

MULLER-TEMPLIN SIMPLIFICATION RATIO

The introduction of the Muller-Templin Simplification Ratio (\mathcal{P}_m) allows a quick and dirty “back of the envelope” calculation as favored by engineers. As there are tax considerations that create additional leverage opportunities, the After-Tax MTSR (\mathcal{P}_{amt}) addresses the issue by applying a simple delta factor for tax effects, reducing returns where applicable by the marginal tax rate.

The ATMTSR, \mathcal{P}_{amt} , of an investment, is defined as:

EQUATIONS REMOVED

$r \equiv$ portfolio return

$t \equiv$ tax rate

$\sigma \equiv$ standard deviation of portfolio return

For simplicity and conservativity in this paper we assume a flat 20% rate for all assets that do not enjoy explicit endorsement in the US Tax Code. Real world taxes are higher and progressive for most assets, thus furthering the advantages of the Life Insurance over other assets. The following results were derived:

	<i>A S S E T \mathcal{P}_{amt}</i>
Life Insurance	3.227
S & P 500	0.394
Russell 2000	0.980
LIBOR+1	2.585
Wilshire REIT Index	0.132

The superiority of Life Insurance on an after tax, risk adjusted basis is mathematically indisputable.