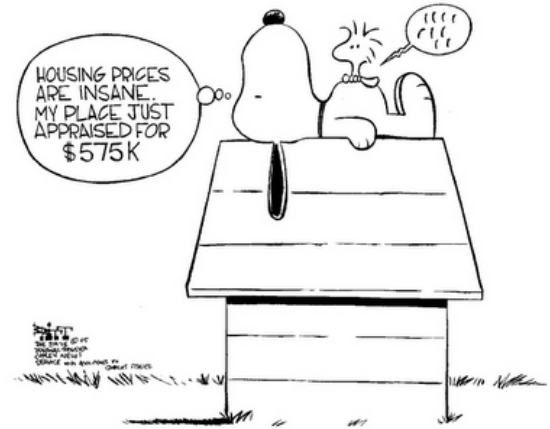


# The Two Letters that Make All the Difference: “In” or “De”

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## INTRODUCTION

Two years ago, my wife and I were struggling with the largest financial decision we had yet encountered: the purchase of our first home. I was embarrassed to talk openly with family and friends about our difficulties. After all, it says “financial advisor” on my business card. My wife and I should have a smooth and easy financial life at all times, right?



Faced with no good alternative, my wife and I hired a financial advisor. Up to that point, we had been evaluating countless scenarios, with ever-changing variables, and as a result were unable to make a decision. With our advisor, we talked about all of our financial numbers and life goals, and suddenly the world got much simpler. We created a good plan, bought the house that we both wanted, and could not be happier with either the process or outcome. We continue to improve on that original plan, and we continue to work with a financial advisor today.

That experience reminded me that my primary purpose as a financial advisor is to help my clients make life decisions, not just financial decisions. These decisions can often be surprisingly simple, but only after deciphering a complex world

of economics, investments, taxes and of course beliefs, values and feelings. Here is an example of how emotions can combine with financial data and lead to

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended June 2010
	Dec. 2009	Jan. 2010	Feb. 2010	Mar. 2010	Apr. 2010	May 2010	June 2010	
All items .....	0.2	0.2	0.0	0.1	-0.1	-0.2	-0.1	1.1
Food .....	.1	.2	.1	.2	.2	.0	.0	.7
Food at home .....	.2	.4	.1	.5	.2	.0	-.1	.2
Food away from home <sup>1</sup> .....	-.1	-.1	.1	.0	.1	.1	.1	1.2
Energy .....	.8	2.8	-.5	.0	-1.4	-2.9	-2.9	3.0
Energy commodities .....	1.6	4.9	-1.3	-1.0	-2.1	-4.8	-4.1	4.9
Gasoline (all types) .....	2.3	4.4	-1.4	-.8	-2.4	-5.2	-4.5	3.9
Fuel oil <sup>1</sup> .....	.0	6.1	-2.4	.7	2.3	-1.4	-3.2	16.6
Energy services .....	-.3	.0	.5	1.4	-.5	-.5	-1.6	.7
Electricity .....	-.2	-1.1	-.5	2.1	.7	-.4	-2.2	.4
Utility (piped) gas service .....	-.7	3.5	3.9	-.7	-4.4	-1.0	.6	1.9
All items less food and energy .....	-.1	-.1	.1	.0	.0	.1	.2	.9
Commodities less food and energy commodities .....	.1	.1	-.1	-.1	-.3	.1	.2	1.0
New vehicles .....	-.2	-.5	.1	.1	.0	.1	.1	1.3
Used cars and trucks .....	2.2	1.5	.7	.5	.2	.6	.9	16.1
Apparel .....	.4	-.1	-.7	-.4	-.7	.2	.8	-.4
Medical care commodities <sup>1</sup> .....	-.1	.7	.8	.4	.2	.1	.0	3.3
Services less energy services .....	-.1	-.2	.1	.1	.2	.1	.1	.9
Shelter .....	.0	-.5	.0	-.1	.0	.1	.1	-.7
Transportation services .....	.3	-.3	.4	.4	.4	.4	.0	4.5
Medical care services .....	.2	.5	.4	.3	.3	.0	.4	3.5

unwise financial decisions. Let's look at the chart below, from the Bureau of Labor and Statistics, and then draw 3 completely different sets of conclusions from the exact same data:

### **DEFLATION**

As you can see, looking at the change in numbers from Dec. 2009 to June 2010, price growth has slowed or turned negative in almost every category. This shows deflation. We know that consumers are struggling to spend as they lose their jobs, face lower incomes, and watch the equity in their homes decline. Banks continue to restrain lending, and the federal stimulus money will be going away in the near future. Since consumers and businesses have curtailed their spending, what happens when the government does the same? Because the Federal Reserve already has lowered interest rates to 0%, there is nothing else they can do to spur inflation. Deflation could soon feed off itself and spiral out of control very quickly.

### **INFLATION**

As you can see, looking at the unadjusted 12-month changes ended June 2010, price growth has increased in almost every category. This shows inflation. We know that consumers are struggling to spend, so evidence of inflation is especially startling. What happens when unemployment improves and banks start lending again? Furthermore, with record low interest rates and rock-bottom house prices, we should be seeing price declines of -5% in the 'shelter' category, instead of a paltry -.7%. This is further evidence of massive pent-up inflation. With the backdrop of a weakening dollar, any resumption of spending by businesses and consumers could cause an upward spike in prices. Inflation could feed off itself and spiral out of control very quickly.

### **NEITHER or BOTH**

As you can see, looking at the month-to-month changes, as well as the year-over-year changes, there are strong inflationary pressures in some areas of the economy, but strong deflationary pressures in some other areas. It is possible that we will stay in this muddled situation of high unemployment, slow growth, and slow inflation for an extended period of time. After all, it is the stated goal of the Federal Reserve, the guys who control the printing press, to have tame inflation.



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## CONCLUSION

Most people do not believe that prognostication is a good tool for their financial lives. Our clients are concerned about inflation and deflation, not because they are foolish, but because they are informed. But they also recognize that their worries, left unchecked, might be just as damaging as inflation or deflation.

A solid retirement income plan is designed to provide income over a long period of time. It has protections built in, because sudden bursts of inflation and deflation are bound to occur at some point. It has a variety of different mechanisms that are uniquely blended for each individual's set of goals, beliefs and lifestyle.

We cannot predict the future. Nobody can do that. But we do believe that failing to plan in this environment is simply planning to fail. The good news is that through proper financial planning you can take appropriate steps to protect your dreams and goals from both sides of the fence.

*FIAT Wealth Management is located in Long Lake, Minnesota. It is a boutique financial planning company owned by Brad Gotto, Matt Stahl and Greg Naylor. We especially enjoy working with people who live within their means so that they can give back to their families and communities. We specialize in retirement income planning and asset management, and are currently taking on new clients.*

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