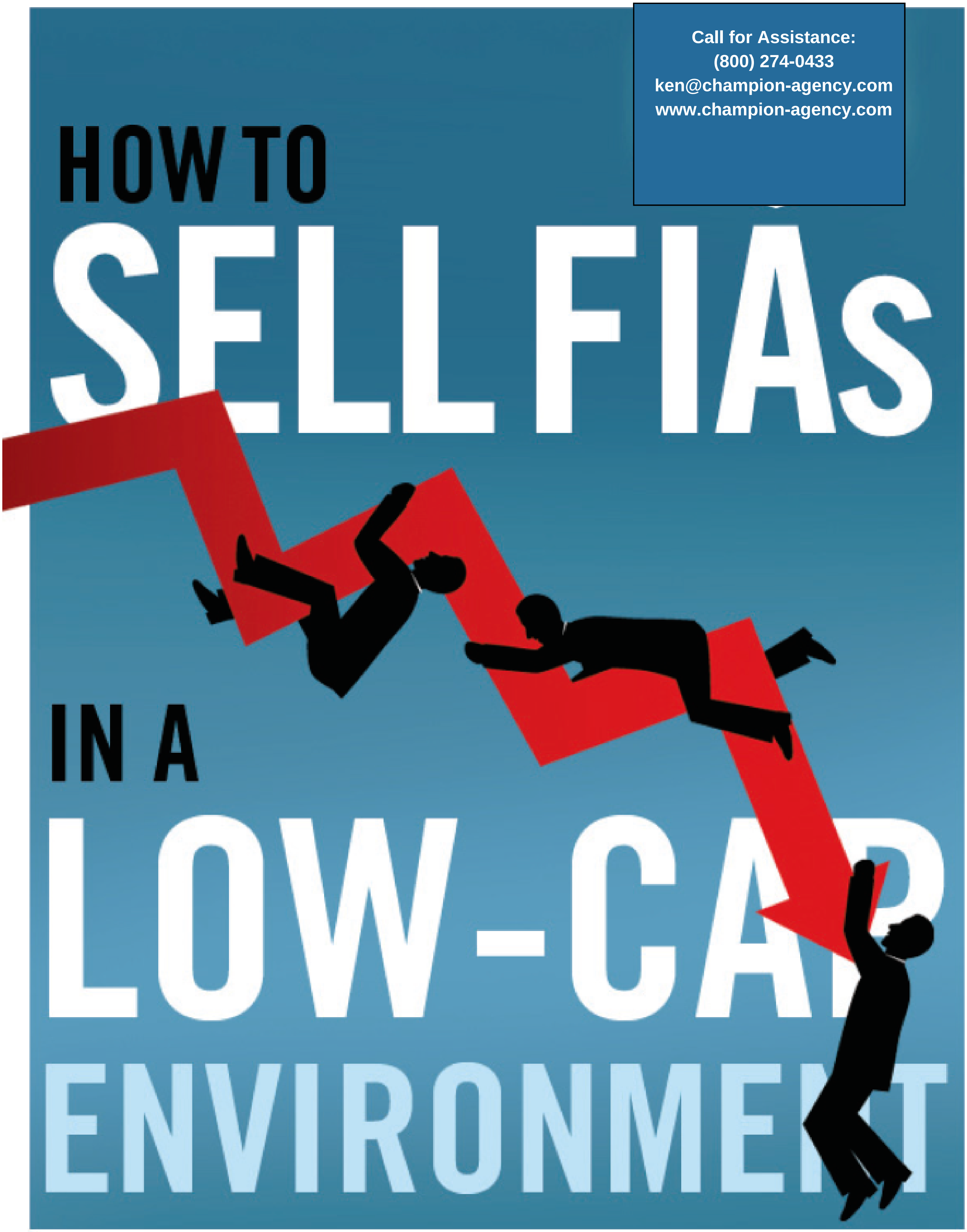

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<u>"How to Sell Indexed Annuities in a Low-Cap Environment"</u>

Are fixed indexed annuity (FIA) low-caps a problem? Absolutely not! Several of our top producers wrote more than $1 million per month in each of the last three months (July, August & September 2011) and haven't missed a beat. The problem *isn't* low caps. The problem is ***<u>mostly</u>*** your perception of current caps. We're going to show you how to successfully close more FIA cases, regardless of where caps are today or in the future.

<u>Perception is Reality</u>

When we see some advisors who are continually successful across high and low cap environments and others, who were successful when caps were high and are now struggling when caps are low, we know that the problem *isn't* low caps, it's usually the *perception* in the *mind* of the advisor. If you're an advisor who markets FIA's and YOU think that caps are low and therefore FIA's are no longer a competitive solution for your clients and prospects, that's going to come across in your feelings and communication with them. Fortunately, that's something that you CAN control and easily change.

If you've been around for even a short time in this business you know that caps have been steadily coming down and are at all time lows. If you've been around for ten years or longer you probably remember double-digit caps back then. With that perspective, todays caps seem ridiculously low. By comparing what's available now versus what was available then, that's entirely true. But that's like comparing apples and watermelons, which is a very bad comparison.

The biggest mental block we see with many advisors is that they are comparing *today's* caps with *past* caps. That's **not** a valid comparison, because the economic world has completely changed. It's no more valid to look backwards at old FIA cap rates and think FIA's today are a bad deal, than it is to look at old bond rates and think bonds today are a bad deal. A comparison of "today versus yesterday/last year/five years ago" etc. isn't valid, because everything changes. A *valid comparison* is not comparing now versus then, it's a comparison of "now versus now."

<u>Who Wins When You Compare "Now versus Now?"</u>

Ah… that's a *much better question.* When you compare similar financial instruments that are available today, you'll find that FIA's are almost unbeatable.

> ***<u>CRITICAL POINT:</u>*** *Your prospects are comparing "now versus now" and that's a tremendously advantage for you. Get "low cap" rates out of your head and get on the same page as your prospects and clients.*

Clients look around *at what's available today* and compare their options. Current rates for "safe money alternatives" as of September 2011 are:

- One and five year certificates of deposit are yielding an average of 0.39% to 1.31% respectively (source: bankratemonitor.com 09/26/2011).
- Investment grade corporate bonds with five year maturities are yielding about 1.31% to 2.9% with the higher yields going to the lower rated companies. (source: bondsonline.com 09/26/2011)

- A five year U.S. Treasury bonds is currently yielding 0.88% - and a ten year U.S. Treasury bond is yielding a whopping 1.87%!

Think Like A Client

So, with your new perspective of comparing *financial choices available today,* you should be able to see that "low caps" are not a problem when you view them in perspective with other "safe money alternative rates" available today. Your prospects and clients for the most part know that safe money rates today are very, very low. They don't expect you to be offering 8% caps today when other safe money instruments are yielding 2% or less.

What Your Prospects Want

Your prospects aren't looking to hit home runs with the money you and they are allocating to "safe accounts." According to the research conducted by Jack Marrion, they're looking for safety and returns that are about one to two percentage points better than what CD's would provide them. That means you only need to show them how they can earn 3% to 4% overall in an indexed annuity. Do FIA's and cap's/rates today have that potential? Absolutely!

How to Position and Sell FIA's Today

FIA's offer unique benefits that your clients *want* and that you should *focus* on in your communication with prospects and clients.

1. **Guaranteed Principal:** Your clients want to know that they can't lose principal on money they put into an FIA unless they choose to surrender it early and incur a surrender penalty.

2. **<u>Guaranteed Minimum Returns</u>:** While *you* may not view the guaranteed minimum returns on FIA's as anything to write home about, don't assume that they aren't worth including in your presentation.

3. **<u>Potential for Returns Linked to an Index</u>:** Please tell me how a prospect will potentially earn 3% to 4% or more in a certificate of deposit today. The answer is: they can't! *Show them* the chart on page 6 ("Real World of Fixed Index Annuities") so they can see how FIA's actually performed versus the stock market and CD'S over rolling five year periods. It's ok that CD's did better over some periods. That's highly unlikely to happen today due to the low rates banks are now crediting and due to the fact that FIA guaranteed minimum returns alone are often higher even if the index earns zero for every year of the FIA.

4. **<u>Talk About the Math of Market Losses</u>:** Clients don't understand that even when a risk-based account loses 30% one year and makes back 30% the following year, they are still 9% underwater. A great way to talk about this is to talk about "making money" versus "making money back." When someone tells you they made "30%" last year, ask them if that was actually "making money," or simply "making money back" from previous losses. They will get the point.

5. **<u>For Bond Junkies</u>:** Talk about the "unlimited potential of surrender penalties" on bonds - if they position money in bonds and then interest rates increase between the date they purchased them and if they need to take some or all of that money out *before* the maturity date. If the client has money in bonds and holds them to maturity it obviously doesn't matter what happens to future interest rates. But, if they need to get to their money *before* their bonds mature and interest rates have

risen, they will *not* be able to sell them for what they paid for them and will incur, what could be a BIG loss. Hopefully, your marketing organization can show you how to illustrate this simply using a yellow pad.

6. **Always Talk About Guaranteed Income Growth Rates:** Where suitable, the minimum growth rates on income account values can be extremely powerful today. If clients are looking for future income these growth rates are very hard to beat.
7. **Talk About Guaranteed Withdrawal Benefits:** Unless they've been living under a rock, clients know that the old adage about withdrawing 5% per year has gone the way of the Pony Express. They know that if they are positioned in risk - based accounts and their accounts lose money, they can run out of money. A guaranteed withdrawal rate of 5%, 6% or even 7% for life can address that fear and is unique to annuities.
8. **Talk About Liquidity:** Most clients think that when they put money into an annuity it's locked up "forever," and some even think that if they die with money in an annuity they will lose it to the insurance company. Make sure they understand that they can usually take out 10% penalty-free per year and that almost all accounts these days pay "full value at death" to their beneficiaries.
9. **For "Stock Market" Junkies:** If you're properly licensed to do so, talk about the volatility of the market. The measure of volatility is an index called the VIX, for 'volatility index', and it's been very high recently compared to historical levels. (See page 7 for a couple of charts and info on the VIX)

Summing it Up

I was always taught that in my prospecting efforts that I should never "DQ" (disqualify) a prospect with my *own* bias. The same concept holds true when presenting FIA's today. Don't let your *own* bias about where caps and rates are today thwart you from being completely "sold out" to the true power of FIA's. No other financial instrument can do what an FIA can do. CD's can't. VA's can't. Bonds can't. Certainly money markets can't. Make sure you're "sold out" to the power of FIA's and your results with surely reflect your conviction.

Supplement 1

The Real World of Indexed Annuities

"The proof of the pudding is in the taste." If you aren't totally sold out to the returns of indexed annuities compared to other financial alternatives – and not limited to other "safe money alternatives" only – then you should take a look at this chart. The FIA returns are the actual average rates of return for indexed annuities over the five year rolling periods below. These FIA returns are based on actual client statements and are NOT hypothetical.

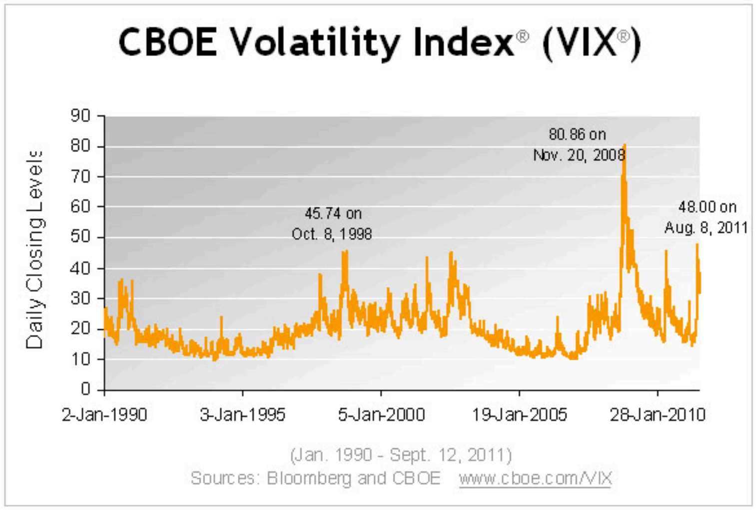
FIVE YEAR AVERAGE RATES OF RETURN			
5 YR. PERIOD	S&P 500 (1)	FIA'S (1)	CD'S (2)
1997 TO 2002	9.39%	9.19%	6.71%
1998 TO 2003	-0.42%	5.46%	6.19%
1999 TO 2004	-2.77%	4.69%	6.36%
2000 TO 2005	-3.08%	4.33%	7.60%
2001 TO 2006	5.11%	4.36%	5.56%
2002 TO 2007	13.37%	6.12%	4.99%
2003 TO 2008	3.18%	6.05%	3.86%

Sources: (1) Wharton Study "The Real World of Fixed Index Annuities" and

(2) http://www.jumbocdinvestments.com/historicalcdrates.htm

<u>Supplement Two</u>
<u>Volatility</u>

Stock market volatility is very high lately compared to historic levels.   The VIX (the measure of volatility) is once again over 40. (source: CBOE) Take a look at the chart below.



If you're not that familiar with the VIX and why a high number is a bad thing for stock market investors, the chart below shows both the S&P 500 and the VIX over the last five years. I think it's self-explanatory.