Bloomberg BRIEF

Structured Notes

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STRUCTURED NOTES WATCH

JPMORGAN SELLS ITS BIGGEST U.S. NOTE SINCE 2010. The $234.7 million of securities are tied to its own index, a gauge that consists of seven other indexes linked to commodity futures. Page 2.

BANK OF AMERICA ISSUES YEAR'S SECOND-LARGEST EURO STOXX 50 NOTE. The $196.4 million of auto-callable securities yield at least 37 percent at maturity if the index rises. Page 3.

YAHOO-TIED NOTE IS LARGEST IN THREE YEARS. Deutsche Bank sold $26.9 million of one-year U.S. securities linked to the search company. Page 3.

INTERVIEW. Christian Wagner of Longview Capital says investors who buy volatility securities should realize that such hedging will cost money. Page 4.

VOLUMES

U.S. STRUCTURED NOTES VOLUMES*	AS OF NOV. 29	1 YEAR AGO	
Last Week (Nov. 25-29)	$1.76 bln	$1.56 bln	↓
First Quarter	$11 bln	$11.5 bln	↓
Second Quarter	$9.76 bln	$9.87 bln	↓
Third Quarter	$9.93 bln	$9.57 bln	↑
Year To Date	$77 bln	$37 bln	↓
YTD Equity	$53.5 bln	$23.6 bln	↑
YTD Rates	$10.4 bln	$5.51 bln	↓
YTD Commodities	$3.86 bln	$2.52 bln	↓

GLOBAL RATE LINKED NOTES**	AS OF NOV. 29	1 YEAR AGO	
Last Week (Nov. 25-29)	$473 mln	$1.61 bln	↓
First Quarter	$23.1 bln	$25.3 bln	↓
Second Quarter	$19.5 bln	$18.6 bln	↑
Third Quarter	$13.7 bln	$19.3 bln	↓
Year To Date	$66.6 bln	$76.2 bln	↓
YTD Int. Rate Linked	$23.2 bln	$30.5 bln	↓
YTD Credit Linked	$36.1 bln	$41.6 bln	↓
YTD Inflation Linked	$1.67 bln	$2.07 bln	↓

* Based on data compiled by Bloomberg from SEC filings.
** Based on data submitted to Bloomberg by banks. Includes Eurobond issues from all nations. Excludes variable-principal redemption, reverse convertibles, SEC-registered securities.

U.S. Note Sales Poised for First Rise in Three Years

BY KEVIN DUGAN

U.S. structured note issuance is poised to gain for the first time in at least three years, propelled by securities tied to stocks as the Standard & Poor's 500 Index soars to record highs.

Banks have sold $37.6 billion of the securities through November, compared with $37.1 billion over the same period last year, according to data compiled by Bloomberg. Investors bought $3.61 billion of structured notes last month.

Buyers increasingly prefer notes tied to stocks, as the S&P 500 has jumped 26 percent in 2013, which would be the biggest annual increase in 10 years. The Federal Reserve's accommodative policy of $85 billion a month in securities purchases has kept bond yields low and damped risks in the stock markets.

Investors want "to ride the wave as long as it goes," **Jim Kaiser**, president of **FMG Distributors Inc.**, said in a telephone interview. Structured notes also often have cushions against losses, offering protection should the market plummet, he said.

Notes tied to stocks, including reverse convertibles, make up 78 percent of all issuance this year, Bloomberg data show. That's up from 70 percent a year earlier, when investors bought $25.9 billion of the securities.

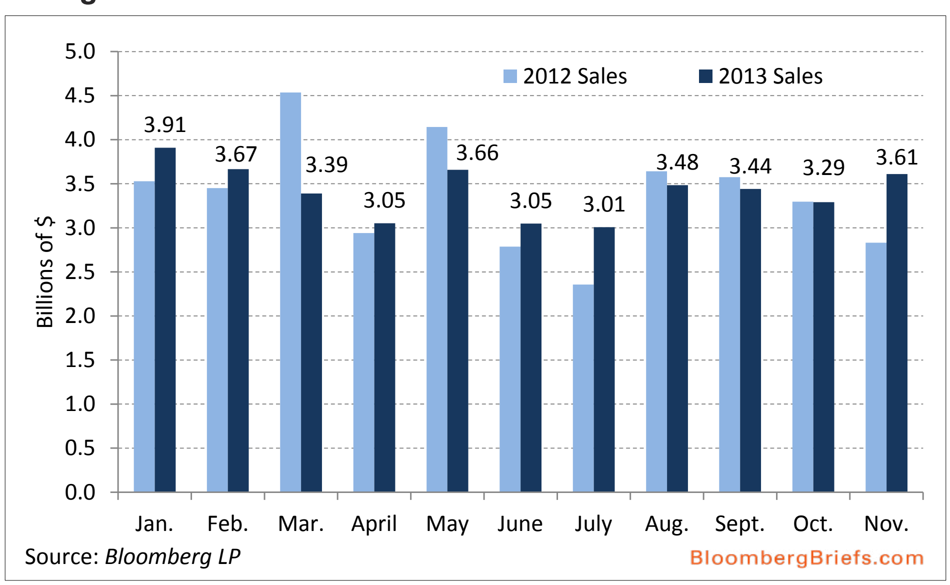
The S&P 500 is the most popular underlying index for notes this year, with $7.67 billion in sales, Bloomberg data show. The index climbed to a record high of 1,807.23 on Nov. 27. Sales of securities tied to individual stocks have also risen, as investors look to the more volatile assets for higher yields, Bloomberg data show.

Bank of America Corp., last year's top U.S. issuer, has sold the most notes, at $5.93 billion, Bloomberg data show. **JPMorgan Chase & Co.** has jumped from fourth to second place with $4.4 billion of volume.

JPMorgan "significantly ramped up" issuance of notes tied to single stocks and to indexes that use algorithmic investing strategies, **Scott Mitchell**, a New York-based

continued on next page

Strong November Sales Push This Year's U.S. Issuance Past 2012's



VOICES

Wagner of Longview Capital Says Hedging Against Jumps in Volatility Should Cost Money

Christian Wagner, chief executive officer of **Longview Capital Management**, says investors should know that hedges against surges in volatility should cost them money. He spoke to Kevin Dugan from his office in Wilmington, Delaware.

Q: How are you using volatility ETNs for your clients?

A: We operate a portfolio that includes a tail-risk hedging component, so we use various term structures and long/short versions of the exchange-traded notes to accomplish that.

Q: Which do you use?

A: We use XIV [VelocityShares Daily Inverse VIX Short-Term ETN], ZIV [VelocityShares Daily Inverse VIX Medium Term ETN], VXX [iPath S&P 500 VIX Short-Term Futures ETN], VXZ [iPATH S&P 500 VIX Mid-Term Futures ETN], SVXY [ProShares Short VIX Short-Term Futures ETF], VIXY [ProShares VIX Short-Term Futures ETF] and VIXM [ProShares VIX Mid-Term Futures ETF].

Q: Why use a volatility ETF over an ETN?

A: It has entirely to do with credit risk and if a client is concerned with it. Credit risk was a bigger deal two or three years ago.

Q: Which of those securities do you hold the most of?

A: The one we've held for the longest period of time, and the one we continue to have in our portfolios, is XIV, which is the inverse, short-term product. It's a component of a tail-risk hedge because it allows us to harvest volatility as a cost, which enables us to maintain long volatility as well.

Q: Are there events coming up where you are looking to be long volatility?

A: We look at volatility as a multi-stage series of events. Volatility will primarily react to a shock, which can be caused by anything. The next step is whether that event has follow-through. That follow-through will in turn cause volatility to go much higher, as it did in 2011. However, most issues we've had in the last couple of years, we've had shocks but no follow-through.

The third part of the equation is when volatility creeps back to the mean. That is a very, very profitable endeavor. It also creeps back to the mean very quickly, so you have to be pretty reactive to how you manage volatility in your portfolio.

Q: How do you do that?

A: We do it based on algorithms we've put together and watching what the momentum and the yield curve looks like.

Q: The last big spike in volatility was when the government shut down. Would you just short the VIX?

A: That's pretty much one of the strategies. What we look for when we implement these strategies is that once you've had a spike, have you had any significant follow-through? If not, then it's very likely you're going to get mean reversion.

The other thing folks are missing is the correlation to VIX. Futures contracts are very different from the correlation in these exchange-traded products. VIX is a non-tradable index. Assuming you're going to have some correlation of that particular index in an ETN, they're supposed to be correlated, but over long periods of time they're not correlated at all.

Q: Who are your clients?

A: Advisers and regional brokerage firms use our products. We have [registered investment advisers] and our own high-net-worth private clients group.

Q: In a Wall Street Journal article, you said VXX was an ETN that day traders love. Why?

A: It trades a lot, and at any given point in time, you can easily have one, two, three, even a 10 percent move in a day. The underlying options contracts are liquid as well.

Q: An article in The Street said that shorting the SPY would be a better trade than the VXX. Do you agree?

A: It is, if you're looking to use it as a hedge. The advantage of the VXX is the significant amount of leverage because of the underlying futures contracts.

Q: So you're only using these ETNs and ETFs as tail hedges?

A: With tail-risk hedging, you're looking for that beyond-three-standard-deviation move, where you wake up and there's this huge black swan event. We're saying we'll protect you beyond that three standard deviation with our strategies. But 80 percent of the time, we're going to be net short volatility because it's a much better trade.

Q: What's the biggest issue for investors in volatility securities?

A: These ETNs cost money, and these strategies cost money. In bull markets with 20-plus percent returns, and you're invested in these strategies, if you're going to expect that you're going to outperform, you're just not. However, if you want to have that in your portfolio so that you don't get blown up, the insurance is more than worth it. These are wealth preservation strategies, not wealth accumulation strategies.

This interview was edited for length.

AT A GLANCE

Age: 49

Career: Eight years at Longview Capital Management; director of investment services for Commerce Capital Markets Inc., now Toronto-Dominion Bank

Education: Rutgers University, bachelor's degrees in English and art history

Family: Wife, and daughter in college

Hobbies: Passionate duck hunter