Warren Buffett Advice: Inflation Could Hit TFSA Savers Hard — Here's What to Do

Description

TFSA savers have a lot to lose by sitting around on the sidelines, as they witness **TSX Index** continue its march towards pre-pandemic highs. Sure, the COVID-19 pandemic has decimated the world economy, and it could get a whole lot worse, so it may be smart to have some dry powder on the sidelines.

Given the unprecedented monetary stimulus to combat this COVID-19 crisis, however, investors need to be wary of the rising threat of inflation, which could erode the purchasing power of cash over time. It's smart to have *some* cash on the sidelines. But as someone wise once said, too much of a good thing may end up being a bad thing.

And in the case of TFSA savers waiting around for the perfect time to get into the stock market, there are real risks to being a wallflower, even though it may seem like hoarding cash in savings is only prudent given we're in the midst of one of the worst socio-economic disasters in decades.

Warren Buffett goes for gold: Barrick Gold

If you're like Warren Buffett and want to play it cautious but also want to combat the insidious effects of inflation, you may want to consider following the man into his latest bet **Barrick Gold** (TSX:ABX)(NYSE:GOLD).

Buffett has never been a huge fan of gold, slamming it as an unproductive asset many times in the past. However, given today's unprecedented market environment (rock-bottom bond yields and the rising threat of inflation), gold as an investment finally makes sense, even for gold critics of yesteryear.

With near-zero interest rates that could be on the cusp of going negative, and the magnitude of unprecedented monetary stimulus, investors need to mindful of their cash holdings and exposure to risk-free assets. In this market environment, risk-free assets have arguably never been this unrewarding or unattractive. In the case of risk-free assets, they may not be so free from risk given near-zero interest rates and the rising threat of inflation.

As I've mentioned in prior pieces, the stock market isn't as expensive as it may seem, given the type of market environment we currently find ourselves in. As such, TFSA investors should shed their fear of the "froth" on the broader equity markets, even if they're scarred over the events that unfolded earlier this year. They should also consider gaining some gold exposure into their portfolios if their portfolio lacks a hedge against inflation.

Wait. Aren't gold prices unsustainable at nearly US$2,000?

Barrick is the gold standard as far as gold miners are concerned. The well-run firm stands to experience a surge in profitability numbers with gold prices near the US$2,000 mark.

The bear argument is that gold prices are unsustainable at these heights and that any profitability surge for miners will be short-lived. Also, investors could get crushed, as the shiny metal moves towards its mid-cycle prices just south of US$1,300.

While investors could take a hit to the chin if gold were to fall into a downcycle (it's a long way down to the low- and mid-cycle price!), investors need to realize that such cycles (whether up or down) could last for years, if not decades. In this unprecedented market environment, one could argue that gold could be poised to make an equally unprecedented run towards US$3,000 and stay at these heights for years if this pandemic continues to drag on for longer than expected.

Foolish takeaway

Trying to time commodity price moves is a fool's (that's a lower-case *f*) game. There are far too many variables, and one will almost always likely have their timing off by a long shot. Instead of timing the price of a commodity like gold, one should focus on the benefits it can provide given the market environment and conduct an analysis to determine if the historically above-average price of admission is worth the benefits.

Warren Buffett certainly seems to think the high price of admission into Barrick is worth paying, and I can't argue with him. Barrick is a buy for both its hedge against volatility and inflation. The growing dividend, which currently yields 1.1%, is just the cherry on top of the sundae.

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