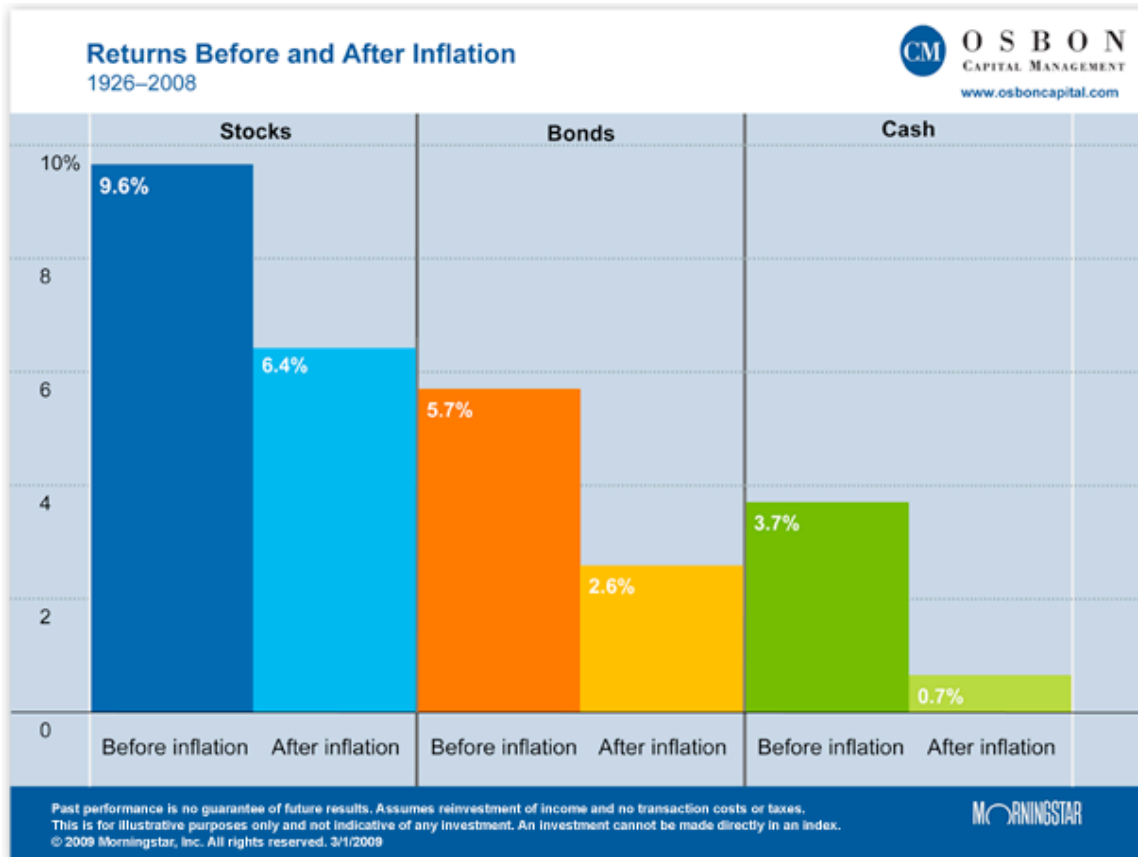




Quick Q & A #10

Q: Will inflation ever matter again?



A: Inflation always matters.

With inflation at historically low levels, it is easy to forget or ignore the drain that inflation can impose on long-term returns. The graphic shows the big chunk of historical stock, bond, and cash returns eaten away by rising prices. Over time, inflation dramatically erodes real purchasing power; for instance, what cost \$1,000 in 1980 costs \$2,620 today.*

Underestimating the impact of inflation can lead to a variety of potential pitfalls for investors. Most importantly, it may lead some to overweight portfolios with “safer” investments like bonds and bills. While the average



pre-inflation returns of bonds (5.7% annually from 1926 to 2008) may seem satisfactory, the after-inflation returns (2.6%) may seem much less palatable.

Selecting an appropriate asset allocation is a critical process that should reflect personal, family, and business variables. It should also be made with eyes wide open to the persistent impact of inflation (and taxes, too).

Read more: [More Quick Q&As from Osbon Capital Management](#)

Next time: Can we set it and forget it?

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**Bureau of Labor Statistics inflation calculator.*