Letters to the Editor
Equity-Indexed Annuities, et al.

June 14, 2011

The following is in response to our article, Fantasy-world Returns for Equity Indexed Annuities, which appeared May 31:

Dear Editor

You can always tell when something hits a nerve and makes the financial establishment edgy and dyspeptic: That's when the forces of the status quo start circling their wagons and firing off wild volleys of arrows at those whom they regard as "interlopers."

I hate to interrupt while you and your like-minded readers are having such a grand time smearing the study co-authored by a Wharton professor on fixed-index annuities (FIAs), but I thought I might take a moment or two to introduce a few incontestable facts about the stock market:

1. Over the past 100 years, the market has been flat or down 67% of the time. Whatever progress was made occurred for the most part in dramatic upward bursts that no one could have predicted –and that few investors were lucky enough to participate in fully.
2. Anyone who was heavily invested in the market during the past decade would have been wiped out not once, but twice. As we know, FIAs are most often recommended to retirees. A retiree with almost any FIA product would have weathered the past decade in fine shape, even assuming the FIA product had all kinds of hidden fees and pitfalls (which most, by the way, don't). In contrast, a retiree who was fully invested in the market in 2000 would be looking at an inflation-adjusted return of less than 80 cents on his dollar right now.
3. Incidentally, the average Vegas one-dollar slot machine pays out at around 95 cents. Therefore any investor would've been better off continuously playing slots for the past decade, rather than investing in the stock market. It's interesting that brokers often take offense at the comparison to gambling. In reality, it's the gamblers who should take offense at comparisons to the stock market.
4. Two simple questions: Do you know any financial advisors who are psychic? Yes or no. And: Can brokers possibly know when to get their clients out of stocks ahead of time? Yes or no. If the answer is no –which it most certainly is – then the average person who (a) values his peace of mind and (b) depends on getting a good return for his investment has no business being in stocks. Ever.
5. The familiar assurances about the stock market (it "rewards risk over time") are based on anachronistic financial models and perceptions of the American capitalist machine that, sadly, no longer apply. America 2011 is not America 1955. The man-

> ufacturing base is either shriveling up or moving offshore. A terrifying portion of the debt we carry is held by foreign countries, not our fellow Americans. The last two market run-ups were led respectively by a so-called industry that turned out to be largely illusion (i.e. the dot-com bubble) and a groundswell of arcane, often fraudulent paper-shuffling on Wall Street (which, revelations suggest, were too often rigged to benefit primarily the insiders). There are no more GMs or GEs to pull us out of this mess. As many market observers have recently posited, we are now experiencing a "new normal" in which the investing models of past years must simply be discarded as irrelevant.

I could go on and on. But why bother? I suspect that no one on your side of the game is listening anyway.

Steve Salerno

The writer is director and senior financial editor of First Senior Financial Group in King of Prussia, PA. FSFG also produces the "Crash Proof Retirement Show," which runs on two major radio stations in the local (Philly) market. He does not sell any products of any kind. His company puts on seminars designed to "wean people off their dependency on the stock market."

The following is in response to exchanges last week and the week before between Guy Cumbie and Michael Edesess, which concerned Edesess' article three weeks ago, On the Wikileaks of the Economics Profession.

Dear Editor,

Michael Edesess' example of federal efforts to spur desegregation is not an appropriate analogy to government regulation of the financial services industry.

There is scant comparability between government intervening to protect basic human and civil rights, and government intervening to tell people how to or how not to conduct their business in private and wholly voluntary exchanges.

The former is a large part of the essential function of proper government, i.e., to provide the legal framework for a civil society.

Urges for the latter are best explained in modern times by Angelo Codevilla in his 2010 piece America's Ruling Class. Anyone who, having read this work, doesn't consider it to be important to the point of being required reading for an informed electorate, are likely themselves members of the subject class.

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