

Inflation Erodes Purchasing Power

I just returned from a trip to Argentina earlier this month and I witnessed firsthand the impact of hyperinflation. The largest bill issued by the government is 2000 Argentinian Pesos which won't even buy a cup of coffee.

Can you imagine if inflation were so severe that when you ordered a cup of coffee from Dunkin Donuts, the price was over \$100? Luckily inflation has not been as rampant in the US as in some other countries, but it has been on the rise in America the last few years.

On April 10th, the U.S. Labor Department announced an annual inflation rate of 3.5% up from the previous rate of 3.2%. While many investors are lulled into a sense of security stashing their money in the bank or money market accounts while earning almost 5%, their actual after-tax return on that money may be lagging inflation. Taxpayers in the top tax bracket are netting under 3% on their money market accounts after taxes which is resulting in a loss of buying power.

Inflation has been starting to creep up and it is very important for investors to grow their money, so their purchasing power is not wiped out by inflation. There are two ways to try to increase returns.

One is to invest in asset classes that tend to appreciate when there is inflation. One such asset class is stocks. When prices go up companies also raise the prices of their goods and services, which makes profits increase. By investing in the stock market or private equity funds, you can outpace inflation by owning shares in companies with growing profits. Real estate has also proven to be a good asset class to own in an inflationary period. One sub asset class which has been in very high demand is data centers, especially those equipped to handle AI computing.

The other way to increase returns, whether you are investing in money market, stocks, real estate, or any other investments, is by implementing strategies which mitigate or eliminate the impact of taxes on interest, dividends, and capital gains.

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