



## MCP Insider: EIA News & Commentary

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### EIAs: Managing Client Expectations

by Mitchell Maynard

Without using hypothetical software an agent is forced to explain EIA performance as a byproduct of its benchmark's performance (most often the S&P 500). An unwanted side effect of this is that it creates in the client's mind an unrealistic expected return. I remember years back when I would sell the Allianz Life Powerhouse EIA and the marketing materials showed the client that they could expect to receive 125% of the S&P 500 Monthly Averaging return with a Cap of 15%. There was nothing wrong with presenting this factual information, but what was it that the client really understood? When I asked, they most often had 'heard' that they would get the Annual performance of the S&P 500 capped at 15%. Misunderstandings like this can lead to an unsatisfied client.

Have you ever sold an EIA, only to find that the next year the S&P 500 had a positive return and the EIA's crediting method made little or nothing? Let me help explain how this happens. EIA crediting methods other than Point-to-Point don't always have a high correlation to the performance of the S&P 500. In the exhibit below, you can see how the strategies of the Allianz PremierDex (PreDX) with a Monthly Cap rate of 3.7% and the American Equity Premier Gold Point-to-Point (PGpp) with a Participation Rate of 55% fare against the positive annual returns of the S&P 500 Index. [{Use this link if you can't see the picture below}](#)

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Year	PreDX	PGpp	SP500
1985	14.67%	22.49%	26.33%
1986	3.64%	8.04%	14.62%
1987	0.00%	1.12%	2.03%
1988	0.97%	6.82%	12.40%
1989	15.18%	14.99%	27.25%
1990	0.00%	0.00%	0.00%
1991	0.00%	14.47%	26.31%
1992	2.44%	2.45%	4.46%
1993	7.00%	3.88%	7.06%
1994	0.00%	0.00%	0.00%
1995	29.12%	18.76%	34.11%
1996	13.77%	11.15%	20.26%
1997	14.61%	17.05%	31.01%
1998	10.22%	14.67%	26.67%
1999	11.68%	10.74%	19.53%
2000	0.00%	0.00%	0.00%
2001	0.00%	0.00%	0.00%
2002	0.00%	0.00%	0.00%
2003	0.00%	14.51%	26.38%
2004	0.00%	4.95%	8.99%
	<b>0.48</b>	<b>0.58</b>	<b>Beta</b>
	<b>0.74</b>	<b>0.97</b>	<b>Correlation</b>

The columns to the left show the Hypothetical Positive Annual Returns for EIA Crediting Methods and the S&P 500 Stock Index (Negative returns have been filtered out since the depth of negative returns are moot in this comparison.)

Beta is a measurement of an investment's return behavior as compared to a benchmark. As you can see the Monthly Cap strategy of the PremierDex has a Beta of .48 and the Point to Point strategy of the Premier Gold has a Beta of .58. This means that the when the S&P 500 has a positive return, the PremierDex on average capture 48% of that return and that the Premier Gold capture 58% of the return.

Correlation is a measurement of an investment's directional behavior as compared to a benchmark. As you can see the Monthly Cap strategy of the PremierDex has a Beta of .74 and the Point to Point strategy of the Premier Gold has a Beta of .97. This means that the PremierDex was positive only 74% of the time that the S&P 500 was and that the Premier Gold was 97% of the time.

What this data proves is that the PremierDex is not only less likely to yield a positive return, but the return will not be as great as the Premier Gold's Point to Point strategy. An agent takes the risk of having a dissatisfied client any time that he/she sells an index crediting method that is not Point to Point Annual Reset, because the client may expect something that the EIA is truly not designed to provide. In summary, the business of working with clients is measured by your ability to meet their expectations. The old adage applies to EIA products, too: if it sounds too good to be true, it probably is!

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#### **EIAnalyst2 Lite Updates**

Users of our online "Lite" version will notice the addition of some American products as well as the Allianz PremierDex. Watch for several Legacy products to be added in the next month!

#### **Suite Upgrade & Data Update**

An historical data update will be posted on Friday the 29th. This will provide you with index data through June 30, 2005. Also included will be a couple upgrades: the addition of the Allianz PremierDex product type; the ability to email reports directly out of the Suite software; and the addition of a feature that automatically checks if your software is up to date, each time you open it. [Click here to check for Upgrades](#)

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