NEWS Investing

On inflation, advisers hope for the best, prepare for the worst

With inflation spiking to a 31-year high, financial advisers are taking action in client portfolios.

November 22, 2021 *By Jeff Benjamin*

Whether price pressures are transitory or not, with inflation now hovering at a ***31-year high***, financial advisers and their clients are starting to focus on ***how to adjust portfolios*** for the kind of cycle that many financial planners have never confronted.

“Inflation can be the silent killer to a portfolio if you don’t factor it in to your plan,” said Matthew Benson, owner of Sonmore Financial.

“In any single year, inflation is relatively insignificant, but over several years it erodes your purchasing power,” he said. “It is very important that you know what your money is invested for, if not it makes it very challenging to build a portfolio that matches your goals.”

Against the ***backdrop of inflation,*** Benson said the outlook is bleak in just about every direction.

“Stock valuations are high in historic terms, bonds have been in a falling interest-rate environment for the majority of 30 years and that is about to change, and cash looks especially poor considering the current inflationary environment,” he said. “In our view, the best long-term hedge against inflation is stocks. However, in the short term that likely comes with volatility.”

While it might be too soon to measure the effectiveness of popular hedges like gold, real estate and even Bitcoin, it’s clear that inflation is top of mind for consumers, despite the steady drumbeat out of Washington suggesting the inflationary cycle is temporary and overblown.

“It is coming up in every single conversation,” said Vance Barse, founder of Your Dedicated Fiduciary.

“People are reading about it, and hearing about it, and they’re feeling it at the register,” Barse said. “As an adviser, it’s important to consider whether any portfolio changes are strategic or shorter-term tactical moves to combat what may be transitory inflation.”

While ***politicians and pundits dicker*** over what is and is not technically inflation, financial advisers are on the ground trying to help real people navigate their investment portfolios through what is actually happening to the value of the dollar.

““Look beyond what people are touting, especially online, because many were saying Bitcoin was the silver bullet, but it has not lived up to its supposed prowess recently,” said Kashif Ahmed, president of American Private Wealth.

After charging ahead to a gain of more than 200% over the past 12 months, Bitcoin hit a rough patch over the past month in the form of a 5.5% decline. That has some folks questioning the benefits of cryptocurrencies as an inflation hedge.

Meanwhile, gold has declined by 3.2% this year, which compares to the 26.7% gain by the S&P 500 Index.

"Plenty of people will say gold, but there is more than one way to gain exposure, and the most common way is not liquid," Ahmed said. "If your horizon is long term, then know that ever since this nation installed its first Treasury secretary in 1789, Alexander Hamilton, in every single 10-year rolling period, no other asset class's performance has eclipsed inflation other than that of the broader American stock market."

Seth Mullikin, founder of Lattice Financial, plans to stick to the playbook with ***traditional hedging strategies.***

"Diversified portfolios should have some assets that perform well in an inflationary environment; some options include short-term bonds, TIPS, and equity REITS," he said. "TIPS adjust for inflation or deflation, however, they currently have negative real yields. REITs tend to do well in an inflationary environment because they often have large fixed costs that are set, but can raise rents with inflation."

Zachary Bachner, financial adviser at Summit Financial, said his strategy is to keep clients focused on the long term, which can be challenging with older clients already in retirement.

"The current high inflation rate is certainly a common topic for conversation," he said. "We are reassuring them that investments within their accounts have the potential to outpace inflation. This is an important lesson for those who are choosing very low-yielding fixed products or even keeping excess amounts in checking and savings. Your assets really need the growth right now in order to keep up with inflation, so we are reminding clients not to keep more than their emergency fund at the bank."

Meanwhile, Paul Schatz, president of Heritage Capital, is starting to see the glass as half full.

"My new thesis, beginning at the end of October, was that inflation is starting to peak right now and we will have the ultimate peak sometime over the coming four months," Schatz said. "You can certainly still hedge or try to take advantage of inflation with positions in commodities, energy, materials, industrials. At least the key for me is that we have to keep an eye the most sensitive areas to inflation for signs of a change."

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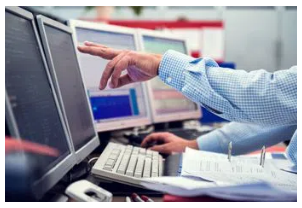

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As market sell-off continues, financial advisers are searching for answers

Advisers are hoping the worst is over and trying to keep clients focused on the long term.