MANAGING RISK

While it is often the desire, it is generally impossible "to have one's cake and eat it too". As with most things in life, including financial decisions, one simply cannot have it both ways. When this regrettably occurs then some form of middle ground may prove to be the next best thing. Ultimately, each person makes their own decision: Have the cake, eat the cake, or create an acceptable tradeoff.

This occurs when making decisions involving the selection of asset and risk management strategies.

How will each investor prioritize the following?

- **Unconstrained growth opportunities at lower costs.**
- **A smoother experience with fewer and less alarming investment downturns (measured as volatility).**
- **A guaranteed lifetime stream of income payments.**

In a perfect world it would be possible to have all three.

Unfortunately, like the proverbial cake, one can address some of these desires, but not necessarily all of them in any single solution.

Traditional asset management: typically use a diversified selection of mutual funds or exchange traded funds (ETFs) designed around targeted, risk-based investment allocations as an efficient and cost effective solution for providing unconstrained growth opportunities as well as potential for loss.

Managed volatility portfolios: are offered through variable annuity contracts and intend to limit the ups and downs one might encounter in traditional asset management (described above), in an effort to create a smoother experience. These solutions use mutual funds and ETFs as their foundation adding volatility triggered options contracts in an attempt to mitigate the risks of the market. This overlay of institutional risk management can result in increased investment costs and may underperform traditional asset management in up markets and outperform in down markets.

Equity income guarantees: can be utilized through annuity contracts. There is an additional insurance cost to provide a guarantee that ensures retirement income for an investor's lifetime. Not every investor needs or wants the certainty of lifetime income, but many assign a significant value to addressing the fear of negative market returns which can reduce or eliminate their ability to draw income from their accounts over time. It is important to understand that with variable annuities the guarantee applies only to the ability to receive income and does not include protection against market losses to one's account value. Investment options may include portfolios similar to or utilizing mutual funds and ETFs with or without managed volatility.

The question of strategy transitions to: What combination of benefits and trade-offs are right for you?

STRATEGY	VOLATILITY	GUARANTEE	COST
ASSET MANAGEMENT	MORE	NONE	LESS
MANAGED VOLATILITY	LESS	NONE	MODERATE
EQUITY INCOME GUAR.	LESS	YES	MORE