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Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call me at your convenience to set up your quarterly meeting.

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Going, Sebastien, Fisher & Le Bouef, LLP (GSF&L) News:

- Craig attended the Louisiana Society of CPA's Estate and Financial Planning Conference in Shreveport, LA. Sessions attended included Income Tax Update; Investments, Personal Financial Planning, and Asset Allocation; and Estate Planning Update, Including the Right and Wrong Times to Use Trusts.
- Craig appears on the cover of the August/September Louisiana CPA issue of "Lagniappe" in which he wrote the featured article "Managing the Ups and Downs of the Stock Market." Should you wish to read the article please go to the firm's website www.goingcpa.com and click the article link under "Investment News."

Investment Views:

- ***Morningstar Data - Through September 30, 2014 - Year-to-date returns -*** S&P 500 8.34%, Dow Jones Industrial Average 4.60%, NASDAQ Composite (dollars) 7.59%, MSCI EAFE (dollars) -1.38%, and the Barclays U.S. Aggregate Bond Index 4.10%.

- ***The Northern Trust Company – Economic Update – September 17, 2014 –*** We continue to think that the Federal Reserve will move very cautiously in considering rate increases. Our call remains that the first increase in interest rates will occur late in the summer of 2015, and that expectations for year-end 2015 seem a little overdone.

- ***Bureau of Economic Analysis – September 26, 2014 -*** Real Gross Domestic Product (GDP) – the output of goods and services produced by labor and property located in the U.S. -

increased at an annual rate of 4.6% in the second quarter of 2014 as compared to a decrease of 2.1% in the first quarter of 2014. Personal Income increased 0.3% in August as compared to July's 0.2%.

- ***Bureau of Labor Statistics – June 17, 2014 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers increased 0.2% in August as compared to a rise of 0.1% in July. Over the last 12 months, the index increased 1.7% before seasonal adjustment.

Craig's Thoughts and Views:

What You Should Know About Index Annuities

For those of you who listen to radio you may have heard on Saturday morning talk radio or afternoon radio commercial spots financial advisors advertising products that seem like a can't lose proposition. The talking points go something like, "your return can be linked to various market indexes, your gains are locked in when there are gains, and you are guaranteed to never lose a dollar in your retirement account and the product will also provide a lifetime of income you cannot outlive!"

The discussion continues on, "the focus of our retirement strategies is all built on the premise of never ever lose money in the market. How do we do that? We simply position you where you don't lose money – simple as that! We have specific strategies that are designed to help you accomplish that."

One way that financial advisors and the insurance industry can make the above promise is through an insurance product called and Index Annuity. An Index Annuity is a type of fixed annuity. The reason it is classified as fixed is because its value is expressed in dollars and not units that vary in value based on investments that make up other types of insurance products.

The name Index Annuity can be confusing by nature because this type of annuity also goes by other names in sales brochures and investment articles. The other names used to describe this annuity are Equity Index Annuities or Equity-Linked Index Annuities. These names are used because the interest credited to an Index Annuity (which is the term that will be used throughout the remainder of this article for consistency purposes) is tied to an external index, which is usually, but not always an equity index – like the S&P 500 or MSCI Europe Australia Far East (EAFE).

Basics

An Index Annuity is a fixed deferred annuity. With a fixed deferred annuity, the contract values are guaranteed by the issuing insurance company and the values are measured in dollars and do not refer to the interest rate. Similar to other fixed deferred annuities, the Index Annuity is a guarantee of principal and a guaranteed minimum rate of interest. Unlike the traditional fixed annuity, the Index Annuity offers the probability of excess interest based returns of the underlying index and when those gains are credited to the annuity, and the interest is not based on what the insurance company decides to give.

Terminology

The Index Annuity uses an indexing method which calculates the change in the underlying index the insured chose and this change determines the amount of interest to be credited to the annuity.

The participation rate, which Index Annuities have, is a method used to determine how much of the increase in the underlying index will be credited as interest to the annuity. For example, if the chosen index is the S&P 500 and the index increases 10% and the participation rate is 75%, the interest credited will be 7.5% (10% of 75%). The participation rate may be for one year, for the term of the contract, or maybe changed by the insurer at any time. The participation rate is said to be one of the moving parts in an Index Annuity.

Therefore, it is important for the annuity owner to understand what the underlying index is, what is his participation rate, and for how long is the participation rate before entering into and Index Annuity.

The yield spread is another method used by Index Annuities to determine how interest is credited to the annuity. If the index chosen returned 10% for the year and the yield spread is 3%, the interest credited will be 7% (10%-3%). The yield spread is another way for the insurer to limit their risk and the annuity owner's gain. The yield spread is typically an alternative to the participation rate.

Some index annuities put a maximum value on either the interest rate that will be credited to the annuity, known as the interest rate cap. Some index annuities provide for a maximum value on the index gain recognized in calculating the equity-linked interest, or index cap. It is important for the Index Annuity owner to understand which method is being employed before purchasing the annuity. The reason can be expressed in the following examples.

Assume an underlying index has a 30% gain in a given year. An Index Annuity with a 70% participation rate and a 12% interest rate cap will credit 12%. 30% times 70% is 21%, but the cap limits the interest credited to 12%. An Index Annuity with a 3% yield spread and a 12% interest rate cap will credit 12%. 30%-3% equals 27%, but the cap limits the interest credited to 12%.

Crediting Designs

Some of the more common interest crediting designs offered by Index Annuities are annual point-to-point, averaging - monthly or daily, monthly sum, and performance trigger. Similar to a fixed rate annuity, the annual point-to-point method credits interest each year. The amount of interest credited each year is based on the movement of the underlying index during the year and is calculated from the ending balance of the index for the previous year (therefore, called point to point). An important characteristic is that index losses are ignored. Thus if the index return during the year is negative, the contract treats that loss as a zero percent gain and credits zero interest for that year.

An important distinction to note about an Index Annuity as compared to investing in an actual index fund is that stocks in an equity index may produce dividends and capital gain distributions, which are not taken into account in annuities. These dividends would be received by investors holding a mutual fund or Exchange Traded Fund on that index.

Monthly averaging involves interest being credited under a monthly average by first determining the average monthly value of the index over the crediting period (usually over one year or 12 months). This is determined by adding up the index value at the end of each month and dividing by the total number of months. The beginning index value at the beginning of the period is then subtracted from this monthly average to produce the index difference, which becomes the gross interest rate.

Daily averaging is done in the same way as monthly averaging, except that the index values are added on a daily basis and the number of data points is the number of days in the year having index values.

Monthly sum uses the addition of monthly gains and losses, after applying a cap to each monthly gain. Monthly losses are not subject to any caps. The resulting sum is the interest rate that will be credited to the annuity contract.

Performance trigger involves crediting the annuity with a stated interest rate (announced at the beginning of each year) if the index value at the end of the period (usually one year) is equal to or greater than the value at the beginning of the period. For example, if the beginning index value is 100 and the ending value is 103 (a gain of 3%),the annuity will be credited with the declared rate whether that rate is more or less than the actual index gain. If the index declines in value, no interest is credited.

Provisions

Some Index Annuities guarantee the crediting of a minimum amount of interest, while others guarantee it to only a percentage, in many cases 80%-90% of the investment. For example, many older contracts guarantee 3% interest on 90% of the annual amount invested. On newer policies there are lower guarantees, such as 2% interest on 87.5% of the premium. For the older policies this may appear to mean that the interest rate guaranteed is an annual compound rate of 2.7% (90% x 3%) credited to the amount invested. But this is not correct! The principal on which the 3% interest is credited is only 90 cents for each dollar invested. Therefore, on $100,000 of premium, the guaranteed future value at the end of 10 years would be $120,952. This ending value after 10 years equates to a 1.92% compound rate return if one invested $100,000 today. The bottom line is the guaranteed minimum rate on the entire amount invested is 1.92% not 2.70%.

Surrender charges in Index Annuities work like those in other annuity contracts. However, the size of the charges and the length of time during which they apply is usually larger in Index Annuities. Some Index Annuities may not impose surrender charges as stated in the contract, but the surrender value is based on the guaranteed minimum amount which may mean less interest credited.

As is the case with both conventional fixed and variable annuities, Index Annuities usually permit withdrawals of up to a specified percentage of the cash value each year without levying a surrender charge. However, potential Index Annuity buyers as with any deferred annuity feel there will be a high probability of a need to tap the money before the expiration of the surrender charge period then this type of annuity may not be appropriate in the first place. As previously stated, surrender charges in Index Annuities are generally higher and last longer than those in other annuity contracts; therefore, an early distribution in excess of the amount permitted under the free withdrawal feature could be subject to a higher penalty. In addition, any distribution could be subject to an added 10% early distribution penalty. In essence, if liquidity is an issue, annuities in general are questionable.

A premium bonus may be offered by an annuity where the contract owner is credited with an additional percentage of the premium actually paid. This bonus earns interest on the same basis as the paid premium as long as the contract is not surrendered before the end of the term. Keep in mind, this bonus is not free! Usually, annuity contracts that offer a premium bonus require higher surrender charges, longer surrender charge periods, or a lower participation rate compared to contracts without a bonus. In some contracts, the difference may be reflected in a lower commission paid to the selling agent.

How do Insurance Companies do it?

A question asked by consumers is, “how can the insurance company offer these features and make money?” In essence, how can the insurer guarantee principal plus a minimum rate of interest and participation in exceptional upside movements in the market index. To start, if the consumer was told, “with this annuity, you get the upside of the market, but with no downside risk,” well that is not exactly true! The Index Annuity owner does not “get the upside of the market index,” but only a portion of the appreciation. The portion of the growth that any annuity owner receives is determined by various limiting factors in the contract policy.

Generally, the insurer purchases a combination of bonds and call options on the underlying index chosen by the owner to guarantee the funds will be available to meet its obligations to the contract owner.

Because we live an economic world that changes this means that interest rates and market index performance will not remain the same. Therefore, annuity consumers should be aware that the issuing insurance company could adjust some of these moving parts periodically, to reflect changing economic circumstances. Annuity consumers should ask the issuer of an Index Annuity for a history of renewal rates before purchasing an annuity.

Market Rates

According to various annuity authors, Index Annuities have been around for less than 20 years and several interest crediting methods have an even shorter history; therefore, it is hard to accurately determine how these methods would have performed over the long run. However, calculations of hypothetical returns of various reset structures over the past 50 years have been done to determine how they would have performed. The research done by others in the advisory business (not this author) showed the results of annual point-to-point and interest rate cap methods.

Purchasing an Index Annuity for every ten-year period since 1960 with a 45% annual point-to-point reset structure resulted in an annual interest rate of 5.2%. The purchase of an Index Annuity with a 100% annual point-to-point and an 8.45% interest cap would have resulted in an annual return of 5.2% also. An Index Annuity using monthly averaging with a 76% participation rate would have also averaged 5.2% annually.

Index Annuities can be very complex because of their moving parts and terminology. Annuity consumers should understand how this product works before purchasing just like buying any other investment or product. An annuity buyer may best be served by not thinking of annuities as investments but as “risk management.” Like everything else in life, the annuity tool decision will have a cost associated with it – the cost to purchase and the guarantees it provides. The annuity owner should realize that the annuity may not end with the highest expected value or projected rate of return; however. But, if the decision is to accept a lower fully guaranteed value in exchange for a higher, but unguaranteed expected value then that is a tradeoff that should be considered.

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one’s financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results.

Diversification does not assure against market loss.

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