ACTIVE PRACTICE UPDATES

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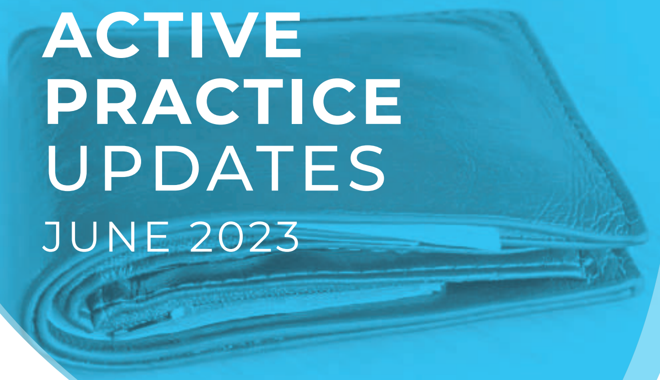

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HOW TO INFLATION-PROOF YOUR INVESTMENTS

Protect your savings for the future.

Investments, always subject to a variety of risks that can impact their value, are never safe.

For example, the value of your investment could decline due to the performance of the company you invested in. If you hold fixed-rate bonds, a spike in interest rates could cause the value of your investment to fall, as demand switches to higher rate bonds.

But another investment risk has once again reared its head: high inflation. Usually measured as the average increase in consumer prices over a year, inflation erodes spending power if income or returns do not keep pace.

So, a fixed-rate bond that pays 2% would actually depreciate in value in a year where inflation runs at an average rate of 3% — despite the numbers in your bank account ticking upwards.

In the 12 months to March 2023, inflation hit 10.1% and, according to the Office for Budget Responsibility (OBR), will average 6.1% for 2023.

The OBR then forecasts inflation will drop to around 0% in mid-2026. Remember, though, that the Bank of England's target is 2%, which it and the Government will want to return to. After all, a small amount of inflation is actually a sign of a healthy economy and acts as a barrier against the damages deflation (negative inflation) can bring.

So, while making inflation-proof investments is essential in the short-term, inflation is something that investors always need to bear in mind in the future.

Here are some of the methods you can use to inflation-proof your investments.

Disclaimer: *the following are investment methods that may or may not suit your situation, but should not be taken as investment advice. Always talk to a financial adviser before investing.*

INVEST IN EQUITIES

Equities, also known as stocks, represent ownership in companies, and buying them has historically been seen as a good way to beat inflation.

That's because some companies have enough market power to control the market prices of their products and services without losing their customers — in that sense, they're 'price makers'.

Such a power in the market makes these firms profitable even during times of economic hardship. As a result, the value of their stocks tend to increase over time to match or even overtake inflation in some cases.

Examples of price-makers in today's economy include businesses in the energy and healthcare sectors — industries that offer essential goods that people will always need.

Alternatively, you could find a price-maker who can afford to increase prices without losing customers because they enjoy a loyal customer base or offer unique products.

However, investing in equities still carries significant risk, including the risk of losing your principal investment.

Additionally, the value of equities can be volatile, meaning they can fluctuate significantly in the short term. As such, it's important to have a long-term investment horizon.

CONSIDER REAL ASSETS

Real assets are physical commodities with a high intrinsic value because they can provide a tangible benefit or use to their owners. Examples include precious metals, energy, infrastructure projects and agricultural goods.

There is also healthcare, including providers, drug developers and medical device developers.

These assets can be a good idea because during periods of inflation, the price of goods and services increases, leading to a decrease in the purchasing power of government-issued currency, like the pound or dollar.

However, real assets, especially those with real benefits to society, may be able to hold their value better than regular currency during inflationary periods. Gold has historically been seen as one of the better hedges against inflation.

Property investments

Among the real assets you could invest in is property. Property prices have increased impressively over the last few decades — while offering the owners an additional revenue stream in the form of rental income.

One thing to bear in mind is that property can be a little more hands-on than other types of investments (unless you're willing to hire someone to manage your property for you).

Meanwhile, forecasts suggest the average house price could drop between 6% and 12% in the near future — but if the Bank of England slashes interest rates, which has a knock-on effect on the rates mortgage providers use to charge for their products, things could turn around.

INFLATION-INDEXED BONDS

Inflation-indexed bonds, known as index-linked gilts in the UK, are securities issued by the Government, offering a safe investment that hedges against inflation.

Index-linked gilts differ from conventional gilts (money you save with the Government in return for interest payments) in that principal payments are adjusted in line with inflation.

However, they do not completely protect against inflation: lag time between the release of inflation data and payment on the gilts means inflation-linked payments may not fully keep up with the actual rate of inflation.

ALTERNATIVE INVESTMENTS

Alternative investments are investments that are not traditionally included in a portfolio of stocks, bonds, and cash. Examples of alternative investments include hedge funds or private equity.

Of course, there are also crypto-assets. While many of the more notable 'coins', such as Bitcoin and XRP, fell in value during the pandemic, the market has somewhat stabilised and could prove beneficial to investors.

Alternative investments, including crypto, can provide a hedge against inflation because they are often less correlated with traditional investments.

However, alternative investments can be complex and may require a higher level of expertise than traditional investments. Additionally, alternative investments — particularly crypto-assets — can be volatile and risky to invest in.

DIVERSIFY YOUR PORTFOLIO

Diversifying your portfolio is one of the best ways to inflation-proof your investments — after all, why invest in just one of the assets we've discovered when you could invest in a number of them?

Meanwhile, investing in a variety of assets can reduce the impact of one class performing poorly against inflation or even an asset resulting in negative returns.

YOUR NEXT STEPS

There are several strategies you can use to inflation-proof your investments in the UK. These include investing in equities, real assets, and inflation-protected securities, diversifying your portfolio, and considering alternative investments.

However, before committing your money to a risky endeavour, you should always talk with a professional. No investment is without risk.

Get in touch to discuss your finances.