THE DANGER OF TRYING TO "TIME THE MARKET" FOR LIFE SETTLEMENTS

Most investors in the stock market understand the danger of "market timing" — trying to choose the right day to buy a stock when the price is low and sell it when the price is high.

The late John C. Bogle, founder of index fund pioneer Vanguard, summarized this perilous investment strategy well: "The idea that a bell rings to signal when investors should get into or out of the market is simply not credible." Other investing icons — including Warren Buffett, who has been estimated to be one of the top five wealthiest people in the world —echoed the same warning that trying to time the market is a mistake investors will likely regret.

The same principle holds true with life settlement transactions.

Changes in Life Expectancy Underwriting

Life expectancy underwriting is one of the most critical variables in establishing the marketability of a life insurance policy on the secondary market. This process involves evaluating the medical history of an insured and projecting the remaining number of months he or she can expect to survive.

For a potential life settlement buyer, such a projection establishes the estimated time frames when premiums must be paid by the policy owner to maintain the policy in effect and how long it will take to collect the death benefit. The investor will offer more cash for the policy if the death benefit is projected to be paid sooner.

With medical advancements and improvements in technology, the market continues to learn more about longevity and forecasting life expectancy has improved. As a result, all parties involved in a transaction enjoy enhanced transparency and greater predictability. However, this positive development is neutralized with unexpected and disruptive changes in underwriting data when attempting to time the sale of a policy.

For example, in 2018 the American Academy of Actuaries and the Society of Actuaries published revised mortality tables. The change caused the leading U.S. based life expectancy providers to incorporate some important modifications to their underwriting models, increasing their older-age mortality projections by an average of 9 to 13 percent. The result? All potential life settlement transactions experienced immediate life expectancy extensions.

Some clients of Welcome Funds saw a sudden increase in their life expectancies by as much as three years, significantly impacting their policy values. Fortunately, Welcome Funds was fully aware of these pending table changes and we advised our clients accordingly, eliminating any surprises in ongoing negotiations.
Unfortunately, other unprepared consumers who thought

they had chosen the ideal time in life to sell their policies were caught off-guard by the sudden changes and experienced a steep decline in the price they were able to obtain from buyers. They had waited to sell their policies, thinking that they would be worth more the longer they waited. As they found out, this is not always the case – it illustrates the danger of trying to time the life settlement market.

Lesson for Consumers and Advisors

The key lesson that seniors and their financial advisors need to understand is the following: just because you are getting older, and presumably less healthy, does not necessarily mean that your life expectancy is decreasing at the same rate. So waiting one year, two years or five years to sell an unwanted life insurance policy — with the assumption that your life expectancy will decrease each year and the policy value will increase accordingly — is playing a dangerous game of market timing.

The truth is that life expectancy data is constantly evolving and the life expectancy tables used by underwriters can adjust at any time. In fact, over the past 15 years, there have been changes to such tables in 2005, 2008, 2013, 2015 and 2018. Each time, the modifications yielded new life expectancy projections and new values of life insurance policies on the secondary market.

In addition, with each passing year, most life insurance policy premiums insuring seniors increases. Therefore, not only does attempting to time the market run the risk of a sudden decline in the value of the policy due to changes in life expectancy underwriting, but it also exposes the policy owner to additional out-of-pocket expenses to keep an unwanted policy in force as he waits for the "right" time to sell.

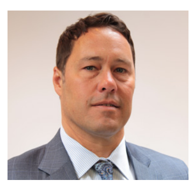
The Solution

The best way to avoid the risks of timing the life settlement market is to work with an experienced life settlement broker who can help navigate the fluidity of a policy sale

An experienced life settlement broker such as Welcome Funds has years of data to determine which life expectancy underwriters are most appropriate for each individual policy circumstances; are typically warned about any imminent changes to life expectancy tables, and understands the risks vs. rewards of selling the policy at any given point in time.

Market timing is a failed strategy for the vast majority of stock market investors and is a risky strategy to apply to the life settlement market as well. It is in the policy owner's best interest to work with a licensed and experienced life settlement broker to help navigate these often unpredictable waters.

For more information, please visit welcomefunds.com or call 877.227.4484.



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ABOUT WELCOME FUNDS

Partner with Welcome Funds and access our Life Settlement Platform for BGA's.

Over the past 24 years, we have served in the best interest of policy owners by maximizing life settlement offers through auction based negotiations. When buyers compete, policy owners win!

36,000+ Offers Negotiated

$1+ Billion Paid to Consumers

9+ Average # of Bids Per Policy

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