

# Overcoming Inflation Using a Familiar Friend (Part 2)

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For investors, inflation doesn't just bring higher prices. It also silently erodes their purchasing power by shrinking what money can buy over time. In yesterday's column, we discussed how inflation isn't just theoretical; it's real, and often painful, particularly in recent years. And it impacts nearly every decision a retiree makes.



Ultimately, people invest for income. Whether that's income for today or in the future, protecting the purchasing power of that income is absolutely critical.

Yet human nature also often wants results without the process. That is, many investors desire an income that outpaces inflation, but they don't want the "wiggles" (aka volatility) that comes with owning businesses. They want growth, preferably in a straight line, with minimal discomfort.

That instinct usually drives people toward bonds or fixed-income investments, since their scarcely-fluctuating prices seem safer. But in an inflationary world, that sense of safety can be dangerously misleading. Bond investors get punished when the value of every future dollar of interest and principal quietly diminishes.

With bond payments fixed and prices rising, the math is simple and unforgiving. Consider a retiree who buys bonds at age 60. At just 3% inflation — well below recent rates — their purchasing power will be cut in half by age 84. So in just 24 years, the groceries, medical care, insurance premiums, and utilities they rely on will double in cost. Yet their bond income won't budge a penny. They will receive the same nominal dollars but can buy far less. This isn't safety; it's stagnation.

Stable value is not the same as stable purchasing power. *Note*

Retirees can experience the actual safety they desire by owning investments that grow income over time. That's why we believe in owning businesses that innovate, adapt and raise dividends. These companies sell real goods and services to people everywhere, every day. They compete, improve, reinvest and grow.

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Bonds can't do that. Instead, you agree on a rate and maturity date and collect the same amount every month.

Businesses, on the other hand, evolve by finding new customers, raising prices, improving efficiency and expanding into new markets. During once-in-a-generation events like COVID, they adapt. Their rising dividends express that growth, and they share this profit (real cash) simply because you're an owner. Whether the market is calm or chaotic, dividends just appear in your account — with no predictions required.

When those dividends grow over time, something powerful happens: Your income can outpace inflation.

Investors often underestimate this power. While inflation compounds against you, dividend increases compound for you. A dividend growing at 6% in a 3% inflation world means your purchasing power doubles roughly every 12 years. Unlike fixed income that shrinks your lifestyle, dividend growth investments can expand it.

That's why dividend growth investing is tied so closely to long-term retirement success. It provides the best aspects of owning an American enterprise: profit growth, innovation, and long-term price appreciation. And over a long enough time horizon, the stock market has always risen — never in a straight line and certainly not without discomfort, but reliably, persistently, and overwhelmingly in favor of the patient investor. Through wars, recessions, pandemics, political crises and chaotic shortterm volatility, markets have continued this long climb.

If your income doesn't rise to match inflation, your lifestyle must fall to compensate. That's not pessimism but basic math.

A can of Campbell's tomato soup is a simple illustration of the broader effects of inflation. A little over 50 years ago, in 1974, it cost around 12 cents. By 2020, it was nearly a dollar. Today, depending on where you shop, it hovers around \$1.30 to \$1.60. Same soup, same size, same label ... very different price. Soup isn't unique; nearly everything we buy follows that same pattern. Groceries, home insurance, cars, utilities, medical care, restaurant meals — the prices move in one direction over time.

That's why relying on fixed income during a multi-decade retirement is so risky. Inflation doesn't care that a bond feels safe, and rising prices don't pause because you want predictability. When inflation rises and interest rates follow, those "safe" bonds decline in value, often sharply. Ironically, the more investors seek comfort, the more they lose purchasing power.

Rising income during retirement isn't a luxury, but a requirement to outpace the rising cost of simply being alive.

Are you positioned for a future where prices keep climbing? Do you own investments that adapt, improve and raise their cash payments to you? Or do you own fixed promises that stagnate while everything gets more expensive?

In an inflationary world, purchasing power is the true scoreboard. And dividend-growing businesses have a long history of helping investors "win."

Inflation will fluctuate in waves, sometimes gently, sometimes violently. But its long-term direction has been clear for more than a century. The wisest investors prepare not by seeking shelter from volatility, but by owning businesses that thrive despite it.

What separates the winners from the worriers has never been forecasting, but investor behavior. At the end of the day, the question is simple: What does safe mean to you? Your answer will determine not just your investment strategy, but your personal and financial freedoms over the decades ahead.

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