IYM Week 2 – Annuities and Mutual Funds

Presenter:
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Ask First Form

My Education

California State University, Fullerton (CSUF) – B.A. Business Administration w/ emphasis in Finance - 2010

My Credentials

Certified Financial Planner (CFP) – 2013

Chartered Financial Analyst (CFA) - 2017

My Relevant Licenses

Eclectic Associates is a Registered Investment Advisor (RIA) with the Securities and Exchange Commission (SEC).

Advisor or Salesperson?

- Ask “How do you get paid?” – Should be a simple/understandable answer
- Fee Only
- Fee Based
- Commission Only
- Fiduciary at all times?
- What are your conflicts of interest?

Vetting Financial Advisors

Fiduciary – Ensure the advisor operates under the "fiduciary standard" and not only "suitability standard."

Fee Only – Reduces conflicts of interest

Credentials – CFP, CPA/PFS, CFA are widely recognized.

Use BrokerCheck – https://brokercheck.finra.org

Review Form ADV – https://www.adviserinfo.sec.gov (or ask for copy)

"How do I get out?"

Annuities

A contract with an insurance company that exchanges a lump sum of money for a stream of payments.

Economic opposite of life insurance:

Life Insurance – pay an annual premium and receive one payout at premature death.

Annuity – pay one premium and receive payouts back for life to insure against longevity risk.

Main categories – Immediate Annuities and Deferred Annuities

Immediate Annuities

- Payments start immediately. Most commonly a monthly payout that continues for the rest of your life.
- May be “Period Certain” provisions available. (i.e. the insurance company will pay at least 5 years worth of payments should you die before that time frame. Payments would go to your designated beneficiaries)
- Rates currently available are historically low due to low interest rate environment.

Deferred Annuities

- Fixed Annuity – guaranteed rate of return on growth
- Variable Annuity – Account value varies with how the underlying funds are invested. Investment options can typically be adjusted.
- Index Linked Annuity – Return is linked to a stock market index (i.e. S&P 500) and usually subject to a floor and cap on the range of returns.

Understanding Fees

Surrender Period – the lockup period where you cannot withdraw from the investments without paying an additional penalty.

Sample Surrender Fee Schedule

Period of Time Held Contract (Years)	Surrender Penalty (%)	*	Annuity Balance	=	Surrender Fee ($)
1	8%		$100,000		$8,000
2	8%		$100,000		$8,000
3	7%		$100,000		$7,000
4	6%		$100,000		$6,000
5	5%		$100,000		$5,000
6	4%		$100,000		$4,000
7	3%		$100,000		$3,000

Table credit: Paul Horn

Mutual Funds

Investopedia.com definition:

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Types of Mutual Funds

- Domestic Equity (US Stocks)
  - Large Cap
  - Mid Cap
  - Small Cap
- International Equity (Non-US Stocks)
- Bond Funds
- Alternative Funds (Broader mandates)

Types of Mutual Funds (Cont.)

Investopedia.com definition:

The term active management implies that a professional money manager or a team of professionals is tracking the performance of a client's investment portfolio and regularly making buy, hold, and sell decisions about the assets in it. The goal of the active manager is to outperform the overall market.

Passive management is a style of management associated with mutual and exchange-traded funds (ETF) where a fund's portfolio mirrors a market index. Passive management is the opposite of active management in which a fund's manager(s) attempt to beat the market with various investing strategies and buying/selling decisions of a portfolio's securities. Passive management is also referred to as "passive strategy," "passive investing," or " index investing."

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Questions?