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Inflation Protection Portfolio: 7 Assets That Beat Rising Prices

Everyday investors do not need a complex hedge-fund portfolio to fight inflation. They need a simple default they can actually maintain. This guide shows how to use a practical inflation sleeve around your existing core holdings, including a plain 5% I Bonds + 5% TIPS + 5% commodities + 85% broad-market approach, and how to connect that portfolio to retirement-income assumptions, Social Security COLA, household budget updates, and rental income that may already provide some built-in inflation protection.

1. Foundation

The biggest mistake ordinary investors make with inflation protection is assuming they need either an all-or-nothing answer or a highly technical macro strategy. In reality, a simple portfolio often works best because it is easy to understand, fund, and rebalance. One practical template is a 5% I Bonds + 5% TIPS + 5% commodities + 85% broad-market core. That broad-market core can be whatever low-cost diversified portfolio you already use: a total U.S. stock market fund, a world-stock index, or even your normal stock-and-bond mix if your risk tolerance requires it. The point is not that everyone should hold exactly the same percentages forever. The point is that a modest inflation sleeve around an existing diversified core is usually more useful than trying to reinvent the whole portfolio every time prices rise.

Each piece of the 5-5-5-85 framework has a clear job. I Bonds are the safest and most beginner-friendly part of the sleeve because they are backed by the U.S. government, link their return to inflation, and can serve as inflation-resistant savings once the first-year lockup is behind you. TIPS are the marketable bond version of inflation protection; they belong in the investable portfolio and can be held through individual bonds or through a low-cost fund. Commodities are the shock absorber. They are volatile and should stay small, but they can respond quickly when inflation is coming from energy, food, or raw-material costs. The 85% broad-market core remains responsible for long-

term growth because productive businesses and diversified markets are still the main way most families build wealth.

This structure also works because many households already have some built-in inflation protection outside the brokerage account. Social Security has a cost-of-living adjustment, or COLA, that can raise benefits when inflation rises. That does not make retirees immune, because Medicare premiums, taxes, and actual spending patterns can still outpace the adjustment, but it does mean part of retirement income may already be inflation-linked. Some pensions also include COLAs, though many do not. If you own rental property, the ability to reset rents over time may provide another partial hedge. Even a fixed-rate mortgage can help on the household balance sheet because inflation makes a fixed monthly payment easier to carry in real terms. The portfolio should be designed after you account for these existing offsets, not before.

Retirement planning is where inflation assumptions matter most. A plan that assumes 2% inflation forever may look comfortable on paper and fragile in real life. A better starting point is to run a normal long-run assumption around 2.5% to 3%, then test a harsher scenario in the 4% to 5% range for the first decade of retirement. This matters because spending is not evenly sensitive to inflation. Healthcare, insurance, housing maintenance, and groceries may rise faster than the average retiree budget assumption, while some discretionary categories can be cut if necessary. If Social Security will eventually cover 30% to 50% of planned spending, you may not need a huge explicit inflation hedge. If most of your retirement income must come from the portfolio, you probably need a more deliberate inflation sleeve.

Budgeting is part of inflation protection too. Families often focus on the investment side and forget that the fastest way to stay ahead of inflation is to keep the household plan current. Once a year, update groceries, utilities, insurance, property taxes, tuition, healthcare, travel, and household maintenance with today's numbers rather than last year's. Decide which expenses must receive an automatic cost-of-living adjustment in the budget and which ones can stay flexible. A strong inflation-protection portfolio is much easier to manage when the spending plan acknowledges reality instead of pretending prices will return to the old baseline.

Rental income is similar. It can be a useful partial inflation hedge because rents can reset, but it is not a perfect one. Vacancies, tenant turnover, property taxes, repairs, insurance, and local supply conditions can blunt the protection. If you own rental property, include it in the plan as an income source with some inflation sensitivity, not as a magical asset that makes portfolio hedges unnecessary. The same principle applies to wage income for workers and business income for entrepreneurs. A portfolio hedge

should complement the inflation protection already built into your life rather than duplicate it blindly.

2. Step-by-Step System

1

Measure the inflation protection you already have

Before buying anything, list every income source and liability that already responds to inflation. Include wages, self-employment income, Social Security, pensions, rental income, annuities, fixed-rate debt, and variable-rate debt. Social Security belongs on the helpful side because COLA can offset part of retirement inflation. A fixed-rate mortgage can belong on the helpful side because the payment stays nominally flat while incomes and prices rise. Variable-rate debt belongs on the risky side because rising inflation often comes with higher interest rates. Rental income belongs in the middle because rents can rise, but vacancies and expenses can rise too.

This step keeps you from overbuying inflation hedges. If 40% of your expected retirement spending will be covered by Social Security and another 15% by rental income, you do not need the same explicit inflation sleeve as someone who must fund 100% of spending from a brokerage account. Inflation protection starts with the whole household balance sheet, not with a ticker symbol.

2

Install the simple 5-5-5-85 framework

Use the portfolio template as a default, not a religion. On a \$200,000 portfolio, the framework means about \$10,000 in I Bonds, \$10,000 in TIPS, \$10,000 in commodities, and \$170,000 in your broad-market core. On a \$600,000 portfolio, it means about \$30,000 in each sleeve and \$510,000 in the core. If annual I Bond purchase limits prevent you from getting to the target right away, build toward it over multiple years while using TIPS or short-term reserves for the rest. The broad-market core stays invested according to your normal long-term plan so that inflation protection does not crowd out compounding.

If your risk tolerance is lower, the 85% core does not have to mean 85% stocks. It can mean 85% of your ordinary diversified baseline, such as a target-date fund or a stock-and-bond index mix. The important point is consistency: the inflation sleeve should sit around the core you can actually hold through a full market cycle.

3

Choose the instruments and funding order

In practice, many investors should fund the sleeve in this order: first I Bonds up to the annual limit if the cash can be locked for a year; then TIPS through a low-cost fund or ladder; then a small broad commodities fund; then ongoing maintenance with annual contributions and rebalancing. I Bonds make sense for the safest bucket because of the federal guarantee and tax deferral, but they are not large enough to hedge big portfolios on their own. TIPS are the scalable bond solution. Commodities belong in a retirement account when possible because the tax reporting and distributions can be less convenient in taxable accounts.

Keep the broad-market core automated. If you already invest every month into a total-market or world-stock fund, leave that machinery intact. The more manual steps inflation protection requires, the less likely you are to maintain it. Simplicity is a feature, especially for households trying to manage investing alongside work, kids, and everyday bills.

4

Rewrite retirement-income assumptions in real terms

Once the sleeve is funded, update retirement projections so inflation is treated explicitly. Run your normal plan using a 2.5% to 3% inflation assumption, then test a harsher path such as 4% to 5% for the first ten retirement years. Increase healthcare, insurance, and housing-maintenance assumptions more aggressively if those categories dominate your budget. Then subtract the part of spending that Social Security COLA may already protect. If Social Security will cover \$24,000 of a \$60,000 annual retirement budget, only the remaining \$36,000 must be fully defended by your portfolio and other income sources.

This exercise often changes the size of the hedge more than people expect. Retirees with strong Social Security benefits and a paid-off home may need a smaller explicit inflation sleeve than they feared. Early retirees living mostly from the portfolio may need a larger TIPS allocation and a more conservative withdrawal assumption. The portfolio should follow the income plan, not the other way around.

5

Build inflation into the household budget and rental plan

Create an annual cost-of-living adjustment routine for the household. Review groceries, utilities, insurance, property taxes, childcare or tuition, maintenance, and healthcare. For each category, decide whether the new number should be accepted as the baseline, negotiated lower, or offset by cuts elsewhere. If you own rental property, review market rents, lease renewal timing, expected vacancy, repairs, and insurance instead of simply assuming rent will keep pace with inflation automatically. That keeps the portfolio plan connected to the actual cash-flow engine of the household.

This is also the place to update emergency reserves. If your monthly essentials rose from \$4,500 to \$5,200, your cash target may need to rise even if the portfolio is doing fine. Inflation protection succeeds when the whole plan is synchronized: the budget, the income assumptions, the safe reserves, and the investable portfolio.

6

Review once or twice a year and rebalance back to simple

The real power of a simple framework is that it gives you a clear way back to neutral. Review the sleeve once or twice a year. If commodities doubled and now represent 9% instead of 5%, trim them. If TIPS or I Bonds are below target because contributions went elsewhere, top them back up when practical. If the 85% core has drifted because equities soared or slumped, rebalance the total portfolio rather than obsessing over one sleeve. The objective is not to constantly optimize inflation protection. The objective is to keep the allocation close enough that no single inflation surprise can derail the plan.

As retirement gets closer, you can gradually change the mix. Some investors may move from 5% TIPS toward 10% or more and rely less on commodities. Others may keep the framework but let Social Security COLA and pension income reduce the need for a larger explicit hedge. Rebalancing back to simple is the discipline that keeps ordinary investors from turning a good idea into a messy collection of one-off trades.

3. Key Worksheets & Checklists

These worksheets are designed for real households, not for institutional asset-allocation committees. Fill them out using your current accounts, current bills, and current income sources. The goal is a simple plan you can explain in one page and maintain with a short annual review.

1. Household Inflation Protection Worksheet

| | |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Broad-market core | List the current low-cost diversified core you intend to keep at roughly 85% of the portfolio. |
| I Bonds target | Record the 5% goal, current TreasuryDirect balance, and how many calendar years it will take to reach the target under annual purchase limits. |
| TIPS target | Write the 5% goal, the chosen fund or ladder, and the account that will hold it. |
| Commodities target | Set the 5% cap and write the exact product, account location, and reason for including it. |
| Social Security COLA coverage | Estimate how much of future retirement spending may already receive inflation adjustments through Social Security. |
| Rental income hedge | List expected rent income, the next lease reset date, and the major expense categories that could offset higher rent. |
| Budget COLA categories | Name the household spending lines that must be updated every year regardless of market performance. |
| Review schedule | Choose one midyear review and one year-end review, plus any trigger tied to retirement planning. |

2. Execution Checklist

- List every existing inflation-sensitive income source, including wages, Social Security, rental income, and any pension COLA.
- List every existing inflation-sensitive liability, especially variable-rate debt and household expenses that reprice quickly.
- Translate the 5-5-5-85 framework into actual dollar amounts for the current portfolio size.
- Decide how much of the I Bond target can be funded this calendar year and where the remaining inflation-safe money will sit.
- Choose the TIPS implementation and note whether the goal is general exposure or matching future spending dates.
- Keep the commodity sleeve small enough that you can tolerate large swings without abandoning the framework.
- Update retirement-income assumptions using a normal inflation case and a higher-stress inflation case.
- Estimate how much Social Security COLA reduces the amount of spending that must be fully hedged by the portfolio.
- Review the household budget for categories that need annual cost-of-living adjustments even if income did not rise as fast.
- Set the dates when you will rebalance back to the simple framework rather than adding more and more hedges.

3. Annual Inflation Planning Calendar

| Timing | Action | What Finished Looks Like |
|----------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| January | Update portfolio values and convert the 5-5-5-85 framework into this year's dollar targets. | Current target sheet saved with account balances and funding gaps. |
| April | Review tax refund, bonus, or other lump-sum cash that could fund I Bonds or TIPS. | Contribution decision documented with dates. |
| June | Refresh groceries, utilities, insurance, and housing costs in the household budget. | New monthly baseline reflects current prices. |
| August | Check whether the commodities sleeve or broad-market core has drifted far from target. | Rebalance completed or deferred with written reason. |
| October | Review Social Security COLA announcements and update retirement-income assumptions if relevant. | Retirement worksheet shows new benefit estimate. |
| December | Plan next year's I Bond purchases, TIPS additions, and any rental-income assumption updates. | Next-year action list and review dates are written down. |

4. Common Mistakes

Turning a simple sleeve into a complicated macro portfolio

The 5-5-5-85 framework works because it is simple. If you keep layering on gold, sector funds, tactical trades, and niche inflation ETFs, you can end up with more moving parts and no clearer protection. Complexity often feels productive right before it becomes unmanageable.

Double-counting Social Security or rental income

Social Security COLA and rental income can help offset inflation, but neither is perfect. Benefits may be partially eaten by healthcare costs, and rent growth can be offset by vacancies and expenses. Count them as partial hedges, not as reasons to ignore portfolio planning entirely.

Assuming the broad market fixes short-run inflation pain by itself

A diversified stock fund is still the core long-run growth engine, but it may not protect you over the next 12 to 24 months if inflation surges and valuations fall. That is why the small I Bond, TIPS, and commodity sleeves exist around the core.

Forgetting liquidity and access rules

I Bonds have a lockup period, commodities are volatile, and TIPS funds can fluctuate more than many beginners expect. The practical details matter. A hedge only helps if the money is accessible when you need it and if you can keep holding it when prices move around.

5. Next Steps

Save your finished 5-5-5-85 plan with the exact dollar targets, account locations, and review dates so the framework stays simple the next time inflation flares up. If the updated assumptions change your retirement-income target, rerun the numbers in the [FIRE Calculator](#) and keep [the free tools page](#) bookmarked for future scenario checks. The best inflation-protection portfolio is the one you can still understand, fund, and rebalance five years from now.

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