The Bucket

By Editorial Staff   *Wed, Aug 22, 2012*

Brief or late-breaking items from New York LIfe, Vanguard, Fidelity, and National Planning Holdings.

Income annuities drive strong first half at New York Life

In the first six months of 2012, New York Life's annuity sales and mutual fund sales were both up 17% over the first half of 2011," a company release said. Income annuity sales alone were 11% higher than in the first half in 2011.

"Mutual fund sales are being driven by consistent investment performance from the company's investment boutiques in both income oriented and capital appreciation funds, which remain in high demand from customers," the release said. Other released statistics were:

- Individual recurring premium life insurance sales through agents were up 4% through the second quarter, over the first half last year.
- New York Life agents recorded an increase of 18% in sales of recurring premium whole life insurance for the same time period.
- New York Life generated a 17% increase in long-term care insurance sales over the first six months of 2012.
- New York Life hired 1,763 agents so far in 2012 (14% more than in the first half of 2011, and is almost halfway to its goal of 3,700 for the year.

New York Life is rated A++ in financial strength by A.M. Best, AAA by Fitch, Aaa by Moody's Investors Service and AA+ by Standard & Poor's (AA+).

Fidelity launches new workplace advice program, *Plan for Life*

Auto-enrollment and auto-escalation are high-tech ways to move the dial on overall 401(k) participation rates and account balances, but they don't begin to provide the "high-touch" assistance that individual participants often need.

To add nuance to its advice and education services, apparently, Fidelity Investments has introduced *Plan for Life*, a new workplace guidance program.

"Simply asking employees to save more money from each paycheck no longer addresses many of the challenges our participants are facing in today's economic environment," said Julia McCarthy, Fidelity's EVP for Workplace Marketing, Solutions and Experience, in a release. "Plan for Life will help them manage the complexities but simplify the decision making process."

To support pre-retirees, Fidelity is offering face-to-face planning consultations at the workplace to employees approaching retirement. Fidelity is also opening these sessions to spouses or other family members of the employee as retirement decisions often impact more than just the individual. In addition, onsite education programs will utilize mobile tablets to make it easier for employees to take action and enroll in their workplace savings plans immediately.

In rolling out *Plan for Life*, Fidelity said it would:

- **Add licensed phone representatives.** Fidelity grew its force of workplace guidance phone reps by 80% this year. All will hold a FINRA Series 7 license.
- **Offer onsite retirement planning consultations and instant enrollment using mobile tablets.** Attendance at on-site guidance sessions was up 40% during the first third of 2012 over the same period last year, Fidelity said.
- **Introduce "Income Simulator," a new retirement income illustration tool.** This interactive tool illustrates a participant's potential monthly income in retirement. It instantly reflects changes in contribution rates, retirement age or asset allocation. Future enhancements will allow more account types to be integrated into the tool.
- **Improve its participant website, NetBenefits**.com. NetBenefits.com provides more than one million participants with specific guidance on various work and life events including starting at or leaving a company, having a child, retirement planning as well as steps for an annual financial check-up.

Fidelity Investments has assets under administration of $3.7 trillion, including managed assets of $1.6 trillion, as of July 31, 2012.

Vanguard publishes four white papers on ETFs

Billions of dollars continue to flow into exchange-traded funds, which offer the appealing combination of low costs, the risk-diversification of index funds, and the intra-day tradability of individual stocks. Vanguard, whose 64 ETFs and $215 billion in ETF assets make it the third largest U.S. ETF provider, has issued a series of white papers and articles on ETF and index construction, with commentary on the risks, returns, costs and tax implications of owning and trading ETFs. Summaries of those publications can be found below.

Evaluating dollar-weighted returns of ETFs versus traditional fund returns

Over specific time periods, a mutual fund's dollar-weighted returns (that is, its internal rates of return—IRRs) often trail the fund's reported returns (that is, it's time-weighted returns—TWRs). In recent years it has been claimed that dollar-weighted returns in exchange-traded funds (ETFs) fare even worse than those in conventional mutual funds, owing to the intraday trading flexibility of ETFs. The authors of this new Vanguard research paper demonstrate that such claims, on their own, are problematic and commonly ignore important factors affecting the outcomes. In addition, similar to the IRRs of conventional

mutual funds, the return differences for ETFs are highly time-period dependent.
https://advisors.vanguard.com/VGApp/iip/site/advisor/researchcommentary/research/article/IWE_InvResEvalInvestors

[ETFs: For the better or bettor?]

Do exchange-traded funds encourage their owners to trade more actively? Or are active traders more likely to owners ETFs?

Vanguard put these questions to the test recently by analyzing over 3.2 million transactions by self-directed investors in more than 500,000 positions held in traditional and ETF versions of four Vanguard index funds from 2007 through 2011.

Yes, trading in ETFs was more active than trading in traditional index funds, but 40% of the trading activity differences between ETFs and funds could be explained by investor and account characteristics.

Foresight is only 50:50

ETFs and target benchmarks have proliferated side by side. As of March 31, 2012, more than $1.2 trillion was invested in about 1,400 U.S.-listed ETFs, according to Strategic Insight's Simfund. At the same time, U.S.-listed ETFs track more than 1,000 different indexes, according to Vanguard's review of Bloomberg data.

More than half of the indexes use back-tested performance data (i.e., data based on retroactively applying the index methodology to historical data) in lieu of or in addition to live performance data (i.e., real-time performance data after index-live date).

Among the indexes being created for use in ETFs, more than half include back-filled data before the index inception date, and investors can't always tell which data are hypothetical and which are live. Vanguard researchers found that while 87% of the indexes outperformed the broad U.S. stock market for the time in which back-tested data were used, only 51% did so after the index was launched.

Replicating equal-weighted indexing with traditional indexes

Tracking equal-weighted indexes—where the smallest company in the index has as much weight or importance as the largest company in the index—is a popular strategy among Alternative index funds and ETFs often track "equal-weighted" indices, where all companies have equal weight regardless of size.

Some critics have suggested that investors should abandon market-cap-weighted indexes in favor of alternative equity benchmarks that weight stocks equally, or according to dividends, company fundamentals, or statistical properties. Vanguard researchers say that market-cap-weighted portfolios focused on smaller-cap and value stocks represent a more cost-effective, more transparent, and statistically equivalent strategy.

Are ETFs still a bargain?

Cash flow has poured into ETFs due to the investment vehicles' low-cost structure but the market's average ETF expense ratio increased from 0.39% to 0.56% from December 31, 2005, to March 31, 2012. The increase in cost averages is due to the proliferation increase of narrowly focused, niche ETFs launched. Vanguard suggests investors to look more closely at asset-weighted average expense ratios instead, which show where the money is flowing. The asset-weighted average expense ratio for ETFs is only 0.32% which shows that investors are choosing lower-cost ETFs.

Sales at NPH Inc. increase 9% in 2Q 2012

The National Planning Holdings, Inc. (NPH) network of independent broker-dealers booked record revenue of nearly $412 million in the first half of 2012, a 7.5% increase over the previous six months, and a 1.6% increase over the same period in 2011.

The four firms in the network generated more than $8.2 billion in gross product sales for the first half of 2012, up 3% over the last half of 2011. The NPH firms are INVEST Financial Corporation, Investment Centers of America, Inc., National Planning Corporation, and SII Investments, Inc.

NPH achieved revenue of nearly $215 million on gross product sales of more than $4 billion during the second quarter of 2012. Second quarter revenue was up nearly 9% over the first quarter of the year. NPH also continued to grow its representative count during the first half of 2012, compared to the prior year period, ending the half with a total of 3,651 reps.

National Planning Holdings Half-Year 2012 Results

	1H 2012	2H 2011	% Δ	Q2 2012	Q1 2012	% Δ
Sales $m	8,243.89	7,999.15	3.0	4,028.24	4,214.65	(4.4%)
Revenue $m	411.54	382.80	7.5	214.55	196.99	8.9
No. of Reps	3,651	3,636	0.4	3,651	3,652	0.0

Source: National Planning Holdings, Inc. Includes sales and revenue of INVEST Financial Corp., Investment Centers of America, Inc., National Planning Corporation, and SII Investments, Inc.