Why Not Invest in Bank of Thailand Savings Bonds?

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Since the sale of Bank of Thailand Savings Bonds started on the 26th August, many of you might be asking yourselves, "Why should I invest in Bank of Thailand Savings Bonds? Maybe I should invest in something with higher returns?" The two tranches of Bank of Thailand Savings Bonds may not offer the highest return, nor seem to be the best alternative at the moment, but investing in Bank of Thailand Savings Bond is indeed a safe investment that investors should not overlook.

Although historically, the stock market has outperformed all other investments and its potential gains are tempting, do not forget that as a shareholder you not only share in the gains when the company performs, but you also share in the losses and may even lose your principal. If you had put all your money into the stock market, you may suffer significant losses. If you do not want this risk, remember that with high return comes high risk. With Bank of Thailand Savings Bonds, you do not have to worry about this risk. Your principal is protected.

Turning towards a less risky investment, many investors might opt instead to put their money into mutual funds. As this is a pool of investments managed by professional portfolio managers, it allows you to have exposure to both stocks and bonds without having to manage it yourself. Note, however, that the performance of each mutual fund depends upon both the asset composition of the fund (which is subject to market conditions) and does not always guarantee a profit. If you want money market exposure, the 3-year savings bond floated against the 3-month BIBOR can be likened to a money market fund with its rate reset every three months. Your return is as if you were investing in the wholesale money market, without any management fee.

What about fixed deposits? Savings bonds, in this case, are a good alternative. If you do not want the complication of having the interest rate reset every three months, the step up 7-year bond guarantees a return that averages out to 4 percent.

Bills of exchange (B/Es) are also increasingly popular. Many are placing their money into B/Es in anticipation of higher returns. Investors, however, should be aware that a certain credit risk is involved. Unlike deposits, B/Es are not protected under the Deposit Protection Act. If the issuer of the B/E defaults, there is no guarantee that you will get your money (both principal and interest) back.

Gold is another popular investment. Recent record levels in the price of gold, has everyone wanting to share in the gains. Investment alternatives range from investing in physical gold to gold futures. Although recent trends have been upwards, there is again no guarantee that gold price will continue to rise. Volatile markets have at times resulted in significant drops in gold prices. In addition, investing in gold does not generate cashflows like those you would receive from stock dividends or bond coupon payments. The 3-year savings bond pays quarterly coupons and the 7-year savings bond pays semi-annual coupons.

Investing in bonds remains one of the safest alternatives. Companies, governments and central banks issue bonds for a number of reasons such as project financing or monetary reasons. When you buy a bond, you are loaning the issuer money for a fixed number of years. In return, you will receive the loan amount plus interest. This guarantees that you do not lose the principal amount. They are optimal for those who are risk averse. The only risk is that the issuer may default. However, there is virtually no risk that the Thai government and the Bank of Thailand would fail to meet their obligations.

Savings Bonds, such as the one currently being sold by the Bank of Thailand and available at eleven agent banks is a safe investment. The 3-year savings bond's interest is linked to the 3-month interbank BIBOR rate and guarantees you a money market rate whilst the 7- year savings bond averages out to 4 percent per year. Information is available on the Bank website or alternatively visit your nearest bank branch for more information.

(The views expressed are the author's own.)

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