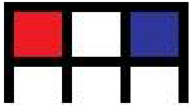

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How often have we all heard an injured party receiving a settlement decline a structure because he or she feels that they "can do better" investing the money elsewhere. They usually have been talking with a financial planner, insurance agent or stockbroker who has convinced them that the ***potential returns*** from stocks and/or mutual funds ***can*** be much better than any alternative.

It is true that the S&P 500 has a compound annual average return of 9.2% over the last 30 years. This easily beats the returns on long-term bonds (the investment basis for structures) over the same period.

Of course to achieve the stock market returns, an individual would have to have stayed fully invested (not trading in and out) during the entire period, and the return for the index does not factor in the commissions, fees and taxes associated with real world stock investments. But, let's not quibble about details, let's look at facts.

Over the last 30 years the S&P 500 has had a positive return 23 times and a negative return only 7 times. The return has been greater than 9.2% 18 times. The best return was 35.2% from January 1995 to January 1996. Sounds like a pretty good deal.

However, if one had the misfortune of investing a lump of cash in the index in January of 2002 he/she would have seen nearly a quarter of the investment evaporate over the next 12 months.

In fact, if one had invested in the index in January 2000 and taken it out at any time prior to January of 2007 he/she would have lost money. Even waiting it out until this past January (2008), you would only have had a 3% overall gain which is a paltry growth rate of less than ½ percent per year.

While the index has shown a positive return over every 20 year period in history, the reality is that market returns are totally random. Any given period of measurement has an equal chance of having a positive or negative return and, the shorter the measuring period, the greater the potential for extreme volatility.

If a portfolio of stocks declines by 20% in value it has to go up by 25% just to break even. If the decline is 25% it has to rise by 33%. If the decline is 30% it has to rise nearly 43% and a 50% decline requires a 100% increase to break even.

It is evident that stock market success is as dependent on timing (when one invests and/or takes money out) as it is on time (how long money is left in the market).

The argument can be made that stocks provide an important hedge against inflation over time. There is no question this has been true, however, both period certain and life structures can be established with an annual Cost of Living Adjustment (COLA). This feature increases the structure payout by a fixed percentage annually, and does it without risk or increased taxes.

For a majority of seriously injured parties, their settlement will be the largest amount of money they will ever see at a single point in their lives. In many cases they will have to rely on these funds for

years into the future. Does it make sense to expose this important resource to risks they may neither fully understand nor have the financial and emotional stamina to handle.

While some access to liquid funds is always important, for too many people (even those who have not had a serious injury), the temptation of being able to access large chunks of money is great. Add to that the awful feeling of watching a substantial investment you are depending upon for income shrink. It's no wonder that novice, unsophisticated investors are rarely able to "stay the course" and let the long-term trend of the stock market work its magic.

As good as many stockbrokers or financial planners are at advising and guiding their clients, the fact remains that the money in a standard securities account belongs to the person whose name is on the statement. The account owner has total access to the funds and the final authority regarding any transactions and money movement. Even the best broker cannot stop someone from doing something foolish with their own money.

Most of us have had the good fortune of not suffering a serious physical injury and, consequently, have not been able to participate in a guaranteed, tax-free structured settlement. Further, most of us have the ability to earn an income and add to stock market investments periodically rather than having to "take the plunge" with a substantial sum at a single point in time.

Investments in stocks are, clearly, an important part of almost any long-term investment plan, but only for those who fully understand the risks involved and have the financial ability and emotional discipline to ride out rough periods. For individuals who have suffered severe physical and emotional trauma the very real risks may greatly outweigh the ***potential*** rewards.

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