

Close your toughest Equity-Indexed Annuity Sales: Bring out the Big Gun

By Mitchell M. Maynard

Selling EIAs successfully is not a matter of a great closing technique. Prospects aren't dumb. If they aren't convinced they you know your stuff, they won't feel comfortable enough with the product to buy it. (And if they do buy without understanding, it may backfire on you.) With in-depth knowledge, backed by software that clearly illustrates the benefits of an EIA, you won't have to worry about closing. Your prospects will sell themselves with your guidance.

EIAs are not design to beat the stock indexes but are designed to created higher performance than fixed-rate savings vehicles. This must be demonstrated in the presentation of an EIA. Financial advisors that only compare hypothetical EIA credit method performance against stock indexes during periods of stock-index losses can be considered misleading—not because the results are fictitious but because they can create a false expectation that the EIA credit method will always outperform.

When looking to forecasting methodology, turn to Monte Carlo simulations. Monte Carlo simulations are a time-tested forecasting technique that will serve you and your client well; it was approved by the NASD in early 2005.

Using Monte Carlo simulations

Financial markets don't move in straight lines. They're unpredictable and random. In general, a "Monte Carlo simulation" is a mathematical way of evaluating or measuring possible outcomes of a future event. Without Monte Carlo simulation, a spreadsheet will only reveal a single outcome, generally the most likely or average scenario. With Monte Carlo built into EIA comparison software, you get to illustrate various outcomes that reflect the random nature of stock-market returns. (It's called Monte Carlo after the famous casino, where games of chance such as roulette wheels, dice, and slot machines, exhibit 'normal' random behavior.)

Monte Carlo simulation is much more realistic. It simulates real life in the financial markets. And clients understand this. Monte Carlo simulations show them that you're not promising them the moon. They'll see a range of possible outcomes for bull, bear and choppy markets. With all, you can clearly point out the unique combination of upside potential plus the

minimum return guarantees the EIA offers should the markets do poorly over the life of the contract—which is entirely possible.

Many financial planners use Monte Carlo simulation software tools to develop optimal retirement plan investment strategies for their clients. Here's why: attempting to forecast a future value of an investment that does not have the same rate of return each year poses problems. Looking solely at the average rate earned over a historical period and applying that same percent to each and every year in an attempt forecast future results is statistically inaccurate, unreliable, and misrepresents the very nature of the EIA, which has its interest earned tied to something as variable as the stock market.

Monte Carlo simulations, on the other hand, allow for a more realistic picture of future growth. They allow the possibility of losses to enter into the equation and, as used in EIA analysis software, invite additional rates of return to be factored in that may have not actually occurred yet. This is because a historical range of stock index returns is used and doesn't restrict you to just the rate of return that actually occurred.

In a certain EIA software program, you get to evaluate the entire scope of stock index returns. However, many users feel most comfortable working with the returns of the last ten years. With the S&P 500 for example, each year's annual return percentages look like this: 34.11, 20.26, 31.01, 26.67, 19.53, -10.14, -13.04, -23.37, 26.38, and 8.99. Some Monte Carlo simulations will use only these exact values and simply alter their order at random. This method has a shortfall, though: How often do the exact same returns ever show up again, in reality? And statistically speaking, it severely limits the pool of numbers to work from. Instead, choose software that looks at historical data more the way a financial analyst would.

When a simulation is run, the EIA software program will at random select a rate of return, calculate the investment growth, choose another number, calculate, so on and so on until all years in your desired scenario have been calculated, and then set aside the final ending value. This is repeated 1,000 times and results in a thorough statistical forecast that is still based on what the historical stock market returns.

The resulting reports present a realistic picture of what future results could be like. Using just the simple historical reporting, you will find that an S&P 500 investment of \$10,000 in 1995 would have grown to \$26,388 - an average rate of return of 12.04%. But this doesn't tell the "real" story. When you run a 10-year Monte Carlo scenario you find that a \$10,000 investment had its highest probable ending value (39.8%) falling between \$13,401 to \$23,523 with a 22.5% Probability of Loss. This "Probability of Loss" is a percentage reflecting the number of times (statistically speaking) that an ending value was less than the original investment amount.

With a Monte Carlo simulation, you can tell the client: "Invest in the stock market and you have a 22.5% chance (1 in 4.44) of losing money over ten years. Deposit it in an EIA instead, and you'll get a guaranteed minimum return, with decent shot at doubling your money."

Monte Carlo simulations are an awesome way to show how the reset properties of an EIA protect the growth of principal. For more details on using Monte Carlo simulations with an EIA, visit <http://mcppremium.com>.

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