THE ADVISORY FIRM'S

Alternative Investment Strategy

Our Proprietary Deconstructed Index Annuity Approach

The pitch for indexed annuities has always had quite the appeal, no downside risk and a portion of the upside in an index (such as the S&P). The issues have always been the hassle of locking your money up for many years, limited ability to change approaches as market dynamics change (once per year) and limited (capped) upside at best.

So we said, what if you could build a similar strategy in a traditional brokerage account or IRA without the long lockup periods that annuities require? And what if you could add a tactical twist to it so that the investor could have the potential for returns in any market environment? And what if you had the flexibility to pivot based on market behavior during the year?

Let's Explore The Traditional Index Annuity Approach Verse Our Deconstructed Model

With a traditional indexed annuity, you pick a calculation period and the insurance company gives you a portion of that index return (participation percentage) over that term. You generally get to choose what index (S&P, etc) and how your return will be calculated (12 month point to point / average monthly / etc). But the worst part is you generally have to lock up your money for 6 to 10 years to avoid surrender charges.

The Downside of Index Annuities

What if the market ends at the same spot after 12 months? You could get zero return. What if the market index is lower over that period? You could get zero return. What if the market is actually up on the calendar year but your rolling 12 months started mid year and then it's back down? You could get zero return again. Not to mention the multi year lockup of your funds.

Here Is Our Alternative Deconstructed Annuity Approach

For easy math let's take a $1M portfolio. The current 12 month Treasury Bill is yielding 5% if held to maturity, so the purchase price of a 12 month T Bill that will mature at $1M is currently $952,380. There is your "no principal loss" guarantee, if we hold the T Bill until maturity you get back your $1M worst case. So that gives us $47,619 to work with on the investing side to buy options on a basket of index ETF's (exchange traded funds – or as we call them index funds). We typically use the most liquid index ETF's in the market: S&P 500: (SPY), Nasdaq 100: (QQQ), Russell 2000 small cap: (IWM), 20 Year Treasury Bond: (TLT), etc

By using options on the index ETF's versus buying the ETF's directly we can take advantage of the leverage they (options) provide so that even using less than 5% of the portfolio, the opportunity to mimic the overall gains in the market are there. And then we take it one step further (our proprietary technical system). We try and take advantage of short to intermediate time frames in the market and trade around the position. Our approach isn't a buy and hold (hope for the best) strategy as option values naturally decay over time. Ultimately, the goal is to capture shorter multi-week or multi month trends in the indexes. Quite honestly, we don't care if markets are going up or going down, our models are simply trying to take advantage of shorter term trends.

Hypothetical $1M Portfolio

Deconstructed Index Annuity Strategy

95% of the account is invested in a 12 month Treasury Bill that guarantees return of principal at maturity. (Matures at $1M)

5% of account invested in index ETF options

Return of principal + any profits from ETF options strategy

INVESTOR TOTAL RETURN AFTER 12 MONTHS

Here Are The Parameters/Rules:

- Returns are not guaranteed and it is possible you will achieve 0% return over 12 months.
- Past returns are not an indicator of future performance.
- This is an alternative strategy only available to Wealth Management clients with existing traditional portfolio management services with us.
- No more than 50% of your liquid investable assets in this strategy.
- Minimum investment is $500,000.
- Requires a 12 month commitment with no withdrawals of any kind, any early termination of strategy before Treasury matures can and will cause potential losses and negates strategy.
- Fee structure is ½% each quarter (2% per annum)
- Enrollment in this strategy is only done at the beginning of each quarter.
- This is a trading strategy and is not tax efficient.
- Depending on market conditions there can be extended periods of no activity in the account.

What's The Risk?

The risk is that we simply aren't on the right side of the market with the options and they expire worthless. In a worst case scenario the trading capital is lost and you have to hold the T Bill until maturity to recoup your principal. For this very reason we will generally start more cautiously with new clients each quarter and ease into the strategy. However, there is no guarantee with results and the overall risk is the opportunity cost of getting no return on your money over the 12 month period.

Results

We have setup a live house account to test the strategy and publish returns each quarter on the website along with account statements and realized trade reports from Schwab. *Results are not GIPS certified and not independently audited or verified. Past performance is no indication of future returns.