faith . discipline . patience

If you had a million dollars ten years ago and still have a million today you lost money.

To be precise, you would, according to the Bureau of Labor Statistics (BLS), have lost just over $200,000.

I think it's better to measure money by its purchasing power rather than just the number of units itself.

Currently, according to the BLS, the inflation rate is running at an annual rate of 8.5%. Historically, the average has been closer to 3%.

There have been a few short periods with deflation but it seems reasonable to me to expect some level of inflation over the coming decades.

This is the problem I have with traditional fixed income for the long run. Fixed income instruments like most CDs or bonds promise to return to you the same number of dollars but not the same amount of purchasing power.

As you read this I hope you don't fly down the blind alley of 'the fault lies with' whoever or whatever your media diet serves you.

The reason for the current inflation rate is not the point here. Government largesse, Covid induced supply constraints, war, whatever.

Inflation is beyond our control but we need to account for it as we assess our own financial futures.

One way to do this, using the historical average of 3 percent annual inflation, is to reduce the expected investment return by three percentage points.

For example, if you forecast stocks to provide ten percent, shave that down to seven.

For fixed income, if you assume five percent return you would bring that down to two percent. (I know, not great. But, honestly, I think assuming five percent for fixed income is aggressive enough.)

And that oversized savings account? Well, if you are keeping it for the long term you're sliding backwards right now.

Thankfully, social security gets an inflation adjustment every year. Last time, the adjustment was 5.9%.

Going forward, train yourself to think of the value of money in terms how much you can spend or give in years to come? Not measured by a number but by impact.

So, there you have one of the great and unavoidable eroding forces in finance: inflation. Next week we'll talk about another item in the minus column: taxes. Until then,

Good luck.

Jorgen Vik, CFP®
CERTIFIED FINANCIAL PLANNER™
Partner
SKV Group, LLC

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net

faith . discipline . patience

Advisor Financial Network or its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

This information is hypothetical and is provided for informational purposes only. It is not intended to represent any specific return, yield, or investment, nor is it indicative of future results.

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net