



Four Inflation Fighting Strategies for the Inevitable

Description

There are opinions on both sides of the debate as to whether stocks can provide a hedge to inflation. I for one do not want to depend on stocks alone to provide a hedge against inflation and a diversified portfolio of not only stocks, but real estate and other hard assets will most likely fair better. However, many investment portfolios are made up of primarily paper assets such as stocks, bonds and cash. When inflation strikes, bonds and cash are typically not where you want to be weighted. So if you do not plan to go out and buy real estate, timber assets and other natural resources, what stocks may provide the best hedge?

The obvious choice... Or is it?

To many investors, gold is believed to be the automatic investment when they believe inflation is on the horizon. Some may disagree, but many feel that there is at least a place for gold in most portfolios. However, gold stocks tend to be highly volatile and the mining risks may not be suitable for many investors. While I am not opposed to owning precious metals stocks, holding physical gold may be preferable to its mining counterparts for many portfolios. If holding the physical gold is not for you, take a look at a publicly traded physical gold trust such as **Sprott Physical Gold Trust** (TSX: PHY.U).

Pricing power

When inflation strikes the best performing companies will be those with “pricing power”. Historically, supermarket chains have been able to pass increased costs along to their customers. Depending on the competitive environment, most supermarkets operate at peak pricing efficiency when there is a moderate and stable rate of inflation. However, periods of volatile inflation rates can make for a very challenging environment.

Sticking with the bigger chains is probably the best strategy and Canada’s largest supermarket chain, **Loblaw Companies Limited** ([TSX: L](#)) is worth consideration. Management at Loblaw has been busy this year. In July, the company completed the initial public offering of its real estate investment trust subsidiary which contained approximately 75% of the company’s owned real estate unlocking value for future investment. It did not take long for the company to use its new found capital. Less than two

weeks after the trust's IPO, Loblaw announced it had agreed to acquire drug store operator **Shoppers Drug Mart** further enhancing the pricing power of the company.

Continuing with the size theme, **Empire Company Limited** ([TSX: EMP.A](#)) is the operator of the second largest supermarket chain. The company's stores primarily fall under the banners of Sobeys, IGA extra, Thrifty Foods, Foodland and FreshCo. Like Loblaw, Empire also packed its real estate into a REIT back in 2006 and did an IPO maintaining a 42.5% equity stake. In addition, the company has a 40.7% stake in a residential real estate developer. The real estate holdings may serve to provide some additional protection against inflation.

Slow and steady

In addition to gold, many investors head for other hard assets as protection against inflation. This could include a variety of commodities such as energy, agriculture, metals and even slow growing timber. Over time timber has proven to be an inflation resilient investment. Although finding timberland ownership opportunities through stocks can be a challenge and is made more difficult by most Canadian forests being publically owned.

Acadian Timber Corp. ([TSX: ADN](#)) may present investors the opportunity to invest alongside a company with 1.1 million acres of freehold timberlands in Eastern Canada and the Northeastern United States. In addition, the company provides management services for another 1.3 million acres in the same geographic area.

Recent statements regarding the broadening of its acquisition strategy to expand outside of its current geographic area only added to my interest. According to the company, a major part of this strategy will include opportunities sponsored by **Brookfield Asset Management Inc.** ([TSX: BAM.A](#)). Brookfield is a global alternative asset manager. Among Brookfield's many investments are timberlands, agrilands, energy and real estate making the stock a worthy of consideration as an inflation fighting investment.

A diversified approach

There are many other hard assets that can be a good hedge for inflation. Looking for opportunities that give you diversified exposure to these commodities is a way to help alleviate some risk associated with a single asset. **Sprott Resource Corp.** ([TSX: SCP](#)) may be a good alternative. In a recent [article](#) , I wrote about Sprott and how management's decision to suddenly cut its dividend may have created an opening for value investors. The stock was hammered after the cut and now appears to be an opportunity buy agricultural, energy and gold assets at a discount.

Currently the value of Sprott is determined by its energy and gold holdings. The stock took a major hit due to the elimination of the dividend, but the weakness in gold has also helped keep pressure on the shares. The stock now trades at a valuation equal to its holdings in **Long Run Exploration** ([TSX: LRE](#)), gold and cash giving investors the remaining assets for free.

Final thoughts

As hard as the central banks try to fight the natural ebb and flow of the markets, business cycles come and go and so does inflation. Central banks have been bending over backwards to pat themselves on the back for having such great control over inflation. However, a lack of demand for goods is the more

powerful force that has kept inflation at bay.

When demand returns, so will inflation. If the experts are correct and the economy is indeed improving, inflationary pressures will soon follow and with significant easing by central banks around the world in an attempt generate demand, investors should be prepared for these pressures to be extreme.

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Fool contributor Alex Gray owns shares of Sprott Resource Corp. The Motley Fool has no positions in the stocks mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ADN (Acadian Timber Corp.)
2. TSX:BN (Brookfield)
3. TSX:EMP.A (Empire Company Limited)
4. TSX:L (Loblaw Companies Limited)

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