Principal-protected Equity Linked Notes: An All-in-one Investment for Growth & Safety

Although the stock market has amply rewarded many investors for their participation in recent years, some investors are still hesitant to take on its potential risks. Because stocks provide one of the best wealth-building investments over time, these individuals are clearly missing an opportunity to benefit. Is there a more conservative way to invest for long-term growth, with a degree of safety that could calm stock market jitters? The answer may be principal-protected equity linked notes.

Growth Potential & Principal Protection
If you’d like to participate in the growth potential of the stock market but are concerned about the possibility of losing some or all of your initial investment, there may be a product that is tailored to meet your needs:

Free Details: Circle 120 on reader service card.
Principal-protected equity linked notes. These unique securities, if held to maturity, combine the growth potential of stocks with the principal protection of bonds. Under certain market conditions, the notes may trade at a discount to their issue price prior to maturity.

How Principal-protected Equity Linked Notes Work
Each equity linked note is a debt obligation of an issuer, which provides a return that is tied or “linked” to the performance of a particular stock index or basket of stocks. Unlike a typical bond, which generally pays semiannual interest and returns the principal amount at maturity, principal-protected equity linked notes pay little or no semiannual interest. Instead, at maturity, they repay all of the principal plus a percentage of any appreciation in the stock index you’ve chosen. Because the notes are issued or backed by financial institutions or other companies, repayment of principal at maturity and the supplemental return, if any, depend on the creditworthiness of the issuer.

Benefits of Equity Linked Notes
While the terms of each equity linked note vary, collectively they offer these benefits to investors:

- **Growth potential**—The return at maturity on principal-protected equity linked notes is tied to the performance of a particular stock index or basket of stocks, offering investors participation in these potential growth opportunities.
- **Diversification**—Their link to a variety of stock indices can further diversify an existing portfolio mix of stocks, bonds, mutual funds and cash.
- **Preservation of capital**—At maturity, principal-protected equity linked notes return your original investment (or the predetermined percentage of principal), regardless of market performance.
- **Liquidity**—While most principal-protected equity linked notes are structured as “buy and hold” investments, they are typically listed and traded on a major exchange to buy or sell at anytime prior to maturity.
- **Low minimum investment**—Minimum investments start as low as an affordable $15 per unit.

Columnist’s Note: This is not a complete analysis of every material fact with respect to any company, industry, security or structured product. Certain principal-protected equity linked notes require special option and/or trading approval and may or may not be suitable for all investors. In taxable accounts, special rules apply to these contingent-debt instruments, requiring the investor to recognize interest income at a predetermined rate. Investors are encouraged to consult with their own professional advisors for advice on legal, tax or regulatory issues.

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A joint effort of the Metal Finishing Suppliers Association (MFSA), the National Association of Metal Finishers (NAMF) and the American Electroplaters and Surface Finishers Society (AESF), the Manual is divided into two major sections, with chapters tabbed as follows:

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