WHAT TO EXPECT WHEN YOU'RE EXPECTING INFLATION

The trillions of dollars of Federal stimulus money flooding the economy in the wake of COVID-19 have economists of all stripesthinking about inflation. Bond yields are up, and 93% of fund managers now expect inflation.

How should we position our investments to prepare for this possibility? While we're careful not to overreact to the possibility of higher inflation, here are some assets we hold that could help protect the "real" value – that is, the inflation-adjusted value, or purchasing power – of your wealth.

- **TIPS.** Treasury Inflation-Protected Securities (TIPS) are securities issued by the treasury that effectively increase in yield with the Consumer Price Index. The yields are lower than that of regular treasuries, but they effectively grow with the rate of inflation.
- **Commodities,** including industrial and precious metals, oil and gas, agricultural products, and others. Commodities tend to increase in price (almost by definition) as inflation rises. Commodity funds and ETFs offer exposure to commodity markets without investing in individual commodity futures contracts, which can be risky and carry other complications.
- **Real Estate.** Real estate often does well during inflationary periods because rents and property values increase while loan interest may stay fixed, at least for some period of time. Real Estate Investment Trusts (REITs) can offer exposure to real estate markets for investors who don't want to buy houses or shares of commercial buildings.
- **Stocks.** Although returns may vary greatly over any short period of time, over the long term, stock returns have generally outpaced inflation by a considerable margin. Initially, inflation can create a shock in bond and stock markets, but many industries have pricing power and will pass the higher costs on to their customers, eventually leading to higher bottom lines. Bonds, on the other hand (other than the TIP's discussed above) often decline in price, as their fixed yields lose their purchasing power.

The Power of Value Investing

You might have heard of growth investing vs. value investing. It sounds a little redundant, doesn't it? Isn't something that grows also valuable? At least in the investing world?

Maybe ... but growth and value investing generally refer to opposite strategies.

Some stocks are identified as "growth" stocks, others as "value" stocks, but individual companies or whole industries can change from one to the other over time. Here's the difference:

- A **growth stock** has experienced significant recent growth. Growth investors see this as the sign of a strong company and a possible predictor of future growth. Consequently, these stocks often trade at higher valuations relative to earnings, book value, or other factors, than non-growth stocks. The "FAANMG" (Facebook, Amazon, Apple, Netflix, Microsoft, and Alphabet – the parent of Google) are current examples.
- A **value stock** is a stock that is relatively undervalued, based on the fundamentals of the company. Value investors buy these stocks to get a bargain, expecting that the fundamentals of the company will stabilize the stock to a higher value in the future. The stock will no longer be underpriced, and investors reap the rewards. The financial services and energy sectors in the US, and foreign stocks in general, offer recent examples of value investments.

So which is better, growth investing or value investing?

There's no right answer, and we generally own both types of holdings. However, we currently favor a tilt toward value for two main reasons.