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NEGATIVE SPIN ON ANNUITIES

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Why is There so Much Negative ‘Spin’ about Annuities?

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Everyone understands that the mass media has changed drastically. Not so long ago, we relied on daily newspapers, TV, and radio for all the information we needed to help us make informed decisions and stay abreast of current events. Now, in the age of the internet, we seem to be constantly bombarded with headlines, updates, and “breaking news” from our laptops, desktops, and cell phones—not to mention our TVs and radios!

However, as mass media has become so pervasive in our lives, one thing that hasn’t changed is the existence of “spin.” The explosion of media outlets in recent years has dramatically increased the pervasiveness of spin and made it harder to find truly objective reporting. With fierce competition among media companies, and the line between news, advertising, and “infotainment” growing thinner, modern journalists are under more pressure than ever to cut corners and put pleasing their bosses ahead of serving the public on their priority lists.

The result, more often than not, is reporting that is “spun” to someone’s liking or advantage, lacking objectivity. I often remind clients of this fact because I’m well aware that, amid this daily bombardment of mass media, it is likely they will come across news and information about annuities that has a negative “spin.” I point out that financial news is particularly susceptible to being “spun” a certain way because of a fundamental flaw in the financial system.

The Need for Optimism

The crux of the problem is that the heads of major financial firms on Wall Street are financially obligated to their shareholders first and to their customers and clients second. They have a legal obligation to maximize shareholder value, in part by keeping customers invested for growth in the stock market as much as possible. People are more likely to invest and stay invested for growth when they’re optimistic about the market and believe it is trending upward. Thus, Wall Street CEOs and the people who work for them have an inherent need to sell optimism and always speak optimistically about the stock market, often regardless of economic realities or how the market might be trending.

Now, keep in mind there are two sides to every coin. This need to speak optimistically about the stock market and growth-based financial products can create an accompanying need to speak negatively about alternative types of investments. And what are those exactly?

I explain to clients that there are basically three types of institutions vying for an investor’s money. The first includes brokerage houses and mutual funds, which are both based on investing for growth in the stock market. The second is insurance companies, and the third is banks. Given the low-interest-rate environment that we’ve experienced ever since the Financial Crisis, banks have not been viable investment options for people seeking to “put their money to work for them” for some time. So, that leaves brokerage houses (i.e. growth stocks) and insurance companies (i.e. annuities). If a Wall Street source is inherently obligated to put a positive spin on the former, what kind of spin are they likely to put on the latter? Negative, of course.

Convenient Sources

Why does the media, which is supposed to be objective, dutifully serve anti-annuity spin to the public? One reason, as I said at the start, is that today's competitive, 24/7 media makes lazy, subjective reporting more pervasive than ever. However, the bigger issue is that this flaw in the system that I mentioned has always made finding honest, objective financial news and information challenging. The reality is that most articles written on financial topics and in financial publications aren't written by financial advisors or money managers. They're contributed by professional writers — and sometimes not-so-professional writers.

Even if a writer is a true pro, he or she is not likely to have one area of specialization. Their resume may include everything from athlete interviews for Sports Illustrated to travel articles for National Geographic. Let's say this month, however, the writer is doing a feature on annuities for a top financial magazine or website. Of course, not being a specialist, they must write this story with the help of a lot of outside research. Now, he could do basic research on his own, or he could turn to a more convenient source.

Naturally, the writer is probably going to take the easy road, but who might be the easiest source to work with? Well, probably someone who advertises with the magazine or website for which he is writing the article. And who are those advertisers? Very often, they're Wall Street brokerage firms and mutual funds! So, when the writer calls one of these friendly sources, naturally they're going to be more than happy to put their spin on the subject of annuities. Given their inherent need to sell optimism, it will most likely be a spin more favorable to the sale of their products, and one that casts a negative light on annuities.

Get the Real Facts

I think it's important for all investors to understand how this inherent "flaw" in the system makes the prevalence of "spin" especially common in the financial media. I encourage my own clients to stay informed but to also be aware that much of the media that bombards them in the age of the internet contains plenty of spin, rhetoric, and disguised advertising — not real news. I tell everyone that in order to get the real story on annuities or any other type of investment, they should always consult a trusted, accredited financial specialist or advisor.

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