

OAKLAND BUSINESS & Finance

AWAIT may help you become a more savvy investor

Second of three parts.



MORE THAN MONEY
SID MITTRA
Ph.D.

Last week an annuity product called AWAIT was presented. Part II of AWAIT is presented today. Let us see how AWAIT might work in a real-world environment. Assume that at the beginning of 1995, you invested \$100,000 in AWAIT. During the next seven years, returns on the S&P 500 fluctuate in a manner shown in Table 1 (column 2). If you stayed in this program for seven years and the company offered the currently allowable participation rate of 85 percent, the value of your AWAIT contract (Table 2, col. 4) will rise to \$137,786, a compounded annual return of 4.63 percent. By contrast, if you could have invested \$100,000 directly in S&P 500, which obviously you cannot do, at the end of seven years the value of your S&P 500 portfolio would have been \$126,483 (Table 2, col. 3) — a compounded annual return of 3.41 percent. Even more important, during this seven-year period, your S&P 500 portfolio would have been subjected to wild swings (Table 2, col. 2), which could have created the kind of mental anguish you wished to avoid. Of course, you realize that the figures used here are hypothetical in nature and do not represent any effort to predict the future of the S&P 500.

TABLE 1
HOW AWAIT WORKS: A REAL WORLD POTENTIAL EXPERIENCE

Initial Principal: \$100,000				
Year (1)	S & P 500 Assumed Return (2)	85% of Col. 2. Max: 14% (3)	Beg. of Year (4)	End of Year (5)
1995	+20%	+14%	\$100,000	\$114,000
1996	-10%	0%	\$114,000	\$114,000
1997	+2%	+1.7%	\$114,000	\$115,938
1998	0%	0%	\$115,938	\$115,938
1999	+35%	+14%	\$115,938	\$132,169
2000	-19%	0%	\$132,169	\$132,169
2001	+5%	+4.25%	\$132,169	\$137,786

Notes: 1. Surrender charges disappear after each 7-year period.
2. In this example, the participation rate is assumed to be 85%, which is the current rate offered by the company.

Twenty-Two Vision

Although AWAIT is a relatively new product, it does have a history, since the returns are tied to the S&P 500. Let us assume that you put \$100,000 in AWAIT on April 1, 1985 (just to be different) and completed your 10th year on April 1, 1995. You might be curious to see how you might have fared over this 10-year period.

Table 3 is most revealing, since

it clearly demonstrates the power of AWAIT as a dynamic tool. It reveals that if on April 1, 1985 you had put in \$100,000 in S&P 500 and another \$100,000 in AWAIT, 10 years later you would have realized significant growth in both cases (\$276,739 vs. \$236,500). And yet, during this entire period, by putting your money in AWAIT, you assumed no downside market risk — an incredible achievement by any standards.

Next Week: The conclusion on AWAIT.

If you have a question regarding AWAIT, please write to: Dr. Sid Mittra, School of Business, Oakland University, Rochester, MI 48309. Include a self-addressed, stamped envelope for reply, and mention your daytime phone number. In preparation of this article, Dr. Mittra benefited from thoughtful criticisms and sugges-

TABLE 3
S&P 500 VERSUS AWAIT, 1985-1995

Year (April 1) (1)	Increase in S&P 500 (2)	Increase in AWAIT: 85% of Col. 2. Max: 14% Min: 0% (3)		Value of Portfolio (4)	
		in S&P 500 (2)	in AWAIT (3)	in S&P 500 (4)	in AWAIT (5)
1985				\$100,000	\$100,000
1986	29.7%	14.00%		129,700	114,000
1987	24.3	14.00		161,217	129,960
1988	-12.4	0.00		141,226	129,960
1989	15.7	13.35		163,399	147,109
1990	14.3	12.16		186,765	165,223
1991	9.6	8.16		204,694	178,705
1992	8.9	7.57		222,912	192,213
1993	11.4	9.69		248,324	210,860
1994	-2.5	0.00		242,116	210,860
1995	14.3	12.16		276,739	236,500

TABLE 2
GROWTH IN S&P 500 AND AWAIT

Initial Contribution: \$100,000			
Year (1)	S&P 500 Assumed Return (2)	VALUE OF S&P 500 Portfolio End of Year (3)	VALUE OF AWAIT End of Year (4)
1995	+20%	\$120,000	\$114,000
1996	-10%	108,000	114,000
1997	+2%	110,160	115,938
1998	0%	110,160	115,938
1999	+35%	148,716	132,169
2000	-19%	120,460	132,169
2001	+5%	126,483	137,786

tions from Ronald B. Boscow, CLU, ChFC, owner, Boscow Brokerage Insurance Agency, Inc.,

Scituate, MA. Oakland University Professor Jerrold Grossman critically reviewed this article.

BUSINESS MILESTONES

This column highlights promotions, transfers, hirings, openings and other key business news with a Farmington-area connection. Send a brief biographical summary — including the towns of residency and employment and a photo, if desired — to: Business Editor, Farmington Observer, 33411 Grand River, Farmington 48335. The Observer's fax number is (810) 477-9722.

Howard Allenberg, managing director of BDO Seidman's Troy office, has announced the addition of Gail Rosas Kelly of Farmington Hills to the firm's management consulting services group. Kelly comes to BDO from American General Corp. of Houston, Texas, and has experience in business process improvement,

marketing and public relations. She holds a BA in English from Texas A & M and an MBA from the University of Houston.

Services Marketing Specialists (SMS) has signed Farmington Hills-based Liberty BIDCO Investment Corp. SMS will be responsible for direct marketing and networking relations. Liberty offers financing and management solutions to growing businesses.

Eric Canvasser, CPA, of Farmington Hills announces the relocation of his practice in public accounting to 32000 Northwestern Highway, Suite 165 in Farmington Hills. The telephone number is 932-2810. Canvasser is a former instructor of accounting at Oakland

Community College, Wayne State University and Central Michigan University. He is a 1991 graduate of Walsh College with a master of science in taxation and a 1973 graduate of the Wayne State University School of Business Administration.

Cathy Cunningham, marketing education teacher at North Farmington High School, was elected president-elect of the Michigan Marketing Educators Board of Directors. This will be her fourth year of service as a board member.

Cunningham serves on the DECA Advisory Council. She serves locally on the Community Service Committee and presented a program called "Speaking

Across the Curriculum at North Central." She has been the advisor of her local DECA Chapter for 10 years and hold a bache-

lor's degree from Michigan State University and a master's of business administration from Oakland University and her teaching

certificate from Eastern Michigan University.

See BUSINESS MILESTONES, 9A

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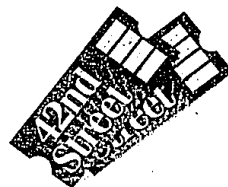
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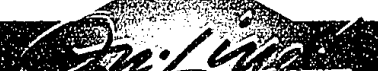
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