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Equity-Indexed Annuities:

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Their unsexy name aside, there's something undeniably seductive about equity-indexed annuities (EIA). Sold by insurance companies, these combination investment and insurance products promise investors a piece of any stock market gains while limiting downside when the market tanks. At the end of the investment, or accumulation, period, the annuity's owner is typically offered either a lump-sum distribution of the proceeds or regular payments based on the ending balance.

Over the past 15 years, the products have become increasingly popular and are offered by major insurers like like Allianz and The Standard. While the investment features have looked increasingly alluring, the catch is that the stock market's wild seesawing could hardly have been better designed to enrich holders of equity-indexed annuities. Since 1995, these annuities have easily outpaced the S&P 500 and bond indexes alike.

"There is no asset category that outperformed them. We were extremely surprised, really just amazed," says David Babbel, professor emeritus of insurance and risk management, who conducted a study of equity-index annuity returns beginning in 1995.