Structured products Americas Awards 2010

US distributor

Wells Fargo

Over the past year Wells Fargo has emerged as a national powerhouse in structured products. The bank's acquisition of Wachovia in October 2008 massively increased the company's distribution capability, giving its structured products business an overnight shot in the arm.

"Prior to acquiring Wachovia, the Wells Fargo distribution channel had about 1,500 brokers and salespeople, but Wachovia's broker-dealer division gave us another 10 times as many brokers," says San Francisco-based Matt Ginsburg, the group's managing director in charge of structured products. Ginsburg continues, "We began 2009 marketing our products through the modest legacy Wells Fargo brokerage channel, then integrated the legacy Wachovia brokerage channel and ended the year marketing through more than 15,000 financial advisers. We also expanded our distribution to include more than 100 third-party broker dealers." Not bad for a business that was once a sleepy San Francisco boutique.

One satisfied customer is St Petersburg, Florida-based broker-dealer Raymond James, which has been distributing Wells Fargo's market-linked certificates of deposit (CDs) to its network of financial advisers since January 2009. "It has done a tremendous job in assisting our firm in the growth of our structured products business," says Tom Layton, director of structured products in the alternative investments group at the firm. "Above all, we find tremendous value in its team's efforts to understand our business needs and cater its services to supporting those needs from both a product and service perspective."

Structured products wrapped as CDs with underlying exposure to equities or other markets have been a major seller for Wells Fargo. When Lehman Brothers collapsed and investors suddenly took fright at the thought of the credit risk inherent to structured notes, CDs, which fall under the Federal Deposit Insurance Corp's (FDIC) protection scheme suddenly looked very appealing. That demand was heightened by the fact that a lot of investors had suffered losses on reverse convertibles.

Reverse convertibles were the most popular structured product in the US prior to the financial crisis, says Ginsburg, with investors chasing the potentially high yields generated from the structure's embedded short put position. That high yield came at a price, which was accepting downside exposure on the equity component. "Many brokerage houses were happy to cater to investors hungry for high yields, some of whom were perhaps less than fully focused on high risk. When the equity market collapsed, the reverse convertibles market collapsed. Many distributors who had built their business around the sale of reverse convertibles found themselves inundated with unhappy customers," says Ginsburg.

The Lehman bankruptcy-induced focus on credit risk and the reverse convertibles-induced focus on market risk created unprecedented demand for Wells Fargo's CDs, and since the firm had led the way in introducing the products – the bank introduced market-linked CDs in 2005 – it was in the perfect position, having acquired Wachovia, to make the most of that demand.

"Market-linked CDs had been available for years, but often the lack of a coupon and low prospective returns, when compared to a direct investment in the market, overshadowed the benefits of principal protection. Not any longer," says Ginsburg. "Additionally, a feature long taken for granted, FDIC insurance, became a prominent and unique element. We believe that a low-risk asset allows investors to include a greater proportion of risky asset class investments in a portfolio. For that reason, we historically eschewed the reverse convertible and emphasised market-linked CDs," he says.

Wells Fargo is distributing CDs on a diverse range of underlyings. One example is its CD linked to the S&P BNP Spectrum Long/Short Excess Return Index, a 'market-neutral' systematic alternative returns index designed by BNP Paribas. The strategy is overlaid with a volatility-control mechanism to limit risk, and the aim is to give retail investors access to the type of alternative investment once only open to large sophisticated investors. Wells Fargo has sold $255 million worth of the product.

Another popular example is CDs linked to the Rogers International Commodity Index (Rici), which offers exposure to a diversified basket of raw materials selected by the well-known investor Jim Rogers. Wells Fargo was one of the first houses to offer principal-protected commodity-linked investments back in 2004. It partnered with Rogers in 2008 and brought new issues of Rici-linked CDs to the market in every month of last year, making sales of more than $213 million.

Also in 2009, Wells Fargo distributed a foreign exchange-linked CD combining currency diversification with indirect exposure to commodity prices and inflation. The BANC Currency Basket market-linked CD referenced the US dollar versus the currencies of Brazil, Australia, Norway and Canada. Wells Fargo offered the product for four months in 2009, leading to sales in excess of $100 million.