

Wednesday October 21, 2009

Structured Products

Current year	Previous year
--------------	---------------

ALL U.S. STRUCTURED PRODUCTS

Year to Date:

\$27.738 billion in 3183 deals	\$55.672 billion in 5833 deals
-----------------------------------	-----------------------------------

Quarter to Date:

\$0.616 billion in 125 deals	\$1.709 billion in 105 deals
---------------------------------	---------------------------------

Month to Date:

\$0.616 billion in 125 deals	\$1.709 billion in 105 deals
---------------------------------	---------------------------------

Week to Date:

\$0.025 billion in 2 deals	
-------------------------------	--

BREAKDOWN OF YEAR TO DATE DEALS

ALL U.S. STOCK AND EQUITY INDEX DEALS

\$13.237 billion in 2323 deals	\$33.629 billion in 4551 deals
-----------------------------------	-----------------------------------

SINGLE STOCK U.S. STRUCTURED PRODUCTS

\$3.748 billion in 1445 deals	\$11.949 billion in 3240 deals
----------------------------------	-----------------------------------

STOCK INDEX U.S. STRUCTURED PRODUCTS

\$9.285 billion in 856 deals	\$21.218 billion in 1219 deals
---------------------------------	-----------------------------------

BASKET OF STOCKS U.S. STRUCTURED PRODUCTS

\$0.204 billion in 22 deals	\$0.462 billion in 92 deals
--------------------------------	--------------------------------

FX U.S. STRUCTURED PRODUCTS

\$1.706 billion in 107 deals	\$4.695 billion in 271 deals
---------------------------------	---------------------------------

COMMODITY U.S. STRUCTURED PRODUCTS

\$6.731 billion in 303 deals	\$10.492 billion in 379 deals
---------------------------------	----------------------------------

INTEREST RATE STRUCTURED PRODUCTS

\$2.286 billion in 164 deals	\$4.883 billion in 286 deals
---------------------------------	---------------------------------

Prospect News

© Copyright 2009 by Prospect News Inc. Electronic redistribution, photocopying and any other electronic or mechanical reproduction is strictly prohibited without prior written approval by Prospect News. Information contained herein is provided by sources believed to be accurate and reliable, however, Prospect News makes no warranty, either express or implied, as to any matter whatsoever, including but not limited to those of merchantability or fitness for a particular purpose.

Retail investors buying annuities are missing on benefits of structured notes, adviser says

By Emma Trincal

New York, Oct. 20 – Structured notes, especially those offering principal protection, are a good alternative to insurance products, said Matt Medeiros, president and chief executive at the Institute for Wealth Management in Denver.

“Unfortunately, investors are not always aware of their options,” he said.

Medeiros, who manages client services and is responsible for investment research and client portfolio strategies at his firm, said that, “as a money manager, our first priority is to manage risk. Structured products allow you to offer packaged investments with principal protection features.

“A lot of investors today are looking for some form of guarantee. And they go for annuities because that’s what their advisers are selling them. They simply don’t know that they could get principal-protected structured products with the level of guarantee they’re looking for and for far less expenses.”

Retail or institutional

Medeiros said that structured products suffer from a lot of preconceived notions pertaining to their cost, efficiency and risk.

One such idea, he said, is the belief that institutional investors do not allocate to structured products and that only retail investors buy into these types of securities. Oftentimes, critics of structured products are those who perpetuate the notion that institutional money is “too smart” to buy into those securities, said Medeiros.

Illustrating that view, a financial adviser told *Prospect News*: “Those products are systematically sold to individuals. They’re never sold to institutional investors because no institution would buy them.

“Institutions are too sophisticated for this. They have the resources and knowledge to do the same things cheaper in buying the options directly or hedging through cheaper and more liquid securities

Continued on page 2

Wells Fargo aims CDs linked to SGI WISE US Vol Target 8% at interest in long/short strategy

By Emma Trincal

New York, Oct. 20 – **Wells Fargo Bank NA**’s planned certificates of deposit linked to the SGI WISE US Vol Target 8% index hope to attract conservative investors who want a chance to participate to the equity rally while protecting themselves from an eventual correction, market sources said.

Wells Fargo plans to price CDs due Oct. 30, 2015 linked to the SGI WISE US Vol Target 8% (USD-Excess Return) index on Friday, according to a term sheet. The payout at maturity will be par plus 0.9 to 1.1 times any gain on the index, subject to a floor of zero, with the exact participation rate to be set at pricing.

Continued on page 3

Retail investors buying annuities are missing on benefits of structured notes, adviser says*Continued from page 1*

such as exchange-traded funds.”

But Madeiros commented: “I would disagree that institutional investors are not using structured products because we’re in the trenches and we know that mom and pop aren’t using it.”

Keith Styracula, chairman of the Structured Products Association, agreed that it is inaccurate to say that institutional money is not allocated to structured products.

“A lot of institutional investors are doing structured products. Pimco, BlackRock, AllianceBernstein are using it. So people who make the general statement that institutions do not invest in structured products are just uninformed. They don’t get it,” said Styracula.

“What happens often is that institutions won’t buy off-the shelf products. But you can be sure that they invest in bespoke structures or that they will negotiate the fees,” said a lawyer.

Education vacuum

Medeiros said that structured products could fit the needs of many retail investors.

For instance investors seeking principal protection can find zero-coupon notes that do just that. Investors seeking high coupons may also find what they need with some other types of structures, such as reverse convertibles.

But the difficulty, Medeiros said, is to reach out to investors. Inevitably, he said, the process requires educating financial advisers.

“We think that structured products bring institutional types of investments for everyday investors. We’re trying to reach the underserved investors, the moms and pops and give them options that for the most part only accredited investors and institutions take advantage of,” said Medeiros.

“Investors go for annuities because

that’s what they know when they want principal protection. But annuities force you to keep your money locked in for a considerable amount of time, which is not necessarily the case with a structured product,” said Medeiros.

Some financial advisers agreed that there is a need for investors to explore structured products.

“What a lot of people are really interested in is getting growth with some form of guarantee,” said one adviser. “If you’re 60, you’re going to live another 25 years. You need growth. But the question is: how do you get this growth with a degree of guarantee and with less volatility.”

Well-known risks

One possible explanation for the fact that structured products remain relatively unknown to most retail investors despite their advantages may be because many advisers perceive them as too risky or too costly – without having taken into account their benefits.

Deva Panambur, wealth manager at investment advisory firm Executive Monetary Management said that structured products are “very popular with high-net-worth investors,” but that the risks are also well known.

“I think structured products play a role especially if you have a view and want to reduce your risk in a specific way. The problems with those investments are the lack of liquidity and the credit risk,” he said.

Panambur said that structured products, “no matter what the issuers may say,” are “not liquid” or if they are, “it comes with a huge bid/ask spread.”

He added that “there is always a market for everything, even for hedge funds” and that investors may always sell their investments on the secondary market. “But it comes at a cost and investors have

to be willing to take a huge discount off the face of their investment,” he said.

Penambur added that investors need to realize that they’re taking on the credit risk of the issuer.

“With Lehman, a bank that issued a lot of structured notes, the lesson was clear of what it costs to underestimate the credit risk of the issuer,” he said.

Penambur said that while structured products “definitely play a role in people’s portfolio,” it’s important for investors or advisers to do their due diligence. “You have to look at fees, liquidity, and credit risk of the issuer. I tend to be a little cautious,” he said.

Bret Rosenthal, hedge fund manager at Rosenthal Capital in Jupiter, Fla., said: “With structured notes, you basically become creditor of the issuer. I don’t know if people who buy a note tied to an equity index really realize that they’re actually buying a bond. They are creditor of a company.”

Advisers’ education

While some financial advisers filter the huge flow of products to find the right products for their clients, warning them of some of the risks, the majority of advisers is simply not well informed about the benefits of structured products, which is why the products have not reached a high level of public awareness, said Styracula.

“Sure there are structured products that have fees, just like with mutual funds or closed-end funds. But the reality is that financial advisers are not spending the intellectual capital or the time to understand those structures.

“You have somewhere between 9% and 12% of financial advisers that have taken the time to study those products. And those who understand it think of it as a secret weapon. They don’t want others to understand it,” Styracula said.