



Weekly Hot Take

Structured Products: From Holding to Earning

Oct 23, 2024

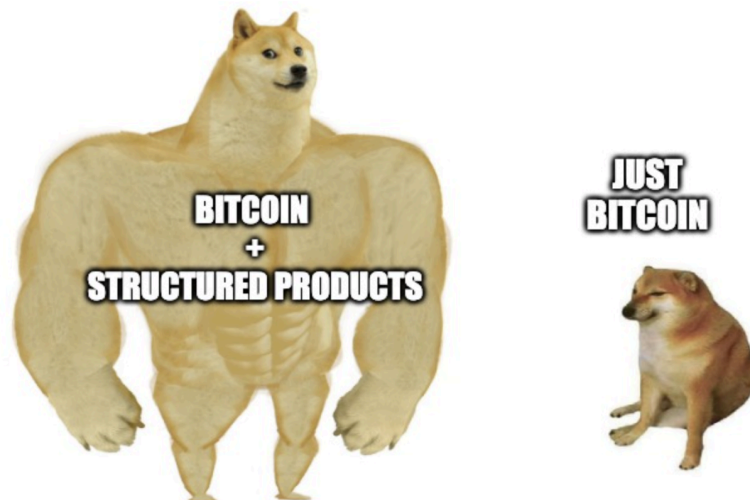
Min Jung | Research Analyst

minjung@prestolabs.io

Contents

- 1. Introduction
- 2. The Rise of Crypto on the Balance Sheet
- 3. Structured Products: The Basics
 - 3.1. Terminology
- 4. Strategies
 - 4.1. Principal Protection
 - 4.1.1. Bonus Coupon
 - 4.1.2. Spot-Forward Basis
 - 4.2. Buy Low / Sell High
 - 4.2.1. Accumulator
 - 4.2.2. Decumulator
 - 4.3. High Yield
 - 4.3.1. Shark Fin
 - 4.3.2. Autocallable
 - 4.4. Directional & Hedging
 - 4.4.1. Collar
- 5. Q&A with Michael, Head of Institutional Solutions
- 6. Final Words

Figure 1 : Structured products allow people to generate yield on their holdings



Summary

- As digital assets mature, they are becoming a key part of corporate and national balance sheets, with companies like Tesla and even nations like El Salvador investing in Bitcoin. This marks a shift toward treating crypto as a long-term financial asset rather than a just short-term speculative investments.
- Structured products allow investors to earn yield on their holdings by using customised financial instruments. These products, drawn from traditional finance, provide ways to generate income while still holding digital assets.
- Investors can choose from various structured product strategies, depending on their risk tolerance and goals. Whether aiming for principal protection, high-yield opportunities, or betting on market direction, these products offer flexibility in managing crypto portfolios.

1. Introduction

At Bitcoin 2024 - Nashville, Donald Trump famously declared, "Never sell your Bitcoin!" Now that we've all become HODLers, the next big question arises: what should we do with our Bitcoin? Are we just going to let it sit in our wallets, gathering digital dust? The crypto world has evolved, and simply holding Bitcoin is no longer the only option. As digital assets increasingly resemble traditional financial products, we now have opportunities to earn a yield on our Bitcoin. One such opportunity is through *structured products*. In this article, we'll explore the current landscape of crypto on balance sheets, dive into what structured products are, examine different strategies tailored to investors' needs, and include a quick Q&A with Michael, Head of Institutional Solutions at Presto.

2. The Rise of Crypto on the Balance Sheet

As crypto matures into an institutional financial asset, it's no surprise to see major headlines like "MicroStrategy Acquires More \$BTC" or "Hedge Funds Add Bitcoin to Portfolio." While crypto assets were once primarily held by crypto-native foundations and a few investment firms, they have now become part of the investment portfolios of more traditional corporations like Tesla and Metaplanet—and even at a national level, such as Venezuela.

Figure 2 : Bitcoin holdings by companies and nations

	# of Bitcoin	\$ Value		# of Bitcoin	\$ Value
MicroStrategy Inc.	252,220	\$17,241,648,879	United States	203,239	\$13,904,460,000
Tesla, Inc.	11,509	\$786,750,206	China	190,000	\$12,998,730,000
Metaplanet Inc.	855	\$58,480,102	El Salvador	5,906	\$404,060,000
Block.One	164,000	\$11,219,950	Tether	75,354	\$5,155,290,000
NEXON Co Ltd	1,717	\$117,373,369	The Tezos Foundation	6,169	\$422,020,000

Source: Presto Research, Coingecko, bitcointreasuries

With this shift, the need to manage crypto assets—similar to cash or other investments on corporate balance sheets—is growing. Just as companies use cash to invest in real estate or financial products, the next logical step after acquiring digital assets is to find ways to earn a yield on them. This trend reflects

the increasing confidence in crypto as a long-term store of value, while also opening the door to more innovative financial tools for asset management.

3. Structured Products: The Basics

So, how can we make our Bitcoin work for us? Enter *structured products*. But before diving into specific strategies, let's first understand what a structured product is.

A structured product is a highly customizable financial instrument that combines different components like bonds, options, and derivatives to create tailored investment solutions. Traditionally used in traditional finance (TradFi) to balance risk and reward, structured products are now being utilized in crypto. These products allow investors to generate yield on their holdings or accumulate assets more strategically.

Think of a structured product as a custom-built financial vehicle. Depending on the investor's goals—whether it's capital preservation, income generation, or speculative growth—it can be designed to meet specific needs. In crypto, structured products often incorporate Bitcoin or other digital assets along with financial derivatives, offering personalised investment solutions.

3.1 Terminology

Before we dive into specific examples, it's helpful to understand a few basic terms when discussing the different designs of structured products.

- **Underlying Index:** The asset or index that the structured product is based on (e.g., Deribit BTC-USD index).
- **Knock-In/Knock-Out:** A feature that activates (knock-in) or deactivates (knock-out) a product's payout based on certain price movements of the underlying asset.
- **Strike Price:** The set price at which the buyer of an option can purchase or sell the underlying asset.
- **Call Option/Put Option¹:** Financial contracts giving the holder the right to buy (call) or sell (put) the underlying asset at the strike price before a certain date.
- **p.a. (per annum):** An annualised rate, typically referring to interest or return on investment.

4. Strategies

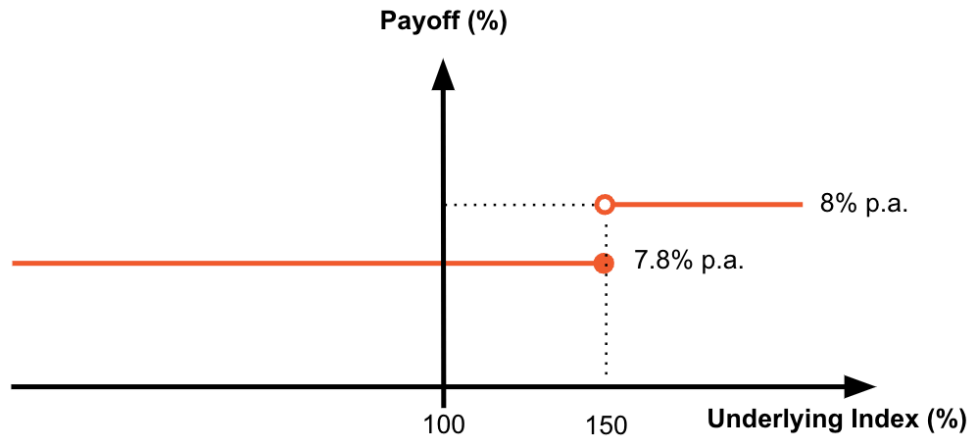
In this section, we explore four types of strategies offered by structured products: 1) Principal Protection, 2) Buy Low / Sell High, 3) High Yield, and 4) Directional & Hedging.

4.1 Principal Protection: "My priority is preserving my capital"

4.1.1 Bonus Coupon

- The investor maintains a neutral outlook, as bonus coupon rewards are granted regardless of underlying performance.
- This product offers additional interest if the final valuation price of the underlying asset remains within a specified range.
- Capital is 100% principal protected.

¹ To learn more about the options, please refer to our previous research [here](#).

Figure 3 : Payoff Graph of a Bonus Coupon Structured Product

Source: Presto Research

Payoff at Maturity:

- i) If final underlying price \leq 150% of initial price, Redemption = 107.8% of principal
- ii) If final underlying price $>$ 150 % of initial price, Redemption = 108% of principal

4.1.2 Spot-Forward Basis

- The investor maintains a neutral outlook.
- The basis trade arbitrages price differences between the spot and the futures (delivery) market.
- Capital is 100% principal protected.
- Key use cases:
 - Arbitrage: Capture profits from price discrepancies between the spot and futures prices (e.g., buying in the spot market and selling in the futures market if the futures price is higher).
 - Hedging: Protect against price volatility by locking in future prices (e.g., a miner hedging future Bitcoin sales).
 - Yield Enhancement: Use a cash-and-carry trade to generate returns by leveraging the interest rate differential between spot and futures markets.

4.2 Buy Low / Sell High: “How should I buy/sell Bitcoin at a good price?”

4.2.1 Accumulator

- The investor maintains a neutral-to-positive view of the selected underlying asset.
- This product allows the investor to accumulate the underlying at a discounted forward price.
- The investor has the potential to profit even if the price of the underlying remains unchanged or declines slightly, as long as it stays above the forward price.
- Profits are realized by selling the accumulated underlying, which will be delivered to the investor.
- Leverage or gearing options can be applied with variation margin, subject to discussion.

Figure 4 : Payoff Chart of a Accumulator Structured Product

Scenario Analysis 1

- Purchase 1 BTC on a weekly basis at USDT 54,000 for 12 weeks off spot at USDT 60,000.
- No knock-out event has occurred.

Final Price (% of Spot)	Final Price (USDT)	No. of BTC accumulated	Profit/Loss (USDT)
110	66,000.00	12	144,000.00
105	63,000.00	12	108,000.00
100	60,000.00	12	72,000.00
90	54,000.00	12	0.00
80	48,000.00	12	-72,000.00
70	42,000.00	12	-144,000.00

Scenario Analysis 2

- Purchase 1 BTC on a weekly basis at USDT 54,000 for 12 weeks off spot at USDT 60,000.
- Knock-out event has occurred on week 3 during the protected period.

Final Price (% of Spot)	Final Price (USDT)	No. of BTC accumulated	Profit/Loss (USDT)
125	75,000.00	3	63,000.00
120	72,000.00	3	54,000.00
115	69,000.00	3	45,000.00
110	66,000.00	3	36,000.00
105	63,000.00	3	27,000.00
100	60,000.00	3	18,000.00

Source: Presto Research

Payoff at maturity:

On final valuation date: Redemption: (Final price – Forward price) x Number of Shares Accumulated)

4.2.2 Decumulator

- The investor holds a neutral-to-negative view on the underlying.
- The investor is prepared to sell the underlying at the forward price over the tenor of the contract.
- The investor profits by selling at the predetermined price, even if the asset's price remains flat or declines slightly.
- However, there is no protection against significant price drops.
- Leverage and margin options can be applied, subject to agreement.

Figure 5 : Payoff Chart of a Decumulator Structured Product

Scenario Analysis 1

- Purchase 1 BTC on a weekly basis at USDT 54,000 for 12 weeks off spot at USDT 60,000.
- No knock-out event has occurred.

Final Price (% of Spot)	Final Price (USDT)	No. of BTC accumulated	Profit/Loss (USDT)
110	66,000.00	12	144,000.00
105	63,000.00	12	108,000.00
100	60,000.00	12	72,000.00
90	54,000.00	12	0.00
80	48,000.00	12	-72,000.00
70	42,000.00	12	-144,000.00

Scenario Analysis 2

- Purchase 1 BTC on a weekly basis at USDT 54,000 for 12 weeks off spot at USDT 60,000.
- Knock-out event has occurred on week 3 during the protected period.

Final Price (% of Spot)	Final Price (USDT)	No. of BTC accumulated	Profit/Loss (USDT)
125	75,000.00	3	63,000.00
120	72,000.00	3	54,000.00
115	69,000.00	3	45,000.00
110	66,000.00	3	36,000.00
105	63,000.00	3	27,000.00
100	60,000.00	3	18,000.00

Source: Presto Research

Payoff at maturity:

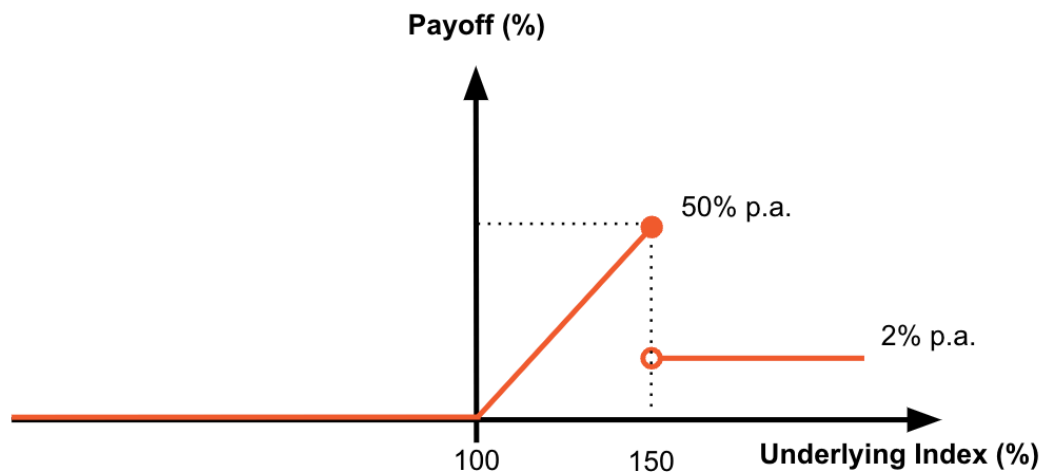
On final valuation date: Redemption: (Forward price – Final price) x Number of Shares Decumulated)

4.3 High Yield: “I want to earn more on my Bitcoin.”

4.3.1 Shark Fin

- The investor adopts a mildly bullish view, as the Shark Fin product offers higher returns when the underlying asset expires within a predefined range.
- However, returns may be limited if the knockout barrier is breached or if the underlying asset is below or above the initial spot price on the final valuation day.
- Capital is 100% principal protected.

Figure 6 : Payoff Graph of a Shark Fin Structured Product



Source: Presto Research

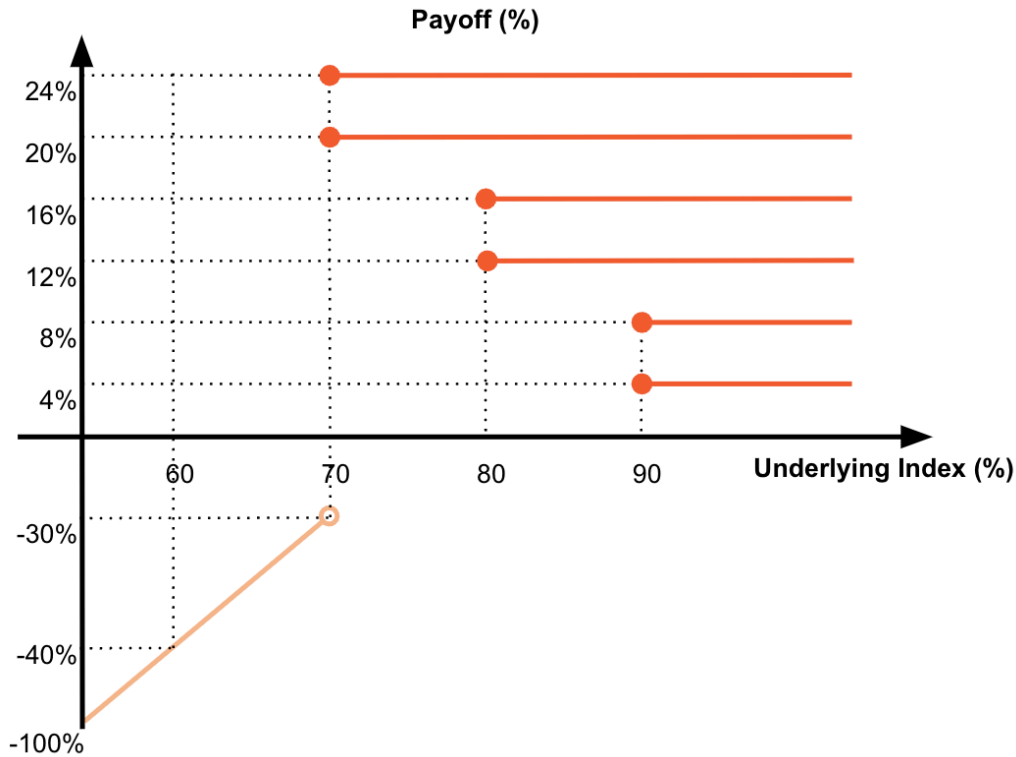
Payoff at maturity:

- If Final valuation price $\leq 100\%$ of initial price, Redemption = 100% of principal
- If Final valuation price $\geq 100\%$ and no KO event was observed: Redemption = $100\% + 50\% \times (\text{final valuation price} - \text{initial price}) / \text{Initial price}$
- KO event observed: 102% of principal

4.3.2 Autocallable

- The investor maintains a bullish outlook, as the Autocallable product offers a high coupon if the underlying asset surpasses an upside barrier. The trade automatically matures, and the investor's principal is returned.
- The position is financed by selling a downside put option to purchase a series of upside up-and-out call options.

Figure 7 : Payoff Graph of an Autocallable Structured Product



Source: Presto Research

Payoff at maturity:

i) On each valuation date, if underlying index is equal to or greater than the early termination barrier, the trade is early terminated and the coupon amount is paid

- Otherwise, if the underlying index is strictly less than the early termination barrier, then, no coupon amount will be paid

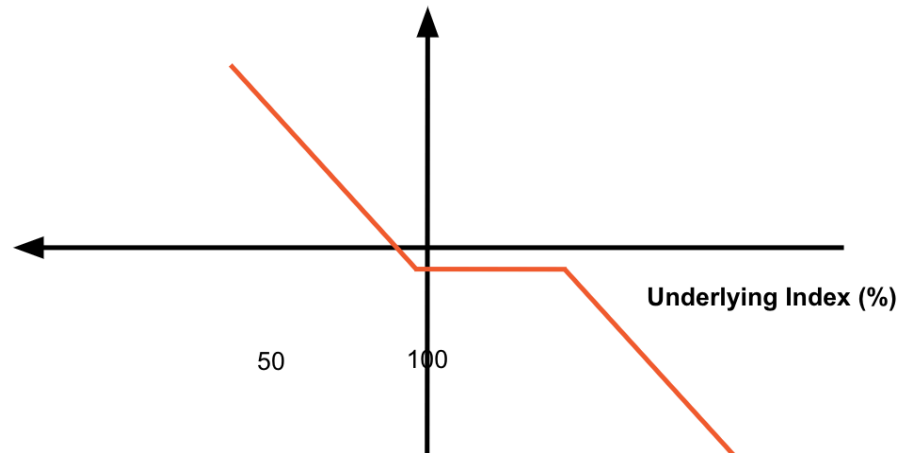
ii) On the final valuation date, if the underlying index is equal to or greater than the early termination barrier, the trade is terminated and the coupon amount is paid

- Otherwise, if the underlying index is strictly less than the early termination barrier, Redemption = $\{(Final\ Valuation\ price/Initial\ Valuation\ price)-1\} * 100\%$

4.4 Directional & Hedging: "Positioning for Bitcoin's next big move"

4.4.1 Collar

- The investor holds a neutral-to-bearish view on the underlying asset.
- The investor seeks to protect against downside risk by purchasing a put option while financing this protection by selling a call option at a higher strike price.
- The investor profits by limiting losses if the asset declines, while capping gains at the strike price of the sold call.
- A zero-cost strategy can be structured upon discussion.

Figure 8 : Payoff Graph of a Collar Structured Product

Source: Presto Research

5. Q&A with Michael, Head of Institutional Solutions

1) Can you briefly introduce yourself and your role at Presto?

I'm Michael, and I work as Head of Institutional Solutions at Presto. My focus is on developing structured products that integrate with digital assets, working closely with product development and risk management. My goal is to create offerings that meet investor needs and leverage the advantages of blockchain technology, helping clients enhance their investment strategies in this evolving space.

2) How do you see the landscape of structured products evolving in the digital asset space?

The landscape is rapidly evolving, with structured products playing a bigger role in providing sophisticated solutions that were once limited to traditional markets. Blockchain technology will lead to more customizable and transparent products. In a low-interest rate environment, investors are seeking higher yields, and structured products can fill that gap. As regulatory clarity improves and institutional adoption rises, I believe structured products tied to digital assets will become more common, offering a range of risk-return profiles that appeal to both retail and institutional investors.

3) What key factors should investors consider when incorporating structured products into their digital asset portfolios?

Investors should first assess the risk of the underlying assets and how they fit with their overall strategy. Digital assets can be volatile, so structured products should either manage risk or enhance returns. Liquidity is crucial, as some products lock capital for a period. Regulatory concerns, counterparty risk, tax implications, and cost structures are also key factors to consider when integrating structured products into digital asset portfolios.

6. Final Words

As crypto continues to mature, investors are no longer limited to simply holding digital assets in their wallets. With the rise of structured products in the crypto space, there are now innovative ways to earn a yield while managing risk, much like in traditional finance. From principal protection to high-yield strategies, structured products offer a tailored approach that caters to different investor needs and risk profiles.

For both institutional and individual investors, this opens up new opportunities to grow wealth while still participating in the exciting, volatile world of digital assets. As more corporations and even nations start adding crypto to their balance sheets, the demand for sophisticated financial tools will only continue to grow. In this evolving landscape, understanding how to leverage structured products can be a key to turning your crypto holdings from passive assets into active investments.

About Presto

Founded in 2014, Presto is a proprietary trading and financial services firm specializing in algorithmic trading across both digital assets and traditional markets. With a focus on delivering exceptional value for clients through a rigorous, research-driven approach to investment and trade execution, Presto processes over 100 million trades daily. The company maintains a global presence with offices in various countries, including Singapore. Presto Research is a research unit within Presto.

Find out more at <https://www.prestolabs.io>.

Follow Presto for more content: [X](#), [LinkedIn](#)

Follow Presto Research for latest research : [X](#), [Telegram](#)

Authors

Min Jung, Research Analyst

[X](#), [Telegram](#), [LinkedIn](#)

Required Disclosures

Any expression of opinion (which may be subject to change without notice) is personal to the author and the author makes no guarantee of any sort regarding accuracy or completeness of any information or analysis supplied. The views and opinions expressed herein are those of the author(s) and do not necessarily reflect the views of Presto Labs or its affiliates. This material by itself, is not and should not be construed as an offer or a solicitation to deal in any investment product or to enter into any legal relations. This material is for informational purposes only and is only intended for sophisticated investors, and is not intended to provide accounting, legal, or tax advice, or investment recommendations, or an official statement of Presto Labs or its affiliates. Presto Labs, its affiliates and its employees make no representation and assume no liability to the accuracy or completeness of the information provided. Presto Labs, its affiliates and its employees also do not warrant that such information and publications are accurate, up to date or applicable to the circumstances of any particular case. Certain statements in this document provide predictions and there is no guarantee that such predictions are currently accurate or will ultimately be realized. Prior results that are presented here are not guaranteed and prior results do not guarantee future performance. Recipients should consult their advisors before making any investment decision. Presto Labs or its affiliates may have financial interests in, or relationships with, some of the assets, entities and/or publications discussed or otherwise referenced in the materials. Certain links that may be provided in the materials are provided for convenience and do not imply Presto Labs' endorsement, or approval of any third-party websites or their content. Any use, review, retransmission, distribution, or reproduction of these materials, in whole or in part, is strictly prohibited in any form without the express written approval of Presto Labs. Presto Research and related logos are trademarks of Presto Labs, or its affiliates.