Nominal & Real Return

Money

Two ways of stating the same return, and which one matters.

Real return ≈ nominal return − inflation.

real ≈ nominal − inflation

8% return, 3% inflation — **~5% real**

Genuine growth.

3% savings rate, 5% inflation — **−2% real**

Purchasing power fell.

0% cash, 2% inflation — **−2% real**

Cash loses slowly and reliably.

THE COMMON MISTAKE

× **Comparing returns from different decades directly**

✓ **Adjust both for inflation first**

A 10% return during 12% inflation is a loss; a 4% return during 1% inflation is a gain.

The exact formula is $(1+n)/(1+i) - 1$. Subtraction is close enough at ordinary rates.