

Inflation Is the Silent Thief

A dollar today may be worth 62 cents by 2030

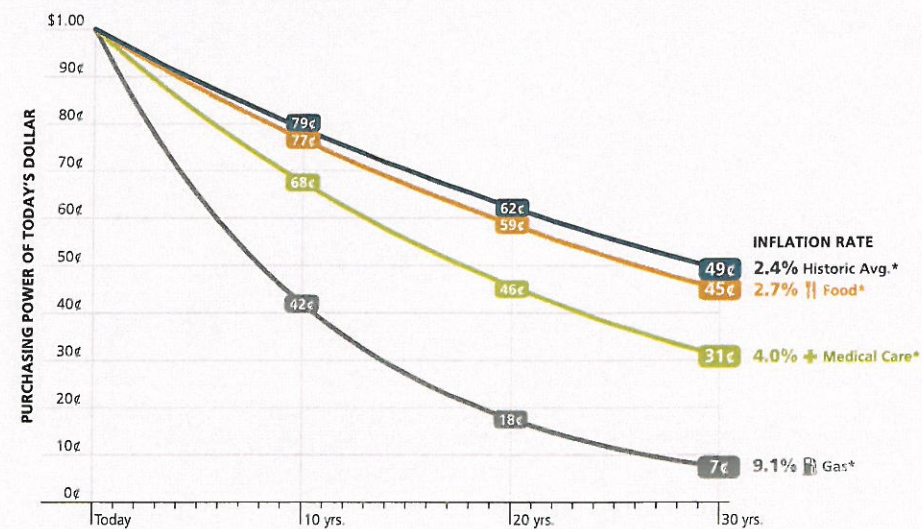
How far can you stretch your dollar today? How about in 20 years? Inflation is often called the “silent thief” for good reason: Whether you hide your money under your mattress or park it in a checking account, inflation will erode its value over time. Even with rather tame inflation in the U.S.—2.4% in the past decade,¹ a dollar in your pocket today will have shrunk in value by more than one-third by 2030.

Lately, you’ve felt the effects of inflation at the gas pump, pharmacy and grocery store. The cost of essentials has shot up over the past decade: gasoline by 9.1%; medical care by 4%; and food by 2.7%.² Those costs have spiked largely because of increased global demand for commodities such as oil, cotton and wheat, plus the growing wealth among consumers in emerging markets³ has created a tidal wave of demand for finished discretionary items. This increased demand has driven up prices for a limited supply of goods around the world. As a result, U.S. consumers are paying more for the basics. Manufacturers have come up with creative ways to pass on these higher costs—selling smaller rolls of toilet paper, fewer potato chips per bag or a slimmer carton of juice, but not at a reduced price.⁴

Wages are not keeping up with a higher cost of living; the median household income in 2009 was \$49,777, down from \$52,748 a decade earlier.⁵ Compounding the problem is that traditional income-producing investments have not kept pace with inflation. In today’s low interest rate environment, if you

Can You Afford Not to Hedge Against Inflation?

Today’s dollar won’t stretch very far if prices continue to rise at current levels.



Source of chart data: U.S. Bureau of Labor Statistics, 12/31/10. *Inflation average for the last 10 years (12/31/00 to 12/31/10)

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purchase 10-year U.S. Treasuries and factor in the current rate of inflation, your “real” yield may be negative.⁶

Identifying Opportunities

To combat these dual pressures, there are investments that have, historically, either kept pace with or outpaced inflation.

Our Global Debt team helps investors hedge against inflationary risks by investing in senior floating rate bank loans, which feature adjustable interest rates. When benchmark interest rates rise, bank loans have historically paid investors higher interest rates.

Our Global Debt team also invests in commodities or commodity-linked investments, which provide investors with exposure to investments in “real” assets, such as oil, coffee, cotton and corn. Although past performance can’t predict the future, it’s worth noting that since 1970, commodities, as represented by the S&P GSCI® Index, have performed well in periods of rising inflation.⁷

Global Investment Options

Oppenheimer Senior Floating Rate Fund (OOSAX) and **Oppenheimer Commodity Strategy Total Return Fund (QRAAX)** provide investors with an opportunity to potentially outpace inflation and protect their purchasing power.

Learn more at globalizeyourthinking.com.

Source of data: 1. & 2. U.S. Bureau of Labor Statistics, as of 12/31/10. 3. U.S. Energy Information Administration and OECD, as of 12/31/10. 4. MSN Money, “Beware: Same Price, Less Product,” 5/31/11. 5. U.S. Census Bureau, as of 12/31/09 (data only available through 2009). 6. Bloomberg and U.S. Department of Treasury, as of 6/30/11. 7. S&P GSCI® Index, as of 6/30/11.

Special Risks Oppenheimer Senior Floating Rate Fund may invest without limit in below-investment-grade (“high yield” or “junk”) bonds, which are more at risk of default and are subject to liquidity risk. Senior loans are typically lower rated (more at risk of default) and may be illiquid investments (which may not have a ready market). The Fund may invest a variable amount in debt rated below “B.” Fixed income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall, and a fund’s share price can fall. Derivative instruments, investments whose values depend on the performance of an underlying security, asset, interest rate, index or currency, entail potentially higher volatility and risk of loss compared to traditional stock or bond investments. Currency derivative investments may be particularly volatile and subject to greater risks. It is important to remember that investing in foreign securities involves special risks (such as currency fluctuations and political factors) and may have greater expenses and volatility. Investments in emerging and developing markets may be especially volatile. Diversification does not guarantee profit or protect against loss. Commodity-linked investments are considered speculative and have substantial risks, including the risk of loss of a significant portion of their principal value. Large sector holdings may expose investors to greater volatility and special risks associated with that sector.

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