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Upside Japan Structures Find Favor April 29, 2011 08:06 PM GMT

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--Mike Kentz

Investment advisers are looking to capture upside moves on Japan in bespoke structures on Japanese exchange-traded funds as they move away from trending commodity structural plays, according to advisers and structurers.

One such structure being sent out to issuers for pricing would utilize the iShares MSCI Japan Index ETF, maturing in 18-months with a 300% upside participation rate and no downside buffer. Regatta Research and Money Management is getting bids on the structure from several issuers, including Harris Bank, Morgan Stanley and HSBC. The RIA is looking to push the structures to retail clients and other financial advisors.

Originally, HSBC offered an issuance of the same type of structure, but with an upside cap of 10-15%, a participation rate of 200%, and a downside buffer of 10%. Regatta, though, felt a more leveraged participation rate was appropriate considering investing sentiment on Japan has been overly negative. "We believe valuations provide a cushion in this case [as well]," Eric Greschner, founder of Regatta in Los Angeles, Calif. told *Derivatives Week*. "We also want a structure that provides a 1% per month targeted return, and we know we can hedge by simply taking a short position in the EWJ or even short a leveraged mutual fund as an alternative. We want to provide a short-term and situation specific hedge as opposed to something that is built into the structure over the entire term." Greschner added that he felt the recent trend of commodity-linked structures had been overplayed.

Rick Cabanes, structurer at Hapoalim Securities in Los Angeles, said sentiment on Japan appeared to be more positive on the back of increased government spending after the earthquake. "Commodities have been hot for quite some time and the penultimate question [investors are asking themselves] is when does the trend reverse itself?" Cabanes told *DW*. "Judging by the pattern we saw after the Kobe quake in Japan in 1995 when loosened Japanese purse-strings for reconstruction lead to a stimulated economy, many investors are expecting the same type of growth this time around. As a result, we've seen some interest in structuring investments around the theme of a Japanese recovery."

Calls to the press offices of Harris, MS, and HSBC were not returned by press time.

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