



"Enriching lives, Forever™"

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Economic Discussion (Part 3 of 4): Inflation

By Gary Woolman

During World War II, someone in the U.S. could buy a loaf of bread for \$0.15, a new car for less than \$1,000 and an average house for around \$5,000. In the twenty-first century, bread, cars, houses and just about everything else cost more. (Investopedia)

Clearly, we've experienced a significant amount of inflation over the last 60 years. When inflation surged to double-digit levels in the mid- to late-1970s, Americans declared it public enemy No.1. Although it's common knowledge that prices go up over time, the general population doesn't understand the forces behind inflation.

So what is inflation?

Inflation is a hidden tax imposed on citizens and too hard for many ordinary people to understand.

Inflation could either be referring to Monetary Inflation or Price Inflation.

Monetary Inflation means there is an increase in the supply of money.

This has historically been the favorite form of taxation by governments since ancient times and leads to Price Inflation.

Price Inflation means prices of goods rise and it takes more money to buy the same items.

When there is an increase in the amount of a currency in circulation, the currency loses its purchasing power and prices of goods and services rise.

When the government boosts the money supply more rapidly than the quantity of goods we have inflation. Some people may think that prices rise because businesses are "greedy". This is not the case in a free market system. Because of competition the businesses that thrive are those that provide the utmost quality goods for the lowest price. So a company can't just randomly jack up its prices anytime it wants to. If it does, before long all of its patrons will be buying from someone else.

But if each dollar is worth less because the supply of dollars has increased, all business are then forced to raise prices just to get the same value for



their products.

When it comes to inflation, the question on many investors' minds is: "How will it affect my investments or lifestyle?" This is an exceptionally vital issue for people living on a fixed income, such as retirees.

The impact of inflation on an investment portfolio depends on the type of securities held. If invested only in stocks, worrying about inflation shouldn't keep one up at night. Over the long run, a company's revenue and earnings should increase at the same pace as inflation. The exception to this is stagflation. The combination of a bad economy with an increase in costs is bad for stocks. Also, a company is in the same situation as a normal consumer - the more cash it carries, the more its purchasing power decreases with increases in inflation.

The main problem with stocks and inflation is that a company's returns tend to be overstated. In times of high inflation, a company may look like it's prospering, when really inflation is the reason behind the growth.

Fixed-income investors are hit hard by inflation with low yielding cash positions. As prices inflate this means that prices on goods purchased are rising higher than the interest rate earned on the portfolio which can be painful over time to try to maintain or improve lifestyle. Please keep in mind past performance is not indicative of future results.

So what are we to do? Some basic ideas would be to increase savings, be creative with where you buy items, make sure you have your insurance protection needs analyzed, don't live on debt or credit anymore, make sure you have investments appropriately diversified among bonds, stocks and hard assets, while this won't guarantee against loss it may help mitigate risk. Come in for a no cost and no obligation discussion with any Woolman Financial Group associate. Please keep in mind that investments will fluctuate and may be worth more or less than originally invested.



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Don't Leave It To Chance - Working Toward Your Financial Goals

When it comes to setting financial goals and figuring out how you're going to reach them you can't leave it to chance. Whether your goal is to save enough money to put your children through college, fund a comfortable retirement, or purchase the vacation home you've always dreamed of. Perhaps we can help. Just follow the three steps outlined below:

Step 1 – Identify Your Needs

List your goals and the time frame in which you wish to reach them. This is an easy but necessary part of the process. You need a goal or destination and a schedule before you can determine the best route.

Step 2 – Clarify Your Goals

After listing your goals and your schedule, determine what you need to do to reach them. A simple way to tackle it is to answer these questions.

- ▣ How long do I have until I need to reach my goal?
- ▣ How much do I need to accumulate by then?
- ▣ What level of risk am I willing to take?
- ▣ What tax issues do I need to consider?

The answers to these questions require research and oftentimes the help and advice of your financial professional.

Step 3 - Construct An Investment Program

Once you've clarified your goals, you need to design a program to help you reach them. With the range of investment possibilities available today, it's possible to construct a program for virtually every need. The key lies in narrowing down the options to those appropriate for your individual situation. You may want to consult your financial professional to help make this job easier.

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WFG CLIENT FEATURE

World Compassion Network, Inc.

By Dan Scharlach

Greg Rauen, a client of Woolman Financial Group, works as the operations manager and disaster relief coordinator for WCN. After working for many years in the medical device industry and serving on the board of directors for WCN, Greg had the opportunity to join WCN full time in January of this year. Seven prior trips to Honduras also helped to further Greg's passion to serve the helpless. While managing the day-to-day activities of WCN and working with the WCN mission's coordinator, Greg traveled to Sendai, Japan to assess the tsunami damage firsthand. Recently he visited Joplin, Missouri to see what needs WCN could help fulfill for the surviving tornado victims.

To minister to the poor and suffering both in the U.S. and abroad, WCN and its handful of dedicated employees rely upon the generosity of individuals, churches, and corporate sponsors. These donors

provide the funding for the staff, equipment and supplies needed to reach out to people whose lives have been devastated by natural disaster, war, or extreme poverty.

Founded in 2002 by Joe and Lynn Wilkey, World Compassion Network, Inc. is a not-for-profit organization showing grace and mercy to a poor and suffering world. To be more specific, World Compassion Network [WCN] is an international and domestic disaster relief organization. Its beginnings have roots in the relief work done by Joe on the ground in war torn countries such as Cambodia, Afghanistan, Iraq, and Bosnia. Other relief work has included feeding starving children in Liberia, feeding people in earthquake stricken Haiti, and doing relief work in the aftermath of hurricane Katrina, flooding in Tennessee, and tornado damage in Nappanee, Indiana.

WCN also offers people the opportunity to involve

themselves in compassion ministry through short-term mission trips to under developed countries such as Honduras. Every year WCN organizes trips for volunteers to experience compassion ministry by serving the poor and hungry in villages in Central America. Volunteers distribute food, clothing, and toys while taking advantage of the opportunities to share the gospel of Jesus Christ.

To learn more about WCN or how you can be a part of compassion ministry, visit www.w-c-n.org or call 574.267.5427.

