8 WAYS TO PROTECT YOURSELF FROM INFLATION

Inflation seems to be a keyword in nearly every news broadcast and investment discussion. Rising prices seem inevitable with higher costs of materials, real estate, and many products we buy daily.

Not only that, but rents and wages are increasing too. While increased wages may seem like a good thing, it usually means a higher cost of goods too.

As with any other financial factor, we can't know with certainty what path inflation will take. What does this mean for investors?

We should own at least some assets that are likely to respond positively to continued inflation without exposing ourselves to too much harm if inflation rises less than expected. Here's how to do that.

Play an Active Role in your Risk Management

Investing more heavily in equities makes sense, right? You'll earn more (hopefully) and keep up with inflation. But you must manage that risk.

Understand the loss implications of your portfolio allocation. A portfolio of all stocks might have lost 50% of its value during the financial crisis before recovering over the next few years. Would you have been able to stick with that allocation, or would you have been tempted to sell at some point during the decline, experiencing much of that loss but failing to participate in the recovery?

Work with your advisor to decide what strategy works best for managing risk given your objectives and risk tolerance. The allocation with the highest return won't be the best one for you if you can't tolerate the downturn when it inevitably arrives.

Invest in Sectors Favorable to Inflation

Certain sectors and investment styles could respond more favorably to inflation. Many people believe growth stocks are the way to go, but they could underperform during an inflationary period and the rising interest rate environment that could coincide

Instead, put some focus on value stocks in industries such as energy, finance, and consumer goods. These industries have the power to increase prices with inflation and often outperform in expansionary phases of the economic cycle.

Stay Up to Date on the Fed's Actions

It takes the Fed a long time to get involved during inflationary periods, but if they do, it could cause serious market risk. To hedge against this risk, make sure your portfolio (or portfolio manager) holds some investments that have historically held their value during major downturns.

If inflation gets out of hand, the Fed may raise interest rates to make borrowing more expensive (slow it down) and/or they may pull back on their bond purchases. This could shock markets and trigger a "flight to safety," in which case cash, shorter-term, high quality (government and highly rated municipal and corporate) bonds, and TIP's (Treasury Inflation Protected bonds) could lessen the impact on your portfolio.

Don't Pull Back Too Much

There's a fine line between conservative and too conservative. Excessively conservative portfolios typically lag during inflationary periods. This doesn't mean you shouldn't have any bonds in your portfolio. As mentioned above, they can do a nice job of counterbalancing riskier investments, but putting all your money into them will leave you behind during rising prices.

How conservative your portfolio should be depends on many factors including your timeline and goals. Longer timelines allow for more aggressive investments, whereas shorter timelines, such as nearing retirement, require more stable investments with a lower risk of loss. As pointed out previously, the best way to decide is to work with an advisor help you understand the risk/reward trade-offs given your goals and risk tolerance.

Look at your Future

What did you plan for the next 10 to 15 years? Does it still make sense given the current inflationary period?

For example, if you're thinking of downsizing, you'll likely lose the pace at which your current real estate would appreciate. If you're able to handle smaller gains, then go on with your plans. If you included 'regular' appreciation in your real estate investment plans, though, you may want to hold off on downsizing.

If you haven't relocated yet, but were planning to soon, think about the higher prices. Supplies and labor have all gone up substantially, which means, if you're planning to build, downsizing may not save you as much money as you hoped.

On the other hand, if prices have peaked and will be coming down, it could make sense to sell your larger home now and wait to buy your smaller home until prices are lower. As good as that approach sounds, however, getting the timing wrong (which might be more likely than getting it right) could cost you in a big way. Timing the housing market, just like timing the stock market, is a dangerous game!

Assess your Current Plan

Look at your current financial plan and not just your investments. Also, look at how you spend your money daily. Are you taking care of your money during inflationary periods? Are you cutting back on your spending or did you increase your income enough to keep up with it?

Is your portfolio set up to keep up or do you need to reallocate? With inflation at a 13-year high at 5.3% annual inflation rates, your portfolio may need some adjusting to keep up.

Watch Prices on Consumer Goods and Choose Wisely

Finally, keep an eye on inflation in certain sectors, especially those that require a large investment.

For example, lumber prices are sky-high right now due to supply issues. It may not be the best time for that home renovation or to build a home. Other industries affected include medical care, used cars, energy, food, and appliances.

While you can't stop buying food, you can find ways to save more money by buying what you need. You can also put off other purchases like appliances or used cars until things settle down.

Final Thoughts

Protecting your portfolio and financial accounts against inflation takes a proactive approach. You must decide where you should and shouldn't spend and which investment action you should take to best hedge (but not over-hedge) against inflation.

It takes experience, knowledge, and plenty of patience to make the best of inflationary times. While inflation doesn't last forever, the wrong decisions during inflationary periods can affect you long-term. Wigand Integrated Wealth is here to help our clients get the most out of their portfolios and financial decisions during these trying times. If you have any questions or concerns, we invite you to contact us at info@wigandiw.com or (719) 284-2200.