

May 2011

**Ask a trust officer:
Inflation**

DEAR TRUST OFFICER:

What's up with inflation? Gas is over \$4 a gallon, and I'm getting sticker shock at the grocery store, and yet I keep hearing on the news that inflation is mild. What does all this mean for my investment portfolio?—CAN'T BELIEVE WHAT I'M HEARING

DEAR HEARING:

On the one hand, the official government inflation reports during this recovery have shown modest price increases. On the other hand, the current metrics downplay the importance of food and fuel in calculating inflation, because those elements tend to be volatile. According to the *Shadow Government Statistics* newsletter, as reported on CNBC, if we measured inflation today using the same methodology as we used before 1980, we'd be at nearly 10% annualized inflation already.

If you are concerned about the effect that inflation might have on your portfolio, consider including Treasury Inflation Protected Securities (TIPS) in your holdings. The principal value of TIPS is adjusted annually for inflation, and that change flows through to an increase in the interest payments. If you are interested in this area, we'd be pleased to tell you more.

Do you have a question concerning wealth management or trusts? Send your inquiry to [trustofficer@bankname.com].

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