MOORE INSIGHTS

Annuity Buyers Beware, Part 1: S&P Monthly Point-to-Point Strategy, and Why It's a Bad Bet

If you've discussed financial products with me at any length, you know I'm not a fan of annuities. They're overly complicated and an opaque investment product that I don't feel comfortable recommending for long-term investment, especially not for retirement planning.

Some financial products are complicated due to their nature, while others are artificially complex. A common experience for many annuity investors is that they don't really understand what they're getting into until it's too late to realize meaningful returns or structure the investment in a beneficial, strategic way.

The House Always Wins

These financial products may have more in common with Las Vegas casinos than reliable investments. While a few players might get lucky and see returns, most end up doing poorly. That's by design, and the casino system is structured from the ground up to work against the average gambler.

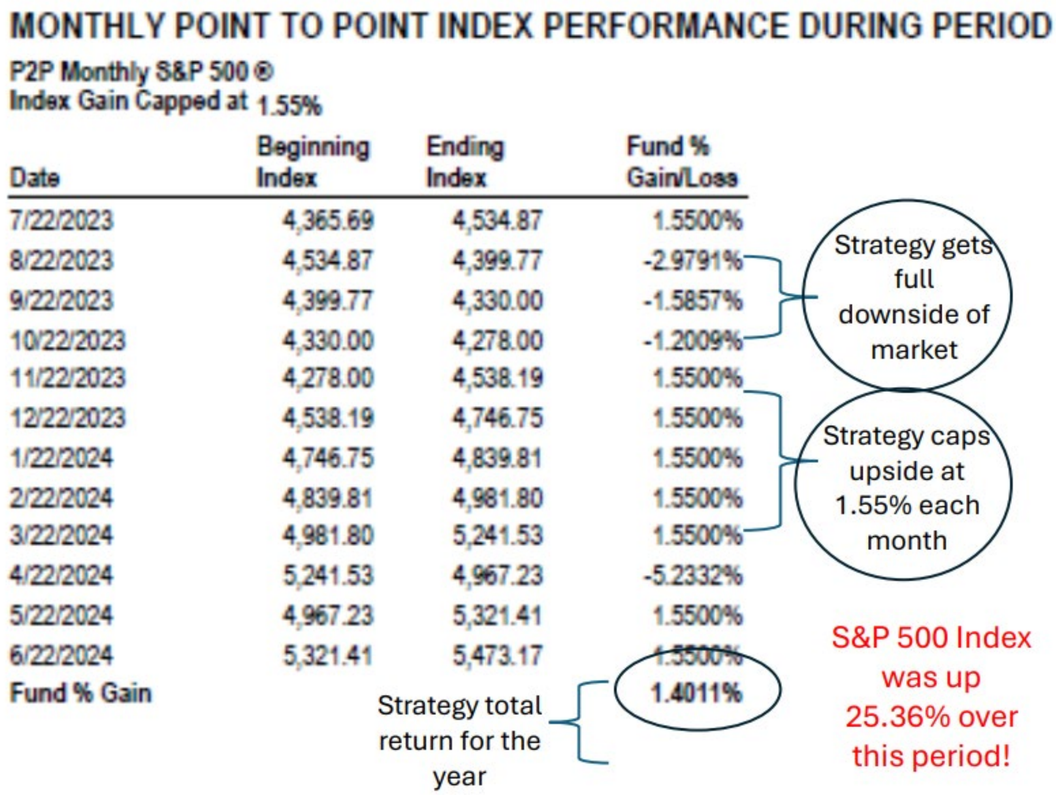
I believe the same can be said of equity-indexed annuities. They're rarely — if ever — a good investment, and I would typically advise anyone considering such an option to steer well clear. In many cases, you would likely have better odds of success at an actual casino.

Without a concrete example, it's hard to grasp the extent of the issues, but the following scenario does a great job of illustrating the limitations of this particular technique and the potential pitfalls unwary investors may fall victim to.

The S&P 500 Monthly Point-to-Point Strategy

An uninformed financial advisor might try to "sell" this strategy by couching it in the most attractive language possible. "Mr. & Mrs. Smith, would you like to have an investment that goes up when the market goes up, with no downside?" That sounds great, but it doesn't add up.

It's like trying to sell a car that never needs fuel. The only catch is that it can only run downhill.


MONTHLY POINT TO POINT INDEX PERFORMANCE DURING PERIOD

P2P Monthly S&P 500 ®
Index Gain Capped at 1.55%

Date	Beginning Index	Ending Index	Fund % Gain/Loss
7/22/2023	4,365.69	4,534.87	1.5500%
8/22/2023	4,534.87	4,399.77	-2.9791%
9/22/2023	4,399.77	4,330.00	-1.5857%
10/22/2023	4,330.00	4,278.00	-1.2009%
11/22/2023	4,278.00	4,538.19	1.5500%
12/22/2023	4,538.19	4,746.75	1.5500%
1/22/2024	4,746.75	4,839.81	1.5500%
2/22/2024	4,839.81	4,981.80	1.5500%
3/22/2024	4,981.80	5,241.53	1.5500%
4/22/2024	5,241.53	4,967.23	-5.2332%
5/22/2024	4,967.23	5,321.41	1.5500%
6/22/2024	5,321.41	5,473.17	1.5500%
Fund % Gain			1.4011%

Source: Midland National Annuity Statement

Here's how the math works out with this "strategy." The return it promises is based on the monthly returns of the S&P 500. Gains are calculated based on the beginning index versus the ending index.

If the index is up for the month, you'll see a return, but it's capped at 1.55%. If the index is down for the month, this strategy bears the full brunt of that downside. So, the upside is capped at 1.55%, but the downside risk is the full amount.

When you consider the typical movement of the market, it makes it very hard to realize anything like a reasonable return.

Doing the Actual Math

Let's use some real-world numbers. For example, for April 2024, the S&P 500 experienced a significant drop of 5.2332%. Given the cap of 1.55% on monthly gains, it would take an investor about four consecutive months of maximum upward movement to recover from that single drop. When was the last time you can remember that happening?

Consider an even broader time frame. From June 22, 2023, to June 21, 2024, the S&P 500 saw overall gains of 25.36%. Under this strategy, the return would have been a dismal 1.40%. That's not a typo. With this equity-indexed annuity, you'd see a ridiculous 1.40% in a year when the market soared.

Imagine operating under the promise of market-linked returns only to discover that in a bull market, your investment barely moved the needle.

Few who truly understands what's being sold here would ever willingly opt in. Even conservative options like certificates of deposit or money market accounts would have easily outperformed this approach, with the added benefit of clarity and liquidity.

In the end, strategies like this may sound appealing in the sales pitch, but the reality is often far less rosy. Investors deserve better than this kind of opaque, overly restrictive approach, especially when simpler, more predictable alternatives are available.
