Steve Dodge writes Guaranteed Equity Bonds

60% of the growth in the FTSE 100 or (in five or six years time!) your money back, "**Guaranteed**"

Sound familiar? You may have seen adverts or have been sent or even had such a product recommended to you and at times like these the word "guaranteed" has a real appeal.

Called Guaranteed Equity Bonds or GEB's for short they have been around for some time but I cannot recall a time when I have seen so many new offerings.

Looking attractive at first glance the sad fact of life is they are a very expensive way to guarantee very little, and they have recently attracted the attention of the Investment Management Association.

Their (the IMA) concern is that whilst the products offer a guarantee against a falling index over a five -year period, this is a very rare event; the last time it happened to the FTSE 100 was in 1978. They continue, "Investors may not realise how much return they are giving up in order to be protected against what is such a rare event".

To explain their concern let me take two scenarios, the market falls by say 10% or rises by 50% over five full years, comparing a normal tracker fund to the above GEB.

Investing normally in a tracker unit trust you would earn dividend income of around 3% p.a. so even allowing for a 10% fall in capital value the unit trust would be worth around 6% more at the end of five years thanks to the re-invested income. A GEB would only return your investment.

So you would be better off with a normal investment unless markets fall by over 15% in five years. I cannot find a time period over which this has actually happened.

If the market rises by 50%? Well in a tracker Unit Trust you would have 16% dividend and 50% growth a return of 66%. The above GEB would only return 60% of 50% i.e. 30% less than half of the non-GEB investment.

Put that in cash terms and on a £10,000 investment the tracker would have returned £16,600 and the GEB £13,000, so the "guarantee" would have cost you £3,600! I hope you can see the IMA's concern.

Not only that but you have full access to the non-GEB fund at any time, in full or part. With a GEB the money is normally "locked-up" for the full term.

As I have written on numerous occasions, there is simply no substitute for a properly "balanced" portfolio, if you have concerns over your investments see your IFA, they can explain balance to you and ensure that your portfolio has sufficient spread for safety.