



If it Sounds Too Good to be True...

by Bradley Warden, Partner



With interest rates so low, investments offering high returns sound tempting. Structured products, or structured notes, claim to offer the highs of riskier assets without the lows.

Structured products combine investment in a low-risk asset, like bonds, with a high-risk asset, like equities. Some or all of your investment (your 'principal') is protected so that you get it back

at maturity. If various conditions are met, you can also receive returns from the high-risk asset.

So far, so simple. However, we have talked to people who have lost money through structured products; in one case their pension fund shrunk 75% within a year. If you scratch the surface you can see just how complex – and risky – these investments can be.

First, how protected is your principal really? Structured products are not covered by any compensation scheme, so if the issuer fails, you could lose your entire investment.

You can only get your principal back if you see the investment out to maturity, so it is highly illiquid. If you need to exit early, you may not be able to sell without making a loss.

If you do get 100% back, with inflation it could be worth much less than when you put it in. It can also be eaten away by charges for dealing, hedging and other hidden extras.

Potential returns usually depend on scenarios too complicated to fully understand. Some high-profile banks have been fined for misleading customers on structured products that have failed to deliver.

While structured products can shelter investors from market shocks, they also limit growth. For example, returns could be capped or you might only receive anything if strict conditions are met. With some products, if growth goes above a certain level, the issuer may recall it before maturity – it can be cancelled for being too successful!

Investors who want to access riskier assets without feeling too exposed may find structured products useful. For others, the diluted returns make it less attractive. The trick for any investor, whether for their investment portfolio or their pension, is to find the right balance of risk and reward. This should be based on an objective assessment of their risk profile, their personal situation and aims.

Remember that if something sounds too good to be true, it probably is. Make sure you understand all the implications of any investment by speaking to an experienced and regulated adviser. They will carry out thorough due diligence in recommending authorised funds to suit your individual circumstances and risk appetite.

This article should not be construed as providing any personalised investment advice.

To keep in touch with the latest developments in the offshore world, check out the latest news on our website www.blevinsfranks.com

“I was worried my investment portfolio didn't match my requirements. It does now and I've got peace of mind.”

Talk to the people who know.

Successful investment strategies must be designed around your specific objectives, situation and risk profile. Many people's portfolios are not structured for their needs or reviewed regularly, nor are they tax efficient. Our Investment Review Service provides an objective assessment with no cost or obligation.

BLEVINS  FRANKS
INTERNATIONAL TAX & WEALTH MANAGEMENT

contact us now on
05 49 75 07 24
niort@blevinsfranks.com

PHK057C-1F

Blevins Franks Group is represented in France by the following companies: Blevins Franks Financial Management Limited (BFFM) and Blevins Franks France SASU (BFF). BFFM is authorised and regulated by the Financial Conduct Authority in the UK, reference number 179731. Where advice is provided overseas, via the Insurance Mediation Directive from Malta, the regulatory system differs in some respects from that of the UK. Blevins Franks France SASU (BFF), is registered with ORIAS, register number 07 027 475, and authorised as "Conseil en Investissement Financier" and "Courtiers d'Assurance" Category B (register can be consulted on www.orias.fr). BFF's registered office: Parc Infolin, 3 Rue du Golf, CS 60073, 33701 Mérignac – RCS BX 496 800 465.

FRANCE • SPAIN • PORTUGAL • CYPRUS • MALTA • UNITED KINGDOM

www.blevinsfranks.com