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## Jack of Alternatives

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By Kerry Pechter     Thu, Jan 29, 2015

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*"I believe that alternative investments—in four broad categories—are areas where people should diversify," said former Jackson National Life executive Clifford Jack in an interview with RIJ. His book, 'Generation Alt,' was published last summer.*

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*In December 2014, Clifford Jack (below right) left a senior executive position at Jackson National Life after leading its variable annuity business to two decades of steady growth. Last summer, he published [Generation Alt](#) (FT Press, 2014), a book that explains the rationale for adding non-correlated alternative investments—asset choices once unavailable to mass investors—to traditional portfolios. This week, he talked with RIJ about the need to adapt to a changing investment world.*

**RIJ:** What sorts of challenges do pre-retirees and retirees face today?

**Jack:** Interest rate risk, volatility and market contagion all make it a very difficult time for decumulation. It's almost impossible to bank on anything other than continued global contagion and volatility. By volatility, I don't mean just the VIX. I mean volatility from all inputs. Because of global contagion, we're talking about the kind of volatility that we've never seen, and not just the traditional linkages, like the impact of problems in Greece. We face different political risks today than we faced before the arrival of weapons of mass destruction. How do investors plan for a war that breaks out in a place they never heard of? Or for diseases? No one is smart enough to anticipate all of these risks.

**RIJ:** That's sort of daunting. Can you bring it a little closer to home?

**Jack:** One of the biggest risks that the U.S. retiree faces today is a rising interest rate environment. How do you respond to that? Do you put your money under the mattress in hopes that rates will go up rapidly, and then buy bonds? Or should you just stay long bonds and live off the low coupon rate? That doesn't seem prudent either. Should you go to short-term maturities and do a bond laddering strategy in order to stay interest-rate neutral? That's a tough pill to swallow. Or, because you need income, do you buy dividend stocks? With a volatile market—the Dow Jones Average is down 300 points as we speak [January 27, 2015]—can you accept that kind of volatility? The market is at an all-time high, and that's not a good thing for the retirees.

**RIJ:** A lot of people appear to be following that first strategy—using their mattress as a bank

and hoping to buy stocks or bonds when they get cheaper.



**Jack:** I don't believe in trying to time the market. It's too difficult for professionals to do, let alone the average investor.

**RIJ:** What would you call an appropriate asset allocation for retirement?

**Jack:** I'm a believer in broad diversification—broader than before the financial crisis. The old diversification meant that you bought a stock index fund and a bond index fund and then you dialed the percentages up or down. I believe that alternative investments—in four broad categories—are areas where people should diversify. Those four categories are real estate, private equity, infrastructure and liquid alt hedge fund strategies, such as long/short credit funds or long/short equity funds.

**RIJ:** Let's talk about a familiar subject: annuities. For a while, everyone seemed to think that the guaranteed lifetime withdrawal benefit on the variable annuity was the safest, most flexible tool for spending down savings.

**Jack:** The decumulation component of variable annuities, the lifetime income benefit, should be a throwaway. You buy variable annuities for capital appreciation, not income. You hope that you never have to use the living benefit. If you do, it means your account balance is zero and your contract is in-the-money. That's not a good thing.

**RIJ:** You've watched the variable annuity business rise and fall and then take a new direction, toward an emphasis on alternatives, volatility management and tax deferral. Where is it headed next?

**Jack:** It seems to me that some of the companies that have backed away from the variable annuity business are looking at ways to increase their market share in that space. They're trying to get into the VAIO [VA-investment-only] world. Lots of issuers are using volatility-controlled investments, but that might not be in the best interests of the consumer. I don't

see much promise in the structured variable annuity products. They're not meeting their sales targets.

**RIJ:** What about other types of annuities?

**Jack:** Regarding the fixed indexed annuity—I struggle with the lack of transparency of the product. The recent uptick in FIA sales feels like a short-term reaction to the fact that VA firms backed away from the retirement market after the financial crisis; advisors have been looking for alternatives to VAs. Deferred income annuities are interesting, but I don't think they will see much traction in a low rate environment. There's lots of noise in the defined contribution space about whether annuities should be a significant part of one's portfolio. But portability is an issue there. Regarding immediate annuities, even if you look at immediate them from the standpoint of relative returns rather than absolute returns, the interest rate is still incredibly low. If you're a person who expects to live for another 30 or 40 years, is this the right time to buy one?

**RIJ:** Do you think investors should choose an asset allocation based on personal factors, like age and risk, and execute it regardless of current market conditions? Or should they consider macro-trends?

**Jack:** You can't turn a blind eye to the impact of factors like quantitative easing, for instance. That would be an ignorant way to invest. Even if you still believe in the broadcast television business, for instance, you can't ignore the fact of the Internet and its effects. Ignoring Europe's problems makes no sense. Those who are equipped to monitor these trends have a better chance of succeeding in the long run.

**RIJ:** Longer-term, what do you see?

**Jack:** Online offerings, from robo-advisors or from firms like Schwab, Fidelity and Vanguard, are going to put a lot of pressure on traditional companies. And it's not too soon to ask ourselves what effect companies like Facebook or Instagram or Yelp will have on financial services. They have the mind-share of the next generation. Will they enter this business? If so, what will be the effect on insurance companies and brokerages? Somebody is going to figure these things out and monetize these trends. It may or may not be the traditional asset management and insurance companies. Maybe I should go to work for Google, and maybe you should start covering Google.