The 3 L's

Mr. and Mrs. Jones,
As I usually tell my clients, outside of your mattress there are really only 3 types of vehicles I recommend in which you can hold your liquid wealth.

The first vehicle is called a fixed rate vehicle. Most of my clients are doing one if not several of these options. A fixed rate vehicle could be any of the following:

Savings account
Checking account
CD

All these you would get from a bank. They are safe and guaranteed and give you a fixed rate of return.

Another option is something I sell called a:

Multi Year Guaranteed Annuity (MYGA) or a Fixed Annuity and these are sold by insurance companies.

An MYGA is very much like a CD, however it may put you in a tax advantaged position by deferring your taxes on interest gains. It too is safe from market losses and guaranteed and will give you a fixed rate of interest, regardless of market volatility.

If we were to graph out a fixed rate of return on a graph, it might look something like this..

(on a graph, showing a marginal rate of return, and at the end writing 1%-3%)

Now, it depends on how long of a term you choose and where you purchase your annuity from, but right now, you might see anywhere from a 1-3% rate of return in this fixed rate vehicle. Some products may credit more,= some less but on average a fixed rate annuity could credit at or about 1-3%.

Mr. and Mrs. Jones, if I where to ask you what you like about this fixed rate of return, what might you say?

(let client response, they typically state that it is safe or guaranteed, when they respond I write it down)

Mr. and Mrs. Jones, if I where to ask you what you dislike about a fixed rate of return, what might you say?

(let client response, they typically state that the interest rate is low or they comment on bank failures, when they respond I write it down)

Our second vehicle for liquid money is a variable risk product. I do not sell variable risk products as I am not securities licensedHowever, many of my clients will have a portion of their liquid money in a variable product. Examples of a variable product might be, but are not excluded to:

Variable annuities

401k or other employer sponsored accounts

Individual stocks

Bonds

Mutual Funds

In a variable risk products, the returns are unknown. You have both the potential for gains but also the potential for losses.

(on the 2nd graph, question mark)

As a securities product, the risk is held with the consumer.

Mr. and Mrs. Jones, if I where to ask you what you like about this variable risk, what might you say?

(let client response, they typically state that it can have great returns, when they respond I write it down)

Mr. and Mrs. Jones, if I where to ask you what you dislike about a variable risk, what might you say?

(let client response, they typically state the risk of loss is what they dislike)

Ok, so…so far we have discussed a fixed rate vehicle and variable risk and we have wrote down several things, if you could eliminate two of those things we wrote down, which two would you eliminate?

(typically the client wants the low interest rate and the risk of loss eliminated)

Mr. and Mrs. Jones I think you may be interest in a 3rd type of product.

This is a Hybrid vehicle sold by an insurance carrier and takes the best of the prior two products.

It is called a Fixed Indexed Annuity.

With this annuity, you are given a principal guarantee, which means you can not lose money due to market volatility. However, the interest credits are linked to the performance of a stock market index, so you have more upside potential.

If we were to graph out a FIA, it might look something like this…

(on the 3rd graph it will look like a stair case, the landing part being horizontal to represent 0% return)

When the market is going up, you will have the potential to capture interest based on a portion of the upside market performance; however when the market goes down, you will not lose any of your principal or any of the interest that has been locked into your contract up to that very date.

Would an EIA or FIA be something you might want to investigate further?

Guarantees provided by annuities are subject to the financial strength of the issuing insurance company; not guaranteed by any bank or the FDIC. Annuities are long-term products of the insurance industry designed for retirement income. They contain some limitations, including possible withdrawal charges and a market value adjustment that could affect contract values.
Fixed indexed annuities are not stock market investments and do not directly participate in any stock or equity investments. Market Indices do not include dividends paid on the underlying stocks, and therefore do not reflect the total return of the underlying stocks; neither an Index nor any market-indexed annuity is comparable to a direct investment in the equity markets. Clients who purchase indexed annuities are not directly investing in a stock market index. 16985 2701410