Q: Where should I be looking for protection against hyper-inflation?

Brian Lockhart: It is entirely reasonable to assume that inflation is going to trend higher, but it is a stretch to think we could get to a level of hyper-inflation unless the government were to openly pursue a path of implementing Modern Monetary Policy.

Hedging for a low probability, high impact outcome like hyper-inflation is difficult because the cost, actual and opportunity, is significant. It would not be prudent to allocate more than 1% or 2% to such an unlikely event, but if you did, here would be some options.

Gold is the most obvious because it has demonstrated an inverse relationship to the U.S. dollar for a long time. Inflation lowers currency value, so you want to own an asset that is inversely correlated. I still believe gold is probably the best inflation hedge and owning as much as 5% of your portfolio in gold is not unreasonable.

Bitcoin is an alternative currency as well but has no intrinsic value as exists with other alternatives to Central Bank controlled currencies. Gold and precious metals have intrinsic value and demand for jewelry and industrial uses. Bitcoin relies on the “greater fool theory,” although you might not convince a 26-year old driving a Lambo of that.

Real estate and commodities also make sense to hold if you are concerned about rising inflation. Real estate has a component of ‘replacement cost’ that rises with inflation, and commodities are typically priced in dollars and go up when the value of the dollar falls.

Clint Pekrul, CFA: We talked about this at length in the spotlight section of this month’s report. There are a handful of liquid asset classes that could potentially hold up well in an inflationary environment. Commodity-based equities, such as gold miner stocks, energy manufacturers, and the basic materials factor could provide superior risk-adjusted performance should inflation become an issue. Investors could also hold commodities such as gold directly. Another viable option is publicly traded real estate investment trusts (REITs), which hold commercial real estate directly. These investment vehicles must pass through the income that the underlying properties generate through rent directly to shareholders. Typically, rent payments can rise over time to keep pace with inflation, which ultimately can help avoid the loss of purchasing power. Likewise, stocks that have a history of increasing their dividends over time can provide rising cash flows during inflationary periods. While fixed income investments pose a challenge for combating inflation, higher-yielding bonds offer some degree of protection in terms of absorbing an increase in yields. Likewise, Treasury Inflation Protected bonds, or TIPs, offer some hedge against an increase in the consumer price index with resetting coupons. For the investor, the primary focus should be to hold assets that have variable, rising cash flows with limited duration.