Think ahead of the curve and get a jump on inflation

By: Ruth Williams Investing

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It has been said that the best time to buy insurance is when you think you don't need it—and when you do need it, it's often too late. This same wisdom may well extend to inflation protection as well.

Inflation hasn't been on the radar much for most investors, especially given the steep drop in energy prices; mostly flat food prices; and a modest, at best, advance in core prices (excluding food and energy) in 2014.[1]

However, even as first quarter 2015 seasonally-adjusted prices remained negative, there have been signs that inflation may be firming, at least on a month-to-month basis, helped by rebounding oil prices and higher rents.[1]

If you think prices will rise, this may be a good time to think about protecting your portfolios against rising prices in the future.

With expectations for tepid inflation, yields near record lows and rates likely to rise in the latter part of the year—investors may want to consider incorporating exposure to Treasury Inflation-Protected Securities (TIPS) now as a part of their long-term investment strategies.

TIPS are U.S. Treasury notes and bonds that have fixed-rate coupons and maturity dates. Like other Treasuries, TIPS are backed by the full faith and credit of the U.S. government. But unlike other Treasuries, TIPS are adjusted each month for inflation.

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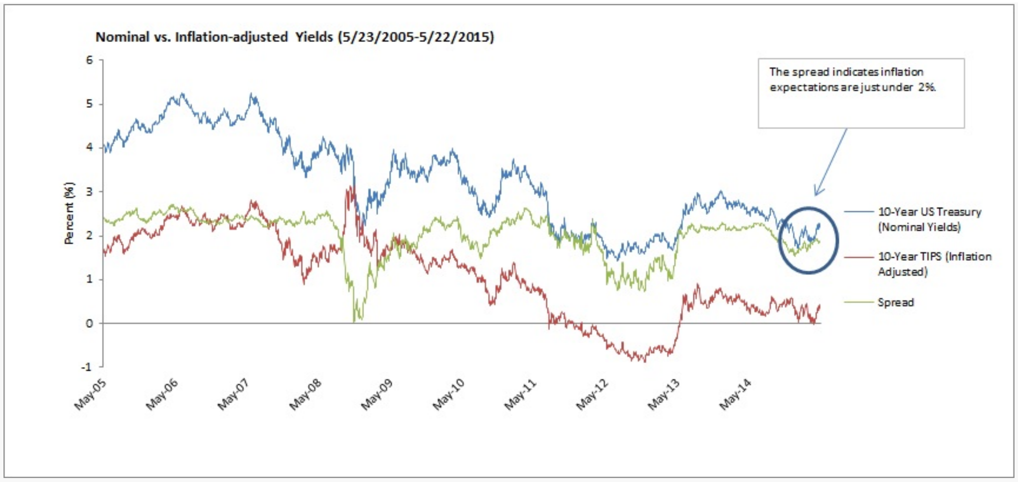


Source: Federal Reserve Bank of St. Louis. This chart is for illustrative purposes only and does not represent the actual of future results of any , investment product, or strategy.

The importance of keeping it real

Inflation—the general rise in prices of goods and services—often happens when you have too many dollars chasing too few goods.

For bond investors, the risk of inflation is that it can erode the purchasing power of future interest and principal payments as rising prices often mean that the dollar you invest today will be worth less tomorrow. And that's why real returns matter.

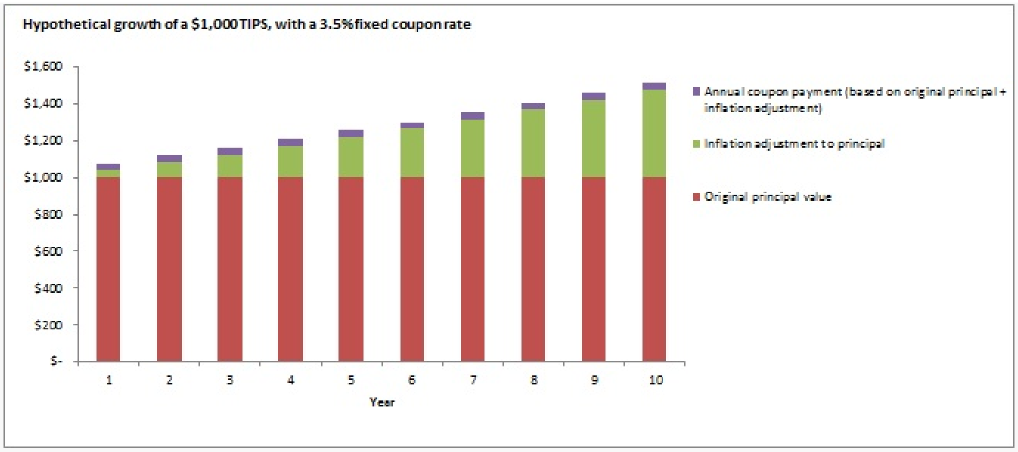
At the end of the day, it's not always a matter of how many dollars you have—but how much your dollars can buy.

Real returns are adjusted for inflation. Nominal returns are not. Ultimately, real returns determine your purchasing power.

How TIPS work:
With TIPS, the principal value adjusts to keep pace with inflation. When inflation goes up, the principal value will also rise and when inflation goes down, so will the principal value. However, at maturity, TIPS will always pay either the original principal amount or the inflation-adjusted principal, whichever is higher.

While the coupon rate on TIPS is fixed, the income generated will vary based on the inflation-adjusted principal.

Consider the illustration below based on a hypothetical $1,000 10-year TIPS with a 3.5% fixed coupon rate and assumes a 4.0% steady annual inflation rate for the life of the note:



This chart is for illustrative purposes only and does not represent the actual or future results of any fund, investment product, or strategy.

Three things to know about TIPS

- TIPS are mostly liquid investments with no credit risk
- TIPS are the only asset class directly correlated to inflation
- The inflation-linked bond universe is growing globally

Learn more about inflation protection strategies:

Inflation Opportunities

Mutual funds are subject to market risk, including the loss of principal.

Shares of the fund may only be sold by offering the fund's prospectus. You should consider the investment objective, risks, charges, and expenses of the fund carefully before investing. The prospectus contains this and additional important information regarding the fund. To obtain the prospectus and/or a summary prospectus, visit . The prospectus should be read carefully before investing.

1.**http://www.bls.gov/news.release/cpi.nr0.htm**

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