Inflation: The Sneaky Thief – Video Transcript

When putting together a strategy to pursue a comfortable retirement, you'll want to consider many factors. One of them is inflation. Why?

Because inflation can be like a thief who sneaks into your portfolio, robbing your money's purchasing power over a period of years.

In simple terms, inflation refers to the rising cost of goods and services over time. Are you sometimes surprised to see the price of eggs, milk, your favorite athletic shoes, or other everyday items go up from one month or year to the next? That's inflation at work.

Over the past century or so, prices have risen by just a few percentage points each year, on average. However, the 3% long-term average disguises many peaks and valleys along the way.

Yet even a seemingly low inflation rate can have a dramatic effect on prices over the long term.

Consider this table, which shows the effect of a 3% annual inflation rate on some typical items.

When you consider how far off retirement could be, and how long you could spend *in* retirement, you begin to see the importance of including inflation in your long-term planning. If you don't build a large enough nest egg before you retire, or if you spend too much money during the early years of your retirement, you could risk outliving your savings.

So how do you help ensure that your money lasts as long as you do?

One way is to save as much as you can before you retire, increasing your retirement investments whenever possible. Another way is to invest at least some of your money in growth-oriented investments such as stocks.

Although past performance cannot guarantee future results, stocks have outpaced inflation by a wide margin over time. Including some stocks in your portfolio both before and during retirement may help you keep the sneaky inflation thief at bay.

Stocks are represented by the S&P 500 Composite Total Return Index and inflation is represented by the Consumer Price Index. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in an index.

Past performance cannot guarantee future results. All investing involves risk, including the possible loss of principal. There can be no assurance that any investment strategy will be successful.