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Inflation matters

One of the biggest threats to the health of your investment portfolio

If you're investing – especially for major goals years away, such as retirement – you can't afford to ignore the corrosive effect rising prices can have on the value of your assets.

Is inflation finally returning to Western economies, aided by the 'Trumpflation effect'? It's been described as a 'hidden tax' because of the consistent destruction of value that it brings about.

TAKING A BITE OUT OF YOUR INVESTMENT RETURNS

Most people understand that inflation increases the price of their groceries or decreases the value of the pound in their wallet or purse. In reality, though, inflation affects all areas of the economy – and over time, it can take a bite out of your investment returns.

The reality is that inflation poses a stealth threat to all investors, which is why it's important to consider ways to mitigate inflation in your investment portfolio. When you consider the return on an investment, it's not just the interest rate you'll receive but also the real rate of return, which is determined by taking into account the effects of inflation.

PLAN TO ACHIEVE LONG-TERM FINANCIAL GOALS

Clearly, if you plan to achieve long-term financial goals, such as university savings for your children or your own retirement, you'll need to create a portfolio of investments that will provide sufficient returns after factoring in the rate of inflation.

Protecting your portfolio against the potential threat of rising inflation might begin with a review of the investments most likely to provide returns that outpace inflation.

NAVIGATING THE THREAT THAT INFLATION POSES

Over the long run – 10, 20, 30 years, or more – equities may provide the best potential for returns that exceed inflation. While past performance is no guarantee of future results, they have historically provided higher returns than other asset classes.

If you consistently receive below-inflation interest rates, this will slowly, but surely, erode what your savings are really worth. Investing some or more of your savings could help you navigate the threat that inflation poses to your long-term financial health.

PUTTING A STRONG INVESTMENT STRATEGY IN PLACE

Not only does the value of many investment assets often rise with inflation, offering some protection from rising prices, but successful investments should deliver higher returns than cash savings alone can muster.

Inflation is a market force that is impossible to avoid completely. However, by planning for it and putting a strong investment strategy in place, you might be able to help minimise the impact of inflation on your savings and long-term financial plans. ■

ARE YOU KEEP INFLATION IN YOUR SIGHTS?

It's important not to underestimate the damaging effect inflation can have on your future wealth. Whatever your investor profile – from first-time investor to experienced retiree – you need to keep inflation in your sights. To find out more or to discuss your portfolio, please contact us.

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