Alternative Investment: 2 Stocks to Hedge Your Portfolio Against Inflation

Description

You think only stocks can make you a millionaire. Then why don't all millionaires put their wealth in stocks? The stock market is a conventional investment that is heavily regulated. There are some alternative investments, like gold, art, and real estate, that only millionaires can invest in. These forms of investments are exposed to scams, need expertise in that field, are illiquid, and need storage space. For instance, if you buy gold bullion, you need a safe vault to store your treasure, and you have to pay for its security. Is this headache worth the efforts?

How to get exposure to alternative investment through stocks

Do these alternative forms of investments give you enough returns? The answer is, it depends on the situation. These are universal forms of treasure that are of value anywhere you go. This wealth has aced the test of time and made its owners rich. This wealth is difficult to regulate and brings with it a heavy tax bill.

Alternative investments are unaffected by the economic situation. If these assets are hit by the crisis, they recover as demand returns. These alternative assets are like scarce commodities whose value rises along with time. Hence, they provide a hedge against inflation.

The finance market gives retail investors exposure to alternative investments through stocks, REITs, and commodity ETFs. These stock market instruments remove the risk of liquidity, scams, theft, and storage. But they give exposure to the price volatility of the underlying asset. The most decorated value investor, Warren Buffett, also gets exposure to alternative assets through these instruments.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) is not exactly an oil company, but it has North America's largest pipeline infrastructure, through which it transmits oil and natural gas. The nature of its business gives you indirect exposure to both oil and natural gas prices and regular income from infrastructure.

Pipelines are becoming scarce, as it is becoming increasingly difficult to build new ones due to environmental and regulatory concerns. A scarce resource with great utility only grows in value. This scarcity will make Enbridge's existing pipeline infrastructure more valuable, allowing it to charge higher rates for transmitting oil and natural gas. As the energy industry shifts to low-carbon energy, the company will modify its pipelines to transmit cleaner energy.

Unless a natural or man-made calamity destroys a significant portion of its pipelines, Enbridge will continue to pay a dividend in all types of economic crisis. It revises its transmission fee regularly and transfers the benefit by increasing dividend at a compounded annual growth rate (CAGR) of 10% for 26 years. This incremental dividend acts as a hedge against inflation, which is around 2% on average. It also gives you real returns.

SmartCentres REIT

While oil is suffering from the energy industry's transition to renewable, real estate is suffering from the transition to remote working and online shopping. But the real estate market will return to its glory once the crisis phases out. Consider the 2009 housing bubble. At that time, U.S. house prices crashed but surged over the 2020 decade. Those who invested in real estate during the crash enjoyed significant returns.

SmartCentres REIT (TSX:SRU.UN) is Canada's largest retail REIT. The retail sector took a hit due to e-commerce, but now the REIT is expanding into residential and office buildings. It commercializes the whole landlord and tenant business model. It earns money from the rent and strives to keep its occupancy ratio high so that all its properties bring cash flows. Hence, it develops most of its projects in metro cities where the place is scarce and property rates are high.

Regular rents have helped SmartCentres increase its dividend at an average rate of 2.9% between 2014 and 2019. But it was only last year that it retained its dividend per share while other REITs cut their dividends. Around 3% dividend growth provides an inflation hedge and brings regular income. And the stock price surges as the economy revives.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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