



# UNDERSTANDING STRUCTURED NOTES:

A SIMPLE GUIDE FOR INVESTORS

## Introduction

Structured notes are a unique financial instrument designed to help investors achieve specific financial goals. They combine traditional fixed-income investments with derivatives to provide customized returns based on market performance. While they may seem complex, structured notes offer many benefits, such as enhanced yield potential, market-linked returns, and risk management.

This guide will explain structured notes in simple terms, outlining their benefits, risks, and how they fit into an investment portfolio. Perch Wealth is here to provide clarity and expertise to help investors make informed decisions.

## The Basics of Structured Notes

### WHAT ARE STRUCTURED NOTES?

Structured notes are investment products that blend a bond component with a derivative. They allow investors to earn returns linked to various underlying assets, such as stocks, indices, commodities, or interest rates, while sometimes offering principal protection.

### HOW DO THEY WORK?

Structured notes pay returns based on the performance of an underlying asset. Investors may receive fixed or variable payouts, depending on market movements. Some notes offer full principal protection, while others come with risks if the market moves unfavorably.

### WHY DO INVESTORS USE THEM?

Investors turn to structured notes for various reasons, including:

- **Higher Potential Returns:** Some notes offer better yields than traditional bonds.
- **Market Participation:** Investors can gain exposure to different asset classes.
- **Risk Management:** Some structured notes protect principal while offering upside potential.



# TYPES OF STRUCTURED NOTES

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## **Principal-Protected Notes**

These notes ensure that investors receive their initial investment back at maturity, regardless of market performance. The trade-off is typically lower returns.

## **Income-Generating Notes**

These notes focus on periodic payments, offering higher yields than standard fixed-income securities. However, income payments depend on market conditions.

## **Growth-Oriented Notes**

Growth-focused structured notes provide returns based on an asset's performance. They often feature enhanced participation rates, allowing investors to benefit more from positive market movements.

## **Market Participation Notes**

These allow investors to gain exposure to equities, indices, or commodities while setting predefined risk and return parameters.





# WHY STRUCTURED NOTES ARE POPULAR

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## **Customizable Investment Strategies**

Structured notes can be tailored to different investor needs, balancing risk, return, and market exposure.

## **Flexibility in Different Market Conditions**

Investors can use structured notes to benefit in bullish, bearish, or sideways markets by selecting appropriate underlying assets and payout structures.

## **Potential for Higher Returns**

By incorporating derivatives, structured notes can offer enhanced returns compared to traditional investments.

# THE STRUCTURED NOTES MARKET

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## How Big Is the Market?

The structured notes market is substantial, exceeding \$160 billion annually in the U.S. and continuing to grow as more investors seek customized investment options.

## Common Uses of Structured Notes

Structured notes serve various investment purposes, including income generation, risk management, and market-linked returns.

## Future Trends in Structured Notes

Technological advancements and increased investor awareness are making structured notes more accessible and transparent.

# WHY BANKS ISSUE STRUCTURED NOTES

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## How Banks Benefit

Banks issue structured notes as part of their overall risk management and investment strategy. They generate fees from structuring and selling these products.



## Why Structured Notes Pay High Returns

Structured notes can offer high returns because they incorporate derivatives that provide leveraged exposure to market movements.



## The Role of Derivatives in Structured Notes

Options and other derivative components allow structured notes to offer unique risk-reward profiles tailored to different market conditions.



# CALLABLE MARKET-LINKED NOTES

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## What Are Callable Notes?

These notes include a feature that allows the issuer to redeem them early under certain conditions.

## How They Can Pay Income

Callable structured notes often offer higher yields because they may be redeemed early if market conditions favor the issuer.

## Risks and Benefits

While callable notes provide attractive yields, they also introduce reinvestment risk if called before maturity.

## RISKS TO CONSIDER

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### Issuer Credit Risk

Investors rely on the financial stability of the issuing bank. If the issuer defaults, investors may not receive full returns.

### Market Risk

The value of structured notes depends on market performance, and unfavorable movements can reduce returns.

### Liquidity and Selling Challenges

Structured notes are not always easily tradable, meaning investors may need to hold them to maturity.

### Complexity of Structured Notes

Understanding the structure and payout mechanisms of these investments is essential for making informed decisions.



# THE ROLE OF STRUCTURED NOTES IN A PORTFOLIO



## Balancing Risk and Reward

Structured notes help investors manage risk while seeking enhanced returns.



## Using Structured Notes for Diversification

By adding structured notes to a portfolio, investors can diversify their exposure across different asset classes.



## Integrating Structured Notes with Traditional Investments

Structured notes work well alongside stocks and bonds to create a balanced investment strategy.

# HOW PERCH WEALTH CAN HELP

## Our Expertise in Structured Notes

Perch Wealth provides expert guidance to help investors select suitable structured notes.

## Tailored Investment Strategies

We customize structured note investments to match our clients' financial goals and risk tolerance.

## Real-World Examples

Our clients have successfully used structured notes for income, growth, and market protection strategies.



## Conclusion

Structured notes are complex financial instruments that require careful consideration. Investors should review offering documents and consult a financial advisor before investing.

Structured notes provide investors with innovative ways to manage risk and return. With the market exceeding \$160 billion in annual U.S. issuance, these investments are becoming an essential part of modern portfolios. Perch Wealth is here to guide investors through the complexities of structured notes and help them make informed investment decisions.





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[www.perchwealth.com](http://www.perchwealth.com)

855.378.3443

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