

# Is a 16% annual yield right for you

## - A guide to structured products

CBM Investment Management

$$V = \frac{S}{K} e^{-rT} N(d_2) - \frac{C}{K} e^{-rT} N(d_1)$$

# What is a structured product

- A hybrid security made up of several financial products



# Potential Benefits

- Principal protection
- Tax efficiency
- Enhanced returns
- Reduced volatility
- Portfolio diversification
- Participation

# Potential Disadvantages

- Credit risk
- Lack of liquidity
- No daily pricing
- Complexity
- Capital losses
- Currency fluctuations

# Examples

- Upside: 16% annual yield if worst performance of three gold mining shares is between 65% and 95%. Downside: capital loss of worst share performance below 50%.
- Upside: 12% annual yield if worst performance of six bank shares is between 60% and 100%. Downside: capital loss of worst share performance below 60%.
- Upside: 13% annual yield if worst performance of three national stock markets is between 50% and 100%. Downside: capital loss of worse stock market performance below 50%.
- Upside: 100% capital protection with a maximum 4% annual yield if a flat or higher Swiss stock market. Downside: no further participation in price rise of stock market.



RBC Capital Markets\*

RBC Gold Miners Phoenix Notes



**NOMURA**

Migros Bank

# Our Services

- Evaluating benefits and disadvantages for each structured product
- Providing simple explanations to clients
- Identifying suitability for inclusion in client portfolios
- Constant monitoring client positions, notification of adverse movement and mitigation strategies
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# About the author

## Steven J Cohen CFA at Credit Lyonnais Capital Markets

- Marketing: Options on UK Bank basket, capital guaranteed FTSE structured bonds incorporating barrier option and other OTC exotic products; produced weekly UK view on market direction & volatility for clients.
- Development: Of in-house software used to price Listed and OTC equity derivatives on UK underlying, liaising with market makers, brokers and in house programmers; ensuring correct selection of bases, yields and tax rates.
- Market Making: Making a bid offer spread during market hours on French Franc denominated warrants having a Japanese Yen denominated underlying stock.
- Proprietary Trading: Profitable hedge management of convertible bonds, warrants, equities, futures, and currencies; utilising in-house models, Bloomberg, Reuters Graphics and associated statistical techniques. As part of a global team (London, HK, Tokyo & NY).
- Modelling: Black Scholes and binomial modelling to calculate fair values and hedge parameters (Greeks & FX) for American and European options and convertible bonds; utilising macros and databases.
- Business advisor: Established stock lending department, after identifying the feasibility, and consulting with management (post a stock borrowing assignment).
- Finance & Systems: Established treasury management as a profit centre, implementing Excel spreadsheets & macros controlling multi-currency US\$200m funding.