VOICES

Structured CD Issuers Innovate Amid Low Rates, Baird's Kleinman Says

Issuers of market-linked certificates of deposit are changing the products to generate sales as interest rates remain low, according to **Dayna Kleinman**, senior vice president and senior product manager for alternative investments at **Robert W. Baird & Co.** in Chicago. Kleinman, who sells structured CDs along with other types of alternative products, spoke with Ben Eisen of Bloomberg Brief by phone.

Q: How do market-linked CDs and structured products differ from the other alternatives you offer?
A: Structured products tend to be almost a stepchild within our alternatives platform. It's positioned more with a focus on the CDs, really more like fixed-income plus.

Q: So the client buying a market-linked CD might otherwise buy fixed income?
A: Yes, in a lot of cases. We do a lot of the income generator deals that are linked to a basket of stocks, but this is a way to access the equity markets without taking on that principal risk.

Maybe it's good for an IRA. Maybe a baby boomer that can't afford to take that principal risk, but is trying to get more upside than you could get right now in traditional fixed income.

Q: What do market-linked CDs look like now versus before rates fell?
A: Before the market rates really tanked, you could see things that were 100 percent principal-protected that were anywhere from 18 months to three years, and have something as generic as linked to the S&P 500.

Then what you started to see happen is maturities get pushed out. And now we're at a point where you can't even see that type of generic structure or plain vanilla structure inside [a term of] seven years. And if you do, it's going to have lots of bells and whistles.

When everything had to go out five, six, seven years, the idea of waiting to get paid at maturity was less appealing than when you're dealing with a two-year structure. You saw issuers innovate toward [CDs that pay annual income].

Q: Have any offerings recently stuck out as a really good deal?
A: A couple months ago we started to see some deals. This was going into some of the volatility in August. All of a sudden, even the annual-coupon-income generators, those annual-income caps, we saw those creeping up a little. We saw more deals in the three-, four-, five-year range, instead of all being five, six, seven years. The coupons were looking pretty good. We were seeing some fee-based deals.

That was really exciting, and we definitely saw a pickup in demand based on that. Then this last month it's kind of tapered off a little bit, so some of those coupons have come back down.

This month for the first time since 2008, I believe, Morgan Stanley issued their own CD. It's one of these income baskets where it's linked to 10 stocks, and you have the potential to earn a coupon every year, I'm guessing because their funding is a little cheaper and they went to seven years. For however they can make the math work, the annual coupon is head and shoulders above anything I've seen. It was 9 percent.

Q: Can you talk about the difference between a fee-based deal and commission-based deal?
A: A regular brokerage transaction deal, which the majority of the deals are, you have to take at least, let's say, an average of two [percentage] points to pay the financial adviser. And that's baked right into that par pricing. If you take that out of the equation, that two points in a low interest rate environment is pretty significant.

Q: Market-linked CDs are often associated with proprietary indexes. Are those here to stay?
A: I think they are. We're not really following these indexes, nor do we believe it's always easy for the end user to be able to look it up and track and understand their performance payout or potential along the life of the security, so we have generally stayed away from them.

Q: Why do you no longer sell structured notes?
A: It was really a decision internally amongst risk management, compliance, legal in terms of new regulations and scrutiny, and making sure people know what they own. Is the risk-reward there for us to take on that liability, whether it's the extra training of the [financial advisers], the extra disclosures, everything that would go into sustaining our standards of providing the right suitability? Is there enough demand to justify it? And the feeling is there isn't.

Q: When did you get out of the notes?
A: Pretty much after the credit crisis.

This interview was edited for length.

AT A GLANCE

Age: 44
Career: Started at Baird in 2002 in fixed income. Before that was regional municipal bond marketing manager at Merrill Lynch.
Education: Ithaca College, bachelor's of science in marketing. DePaul University, MBA.
Family: Married to Shaun. Two sons, Gabriel, 6, and Seth, 8.
Hobbies: Cooking, working out.