

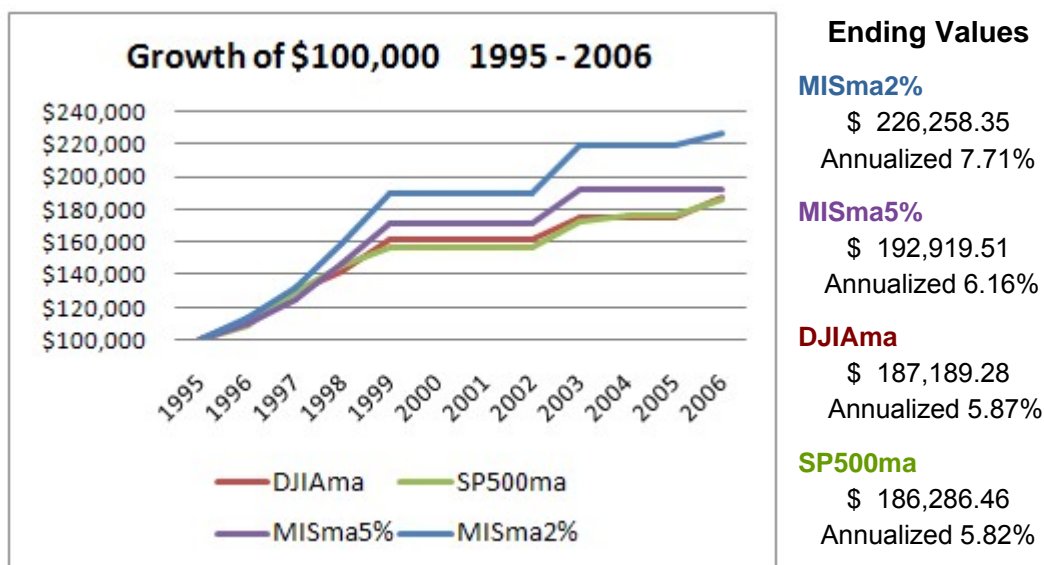
## White Lies and Monthly Averages: Multi-Index Strategy

By Dorice Maynard, Software Sales & Customer Service

Is something in the air? I have been asked a lot lately (a lot!) about the viability of the 50/30/20 Multi-Index Strategy found in the Aviva MultiChoice index annuities. Mitchell Maynard had already voiced his concerns about potential misuse of this method in our online Blog, [mcppremium.blogspot.com](http://mcppremium.blogspot.com) (May 2007). We don't plan to program this method into our software, so I decided to do an analysis and publish my findings.

This annual reset credit method looks at the Nasdaq100, SP500, and DJIA indices, and credits 50% of the performance of the top performer each year, 30% of the second, and 20% of the third. Literature from Aviva describes the method as "1-Year Average Multiple Index". I was surprised to learn this really means a 'monthly averaging' strategy is being used!

Below, I compared the **Multi-Index Strategy with 5% spread**, the **Multi-Index Strategy with 2% spread**, and for baseline relevance, the annual monthly average of the **SP500** and **DJIA** (no spreads or caps) individually, over the period **1996-2006**. The returns of the Multi-Index strategy were not overly impressive with the current 5% spread, and you can see that reducing it to 2% of course made a very significant difference.



**But let's not get all excited yet.** This credit method is one of those cases where backtesting (using hypothetical performance) isn't just impractical—it could be considered unethical. Most agents aren't knowledgeable about the stock market and what drives its returns. So while the Nasdaq-100 appears to be a "value-added" to the credit method when we look at past performance, the little white lie is that there is very little chance it will do so again in the future! Let's let the data speak for itself....

**INDEX FACTS:** The NASDAQ-100 Index was created in 1985. It includes 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization and reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. Although a "modified" market-cap weighting is used, **the top 10 stocks shown below still account for about 40% of the Nasdaq-100's total value.**

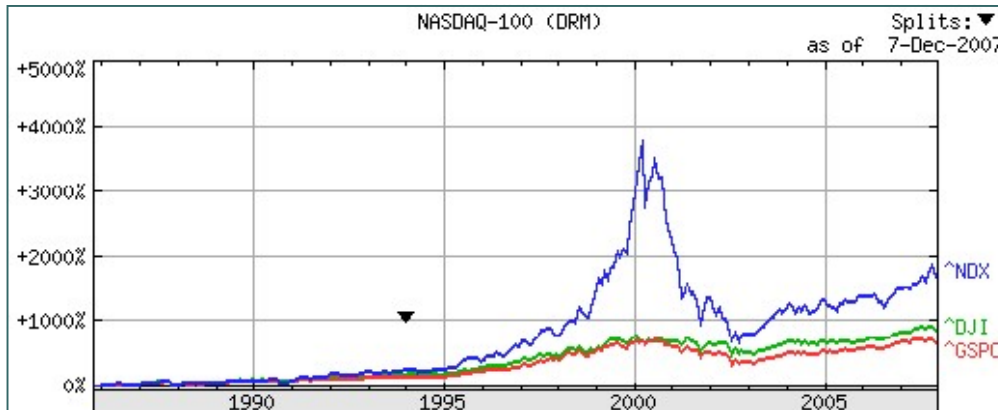
Ask yourself: Are these 10 companies poised with **new growth** opportunities to provide a repeat of the tech bubble, shown below? Or are their markets **saturated** and their companies now more **mature**?

What is the likelihood we'll see a repeat performance like this from the Nasdaq?

The BLUE line below is the Nasdaq, the Green is DJIA, and Red is the S&P500.

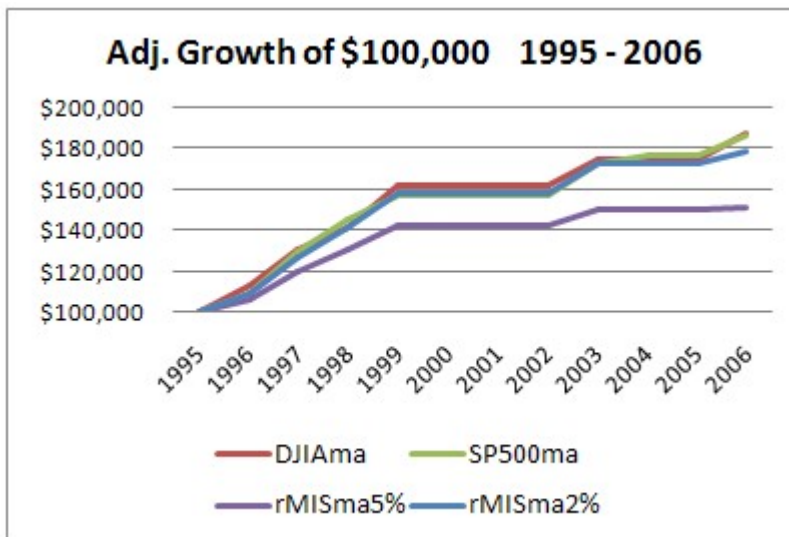
Company	Ticker	Weight (%)
Microsoft	MSFT	7.90%
Qualcomm	QCOM	5.40%
Intel	INTC	5.10%
Cisco Systems	CSCO	4.80%
eBay	EBAY	3.10%
Amgen	AMGN	3.10%
Dell	DELL	2.80%
Nextel Communications	NXTL	2.80%
Comcast	CMCSA	2.40%
Oracle	ORCL	2.20%

Source: www.BeaconEquityResearch.com



Source: www.finance.Yahoo.com

**So with our new perspective**, let's now see what happens when we use more realistic returns for the Nasdaq-100. For the years of 1996, 1998, 1999 and 2003 I reduced ONLY the aberrant Nasdaq-100 monthly averaged returns (20.11%, 33.90%, 31.94% and 24.85% respectively) by half, and then recalculated the Multi-Index Strategy.



### Ending Values

<b>DJIAma</b>	\$ 187,189.28	Annualized 5.87%
<b>SP500ma</b>	\$ 186,286.46	Annualized 5.82%
<b>rMISma2%</b>	\$ 178,454.25	Annualized 5.41%
<b>rMISma5%</b>	\$ 151,188.03	Annualized 3.83%

**The adjusted results fall right in line with expectations.** A 50/30/20 monthly average blend should be close to the broad indexes individually. Option writers & actuaries know their stuff— there is no “loophole” credit method to discover for your client's benefit. Throw out those glossy charts and brochures of past performance: The Multi-Index Strategy is highly unlikely to yield future results demonstrated by historical hypotheticals. Ω

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## December Software Specials

**SALE! \$100 OFF MCP Suite 2007 Basic thru December 15:** This is the complete comparison & planning tool for agents. We provide a complete database of EIAs and index data. Downloadable! [Learn more >](#)

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**Live Demo Webinars:** We demonstrate our software in live webinars every week. Limited number of participants per webinar, so register ASAP. [Learn more >](#)

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Questions? Reply by email or call Dorice Maynard at 877-773-4774.

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