

**Premium bonds.
See the light**



EQUILIBRIUM

See the light

There aren't many things in life which frustrate me, however, our clients' love affair with premium bonds is certainly in my top five. I am not alone in this mindset. Ask any financial adviser if premium bonds are a good investment and you would get a resounding "No!"

The simple truth is that premium bonds are not a good investment. They're not even an investment as they are closer to cash, often being held for a very long time, with many people holding them for decades.

I know from my years of experience that trying to get people to part with their premium bonds is a very hard task indeed. I started this business in 1995 and several of my early clients who are still clients today, came with a sizeable holding in premium bonds and continue to hold them to this day. No-one can tell me what their return has been over that 25-year time horizon however they are keen to mention (with glee) that their last win was £50.

I hope that this article will help a few people to see the light.



Martin Lewis, the money saving expert, has an excellent section on his website dedicated to premium bonds, visit www.moneysavingexpert.com/savings/premium-bonds/ to see for yourself what he has to say.

Let's look at the facts...

The National Savings and Investment (NS&I) website provides some helpful figures at a glance. For instance, the odds of winning a prize is 34,500 to 1 (for every £1 Bond). They even go as far to say they are maybe not for you if you want a regular income; are looking for guaranteed returns; or concerned about inflation.

I believe if you're parking some money in them for the short-term (maybe to pay a looming tax bill), then they certainly have their place. Unfortunately, that is not how most people utilise them.

I'll say it again, premium bonds are not actually an investment at all, let alone a good investment. They are closer to cash as there's no interest earned and yet many people still do not consider them to be part of their cash reserves. Let me point out they are part of your cash reserves.

Would you invest in cash for 25 years?

Let's look at some of the latest stats provided by Andrew Zelin a data analyst:

If you had £1,000 in premium bonds you would have to wait 200 years before you have a 50/50 chance of winning £50...200 years.

It gets worse.

You would have to wait 1,155 years to have a 50/50 chance of winning £500.

"Oh but I have more invested," I hear you cry, "so my chances are better". According to Andrew you would still have to wait 8.5 years to have a 50/50 chance of winning £50 even if you had £25,000 of bonds.

What if...

Instead let's think about it as a long term investment to be held for 25 years. I would guess that most financial experts would say that a basket of global equities would be your best bet.

If you had invested £50,000 on the 31/7/1995 into a basket of global equities (MSCI world) you would now have a pot worth £418,938 (see below).

This is an increase of 738% whilst your premium bonds would have struggled to keep up with inflation. Furthermore, this investment return is after suffering through the dot-com crash, the credit crunch, Brexit and COVID-19.



This got me thinking...

We have approximately 1,200 clients. Let's say that 200 of those are children of our clients. That leaves us with 1,000 people whose average age is around 66 whose premium bonds they now hold could easily be invested for 25 years or more in some cases.

Let's assume that the average premium bond holding is £40,000 and the 738% return (above) is repeated.

£40,000 X 1,000 = a whopping £40m invested (deposited) in Premium Bonds

Increase it by 738%

In 26 years', it would be worth over £335,000,000

Our purpose is to help make peoples' lives better by enabling them to live the life they want, support those they love and leave a powerful legacy. I would say there's a whole lot of life living, supporting loved ones and a few powerful legacies to be left with all those extra millions.

If you have the maximum of £100,000 then at 738% you could turn it into £838,000 - enough for a few cruises, paying grandchildren's school fees and house deposits. The chances are you may even still have some left over.

Now I know that each prize gives you a dopamine hit but surely, it's not as great a hit as having more funds to look after those you love. Even if you sold just half of your premium bonds, it would make a huge difference in the long-term.

Next time I see a client with premium bonds I am going to firstly give them this article and then ask them how long they have held them so that I can then show them 'this is what you could've won!'.



A handwritten signature in black ink that reads "Colin Lawson". The signature is fluid and cursive.

Colin Lawson
Founder

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