A GUIDE TO INVESTING IN STRUCTURED PRODUCTS
What you should know before you buy

In very general terms, Structured Products are investment vehicles whose value is derived from, or based on, a reference asset, market measure or investment strategy. Reference assets and market measures may include single equity or debt securities, indexes, commodities, interest rates and/or foreign currencies, as well as baskets of these reference assets or market measures.

Like other well-known market instruments, such as convertible bonds, many Structured Products are a type of a hybrid product. Structured Products typically have two components — a note and a derivative, which is often an option. The note, in some instances, may pay interest at a specified rate and interval. The derivative component establishes payment at maturity, which may give the issuer the right to buy from you, or sell to you, the referenced asset at a predetermined price. For example, Structured Products may combine characteristics of debt and equity or debt and commodities.

Most Structured Products have a fixed maturity and may or may not pay an interest rate or coupon rate. Structured Products also frequently cap or limit the upside participation in the market measure, particularly if the investment offers a full return of principal at maturity, or an enhanced rate of interest. Any return of principal at maturity would be subject to the issuer’s ability to repay.

Structured Products are usually created to meet specific needs that cannot be met from the standardized financial instruments available in the markets.

They can be used as:

- An alternative to a direct investment
- A part of the overall asset allocation
- A risk-reduction strategy in a portfolio

Structured Products can be issued in various forms, including publicly offered and privately placed debt securities, publicly offered and privately placed pooled investments (such as closed end-funds and trusts), and certificates of deposit. Some Structured Products are listed on securities exchanges, while others trade in over-the-counter secondary markets.

Different types of Structured products

Structured products may be offered in a variety of strategies such as Market Linked Notes, Growth Securities, Access Securities, Yield Securities, and Market Linked Certificates of Deposit. While the category of Structured Products includes Market Linked Certificates of Deposit, this investor guide to Structured Products will focus on securities, not Market Linked Certificates of Deposit. For more information on Market Linked Certificates of Deposit, please consult your HD Vest Advisor to obtain a copy of the Guide to Investing in Market Linked Certificates of Deposit.

Structured Products can be structured to include a wide array of upside and downside features and calculations. Before investing, investors should always read and understand the applicable prospectus or offering documents, which contain important details about these features and calculations.
Market Linked Notes

Market Linked Notes offer a return of principal if held to maturity, subject to the issuer’s ability to repay. In other words, the promise to return principal at maturity is only as good as the financial strength of the company that makes the promise. In the event the issuer goes bankrupt, investors who hold these notes are generally considered unsecured creditors and might recover little, if anything, of their original investment.

Market Linked Notes are designed for investors who seek exposure to an asset class and/or who wish to reflect a certain view of the market but who also want to have the principal value of their investment returned, if the investment is held to maturity and the issuer does not default. Market Linked Notes typically will return 100% of the principal investment, but they may also provide only a partial return of principal depending on the particular structure (for example, only 90% of the principal amount may be returned at maturity with a decline in value of the underlying asset).

In general, Market Linked Notes linked to commodities, equities or indexes do not pay any coupons. The returns, if any, on these products are typically payable at maturity and depend on the performance of the underlying commodities, equities or indexes. Market Linked Notes linked to interest rates, on the other hand, typically pay higher current coupons than could be achieved by investing directly in traditional debt instruments of similar credit quality and maturity. However, those coupons may be at risk, based on the performance of the underlying interest rates and such products may be subject to call risk. It is important to note that, while these products have the potential to outperform the total interest payment of a typical fixed interest rate bond of similar maturity and credit quality, they could also underperform a typical fixed interest rate bond and could earn no return for the entire term of the note, even if you hold it until maturity. This could also allow inflation to erode the value of the Market Linked Investment.

Growth Securities

Growth securities are complex and include risks associated with the underlying reference assets and market measures in addition to risks typically associated with traditional debt securities. Growth securities seek to provide enhanced participation in the price movement of an underlying reference asset or market measure. These products generally do not offer a full return of principal at maturity, will generally have caps (maximum returns) on return potential, and will typically be subject to some degree of downside exposure linked to the underlying reference asset or market measure - meaning you could lose some or all of your principal. Growth securities may also offer contingent downside protection, whereby any return of principal is contingent on a particular event. With this feature, it is possible that an investor could lose 100% of their invested principal. For example, a growth security may offer 40% contingent downside protection; meaning, 100% of your initial investment will be returned at maturity, provided that the underlying market measure does not fall by more than 40%. For example, if the underlying market measure falls by more than 40%, an investor would participate fully 1-for-1 in the losses of the underlying market measure.

Investors should review the applicable prospectus or other offering documents of a growth security for a complete discussion of the terms, features and risks before investing.

Registration statements

Before you invest, you should read the applied prospectus and registration statement as well as any related prospectus supplements and other documents the issuer has filed with the Securities and Exchange Commission (SEC) for more complete information about the issuer and the particular offering. You may get these documents for free by visiting EDGAR on the SEC web site at sec.gov.
Yield Securities

Yield securities are more complex than traditional bonds and expose investors to risks of the underlying reference assets or market measures in addition to risks typically associated with traditional debt securities. They encompass a number of income-oriented structures which seek to provide higher current yields than what could typically be achieved by investing directly in an equity security or traditional debt instrument of similar credit quality and maturity. In many of these structures, investors give up some or all potential price appreciation in the reference asset or market measure and are exposed to downside price movements in the reference asset or market measure in exchange for this higher current yield.

There are many other yield securities available in today’s markets, each with unique risks. Investors should review the applicable prospectus or other offering documents of a yield security for a complete discussion of the terms, features and risks before investing.

Access Securities

Access securities are complex instruments that seek direct exposure to global markets, industry sectors, investment strategies, and/or asset classes allowing investors access to strategies that may otherwise be cumbersome to implement or not easily accessible to everyday investors. Access securities are often thought of as those structures that do not easily fit into one of the other three previously mentioned classifications. Though they generally do not provide for a full return of principal at maturity, they may combine attributes of market linked notes, yield securities, and/or growth securities.

For example, consider an investor who believes that small cap companies are overvalued relative to large cap companies. That investor may be interested in an access security paying a fixed coupon plus the relative performance (the performance of one asset compared to another) of a large cap stock index versus a small cap stock index. This Market Linked Investment would avoid the administrative complexity and may provide more efficient execution than implementing this investment strategy directly. Investors should review the applicable prospectus or other offering documents of an access security for a complete discussion of the terms, features and risks before investing.

Features and Characteristics

For investors who find that the risk profile of Structured Products fits their investment objectives and risk tolerance, some features and characteristics of investing in those products include:

**Potential for enhanced risk-adjusted returns.** Structured Products may complement a portfolio by providing performance characteristics of multiple asset classes within a single investment. For example, a traditional index-linked note that provides for the full return of principal at maturity typically performs more like the underlying index as the underlying index increases in value. On the other hand, it will perform more like a debt security if the underlying index decreases in value. Adding certain types of Structured Products to a well-diversified portfolio may help to decrease the overall-portfolio downside volatility, while offering the opportunity to enhance overall portfolio returns on an absolute or risk-adjusted basis.

**Tailoring the risk/return profile of underlying investments.** Structured Products often allow investors to tailor the risk/return profile of underlying investments in an effort to better express investment views, such as to either maximize potential performance or hedge risks related to individual securities or commodities, interest rates, currencies, inflation or other investments. For example, many growth and yield structures are designed to outperform their underlying assets in modest growth environments. Many structures that return an investor's principal at maturity are designed to hedge against the risk of loss in an underlying asset. There is no guarantee that any of the structures discussed will achieve the desired investment result.

**Access to investment strategies with the benefit of economies of scale.** Many Structured Products are designed to enable investors to obtain exposure to various investment strategies and markets, such as commodities and international equities (with or without currency protection), that may not be readily available through traditional investments. Investors may be reluctant to implement these trading or investment strategies directly due to difficulty in achieving execution, overall complexity or time-consuming nature. Structured Products may allow individual investors to take advantage of efficiencies and economies of scale.
Return Calculations and Features. For a particular Structured Product, the return calculation method and features differ depending on market conditions and goals of the offering. Typically, a return is calculated as price return, not total return. The following are some of the more commonly used return calculations and features for Structured Products. Since there are many other ways an issuer can calculate returns and apply product features, investors should always read the applicable prospectus or other offering documents when considering a Structured Product, and make sure they understand the calculations involved.

- **Point-to-point Calculation** - The point-to-point return calculation is the percentage change of the underlying market measure from one point in time to another, typically from the pricing date to the final valuation date.

- **Averaging Calculation** - The averaging return calculation is based on the average level of the underlying market measure observed on a specified number of valuation dates throughout the life of the Structured Product. On predetermined dates (e.g. annually, quarterly, monthly, etc.), the level of the underlying market measure is recorded and those observations are used to calculate an average. That calculated average is compared to the initial level of the underlying market measure to determine the percentage change. The averaging return calculation may result in a return that is less than a return based on the point-to-point performance of the underlying market measure.

- **Sum of Periodic Returns Feature** - The sum of periodic return feature is typically based on the sum of the returns measured over multiple discrete periods of time. These discrete periods may be of any length (e.g. annual, quarterly, monthly, etc.), but will always be specified and fixed for a particular offering. The discrete period returns are often subject to a cap and/or a floor, where the floor on the downside may be significantly lower than the cap on the upside or where there may be no floor on the downside. As a result, the sum of periodic returns feature generally provides less opportunity for appreciation than a point-to-point return calculation.

- **Contingent Periodic Interest Feature** - The contingent periodic interest feature pays periodic interest payments contingent on the performance of the components of a basket. The contingent periodic interest payments, if any, are based on the sum of the weighted component returns of each of the basket components. Typically, the basket components are equally weighted and there are limits to the positive and negative component returns for each applicable valuation period. In most cases, the limit for negative component returns is significantly lower than the limit for positive component returns. As a result, if the return of one or more of the basket components is negative during a valuation period, such negative component returns could offset entirely any positive component returns generated by the other basket components during the same period, and the periodic interest would be equal to zero.

- **Upside Participation Rate Feature** - The participation rate determines how much of the gain in the underlying market measure will be credited to the Structured Product. Participation rates can be more or less than 100%. For example, assuming a point to point return calculation, if the participation rate is 125%, then a 10% increase in the underlying market measure at maturity would lead to a 12.5% return on the investment. In a second example, if the participation rate on a similar investment were 75%, a 10% increase in the underlying market measure at maturity would lead to a 7.5% return on the investment.

Risks

Investors need to be aware of the risks of an investment in Structured Products. You should evaluate your individual financial condition and your ability to tolerate risk before investing in Structured Products. As with any investment, your HD Vest Advisor can advise you on whether Structured Products are appropriate for you based on your overall investment objectives.

Set out below are some of the most significant risks associated with investing in Structured Products. The list is not exhaustive. Particular Structured Products may involve other risks, which will be disclosed in the applicable prospectus or offering documents for those products.
Potential loss of principal. An investor may lose money investing in Structured Products. Structured Products are typically medium-term investments (terms ranging from 1 to 10 years) and generally are suitable only for clients who are able to hold the investment until maturity. Some Structured Products provide for the full return of principal at maturity, subject to the issuer’s ability to repay; others may provide for a partial return of principal, some may not offer any protection. For Structured Products that offer a full return of principal at maturity subject to an issuer’s ability to repay, an investor will be entitled to the return of the full principal amount only if the investor holds the Structured Product to maturity (or to the call date, if the Structured Product is callable at par or higher) and assuming the issuer does not default. Between purchase date and maturity, the market value (that is, the amount an investor would receive if he or she sold the investment) of a Structured Product may fluctuate substantially. If an investor sells a Structured Product before maturity, the price may be substantially less than the original invested amount, regardless of whether the product offers a full return of principal or not.

Market prices may fluctuate based on unpredictable factors. The market value of Structured Products will be affected by unpredictable factors that interrelate in complex ways. These factors may include, but are not limited to, the price or level of the underlying asset or market measure, the volatility of the underlying asset or market measure, interest rates, dividend rates, the issuer’s creditworthiness, the time remaining to maturity and geopolitical conditions. Apart from these, there are many other factors that may affect the market value of Structured Products. The past performance of any of these factors is not indicative of future results.

Credit risk. Many Structured Products are issued in the form of unsecured debt. Therefore, investors are subject to the credit risk and default risk of the issuer. If the issuer of a Structured Product defaults on its obligations, investors will receive significantly less than the principal amount of the Structured Product, even if the product offers the full return of principal at maturity.

Appreciation potential may be limited. The appreciation potential of certain Structured Products may be limited by an issuer’s call right, a pre-defined maximum payment or a capped value at maturity. Call rights may affect value. Some Structured Products allow the issuer to redeem, or “call,” the Structured Product at its sole discretion. These Structured Products are referred to as being “callable.” On predetermined dates, the issuer can choose to redeem the Structured Product prior to maturity and pay a stated call price. The call price may be above, below or equal to the par amount of the Structured Product, and may or may not include accrued but unpaid interest, if any. Typically, the issuer will call a Structured Product when it is economically advantageous to the issuer—for example, because the issuer can borrow at a lower rate or because an underlying asset has appreciated sufficiently. If a Structured Product is called, investors may not be able to reinvest their money at the same rate as the rate of return provided by the Structured Product that was called. This risk is referred to as “reinvestment risk.” Non-callable Structured Products may not be called by the issuer prior to maturity.

Value at maturity/call date. In many Structured Products, the value paid to the investor at maturity or the specified call date is based on the market value of the underlying asset or market measure as of the valuation date, as detailed in the offering documentation. There may be significant fluctuations of the market value between the trade date and the specified valuation date; however, it is the value as of the valuation date that will determine the payout to the investor at the maturity/call date.

Interest payments. Although many Structured Products are issued in the form of debt, there may not be periodic interest payments on certain Structured Products. In some cases, the interest rate may fluctuate, be reduced, or be suspended upon the occurrence of specified events. The yield may be lower than on other investments. An investment in a Structured Product may not reflect the full opportunity cost to the investor when factors that affect the time value of money are taken into account. In certain cases where there is a significant rise in interest rates, a coupon cap embedded into a Structured Product could negatively affect the market value of the product.

Liquidity. Structured Products are usually not listed on a securities exchange. Even if a Structured Product is listed on a securities exchange, there is no assurance that a liquid trading market for that Structured Product will develop. Some issuers may provide a secondary market, though they are not obligated to do so. However, depending on demand, the notes might trade at a significant discount to their purchase price and might not return the full amount of principal. In addition, the value of the Structured Product before maturity might be difficult to calculate and can vary depending on a wide variety of factors.
Tax treatment

Tax treatment of many Structured Products is potentially complex and may be uncertain. In addition, the tax treatment of an investment in many Structured Products may differ from the tax treatment of an investment in traditional investments, such as conventional debt securities or common stock. Also, the timing and character of income payments, as well as amounts received upon sale, exchange, redemption or maturity may differ from the timing and character of equivalent payments on more conventional investments, including the assets to which a Structured Product may be linked.

Structured Product that provide for a return of principal at maturity. These Structured Products are generally treated as debt for United States federal income-tax purposes. Depending on the payoff characteristics of a particular Structured Product, it will either be treated as conventional debt or it will be subject to special rules governing “contingent payment debt instruments,” often referred to as “contingent debt.”

The holder of a contingent debt instrument will generally be required to pay taxes on ordinary income over the term of the contingent debt instrument based on the issuer’s comparable yield, even though the holder may not receive any payments until maturity. This is the case even if the contingent debt instrument is issued at par. In addition, even though a contingent debt instrument is linked to an asset that would otherwise give rise to capital gain or loss upon sale, such as stocks or commodities, any gain or loss realized upon sale, early redemption or maturity of a contingent debt instrument will generally be treated as ordinary income.

Principal at risk Structured Products with current income. In general, depending upon the particular structure, principal at risk Structured Products that pay current income, such as, yield securities and certain access securities, may be characterized either as prepaid forward contracts or, if the product does not provide participation in the appreciation of an underlying asset, may be split into separate instruments for tax purposes, such as a non-contingent debt instrument and a short put option. Other tax characterizations are also possible.

If a Structured Product pays current income is characterized as a prepaid forward contract, it is likely that the holder will be taxed on any income payments as ordinary income in the year received. If the Structured Product is split into a non-contingent debt instrument and a short put option, the portion of the income payments attributable to the debt instrument will be taxable as ordinary income in the year received, and the portion attributable to the put option will be deferred.

As a result of the complexities of tax-reporting requirements, and since HD Vest is not a tax or legal advisor, you should consult with your tax advisor or attorney prior to investing in Structured Products.

Additional Information

You’ll find more information about Market Linked Investments by visiting the following web sites:
Financial Industry Regulatory Authority (FINRA) www.finra.org
U.S. Securities and Exchange Commission
www.sec.gov
Securities Industry and Financial Markets
Association (SIFMA)
www.sifma.org
Cost of Investing Structured Products

Cost of investing in Structured Products Costs and expenses of investing in a Structured Product may reduce the value of an investment as well as the return on the investment. An understanding of the costs and expenses associated with a Structured Product is essential in determining whether that product is a suitable investment. Some Structured Products may have costs that can be relatively high, and difficult to understand. The expenses in Structured Products include, but are not limited to:

Underwriting discounts and selling concessions
Like most other investments, the offering price for a Structured Product includes underwriting discounts and commissions that are paid to the lead underwriter(s) as compensation for their managing and distributing the investments and for incurring underwriting liability. For publicly registered offerings, the total amount of discounts and commissions is disclosed up-front in the related prospectus. The separate components of the total compensation, including the underwriting discount (if any), the selling concessions, and any other similar placement or referral fees, are disclosed in the related prospectus.

In a traditional offering of a Structured Product, the selling concession is paid at the time of the initial offering; however, for certain Structured Products, a portion of the selling concession may be paid at the time of the initial offering, and the remainder may be paid over time to broker-dealers whose clients continue to hold the investments on specified dates.

Other costs
The issuer of a Structured Product will typically seek to hedge its obligations in an effort to reduce its exposure to the price movements of the underlying asset(s). The counterparty that executes these hedges for the issuer (the hedging counterparty) expects to earn a profit in return for assuming the risks of hedging. Therefore, in addition to the underwriting compensation and selling concession, the initial offering price of a Structured Product typically reflects the cost of hedging the issuer’s obligations, including the projected profit of hedging.

Some Structured Products may include an adjustment amount that reduces an investor’s exposure to the underlying asset or market measure. The adjustment may be a one-time adjustment at the time of issuance and/or an ongoing adjustment over time. This adjustment can cause the return on the Structured Product to be lower than the return on the underlying asset or market measure. This type of fee structure is most common for principal at risk Structured Products in the Access investment strategy. The adjustment can consist of a number of components, including ongoing selling concessions, hedging costs, expenses and projected profit, and will be disclosed in the prospectus relating to the offering.

HD Vest and your HD Vest Advisor are compensated in ways that vary depending on the investment. The sales commissions charged on Structured Products will vary depending on factors such as term and complexity. The hedging counterparty expects to earn a profit over time; this profit is highly subject to market conditions, can be higher or lower than projected, and may be negative. Structured Products bought in the secondary market, whether on a securities exchange or over-the-counter, will be subject to transaction costs, and the secondary market prices will typically reflect bid/offer spreads.

Effect of costs on secondary market transactions
Assuming no change in market conditions or any other relevant factors affecting a Structured Product, secondary market prices for that Structured Product will likely be lower than the original issue price, since the original issue price included, and secondary market prices are likely to exclude, commissions paid with respect to the Structured Product, as well as the projected profit included in the cost of hedging the issuer’s obligations under the Structured Product.

Investor characteristics

Suitability. Structured Products are not suitable for all investors. You should consider your individual financial condition and your ability to evaluate and tolerate the risks before you invest in Structured Products. Structured Products can have complicated pay-out structures that can make it hard to accurately assess their risk and potential for growth. Investors should always read a product’s applicable prospectus and other offering documents carefully. For assistance, contact your HD Vest Advisor to ensure you understand the mechanics of the product.

Diversification. HD Vest believes that investors should diversify their investments. It is recommended that investors observe an asset-allocation strategy and not overweight their overall portfolio in any one class of investment including Structured Products. Although asset allocation can be an effective investment strategy, it cannot eliminate the risk of fluctuating prices, uncertain returns, and credit risk. Diversification does not guarantee profit or protection against loss in declining markets.
How your HD Vest Advisor and HD Vest are compensated on Structured Products

In helping to determine the most appropriate Structured Product for you, HD Vest and your HD Vest Advisor work with a third party Firm, Advisors Asset Management (AAM). For over 30 years, AAM has been assisting broker dealers and advisors by providing access to many different investment offerings, including Structured Products. AAM, HD Vest and your HD Vest Advisor will collectively receive from the agent, a fixed sales commission for each security they sell. This commission will vary with maturity and structure of the product that is purchased. Additional information regarding fees and commissions are disclosed in the offering prospectus.

In most cases, a HD Vest Advisor’s compensation is based on the dollar amount purchased or sold. In certain fee-based accounts, a HD Vest Advisor’s compensation is based on a percentage of assets in the account, rather than on the aforementioned commission. The compensation formula that determines the amount of payment to your HD Vest Advisor is generally the same for all Structured Products. For questions regarding compensation please consult your HD Vest Advisor.