

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Deflation Era Investments

The price of oil is way down and the consumer price index has fallen one percent in the last two months. Everyone is happy to be paying less to fill up their car but economists are concerned about deflation. What is deflation and what are some good deflation era investments?

Deflation

According to *Investopedia* **deflation** is:

A general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression. Central banks attempt to stop severe deflation, along with severe inflation, in an attempt to keep the excessive drop in prices to a minimum.

The risk of deflation is that producers continually reduce prices in order to maintain market share. This damages businesses running them into bankruptcy and puts people out of work. Deflation discourages investment because investors tend to simply hold on to cash which increases in value as prices go down and property and other physical assets decrease in value. During periods of deflation banks often charge a small interest rate to hold money in a checking or savings account! So cash is in effect a deflation era investment. What are some others?

Deflation Era Investments

The Wall Street Journal published an article, **How to Invest for Deflation**. Here are a few do and don't suggestions.

- *Do not make big purchases with long-term, fixed-rate loans as you will be paying for a long time for a depreciating asset.*
- *Do not invest in consumer-good stocks as their ability to raise prices is limited.*
- *Do not invest in highly leveraged companies.*
- *Do invest in high-quality companies that have had long histories of paying high dividends.*
- *Do invest more in high-quality corporate bond and municipal bond mutual funds.*
- *Do buy certificates of deposit – but avoid getting stuck in a long-term CD so you can be ready to pounce on the opportunity to enjoy higher interest rates when inflation inevitably returns.*

A basic aspect of deflation era investments is just when you believe that the economy will correct itself. If you believe that, like with Japan, the deflationary era will last decades you simply want to hold cash, short term bonds and stocks that return cash to you every quarter by way of dividends. If you want to capitalize on a turnaround you need to do your homework and pay attention.

When Will Oil Go Back Up?

The price of oil will go back up when consumption rises. Consumption will rise when the major economies get healthier. The **U.S. Energy Information Administration** lists nations by millions of barrels of oil consumed each day.

- *United States (19.0)*
- *China (10.3)*
- *Japan (4.5)*
- *India (3.5)*
- *Russia (3.5)*
- *Saudi Arabia (3.0)*
- *Brazil (3.0)*
- *Canada (2.4)*
- *Germany (2.4)*
- *Korea, South (2.3)*
- *Mexico (2.0)*
- *Iran (1.9)*
- *France (1.8)*
- *Indonesia (1.6)*
- *United Kingdom (1.5)*
- *Italy (1.3)*
- *Singapore (1.3)*
- *Thailand (1.3)*
- *Spain (1.2)*
- *Australia (1.1)*

Japan is in and out of recession and Chinese industrial production is cooling off. The European Union is having a hard time getting going after the recession due to its addiction to austerity measures. Brazil's stellar growth has gone south and Russia is suffering from sanctions due to their adventurism in Ukraine. The sum total of consumption by these nations each year is 28.5 million barrels a day. When these nations pick up economic steam it will time to depart from deflation era investments and look an inflationary future.

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