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THE RISING COSTS OF GOODS AND SERVICES

Making financial sense during turbulent times

BY CHRIS KELLY

Inflation! Watch out: The markets are going to crash. That's what a lot of people are talking about today—the ever-increasing prices of goods and services, rising interest rates, and a more difficult time borrowing money. Yes, most of this is true, but let's put it into perspective—it's not that bad, at least right now.

WHAT IS INFLATION?

So how does today's environment of rising inflation compare with historic highs? Simply put, inflation is when prices increase and the purchasing power of your money is less—what cost $10 a few years ago might cost $11 today. This is nothing new, but the rate of inflation is what worries people.

Inflation has been around since the birth of our country. According to historians, the inflation rate in 1778 was 29.78 percent. Many of you might remember the late 1970s and early 1980s under the Carter administration when the inflation rate was 12 to 13 percent. Since the early 1980s, inflation has been steadily coming down, with a few spikes. But the issue that has consumers and businesses worried about today is the pace at which we are seeing inflation increase. In February 2021, the rate was 1.7 percent, and today, it's at 7.5 percent—which is an increase of more than 311 percent. This is something that we should pay attention to.

Now let's take a look at how inflation has affected certain assets. In 1980, a three-month Certificate of Deposit was yielding a return of 18.65 percent. So, if you bought a $1,000 CD, you would receive $46.63 every three months. Today's three-month CD is yielding 0.35 percent, meaning you would receive $0.87. Most would say that they would rather have the $46.63 than $0.87, but the cost of goods has increased substantially as well. In April 1980, the average mortgage rate peaked at 14.59 percent. The monthly payment of a $250,000 home would cost $3,079. Today, that same mortgage payment would be $1,196. We have been extremely fortunate over the past several decades.

ATTRACTIVE INVESTMENT OPPORTUNITIES

As someone whose responsibilities include managing the assets and liabilities for wealthy families, I have the task

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of finding suitable investments during uncertain times. Over the past 25 years, we've been through a lot, starting with the burst of the year 2000 dot-com bubble, the housing and stock market crash in 2008, and now the coronavirus pandemic.

In my opinion, this is where I would like to see investors allocate some of their funds. Commodities tend to move in tandem with inflation; after all, commodities are an indicator of future prices. Treasury inflation-protected securities —TIPS—are treasury bonds that are indexed to inflation. They are offered in three maturities: five-year, 10-year and 30-year. Income-producing real estate would also be an attractive asset as long as there is little debt associated with the investment.

In rising-interest-rate environments, housing and/or retail space will become less attractive because of the increase in the cost of lending. There are several types of real estate investments: real estate investment trusts, direct purchases or in a fund. Private equity, venture capital and debt financing will do extremely well in a rising inflationary market, but these can be difficult to understand, and the barriers to entry can be difficult. Last but not least, my favorite will still be solid blue-chip companies. People will still require consumer staples: Proctor & Gamble, Walmart, Coca-Cola and Colgate-Palmolive, to name a few. Another group of stocks to consider would be utilities: NextEra, Duke Energy, Southern Co., Dominion and American Electric. I believe that if you develop a well-diversified portfolio with your own risk parameters, timeline, and tax consequences, you will be able to mitigate your risk and receive a reasonable rate of return on your investments. I suggest consulting with your financial adviser and tax counsel to develop a strategy specifically for you.

Our hope is that the supply chains normalize, people are incentivized to get back to work, and our policymakers can work together to ease our way through these difficult and uncertain times.