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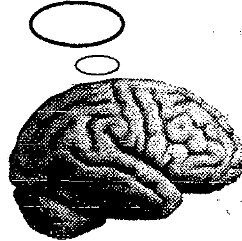
ASK THE BIZ BRAIN



Q: Due to the bailout, the U.S. is printing much too much money. Surely inflation will follow. How we can protect our cash savings from inflation?

— In God We Trust

A: Quite a few economists agree that inflation may follow the bailouts, stimulus plans and other government action.

Inflation, the rise in the price of goods, means your purchasing power declines, says Margaret O'Meara, a certified financial planner with O'Meara Financial Group in Red Bank. She says in an inflationary environment, the rate of return on savings accounts and money markets do not keep up with inflation.

She recommends Treasury Inflation-Protected Securities, or TIPS, which protect your purchasing power on a pre-tax basis.

"Your principal rises by the percentage change in the Consumer Price Index, compounded daily, and is added to the value of your bond every six months," O'Meara says. "The interest rate is fixed, but unlike regular Treasurys, it is paid on a rising principal, so your income also increases."

She also likes U.S. Treasury Inflation Bonds, or I-Bonds, which have a two-part interest rate: the first is fixed, set when the bond is bought, and the second is variable, changing twice a year. Interest is credited monthly and compounded semi-annually.

While moderate inflation is not always a bad thing, hyperinflation — a very rapid rise in the price of goods — can be problematic, says Eric Hu of Gryphon Asset Management in Bridgewater.

"If you have a longer time period to invest, I would suggest growth stocks with solid balance sheets," he says. "Invest in companies that can withstand this current recession. If you have a shorter time span or are risk adverse, your options are more limited. Perhaps an investment grade corporate bond might be a better solution."

— Karin Price Mueller

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