INVESTING BASICS

Worried About Inflation? You Probably Should Be.

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Many investors cite inflation as one of their primary worries. Over time, inflation will erode your purchasing power if the return you earn on your money is less than the inflation rate. There are two inflation rates, reported as the Consumer Price Index (CPI) by the Bureau of Labor Statistics. *Headline* inflation represents the change in price for a broad bundle of products and services. Core inflation excludes food and energy. While the core inflation rate is generally lower, headline inflation is more realistic because it reflects all the living expenses consumers have.

So, for every dollar invested in a 6-month CD over 10 years, you lost 0.91%. A deposit of $1,000 would be worth only $913. It's hard to meet long-term goals with short-term investments. The chart below shows what would have happened to your spending power if you had stayed invested in 6-month CDs for the past 10 years.

Current rates of inflation[4]

Core inflation	2.2%
Headline inflation	2.3%

Here is an example of real, after-tax return on six-month CDs for 2019.

Taxes and inflation determine the real rate of return*

Current rate for a 6-month CD	**1.79%**
Minus portion of return used to pay taxes (at a 22% tax rate)	0.39%
Equals after-tax return rate	**1.40%**
Minus current headline inflation rate	2.29%
Real rate of return	**-0.89%**

As of 12/31/19
*Values subject to rounding

Year	6-month CD[1]	Federal tax rate[2]	After-tax return[3]	Inflation[4]	Real rate of return[5]	Value of $1,000
2010	0.43%	22%	0.34%	1.50%	-1.16%	$988
2011	0.78%	22%	0.61%	2.96%	-2.35%	$965
2012	0.39%	22%	0.30%	1.74%	-1.44%	$951
2013	0.27%	22%	0.21%	1.50%	-1.29%	$939
2014	0.43%	22%	0.34%	0.76%	-0.42%	$935
2015	0.89%	22%	0.69%	0.73%	-0.04%	$935
2016	1.27%	22%	0.99%	2.07%	-1.08%	$925
2017	1.82%	22%	1.42%	2.11%	-0.69%	$918
2018	2.82%	22%	2.20%	1.91%	0.29%	$921
2019	1.79%	22%	1.40%	2.29%	-0.89%	$913
Average	**1.09%**	**22%**	**0.85%**	**1.75%**	**-0.91%**	**N/A**

Regardless of the investment, it is important to consider the inflation rate when determining what you are really earning on your money. For a more detailed understanding of how inflation impacts your portfolio, talk to your investment professional.

Keep in mind that CDs may be purchased for longer periods than illustrated. The six-month CD rate was used as an example to illustrate the effects of taking money out of the market because of volatility. Had longer-term CDs been used (such as a 60-month CD), the results would have been different. CDs are FDIC insured generally up to $250,000 and have principal and interest guarantees. Unlike most FDIC-insured CDs, the share price of the other investments (eg., stocks, bonds, mutual funds) is subject to fluctuation and is not guaranteed. Therefore, there are greater investment risks involved, which may result in a loss of principal.

[1] Source: Bloomberg. CDs are represented by the Bloomberg 6-month CD.
[2] Source: The Tax Policy Center. Highest marginal federal tax rate is based on $100,000 of taxable income for a married couple filing jointly (taxpolicycenter.org).
[3] The after-tax return is calculated by taking the rate of return and multiplying it by what's left after taxes (100 minus the tax rate).
[4] Inflation is represented by the Consumer Price Index (CPI). The table shows headline inflation.
[5] Real return is calculated by taking the after-tax return and subtracting the inflation rate.

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