Regal Investment Advisors

White Paper

The Differing Mindsets of Insurance and Investment Professionals

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Summary

A broad and holistic financial planning approach is required to integrate the varying business practices of financial professionals and to provide the public with a clear perception of the financial planning industry.

Regal Investment Advisors

Regal Investment Advisors is an industry leader providing innovated investment solutions through ongoing partnerships with insurance and financial professionals.

The Problem… Perception

The difference in business models used by insurance professionals and investment professionals has created confusion in the general public. Furthermore, arrogance and greed by professionals in both industries have created biases in retirement planning models. A comprehensive approach to solve client needs is often hindered by the narrow business models used by insurance professionals and investment professionals.

Despite the common perception that is held, not all insurance products have zero liquidity, high-cost, and long surrender periods. Because of the lack of knowledge of the products or the perceptions of those products, few investment advisors do not know, understand, or use insurance products. The advisor has to change this perception and evolve. They must become aware of the multiple carriers and products that have respectable compensation and surrender charges that reflect good value for the consumer, carrier, and professional alike.

Investment professionals should not overlook the use of financially stable and guaranteed products that can create foolproof income streams in retirement because of inaccurate and poor perceptions. They need to examine the use of these types of products to serve the needs of their clients.

Insurance producers, in turn, need to examine their perception of the investment world. The idea that insurance products solve every clients need is small thinking and will not work in this new complex world. Creating policyholders over creating clients is an idea that must change.

Also, insurance and investment professionals need to accurately represent themselves in accordance with their specialties. If they have the appropriate training, licensing, and education, they can hold themselves out as investment and insurance professionals. If they do not have that training, they should be proud of their background and not imply that they specialize in all areas.

The never-ending debate between insurance and investment professionals must be put to rest It only leads to a poor perception of both industries, confusion in the general public, and a biased financial planning process.

Solution

The answer to this issue is a progressive investment solution that consolidates these two distinct types of investment vehicles: traditional investments and fixed annuities. We believe this evolution in the investment process will not only help investors achieve their goals but also provide more security during these uncertain times. The premise behind the integration of these investment vehicles lies in their differing risk and return characteristics.

Risk & Return
The risk and return characteristics of traditional assets are unique to the investment philosophy and portfolio management process employed. For example, Regal Investment Advisors manages the Regalfolios, a series of proprietary portfolio models composed entirely of traditional assets. These models have identifiable risk and return characteristics that are consistent with the firm's clearly defined investment principles, which are summarized below:

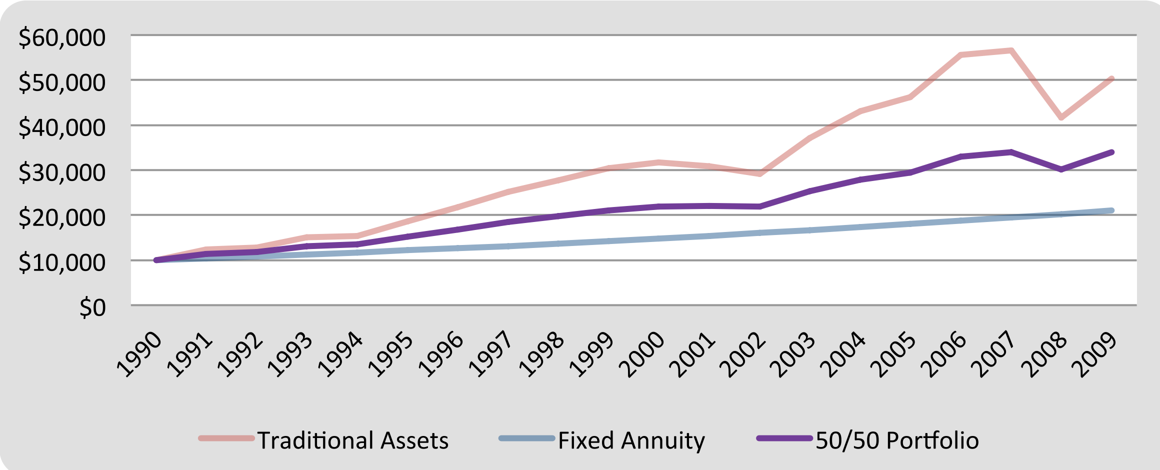
- Professional Oversight: The Regal Investment Committee follows a rigorous investment process and bases the investment decisions on diligent research.
- Indexing: The Regalfolios are composed entirely of low cost ETFs and ETNs which minimizes cost and increases transparency.
- Diversification: The investment approach incorporates an extremely diverse group of traditional and alternative asset classes to maximize the risk-adjusted returns of the portfolio.
- Active Management: The firm believes every investment approach requires the use of some form of active management. However, prudent investment management requires consistent and clearly defined active management objectives.

Fixed annuities also have unique and identifiable risk and return characteristics. Fixed annuities are issued by insurance companies and offer some form of guaranteed rate of return. Although these products are similar to bank CDs, they are subject to a surrender schedule, which limits the amount that can be withdrawn without a penalty.

The characteristics of traditional assets and fixed annuities differ because of two primary reasons. First, fixed annuities have limited liquidity, unlike traditional assets which allow for tremendous flexibility. Second, fixed annuities include inherent guarantees that are not offered by the traditional assets.

Correlation
So, why is it important to include assets with differing risk and return characteristics in your portfolio?

The answer is diversification. We have mentioned risk and return but have not discussed the critical concept of correlation. Uncorrelated assets can be combined in a portfolio that has higher risk adjusted returns than either of the two individual assets. The following chart illustrates this concept. The 50/50 portfolio (purple line) has a higher level of return for each unit of risk when compared to the traditional assets or the fixed annuity.



Portfolio Allocation
The next issue is to develop a process that allocates the portfolio between one of the Regalfolios and a fixed annuity. There are two stages necessary to accomplish this.

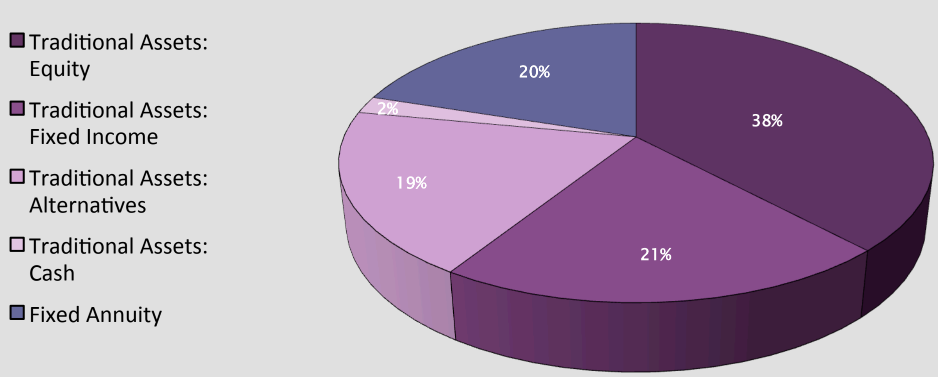
The first stage involves the use of a portfolio optimizer. Portfolio optimization is the process used to allocate assets based on their risk, return, and correlation statistics, into combinations that have the highest return for every level of risk. The resulting portfolios form the efficient frontier.

So which portfolio, or combination of these two investment vehicles, should be selected? This is the second stage of the process and is based on the unique situation of each client. We utilize a client profile questionnaire to assess the return objectives, risk tolerance, and investment constraints of the client. The results can be quantified, which directs the client to the most appropriate asset combination. The following diagrams illustrate the differing portfolio allocations for two hypothetical clients.

Client 1

Client 1 has a high risk tolerance, aggressive investment goals and a long-term time horizon. The sample portfolio allocation is as follows:

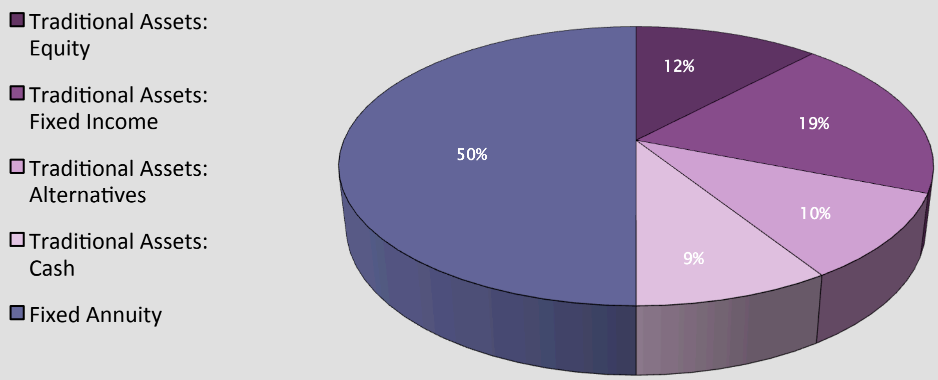
Traditional Assets: 80%
Fixed Annuity: 20%



Client 2

Client 2 has a low risk tolerance, conservative investment goals and a short-term time horizon. The sample portfolio allocation is as follows:

Traditional Assets: 50%
Fixed Annuity: 50%



Summary

The differing backgrounds, education, and specialties of insurance professionals and investment professionals have lead to varying business models that aren't always in the best interest of the client. A broad and holistic financial planning approach that incorporates and balances the use of insurance and investment products, is needed to provide clients with an unbiased financial plan focused on their needs.

Regal Investment Advisors

Regal Investment Advisors developed the Regalfolios to provide discretionary portfolio management to individual client families and institutional investors through ongoing partnerships with insurance professionals and financial professionals. The firm was created by forward thinking individuals who have deep roots in the insurance industry and also specialize in investment management. This unique history and understanding effectively positions the firm to benefit the American public when planning for retirement or other future investment goals.

The Traditional Assets are represented by an equal weight of the S&P 500 Total Return, MSCI EAFE Total Return, Barclays Capital Government Bonds, and FTSE NAREIT All REITs Total Return. The Fixed Annuity is a 4% fixed annual return. The 50/50 Portfolio is maintains a 50% weight of the Traditional Assets and the Fixed Annuity.

Investment advisory services offered through Regal Investment Advisors, a SEC registered investment advisor. Investing involves risk including the potential loss of principal. No investment strategy, such as asset allocation or diversification can guarantee a profit or protect against loss in periods of declining values. Please note that rebalancing investments may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events will be created that may increase your tax liability. Rebalancing a portfolio cannot assure a profit or protect against a loss in any given market environment.