

Understanding Structured Notes

A comprehensive guide

Structured notes are unique investment options that offer both growth potential and protection. They combine a bond with a derivative component, adjusting the risk-return profile of the investment. This guide aims to provide a detailed understanding of structured notes, their benefits, and the associated risks.



TWO COMPONENTS

Structured notes are debt securities issued by financial institutions. They consist of two main components:

Bond component: Provides principal protection, safeguarding a significant part of your investment.

Derivative component: Offers potential for higher returns by linking the return to the performance of an underlying asset, such as an equity index, a single stock, a basket of stocks, interest rates, commodities, or foreign currencies.



TYPES

There are various types of structured notes designed to meet different investment goals:

- **Principal-Protected Notes:** Ensure that you get your initial investment back, regardless of how the underlying asset performs.
- **Reverse Convertible Notes:** Offer higher yields but come with more risk.
- **Leveraged Notes:** Amplify the returns of the underlying asset but also increase the potential for losses.



ADVANTAGES

One of the key advantages of structured notes is their flexibility. They can be tailored to provide a wide variety of potential payoffs that are difficult to find elsewhere. For example, a structured note might be linked to the S&P 500 with gains capped at 10% and maximum losses set at 15%. This combination limits losses while creating the potential for large gains.



RISKS

It's important to understand the risks involved with structured notes:

- **Market Risk:** The value of the structured note can fluctuate based on the performance of the underlying asset.
- **Low Liquidity:** Structured notes may not be easily tradable in the secondary market.
- **Default Risk:** There is a risk that the issuer may default on their obligations.

Structured notes are complex financial products and may not be suitable for all investors. It's crucial to consult with a financial advisor to determine if they align with your investment strategy and risk tolerance.

SUMMARY

Structured notes offer a unique blend of growth potential and protection, making them an attractive option for certain investors. However, they come with inherent risks that require careful consideration and professional guidance. If you have any questions or would like to explore structured notes further, please reach out to us at dtroyer@monetagroup.com.