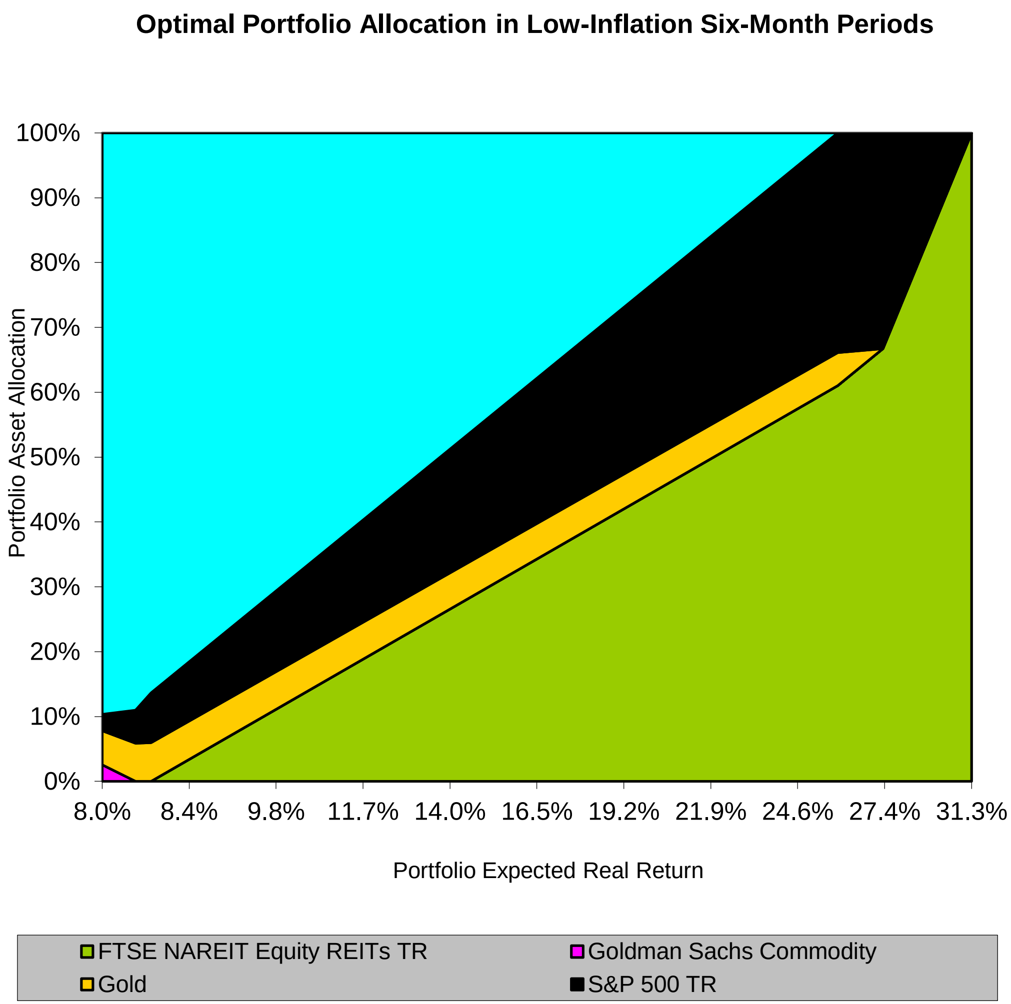
Hedging Prediction/Modeling Risk of Inflation

Markowitz Mean-Variance Optimization of Real Returns During Six-Month Periods of Relatively *Low* Inflation



- Commodities have almost no role—and gold a very limited role—in optimized portfolios during low-inflation periods because of low returns and relatively high volatility
- REITs and stocks play an important role during low-inflation periods because of high returns
- TIPS have a larger role during low-inflation periods because of low volatility
- Results suggest that REITs, TIPS, and stocks should play a strategic role in inflation-protected portfolios, while commodities and gold should have only a tactical role when inflation is predicted to surge

Note: Periods of relatively low inflation are defined as those during which inflation, on an annualized basis, averaged less than 3.16%, the median during the period January 1978 – January 2013. The Ibbotson Associates U.S. TIPS Total Return series is based on the Barclays Capital Real U.S. Treasury TIPS Total Return series, backfilled prior to 12/1997.
Source: NAREIT analysis of data from Interactive Pricing Data, accessed through FactSet.