



# GOING LONG

Detterbeck Wealth Management, Inc.



DECEMBER 2005



## Season's Greetings from DWM



### Low Cost Variable Annuities- Is that an Oxymoron?

By Les Detterbeck, CPA, MBA, CFP®, PFS, CFA

Many investors cringe when they hear the words Variable Annuity. They know that typical variable annuities charge large fees and if you want to get out early you pay huge surrender fees. So even though variable annuities provide deferred taxation on earnings, many times the carrying costs outweigh the possible tax advantages. As a result, we don't generally recommend variable annuities.

We believe there are two exceptions to the "No VA's allowed" rule. One is the low cost variable annuity and the second is the guaranteed living benefits contract.

We discussed the guaranteed monthly income benefit ("GMIB") in our March newsletter. We pointed out that for an additional monthly charge, an investor can provide a "safety net" under his or her VA investment. They do this by electing a GMIB whereby the insurance company will guarantee the investor a minimum guaranteed rate (let's say 5% annually on their investment) for payments to the investor for the rest of their life. If the contract value (real earnings less fees) is greater than the GMIB, the investor can take out their money or invest it elsewhere instead.

The low cost annuity is a brand new concept. Instead of paying 1.3%-2.5% annually of the asset value in the annuity, now there is a low-cost annuity that charges a \$20 monthly flat fee. That's it. There are no bells and whistles. Just \$20 per month regardless of the amount in the annuity. And, you can take out your money anytime.

So, now an investor can get tax deferral for \$20 per month and can get in and out of the annuity whenever he or she wants to. This is like an unlimited non-deductible IRA or Roth IRA in that you get no tax deduction getting in, but money grows tax-free until you start taking it out. Taxation is at ordinary income tax rates. Furthermore, the low-cost annuity can be invested in stocks, bonds, and some alternative investment strategies.

Accordingly, for those clients who have sufficient cash flow from other investments and want to allocate a portion of their money to grow for the future without current taxation, a low cost variable annuity might be an answer.



### Where's the Stock Market Going?

By Les Detterbeck, CPA, MBA, CFP®, PFS, CFA

Honestly, we don't know for sure. We know a lot about the past, we know where things are today and we read an awful lot of predictions for the future.

That's the primary reason we believe in diversification and asset allocation. Based upon our clients' needs, objectives and risk tolerance we typically suggest an asset allocation using modern portfolio theory ("MPT"). MPT attempts to maximize portfolio return using the tradeoff between investment return and investment risk. You invest over the long-run and plan to get appropriate returns with the least amount of risk. And, as you know, we like to have our clients invest not only in stocks and bonds, but also in non-

correlating alternative investments which help improve the risk-return equation.

Because the performance of each asset class typically changes from year to year, we try to allocate the investments in a way that won't necessarily produce homeruns each year, but rather insure that you'll never strike out. This type of balanced asset allocation should lead to smoother, more stable returns for the long-run which ultimately leads to greater



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wealth, well-being and peace of mind.

We're not market timers. We don't overload on one stock or one asset class. We believe your core portfolio should be invested strategically using MPT.

At the same time, we continue to watch the markets and the forecasters.

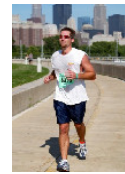
One forecaster that is of great interest to us is economist Harry Dent. You may recognize the name. Harry wrote the Great Boom Ahead (1992) which forecasted the stock market boom of the 90s. He also wrote the Roaring 2000s and most recently The Next Great Bubble Boom which reviews the current stock market, bond market, real estate market for the next five years and beyond. The foundation of Harry's predictions and tactical suggestions is demographics. Baby boomers have a huge impact. When they are working and spending, the economy and stock market is growing.

I heard Harry speak about 15 years ago and have been following him since. Harry has generally been a contrarian and he generally has been correct. His information is so interesting that I became part of the "H.S. Dent Adviser Network" a few months ago to learn more details so we could share it with our clients.

Harry has predicted that the Dow will reach as high as 40,000 by 2010. After that, things go downhill (primarily because of Baby Boomers leaving the work force) and the Dow, according to Harry, retreats to 13,000 by 2020. We're not saying that these events will occur. However, we want you to know that we are aware of the current and expected volatility (both to the upside and the downside) in the markets. We'll keep watching and reviewing Harry and other forecasters and keep reporting back to you.



**Congratulations to Brett Detterbeck on completing the Chicago Triathlon on August 28th!**



### BIRTH ANNOUNCEMENT:



Caden Alexander Detterbeck  
Born: 8:19am, August 31, 2005  
9 lbs., 0 oz., 21½" long

Proud Parents: Brett & Aimee Detterbeck  
Proud Grandparents: Les & Elise Detterbeck

### *charles*SCHWAB news:

We are pleased to announce that starting **December 20th** Charles Schwab & Co., Inc. will make eStatements available.

Features and advantages include:

- \$12.95 equity trades for households with balances under \$1MM receiving eConfirms.
- Access to your current year plus three previous years of archived eStatements online.
- Printing and saving capabilities.
- An email alert every month when your most recent statement is ready.
- Eliminating hard copy statements is environmentally friendly and space-saving.

For those enrolled, no action is required. Email alerts will start in January with a reminder to web activate your account if you haven't already.

If you are interested in signing up to receive communications electronically, please log on to [www.schwaballiance.com](http://www.schwaballiance.com) and follow the new user link.



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