

# RETHINKING FIXED INCOME

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A bond yielding 4% in a 5% inflation environment delivers a real return of negative 1%. That's not a edge case. That's the 1970s for a decade, and it's closer to the current reality than most bond portfolios are built to handle.

The argument here is straightforward: bonds have a structural problem in inflationary environments, that problem is worse than the official numbers suggest, and fixed indexed annuities offer a better solution for the fixed income portion of a retirement portfolio. The data supports it. The silver quarters prove it.

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## What Bonds Promise and When They Fail

Bonds are debt. A government, municipality, or corporation borrows money from you, pays interest on a fixed schedule, and returns principal at maturity. The stability is contractual. That's the appeal.

The problem is that inflation erodes the real value of every fixed payment. The coupon that looked reasonable when you bought the bond buys less every year inflation runs. The principal you receive at maturity is worth less in real terms than the principal you handed over.

Aswath Damodaran's dataset covering 1928 to 2024 shows that 10-year Treasury bonds outpaced yearly CPI in about 68% of years. Which means in roughly one third of years, bonds failed to maintain purchasing power. In extended high-inflation periods — the 1970s through early 1980s, when CPI averaged 9% annually and peaked at 13.5% in 1980 — Treasury yields averaging 7 to 8% delivered negative real returns every single year. The Misery Index peaked at 21.98% in 1980. Bondholders were losing ground in real terms for a decade.

The more honest inflation measures make the picture worse. The CPI methodology has been adjusted repeatedly since 1971 — the 1983 introduction of Owner's Equivalent Rent, the 1999 shift to geometric averaging, hedonic adjustments across more than 30 product categories. Each change lowered reported inflation. ShadowStats, which applies pre-1990 methodology, estimates current inflation 3 to 7 percentage points higher than the BLS. A personal calculation using 1982's pre-hedonic methodology yields about 5.5% inflation for 2025. With 10-year Treasuries at 4.1%, the real return is negative before taxes. After taxes in a 25% bracket, worse.

The Big Mac tells the same story it always does. A \$0.45 burger in 1964 costs \$5.15 in 2025 — a 1,144% increase. CPI says prices are up 900% over the same period. The gap is the inflation the government doesn't count.

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## The Silver Quarters Again

In 1964 the federal minimum wage was \$1.25 an hour. You could receive that as five pre-1965 silver quarters, each containing 0.1808 troy ounces of 90% silver — 0.904 ounces total.

By September 2025, with silver at \$43.08 per ounce, those five quarters were worth \$38.94. A 31-fold increase. The official CPI says prices rose about 9x over the same period.

For a full-time worker in 1964 — 2,080 hours a year — annual earnings of \$2,600 represented 376 ounces of silver. At \$43.08 an ounce, that's \$16,198 in today's purchasing power. The 2025 federal minimum wage of \$7.25 an hour produces \$15,080 annually — nearly identical in nominal dollars, but nowhere near silver-equivalent purchasing power. Real wages for minimum earners are down 40 to 50% since the 1960s, per ShadowStats.

Milton Friedman: "Inflation is always and everywhere a monetary phenomenon." Post-1971, M2 money supply grew 6,000%. Governments use that expansion to fund expenditures — a hidden tax on savers, transferring purchasing power from people holding fixed-rate instruments to borrowers and governments holding real assets. Bondholders are on the wrong side of that transfer.

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## Fixed Indexed Annuities

A fixed indexed annuity is a deferred, tax-advantaged insurance contract where credited interest is tied to a market index — typically the S&P 500 — with a floor of zero. You participate in market gains up to a cap or participation rate. You don't participate in losses. Principal is guaranteed.

During the accumulation phase, interest accrues tax-deferred, averaging 4 to 7% annually in moderate markets. At annuitization, the contract converts to a lifetime income stream. Many products include inflation-adjustment riders. The index linkage captures nominal growth — which tends to correlate with real inflation — while the guarantee protects the base.

A 2022 Oak Harvest study found FIAs outperformed bonds in 98% of 25-year periods. A Financial Planning Association analysis found FIAs beating S&P 500 total returns 67% of the time over multi-year horizons with zero principal loss. In the 1970s, when bonds delivered negative real returns for a decade, FIAs credited 4 to 5% with no drawdown.

The trade-offs are real. Liquidity is limited — surrender charges typically apply for 5 to 10 years. Caps limit upside in strong bull markets. These are not instruments for money you might need next year. They are instruments for the fixed income portion of a retirement portfolio where the goal is sustainable income over decades, not short-term flexibility.

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## The 60/40 Comparison

The classic 60/40 portfolio — 60% S&P 500, 40% 10-year Treasuries — delivered 9.4% nominal annual returns over five decades. Real returns after inflation run closer to 5%, per Principal Asset Management. In 2025, with S&P dividends at 1.16% and Treasuries at 4.11%, the blended income yield is roughly 2.34%. That barely covers BLS CPI and falls short of any honest inflation estimate.

In the 1970s stagflation, a 60/40 portfolio fell 39.4%. In 2022's rate spike, it fell 16%. The negative correlation between bonds and inflation that the 60/40 framework depends on breaks down precisely when it's needed most — in rising-rate, rising-inflation environments.

Portfolio	Blended Income Yield	Real Return (5% inflation)	1970s Performance
60% S&P / 40% Treasuries	~2.34%	Negative	-39.4%
60% S&P / 40% FIA	~4.8–6.3%	Positive	Credited 4–5%

Replacing the bond allocation with FIAs produces 2 to 3 times the income on the fixed portion: \$6,000 annually on a \$100,000 FIA at 6% versus \$4,110 from a comparable Treasury position. Over a 20- or 30-year retirement, that gap compounds into a material difference in what the portfolio actually pays out.

The CFA Institute’s analysis of 1900 to 2023 shows annuity-enhanced portfolios annualizing at 6.5% real versus 5% for 60/40. The advantage is largest in the periods that matter most — high inflation, rising rates, the environments that destroy bond purchasing power while FIAs continue crediting interest and protecting principal.

The core argument in plain terms
Bonds fail in inflationary environments — roughly 1 in 3 extended periods historically.
Official CPI understates real inflation. The true shortfall for bondholders is worse than reported.
FIAs offer index-linked growth with principal protection — the upside without the drawdown.
Replacing the bond sleeve with FIAs produces 2–3x the income yield on that allocation.
The trade-off is liquidity. FIAs are a long-term instrument. Plan accordingly.

Friedman was right. Inflation is a monetary phenomenon, and the government controls the money supply. Savers holding fixed-rate instruments in a fiat system are structurally disadvantaged. The silver quarters make it concrete: the government knew this was coming in 1964 and got the silver out before the public caught on.

The question for a retirement portfolio is not whether bonds are bad. It’s whether they are the right instrument for the fixed income allocation when inflation runs above the yield. In most periods they are adequate. In the periods that matter most — sustained inflation, rising rates, the environments that define a generation’s retirement experience — they are not.

Fixed indexed annuities are not a perfect instrument. But for the fixed income sleeve of a retirement portfolio, the combination of index-linked growth, principal protection, and lifetime income makes a compelling case that the 60/40 framework was built for an era that no longer exists.

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