◆ INVESTMENT STRATEGY SERIES

More Upside Potential. A Defined Buffer.

The Case for Structured Notes.

How custom index-linked bonds let JFWM clients participate in market gains with a defined buffer against the first layer of losses at maturity, and why we use them in place of much of a traditional bond allocation.

Enhanced	Defined	Fixed
UPSIDE PARTICIPATION	DOWNSIDE BUFFER	TERMS AT ISSUANCE
Terms vary by issuance	*Set at purchase; applies at maturity*	*Index, buffer and rate never change*

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◆ SECTION 01

Why Traditional Portfolios Fall Short

Before understanding why structured notes make sense, it helps to understand what they solve. The dominant portfolio model — a 60% stock / 40% bond allocation — was built on an assumption that bonds provide meaningful downside protection. The historical record increasingly challenges that assumption.

◆ THE 60/40 PORTFOLIO — WHAT YOU'RE TOLD

- ✕ "Bonds balance your portfolio and protect you in downturns"
- ✕ "A 40% bond allocation significantly reduces your risk"
- ✕ "Your risk tolerance questionnaire guides the right allocation"
- ✕ "Sacrificing growth for bonds is prudent, long-term advice"

◆ WHAT WE'VE SEEN

- ✓ In calendar year 2022, the S&P 500 fell about 18% and the Bloomberg U.S. Aggregate Bond Index fell 13.0%. Long-term Treasuries (Bloomberg U.S. Long Treasury Index) fell about 29%, more than stocks. Bonds fell alongside stocks and gave far less protection than many investors expected.[1]
- ✓ In our view, risk questionnaires often measure how investors feel about the market at the moment, not their long-term capacity to stay invested.

◆ WHAT ADVISORS DO WITH THEIR OWN MONEY

"After more than 25 years in this business, I believe most advisors keep far less of their own money in bonds than they recommend for their clients. That's my experience, not proof. Research points the same way: a Journal of Finance study found advisors kept about 81% of their own money in stocks, versus about 74% for their clients of the same age.[2] In fairness, the study's main finding was that most advisors invest much like their clients." — Shaun Jones, JFWM

2022 · BOTH DOWN

−18% · −13.0% · −29.3%

S&P 500 · U.S. bonds (Agg) · long-term Treasuries. Calendar year 2022.[1]

ADVISORS VS. CLIENTS

81% vs. 74%

Stock share: advisors' own accounts vs. their clients'. Journal of Finance, 2021.[2]

◆ WHAT STRUCTURED NOTES AIM TO DO

Structured notes offer a third path, one that doesn't force a strict choice between growth and protection. You participate in index gains (before dividends), and a contractually defined buffer absorbs the first layer of index losses at maturity. In our view, that's a better arrangement than holding a large bond allocation alongside stocks for many investors, but notes carry their own risks, covered on page 6.

[1] Calendar-year 2022 total returns. S&P 500 Index: about −18%. Bloomberg U.S. Aggregate Bond Index: −13.01%; Bloomberg U.S. Long Treasury Index: −29.3%. Sources: Flat Fee Advisors, "What Happened to Stocks and Bond ETFs in 2022" (Raman Singh, CFP®, EA, Oct. 5, 2026); CNBC, "2022 was the worst-ever year for U.S. bonds," Jan. 7, 2023. Indexes are unmanaged and cannot be invested in directly.

[2] Linnainmaa, Melzer & Previtero, "The Misguided Beliefs of Financial Advisors," Journal of Finance 76(2), 2021, Table I. Advisors and clients at two Canadian firms, 1999–2013; balanced funds counted as 50% stocks.

◆ SECTION 02

What Is a Structured Note?

A structured note is a custom-engineered bond issued by a major financial institution. It isn't a fund or an ETF. It carries a unique CUSIP, is held in your brokerage account like any other bond, and has one defining feature: its return is linked to an equity index rather than an interest rate.

◆ TWO COMPONENTS, ONE INSTRUMENT

A structured note combines a traditional bond chassis with an embedded options strategy:

BOND COMPONENT

The traditional debt instrument. It gives the note its CUSIP, its legal standing as a bond, and the structure through which the buffer features operate.

DERIVATIVE COMPONENT

Embedded options that define how the note participates in gains and how losses are buffered — and what makes terms vary with market conditions at issuance.

◆ THREE TERMS FIXED AT ISSUANCE — FOREVER

Once you lock in a structured note, nothing changes. The three defining terms are contractual:

1. **Underlying Index**
   The benchmark measured at maturity — S&P 500, S&P Futures Excess Return, Russell 2000, or others.
2. **Downside Buffer**
   The issuing bank's contractual obligation to absorb the first layer of index losses. If the index decline at maturity stays within the buffer, you receive your principal back, subject to the issuer's ability to pay.
3. **Upside Participation Rate**
   A multiplier on index gains. A rate above 100% means you earn more than the index itself in rising markets.

Notes are unsecured obligations of the issuing bank.

◆ HOW THE TERMS ARE FUNDED

The enhanced participation rate is funded mainly by the dividends you give up on the underlying index, and the buffer by options built into the note. The issuer's own costs and profit are also built into these terms. Each note's pricing supplement shows an estimated value below the $1,000 issue price. You don't pay these costs separately; they're reflected in the terms you receive. JFWM began purchasing notes in 2023, when we found the available terms especially attractive.

◆ SECTION 03

How They Work in Practice

At maturity (typically 3–5 years), the note measures the underlying index from start to finish. Gains are multiplied by the participation rate. Losses within the buffer are absorbed by the issuer. Losses beyond the buffer are borne by the investor 1-for-1. All payments depend on the issuer's ability to pay.

ⓘ **Illustrative mechanics only.** *The 20% buffer and 150% participation rate are examples to show how the math works. They are not the terms of any note JFWM holds or can offer, and they don't show any portfolio's results.*

EXAMPLE: 20% BUFFER · 150% PARTICIPATION RATE (ILLUSTRATIVE)

IF THE INDEX IS UP	IF THE INDEX ENDS	IF THE INDEX IS DOWN	IF THE INDEX IS DOWN
+50%	Flat / 0%	−15%	−30%
YOUR RETURN IS	YOUR RETURN IS	YOUR RETURN IS STILL	YOUR RETURN IS
+75%	+0%	+0%	−10%
The 150% participation rate means you earn more than the index. A 50% market gain becomes a 75% return for you.	No gain, but no loss either. You receive 100% of your principal back at maturity.	The 20% buffer absorbs the decline. Your principal is returned at maturity, subject to the issuer's ability to pay.	Buffer covers the first 20%. You only absorb the remaining 10% — vs. a full −30% without the note.

WHAT YOU GIVE UP

~6%

Approximate dividend income foregone over a 3-year term (~2% per year). Dividends flow to the issuer and help fund your upside multiplier and buffer.

⇄

WHAT YOU GET

Buffer + Amplified Upside

A contractual buffer from the issuing bank, subject to its ability to pay, plus a participation rate that lets you earn more than the index in rising markets. In our view, a worthwhile trade for many investors.

◆ POINT-TO-POINT — WHY IT MATTERS

Performance is measured only from day one to maturity, not annually. If you hold the note to maturity, interim swings in the index don't change your payoff. If you sell before maturity, you receive the market price at that time, which may be lower.

◆ WHY TERMS CHANGE OVER TIME

The participation rate and buffer you receive depend on conditions at issuance. Higher market volatility and higher interest rates generally produce more attractive terms. JFWM entered the market in 2023 when this pricing was especially compelling. We continue to evaluate new issuances and buy only when we believe the terms justify it.

SECTION 04

How JFWM Uses Structured Notes

JFWM began purchasing structured notes for clients in 2023. Each note is bought at a different time, so its terms reflect market conditions on that issuance date. We don't buy notes on a schedule, and we don't use them for every client.

STRATEGY START	ISSUERS	STRUCTURE	INDEXES
2023 Opportunistic entry	Large, investment-grade banks Diversified across issuers	Point-to-point buffer notes Held to maturity in most cases	S&P 500, S&P 500 Futures, Russell 2000 Varies by note

WHERE NOTES FIT IN A PORTFOLIO

In our view, buffered notes can replace part of a traditional bond allocation for investors who can hold them for the full term (typically 3–5 years), don't need income from that money during the term, and accept the issuer's credit risk. They are one part of a portfolio, not the whole of it.

WHO THEY MAY NOT FIT

1. Investors who may need the money before maturity
2. Investors who need regular income from that part of the portfolio
3. Investors who aren't comfortable with the issuing bank's credit risk or the built-in costs

◆ SECTION 05

An Honest Assessment — Pros & Cons

We are a fiduciary firm. That means we tell you the full picture — including the limitations. Structured notes are a powerful tool when deployed correctly, and a poor fit when they aren't.

◆ WHY WE USE THEM — THE PROS

- ✓ **Enhanced Upside Participation**
  Participation rates above 100% mean you earn more than the index in rising markets — structurally, by design, not by luck.
- ✓ **Defined Downside Buffer**
  Buffer size is set at issuance and doesn't change. You know before you invest how large a decline the issuer absorbs at maturity.
- ✓ **Potential Long-Term Capital Gains Treatment**
  Unlike bond interest, which is generally taxed as ordinary income, gains on notes held to maturity may qualify for long-term capital gains treatment, depending on the note's structure. See the tax disclosure on the final page.
- ✓ **Behavioral Stability**
  We believe knowing you're buffered can reduce the temptation to sell in a downturn and make it easier to stay invested.
- ✓ **No Separate Expense Ratio**
  Unlike a fund, a note doesn't deduct an annual fee. Its costs are built into the terms at issuance. JFWM's advisory fee applies to notes like any other holding.
- ✓ **Fixed Terms**
  Buffer, participation rate, maturity date and index are set at issuance and don't change.

◆ WHAT TO UNDERSTAND — THE CONS

- × **Issuer / Credit Risk**
  Structured notes are unsecured bank debt. If the issuer defaults, you may lose principal regardless of the index. JFWM uses large, investment-grade banks and diversifies across issuers.
- × **Designed to Be Held to Maturity**
  These notes perform as described only when held for the full term. Issuers usually offer to buy notes back before maturity, but aren't required to, and the price may be well below the note's value at maturity.
- × **Built-In Costs**
  The issuer's structuring and hedging costs and profit are built into the terms. The estimated value in each note's pricing supplement is below the $1,000 issue price.
- × **Caps and Call Features**
  Some notes cap the maximum return you can earn, and some are callable, meaning the issuer can redeem them early and end your participation in further gains. JFWM has never purchased callable notes and avoids them. If that changes, we'll explain the trade-off before recommending one. A cap limits your upside even when the index rises sharply.
- × **No Dividends During the Term**
  Notes linked to price-return indices don't distribute dividends. That income funds the enhanced participation rate — a deliberate, understood trade-off.
- × **Buffer Drift as Markets Rise**
  A note that has appreciated significantly has less effective near-term protection — the buffer is anchored to the original price. Active monitoring and repositioning is required.
- × **Terms Vary — Timing Matters**
  Terms depend on volatility, interest rates, and index levels at issuance. There are periods when structured notes are priced more attractively than others. JFWM buys opportunistically, not on a schedule.
- × **Not a Fit for Everyone**
  Best suited for investors with a 3–5 year horizon who don't need income from this money during the term. JFWM evaluates suitability individually and never recommends notes as a blanket strategy.

◆ SECTION 06

How JFWM Selects & Actively Manages Notes

Purchasing a structured note is only half the work. The other half is ongoing management: monitoring whether each note's buffer still reflects current market conditions and repositioning when it no longer does.

◆ STEP 1 — OPPORTUNISTIC ENTRY

Note terms fluctuate with volatility, interest rates, and index levels. We buy when pricing is genuinely compelling. We entered in 2023 when Shaun described the terms as "seemingly too good to be true." We continue to evaluate new issuances — but only purchase when the math genuinely justifies it for clients.

◆ STEP 2 — ISSUER VETTING

The banks we currently use are TD Bank, Citi, Morgan Stanley and Credit Agricole. All four are investment-grade and on the Financial Stability Board's list of global systemically important banks.[3] Credit ratings can change. We diversify across issuers so no single bank holds an outsized share of client note exposure.

◆ STEP 3 — BUFFER DRIFT MONITORING

As markets rise, a note's buffer can become functionally irrelevant. We track each note's effective protection relative to today's market and reposition when doing so meaningfully improves the real-world outcome for the client — even when that means realizing a taxable gain.

◆ The repositioning principle — in Shaun's words

"We don't let the tax tail wag the investment dog. We make the best investment decision first — and then layer tax strategy on top of it. A large buffer anchored well below today's prices offers no real protection. A smaller buffer reset to today's market does. That's the trade we make when the math says it's time." — Shaun Jones, Jones Fiduciary Wealth Management

ⓘ **Illustrative repositioning example.** *The terms below illustrate an actual repositioning decision on specific client positions. They are not indicative of currently available note terms.*

◆ ORIGINAL NOTE — BUFFER DRIFT SCENARIO

MARKET GAIN SINCE PURCHASE
+35–40% — no effective near-term protection in this zone

EFFECTIVELY UNPROTECTED NEAR-TERM
Must retrace the entire gain before the buffer ever activates

ORIGINAL 40% BUFFER (FAR BELOW MARKET)
Protection only triggers below original buy-in price

◆ REPOSITIONED NOTE — RESET TO TODAY

ENHANCED UPSIDE PARTICIPATION
Higher participation rate from today's level than the original note offered

ACTIVE BUFFER — STARTS FROM TODAY
Protection against the first layer of any decline from current prices

INVESTOR EXPOSURE
Losses beyond the buffer threshold at maturity, subject to the issuer's ability to pay

[3] Financial Stability Board, "2025 List of Global Systemically Important Banks (G-SIBs)," Nov. 27, 2025. The list is updated each November; the designation means stricter capital rules, not a guarantee against default.

◆ READY TO SEE HOW THIS FITS YOUR PORTFOLIO?

Let's have an honest conversation about what's right for you.

JFWM evaluates suitability for every client individually. We don't use structured notes as a blanket recommendation; we use them when we believe the pricing is right and the fit is clear.

We start with an informal conversation to explore whether structured notes fit your goals. No pressure and no commitment, just a conversation with a fiduciary who holds structured notes in his own portfolio.

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Fiduciary · Registered Investment Adviser · More than 25 years in the industry

HOW WE'RE PAID

JFWM is paid by clients through advisory and planning fees. Our principal also receives other compensation, and like every adviser we have conflicts of interest. Both are described in our Form ADV.

JFWM receives no compensation from structured note issuers.

STRUCTURED NOTE RISKS

1. Credit / issuer risk: notes are unsecured obligations of the issuing bank.
2. Market risk and buffer limits: losses beyond the buffer are borne 1-for-1, and the buffer doesn't guarantee return of principal.
3. Liquidity: selling before maturity may mean receiving less than full value.
4. Built-in costs: reflected in the terms and the issuer's estimated value.
5. Caps and calls: a cap limits upside; callable notes can be redeemed early.
6. Structured notes are not FDIC-insured.

◆ IMPORTANT DISCLOSURES

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