of our laws. Generally, these are an attempt to operate outside of safe investment principles; touting huge tax breaks as an enticement. What these investments generally bring you are IRS audits.

## **Corporate Notes**

These promise high interest profits at frequent intervals. They are generally unsafe and fall apart after a few months. Sound solid corporations borrow from banks, not individuals.

## **Viaticals**

There have been millions of dollars lost in viatical settlements over the past 5 years. These Investments cannot pay off until the death of the insured. Many times the insured lives much longer than anticipated. There are currently, multiple class action lawsuits in progress in attempts by seniors to recover funds lost in viatical schemes.

## **DANGER FINANCIAL HEALTH WARNING**

If your objective is to build a "Retirement Portfolio" that secures your future income, you must exercise extreme caution when considering investment options.

The world's most expensive intelligence gathering organization failed to predict 9/11 and the resulting market losses that occurred immediately following the terrorist attack in New York. How can you expect a stockbroker or a financial advisor to do any better?

To further understand the risk to your retirement money, consider the work of Dr. Eugene F. Fama, University of Chicago Economist and Nobel Laureate, who



developed a theory to explain why stock market prices fluctuate randomly, and he coined the famous phrase "Efficient Market."

The "Efficient Market Theory" explains the workings of free and efficient financial markets. In summary, the theory says:

1. Information about stocks is widely and cheaply available to all investors.
2. All known and available information is already reflected in current stock prices.
3. The price of a stock agreed on by a buyer and a seller is the best estimate, good or bad, of the investment value of that stock.
4. Stock prices will almost instantaneously change as new unpredictable information about them appears in the market.
5. All of these factors make it almost impossible to capture returns in excess of market returns, without taking greater than market levels of risk.
6. It is relatively rare to find and profit from a mismatch between a stock's price and its value, or to identify an undervalued or overvalued stock through fundamental analysis of stocks.
7. This creates efficient financial markets where most stock prices accurately reflect their true underlying investment values.
8. Even when stock prices do not reflect their values, attempts to establish more accurate values usually cost more than the profit to be made from successful efforts to do so.

When Dr Fama introduced The Efficient Market Theory, stockbrokers, mutual fund managers and financial advisors all disagreed with Fama, because, in their collective view, the theory likened their work to stock selection by throwing darts at the Wall Street Journal financial pages.

To test Dr. Fama's theory, reporter John Stossel in a 1992 20/20 ABC news segment entitled, Who Needs the Experts? created an investment portfolio by doing just that, 'throwing darts at the Wall Street Journal'. The results of Stossel's portfolio, later dubbed "the dart board portfolio", were compared to those of the major Wall Street Firm experts. The darts beat ninety percent of the experts!

According to another 1970 Nobel Laureate Economist, Professor Paul A. Samuelson, Massachusetts Institute of Technology, "It is not easy to get rich in Las Vegas, at Churchill Downs, or at the local Merrill Lynch office."

Nobel Laureate and Professor of Economics, Univ. of Chicago, Dr. Merton Miller, during a PBS Nova Special, "The Trillion Dollar Bet", said, "If there's 10,000



people looking at the stocks and trying to pick winners, one in 10,000 is going to score, by chance alone, a great coup, and that's all that's going on. It's a game, it's a chance operation, and people think they are doing something purposeful... but they're really not."

In spite of the research of multiple Nobel Laureate Economists, many still rely on high-risk equity investments to build retirement funds and continue to pay other people to gamble with their retirement money. Stockbrokers, mutual fund managers and financial advisors generate income through transactional commissions and fees. Your money must be periodically reinvested; the more frequently this occurs the greater the economic benefit to the advisors. This is a foolish and dangerous way to build a "Retirement Portfolio".

Dr William F. Sharpe, 1990 Nobel Laureate in Economics and author of The Parable of Money Managers summed it up best of all, "Why pay people to gamble with your money?"

Call us at 1-800-535-6327 and we will show you how to employ world-class investment management to safely invest your retirement funds. You will be assured that your money will grow while secure from loss, insulated from market downturns and protected against creditor lawsuits. We don't gamble with our money or yours.

