

MCP Insider eNews...

Don't Be Afraid of Monte Carlo Simulations

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Many advisors will mentally cringe at the mention of "Monte Carlo analysis" but it shouldn't be so. In this era of increased concern over proper presentation methods, this means of projecting future performance is actually very comparable to traditional historical hypotheticals (see tables below). It is also more balanced, since you can show statistically the "best case" and "worst case" projections by calculating at least 1,000 times a scenario that allows for 95% of all possible returns around an average.

"...if past performance is no guarantee of future results, why are you still showing it to your clients?"

Projected Returns of \$100,000 Deposited into an Indexed Annuity

Decade	Historical Hypothetical				Monte Carlo Simulation			
	MDX		ELP		MDX		ELP	
	Return%	End Value*	Return%	End Value*	Return%	Avg Value*	Return%	Avg Value*
1960	6.83	193,678	5.53	171,285	6.48	187,359	5.74	174,739
1970	4.43	154,328	5.49	170,679	5.30	167,565	6.57	189,017
1980	5.96	178,366	8.76	231,489	5.81	175,915	9.62	250,515
1990	8.85	233,512	10.76	277,879	8.39	223,750	11.11	286,880
Last 10	6.67	190,787	7.99	215,728	7.28	201,928	9.74	253,382

* (using actual index returns, without dividends)

* (using 2 Standard Deviations of the index average return, calculated 1,000 times)

MDX = Annual reset, 3% Monthly cap, 10% upfront Bonus
ELP = Annual reset, 75% Participation rate, 2% Fee

As an advisor, you are likely well-versed in the mantra "past performance is no guarantee of future results"—so why do you continue to show it to your clients?

Using historical hypotheticals to evaluate credit method differences or investment behavior is one thing, but estimating future growth requires a better method, and that method is Monte Carlo Simulation (the NASD even approved Monte Carlo Simulations for use with clients in February 2005).

The tables above show that Monte Carlo Simulation results are nothing to be afraid of. It just takes a bit of education on your part to be comfortable with this method. MCP Premium uses Monte Carlo analysis extensively in our software; in fact, the "MCP" in our name stands for "Monte Carlo Plans". Learn more at one of our weekly Demo Webinars, or simply browse our web site for sample reports and articles.

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EIA in a Portfolio Made Easy; Additional Module for Income Planning



By Mitchell Maynard, CEO & Software Developer

Advisors who use indexed annuities with their clients can now easily see the effects on a portfolio of other fixed products or even securities. The technology of the "SIM" makes it all possible. MCP Suite 2007 has some powerful features, yet the program is not hard to learn.

Structured income or simple withdrawals—which is better? The new "ImmStudy" creates a 10-year plan of guaranteed income while remaining assets allowed to grow, and calculates its potential for success using Monte Carlo. Use the "SimStudy" or "MCPlanz" modules for a withdrawal plan, and compare the results.

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Questions or comments? Email us or call Dorice Maynard at 877-773-4774.