


## CDs won't keep you ahead of inflation

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People close to or in retirement need investments that will beat inflation. CDs—one of the lowest-risk investment options available—won't do it in the current market. So how can you top inflation without exposing yourself too heavily to the stock market?

Boost your portfolio's yield to 5%. Using high-yield stocks, certain real estate investment trusts (REITs), and high-quality bonds, you can construct a conservative portfolio that yields 5% and still has plenty of growth potential.

Add corporate bonds. The corporate bond market has been more oversold than equities. Many high-quality corporate bonds are good deals now.

Buy great companies that are irrationally cheap, with hefty dividends and low P/Es. The stocks of some world-class businesses—like Dow, for instance—are on fire sale because of panic selling and margin calls. They have high returns on capital, strong balance sheets, and enjoy a competitive advantage. There are great opportunities here, but the market's still risky, so invest gradually and cautiously.

Add gold to hedge against the inflation that huge deficits will eventually spur. The federal government has only three ways to fund its ballooning deficits. 1. It can borrow, but only so much; 2. It can tax, but only so much. 3. It can print more money. Option 3 is the path of least resistance. With currency no longer tied to gold, U.S. and foreign governments can produce money in unlimited quantities. And they will.

Despite the possibility of short-term deflation, ultimately a pronounced increase in inflation is all but inevitable. Gold bullion, readily available through exchange traded funds, offers a defense against currency devaluation.

End of easy credit means lower profits. The credit bubble has been growing a long time. Debt has been growing twice as fast as the economy for more than 25 years. The end of easy credit and the need to pay down debt will probably slow growth to a crawl for a few years or more. In a slow-growth economy, corporate profitability will decline. Some companies will prosper; many will flounder.

In this environment, you can't just buy broad indexes anymore. You have to be very selective.

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