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HNIs warm up to golden cushion structured notes

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A complex structured product involving equity options is gaining popularity among the well-heeled investors. Wealth managers are pushing this product known as 'golden cushion structures' to rich investors with a pledge of higher-than-average returns along with protection of the capital invested.

In this product, investors are essentially taking a bet that the market will remain firm by the time the tenure of the product ends, which is two to three years. The product makers purchase and write call options of the Nifty at various levels based on their outlook for the index. The calculation is that investors would pocket 50-60% returns after two to three years. However, the key to such staggering returns is the timing of the entry into this product. So, if the investor parks his fund at Nifty levels of 5200, the 'bet' or the 'condition' is that he will pocket up to 60% of the principal amount, if Nifty stays above entry levels (Nifty at 5200) at product maturity.

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Reliance Capital, Kotak Mahindra Bank, Edelweiss Capital and Maquarie, among others, are among the main issuers of golden cushion structured notes.