Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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The Odyssey: Protecting savings against inflation!

Citizens of many countries tend to rely on conventional investments such as buying foreign currency or gold so that their savings do not depreciate in the long term.

This situation is partly due to lack of financial literacy and partly due to the idea suggesting that "rule number one is do not change the winning tactic". But is investing in foreign currency actually the winning tactic?

Today, the stocks of many companies that produce goods and services for the future of humanity bring their holders great profit in dollar terms. Some stocks in the Nasdaq can go up nearly 100% in a day. What about those who generate 500% dollar-return in one year?

Among the mutual funds that consist of stocks of the companies operating in technology and healthcare or other emerging industries, and Eurobonds issued by the governments of developing countries, there are those that have gone up 50% in dollar terms since the beginning of the year.

That is to say, if you buy foreign currency and gold and sit back and relax, then you are not playing a profitable game. This, in fact, is a losing tactic in countries where the cost of living is twice the official inflation rate.

Learning how to invest in stocks

In my article last week, I elaborated on the obsession of developing countries' governments trying to keep exchange rates under control. This obsession often leads to a sharp rise in exchange rates, and investors usually earn short-term gains from their foreign currency investments.

So, they need to sell when the dollar peaks against the national currency and find a new investment. Generally, in such countries, exchange rates tend to overshoot, and then retreat. It is important that you say goodbye to your dollars before the value of the currency begins to go down. Pullback begins.

This rule also applies to the euro and Gold. It also makes sense to sell during "overshoot" since gold is priced in emerging markets by multiplying its price per ounce with the dollar exchange rate. Of course, once you make your profit, it is essential that you determine your next investment carefully.

> Learning how to invest in stocks is an important milestone in financial literacy

Learning how to invest in stocks is an important milestone in financial literacy. Being able to run a fundamental analysis by reading balance sheets and financial statements and knowing what to pay attention to in these statements, is the ABC of stock investing.

Making decisions based on market movements alone instead of paying attention to companies' financial performance, their investment decisions, projects, their dividend performance and partnership performance would bring loss to the investor in the long run.

High inflation is the enemy of savings

Once you have learned how to make a fundamental analysis of a company correctly, it is best to move on to technical analysis. In fact, it is necessary to analyse not only a company stock you intend to purchase but all types of financial instruments before investing in them.

Whatever instrument you choose, you have to have good knowledge about the trading volume of the instrument, the number of investors investing in that instrument and how it interacts with other financial instruments. Investing in an instrument simply because its value has been going up will not yield good returns, at least not in the long term.

For example, a person who has euro-debt must choose the right financial instrument in this currency. However, if this person also invests in US dollar-denominated assets because he is trying to make some profit from parity too, then he or she is committing themselves to a more challenging type of investment, which would require the investor to closely and constantly monitor the FX rate movements and all other developments in the world, either US elections or US inflation, GDP rates or consumption trends, that he or she had only previously needed to check from time to time.

Instead of chasing miracles to protect your investments against inflation or high cost of living, collecting information about the trends of financial instruments and buying and selling at the right time, at the right price always provides more satisfactory gains - Emre Alkin

High inflation is the enemy of savings. The lower the inflation in a country, the easier it is to protect savings. As the gap between the cost of living and inflation spreads, people get confused and engage in wrong investments.

For instance, buying a car was a very profitable investment for a while in Turkey due to high inflation. People literally acted as car dealers in the used car market. People who stocked up on food and cleaning products at home made a certain profit as prices rose more than 100% in one year.

People who purchased products such as Nutella from supermarkets sold them for 30% higher than their original price and, in just a couple of days, they made more money than they would earn from a one-year fixed-term savings account.

In fact, all these disruptions arise from the mistakes made by governments that are moving away from the free market economy while trying to protect the value of the national currency. As I explained in my "strong country-strong money" article last week, when the relative price balance is disrupted, morality is disrupted too.

Be careful

Instead of chasing miracles to protect your investments against inflation or high cost of living, collecting information about the trends of financial instruments and buying and selling at the right time, at the right price always provides more satisfactory gains.

People who have major debts to pay should avoid taking risks when it comes to investing, otherwise, they could incur more loss than profit.

Be careful when investing the money you have saved for your children's education, or the money you have borrowed from someone, or the money you are keeping aside to pay off a debt.

> Traditional investment behaviours do not protect us against the high cost of living

If you do it as if you were gambling on a slot machine, the result will be disaster. By the way, I actually also saw people gambling away the money they were supposed to use to repay their obligations. I cannot even describe the insanity of such behaviour.

The bottom line is that it is time for us to accept the fact that traditional investment behaviours do not protect us against the high cost of living and act as meticulously and carefully as possible when choosing an investment option.