SINGER
WEALTH

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Less risk, more reward

Investors are always looking for investment opportunities with not only great upside potential, but also attractive risk-adjusted returns. One vehicle, which can often exceed the gains of the stock market with less investment risk, is a structured bank note.

Structured notes are issued by major banks such as JP Morgan, Citibank, and Credit Suisse; they either pay interest or appreciate/depreciate based on the performance of an underlying stock or major stock index. These notes can also be designed to offer downside protection in the event an underlying security decreases in value.

A growth note is designed to appreciate if the underlying stock or index increases in value. An income note is designed to produce monthly or quarterly income provided that the underlying stock or index does not significantly depreciate.

We recently worked with a major U.S. bank to create a growth note designed to surpass the S&P 500 if it's up, with less investment risk. The note will provide the holder with 31% more gains than the S&P 500 price index. Obviously, beating the market by 31% is exceedingly difficult for most investors to do but major banks have been issuing structured notes doing just that.

You might think higher expected returns come with more risk. However, not only does this note have a higher expected return than S&P 500 price index, it also has less investment risk because it comes with a 20% downside protective barrier. That means if after five years, in the unlikely event that the index is down (but not more down than 20%), the note holders will get their full principal back at maturity. If the index is down more than 20%, the note holders will have the same downside exposure as an investor who owned the actual index.

If you have some funds or ETFs that are not designed to beat the S&P 500 with less risk, you may want to learn about these notes.

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