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What's more scary than running out of money?

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Last night I was trick or treating with my daughter Ava. While we were out we saw all kinds of frightening creatures: gremlins, ghosts, witches, werewolves, and just about anything else you can imagine. It reminded me of the topic we've been covering in this column recently…one of the scariest things of them all: inflation!

If you're blessed with a long retirement, inflation could slowly and sneakily eat away at your ability to live your retirement as you want to. Over time, you might find yourself making more and more difficult decisions of what you can and cannot afford. Worst of all, after years of paying for essentials that are becoming more and more expensive, it may force you to spend down all of your savings. I'm sure you'll agree that there's not much scarier than that!

We've covered some of the reasons why this is so important. Now let's review a few common investment strategies for protecting yourself against inflation:

1.Investing in dividend paying stocks: As with most investment choices, this one has some significant advantages and disadvantages. On the plus side, dividend paying stocks typically will pay you a steady income for many years. Additionally, over time the value of the stock itself often increases. When this investment works out, it can provide a nice income AND help protect you from the effects of inflation by increasing the value of your nest egg.

However, it doesn't always go as planned. There are a couple downsides to this option as well. First, the value of stocks you invest in can increase or decrease in value very quickly. This means if you need to sell some of your stock, you may get back more or less than you originally put in. Also, the income you receive from the stocks can be reduced at any time – which could have a devastating effect on someone counting on that income to live on. Finally, the stock value could not only go down, but if the company went out of business, it could ultimately become worthless. Scary indeed.

2.Taking income using reverse dollar cost averaging: I call this one the option with the funny name! As you might guess, it is basically the opposite of dollar cost averaging. This is an incredibly valuable topic to cover, and it wouldn't do it justice to squeeze it into the remaining space for this month. So we'll look at options 2 and 3 next month.

3.Using a scheduled income plan:

Next month we'll cover the last two options in greater detail.

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