

Is It Time To Buy TIPS?



As an investment advisor, I am constantly looking ahead as to how to position a portfolio for upcoming changes, both the expected and unexpected. However, one little gem that I have overlooked lately has been TIPS, Treasury Inflation-Protected Securities. These are bonds issued by the U.S. Treasury that offer a fixed yield plus the inflation rate to keep pace with changes in the Consumer Price Index (CPI). Investors typically buy individual TIPS or a TIPS fund to protect their assets in an inflationary environment.

So why would anyone want to buy inflation protection now when the Federal Reserve is dealing with real concerns about deflation?

Because we've spent most of 2010 with barely enough inflation to keep the economy going, you would think that TIPS would have been a big loser. To the contrary, TIPS funds and exchange-traded funds (ETFs) have performed well, returning more than 7 percent YTD and more than 10 percent for the last 12 months. So what's going on?

The best answer is that market participants are anticipating inflation and bidding up the value of TIPS. In my opinion, with the government printing money, talking about further economic easing, this flood of money means inflation down the road.

And there is another benefit to getting into TIPS. If there really is a bond market bubble, meaning interest rates go up and the value of your bond portfolio goes down, then TIPS should give you positive performance during an increasing interest rate environment as the interest that they pay is tied to inflation.

The best way to buy into TIPS is through a fund or ETF. My favorite fund is the Vanguard Inflation Protection Securities Fund (TIPX) with a low expense ratio of 0.25 percent and a current yield of 0.50 percent.

My favorite ETF is the SPDR Barclays Capital TIPS ETF (IPE). This ETF has an expense ratio of 0.18 percent and a yield of 0.54 percent. Both the Vanguard Fund and SPDR ETF have compared similarly in returns over the years. I believe that now is a good time to start buying.

As I always recommend, build this position in your portfolio over a period of time, preferably several months.



[Susan Carr-Templeton](#) is a personal wealth advisor with more than 20 years of investing experience. In addition to managing Stafford Wells Advisors, Susan volunteers on the investment committee for the Advocate Foundation.