

An All-Season Asset Allocation

Stick with your best mix

Inflation touches every corner of the economy—from the choices you make when you shop to how you invest your nest egg.

First, inflation can make it harder to stick to your plan for saving money. When a trip to the grocery store and a stop at the gas station eat up more of your income, there's less left over to save for your retirement. Second, inflation changes the way the stock and bond markets behave. It's tempting to make major changes in your investment portfolio in light of the changing economic climate.

Adapting to inflation

Ideally, you've already selected the best mix of stock, bond and cash for your investment objectives, time horizon (how long before you need to begin spending the money) and tolerance for risk, so you shouldn't have to alter your asset allocation. You would likely modify it only as you got older and the time until you needed the money grew shorter.

Keep your priorities in order

Don't let inflation-fed strains on your budget derail your retirement savings plan. Continue to contribute as much as you can to your retirement savings—even if that means buying cheaper cuts of meat or getting by with fewer evenings out. The payoff may be a nest egg big enough to sustain you throughout your golden years.

HIGHER INTEREST RATES AND YOUR INVESTMENTS

Stocks: Historically, prices have tended to drop when interest rates rise. High or rising interest rates make it more expensive for companies to borrow money, thereby discouraging new investment and depressing stock prices. The reverse tends to be true when interest rates fall.

Bonds: Historically, existing bond values have fallen as rates rise. Older, lower-rate bonds must be sold at discounted prices to make them competitive with new, higher-rate bonds. On the plus side, those higher rates should, in time, increase the yield on bond funds.

Cash: Rates on cash accounts, CDs and Treasury bills tend to move up in line with other interest rates. But the yield on these cash investments is usually less than that of bonds.

Past performance is no guarantee of future results. This is intended as informational in nature, and is not intended to predict future market performance.