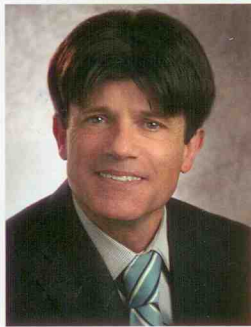


From time to time Insights will feature articles written by industry professionals who are not affiliated with Inland. This edition, we are happy to include the following article written by Robert S. Smith.

The Best Inflation Hedge Money Can Buy



Robert S. Smith is a Registered Investment Advisor with Oregon 1031 Investments who has spent twenty-four years in financial services, with a 10 year focus on securitized real estate.

As this goes to press, fear and uncertainty are still with us. This, despite nearly a trillion dollars in new stimulus spending; or perhaps because of it.

In its efforts to revive the economy and move consumers off life support, the Fed increased the money supply by \$691 billion in the last twelve months. This is almost double the average annual money supply growth from 2000 to 2007. And this includes only the first half of the TARP package and none of the coming "stimulus" package.

Despite being without historical precedent, these actions have not had the desired effect. This is largely because the epicenter of the current meltdown is the banking sector. Despite flooding the market with money, the Fed is not getting its usual traction with consumers because banks are hoarding cash.

Not only are banks hoarding cash, but investors are too. This is evidenced by the current price of U.S. Treasuries. By any normal means of valuation U.S. Treasuries are remarkably over valued. The 30-year Treasury bond now pays the lowest yield in its history.

This stampede to Treasuries is driven by fear. The popular media and political class are rife with descriptions of looming global depression and deflation reminiscent of the 1930s and Japan in the 1990s. As a result, investors fearful of a sustained global economic downturn and subsequent deflation are hoarding money in U.S. Treasuries. However, these historically low yields offer no protection against the return of inflation. At current levels, U.S. Treasury yields imply inflation will be around 0% the next ten years.

However, with a huge increase in the money supply and nearly one trillion in new spending on the way, it's hard to see how this is possible. All this funding and spending could be viewed as positive by investors, were it not for the law of unintended consequences. And the greatest concern here of course is inflation. Inflation is a phenomenon caused by creating too much money. The Federal Reserve Bank has certainly been doing this in an unprecedented way and it is far from certain they can contain the inflation that historically results. But then perhaps the Fed sees inflation not as a problem, but rather, as part of the solution. Think about it, what better way to bail out debtors and clear out an excess housing inventory than through inflating the value of hard assets and at the same time diminishing the value of debt claims? This is precisely what inflation does.

