



Structured Products Association -- 2008



Structured Products News from SPA

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[Robert Spicer: Market-Linked CDs](#)

"Only thing we have to fear is fear itself". Franklin D. Roosevelt, March 4th, 1933

FDR gave this famous quote during his inaugural speech. Many people today erroneously believe he was talking about the threat of WWII. Not true. He was talking about the economy of the United States of America and the financial crisis it was facing at the time. Banks were particularly hard hit. Confidence was so shaken that a rumor could create a run on a bank's assets and it could be closed overnight. However, by innovative and somewhat dramatic actions he regained the confidence of the American people in the U.S. banking system. One such step was the Nationwide Bank Holiday, closing every bank in America for an entire week. Every U.S. bank, while closed, was inspected by government examiners who would only open the bank if it was given a sound fiscal bill of health by the US Government.

This type of American ingenuity and will power changed the fabric of our financial system and allowed the United States to become the financial powerhouse it has become. Yet, today, our current stock market volatility and credit crunch has again created overblown fear. A fear that may be self-defeating in the long run.

The world's largest banks have devised a way for most investors to participate in the appreciation of the equity markets while protecting the principal invested with FDIC insurance.

Even the most conservative of investors now have the ability to participate in most, if not all, of the upside potential of a variety of markets (such as the S&P 500, DJIA or a basket of stocks or commodities) without the risk of losing any principal provided the investment is held to maturity. Typical maturities range from one year to seven years. Participation rates on the upside vary with each issue and can reach 100%.

These investments are called structured Certificates of Deposit or Market Linked CD's. They are issued by some of the largest banks in the world and linked to indices or investments.

The investor's principal is protected (insured) up to \$100,000 per depositor or up to \$250,000 for certain qualified retirement plans such as an IRA account, per depositor per insured bank. FDIC insurance is backed by the full faith and credit of the United States Government. For more information on FDIC Insurance go to www.FDIC.gov. Unlike ordinary CD's, these do not pay current income and the investor has to hold the investment to maturity for the strategy to be successful. If the investor liquidates before the stated maturity they may receive back less than their original principal.

Most individual investment portfolios are limited to a combination of cash, bonds, equities, real estate and perhaps some managed futures. In today's markets too many investors are reducing their equity exposure due to a fear of losing principal. Fear drives overweighed allocations to cash and bonds. While past performance is not indicative of future performance, it is a well known axiom that equities have outperformed cash and bonds in the past, especially over the last 60 years. In my opinion, most investors today, after a careful review of their portfolio and risk tolerance, need equity exposure to achieve their long-term investment goals. Market Linked CD's offer conservative investors a new vehicle to participate in the markets while reducing principal risk.

In the past only institutions and very high net worth individuals have been able to access these complex, performance-linked investments in a variety of asset classes that offer in tandem 100% principal protection on the downside combined with the upside potential of the linked asset class. According to the trade group Structured Product Association new issuance of all structured products in the U.S. has risen from \$28 billion in 2003 to \$114 billion in 2007.



FDR proclaimed in his first fireside chat "Let us unite in banishing fear" March 12th, 1933. We are fortunate to have new financial tools to help accomplish financial security in today's market environment.

It is important you talk to your financial advisor before you invest. Some topics to discuss are your tolerance for risk, time horizon, your market outlook, and interest in particular asset classes, expenses, taxes, computation variations and participation rate, maximum and minimum interest rates, prepayment penalties, current income requirements and secondary market activity if any.

Open architecture is also a concern. When an investor is only offered the in-house brand he or she may be at a disadvantage. It is generally better when banks compete. Typically, independent broker dealers can secure CD's, bias free, from many different issuing banks.

This is not intended to be an offer or solicitation for the purchase or sale of any investment.

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