Time *and* Money

Time and money, beyond being the titles of two songs on the classic Pink Floyd album *Dark Side of the Moon*, are inseparable subjects when it comes to planning for our future. Time gives us the opportunity to build our savings through growth and compounding. Time also works against us as it erodes the value of our money through the steady decline of purchasing power via inflation.

Let us start with the latter issue first. As we learn early in life, prices for things seem to only go one direction, up. We may enjoy technological value reductions like that flat-screen TV that cost $3,000 five years ago is now available (and better!) for under $500. However, for the most part, food, housing, energy, recreation, clothes, and other essentials have all steadily cost more in dollar terms over time. Inflation concerns are all over the news today with prices jumping recently as the economy has reopened after the pandemic shutdown. The government has also flooded the economy (and continues to do so) with money intending to combat the pandemic's economic impact. A little inflation is expected and is arguably a good thing for the economy as it comes naturally with a growing healthy economy. The Federal Reserve actually has a target to maintain inflation around 2%. However, inflation that greatly exceeds that modest level can become ingrained in an economy and hard to arrest. Anyone who recalls the early 1980's and the recession that was orchestrated to tame inflation at that time can speak to this. Some argue that the current burst of inflation is "transitory" and will pass as the economy fully reopens and adjusts to higher levels of activity. However, there are other credible voices that express concern that the government spending policies are lighting an inflation flame that will endure and be difficult to dampen.

What does that mean for all of us? At 2% inflation, it will require $110.41 in five years to buy what $100 will buy today. At an inflation rate of 5% that current $100 in purchasing power will require $127.63 in five years. Even at 2%, it will take $148.59 in 20 years to buy what $100 will buy today. Given this, we all want the purchasing power of our savings to keep pace with inflation, or more importantly grow over time. With a near-zero rate of return, money in a savings or checking account steadily loses real value over time as inflation eats away its purchasing power. Even longer-term "safe" investments such as a ten-year U.S. Treasury bond only yield around 1.50%, lower than the target inflation rate and much lower than what we are currently experiencing. That means in "real" terms, an investment in such bonds provides a negative expected return. When inflation is concerned, time works against your money.

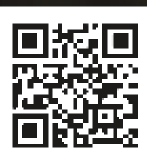
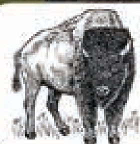
How do we overcome this hurdle to our future well-being and the buying power of our precious savings? Again, time is the answer. We look for returns in excess of inflation by investing in higher-risk assets, which have an expected return in excess of anticipated inflation, thus providing for growth in the purchasing power of our assets over time. While returns are not guaranteed and can be volatile, it is time that rewards us as investment returns, which may be variable in the short term, or even negative, tend to gravitate toward their expected return over longer periods. Of course, we must remember that past performance is no guarantee of future returns. Returns and volatility historically have moved together as investors demand a higher return for higher risk, and the volatility of expected returns is how most investors measure risk. A growing and healthy economy provides investment opportunities for our capital. Economic growth is not a steady state, but again, time rewards us as our economy has continuously grown over time.

Of course, human nature makes us short-term focused. We find it difficult to be patient and sometimes react to short-term setbacks by losing our long-term perspective and reacting in ways that work against our longer-term objectives. Those inner battles are hard to win at times, but we must stay focused on the benefits time holds for our money to overcome the erosion to our money's purchasing power that comes with time. Time moderates risk as short-term volatility smooths out over longer periods. That is an important concept to remember as we all look toward establishing a financially secure future for ourselves.

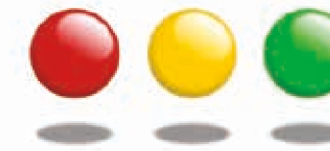
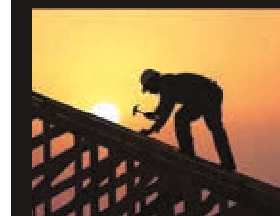
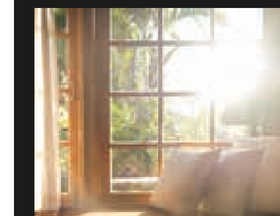
Time and money are inseparable.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®.
Registered representative. Securities offered through Cambridge Investment Research Inc., a broker-dealer, member FINRA/SIPC. Investment Advisor Representative Cambridge, a registered investment advisor. Cambridge and Ford Wealth Management are not affiliated. Cambridge and Ford Wealth Management do not offer tax advice.

A Strategy Designed Just For You



Ford
Wealth Management LLC

Erik G. Ford, CFP®, AIF®
Financial Advisor
800 Roosevelt Road | Building B, Suite 413
Glen Ellyn, IL 60137
fordwealthmanagement.com
Office 630.545.2800 | Mobile 312.804.9464
erik@fordwealthmanagement.com
Registered Representative. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Investment Advisor Representative Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor. Cambridge and Ford Wealth Management are not affiliated.


GreenLight Construction Group
#1 Choice

Roofing
#1 Choice

Windows
#1 Choice

Siding
#1 Choice

Gutters
Your Contractor for LIFE
$1000 DISCOUNT
CONTACT US NOW
*any job over $10,000 & $500 Discount on any job over $7,000
www.GreenLightHomeOwners.com
Service@GreenLightConstructionGroup.com
Call or Text 630-333-2735
1919 S. Highland Ave. Suite 108-C Lombard, IL