

Financial Focus

RETIREMENT PLANNING

Inflation... What it means for you

Inflation is the gradual rise in prices and decline in purchasing power of your dollars over time.

While some economists expected that the return to a more normal life would drive economic growth, the strength and speed of the rebound – and the accompanying increase in inflation – came as a surprise. Still, some economists are unconcerned and believe it's more of a blip due to:

- Temporary factors causing supply chain interruptions
- The drive to quickly reopen the economy
- The year-over-year comparisons put current data against that of a year ago, when many things were shut down

People who remember the high, prolonged inflation of the 1970s early 1980s may be justifiably concerned to hear that it may return to rear its ugly head. Again, some economists point out important difference between then and now:

- Several critical factors collided to create the inflation of the '70s, among them misguided economic policy, two oil price shocks (remember the OPEC embargo?), and political pressure to maintain low inflation and unemployment in the short term, despite the long-term costs. The lessons learned during that period have led to a better understanding of monetary policy.

- Many economists (including Ben Bernanke, former chair of the Federal Reserve System,

which is the central bank of the United States) believe that public expectations play a critical role in driving inflation. If sellers expect high inflation, they ask for higher wages. In the extended period of inflation in the 1970s and early 1980s, this cycle became self-perpetuating; today, however, many consumers have no experience with high inflation and are less likely to expect it.

WHAT CAN YOU DO?

Prepare, but don't panic. While some economists don't see inflation as long-term issue, there are some dissenting opinions, so it's good to be prepared. As always, I recommend having a written financial strategy that considers your situation, goals, and timeline. In general, cash and fixed income products (for example, CDs) might be more likely to take a hit from inflation, since your money doesn't go as far. It might be a good time to take a fresh look at your asset mix and look for alternative, higher interest accounts.

Outpacing inflation is easy. It takes a plan. To learn how, call Lifeguard Financial today at 440-942-1936

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