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What You Can Do Right Now To Protect Yourself Against Inflation If You're Retired (Or Close To Retirement)

By Chris Carosa
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It's more than just toilet paper. Any common sense understanding of the madness of crowds suggests random acts of overreaction can cause irrational demand. This, in turn, often leads to shrinking supply.

High demand? Low supply? If you remember your ECON 101, that formula can lead to only one conclusion: price inflation.

Will inflation define your near future and what does that mean if you're retired or nearing retirement?

The April 2020 Consumer Price Index Report from the U.S. Bureau of Labor Statistics offers mixed messages. For all the talk of shortages and hording, the CPI declined 0.8 percent in April (on a seasonally adjusted basis).

That might seem counterintuitive, but you have to remember what happened when you stopped driving your car: you also stopped buying gas. And you were not alone. The gasoline index fell more than 20%. That heavily influenced the entire index.

It wasn't just gas. What else did you stop buying? Clothes? Airplane tickets? Hotel rooms? The Supply and Demand equation can go both ways. When demand falls, the theory suggests prices should also fall. Indeed, that's what we saw in April.

In fact, taking out food and energy, last month featured the largest ever monthly price decline (or at least since 1957 when the index was first created).

Then there's food. The inflation index for food sported its largest rise since February of 1974. If you recall inflation in the 1970s, you've probably got a frown on your face. The country didn't do too well trying to whip inflation back then.

So, what is it? Inflation or deflation?

"While we don't see inflation as a problem on the immediate horizon, the tremendous amount of fiscal and monetary stimulus could finally trigger inflation in late 2021 or 2022," says Doug Butler, Senior Vice President & Director of Research Services at Rockland Trust in Boston.

If you feel you belong to the "better safe than sorry" cohort, you might want to consider preparing for a bout of inflation, even if it's isolated to one or two sectors. You're already diversified, but if you can identify those sectors, what can you do to further protect yourself?

"At this time the biggest expenses for this group are medical or potential medical, so making sure to shelter in place and avoid unnecessary exposure to COVID-19 is important to controlling costs," says Clari Nolet, Senior Financial Advisor at Team Hewins in Redwood City, California. "The other big expense right now is for food. Eat a well-balanced diet and eat a variety of foods to make sure you have the ability to switch to foods that aren't inflating due to shortages and demand. It might be a good idea to garden and engage in hobbies that aren't high cost."

The sense of using your garden as a substitute for the grocery store applies to other areas as well. Still, it's best to focus on food because that's where the real risk is. You can quit buying non-essential items, but food is essential. If inflation hits there, you're going to find it hard to avoid.

But not impossible. If you think outside the box. Of course, that might mean buying inside the box—the big box.

"Find alternative products that are less expensive," says Kathleen Owens, a financial adviser at Aurora Financial Planning & Investment Management LLC in Hilton Head Island, South Carolina. "Have a budget, especially for grocery shopping. Even though Costco has been accused of price-gouging, if you can buy in bulk, you can save money that way. Right now, live simply until we get through this crisis."

At the same time you're minding your daily budget, you also need to care for your long-term portfolio. Experience suggests certain asset classes tend to do better than others during periods of inflation.

"The best hedges against inflation, historically, are stocks and TIPS (treasury inflation protected securities)," says David Ritter, Certified Financial Planner and MBA at Discovery Financial in Hudson, Wisconsin. "A well-diversified stock and bond portfolio will be your best hedge against inflation for the next 10 years."

You get the picture. You don't have to look for strange new alternatives. Countering inflation is old school when it comes to investment portfolios. The strategies are so well known and accepted, there's a consensus on the best approach.

To emphasize this, Dimitry Farberov, Investment Advisor for Miracle Mile Advisors in Los Angeles, agrees with Ritter. He says, "The best thing retirees that are close to retirement can do right now to protect themselves against this potential inflation is to consider inflation-protected bonds (TIPs) for their 'safer assets' and high-quality stock in companies that can grow in an inflationary environment for their 'growth assets.'"

Finally, what if you're wrong? What if serious inflation never rears its ugly head?

Fortunately, in the plain vanilla world of investing, the best answer to inflation protection is not too different from the best long-term investing answer in general. Which is good since the data doesn't offer a clear indication on which side of the fence inflation will fall.

"With trillions in stimulus dollars being injected into the economy, it's tempting to bet heavy on future inflation," says Grand Junction, Colorado-based Matt Rosenberg, member of the American Institute of CPAs Financial Literacy Commission. "Alternatively, record unemployment and recession could lead to deflation. Going forward the only certainty is uncertainty, so the best way for retirees or near-retirees to protect themselves against potential inflation is by diversifying."

And isn't that where you began in the first place?