
Storm Warning? Let an Annuity Be Your Umbrella

By Kerry Pechter Thu, Aug 15, 2019

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Financial advisors' cell phones must have been ringing with anxious client calls last night. Yesterday's 3% drop in the S&P 500 Index undoubtedly made a lot of people nervous. And, if the advisors followed their training, most of them probably told a lot of people to "Stay the course," as Jack Bogle liked to say.

"We're prepared for days like this," the advisors will say. "Trying to time the market never works. If you sell now, how will you know when to get back in?"

Clients want to believe that their advisors are getting paid, in part, to warn them before an equity crash happens, and to tell them when to get out of stocks. But advisors do not necessarily believe this to be part of their job.

For advisors who sell annuities, market tremors are known to stimulate business. After a bit of volatility, older investors in particular show more interest in taking profits out of the market and parking them somewhere safe.

These older investors may never have heard about annuities before. But when they start looking for an asset that offers higher yields than bonds, that's where their inquiries may lead them. Crises are excellent opportunities for advisors to educate clients about annuities.

Structured annuities, officially known as registered index-linked annuities (RILAs), should logically enjoy a burst of sales right now. People who still have more than half of their money in stocks are probably risk-tolerant enough to like the -10% floor or buffer and generous upside potential that these products offer. Such clients won't need to step all the way down in risk to a fixed index annuity.

As for pension-less people who are about to retire, and who will need monthly income very soon, yesterday's volatility might even nudge them into selling some of their highly appreciated stocks and buy an income stream. It could be a deferred income annuity, a

single premium immediate annuity, or even a period-certain annuity.

In my opinion, the low interest rate environment shouldn't necessarily be a barrier to buying an income annuity. Stocks are high in part because interest rates are low. Income annuities aren't as expensive as they look if you believe that you're buying them with inflated equity profits.

In the real world, I've never heard of an advisor using that rationale to sell income annuities. Before accepting that argument, equity investors would have to admit that luck, tax cuts, share buybacks and a Wall Street-friendly Fed are responsible for about half of their paper wealth. They're not likely to do that.

In any case, the tea leaves don't look ominous enough (yet) to justify panic. As of last week, Steve Slifer of NumberNomics believed that there's not much to fear. Here's what he said in his August 9 [report](#):

"In our view the markets should stop worrying about a recession — something that is not going to happen. Thus, any pullback in the stock market should be viewed as a buying opportunity rather than the beginning of a downturn. The S&P 500 certainly feels like it has fallen precipitously in the past couple of weeks, but the reality is that it is only 4.0% below its recent record high level."

"Furthermore, long-term interest rate levels should be viewed by corporate leaders (and perhaps the U.S. government) as an opportunity to raise needed cash at the lowest level in years. This is not adding up to a recession scenario in our book."

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