



MCP Premium Software

The MCP *Insider* eNewsletter***This Month: The Truth About EIA Software****by Dorice Maynard*

We have been saying for years that independent software to analyze, compare, and present indexed annuities should be a part of EVERY sale. As I mentioned in my recent ten-page "Special Report" (you can request a copy below), suitability and due-diligence are the responsibility of every agent. In an article published recently by a "sales coach", agents using EIA analysis software were warned about serious drawbacks with such software and warned of potential compliance issues if reports from EIA analysis software were used with clients.

We say, "Nonsense!"

The sales coach should save his alarmist comments for his paying clientele. The problems, he says, with using software are:

- Unbalanced comparisons to indexes (no stock dividends),
- History can't predict future performance,
- Monte Carlo analysis doesn't account for all possibilities (i.e. a market crash)
- New EIA structures don't even need analyzing

I have heard these comments before (and indeed have addressed them before!) but a refresher is always helpful, especially on key issues. So let's explore each of these "objections" in more detail....

1.) Comparing EIA to Stock Index; and History as a "Predictor"

First, most agents selling indexed annuities are just that - agents. It would be completely improper for them to give advice on securities. To assume that such "comparisons" are the primary use of EIA analysis is incorrect. Instead, hypotheticals are vital to give the consumer a proper expectation of what kind of interest-earning experience they will have in the annuity. After all, it is probably not going to be a steady rate every year, like other fixed annuities. They may even see a "zero" year.

The indexed annuity earns its interest as a function of what: Anyone? Yes, POINT CHANGES in the underlying stock index. So by stripping away dividends, what are we accomplishing? That's right - a clean hypothetical of how a particular credit method would have performed IF THE POINT CHANGES in the stock market occurred as they did in a historical period.

We do this for two reasons. First, because the way a credit method is configured (caps, spreads, use of averaging, etc.) can have a huge impact on what the client keeps. Second, because what the client

Live Webinar Schedule

BASIC

- Fri Mar 2nd, 1 PM
- Tues Mar 20, 9 AM
- Fri Mar 30, 1 PM

PROFESSIONAL

- Tues Mar 6, 9 AM
- Fri Mar 16, 1 PM

[Register for a Webinar >](#)

**Refer A Colleague**

You can earn software fee rebates - even a free year subscription - just by referring colleagues to MCP Premium software! Details at the web site.

**Contact Us**

MCP Premium
3337 S. Bristol St. #55
Santa Ana, CA 92704
877-773-4774

EXPECTS and what credit method YIELDS can be very different, and the agent must set proper expectations. For example, a consumer in a "no cap, no fees" monthly averaging contract may be upset when they see in the newspaper the S&P500 was in the double-digits but they only received single-digit returns.

In MCP Premium Software (and if you are securities licensed or a registered investment advisor), you can add in or simulate dividends. The MCP "Pro" version even lets you import any index data of your choosing. Also, one of the greatest ways to avoid any perceived problems with hypotheticals is by using the Premium Producers Group "EIA Credit Method Ratings". Every month, this database calculates about 600 EIA configurations as a peer group; over a bear, bull, and recent 10-year market, and assigns a "grade" ranking to each EIA.

Note that history is not being used a predictor of future outcomes - it is just a mathematical means of understanding and presenting credit method performance. In finance we call this "modeling". It is a mathematical, academic means of understanding how investments behave, so that EDUCATED estimates of performance can be made. Or would the coach prefer agents just throw a dart at a product list?

2.) Monte Carlo analysis didn't predict the stock market crash

Actually, our MCPlanz software did! (Ok, in a manner of speaking, that is.) MCP Premium's Monte Carlo method is unique, in that it is a "true randomizer" of possible returns. Where many other methods simply "shuffle" the actual historical returns into a different order, our method lets the user choose a historical time period and then applies 2 standard deviations to the mean return of that time period, creating the 'boundaries' of random numbers that can be selected. This means we account for 95% of all possible outcomes around the mean, and each scenario is run at least 1,000 times (in the "Pro" version it is 10,000 times, and uses the IRR as the mean). 2 Standard deviations (95%), by the way, is considered most "statistically significant" in finance.

Translation? Flat markets are simulated, bull markets are simulated, and mixed markets are simulated. All are taken into account. If you fear historical hypotheticals, you should RUN and embrace Monte Carlo simulations. Sure the reports look technical, but even the NASD approved the use of Monte Carlo as a client presentation method in February of 2005. This is an education WELL WORTH your time.

3.) New EIA structures don't need analyzing.

This is where "Mr. sales coach" really falls off the page. There will never, ever, be a time when analyzing an indexed annuity will not be necessary and appropriate. RATES CHANGE CONSTANTLY. Even the product example he gave (as vague as it was) is of an EIA that does not exist. It probably employs monthly averaging. And if it does - is that better or worse than point to point with 55% participation? I'll bet your client would like to see the difference.

Even if all credit methods except one was eliminated, clients would expect - and deserve - to be shown how the credit method is likely to perform. Comparisons against stock index point changes, used to

demonstrate the behavior a credit method, are entirely compliant and appropriate.

I know this can sound a lot like the "guns don't kill people - people kill people" argument, but used responsibly and appropriately, you can show historical hypotheticals to your prospects and clients with CONFIDENCE.

In Summary

MCP Premium Software has been offering software solutions since 2001, to large firms as well as individual advisors. EIA analysis software is VITAL to anyone selling the product. Don't let the alarmists and publicity seekers fill you with fear. Do the right thing for your clients. Do your homework.

Remember: Listen to sales coaches only for sales techniques - that's where their expertise lies. And if they promote a particular person or program in glowing terms, don't be afraid to ask WHY! You may find that they are actually being compensated quietly for their recommendation. You deserve full disclosure.

If you'd like a free copy of Dorice Maynard's SPECIAL REPORT: 5 Vital Steps Every Agent Selling Indexed Annuities Must Follow, please send an email request to info@premiumproducersgroup.com .

**MCP Premium is independent, unbiased analysis software.
Visit www.mcppremium.com for samples, demos & full details.**

**Call Us Toll Free
877.773.4774**