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Understanding Inflation, the Silent Killer (Part 1)

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Among the greatest longterm threats to retirees and investors is inflation. During most of the 2010s, inflation was so quiet, tame and unremarkable that an entire generation of investors simply forgot it existed. While many had never truly experienced it, the world was reminded in recent years — and almost overnight — just how quickly inflation can roar back to life and mercilessly target anyone who hasn't prepared.

Note

Inflation is the slow and steady — or sometimes sudden — increase in the cost of living. You feel it when you buy groceries, fill your gas tank, pay insurance premiums, or look at a restaurant bill that was once much cheaper. Inflation is always additive, so even when inflation is "decreasing", prices aren't going down, they just aren't going up as fast. Over time, inflation is the hidden force that converts a comfortable lifestyle today into a financial squeeze tomorrow. That's why I call it a silent killer: It erodes purchasing power quietly and invisibly, until one day it's impossible to ignore.

Note

The United States measures inflation through the Consumer Price Index (CPI), which tracks the changing prices of a "basket" of goods and services that families routinely buy: housing, cars, food, healthcare, electricity, prescription drugs, etc. The Federal Reserve then attempts to influence inflation by adjusting interest rates and increasing or reducing the supply of money in circulation. Note

For most of the early 2000s and 2010s, this system worked smoothly. Inflation was remarkably low for nearly 20 years. A generation of savers came to believe (incorrectly) that 2% inflation was natural, normal and permanent.

Then COVID arrived, shutting down entire economies overnight. Meanwhile, governments injected trillions of dollars into the financial system to prevent collapse.

In the months and years that followed, too many dollars chased too few goods. That imbalance ignited an inflation surge unlike anything we'd seen in decades. The result has been a real-world lesson in economic reality. Consider these changes since 2018:

- A pound of ground beef that cost $3.50 then now costs $6–7.
- A gallon of milk is up nearly 30%.
- Car prices (both new and used) have skyrocketed, in some cases 40–50%.
- Home insurance premiums in Colorado have increased by double digits year after year.

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• Rent rose so quickly that many tenants found themselves priced out of markets they'd lived in for decades.
• Restaurant checks climbed 25– 40%.
• Even basic household goods like paper towels, laundry detergent and toothpaste rose far faster than anyone anticipated.
• Inflation that once looked harmless suddenly became concerning — and unavoidable.

If you rely on fixed income like bonds, CDs or savings accounts, the past few years have been especially challenging. Even though interest rates eventually rose, they didn't rise quickly enough or high enough to offset the speed at which expenses increased. A retiree earning 2% interest but facing 6– 8% inflation loses purchasing power every year. That's basic math.

Cash savers struggled too. Savings accounts that earned virtually nothing from 2008 to 2022 were quietly losing ground the entire time. This problem wasn't visible until prices jumped; then losses in purchasing power became suddenly clear.

On the flip side, low inflation typically stimulates business development and consumer spending, which can help a sluggish economy recover. The Federal Reserve has historically targeted a 2% inflation rate, since it's considered not too hot or too cold. Still, that target comes with a hidden danger: Note When policymakers say they're willing to "let inflation run hot," even temporarily, the risk is that it can be far harder than anticipated to rein it back under control. The last few years demonstrate how difficult it can be to steer inflation.

As many households have discovered, inflation doesn't ask whether you're ready. It simply arrives. The question every investor and retiree should have is straightforward: If everything from groceries to healthcare to home insurance will grow more expensive over time, how can your retirement plan adapt? How can you avoid slowly growing poorer each year as you age?

The answer is deceptively simple: Your income must grow, even after retiring. A fixed income is a declining income. A static pension, a fixedrate bond portfolio, or a savings account offering minimal interest cannot keep pace with rising costs. If expenses compound at 3–5% a year while your income grows at 0–2%, the outcome is predictable and painful. As purchasing power shrinks, so too does your freedom, flexibility and options.

Our goal as investment advisors is not merely to help people preserve principal but also to protect and improve their purchasing power. This means their income stream must be capable of rising faster than inflation. That's why, in tomorrow's column, we'll revisit one of the most powerful tools longterm investors have ever relied upon: dividends. And not just any dividends, but dividends that can grow year after year in an effort to outpace inflation – turning time into an ally instead of an adversary.

Inflation may be the silent killer, but it, too, is not invincible. A well- designed plan built on rising income, not fixed income, can outgrow even the most stubborn inflationary cycle. The key is understanding the threat clearly, preparing for it early and choosing investments that fight back on your behalf.

More on that in Part Two.

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