



## Is Your Retirement Protected From Inflation?

### Description

The world is drowning in phony paper money and hidden inflation.

U.S. Federal Reserve Chair Janet Yellen has broadcasted her intentions to keep the monetary spigots open for “some time” to come. Meanwhile, the Bank of Canada, the European Central Bank, and the Bank of England have been expanding their balance sheets in lockstep with the Fed.

You can almost feel these central bankers sweating, grunting, and straining their muscles to the point of exhaustion trying to actually crank the global economy back into gear! However, in the process, the value of fiat money is eroding and the retirement plans of millions of ordinary people are at risk. There's only one way investors can protect themselves: inflation-proof assets.

### The hidden threat to your retirement

In 1964, a litre of gas cost \$0.07, a gallon of milk cost \$1.06, and a loaf of bread cost \$0.21. Needless to say these items, along with many others, cost a lot more today. That's the impact of inflation.

Everyday this hidden threat nibbles away at the value of your hard-earned money. There's no need for any Weimar Republic-like hyperinflation. Even if prices increase at a relatively low 3% annual rate, the value of your dollar halves every 25 years. And depending on circumstances, your cost of living may rise much faster than the official Consumer Price Index, or CPI.

The steady erosion of purchasing power is the biggest reason why holding cash is so risky. If you park your money in a chequing account, you can be almost guaranteed that the balance will never decline. But given that you're earning such a meagre interest rate, the real value of your capital will never keep up with rising prices.

### How to protect yourself from rising prices

If you're like most Canadian investors, then your financial life may be totally dependent on the dollar maintaining its value. Given that you're likely to get paid in dollars for the rest of your life, diversifying into inflation-proof or inflation-resistant assets is a smart hedge. Here are some ways to diversify your

exposure.

**Precious metals:** Central banks can flood the world with money, but the real value of hard assets remain the same. That's why precious metals like gold and silver have been trusted as a store of wealth for centuries. [We're not big fans of hoarding metal](#) here at The Motley Fool. However, streaming metal companies like **Silver Wheaton** (TSX: SLW)(NYSE: SLW) and **Franco-Nevada** ([TSX: FNV](#))([NYSE: FNV](#)) provide compelling alternatives. Shares represent a piece of ownership in a business that can actually grow and compound in value over time. Yet resource stocks provide the same protection against rising prices as the underlying commodities.

**Wonderful businesses:** A wonderful business, by definition, has a big wide moat which allows the company to raise prices as its costs increase. Consider a firm like **Tim Horton's** (TSX: THI)(NYSE: THI). Do you think if the price of a large coffee increased \$0.20 Canadians would start skipping their daily cup of joe? No, not likely. Because Tim Horton's can easily pass on higher prices, it can protect its shareholders from inflation.

**Inflation-protected bonds:** Real return bonds, or RRBs, have a lower coupon than traditional bonds. However, their principal gets adjusted every six months according to the current rate of inflation, as measured by the CPI. Thanks to this direct link, RRBs provide the closest hedge to inflation you can get.

### Foolish bottom line

As long as the Bank of Canada and central banks around the world are willing to sacrifice the dollar to reignite the economy, you need to take steps to protect yourself against rising prices. Including investments in hard assets, high-quality equities, and inflation protected bonds are time-tested methods to secure your retirement from inflation.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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