Inflation & Your Financial Health

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To truly appreciate the role that inflation plays in your ability to build assets and achieve financial freedom one has to consider the role of its dance partner: purchasing power. You can't have one without the other!

Most people spend very little time contemplating the concept of purchasing power or the role it plays in their ability to meet their lifestyle or financial independence goals. Financial independence, as discussed at the beginning of this series on Financial Success Simplified, simply means the ability to have the standard of living you desire, in inflation-adjusted, after-tax dollars without the necessity of having to get out of bed and go to work to maintain that standard of living.

To achieve this level of success one needs to take into account the effects of inflation on the purchasing power of your dollars, not only today, but ten or twenty years into the future in order to protect your hard-earned lifestyle. Otherwise you may face the prospect of having to return to the work force after years of retirement. This is the situation today for many retirees who have returned to active employment following the Great Recession of 2008.

Purchasing power simply means the ability of each dollar to purchase the goods and services you need on a daily basis. We often hear comments such as stretching your dollars? or there is more month than money? to express the reality that sometimes one's dollars do not go far enough to meet the basics of life.

The reason for this type of situation is the role played by inflation. If your income is more or less fixed and the price of goods rise annually even by a modest amount of 2% annually, which is the inflation target set by Canada's Central Bank, then you are heading into a cycle of spending your savings at an increasing rate in order to maintain your lifestyle. Talk to any Senior citizen who has been retired for any length of time to confirm this reality.

To appreciate the effects of purchasing power loss one needs to only think back to their childhood. Compare the cost of a chocolate bar today at about $1.50 with one 40 years ago for a dime. Or talk to a Senior who will confirm that the cost of an average car today is about the same as what they paid for a house in the 1960s.

That is why inflation and purchasing power are two concepts that go hand-in-glove when considering one's wealth building and more importantly wealth preservation strategies. And, there are several different types of inflation as well.

Most people think of inflation in terms of prices for everyday goods or in the amount of wages paid. But there are other types of inflation such as a general rise in asset prices such as real estate, stocks, bonds, commodities and the amount of money in circulation. All of these have various consequences for your assets and wealth.

So when you are hearing media reports about Quantitative Easing pay attention to how the government plans to deliberately reduce your future purchasing power through inflation in order to fix their problems of too much debt and not enough economic growth.

Call us today to discuss how you can use inflation to your advantage in managing your financial affairs!

P.S. To read more about the Consumer Price Index go to:

Consumer Price Index [1]

Please call us today to discuss your financial planning goals and how we can assist you in meeting them!

Want to learn how to use inflation to your advantage?

Contact our office today ! [2]

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