Letters to the Editor

December 27, 2011

The following is in response to Wade Pfau's article, GLWBs: Retiree Protection or Money Illusion?*, which appeared on December 13:*

Dear Editor,

Dr. Pfau's article is helpful and should be a real eye-opener and due warning for anyone who has or is putting an entire client's portfolio (or even a large part) into such a product.

On the other hand, if you use this product in concert with other options, it provides what most clients want: an assurance that if all goes to hell in the markets, at least a portion of their portfolio has some guaranteed retirement income. This product fits well into portfolios for clients who have no DB retirement plan. And consider that if the markets go that far south, the insurance companies will suffer as well.

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San Diego, CA

The following is in response to PIMCO's commentary, *Hot Potato**, by Tony Crescenzi, Ben Emons, Andrew Bosomworth, Lupin Rahman and Rob Mead, which appeared on December 21:*

Dear Editor,

In regard to a potential bailout of sovereign debt, the authors argue, "if the ECB is to finance the wedding, it must be confident that European nations will agree to a strong 'pre-nup' and actually reach the altar after what is likely to be a harrowing engagement period."

The commentary is excellent but we are past the period of going to the altar in need of a "pre-nup." We are trying to avoid a costly, disruptive and potentially disastrous break-up. We need a strong "post-nup" to prevent divorce in the form of countries exiting the EU or a partial disintegration/segregation of the EU as we know it.

Susan G. Freed, CFP, President
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The following is in response to the commentary, [Does the Trend Matter?](), by Kay Conheady, which appeared on December 20:

Dear Editor,

I enjoyed reading your new article. It brings up an important point which I've seen discussed in books from long ago.

To give some context, you might like to have a look at a paper I just recently finished. I discuss there something which could have also been added called the "halfway rule." The halfway rule is not a specific strategy, but rather an additional feature that may be used to modify any of the three-allocation strategies.

The strategies would switch from a high or low allocation to the median allocation, whenever PE10 moved across the bound into the medium range. But with the halfway rule, the extreme allocation will be maintained until the PE10 returned all the way to its average value (rolling mean or rolling median). This implies a stronger commitment to the idea of mean reversion, and it will cause the investor to maintain high or low stock allocations more frequently. It will also reduce the total number of asset allocation changes. This rule was a popular feature in the stock formula plans of the past as described by Jenkins (1961) and Tomlinson (1953):

Jenkins, David. 1961. How to Profit From Formula Plans in the Stock Market. Larchmont, NY: American Research Council.

Tomlinson, Lucille. 1953. Practical Formulas for Successful Investing. New York: Wilfred Funk.

Given your discussion about the importance of trends, you may be quite interested in the halfway rule when thinking about how your findings can translate into asset allocation recommendations.

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