A Husband's Point Of View

A.M.H. Financial Services

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INSIDE THIS ISSUE:

On the Lighter Side

How many golfers does it take to change a light bulb? Fore!

I can't find my mood ring. I'm not sure how I feel about that!

Brought my pet crab to the disco yesterday and he loved it! He danced so much he pulled a mussel.

Why are accounting departments so welcoming? Because everyone counts.

Why do senior citizens eat so much processed food? Because they need all the preservatives they can get.

You probably have noticed it costs almost twice as much to fill up your car at the pump relative to last year, or that the cart of groceries you get every week is getting more expensive. On average the cost of living has been increasing at a rate around 5% over the past 12 months. This unusually high number (inflation averaged about 2% a year over the last 20 years) has generated many headlines and you may wonder what it means for your retirement plan and for your future investment returns.

Before panicking about inflation and making any drastic changes, however, it is helpful to understand how inflation works and how it can impact your investment plan. Inflation is a general increase in prices and the cost of living. Over a given period, the prices of some of the goods we consume increase (think of 4 litres of milk or a box of cereal) while others may decrease (the price of TVs). Inflation measures the average increase in prices. If prices go up on average, it becomes more costly to purchase the same goods and services as before the price increase, so the cost of living goes up.

Over the last 12 months, the main sources of inflation have been energy costs, including gasoline and utilities, and transportation, including the prices of used cars. More recently, we have noticed higher prices at grocery stores and restaurants. The most obvious effect of inflation is that it lowers the purchasing power of your income, or real income. For example, if you got a raise of 3% at the beginning of 2021 and the cost of living goes up by 5% this year, your real income is declining by approximately 2% this year.

You may be tempted to follow the news and various experts trying to predict inflation and picking investments that might do well if inflation goes up. However, historical experience shows that unfortunately, we cannot predict the future of inflation with any reliability.

Our world is very unstable right now with the threat of war looming in Europe. If that happens it will affect us all. And it will affect the markets. The reality is that depending on what happens in Europe the markets could have severe downturns. Money in the banks is very vulnerable with no guarantees to keep it intact.

If you are keeping your money in a GIC or worse yet a savings account paying 0 – 2% be advised that according to Bank of Canada's official inflation rate of 5.1% you are getting a net return on your money of -3.1% (5.1 – 2) so you're losing money on your money. On top of that if the money is non-registered you will also be paying income tax on the interest further devaluing your dollars. Through the segregated funds that I deal with not only do they pay higher returns, but they also come with guarantees that the banks do not offer.

Call me today (780) 425-4058 for more information about the secure investments that I can offer you that will give you some peace of mind that your money will still work for you and furthermore, security during these very unstable times.

3 Things to do During Inflation Periods

Make a Plan

If inflation causes you to worry, make sure you have a good financial plan in place for your goals. Whether you are planning for a future retirement, evaluating your retirement readiness, or estimating the amount you can safely withdraw from your nest egg, a financial plan that considers multiple inflation scenarios is a good way to be prepared for inflation risks. Historically, we have experienced periods of high inflation and of low inflation, high-interest rates and low-interest rates, etc. Your plan should be robust to a range of scenarios.

To accumulate any wealth, you must invest at a growth rate higher than inflation.

Stick with the process of planning

Making a plan is the first step, but planning is a process. Make sure you revise your assumptions and your plan as your financial picture evolves. Currently, you may want to be more careful about spending with rising inflation, as we suggest below. But inflation fears may be temporary. The economy may get back on track and you may get a raise that is greater than expected, or your investment returns may be better than expected. You should build some flexibility in your plan and revise it often, once or twice a year.

Make a budget and track your spending

A budget gives you clarity about your spending habits and can help you find opportunities to save. Here are some ways to reduce spending in periods of higher inflation. First, keep your durable goods longer. Wait on buying your next car if you can, so you can avoid the temporary price pressure. Buy used. You probably don't need a brand new SLR camera or mountain bike if you are just trying out a new hobby. The local Facebook marketplace is an ideal place to shop.

Canada Inflation Rate

In Canada, the most important categories in the CPI basket are Shelter (27.5 percent of the total weight) and Transportation (19.3 percent). Food accounts for 16.1 percent; Household Operations, Furnishings and Equipment for 11.8 percent; Recreation, Education and Reading for 11.8 percent; Clothing and Footwear for 5.7 percent; Health and Personal Care for 5 percent; Alcoholic Beverages and Tobacco Products for the remaining 3 percent. The CPI basket is reviewed every four years on

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
5.10	4.80	21.60	-17.80	1915 - 2022	percent	Monthly

What is Inflation and why does it matter?

The consumer price index, better known as CPI, is the most common system to gauge inflation. It measures the cost of living by looking at the prices of goods and services that people typically buy such as food, housing, transportation, furniture, clothing, recreation, and other items.

Like most central banks, the Bank of Canada monitors "core inflation" that focuses on the underlying trend of inflation, looking through the short-term fluctuations or temporary shifts in the total CPI.

The current inflation is 5.1 per cent, significantly higher than the top of the Bank's inflation-control range. The Bank of Canada aims to keep inflation at the 2 per cent mid-point of an inflation-control target range of 1 to 3 per cent. Low and stable inflation contributes to sustainable economic growth. The balance between the demand and the economy's production capacity determines inflation.

The Bank becomes concerned if the inflation rises above or falls below the 2 per cent target. A high inflation reduces the purchasing power of a household or an individual and can significantly impact household budgets. High prices can change our shopping habits, investments, travel, transport, and even medical expenses.

Negative rates often create a period of deflation, which means a decline in the prices of goods and services, giving more purchasing power to consumers. While falling prices sound like a good thing, a persistent decline in prices can negatively impact an economy. The effect is negative for debtors who have failing businesses or have declining income since the real value of debt payments for them can increase. In the same way, prices and income fall, tax revenues can fall and impact government spending. One major example of sustained deflation in Canada was in the Great Depression of the 1930s.

Canada's Inflation Rate

Canada's headline inflation rate accelerated to 5.1% in January of 2022, remaining the highest since September 1991 and significantly above market expectations of 4.8%. COVID-19 pandemic-related challenges continued to weigh on supply chains, and energy prices remained elevated. Prices rose in all eight major components, mostly shelter (6.2%), transportation (8.3%) largely due to surging prices for gasoline (31.7%), and food (5.7%). Excluding energy, the CPI rose 3.5%, easing from the 3.8% increase in December. Excluding gasoline, the CPI was up 4.3%, the fastest pace since the introduction of the index in 1999. On a monthly basis, consumer prices rose 0.9%, surpassing market forecasts of a 0.6% rise and picking up from a 0.1% decrease in the prior month. source: Statistics Canada

Financial Advisor
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Take a look at our website!

www.amhfinancial.ca

AMH Financial Services is a full-service firm. We offer services to help you examine your financial goals and select the options that will best suit your needs, timeframe and investment style. We believe in helping you create a comprehensive financial plan for your family that includes planning, insurance and portfolio management.

My commitment as a Financial Advisor is to help people to reach their financial goals. If you have a family member, friend or colleague who you feel could benefit from a conversation with me, I would be pleased to speak with them without obligation.

I believe that every individual has an unalienable right to make the best and most effective use of hard-earned income, to have easy access to up-to-date and informed advice, and to be able to provide for short and long-term requirements.

My mission is to help you to make an educated decision that you are comfortable with!

I am committed to serving the individual customer with investment and financial portfolios which will meet current needs and provide for future requirements and situations.

Understanding what matters to you.

As life changes, your financial priorities evolve. That's why at AMH Financial Services we are here to understand you first, and then your financial picture.

We take the time to understand your unique investment goals. Through an in-depth discovery process, we'll get to know who you are and what truly matters to you and your family.

Spring

The wind told the grass
And the grass told the trees

The trees told the bushes
And the bushes told the bees

The bees told the robin
And the robin sang out clear

"Wake up!
Wake up!
Spring is here!"