



“Why do I have to pay capital gains taxes when my mutual fund loses money?”

Preparing for the “Double Whammy” of Capital Gains and Market Losses.

After many good years of positive market returns, this year could be the year your customers get hit by the “double whammy” of significant market losses and substantial capital gains. If your customers recently purchased their mutual funds, the effect of sales charges may make it a triple whammy. To understand the effect of the double and triple whammy, simply look back to 1994.

Example of XYZ Fund in 1994:

Date	Investment	Sales Charges	Capital Gains	Dividends	Market Value
01/01/94	\$50,000	\$2,265	0	0	\$47,735
12/31/94	0	0	\$4,156	0	\$44,731

Original Investment (01/01/94)	\$50,000
Investment Value (12/31/94)	\$44,731
Sales Charge	\$2,265
Market Loss	\$3,004
Total Change in Value	\$5,269 (loss)

Why do I have to pay capital gains taxes when my mutual fund loses money?

Taxes Due¹ (\$4,156 x 24%)	\$997
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Distributed Capital Gains x Tax Rate

Thanks to your good selling skills, your customers are prepared for market losses. However, are they prepared to pay taxes when their investments lose money? The next time your customers are investing for the long-term, they should consider a variable annuity.

Variable Annuities offer:

- No up-front sales charges
- Tax deferral of capital gains *and* dividends
- No tax consequences if your customer wants to reallocate within the variable annuity
- Complete selection of your favorite investment choices
- Death Benefit to provide peace of mind of dying in a down market

When your customers come to you with money to invest, remember...

With variable annuities, you can offer your customer similar investment choices without setting them up for the double (even triple) whammy.

1. Assumes a 24% capital gains and 31% federal and state tax rate.

Variable annuities are long-term investments. There may be a 10% IRS tax penalty on the tax deferred gain for withdrawals made prior to 59½. Surrender charges may apply.

The information contained herein is prepared for your use by Essex Corporation.