# Short Term Structured Products

We're often asked for short-term structured products and generally we suggest investment options that may have longer terms - although often still with the possibility of early auto-calls to "lock-in" gains. The reason for this approach may not always seem apparent, but perhaps the easiest way to look at it is in terms of probabilities (something that has a large influence on structured products in particular).

**The example below contrasts two possible Structured Products**

| | | | |
|---|---|---|---|
| **Underlying:** | Worst of FTSE 100/Eurostoxx 50/ Nikkei 225 Indices | **Underlying:** | Worst of Goodrich Petroleum/ SunEdison Inc./Halcon Resources Corp./ Chesapeake Energy Corp. |
| **Payoff:** | Semi-annual, 100% strike auto-call | **Payoff:** | Fixed income |
| **Coupon:** | 6% semi-annual (12% p.a.) | **Coupon:** | 2.5% per quarter (10% p.a.) |
| **Total Fees:** | 8% (Bank + Distributor + Commission) | **Total Fees:** | 10% (Bank + Distributor + Commission) |
| **Barrier:** | 60% final level | **Barrier:** | 50% final level |
| **Term:** | Max 6 years | **Term:** | 1 year |
| ***Possible Outcome:** | A: 20% p.a., 16% ….13.7% (6yrs)<br>B: 100% return of capital<br>C: 40% or more loss | ***Possible Outcome:** | A: 20% p.a. return<br>B: 50% or more loss<br>**NB. No option for return of 100% of capital** |

**Possible outcomes include the cost of the fees which need to be recovered.*

The first product has been designed to be suitable as part of a balanced portfolio for more cautious investors and pension funds (for example). The aim is to deliver good levels of growth based on the performance of mainstream stock market indices. If clients don't receive these good levels of growth, they're likely to receive their full capital back (effectively just over 1% p.a. to cover fees) with only a small probability of any capital loss.

The short term product linked to individual stocks has only two possible outcomes, a high return, which is amplified massively by the fees being taken over only 1 year, or a loss of at least 50% of an investor's capital. With interest rates so low, the probability of any investment delivering a 20% return over 1 year is very low indeed. There is no option for a return of capital (effectively 10% p.a. growth to cover the fees) so the greater probability – the only other option - is for a loss of at least half the investor's money. This product is more of a gamble than an investment.

A number of advisers have seen their clients suffer massive losses of capital on shorter term structured products, especially when unfeasible returns and huge fees have been taken. The products haven't been designed with investors in mind and the higher commissions probably haven't compensated the advisers for the anguish they've suffered either.

Thankfully most issuers are now taking a more sensible approach to their international businesses, so, with the exception of EFG (who are still issuing structured products with exceptionally high fees taken out), there are fewer unsuitable offers out there.

If you want to offer your client short term investment opportunities, the returns on offer will be low and commission payments small – unless you and your clients are prepared for a high probability of huge losses.

Clive Moore

IDAD Limited is authorised and regulated by the Financial Conduct Authority FCA FRN 740499. IDAD Limited is a limited liability company registered in England and Wales number 4521366. IDAD Ltd does not offer investment advice nor make any recommendation regarding any investments.