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To: Our Many Valued Clients
Re: Autumn Leaves

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Economic history books will refer to the last three weeks as a time in which US financial markets exploded, many people injured, but you are not part of this sad story.

Here's a recap of the last three week's turmoil in the financial markets: The Federal Government stepped in to rescue its two front companies, Freddie Mac and Fannie Mae; Lehman Brothers filed for bankruptcy because no buyer could be found and the Government had no interest in bailing out this 150 year old institution. The next day after Lehman's bankruptcy, the Federal Government put together a plan to rescue AIG so it could liquidate its subsidiaries to free up operating cash. The reason for most of this economic turmoil is because of losses from the housing market and record foreclosures.

But the sky is not falling for our policyholders, in fact the only thing falling around here are the autumn leaves! Congratulations on your wise choice to align your economic security with the recommendation made in this office.

Why are fixed annuities safe and sound? How come they stand out from other products?

Easy. Every fixed annuity issued in this country must be backed dollar for dollar by a secure and liquid asset. These assets are US Treasuries. US Treasuries are the safest possible asset in this universe, so much so they don't even require a credit rating, they are above that. Secondly, to do business in any specific state, the insurance company books are open all the time to regulators and independent rating companies. The rating companies award ratings based on the financial strength of the company.

What about AIG? Isn't this an insurance company too? AIG is much more than an insurance company; AIG had an investment arm that sold contracts to protect mortgages that were written with no oversight. These mortgages had a larger than expected default rate and there was not enough cash to guarantee the loans. AIG also sold contracts to the airline industry to indemnify the carriers against loss if one of their planes blew up because of terrorism or other causes. Despite AIG's attachment to exotic investments, their fixed annuity contracts (except variable) are still absolutely safe.

In summary, fixed annuities are safe because they're backed dollar for dollar by liquid assets. You get a guaranteed interest rate even in a flat market. This safety is enhanced because of strict regulatory cash reserve rules set by each state Department of Insurance.

On the other hand, many investment advisors convince retirees to play Russian roulette with their finances by trying to hit the jackpot. There are no guarantees with investment accounts, but investment brokers trash fixed annuities and employ media outlets from the Sunday pull-out section of the paper to cable news programs to convey their "invest good, annuity bad" message.

Many people you know are now in trouble because 99% of all public mutual funds turned to ash in the last year. Not all the apples are rotten… but the barrel is! When you were in high school, 92% of the private investments in this country were individually owned; today, only 32% of the private investor's wealth is privately owned. This means 68% of investments are owned by middle men who stand between you and your money. The ownership society is history. This is an "agency" society today.

The agency society consists of the broker who takes you to lunch, to his supervisor, to the fund manager who buys and sells that fund to grow its value, to the lawyers and CPAs who audit the books, finally to the people who count the paper clips. Millions of dollars have evaporated because investors handed over their investments to all the pros from Wall Street to Oyster Point to McLaws Circle. The private ownership society is dead, the agency system is here, and too many people sit between you and your money.

Fortunately, you are safe from this theatre because you enjoy the features of a financial product that is guaranteed, safe and secure, where risk is not an option.

What about folks who have money in safe accounts like CDs, where is the incentive for the annuity option? The answer is what else can the CD or money market give you beside and interest rate?

Remember what your goal is: income, avoiding risk, eliminating Medicaid exposure, competitive returns, safety, security, etc. No CD offers all of the above. Your plan in this office meets all these objectives.

Now that we covered how safe and sound you are, can we talk a bit about world view? Recently, one syndicated radio show host, who promotes fee based investment advisors, crowed about how the market regained the lost ground after the AIG bailout; but this required an $85 billion lifeline from the Government to rescue AIG, yes consumer confidence returned, and the stock market did reflect that confidence. But if that's a victory, how many more victories like this can we afford?

Today the Emergency financial plan was passed by the House of Representatives. Many people anticipate a rapid recovery for their investments. Is 10% gain over the next 3 months enough motivation to sit tight? Any market gains generated by "upbeat" news of the Fed injecting $700 billion into a cash strapped economy begs a question… if this is another market victory, do we have to keep spending down the Federal balance sheet to keep these victories going? Government bailouts cause Federal meddling in financial markets and investment accounts suffer accordingly.

I'm not talking down investments for the sake of selling a few more annuities; private investments need to grow because it reflects consumer confidence. But the markets need to grow independent of artificially propping it up.

So how can we free up the markets without Government bailouts? First by eliminating capital gains taxes people pay when they cash in their investments. This one act alone will release massive flows of private capital to rebuild the market.

Next, cut U.S. corporate income taxes (like Ireland did) and free up tax money to attract high quality jobs back to the U.S. Currently, we have the highest corporate income tax bracket in the world at 39%.

For example, think how cutting business taxes help Jane and Frank who own a furniture store; they compete with Chinese products sold at lower prices, but can't afford to cut their prices because they need the money to pay the high taxes. Cut the corporate taxes then Jane and Frank can cut their prices, get capital into their accounts, hire more people, buy more furniture for their showroom floors, etc.

Unfortunately, Jane and Frank have to refinance their home just to pay their furniture bills and try to stay in the game competing with furniture chains who sell less because they buy inventory from China.

Third, eliminate the $3 million a year accounting and regulatory expense for every small company wishing to go public.

Fourth, instead of financial institutions selling off their mortgage related securities at fire sale prices, allow them to sell this paper (mortgages) at prices that reflect the future income stream these mortgages will produce.

What are the chances these market based solutions will be see the light of day? Not likely. Such moves would free up cash, limit market intervention by the Feds, and reduce the money politicians need to buy votes. But until we can free up markets naturally, instead of cash transfers from the Fed, the cycles we just witnessed in the market are here to stay and investment accounts will continue to suffer death by a thousand cuts.

Meanwhile, you have an account in this office. Retain or gain? Both... and it doesn't matter what economic climate we're in either.

Your account is safe, the only thing dropping are those autumn leaves!

It's a pleasure to keep you informed.

Sincerely,

Daniel Barnard

NASD TRIED REGULATING INDEXED ANNUITIES IN 1997.

NASD NEEDS TO BE DENIED AGAIN.

THIS NEWSLETTER TO ALL MY CLIENTS HIGHLIGHTS WHY INDEXED ANNUITIES ARE NOT SECURITIES.

RE: 151A