

Less Risk, More Reward

Whenever one evaluates a potential investment, they need to consider two factors. What is the potential risk and what is the potential return?

Identifying investment opportunities with high potential return yet relatively low risk is optimal. When it comes to the stock market most investors believe that it is difficult to “beat the market”. This is true for most investors but one way to outperform the stock market is with growth bank notes that are linked to the major stock market indexes.

For instance, in March of 2020 our firm asked Citibank to build a 4-year growth note for some of our clients. The note was linked to both the S&P 500 and the DJIA, and it will mature in March of 2024 for 63% more than the lower performer of those indexes. It also provided 30% downside protection in the event the indexes were down. As of late December, the Dow Jones Index is up 86.52% so the note is tracking to mature up 141% this March.

Last week we instructed JP Morgan to create a 5-year note linked to the S&P 500 futures index (SPXFP). The index is closely correlated to the S&P 500. The index could outperform the S&P 500 index when interest rates are lower than the dividend yield of the S&P 500 or underperform when the inverse is true. Over the last year the S&P 500 was up about 23% while SPXFP was up about 20%. However, the note that we had JP Morgan issue will pay 200% of the return of SPXFP. Therefore, had this note been issued one year ago, the note would be up about 40%.

This is certainly one way to potentially beat the market. The note also comes with a 20% downside buffer. That means in the unlikely event that the stock market is lower in 5 years, the noteholders will avoid all losses except if the index is more than 20% lower after five years. For example, if the index is down 22% at maturity, the note holder only loses 2%.

Source: Yahoo Finance

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