

Wednesday July 20, 2011

Structured Products

Current Year	Previous Year
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ALL U.S. STRUCTURED PRODUCTS

Year to Date:

\$40.676 billion in 3614 deals	\$31.168 billion in 3784 deals
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Quarter to Date:

\$1.826 billion in 169 deals	\$1.642 billion in 139 deals
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Month to Date:

\$1.826 billion in 169 deals	\$1.642 billion in 139 deals
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BREAKDOWN OF YEAR TO DATE DEALS

EXCHANGE-TRADED NOTES

\$16.308 billion in 257 deals	\$9.119 billion in 83 deals
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ALL U.S. STOCK AND EQUITY INDEX DEALS

\$16.602 billion in 2489 deals	\$14.090 billion in 2747 deals
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SINGLE STOCK U.S. STRUCTURED PRODUCTS

\$7.182 billion in 1619 deals	\$5.323 billion in 2024 deals
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STOCK INDEX U.S. STRUCTURED PRODUCTS

\$9.122 billion in 835 deals	\$8.580 billion in 696 deals
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FX U.S. STRUCTURED PRODUCTS

\$0.901 billion in 93 deals	\$1.197 billion in 119 deals
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COMMODITY U.S. STRUCTURED PRODUCTS

\$5.979 billion in 354 deals	\$3.299 billion in 258 deals
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INTEREST RATE STRUCTURED PRODUCTS

\$3.246 billion in 162 deals	\$2.252 billion in 210 deals
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INTEREST RATE STRUCTURED COUPONS

\$55.190 billion in 1420 deals

PROSPECT NEWS

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Deutsche Bank's six-month notes linked to Norwegian krone are a bet on eurozone crisis, oil

By Emma Trinca

New York, July 19 – Deutsche Bank AG, London Branch's upcoming 0% capped notes due Jan. 26, 2012 linked to the performance of the Norwegian krone relative to the dollar are designed for investors mildly bullish on the krone who do not anticipate a systemic crisis in the eurozone, sources said.

Additionally, one of those sources noted, the trade is a bullish bet on oil.

If the krone strengthens or remains unchanged relative to the dollar, the payout at maturity will be par plus the currency

return, subject to a minimum return of 7.5% and a maximum return of 8%, according to an FWP filing with the Securities and Exchange Commission.

If the krone weakens relative to the dollar by 10% or less, the payout will be par.

If the krone weakens by more than 10%, investors will participate fully in the negative currency performance.

Euro crisis

"The outlook of the krone going higher or not will depend on how the

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For Regatta financial advisers, a custom-made note is the way to go

By Emma Trinca

New York, July 19 – Some financial advisers disappointed by the market's offerings are now building their own structures, asking sellside to design custom-made products that meet their needs and objectives.

Eric Greschner, portfolio manager at Regatta Research & Money Management, and Andrew Valentine Pool, the financial planning firm's main trader, told *Prospect News* how they recently put together with Morgan Stanley a bespoke note linked to the Chinese equity market using the iShares FTSE/Xinhua China 25 index fund as the underlying.

A first

"It's the first time we built our own custom-designed structured product," said

Greschner

"We reached out to different issuers in the past and obtained bids that were not attractive."

Greschner and Pool wanted to get exposure to the Chinese stock market. Their pick was the iShares FTSE/Xinhua China 25 ETF, which is listed on NYSE Arca under the symbol "FXI."

"For this one, we had an idea," Pool said. "We thought 'let's go ahead and bid these out through different issuers.' We also bid these out through our primary custodian Fidelity, who submitted them to different issuers. A number of them, anywhere from three to five, came back to us."

The decisive factor was client service, Pool said.

"We met one of the people, a

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For Regatta financial advisers, a custom-made note is the way to go

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service provider from Morgan Stanley, at a conference in Miami. He bent over backward. So we decided to go with him,” said Greschner.

Will they do other custom-made trades? “Yes, definitely,” said Greschner.

Disappointing offerings

Several factors explain why the two investment professionals felt they had to build the product themselves along with a bank rather than choosing it off-the-shelf.

“We were disappointed by the offerings that were brought to market,” said Pool.

“We wanted to do something on China, and we couldn’t get any such underlying in the offerings,” said Greschner.

“The underlying securities are sometimes priced for marketing purposes.

“Many may be popular because it’s news-driven or momentum-driven, so they’re kind of expensive.”

An example of an “expensive” structure would be one with a downside protection that may be deemed unnecessary by the client.

“A lot of those structures have large buffers attached to them. We don’t have the need for a buffer because we buy toward the 52-week lows,” Greschner said.

The expensive nature of a buffer is made worse when the timing is bad, he noted.

“After the market falls, issuers come up with a big buffer, and when the market is up, you get little of it,” he said.

Bullish on China

Greschner said that he decided to invest in the China ETF based on his multi-approach investment process.

“We wanted Chinese stocks from a technical, fundamental, behavioral analysis standpoint,” he said.

“We think Chinese stocks have sold off. FXI is at a 52-week low. We think China is not going to have a hard landing,

and we think the monetary tightening is going to end very soon.”

The investment management firm bought the ETF at \$41.20 on July 14.

Contrarian indicator: the news

There was also a behavioral aspect to the trade, Greschner noted. He wanted to express his contrarian outlook on China.

“We looked at news stories about China with the words ‘hard landing’ in it,” he said.

“We found an average of 75 stories a year. This year alone, we found 550 stories.

“The magnitude of negative sentiment was a buying indicator for us from a contrarian standpoint.”

Using a ratio of negative stories to an overall number of news may not be the perfect yardstick to measure investor sentiment, conceded Greschner. But it’s close enough, according to him.

Hedging

Greschner and Pool obtained their downside protection through their own hedging tools, not from the use of a barrier.

“We bought without a downside protection, no barrier, no buffer, because we bought the shares at their bottom,” Greschner said.

“We also go short on FXI in equal amounts. If it drops more than 10% to 12%, we short it.

“We may short FXI with a mutual fund. If the mutual fund doesn’t closely follow FXI but represents something equivalent, we’ll look at it.

“Or we may even hedge with the [iShares] MSCI Emerging Markets index ETF.”

Bespoke structure

Greschner and Pool used a structure that fit their investment objective.

They were looking for a product linked to the security they had chosen. They

wanted enough leverage, a high enough cap and no barrier.

Greschner said that they chose a 13-month note in order to take advantage of the more favorable capital gains tax treatment. They applied a three-times leverage factor and used an 18.4% cap. However, they bought the note at a discount for the price of 98, which raised the maximum return to an equivalent of 20.4%.

“We had the option to have it issued at a price of 100, which would have given us a higher cap,” he said.

“But we liked the idea of a 98 price. That’s 2% the client gets right away.”

Another advantage of the do-it-yourself approach is pricing.

“We get our independent pricing based on a Monte Carlo model,” said Greschner.

“We’re not stuck based on an offering calendar.

“With offerings, it might take the issuer three to five weeks to put the deal together and by then, the market is up 3% to 5%.

“We want to lock in tomorrow. And we can. That’s a great advantage.”

Working with issuers

Regatta’s managers said they are “very excited” about their new product. And yet, few financial advisers have followed that route.

Even for Regatta, the completion of this first deal was preceded by unfruitful experiences with sellside as the bids did not meet their expectations.

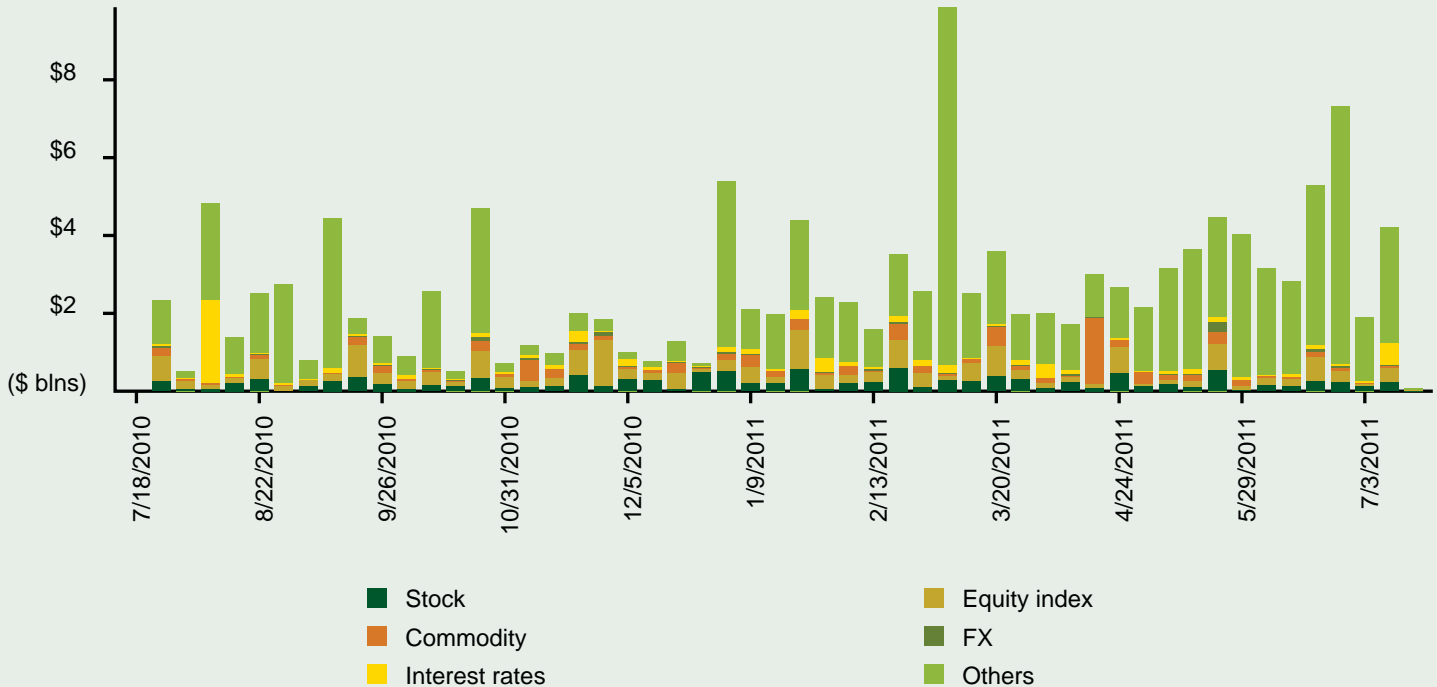
“Many advisers don’t have the time or the knowledge necessary to do such a thing. They may be shopping 10 offerings out of 50 and pick one,” said Pool.

“But to custom-design a note, you have to send out e-mails, get responses and send back more e-mails. It’s pretty time-consuming.

“As we’ll move along, it will get quicker and quicker. We’ll know who are the issuers that are going to want to work with us.”

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Structured Products New Issue Volume by Week



For Regatta financial advisers, a custom-made note is the way to go

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The willingness or eagerness of banks to work with financial advisers to help them customize their notes vary greatly from one firm to another, said Pool.

“Some don’t get back to you. Some give you the feeling that they’re not interested or that they’re into a transaction-based type of business rather than seeking

to establish long-term relationships.

“I would say half were pleasant to deal with. The others could be better.”

Both Greschner and Pool said they were “very pleased” with the service they received from the Morgan Stanley agent who helped them put the note together.

“They always called us. That’s what we were looking for. If we can get great pricing

and that type of service, there’s no reason why we wouldn’t continue to do business with them,” said Pool.

Eventually, it would make sense for Regatta to also reach out to the buy-side.

“We would be fine working with other advisers who would like to go in with us on some of these custom deals,” said Pool.