

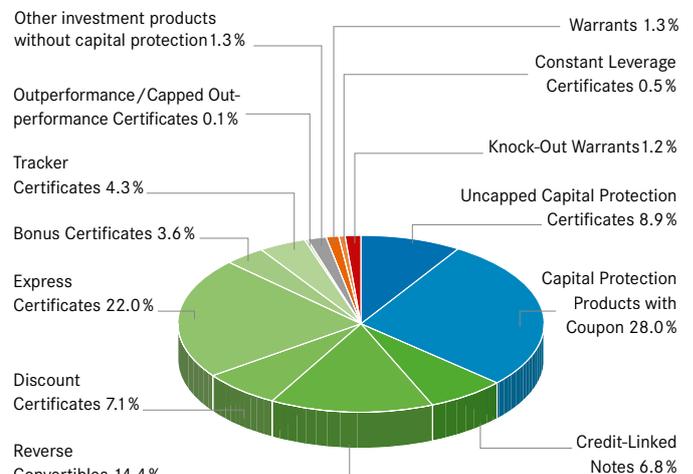
# Are structured products too risky?

Before making an investment, every private investor should be well aware of how much risk is attached to the product they are interested in. It is easy to come to the wrong conclusion. Many people feel an investment in structured products is particularly high-risk, but this is a misconception. In fact, the opposite is true of most categories of structured products.

## Facts

- Security is important for German structured product investors. More than a third of the total volume invested in structured products at the end of June 2018 was in products that offer full capital protection, and for which the investor receives at least the nominal amount back at the end of the term, even in the worst case scenario.
- German structured product investors make long-term investments. Of the total volume invested by private individuals, 97 percent is invested for a medium to long-term holding period. The remaining 3 percent is invested in the leverage products, which are more speculative.
- As bearer bonds, structured products are subject to issuer risk just as government and corporate bonds are. However, it is only if the issuer becomes bankrupt or is wound up that the structured product holder suffers a total loss or receives only part of the invested capital back. There are now ways of hedging against this default risk.

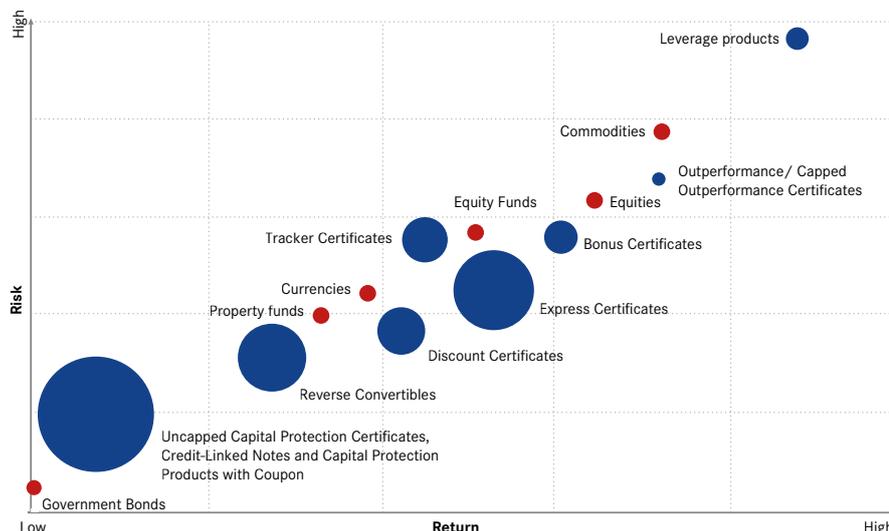
## Market volume by product category



Source: European Derivatives Group, June 2018

The facts speak for themselves. Investors use structured products to optimise returns and to minimise the risks connected with a direct investment, such as in equities. In addition, passive investments are usually more cost-effective than actively managed financial products.

## Risk-return profile of financial investments



Measured by volume, more than 95 percent of all structured products have a lower level of risk than equities.

- Structured product types by market volume
- Other financial investments (market volumes not indicated)

## Product orientation guides

### Credit Default Swaps

Every stock exchange trading day, the DDV publishes information on the Credit Default Swaps (CDS) of all important issuers of structured products in Germany at [www.derivateverband.de](http://www.derivateverband.de). These help investors correctly assess the creditworthiness of different structured product issuers. The DDV uses CDS with a maturity of five years and corporate bonds as reference assets for this purpose, as these give the cost of hedging a bond from the relevant issuer. The higher the hedging costs for the bond, the higher the market deems the probability of a payment default. Rising CDS are therefore a negative signal, while falling CDS are a positive signal.

### Detailed information readily available

Before investing in structured products, investors should first obtain all the information they need about the products in which they are interested. Detailed information is of course provided by the issuers. In addition, the DDV's website ([www.derivateverband.de/ENG/Home](http://www.derivateverband.de/ENG/Home)) provides facts and figures on every aspect of investment and leverage products.

Since the start of 2018, all potential investors have had to be provided with a Key Information Document prior to purchasing a packaged investment product. In principle, this document applies to structured products and insurance-based investment products, and will also start to apply to investment funds from 2020. The Key Information Document presents the key features and functioning of a financial product on three pages, describes in detail the associated risks and benefits of the product in various scenarios, and also lists the product costs. The Summary Risk Indicator provides a clear presentation of the risks of the investment using seven risk classes. The Key Information Document is also intended to facilitate comparison between different financial products.

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