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Structured-products industry woos independent advisers

Only about 7% of non-broker advisers use the investments

By **Jeff Benjamin**
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Despite a 78% increase in sales last year, the structured-products industry is feeling slighted by independent financial advisers who are reluctant to recommend the relatively obscure alternative investment strategies.

"The independent advisers are the future of this industry and we know we need to bring new advisers into the fold," said Keith Styrcula, president of the Structured Products Association in New York.

According to the association's research, independent financial advisers last year made up about 25% of the industry's $114 billion in sales.

While the investment banks that create and market structured products have had little trouble getting brokerage representatives to sell structured products for commissions, the penetration among all the non-brokerage, fee-based advisers is estimated to be about 7%, according to the association.

That represents both a challenge to and an opportunity for the six-year-old trade group.

"Reaching the advisers outside of the brokerage firms has been like herding cats because a lot of the independent advisers are just so independent," Mr. Styrcula said.

In the most general sense, structured products involve the use of derivatives to meet specific investment objectives. The idea is to create an investment product that combines equity and fixed-income features — namely, upside potential with downside protection.

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Keith Styrcula: *"We need to be right up front in addressing the negatives."*

This is accomplished by creating a basket of investments that can include bonds, certificates of deposit, equities, commodities, currencies, real estate investment trusts and derivatives products.

Primary distinctions between structured products and mutual funds or exchange traded funds include a defined maturity date, a principal-protection option and the ability to be customized to a specific investor's view of the market.

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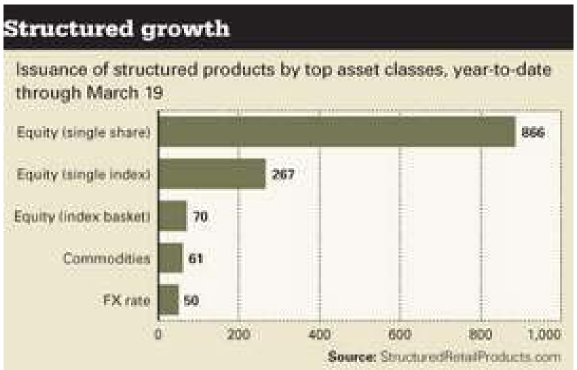

LACK OF EDUCATION

"Part of the problem is, manufacturers haven't done a very good job of educating advisers and investors," said Thomas Balcom, an adviser with Foldes Financial Management Inc. in Miami.

Foldes Financial, which oversees $400 million, began using structured products in client portfolios last year.

Mr. Balcom said his firm has since invested about $1 million in structured products, mostly in a strategy that offers 10% downside protection and 120% of the performance of two broad market indexes.

"Most of our clients have never heard of structured products," he said. "There needs to be more transparency because if the adviser doesn't understand it, there's no way to talk to a client about it."

ANNUAL CONFERENCE

The message hasn't been lost on the association, which plans to roll out the red carpet for independent advisers at its annual conference, April 9-10, at which the first 100 adviser registrants won't have to pay the $1,975 admission fee.

Mr. Styrcula said that he expects more than 300 attendees at the association's fourth annual conference. Of all the attendees, who include representatives of investment banks, marketing firms and technology advisers, 25% have historically been advisers and most of these have come from commission-based brokerage firms.

In addition to reaching out to advisers who might be new to the structured-products industry, the association is also planning to recognize five advisers for their successful use of structured products in client portfolios.

The association is soliciting nominees for those awards.

Although common in Asia and Europe, structured products only recently started to gain appeal in the United States where the number of banks issuing the investments has tripled to more than 30 since 2001.

Annual sales have more than quadrupled since 2003, the first year that the association reported the data.

Although traditionally sold on commission, structured products can be sold without the commissions on fee-based advisory platforms, which represent the purest form of a structured-product sale, according to Justin Capetola, chief compliance officer at Blue Bell (Pa.) Private Wealth Management LLC.

"They can be expensive when they're bought the wrong way," he said. "At the brokerage houses, structured products are sold as singular investments, but we're seeking competitive bids from a number of different manufacturers and we're trying to customize the investment to fit our view of the market," Mr. Capetola said.

Blue Bell, which oversees $300 million, has been using structured products for more than five years to help customize client portfolios.

"The current market environment helps because principal protection is something advisers want to hear about right now," Mr. Capetola said. "But it could be tough to get independents to change their view because a lot of them have the view that they already have the right way to do business."

Mr. Capetola acknowledges that structured products have negative associations, including a lack of dividend payments, limited liquidity and a dependency on the credit quality of the issuing firm.

On the plus side, he added, there are few investment products that allow for such customization based on a specific market outlook.

Mr. Styrcula, who last year helped promote a nomenclature initiative to encourage the banks to start using the same terminology when referring to similar structured products, continues to push for greater transparency throughout the industry.

"We need to be right up front in addressing the negatives," he said. "We don't want to diminish the complexity issue or the cost issue because advisers need to think of structured products as an investment to serve a certain purpose and they need to understand the worst-case-scenarios."

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