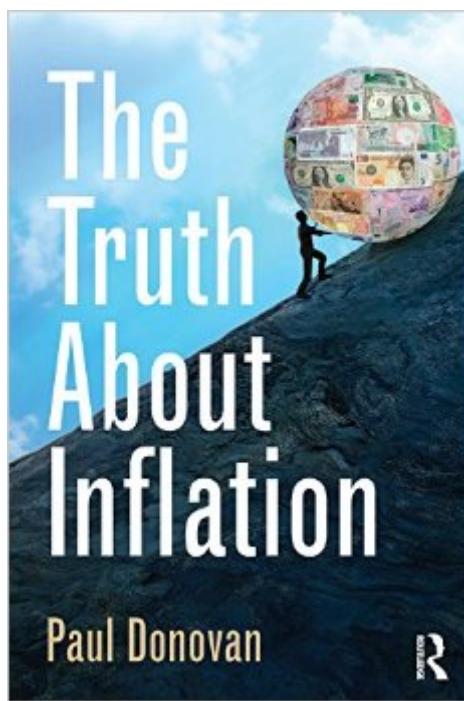


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# The Truth About Inflation



## **Synopsis**

Inflation is a simple topic, in that the basic concepts are something that everyone can understand. However, inflation is not a simplistic topic. The composition of inflation and what the different inflation measures try to represent cannot be summarised with a single line on a chart or a casual reference to a solitary data point. Investors very often fail to understand the detail behind inflation, and end up making bad investment decisions as a result. The Truth About Inflation does not set out to forecast inflation, but to help improve its understanding, so that investors can make better decisions to achieve the real returns that they need. Starting with a summary of long history of inflation, the drivers of price change are considered. Many of the "urban myths" that have built up about inflation are shown to be a consequence of irrational judgement or political scaremongering. Some behaviour, like the unhealthy veneration of gold as a means of inflation protection, is shown to be the result of historical accident. In the modern era of lower nominal investment returns, inflation inequality (whereby some groups experience persistently higher inflation than others) is a very important consideration. This book sets out the realities of price changes in the modern investing environment, without using economic equations or jargon. It gives investors the framework they need to think about inflation and how to protect themselves against it, whether the aggregate inflation of the future rises or falls from current levels.

## **Book Information**

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## Customer Reviews

This book aims to give the reader a deeper appreciation of what inflation is and dispel the most prevalent myths about it. Chapter 1 examines the difference between relative price changes and changes to the overall prices level. It also introduces different inflation indices and discusses why deflation is worse than inflation. Ch2 lightly surveys the history of inflation from Babylonian times to modern times. The main message is that inflation has been with us for a long time. Ch3 seeks to dispel myths that gold has intrinsic value, that it has been used as currency for millennia and that it hedges inflation. It makes the point that a gold system introduces the same inflation uncertainty in the short/medium run with a deflationary bias because supply doesn't grow fast enough for demand. Ch4 goes deeper into the composition of CPI, touching on the issues of housing being both an asset and a necessity and food/energy being so volatile. It also points out that inflation is mostly a matter of labor cost, not commodity prices. Ch5 explains how printing too much money for the level of demand causes inflation; simply the act of printing money does not. It further explains that central banks control narrow money, how they go about it, how liquidity preference raises in crisis and why that explains the absence of inflation after 2008 money printing. It recommends monitoring companies cash as percentage of GDP and narrow/broad money trends. Ch6 reports on the reasons why we think inflation is higher (i.e. we overweight repeated purchases) and defends the adjustments done to inflation data on the ground that they make sense and, even if you disagree with them, they are unlikely to change the numbers very much.

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