

[<Back](#)

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Seasonal Musings

October 2007

Musings In This Issue

[Annuity Acuity Part 2](#)

[Contrarians' Revenge](#)

[Booyah!](#)

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning (FSFP). In this issue, we'll be discussing product features of some well-designed annuities, third quarter domestic equity performance, and the downside of financial news networks. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

[Annuity Acuity Part 2](#)

Cost-Efficient, Well-Designed Annuities

To pick up where we left off in [last month's article](#), immediate annuities can be a useful tool in a retirement portfolio. But like any other financial product, there are cost-effective, well-engineered annuities and expensive, poorly-designed ones. Here are some welcome and interesting annuity features:

1. No-load, no-surrender-charge variable annuities.

Cost-effective variable annuities isn't necessarily an oxymoron. No-load, no-surrender-charge variable annuities have actually been around for years and years. Of course, most investors aren't aware they exist because annuity salespeople don't sell them.

With variable annuities, expenses that drag on your investment performance exist at 2 levels. The insurance

company issuer levies an administrative and insurance (M&E) charge almost always based on the account balance, and the mutual funds that serve as investment options within the annuity shell have their own management expenses. Fortunately, companies like Vanguard and TIAA-CREF offer variable annuities with minimal expenses at both levels, and with no surrender charges to boot.

2. Variable annuities with flat M&E charges. For investors with large retirement nest eggs, there is at least one variable annuity issuer that levies administrative and insurance charges as a fixed dollar amount per month, rather than as a percentage of the account balance. This pricing structure can save you a considerable amount of money over time if your variable annuity account is large.

3. Variable annuities with index or exchange-traded funds as investment options. Clients know I'm a big fan of index and exchange-traded funds for their cost-efficiency (among other reasons). There are several variable annuity issuers that offer these vehicles as investment options.

4. Annuity payouts with inflation protection. While Social Security benefits rise with inflation, pension payouts typically don't (if you're lucky enough to have a pension.) There are annuity issuers who also offer a lifetime stream of income that will keep pace with inflation.

Bottom line: don't automatically dismiss immediate annuities as an investment vehicle in your retirement portfolio. Depending on your situation, a well-designed, cost-effective annuity can play a valuable role in your financial future.

Contrarians' Revenge

A Review of Third Quarter Domestic Equity Returns

Back in the [December 2006 issue](#) of "Seasonal Musings" I wrote:

"It's no wonder that the contrarians among us are predicting a swing in the pendulum back to growth stocks, and to large-cap growth stocks in particular."

It's an investment theme I re-visited in the [June](#) and [July](#) issues of this newsletter, and it's a view I've been incorporating into client portfolios.

In the third quarter, large-cap growth stocks were the best performing sector among domestic equity funds with a 6.2% return. It's the first time since Q1 '99 that large-cap growth stocks have led the pack. By contrast, small-cap

value stock funds fell 6.2% last quarter as they suffered the most in the credit crunch. Growth stock funds have now outpaced their value counterparts every quarter this year.

This relative performance underscores the importance of not chasing historical returns. If you were deciding how to invest your bonus earlier this year, it would have seemed like a no-brainer to invest in small-cap value stocks based on historical 5-year performance. Likewise, it probably would have been very difficult to invest in large-cap growth stocks in light of their dismal performance since the tech bubble burst. And yet, superior investing requires a commitment to swim against the stream. Asset classes and sectors revert to the mean over time. As my first boss on Wall St. was fond of saying, the best trades are the ones most difficult emotionally to commit to.

"The best time to buy stock is when blood is running in the streets."

--- Nathan Mayer Rothschild

Booyah!

A Warning to All You Maria Bartiromo and Jim Kramer Fans..

"...listening too closely to stock commentary [on CNBC or Bloomberg] can actually be detrimental to investors' portfolios because commentators unwittingly describe the stock market using metaphorical language that can cloud an investor's judgment, shows [research](#) by Professors Michael Morris and Daniel Ames."

Five Seasons Financial Planning is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click [here](#).

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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