SEVENS REPORT *alpha*

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In Today's Issue

- A More In-Depth Look at the Two-Fold Opportunity in KWEB, the Krane Shares CSI China Internet ETF.
- Asset Life Settlements—Real world examples of how advisors (and investors) use this to access capital and liquidity.

Idea 1: KWEB—KraneShares CSI China Internet ETF

Last year, $288 billion flowed into ETFs. That was a new annual record. This year, through just the first seven months, ETFs have inflows of $274 billion. Flows are on pace to blow last year's record out of the water.

Reputation, lowest expense ratios, commission-free platform status, liquidity and returns are typical deciding factors on which ETF issuer gets the dough. (BlackRock, Vanguard and State Street combine for more than 80% of all ETF assets.)

But arguably, the most important decision in choosing a passive ETF – yes, there are active ETFs now – surrounds the index it seeks to track and that corresponding index's methodology.

Unfortunately, that decision is often overlooked.

Investors often wonder: Why is my ETF down when it should be up? Why isn't there exposure to South Korea in my emerging markets fund? Or why does one low volatility ETF have an 8% weight in utilities, while another one has a 24% weight in that sector (3X as much)?

The answers can be found in the index methodologies. But, there is very little examination of the index methodologies that dictate how trillions of dollars are being invested in index funds.

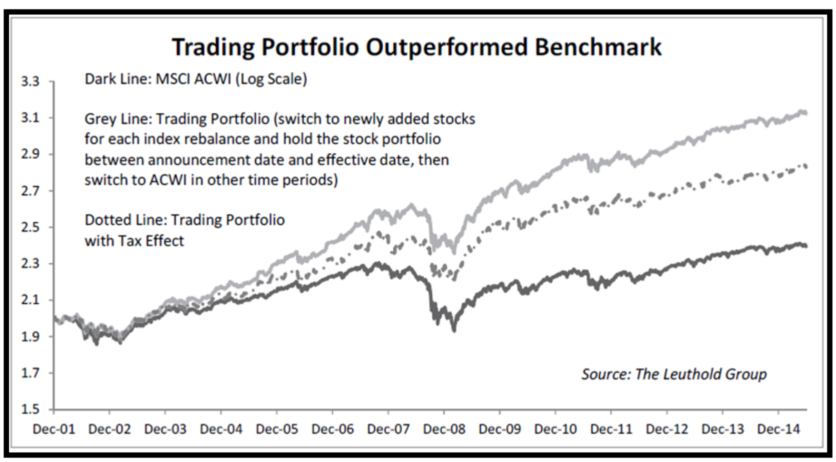
For example, MSCI's global investable market indices methodology is 173 pages long. With $10 trillion of assets tracking MSCI indices, how many investors do you think have read it?

Not many.

The same thing applies for studying index announcements on changes and rebalances. Most investors aren't bothering to review those, either.

The average investor has no clue these opportunities exist. Even sophisticated, professional investors don't do a lot of homework to learn about them.

Point is, an opportunity exists for people with the know-how and willingness to do the homework and index due diligence. Again, that's the core thesis behind our KWEB idea.



Getting ahead of index rebalancing creates outperformance—that's why hedge funds have strategies dedicated to the practice.

Select hedge funds and prop desks, who have dedicated teams and resources, track and trade off specific index anomalies. And these elite groups make a lot of money doing it.

Today, I've scouted out one of these under-the-radar index anomalies. I'll show you my research… lay out the investment case behind the idea… and give you the best ways to play it.

Before I reveal the opportunity, let's walk through some past cases involving the low-profile "index rebalance effect."

KWEB Talking Points

- The "index rebalance effect" is alive and well.
- Various studies show outperformance (MSCI ACWI rebalances). Money can be made off the simple law of supply and demand.
- Other than select hedge funds and trading desks, most investors (amateur and professional) don't know about these anomalies.
- FTSE is rebalancing its All-World and Emerging Markets Indices. Over a dozen China internet companies will be added in four tranches over the next 10 months.
- The **KraneShares CSI China Internet ETF (KWEB)** is an easy way to play this trade. 70% of KWEB's weightings overlaps with the FTSE inclusion list.
- Additional catalysts for China internet stocks: Gigantic technology consumption story in play, cheaper than FANG stocks, and probable underweight in portfolio(s).

<u>**Previous Index Rebalances and the Aftermath**</u>

Studies show that stocks and countries selected for various global index inclusions have outperformed from the time of announcement to the time of implementation.

The Leuthold Group, one of the world's top institutional research firms, completed a comprehensive study on the "index rebalance effect" on the MSCI ACWI family of indices and benchmarked assets in 2015.

During the period between announcement date and effective date, stock addition to the MSCI ACWI Index beat their corresponding country index by 3.7% on average (see chart, Pg. 3).

The outperformance was even more pronounced in emerging markets compared to developed markets.

Leuthold conducted a hypothetical trading strategy of buying the group of stocks to be included in each ACWI rebalance. Then, they proceeded to hold them for the 12-20 trading days between announcement date and effective date. In down times, they transitioned capital to the MSCI ACWI Index and tacked on a trading cost of 0.5% for each switch.

Check out the results of this strategy from 2001 to June 2015: The annualized return of the trading portfolio (accounting for index rebalancing) was 21%, which was 3X better than the MSCI ACWI Index's 7% annualized returns!

We can also look at full country inclusions.

United Arab Emirates and Qatar…

Pakistan...

Clearly, there is stock price impact triggered by index rebalancing.

Now, let's move on to the current opportunity at hand.

<u>**FTSE Index Methodology Revision Opens the Door to Legally Front-Run Vanguard**</u>

It's hard to find any press about this idea in any major financial publication. That's because big firms with huge marketing budgets aren't going to bite the hand that feeds them.

What if I told you the largest emerging markets ETF in the world didn't hold Alibaba? And it doesn't stop there. It's missing several of the largest Chinese companies, too.

How is that possible?

It's buried in the index methodology.

But, that's about to change.

On March 3, 2017, FTSE Russell announced it would be making some major changes to its emerging market indices.

FTSE Russell, with about $3 trillion in assets tracking its indices, said it planned to include some of the largest internet and ecommerce Chinese companies – regardless of domicile – into its emerging market indices.

On June 30, 2017, FTSE Russell followed with a second announcement. This one stated:

FTSE Russell confirms that securities designated *as China N-shares and China S-chips will be considered for inclusion in FTSE indexes as part of the FTSE Global Equity Index Series (GEIS).*

The index family also announced a date for the pro forma, a timetable of inclusion steps and list of names up for inclusion.

- Pro forma: Release date of August 30, 2017. This is the exact recipe for new inclusion stocks (weightings and expected dollars of flows).
- Inclusion steps: Four equal 25% tranches of September 2017, December 2017, March 2018 and June 2018.
- We're focused on China N-shares—Chinese companies listed on the NYSE, NASDAQ or the NYSE MKT with main business operations in China. These are major companies such as: Alibaba Group Holdings ADS (BABA), Autohome ADS, Baidu ADS (BIDU), Weibo ADS (WB), New Oriental Education & Technology Group ADR (EDU), Canadian Solar, Changyou.com ADR, China Biologic Products, China Lodging Group ADS (HTHT), Ctrip.com International ADS (CTRP), and others. Point being, these are not small companies—these are major, legitimate, US-listed Chinese companies.

Developed Market Stocks In MSCI ACWI	10 Trading Days Prior To Announcement Date	Announcement Date to Effective Date	10 Trading Days after Effective Date
Stocks Added	0.50	2.79	-0.91
Stocks Deleted	-0.64	-2.90	0.99
Perf. Differential	**1.14**	**5.68**	**-1.90**

Emerging Market Stocks In MSCI ACWI	10 Trading Days Prior To Announcement Date	Announcement Date to Effective Date	10 Trading Days after Effective Date
Stocks Added	0.79	5.28	-1.57
Stocks Deleted	0.15	-5.40	2.23
Perf. Differential	**0.64**	**10.68**	**-3.80**

source: The Leuthold Group & MSCI

Buying stocks being added to an index and selling stocks being removed is usually a profitable short term trade.

China's weight within the FTSE Emerging All Cap Index will rise from **24.76% to 29.94%** upon full inclusion of the U.S.-listed companies.

So, that means that the worlds largest emerging markets ETF, the Vanguard FTSE Emerging Markets ETF (VWO), with $77 billion in assets, will have to increase allocations to these stocks.

It's not just VWO that will need to add the companies after the index announcements and scheduled inclusion dates.

Other index funds tracking FTSE emerging markets and global equity indices will have to do so, too.

For example, one of the largest mutual funds in the U.S., the $285 billion Vanguard Total International Stock Index Fund (VGTSX), will need to add these names as well.

This means all funds – ETFs and index mutual funds – tracking FTSE ex-U.S. with a China allocation **will be forced to add numerous Chinese internet companies.**

For example, Alibaba and Tencent have roughly the same market cap of $400 billion. VWO and VGTSX already own Tencent, but they don't own Alibaba. Combined, the two Vanguard funds own $5.6 billion of Tencent.

That means they'll both need to buy a similar amount of Alibaba (BABA).

That's a lot of money that will have to move into Alibaba! These funds – and again, all other funds tracking FTSE emerging markets and All World ex-U.S. indices - will need to add other Chinese internet companies in large proportions, as well.

One innovative ETF issuer is already a step ahead of the game. It's our gateway to get into this trade before billions of dollars flow into these names.

"If You Build It, They Will Come"

KraneShares built its entire platform with a deep understanding of index methodologies.

The pioneer of China-focused ETFs doesn't rely on backward-looking strategies. Those approaches assume what happened in the past will happen in the future.

KraneShares is skating to where the puck is going, not where it's been.

Brendan Ahern, CIO of KraneShares, told me he used to carry around a photo of Jack Ma in his wallet. He would ask people if they knew who he was, but it was extremely rare that anyone said, "yes."

KraneShares knew Alibaba was coming. And, others would follow. But, they didn't want to leave Chinese companies out of their ETFs simply because they chose to list in the U.S. and not in Hong Kong (like MSCI and FTSE did).

So, our conduit for this opportunity is the **KraneShares CSI China Internet ETF (KWEB)**. This ETF tracks the CSI Overseas Internet Index, which is comprised of publicly traded China-based companies that provide similar services as Google, Facebook, Twitter, eBay, Amazon and other internet-related businesses.

18 of its holdings – basically, all the bigger names – overlap with FSTE's inclusion list. Those 18 stocks make up over 70% of KWEB in terms of weighting.

Bottom line: KWEB will see 70% of its assets experience "forced buying," as funds add those stocks to match the index rebalance. And, we can get ahead of that forced buying, which will begin in September.

But, the opportunity in KWEB goes beyond just the rebalance. A lot of these names have compelling growth stories as well.

As the graphics on the next page show, 1-year and 5-year average revenue growth rates for China internet companies are higher than that of most U.S. internet companies.

U.S internet companies know what's going on. In fact, they're partnering with Chinese companies to leverage their established user bases. Marriott International signed a joint venture with Alibaba (Chinese travelers can book Marriott rooms via Alibaba's Fliggy). PayPal is now available to Chinese travelers on Baidu Wallet. Walmart partnered with JD.com and holds a 12% stake in the ecommerce company. And Priceline owns 4% of online travel company Ctrip.com.

Maybe the U.S. stakeholders also see that, while growth rates higher, valuations are about the same or cheaper. So, again, the opportunity is bigger than just the index rebalance.

From FANG to BAT?

Everyone in the U.S. knows of the "FANG" stocks. In China, they have their own FANG, but it goes by "BAT."

"BAT" stands for Baidu, Alibaba and Tencent.

The story behind the accelerated growth of BAT (and other China internet companies) is the burgeoning internet revolution and the monstrous consumption story.

Basically, it's a domestic technology consumption play. A massive and growing consumer base in China is getting access to the internet, smartphones and online shopping.

And then there's a shorter-term, tactical play based on the index rebalance effect. All the index funds (VWO, VGTSX and others) that track FTSE emerging markets and all-world indices are missing some of the best-performing, important Chinese companies like Alibaba, Baidu, JD.com, Ctrip.com, 58.com, etc. They'll be forced to buy them shortly.

There are a couple unique ways to play this set up.

Ways to Employ this Trade

Short-term, tactical play: Buy KWEB and short VWO now. This trade could develop in the next few weeks with the pro forma coming out on August 30, 2017. It could also work up to the first tranche, which is effective from the open on September 18, 2017.

For example, MSCI's decision on including China internet names in MSCI emerging markets and ACWI indexes was announced on November 12, 2015. The first inclusion took place on December 1, 2017. Over those couple weeks, here's some performance to look at:

KraneShares CSI China Internet ETF (KWEB) +4.63%

iShares MSCI Emerging Markets ETF (EEM) +0.71%

iShares China Large Cap ETF (FXI) -0.69%

SPDR S&P 500 ETF (SPY) +2.85%

Top 10 KWEB holdings vs. their U.S. equivalents

Top 10 KWEB Holdings as of 6/30/2017	KWEB Weight as of 6/30/2017	China Internet Companies		Primary Business	Comparable U.S. Business	U.S. Internet Companies	
		1 Year Average Revenue Growth Rate	5 Year Average Revenue Growth Rate			1 Year Average Revenue Growth Rate	5 Year Average Revenue Growth Rate
Tencent	11.04%	47.7%	39.1%	Social Media	Facebook	54.2%	50.4%
Alibaba	9.88%	56.5%	50.5%	Ecommerce	Amazon	27.1%	22.1%
Baidu	7.76%	6.3%	32.8%	Search	Google	20.4%	18.4%
JD.com	7.19%	43.5%	*	Ecommerce	Amazon	27.1%	22.1%
Ctrip	5.85%	76.4%	47.2%	Travel	Expedia	31.5%	22.1%
58.COM	4.26%	53.1%	83.7%	E-Commerce	Angie's List	-6.0%	21.9%
Tal	4.13%	68.3%	44.9%	Online Education	2U	37.1%	37.8%
Autohome	4.08%	72.1%	*	Online Auto Trade	Cars.com	6.1%	*
NetEase	4.00%	67.4%	52.5%	Game	Activision Blizzard	41.7%	8.9%
Sina	3.98%	17.1%	22.0%	Portal	Twitter	14.0%	66.4%
	Total: 62.17%	Average: 50.8%	Average: 46.6%			Average: 28.8%	Average: 31.0%

*Companies do not have 5 year track record

The Fund's holdings are subject to change. Data from Bloomberg as of 6/30/2017

Chinese Internet Stocks: In addition to the rebalance opportunity, the simple fact is that for longer term investors, the growth profile of Chinese internet stocks is better (on a purely fundamental basis) than US internet stocks. Obviously there is political risk in China and that must be considered, but again these are billion dollar corporations, not pink sheet names.

In this sense, you would be implementing the trade as the hedge funds and trading desks do, as an arbitrage play. (You could also just buy KWEB without shorting VWO.)

As another hint, you could watch major ownership of these larger Chinese internet stocks. As big fund families (BlackRock, Fidelity, Vanguard, etc.) move up the ranks, this short-term opportunity disappears.

Intermediate-term, tactical play. Buy KWEB now and hold through the last tranche of June 2018.

Also, if you own an emerging markets fund, check its China exposure. For example, EEM completed the China internet stock inclusion. So, you may not need KWEB's exposure. Or, perhaps you'll want to dial it up. On the other hand, if you own VWO, you're missing this exposure. In this case, you may want KWEB alongside your VWO allocation until the four-step inclusion process is finished (June 2018).

Long-term strategic play. Buy KWEB and hold for the longer haul.

As I mentioned earlier, there's a great story for BAT just like there is – or was – for FANG. And China's demographics, its technology upheaval and its overall growth story are in full effect. Just as the FANG and friends have been responsible for major benchmarks' returns, BAT and friends have done the same and that story is showing no signs of slowing down.

As a financial professional, hopefully, one of those options resonates with you. If not, you just got a peek into the world of the index rebalancing effect and the profit potential that exists (index rebalancing will be a strategy we search out consistently in *Sevens Report Alpha*).

Note: If your platform restricts you from using KWEB, the **PowerShares Golden Dragon China Portfolio (PGJ)** is a suitable alternative.

Idea #2: Asset Life Settlements—The Missing Link to Unlocking Retirement Liquidity

Mr. Smith borrowed a boatload of money.

In his entrepreneurial years, he financed five different businesses.

Due to his heavy debt exposure, he purchased three large insurance policies totaling $11.6 million to protect his family from bankruptcy in the event of his death.

Years later, at age 85, Mr. Smith's adult children were financially well-off.

He no longer needed the sizable policies for estate planning purposes. And worse: The premiums were draining his estate.

Mr. Smith had three main objectives…

First, he sought premium relief. Second, he wanted to retain at least $1.5 million of paid-up insurance coverage. And third, he hoped to somehow optimize the fair market value of the insurance assets beyond their combined cash surrender value (CSV) of $134,000.

Fortunately, his estate attorney was versatile enough to explore multiple courses of action.

The out-of-the-box thinking attorney consulted an advisory firm that specialized in a little-known market for life insurance.

As a result, Mr. Smith's team of financial professionals secured a dream settlement for the retiree.

The deal provided full premium relief, a cash windfall of $240,000 and $2 million in retained death benefit coverage.

Today, Mr. Smith relishes the view from his beachfront home in Florida. He has piece of mind knowing his $12 million estate and advantageous financial outcome would not have been possible without his team's knowledge of an alternative marketplace.

If you're a financial advisor or other financial professional who has not incorporated this secondary market strategy into their daily practice, you and your clients may be missing out on this massive, often-missed opportunity.

Question: Do you have a client who has recently experienced any of the following scenarios?

- Retirement
- Sale of a business or other illiquid asset
- Business owner retiring or exiting from the business
- Decline in estate value and/or decrease in estate tax liability
- Term insurance policies or riders that are about to expire, lose their conversion privilege or come to the end of their current premium guarantee
- Insurance policy is no longer affordable due to policy performance
- Chronic illness

<u>If yes, now is the perfect time to check in on their insurance situation.</u>

Seniors will often turn to their insurance or financial advisors for assistance if they have insurance policies that are no longer needed, wanted or affordable.

What choices will you present to them?

- Let the policy lapse?
- Surrender the policy for its CSV?
- Reduce the death benefit to lower premiums?
- Conduct a Section 1035 Exchange into a new policy?

Those are standard options.

Insweb.com reports 80% of policies lapse. And ICR Market Research reports 82% of seniors are not aware that another alternative exists beyond lapse or surrender.

But, a client could be sitting on a little-known, insurance-related golden goose.

Instead of advising a client to let a policy lapse or take the CSV, it's well worth it to explore this alternative source to obtain a better financial outcome for a client.

Just having this valuable tool in your advisor toolkit could strengthen a client relationship, demonstrate extra value, and earn significantly more money for the client than traditional strategies.

Plus, you could earn a sizable commission acting as the facilitator (more on that in a bit).

Let's walk through this opportunity that many seniors and financial advisors know little about.

Life Settlements "101"

Almost a century ago, the U.S. Supreme Court ruled a life insurance policy is personal property. Meaning, it can be sold, traded or given away. The insurance company generally has no right to block or question the policy holder's assignment of policy rights.

A life settlement is the sale of an insurance policy to a third party for significantly more than its CSV, but less than its net death benefit.

Candidates most likely to qualify for life settlements are age 70 or older. Or age 65+ with a serious illness (viatical settlements), medical condition or change in health since the policy was issued.

Generally, a policy should have a minimum death benefit of $250,000 or more for the life settlement marketplace (smaller policies can be reviewed if there are more significant health issues). It should also be written by a company rated "A" or better by S&P. On top of that, the CSV should not exceed 30% of the death benefit.

What types of policies can be sold in a settlement? Universal Life, Whole Life, Term and Convertible Term Life policies issued by US-based insurance companies. Joint, first-to-die and second-to-die policies are eligible, as well.

The typical sale involves an insured age 65 or older with a policy that is no longer needed, wanted or affordable.

The average buyer is an investment company that provides the owner of the policy with a lump sum cash settlement. The buyer maintains the policy, pays any additional costs or premiums and collects the death benefit when the insured passes away.

There are three primary options that come with life settlements:

- Sell the policy in the secondary market for an amount greater than the CSV. (Often, this can be 2X, 3X or 5X the CSV.)
- Sell the policy in the secondary market in exchange for a retained portion of the death benefit (reducing or zeroing out premiums for life).
- Sell the policy in the secondary market for a combination of cash proceeds and retained death benefit.

A life settlement is an attractive alternative to lapse or surrender for those seeking premium relief. It frees up a static asset for seniors who no longer need coverage and can deploy that capital elsewhere.

Tapping in the secondary market for life settlements also is a timely opportunity to present to clients.

A Maturing Market

This industry isn't new. The secondary market for life insurance has been around for about 20 years.

In its early days, the life settlement market was somewhat of an unregulated "Wild West." The industry suffered setbacks in its youth and experienced growing pains.

Over time, increased awareness, more stringent fiduciary standards, improved consumer protection laws and

Asset Life Settlement Talking Points

- Better option to letting an insurance policy lapse or taking the cash surrender value (CSV).
- Using a life settlement broker to sell a policy on the secondary market for: 2X, 3X, 5X CSV, a retained portion of the death benefit (reducing or zeroing out premiums for life) or a combination of cash proceeds and retained death benefit.
- Life settlement market has matured over time. Today, it is more widely accepted… it operates under more stringent regulations… and it receives support from governmental entities and national organizations.
- Policies eligible for life settlement market: Universal Life, Whole Life, Term, Convertible Term Life, Joint, First-to-Die, and Second-to-Die.
- Best candidates: Age 70 or older, age 65+ with a serious illness, medical condition or recent change in health.
- Policy guidelines: A minimum death benefit of $250,000 or more (smaller policies can be reviewed), S&P "A"-rated, CSV is 30% or less of death benefit.
- Potential triple winner: 1. Earn more money – and potential relief from premium payments – for clients. 2. Grow AUM. 3. Earn possible commissions.

consumer confidence resulting from state regulatory initiatives have made life settlements a more viable option.

The life settlement market has strengthened in recent years. The National Conference of Insurance Legislation (NCOIL) adopted a Model Act in 2010, paving the way for best practices and state regulations.

Another favorable event was the 2012 passage of the American Taxpayer Relief Act (ATRA). It eliminated the need for many wealthier individuals to own life insurance for federal estate tax purposes.

According to the Life Insurance Settlement Association, 90% of the U.S. population now falls under the protection of life settlement laws or regulations in 42 states.

Some states, such as Kentucky, Maine, Oregon, Washington and Wisconsin have enacted life settlement disclosure laws requiring insurers to inform insureds about the possibility of a life settlement.

Life settlements are even recommended by governmental entities and national organizations. For example, the U.S. Department of Health & Human Services recommends life settlements as a possible source of funds to help seniors pay for long-term care. And the American Cancer Society acknowledges life settlements as a potential source for funds to help pay for medical treatment.

Not only have life settlements gained credibility, but the present – and future – landscape looks promising, as well.

The Government Accountability Office reports 9,900 American will turn 65 years old in 2017. This group represents the seventh year of 19 years of Baby Boomers turning age 65. An estimated 11,500 Americans will turn 65 years old each day in 2029.

The influx of boomers faces a myriad of challenges: longevity, long-term care needs, lack of pensions, social security sustainability, low interest rates, and so on. Many seniors are searching for other ways to create liquidity and income.

In a recent survey conducted by Ameriprise Financial, 1 out of 4 retired boomers between the ages of 60-73 believe they underestimated their retirement income needs.

With the maturation of the life settlement industry and a potential for growth in the number of eligible policies, now is an ideal time to access institutional capital.

Tax Consequences

- The lump-sum payment received in exchange for a life insurance policy is normally taxable.
- The IRS has ruled that the seller's basis is cumulative premiums reduced by cost of insurance costs. Generally, proceeds up to the seller's basis are received tax-free… Proceeds that exceed basis, to the extent of CSV, are treated as ordinary income… And gains in excess of the CSV receive capital gain treatment.
- Be sure to consult a tax professional about the tax implications of any life settlement transaction under consideration.

Real Life Examples of How Asset Life Settlements Help Clients.

Here are three real-life examples (including more details on the earlier true story) that show how the life settlement option can be far superior to the cash surrender option:

Case #1 (published in *California Broker Magazine*):

- 85-year-old retired business owner sought premium relief
- $11.6 million life insurance coverage no longer needed
- Life settlement provided total relief from premiums
- $155,972 combined account value
- $134,000 combined CSV
- $240,000 cash payment
- $2 million retained death benefit coverage

Case #2 (provided by Asset Life Settlements):

- 93-year old female – still with 5-year life expectancy
- $748,000 policy (Trust-Owned Life Insurance) policy

- Premiums too expensive at older age and policy maturity was age 100
- $31,751 account value
- $31,751 CSV
- $150,000 cash payment
- Proceeds used to pay for medical needs

Case #3 (published in *LifeHealthPro*):

- 77-year-old retired physician
- $1 million policy (Trust-Owned Life Insurance) policy
- Premiums had escalated; policy no longer needed
- $19,464 account value
- $5,364 CSV
- $180,000 life settlement
- Proceeds used for new $1 million policy (cash for heirs)

As you can see, life settlements fetched roughly 2X, 3X and even more than 5X CSV.

Instead of lapse or surrender, it's crucial to examine life settlements for more profitable results when making decisions on unnecessary insurance policies.

As an advisor, you may also be able to make a commission. The average commission is 2% on a $1 million to $3 million death benefit. If the death benefit is higher, for example $5 million to $10 million, advisors often opt for a smaller percentage. The commission percentage varies based on the CSV at the time of sale.

Regardless of whether you get paid a commission, the most important thing is obviously helping the client. There are various reasons and uses for life settlements.

Life Settlement Practicality

A.M. Best lists the most common reasons to entertain selling a policy:

- Premiums paid by the policyholder have become unaffordable and the policy is in danger of lapsing
- Estate-planning needs of the insured have changed significantly
- Funds are needed for long-term health care
- Beneficiary has changed due to death or divorce
- Disposal of unneeded "key man" insurance or other business-owned insurance
- Fund new annuities, life insurance or investments
- Satisfy the need for cash in a forced liquidation due to bankruptcy or financial difficulties
- Liquidate policies donated to not-for-profits

The insurance ratings agency reports the typical life settlement involves a $1 million policy on a senior in their 70s with a life expectancy of 12 years.

Proceeds from life settlements are typically allotted in various ways...

Business investments:

- Reducing business debt
- Investing in new machinery or equipment
- Purchasing additional office space

Financial investments:

- Mutual funds, ETFs, stocks, bonds
- Annuities
- Real estate
- Collectibles

Lifestyle-medical:

- Paying off a mortgage or credit card debt
- Vacation homes, new autos, gifts to children
- Long-term care, continuing care retirement communities, medical expenses

Legacy and philanthropic planning:

- Liquidity for heirs
- Family vacation homes
- Endowing college athletics, hospital wings

Why use a life settlement broker?

The secondary market can be challenging and risky for those unfamiliar with the process.

A provider could directly approach an advisor or individual policy holder about a life settlement. The temptation will be to cut out the middleman and associated fees. **Be wary of that shtick.**

Providers have a duty to their institutional funding sources to purchase policies at the greatest discount possible. That means the seller could be missing out on the highest bid.

In most cases, it's worth enlisting the services of an experienced life settlement broker. First, the policy holder will learn the true fair market value of their contract. And second, it's the life settlement broker's duty to aggressively shop the policy to multiple funders (12 to 15, on average) in the secondary market. After collecting competing offers from multiple providers and further negotiations, the goal is to secure the highest possible value – or max bid – for a contract.

As for life settlement brokers, stick with the most reputable specialists.

To research life settlements firms, you go to the Life Insurance Settlement Association's website and check with LISA.

Asset Life Settlements, LLC is a firm that came up multiple times in my research. The secondary market advisory team has 30-plus years of combined industry experience. Moreover, the partners have brokered over $4 billion in life settlement transactions during the last 17 years.

Jeff Hallman has been referred to me in my research, and you can email him here or by phone at 407-413-8660 with any additional questions or actual cases. He's the co-founder and managing partner of Asset Life Settlements. Jeff is also one of the industry's top authorities. **Although, to be clear, I don't know him personally and I have no relationship with him.**

Keep in mind, when using a life settlement broker, a policy holder will have to authorize the release of medical and other personal information so that the buyer can determine how much to offer for the policy. A policy holder may also be required to provide periodic updates on their health. Once the buyer obtains that information, it may be shared with other parties, such as lenders or third-party investors.

The top life settlement brokers should be transparent, too. Don't be afraid to ask questions. What bids were received? What steps were taken to assure the most competitive bid? How do commissions work? Do additional research to make an educated decision.

In closing, this a potential win-win-win for financial advisors: **1) Get a more profitable result – and potential relief – for clients. 2) Grow assets under management by rolling the proceeds into other suitable investment options. 3) Earn commissions**

Have a good weekend,

Tom