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ASK THE **ADVISERS**

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Buy Low?

There is no way of knowing when the current bear market will end. However, throughout the history of the stock market, investors have been rewarded by adding to their equity exposure following large market drawdowns.

Conversely, investors who panicked and sold after large drawdowns have typically been worse off. Every time the market has made a new high, those who added to their portfolios when markets were low outperformed those who sold or simply held after market corrections. If you buy when the market is down 20%, even if it goes down another 10% or 20% eventually when it recovers you will be better off than if you just stayed on the sideline.

The question is how do investors who are already fully invested take advantage of a potential buying opportunity? One of the ways to add exposure to the stock market without taking more risk and without having to add to your investable assets is to use structured growth notes. The major US banks are creating notes using derivatives that provide leverage on the major stock indexes.

During times of high volatility, (when the indexes have been dropping significantly) these notes typically are able to produce even greater leverage. I recently contacted some major banks to see what was available for these leveraged growth notes. Investors with exposure to the S&P 500 index could conceivably sell their current position in the S&P 500 index and purchase a 5 year note with the proceeds that will pay 157.40% of the returns of the S&P 500 over the next five years.

If the index is down, the note holders will incur the same loss as if they had owned the index directly. Even though investors are not subject to any additional investment risk, if the index is up the investors will make 57.4% more returns than if they continued to hold the index. Although noteholders will not receive dividends which are currently 1.44% per year, 57.4% leverage on the gains could wind up putting investors way ahead when the market recovers.

Source: Yahoo Finance

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