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2021 is now upon us – and that means the forecasts, opinions and general prognostications for the year ahead are coming thick and fast. Of course, most of these concern COVID-19 and the pandemic, and on this topic I will defer to the experts (who, remarkably, seem to increase in number each and every day).

On the financial front, the forecasting business is almost equally robust. As I've said in the past, it always amazes me how absolutely ***unequivocal*** some people can be on these calls: The markets are grossly overpriced and are going to tank (or not). "Growth" is rotating into "Value". Bitcoin is the new Gold – etc., etc. I guess fortune does favour the bold, but really – is this how people want to manage their own money?

That being said, investing is not (or shouldn't be) a static process. We should always be aware of what's happening in the world, the economy and the markets - and at least attach some "probabilities" to the various outcomes we think are likely.

One topic that seems to be coming up a lot these days is that of inflation. Now, we haven't really had much inflation in the "developed world" for about 30 years. In fact, central banks have been trying for much of that time to get inflation to go up (with a target typically in the 2% range). By and large, they haven't had much success.

But now, of course, we're in the midst of a pandemic and things are different. With a lesson learned from the 2007/2008 financial crisis, central banks have thrown an unprecedented amount of stimulus at the system. And they're not done yet!

Historically, too much stimulus for too long has been a recipe for inflation. And, as mentioned previously, central banks are no longer adverse to a having a bit more of it. We now believe *the possibility* of rising inflation is something that investors should take into consideration.

Inflation is an important issue for investors because it erodes the value of future cash flows. If inflation is 2% and you own a GIC yielding 1%, each year that income buys you less and less. In a retirement lasting say 25 years, even modest amounts of inflation can have a real impact.

Two "solutions" come to mind. The first are "inflation-protected" bonds. Many governments issue these (including Canada and the U.S.) and, while they don't current pay a lot, neither does much else!

The second option is (once again) common stocks. A big difference between stocks and fixed income is the word "fixed". Companies aren't static - they have the ability to adapt to changing conditions and that includes price inflation. They can cut costs, change their business model and (of course) raise prices themselves. That might sound like stocks are "part of the problem" – but if you actually own them yourself, they're more likely a part of the solution.

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