# How can I protect myself against inflation?

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In a recent survey by the Society of Actuaries, retirees named inflation the No. 1 retirement risk. Even though prices have been tame lately, that anxiety is understandable. Inflation of just 2% a year can reduce your purchasing power by roughly a third over 20 years.

While shielding yourself from rising prices is certainly crucial, don't overdo it. After all, Social Security payments are pegged to the consumer price index. And when you tilt your investment strategy too far toward protecting from inflation and price spikes don't materialize, you can face subpar returns.

To hedge against the inexorable rise in prices over the years, keep a portion of your savings in investments that can generate inflation-beating returns. Stocks fit the bill; REITs and other real estate–related investments do too.

You also need to guard against inflation that can erupt with little warning, like the oil-price shocks of the 1970s and '80s. To deal with this threat, many advisers tout commodities or gold. "But you're talking about a general tendency for a payoff here," says Vanguard Investment Counseling and

Research principal John Ameriks. "It's not insurance." Vanguard's research shows that there's roughly a one-in-three chance that commodities will post negative returns if inflation goes up.

Instead, go with Treasury Inflation-Protected Securities (TIPS), whose principal value rises along with inflation. TIPS are expensive today because of high investor demand. So keep TIPS to 25% to 30% of your overall bond stake, with the rest in government and corporate bonds. The TIPS are more likely to fare well if prices spike, while the regular bonds will do better if inflation remains tame. M

TABLET BONUS

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