

**BAC**

Bank of Agriculture &amp; Commerce

**ECC BANK**

A Division of Bank of Agriculture &amp; Commerce

# Monthly Market Monitor

## August 2008

### **FIXED ANNUITY: THE POWER OF TAX DEFERRAL AND A PREMIUM GUARANTEE!**

With the economy causing nervousness among would be investors and interest rates on money market and certificates of deposit so low many of my clients are turning to fixed annuities\* for higher rates of return and guarantees of their principle.

A fixed annuity is a contractual agreement with an insurance company, placing with it a sum of money for a specific period of time. In return the insurance company pays a stated amount of interest into the annuity account. If the interest is left in the account it accumulates tax deferred until the owner of the annuity decides to take distribution of the interest.

I like fixed annuities for a number of reasons, but the ability to grow interest on a tax deferred basis is one of the most important to me. Every day I meet customers who have money set aside in CDs or money market accounts which they rarely touch, but still have to report the interest on their tax returns at the end of the year. I think of unused interest in a fixed annuity as triple compounding. You earn interest on your principle, interest on your interest and interest on the portion you would be paying in taxes.

I generally consider fixed annuities for a portion of my client's money, if they are near or in retirement, because the Internal Revenue Service (IRS) handles distributions from annuities in the same way they do distributions from qualified retirement plans. Distributions made prior to age 59½ may be subject to a 10% penalty and all distributions create a taxable event<sup>1</sup>.



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For more information or to schedule an appointment please call

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#### **New York Life Select 5 Fixed Annuity\*\***

Current interest rates, effective 8/16/08

#### Premium Amount 5 Years

|                     |       |
|---------------------|-------|
| \$100,000 or more   | 4.80% |
| \$50,000 - \$99,999 | 4.75% |
| \$25,000 - \$49,999 | 4.25% |
| \$5,000 - \$24,999  | 4.00% |

<sup>1</sup>Consult your legal or tax counsel for advise and information concerning your particular circumstances. Neither Financial Network nor any of its representatives may give legal or tax advice.

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**\*Not FDIC Insured \* Not a Deposit \* No Bank Guarantee \* May Lose Value \* Not Insured by Any Federal Government Agency**

Other features and benefits of fixed annuities that in my view make them superior to Certificates of Deposits are:

- Right now the rates being paid by some insurance companies are much higher than CD and money market rates.
- Most annuity contracts allow the withdrawal of 10% or more of the contract value per year, (may be subject to 10% penalty from IRS if made prior to age 59½).
- In the event of your death the proceeds in your account pass directly to your beneficiary, without the cost and delay of probate.
- Many contracts have living needs benefit riders attached such as:
  - In the event that you become disabled, terminally ill, or go into long term care you may have access to the accumulated value of your annuity after a period of time without paying a surrender penalty.
  - In the event you become unemployed you may have access to a portion of the accumulated value of your annuity after a specific period of time.

So far I have discussed the positive features of fixed annuities and you might be wondering what the down side is. Well here it is: When you invest in a fixed annuity you sign a contract agreeing to leave the money with the company for a specific period of time (except the portion you are allowed to withdraw each year). If you take more than the allowable annual distribution from the contract, the portion that is in excess of the allowable amount may be subject to a penalty. For example, if the contract allows you to take a 10% distribution annually, but you need to take a 15% distribution, the portion over the allowable 10%, in this case the extra 5%, would be subject to a penalty. Typically the surrender penalty is based on a sliding scale and varies on life of the contract and how long you have owned it.

The insurance companies I deal with here at Bank of Agriculture & Commerce and ECC Bank are selected from an approved list supplied to me by my broker dealer Financial Network Investment Corporation (FNIC). The list represents only companies which have received the highest ratings available from independent rating services, such as Standard and Poor, Moody's Investor Services, A.M. Best and Fitch. I select companies which are what I consider the cream of the crop based on product features and benefits, management expertise and experience, name recognition and quality of customer service. These companies are then presented to our board of directors for their approval. By the time I discuss a product with a client I only consider doing business with a handful of the very best companies. For more information on products available or to schedule an appointment please call 209-444-3354 or stop by your nearest ECC Bank or BAC branch.

\*\*Product is available in jurisdictions where approved.

Rates are effective **8/16/08** and are subject to change at any time. The guaranteed minimum interest rate is 1.5%. The interest rate is an effective annual yield based upon a nominal rate which is compounded daily. Yields assume no additions or withdrawals made during the guaranteed period. After the initial guaranteed interest rate period, the policy will receive a new interest rate that is guaranteed for one year. NYLIAC traditionally has set renewal rates equal to the base rate offered for our one-year new money rate at that time. Please call your representative for current interest rates on premium amounts of \$1,500,000 or more.

All guarantees are dependent upon the claims-paying ability of NYLIAC. The Premium Guarantee ensures that surrender charges, if any, will never exceed the interest credited to the policy.

The New York Life Select 5 Fixed Annuity is issued by New York Life Insurance and Annuity Corporation (A Delaware Corporation), a wholly owned subsidiary of New York Life Insurance Company, 51 Madison Avenue, New York, NY 10010.

|                  |                           |                   |                |                        |  |
|------------------|---------------------------|-------------------|----------------|------------------------|--|
| <b>Annuities</b> | Are Not FDIC/NCUA Insured | Are Not a Deposit | May Lose Value | Have No Bank Guarantee | Are Not Insured by Any Government Agency |
|------------------|---------------------------|-------------------|----------------|------------------------|--|

| Market Indices <sup>1</sup>  | July Change | Year-to-Date (7/31/08) |
|------------------------------|-------------|------------------------|
| S&P 500                      | -0.9%       | -13.7%                 |
| MSCI EAFE                    | -3.3%       | -15.6%                 |
| Dow Jones Industrial Average | 0.2%        | -14.2%                 |
| Russell 2000                 | 3.7%        | -6.7%                  |

## Oil Weakness Gives Lift to Market

Much is at stake when it comes to oil prices. First, because oil is priced in terms of dollars in the global market, higher oil prices immediately translate into a weaker dollar, therefore causing inflationary pressures for U.S. consumers and investors. Furthermore, high oil prices dampen economic growth and because the U.S. economy is bordering on a recession, higher oil prices could create a deeper and longer recession. Lastly, high oil costs reduce profits and earnings for U.S. corporations, ranging from airlines to plastic manufacturers, and with lower earnings stock prices must follow. The Monthly Market Monitor for June highlighted that oil prices were likely to retreat based on the “backwardation” of futures prices evident in the marketplace. This finally came to fruition during the month of July, during which oil prices retreated from a high of \$145 to as low as \$126. In doing so, the U.S. stock market and dollar also improved perhaps suggesting of things to come should oil prices retreat further. At \$126/bbl oil prices are still relatively high compared to last year, so the potential still exists for further downside risk and with additional drops, investors can now anticipate improvements in stock prices.

## FASB Delays New Rules for Financials

The Financial Accounting Standards Board recently announced the delay of new rules that would keep certain “off-the-book” vehicles from being included by financial firms until 2010. Many believe that it has been in part these “off-balance sheet” vehicles used by banks that have fueled the excesses of the housing markets. Financial firms were already granted exception prior to this new ruling but given the recent troubles within the financial sector, this exception is now being extended until 2010. FASB Chairman Robert Hertz said he was “reluctant to delay the changes because many companies had abused existing standards to improperly keep vehicles off their books.” These rules were initially imposed during the post Enron days but many banks and others found ways around these rules. With this recent delay, it is likely that the quality of earnings for banks and other financial concerns will continue to be clouded by many of these off-balance sheet items. This continues to put pressure on the research necessary to qualify both earnings and earnings growth from these firms in order to evaluate their valuations and prospects.

1. Wall Street Journal, 8/1/08

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