ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.

Singer Wealth

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Less Risk, More Potential Reward

Rational investors are always seeking to obtain the highest risk-adjusted returns. Theoretically, to increase your expected returns on your investments, you should be willing to accept more risk. However, this does not always have to be the case.

One of the ways we have been able to decrease investment risk is using structured notes issued by major banks. Structured notes use derivatives to create a bond which tracks the performance of a stock or index. They pay a return based on the performance of an underlying stock or index, often while providing downside protection.

In March of 2020 at the onset of Covid, the market had plummeted, and we were looking for a way to keep our clients invested while mitigating risk and maximizing a projected stock market recovery. We negotiated with Citibank to issue a 4-year note that provided 163% of the returns on the worse performer of the S&P 500 index and the Dow Jones Industrial Index while also providing a 30% barrier if the stock market continued to fall. The note is currently up 111% because of the leverage. Had the indexes ended the term down less than 30%, the notes would have matured at par without any losses.

We are about to launch a 3-year note linked to the S&P 500 rolling futures index which has about 99% correlation with the S&P 500 index. The note offers a 20% buffer and 140% uncapped participation. At the end of 3 years if the index is down 21% the investor loses only 1% because of the buffer. If after 3 years the index is up 50%, the note will realize a gain of 70% because the note will make 40% more than the index. The downside is that you must realize the gain after 3 years unless it's in an IRA. Also, the investment is subject to the credit risk of the issuing bank. Although beating the S&P 500 remains elusive for most investors, it doesn't have to be.