

# FINANCIAL ROAD WORK

BY KEN BELLAVANCE



## 4 KEY AREAS TO BE AWARE OF INFLATION

Since our nation's most recent economic debacle, interest rates have remained historically low. Keeping interest rates low is a way the Federal Government tries to discourage saving or investing and increase consumer spending and borrowing.

Despite interest rates remaining low, annual inflation in the U.S. has been relatively mild for the past 6 years. Our <sup>1</sup>average annual inflation is well below 3%. However, to put it simply, don't get comfortable.

There are a few key areas to protect yourself against high inflation and a subsequent rise in interest rates.

### 1. DON'T SETTLE FOR THE STANDARD WAGE INCREASE

For many of you, your employer has a performance based scale for what your annual raise should be. We all know that what I am about to say may be easier said than done, but make yourself valuable and get the big raise. Even if it's considered impossible in your line of work, I still like to believe that good things come to people that work hard.

A high inflation rate environment means your hard-earned dollars aren't going as far anymore. You will start to notice that everyday goods and services you purchase are becoming more expensive. If your wage is stagnant, then guess what, your actually moving backwards. The best way to increase productivity and

get noticed is to stay motivated by taking ownership of your work. There is a video on You Tube by Dan Pink which discusses different factors of motivation that you may find interesting. Type 'RSA Animate-Drive: The surprising truth about what motivates us' into the search box. Pink's insight sheds the light on how you can stay motivated for the long-run. As of 05/14/15, it had been viewed 13.6 million times.

### 2. CASH IS NOT KING

We all traditionally think cash is a stable form of currency or medium of exchange. But think again. In a high inflation rate environment, your cash is losing its purchasing power rather quickly. Today, your \$1 can buy a Big Mac. One month from now, you might need some extra change with that \$1 to get your Big Mac. So how do you keep up? It may be suitable, depending on your individual circumstance, to keep a higher amount of savings in investment quality bonds that are earning a rate of interest to help you stay in the race. Investment professionals evaluate cash just like any other form of vehicle that is attempting to hold or grow in value. If your cash is losing its value relative to other investments, it is probably a good idea to hold less of it.

### 3. COLA PLEASE

If you're lucky enough to have a pension or social security benefit, you need a COLA. A steady, predictable income stream is a great thing to have. A Cost of Living Adjustment (COLA) coupled with your income stream will help you keep up with inflation. For example, Social Security's <sup>2</sup>COLA for 2014

1 <http://www.usinflationcalculator.com/inflation/historical-inflation-rates/>

2 <http://www.ssa.gov/news/press/factsheets/colafacts2014.html>

was 1.5%; therefore, your Social Security benefit increased by 1.5%. If inflation were significantly higher, the COLA would be higher as well. Cost of living adjustments may not match the full rate of inflation, but any increase will cushion the blow.

#### 4. "THE BEST WAY TO PREDICT THE FUTURE IS TO STUDY THE PAST, OR PROGNOSTICATE."

-- ROBERT KIYOSAKI

It is probably impossible to predict the future when it comes to inflation, but that does not mean you should rule out trying. Looking back at past economic events has helped us realize what the best economic indicators are for inflation. Our most impactful form of learning has essentially been trial and error. We all know hindsight is 20-20, but here are some leading indicators that may help you run for cover early.

- High wage growth. Everyone is getting a high raise.
- Rising commodity prices like Gold and Silver.
- ~~Jimmy Carter is president.~~
- Producer Price Index (PPI) - Measuring the rise in prices for produces of goods and services rather than consumers (known as CPI)

#### BONUS: MY TWO CENTS

In today's economy, the real tipping point for inflation is potentially when our current dollars in circulation begins to change hands at a fast pace. This concept is referred to as the *velocity of money*. I'll explain! As many of you know, the supply of money at this time is vast. The main reason we are not seeing high inflation here in the U.S. is because our biggest and wealthiest companies and individuals are sitting on piles of cash. Here is a simple hypothetical example of how money changes hands.

- My example involves a farmer, chef, and a mechanic.
  - The chef pays the farmer \$50 for his crops.
  - The farmer pays the mechanic \$25 to fix his tractor.
  - The farmer and mechanic then go to the chef and pay \$50 total for two meals.

This example creates \$125 in total demand, even though there is only \$50 in circulation. Each worker is able to capitalize on the demand for his goods and services. Consistent, high demand is what causes prices to rise. This concept is called *demand-pull inflation*.

If my example were altered to reflect what is happening today, the farmer would have kept most of his \$50 by fixing his own tractor, and potentially opting for chicken instead of steak and lobster. My examples may be simple, but they convey one of the most important concepts to understand about the future of our economy.

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*Any questions, whether they be situationally specific, hypothetical, or completely off the wall, can be directed to my email at [ken@investplanadvise.com](mailto:ken@investplanadvise.com) or call me 770-205-4394. When emailing, please include appropriate contact information.*

## MEET THE AUTHOR

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Ken Bellavance studied Finance at the University of North Georgia as a student/athlete. Ken graduated at the top of his class from the Mike Cottrell School of Business and received the Excellence in Finance award for his academic efforts within his field. After four years of college baseball, Ken ended his playing days as an Academic All-American.

As a professional, Ken worked at Provident Funding Associates as a Credit Analyst in the wholesale mortgage industry. He was able

to develop a unique skill-set by participating in the mortgage lending process.

Ken and his wife Danielle live in Cumming, GA. They take full advantage of the beautiful North Georgia mountains by kayaking, hiking, and fishing. Being from Stone Mountain, GA, Ken is a Georgia Bulldawg, Atlanta Braves, and Atlanta Falcons fan. He also enjoys losing less than 10 golf balls when he plays a round of golf.



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