

Banner: Understanding Crypto Structured Products

Meta Description: Crypto structured products are packaged investment strategies that offer a tailored risk-return profile. Explore how they work, their risks and benefits, and the different types.

What Are Crypto Structured Products?

In the 1990s, structured products made their debut in the financial industry. Since then, they have gained popularity among financial institutions and retail investors worldwide. What makes them so appealing? To put it simply, they are packaged investment strategies based on derivatives linked to an underlying asset. On top of that, their popularity lies in their ability to offer a tailored risk-return profile, which can be customised to suit individual investor needs.

Over the years, structured products have continuously expanded and evolved, but the underlying concept remains a constant — they allow investors to express their market views on the future performance of an underlying asset. As a result, investors can gain exposure to new markets and assets without risking their capital. The same principle applies to crypto structured products where digital assets, such as Bitcoin and Ether, take centre stage.

In this article, we shed light on the definition of crypto structured products, the different types of options available, and their advantages and disadvantages. By understanding how these products work, investors can make more informed decisions, leading to potentially better investment outcomes.

Understanding Crypto Structured Products

Although the market size of crypto structured products is relatively small compared to their traditional finance (TradFi) counterparts, they have been gaining strong traction in recent years. Aside from centralised exchanges, major TradFi institutions such as JP Morgan and Goldman Sachs have jumped on the wagon to offer crypto structured products as an innovative financial tool. But what is driving this surge? The answer lies in a combination of factors that include portfolio diversification, the potential for higher yields, and effective risk management.

Portfolio Diversification and Access to New Markets

One of the most appealing aspects of crypto structured products is their ability to diversify investment portfolios. Traditional investment channels offer limited opportunities for diversification, particularly for those looking to venture beyond traditional asset classes. On the other hand, crypto structured products, open up a whole new world of possibilities. By

investing in these products, retail investors and institutions can gain access to new markets and participate in the cryptocurrency movement, paving the way for broader portfolio diversification and potentially higher returns.

Generating High Yield and Returns

High yield and returns are another pull factor for investing in crypto structured products. Due to the high volatility of the cryptocurrency market, these products often offer higher potential returns compared to traditional investments. By strategically structuring these products to leverage this volatility, investors can generate significant yield and returns.

Risk Management in Crypto Structured Products

That being said, investing in the crypto market is not without its risks. The volatility that provides opportunities for high returns also presents substantial potential for loss. This is where the concept of risk management comes into play. Crypto structured products are designed with mechanics that manage risk exposure effectively. By tailoring the product structure to their risk tolerance and investment goals, investors can mitigate potential losses while still capitalizing on the growth potential of the crypto market.

How do Crypto Structured Products Work

The beauty of crypto structured products lies in their customisable nature, which in turn creates flexible investment tools. These products are designed to meet specific investment objectives, manage risk/return profiles, and provide investors with exposure to the cryptocurrency market while optimising returns. In general, there are four main parameters of crypto structured products:

1. **Protection:** For investors with a low-to-moderate risk tolerance seeking capital preservation, structured products can provide built-in principal protection. These products are meticulously designed to enable investors to safeguard a portion or the entirety of their investment against market downturns. At the same time, they offer the potential for limited, fixed, or even unlimited returns.
2. **Optimisation:** Investors with a moderate-to-high risk tolerance often opt for structured products designed to optimise portfolio returns, particularly in sideways or uncertain markets. These solutions aim to enhance returns while managing risks effectively.
3. **Participation:** Structured products also cater to those seeking exposure to underlying assets without committing excessive capital. Investors with medium-to-high risk appetites can benefit from these solutions, as they allow participation in asset performance while controlling capital exposure.

4. **Leverage Effect:** At the higher end of the risk spectrum, structured products can provide opportunities for investors to amplify their market gains through leverage. This approach offers the flexibility to capitalize on market upswings while still providing some level of hedging protection.

Advantages and Disadvantages of Crypto Structured Products

Just like any other financial instrument, crypto structured products come with their own set of advantages and disadvantages. Understanding these factors from both a B2B and B2C perspective can help you harness the full these innovative financial tools.

Advantages of Crypto Structured Products

Risk Management: Structured crypto products allow institutions and crypto exchanges to offer their customers effective risk management tools. These products can include options, futures, and more, which enable users to hedge their crypto portfolios against price volatility. This can be especially crucial in the highly volatile cryptocurrency market.

Diversification: Structured products provide a way for clients and customers to diversify their crypto holdings without the need for in-depth knowledge of the market. These products can be designed to include a mix of cryptocurrencies, stablecoins, and other assets, helping clients spread risk and achieve a more balanced portfolio.

Customisation: White-label solutions that support structured crypto products allow institutions and exchanges to tailor these products to meet the specific needs and preferences of their customer base. This customisation can include adjusting the risk-return profile, maturity dates, and underlying assets of the structured products.

Regulatory Compliance: Crypto structured products can be designed to comply with regulatory requirements, which is crucial for institutions and exchanges operating in the cryptocurrency space. Offering regulated and compliant products can attract a wider customer base while building trust and credibility within the industry.

Enhanced Liquidity: Crypto structured products can enhance liquidity, which is essential for any financial institution. For instance, by leveraging futures and options contracts, exchanges can facilitate trading and hedging activities, thus boosting overall liquidity and trading volume.

Improved Accessibility: For investors new to the digital asset market, crypto investing is often seen as complicated and intimidating. Crypto structured products offer a viable solution with user-friendly interfaces and a range of options for investors of varying risk appetites. This enables customers to easily engage with such products, lowering the barrier for retail investors and widening your customer base.

Disadvantages of Crypto Structured Products

While crypto structured products offer notable advantages, it is crucial to understand the associated drawbacks. These disadvantages comprise limitations on potential maximum gains, potential complexity that may pose challenges for novice investors, additional fees attached to specific products, and the potential for higher costs when compared to alternative securities.

Another significant consideration is the potential opportunity cost, where choosing a structured product over direct cryptocurrency trading may result in a lower yield in specific situations. Therefore, it is important to thoroughly understand the product's design, the anticipated payout, and the potential downsides associated with price fluctuations in either an upward or downward direction.

How to Choose the Right Crypto Structured Product

When considering which crypto structured product to implement on your platform, it is essential to understand the investment goals and risk tolerance of your customers. At Darwinbit, our seasoned financial analysts have designed a series of market-ready crypto structured products that cater to traders with varying risk-return profiles. Here are some considerations when choosing suitable crypto structured products for your platform:

Conservative Profile: Investors with a conservative approach typically have a low risk appetite. To cater to these customers, you can consider structured products that prioritize downside protection such as **Protective Earn**. With a price protection mechanism, it allows investors to customise their trading strategy while limiting loss exposure. Another low-risk alternative is **Shark Fin**, which provides principal protection with a minimum guaranteed return. These products provide a suitable option for those who seek to participate in the cryptocurrency market while mitigating the potential for substantial losses.

Balanced Profile: Traders looking to strike a balance between risk and return can explore structured products tailored for a moderate risk profile. These products offer a blend of potential gains and controlled risk, making them attractive to individuals who seek a reasonable compromise between the allure of risk-taking and the importance of capital preservation. For example, you could consider **Dual Investment** which provides an attractive option with its Buy Low, Sell High feature while generating cash flow.

Aggressive Profile: For high-risk, high-reward traders, structured products with leveraged returns have a strong appeal. Products such as **Twin Win** and **Future Plus** are designed to maximize potential returns with 50x leverage. It is worth noting, however, that these options come with a heightened risk of incurring significant losses.

In a Nutshell

To conclude, structured products are financial instruments designed to offer a balance between risk and reward in various market conditions. Crypto structured products bring this concept into the realm of cryptocurrencies, presenting a novel way for investors to diversify

their portfolios and potentially generate sizeable returns while mitigating risk. By expanding your product offerings with crypto structured products, you can expand the horizons of cryptocurrency investing, expand your customer base and gain a competitive advantage in the crypto derivatives space.

To find out more about Darwinbit's crypto structured products, get in touch with our sales team today!