

Inflation

The Thief That Robs Us All

Resonate, Inc.

The S&A Digest did a recent survey, asking *Digest* readers a simple question...

What's your biggest concern for your finances and the stock market going into 2014?

They received a wide range of responses. Most of the fears readers have are valid: The government's inability to pay its debt (or even agree on simple issues like raising the debt ceiling), possible confiscation of retirement assets, the future of the U.S. dollar as the world's reserve currency, etc...

★ **But by far, most were worried about inflation and how it will undermine the income they receive from their investments.**

Inflation has been called "the thief that robs us all." Among its biggest victims is the income investor.

The yield you generate from your investments must outpace inflation. Otherwise, you're losing money. There's not much you can do about the rate of inflation, but the assets you choose *can* protect you from it.

★ **Different assets react differently to inflation.**

Generally, stocks rise with inflation. If inflation causes prices to rise, a company can raise its prices. All of its "on the books" assets – like machinery and real estate – will rise in price, too. Since many companies hold real assets, stocks offer some protection from inflation.

This is true especially with stocks (or other investments) tied to commodities. Inflation pushes up the value of "real assets" – things like gold, oil, natural gas, and agricultural commodities. If you own stock in companies that control these kinds of real assets, the value of your investment should rise as well. For example, an oil company, like Chevron, profits when oil prices go up... and the price of its stock rises accordingly.

★ **Bonds react differently to inflation.** Since they pay out a fixed dollar amount – say, \$100 a year – that \$100 won't be worth as much in the future if inflation is high. You'll be stuck earning the same \$100 every year from your original investment... but that \$100 buys less and less, thanks to inflation. The same goes for government bonds, corporate bonds, preferred stocks, and fixed annuities – all so-called "fixed-income" investments.

★ **But you need to focus on more asset classes than just "stocks and bonds"** if you want to achieve the highest possible income in your portfolio. There are certain strategies you can follow to maximize your income.

Please call us and set a time to talk if you would like to know more.

(Source: The S&A Digest from the desk of Porter Stanberry, Nov. 5, 2013)

Resonate, Inc.

(513) 605-2500

bculver@resonatecompanies.com

www.resonatecompanies.com

