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# Structured Strategies

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Statement Fluctuations  
Structured Notes

# Why Do Structured Notes Statement Values Fluctuate?

Why does my account statement show that the current value of my structured note is lower than my initial investment?

The owner of a Structured Note may be alarmed when reviewing their initial account statement because the statement value may show an amount lower than their initial investment in the product, even though in some cases it may be principal protected. This reduction in the current statement value of the note results from the withdrawal of fees and other expenses associated with distributing. Since structured notes are designed to be held to maturity, the value of a note will appreciate as it approaches the maturity date. Below is an example of what an initial account statement may look like.



PRODUCT	INITIAL PRINCIPAL	CURRENT VALUE
Bank Issued Structured Note	\$150,000	\$142,000

What causes the value of my structured note to change throughout the life of the investment?

Throughout the term of a structured note, the value can fluctuate based on number of factors. A structured note holder should understand this does not represent the return at maturity, but reflects an estimate of the current market value at the time of the statement.

There are many factors that can impact the market value of these investments and cause the market value at any particular time to change, including:

<p><b>Financial Strength of the Issuer</b> – Any positive or negative changes to the credit rating of the issuer can impact the value of a structured note.</p>	<p><b>Fees</b> – The value of a note is affected by the distribution costs and advisor commissions linked to the product.</p>
<p><b>Interest Rates</b> – Since these investments are deposits, fluctuations in interest rates will influence the statement value.</p>	<p><b>Volatility</b> – Market volatility will impact the performance of the underlying asset, which in turn affects the value of a structured note with a return linked to that underlier.</p>
<p><b>Time to Maturity</b> – A longer term structured note will be more susceptible to changes in market volatility, performance risk and interest rates since there is a longer window for movement in these factors.</p>	<p><b>Underlier Performance</b> – The return of a structured note is linked to the performance of an underlying asset; therefore, a movement in the value of the underlier will affect the statement value of a structured note.</p>

The factors that affect current valuations of a structured note are not limited to examples above, anyone evaluating the purchase of a note should refer to the offering documents and the advice of a financial professional for questions regarding the potential for fluctuations in the market value of a structured note.

Here are two examples of an interim statement based on movement in the underlier.

### VALUE UP

PRODUCT	INITIAL PRINCIPAL	CURRENT VALUE
Bank Issued Structured Note	\$150,000	\$157,000

### VALUE DOWN

PRODUCT	INITIAL PRINCIPAL	CURRENT VALUE
Bank Issued Structured Note	\$150,000	\$140,000

## What happens to the value of my structured note at maturity?

Structured notes are created to be held to maturity and some structures can be fully principal protected if held to the end of the term. Therefore, if the underlier generates a negative return, a holder will receive their initial investment; however, if the underlier generates a positive return, a holder will receive their initial investment plus a return linked to the positive return of the underlier as specified in the offering documents. However, other structures are not principal protected and depending on the type of downside protection the investor could suffer a loss if the underlying generates a negative return. This will be specified in the offering documents.

Although the return on a structured note may be linked to an underlying asset such as a stock or an index, an investor is not buying shares of any stock or index. A structured product investor does not have rights of ownership in the underlying asset, such as the right to receive dividends and voting rights.

Structured notes are complex investments and may not be appropriate for all investors as they can be highly customized and present unique risks. Structured notes are not for investors who: do not understand the risks of being exposed to various underlying assets, such as equities, commodities, interest rates or foreign exchange rates; do not understand complex pay-out and the risks of losses; do not understand volatility, option premium and interest rates, and how they interact; do not want to take the credit risk of the issuer of the structured note; rely on current yield; do not want to risk losing all of their investment; investors should fully review the applicable offering documents or prospectus to fully understand the risks involved with purchasing a structured note.

# Things to Consider When Investing in a Structured Note:

**Credit Risk** — Evaluate the risk associated with the issuer defaulting on the structured note.

**Tax Implications** — Please consult a tax professional on the treatment of these products, as ISC does not provide tax advice.

**Liquidity Risk** — Structured notes do not have a traditional secondary market and are designed to be held to maturity; therefore, these products should be considered illiquid when purchased. However, if a structured note is repurchased by the issuer prior to maturity, the amount received may be less than the principal amount due to market factors and the time to maturity.

**Performance Risk** — Structured notes offer potential for greater upside, but there is no guarantee that the investment will outperform the risk-free rate of the return.

**Principal Risk** — If structured notes are repurchased by the issuer prior to maturity, principal can be lost as these investments are designed to be held to maturity.

**Reinvestment Risk** — if a product is auto called or redeemed early, there is no guarantee that the investor may be able to reinvest the cash flow into another investment with a comparable return or product with similar level of risk.

**Market Risk** — Structured notes are linked to the performance of an underlying asset. If the underlying asset does not go up, then the structured note may not create a return and may even generate a loss.

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