

April 2023

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Global Experience, Local Knowledge

Understanding Inflation

Inflation affects all aspects of the economy, from consumer spending, business investment and employment rates to government programs, tax policies, and interest rates. Understanding inflation is crucial to investing because inflation can reduce the value of investment returns.

What is inflation?

Inflation is a sustained rise in overall price levels. Moderate inflation is associated with economic growth, while high inflation can signal an overheated economy.

As an economy grows, businesses and consumers spend more money on goods and services. In the growth stage of an economic cycle, demand typically outstrips the supply of goods, and producers can raise their prices. As a result, the rate of inflation increases.

If economic growth accelerates very rapidly, demand grows even faster and producers raise prices continually. An upward price spiral, sometimes called "runaway inflation" or "hyperinflation," can result.

In the U.S., the inflation syndrome is often described as "too many dollars chasing too few goods;" in other words, as spending outpaces the production of goods and services, the supply of dollars in an economy exceeds the amount needed for financial transactions. The result is that the purchasing power of a dollar declines.

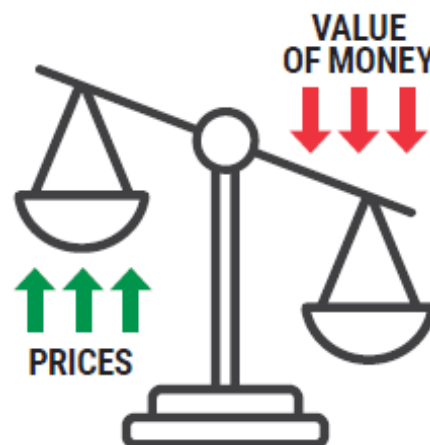
How is inflation measured?

When economists and central banks try to discern the rate of inflation, they generally focus on "core inflation," such as "core CPI" or "core PCE." Unlike the "headline," or reported inflation, core inflation excludes food and energy prices, which are subject to sharp, short-term price swings, and could give a misleading picture of long-term inflation trends.


There are several regularly reported measures of inflation that investors can use to track inflation. In the U.S., the Consumer Price Index (CPI), which reflects retail prices of goods and services including housing costs, transportation, and healthcare, is the most widely followed indicator. The Federal Reserve prefers to emphasize the Personal Consumption Expenditures Price Index (PCE). This is because the PCE covers a wider range of expenditures than the CPI. The official measure of inflation of consumer prices in the UK is the Consumer Price Index (CPI), or the Harmonized Index of Consumer Prices (HICP). In the eurozone, the main measure used is also called the HICP.

What causes inflation?

Economists do not always agree on what spurs inflation at any given time, but in general they bucket the factors into two different types: cost-push inflation and demand-pull inflation. Rising commodity prices are an example of cost-push inflation because when commodities rise in price, the costs of basic goods and services generally increase. Demand-pull inflation occurs when aggregate demand in an economy rises too quickly. This can occur if a central bank rapidly increases the money supply without a corresponding increase in the production of goods and service. Demand outstrips supply, leading to an increase in prices.



For illustrative purposes only.



Dev Sarker
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4.90 ★
13 Reviews

AR SILVER 9 Yrs Experience Adelaide, SA 5000

Over the past few months many of my clients have gone onto adviser ratings to share their experience of working with me. Adviser ratings are important for the sector so that we can ensure that we provide quality service and advice.

I've been touched from some the of the comments recently:

Wei, under 35 years, Northgate, SA:
"Welcoming and approachable, Dev puts your nerves at ease in charting a tailored pathway for your financial needs."

Fei, 56 - 65 years, Gilles Plains, SA: "Dev is a great and reliable adviser for all your tax, financial and investment planning and management needs. He is helpful, knowledgeable and reliable. Highly recommended!"

To see more reviews visit my page at:
<https://www.adviserratings.com.au/adviser/453792/Dev-Sarker>

WE'RE HERE TO HELP

As you keep your long-term goals top of mind, remember: we are here to help – with news, insights and helpful resources available on our website,
www.bluerocke.com
to help keep you up-to-date on the latest.



The Family Silver

Silver was the main store of value in medieval and ancient times. Hence the English metaphor of keeping the 'family silver' and we know what 30 pieces of silver bought two thousand years ago.

Since then, it has become 'gold' or 'real estate' s the main store of value.

Warren Buffet the legendary investor calls gold an "unproductive" asset, which, as defined in his 2011 letter to shareholders, means "assets that will never produce anything, but that are purchased in the buyer's hope that someone else — who also knows that these assets will be forever unproductive — will pay more for them in the future."

While it is nice to feel and touch assets like gold or real estate, ideally, we would rather not retire asset rich but income poor.

This there is wisdom in planning for retirement where we have the right balance of wealth in assets, which will generate a good income, perhaps retain or even increase its value, with adequate liquidity and to provide for the lifestyle we need.

