

**SOPHISTICATED INVESTMENTS  
FOR THE UNSOPHISTICATED INVESTOR:  
THE CASE OF HIGH-YIELD OPTIMIZATION NOTES**

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**Abstract**

Structured products have been around for decades and are gaining popularity as alternatives to fixed-income and equity investments for many retail investors. This paper examines one particular structured product issued by UBS called a High-Yield Optimization Note (HYON). We use Monte-Carlo simulation to construct fair market values for the HYON and the individual components of the synthetic note. Additionally, we administered a survey to gauge how well the average retail investor understands the basic features of a HYON. Based on the complexity of these notes, the results of the simulations, and the current state of financial literacy as measured by the survey, we conclude that HYONs are sophisticated investments that sometimes appeal to investors even though there is not always a thorough understanding of the associated risks.