BROKER WORLD

D. ERIC FORTNEY,

MBA, RFC, is vice president of U.S. Marketing Corporation, a family owned, independent marketing organization (IMO) that focuses on helping advisors protect client assets through the use of annuities, life insurance, as well as asset-based and traditional long term care policies. Fortney studied Economics and Finance at Marian University and has more than 20 years of industry experience. He has had an integral role in growing U.S. Marketing Corporation into a national wholesaling organization and has been actively involved in developing the company's bank, broker/dealer, property casualty, and independent agency channels.

Fortney can be reached at U.S. Marketing Corporation, 1230 Cheyenne Ave, Suite 115, Grafton, WI 53024. Telephone: ***414-278-7576****. Email:* ***eric@usmarketingcorp.com****.*

The Market Pullback And Positioning A Safe Alternative

For the past couple of years I have spent a great deal of time speaking with clients about, and educating consultants on, the need to add fixed indexed annuities (FIAs) to portfolios. I have spoken about moving part of clients' assets and locking in the gains those assets have credited. The actions of the market these past few weeks are the exact reason I spoke so often on this topic.

While the virus scare was not anticipated, I was cautious of a triggering event which might cause the market's continued fall. While I realize there is still hyper-focus on the COVID-19 outbreak, concern, confusion, and more questions than answers, it appears the Coronavirus, and its disruption to business supply chains, will have an impact on future corporate revenues. This is one of the biggest factors we are dealing with today. However, I do not believe it is the sole reason for the pullback. Other factors are playing in such as the Saudi and Russian oil conflict and the election in November. This compounds the fact we were at the start of a global economic slowdown. The housing market was cooling, we were confronting inverse yields, there was high volatility, and the Fed funds rate had plateaued and was being reduced prior to the recent emergency cuts. In addition, there were foreign factors weighing on the economy such as Brexit, trade tariffs, trade "wars," and negative interest rates abroad.

Early on I was hopeful that the decline in the market would be short term and result in a "V" or even "W" shaped recovery, quick in and quick (or at least relatively quickly) out. As time has progressed, I am now thinking that we will be in more of a "swoosh" style recovery, and that it will take years for the economy to correct itself and the markets to rebound. There are signs everywhere the economy is continuing to struggle. Individual states are wrestling with how and when to open. Many businesses and employees have been told that they are not essential and must close temporarily. There are many that will simply not be able to reopen when they have the opportunity and the restrictions are lifted. This is the main reason unemployment has skyrocketed and the market continues to be whipsawed.

Do I know where the market is going? Sure I do. The market will go up, go down, or remain flat. Joking aside, I can't tell you for certain which way it's headed or for how long. What I will say is that, from data and charts I have looked at, I think we had been nearing a pull back for a while and the market was looking for a triggering event to move us over the edge. This is why fixed indexed annuities made sense then, and *still* make more sense recently than ever before. If you haven't implemented them into your clients' portfolios in the past, I strongly suggest you start.

Are double digit returns enticing? Sure they are. I cannot tell you the countless number of conversations I have had with advisors who say they have done risk profiles and their clients are fine in aggressive allocations; they have talked with their clients and they both understand that there is a possibility the client's portfolio could go down. Mostly, clients believe they are alright with the loss, because clients don't believe minus 20 percent will happen; it may, and it has. It isn't conservative positive returns that cause clients to move from advisors, or be worried and lose sleep at night. It's a market like we are in today with pullbacks, high volatility, and loss of money that does. Fixed indexed annuities are a great alternative for this market, even for "aggressive allocation" clients. For example: Take a hypothetical five year return in the S&P 500 of 21 percent, 12 percent, seven percent, -21 percent, and six percent on a client's $100,000 investment. At the end of five years the client will have a total of $121,428.40. Not a bad return. Now, if we contrast that same $100,000 in a fixed indexed annuity, with a five percent cap over the same time frame: Five percent, five percent, five percent, zero percent and five percent. At the end of five years the client will have a value of $121,550.60. An even better return. As you can see the client will have more money in the FIA with none of the risk, keeping security and peace of mind that the money in the FIA will not ever suffer a loss.

When speaking with your clients about using fixed indexed annuities as part of their portfolio, keep in mind: Since 1929, historically, a bear market occurs roughly every five years, and lasts a year and a half. Recovery will take almost 5.2 years in breaking even to pre-bear market highs. Don't forget, this is only the third bear market since 2000, coming on the heels of the largest and longest bull market in history.

Clients who have fixed indexed annuities are less worried about the markets right now. This is because FIAs offer the safety of not losing money due to a pullback in the market. They also earn competitive interest in a positive market. At their core, FIAs fit into the comfort level of many clients near and in retirement, where the allure of large gains can wane due to the desire of protecting what has accumulated. For investors still a few years out from retiring, FIAs may offer peace of mind. By using indexed annuities as part of planning, clients are able to benefit from specific safety aspects of FIAs, which may allow them to hold more aggressive allocations in other parts of their plan. Furthermore, there is liquidity available on an annual basis which offers great flexibility to clients. It may even be utilized in a strategy where the client can dollar cost average back into the market annually if they choose to do so. If they choose not to use the liquidity, FIAs can be set up to provide income for life, or pass along to a beneficiary. Fixed indexed annuities offer safety, flexibility, and peace of mind for a client's portfolio, and gives a consultant the ability to help clients weather rocky markets. Remember, a negative 25 percent requires a 34 percent positive return to get even. With FIAs, there is no loss to overcome in order to have a positive interest credit; the index simply has to be higher on the policy anniversary than it was the anniversary before. In short, fixed indexed annuities are an important part of many portfolios.

Clients will be very happy with the satisfaction of knowing their money is safe. If you haven't utilized fixed indexed annuities with clients yet, there is still time. They will provide the peace of mind you and your clients deserve and want, while still giving competitive returns. Often it is "not losing money" that is just as powerful as big gains. As Jack Sparrow and Mr. Gibbs state in Disney's *Pirates of the Caribbean*, "Take what you can. Give nothing back." This is the fundamental principle of FIA's and the reason they ought to be a part of every client's portfolio.