



faith . discipline . patience

If someone offered you an investment starting with a 2.5% annual interest which would gradually decline for ten years at which point they'd return slightly less than 80 percent of your principal would you take it? These type of investments are often called "safe."

Hah, you say? 2.5% inflation is barely worth mentioning. You've seen much worse, after all. Mortgage rates closer to ten percent, and CDs paying in the teens. Those were the days.

It is true that inflation is nowhere near the heydays of the late 70s or early 80s. But ignore it at your own peril. If we have 2.5% inflation, and you protect your principal, you will after five years have lost 12% of your money. After ten years the loss grows to 22%.

Real estate taxes go up, either by the rate itself or by the assessment. Sometimes both. Rent goes up. Grocery prices go up. Restaurant prices go up. None of it typically by much in any given year but over time you have to recognize that it adds up.

Where am I going with this? I want you to consider the "safety" of investments like CDs and bonds. Yes, they can be stable month to month, year to year. But you would receive a return of the nominal principal amount and exposing yourself completely to inflation.

I don't think that's safe at all. It's just a different kind of risk than the one we normally discuss, the dramatic stock market drop which has historically been temporary and has less effect on long-term owners of a diversified stock portfolio.

Inflation is a risk you have to remember. "Is this investment, and the income it pays, exposed to inflation?"

Examples of inflation-exposed investments include CDs, fixed annuities, government bonds (except for the inflation protected kind). Stable investments, yes. But set to lose out to any inflation we may experience.

Examples of investments whose income and principal has historically kept up with inflation, or even stay ahead, are dividend paying stocks.

As always, don't take this to mean fixed income investments are bad. They have their place in most portfolios. Just be aware of the drawbacks.

Good luck.

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\*All investing involves risk, including the loss of principal. Past performance is no guarantee of future results.

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