

# Shoe-leather costs: The time and effort required to outpace inflation

**BUSINESS  
INSIDER**

Kinetic Financial | February 3, 2022



In the early 1920s, Germany was facing unprecedented levels of inflation. Prices were up over a billion times their pre-inflation value. Anecdotes from the time portray a country in chaos as employees raced to spend their paychecks, which they received several times a day, before they became worthless. Bar patrons would order two drinks up front, in case the price rose while they were drinking the first.

The world has yet to see inflation rates as high.

However, it is important to plan your finances around inflation even in a healthy economy. The time and effort it takes to counteract inflation is known as shoe-leather costs. Here's what you need to know about it and how to minimize it.

## What are shoe leather costs?

Shoe-leather costs refer to the time and effort it takes you to minimize the impact of inflation on your finances. The term comes from the physical shoe leather that people would wear out while making repeated trips to the bank.

Though online banking has minimized shoe-leather costs to manage your finances, you may find that there are still several costs to fighting inflation.

## How important is staying ahead of inflation?

Inflation is often considered the "silent killer" because of how it slowly affects purchasing power over time. "Many people don't realize the effects of it when they look at it over a short period of time," says Ali Hashemian, president of Kinetic Investment Management. The effects are more noticeable over a longer period of time, but in that period of time, Hashemian says we tend to forget to think about inflation. Yet, accounting for inflation in your finances is crucial, especially in investing and retirement planning.

When it comes to investment planning, your returns need to outweigh your gains. For example, if a savings account offers a 1% annual interest, but the interest rate is 3%, the money in that account is losing 2% of its purchasing power every year. "So they may not have market risk, but they do have inflation risks," Hashemian says. That said, the Federal Reserve will often increase interest rates during times of higher inflation.

Typically, wages will also increase to adjust for inflation. Real wages, wages adjusted for inflation, have remained relatively stable over the past 50 years, just above \$20 an hour, despite varying levels of inflation. However, inflation can have deep impacts if you're retired and living off savings. This is where investments, and subsequent shoe-leather costs, kick in.

## Examples of shoe-leather costs

Having small amounts of cash on hand. For those looking to outpace inflation, they'll have to make their money work for them. That means investing any discretionary income in order to earn gains on it, instead of storing it in a bank account.

Learning the markets. Though investing is one way to combat inflation risk, you now have to take on market risk. This can come with its own slew of shoe-leather costs, not least of which is the time and effort it takes to educate yourself on the market so you have the knowledge to receive a gain on your investments. Additionally, during times of higher inflation, you will need a higher return on your investments, which means participating in higher-risk investments.

How to minimize shoe-leather costs

Though shoe leather costs are as inevitable as inflation itself, there are strategies to minimize those costs.

Hashemian underlines the importance of diversification in your investment portfolio. "It's all about having different pools of assets that you can access at various times depending on when and where you need them," Hashemian says. This means balancing long-term investments or higher-risk investments with more short-term, liquid assets that can be drawn upon in emergencies.

Quick tip: Though investing in yourself through further education or learning a new skill is an investment made up entirely of shoe leather costs, it is one underutilized way to earn more money.

Inflation can also be thought of positively. "When the word inflation comes up, we tend to focus on the negative effects, but is there anything positive about inflation? Yes," Hashemian says. For example, a loan or other forms of debt acquired before a period of high inflation will be subject to the same inflation erosion as any savings. "So there are some positives or silver linings to inflation," he says.

To learn more about Kinetic Financial and its holistic financial planning approach, please visit [www.kineticfinancial.com](http://www.kineticfinancial.com)

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