BlueRocke
INVESTMENT ADVISORS
HOLISTIC STRATEGIES

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Global Experience, Local Knowledge

Question of the Week: Why is stuff so expensive? Learn about inflation and how it affects your everyday life.

If you bought a loaf of bread for $3.50 in 2021, the same loaf might set you back $4.10 in 2022. That 17.1 per cent jump is what's known as inflation. Inflation reduces your purchasing power. That's because a dollar buys you less today than it did in the past.

The shopping basket: Measuring inflation

Inflation is commonly measured by the Consumer Price Index (CPI). According to Statistics Canada, CPI "is an indicator of changes in consumer prices experienced by Canadians. It is obtained by comparing, over time, the cost of a fixed basket of goods and services purchased by consumers."

Given that the CPI includes over 700 goods and services, this means those categories, and their assigned weights (what percentage of household spending goes toward said product) are refreshed on an annual basis to keep up with changes in consumption.

Keep an eye on the heat: Monitoring inflation

The responsibility of fighting inflation falls primarily on the Bank of Canada.

When inflation is high, the central bank often increases interest rates to subdue demand. Higher mortgage payments, for example, mean households have to tighten their belts and spend less on other items, decreasing demand and prices.

Think of it like this. When you're poaching an egg, you want the water to be hot enough to simmer at a gentle boil but not so hot that it's bubbling over. That's sort of like the monetary policy. When inflation runs hot, the Bank of Canada "turns down the heat" by jacking up the interest rates.

Similarly, when the economy slows, the Bank of Canada can "turn up the heat" by cutting interest rates to spur economic growth. A perfectly poached egg in economic terms involves an economy operating at near full employment with inflation at the target range between 1 to 2 per cent.

What causes inflation?

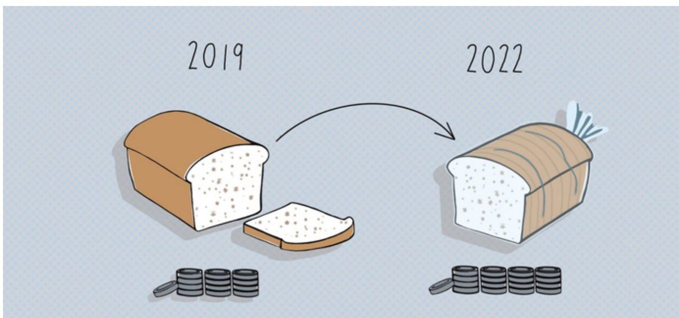
Inflation can be hard on a bank account. It eats up purchasing power, pushing the cost of living higher.

When production costs rise, inflation can jump in tandem. When Russia invaded Ukraine in 2022, wheat supplies were disrupted, and the price of bread shot up around the world. Meanwhile, if increased demand suddenly eclipses supply, inflation will likely rise as well. Inflation, in simple economic parlance, happens when too much money is chasing too few goods.

Did you know?

When price swings go haywire, you get hyperinflation, usually defined as a price increase of more than 50 per cent a month. Some consider tulipmania during the 17th century one of the earliest examples of hyperinflation. The Dutch purchased tulips at unprecedented rates, causing prices to spike. When the price peaked, a single tulip then was many times the average person's annual salary.

Source: RBC Royal Bank



LIFE IN ADELAIDE

Hasn't it been wonderful living in Adelaide over the past couple of months? Great weather, the Festival & Fringe, Gather Round and last weekend LIV Golf.

I had the privilege to volunteer at LIV Golf and let me tell you it lived up to its reputation – Golf, but it was LOUDER! To see such world class talent on display was wonderful and it may have just helped me to improve my game!

Volunteering is truly a wonderful experience of giving back, and to be able to volunteer for a sport I love made it even more special.

Recently, I was speaking to Gary and his mate Tom.

Gary has built up a successful business in the services industry that has a sale value of $7 million approx. while Tom runs his own manufacturing business valued at $ 11 million.

I asked both as to what the sale value would be, if they were no longer working in their respective businesses, i.e., because they died or had an injury or illness. After some thought, Gary admitted his business sale value could drop to $1 million or less, as he was the main player in his business. Tom had a factory and equipment and said his business value, would drop to about $8 million.

I then asked as to how much they would pay for a guaranteed sale price at the level that it currently is. Gary (who was thinking of his wife and kids) said he would pay 15% annually of $7 million value where Tom was not so sure he needed such a guarantee as $8 million was adequate for his family.

I then reassured Gary that it would not cost 15% annually but 1% or less and that the guarantee was called Life and Total and permanent disability insurance. He agreed right away and obtained his life cover in and for the business. In fact, so did Tom, who realized that his family would get the insurance benefits, while still retaining the business assets.

If you run a business where the sale value is largely dependent on your active involvement, it may be worth considering these options, to protect your family.

To find out more contact Dev at BlueRocke Investment Advisors www.bluerocke.com

WE'RE HERE TO HELP

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