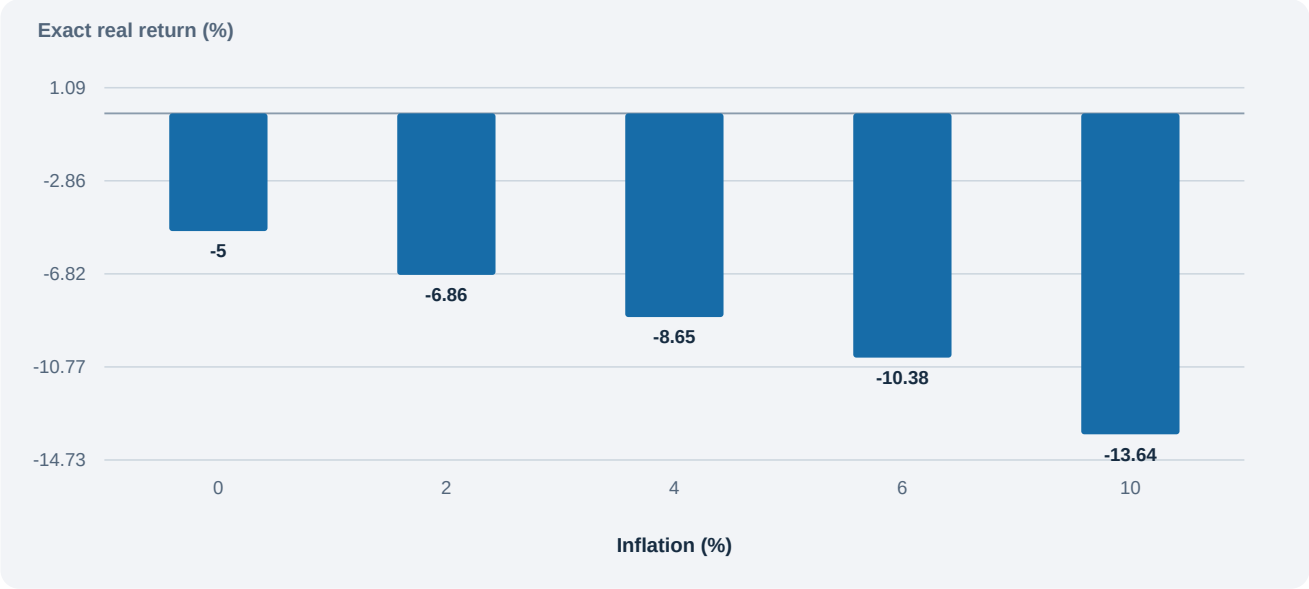
Return after an inflation assumption

Return comparisons | Original synthetic example | Edition 2026-11-26

Real return adjusts a nominal growth factor for a price-level growth factor. Subtracting inflation is only an approximation, especially when rates are large.

FORMULA Real return = (1 + nominal return) / (1 + inflation) - 1

SCENARIO 01: Nominal period return -5%; same-period inflation



WORKED EXAMPLE

At 4% inflation, (1 + -0.05) / 1.04 - 1 gives -8.65% real return.

COMMON MISTAKE

Simply subtracting percentages while claiming an exact real return omits compounding in the denominator.

BEFORE YOU USE THE CALCULATION

1. Match the return and inflation periods.
2. Use an explicit inflation measure.
3. Keep personal spending patterns separate from the index.

COMPARE TWO MORE INPUT SETS

Scenario 05: Nominal period return 4%; same-period inflation. At 4% inflation, (1 + 0.04) / 1.04 - 1 gives 0% real return.

Scenario 10: Nominal period return 15%; same-period inflation. At 4% inflation, (1 + 0.15) / 1.04 - 1 gives 10.58% real return.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.