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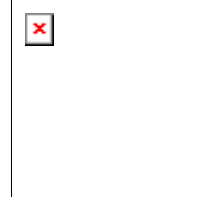
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Source: IRIS (07 July 2008)

## Inflation: Time to tighten your purse strings?



**Author: Anil Rego**



Milton Friedman rightly said, ``Inflation is taxatic legislation.`` As Government takes frantic me: control inflation due the impact on the `Aam A individual can take a few steps to reduce the impac

**Inflation Hurts...**

Inflation creates uncertainty and lot of distortio economy. Retired people who live on Fixed Income are the wors: Inflation discourages savings due to the fact that the money is w presently than in the future. This in turn has a direct effect on the growth as interest rates go up; it gets harder for businesses to pl future. For Commercial Banks, value of the depositor`s savings ; that of the bank`s loans is significantly eroded. Inflation st everybody, in its own villainous way. Often, unexpected hike in loan Interest creates a pinch in the household budget due to the EMI further impacting the monthly budget.

**The Dynamics...**

There are various factors that have led to the higher inflation which are global. The spiraling crude prices and commodity prices are a major r inflation to spear-head. Supply side concerns and specu commodities globally have been factors that have increased th significantly. Fuel price hikes would impact many costs due to ir transportation costs. The search for alternate fuels have led agricultural based additives have had an impact. Climate char impacted agricultural produce in various parts of the world as

increased industrialization that continuously reduces the land b for agriculture. Depreciating rupee will also have an impact on imp

### Impact on Investments...

With uncertainty creeping in Company`s shares start to dip, coupled with investor sentiment take the capital markets do stricken investors off-load their holding to constrain their losses short term, debt based investments (bonds, debentures, depo mutual funds) would do better in such times. Gold could also be investment option. At the same time a long term investor opportunities of market falls to buy into equities that would give long term return. Systematic investments should be continued since continue to deliver good long term returns.

### What to do...

One should look at a combination of looking for cost savings and management. These are a few tips for the common investor:

- Try to plan well in personal and financial matter to take care of it
- Focus on necessary items over luxury items at such times
- While planning for long term needs greater than 5 years, take average e.g. 6-7% since it will come down over the long term
- Look for options to refinance the loans if a fresh loan is available at lower interest rates than your current loan
- Choose a suitable asset allocation mix gives better returns considering the inflation – Diversify and Rule
- Mutual funds help you manage risk very well through systematic investments – Use a mix here as well – Equity, Debt, Gold and Real Estate

The current scenario is just temporary and as they say – `This will pass...`

**Anil Rego** is the founder and **CEO** of **Right Horizons**, an Investment Advisory and Wealth Management Company. Right Horizons successfully practiced a de-risked model with a Contrarian approach

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