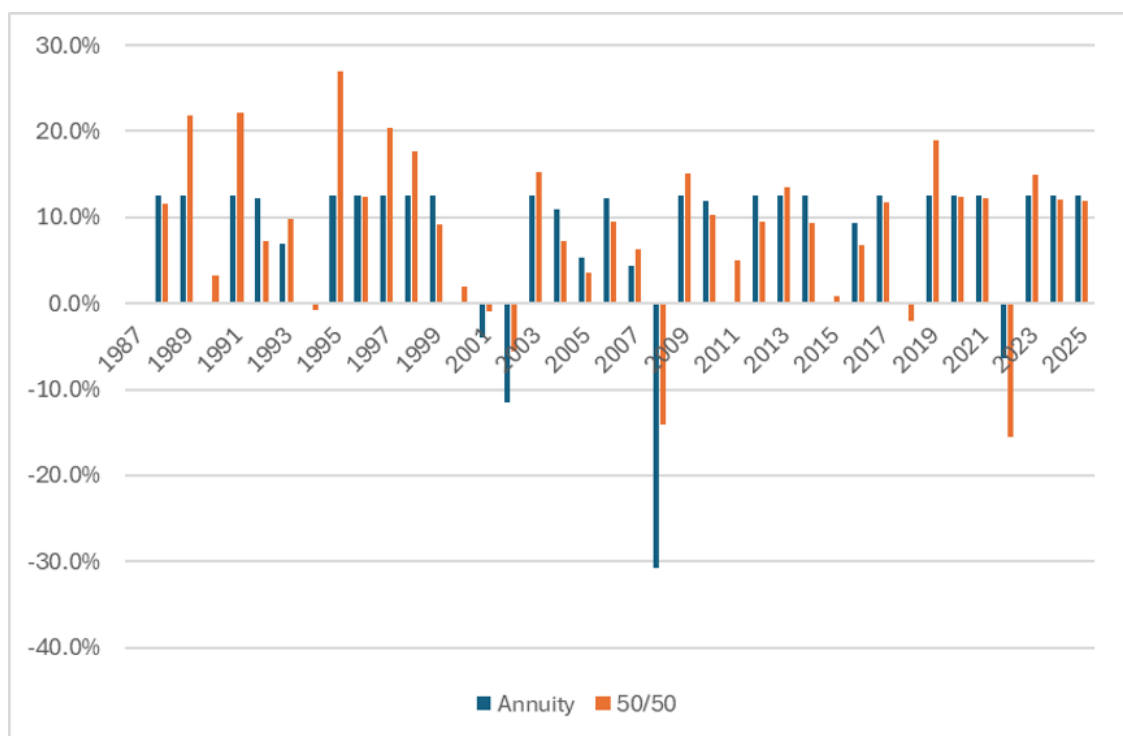


Some annuities offer stock-market participation with downside protection, often called a buffer. They are typically marketed as allowing investors to benefit from market gains while limiting declines.

The Equitable Structured Capital Strategies PLUS® 21 annuity is one example. It credits the contract owner with the S&P 500's price change (excluding dividends) over a 12-month period, up to a 12.5% cap. If the index rises 15%, the owner receives 12.5%. Equitable absorbs the first 10% of a decline, so a 15% market drop results in a 5% loss for the owner.

How does this product compare with a traditional stock-and-bond portfolio? To answer that question, I back-tested its methodology to 1987. Although the annuity has been available only since 2021, I chose 1987 because it was the first year the total U.S. bond market index was offered as a mutual fund. I compared the results with those of a portfolio allocated equally between the S&P 500 and the total U.S. bond market index.

Standard portfolio theory defines the optimal portfolio as the asset mix that maximizes return for a given level of risk, generally measured by standard deviation, or volatility. Since 1987, the annuity methodology had an annualized standard deviation of 9.1%, equal to that of a 50/50 stock-and-bond portfolio. Here are the annual returns of both:



Although the annuity's volatility matched that of a balanced portfolio, its annualized return was lower. Its cap limited gains in its best year, while its worst-year loss was substantially greater despite the 10% downside buffer because it lacked bond diversification.

	Annuity	Stock/Bond
Standard deviation	9.1%	9.1%
Annualized return	6.6%	8.4%
Highest returning year	12.5%	26.9%
Lowest returning year	-30.7%	-15.5%

Annuities are often more attractive in sales brochures than in practice. Features such as downside protection and upside participation sound appealing, but their costs and limitations—particularly capped returns—can substantially reduce long-term performance. In this analysis, a conventional stock-and-bond portfolio delivered higher returns with comparable volatility and less severe losses.

C. Ryan, CFP®