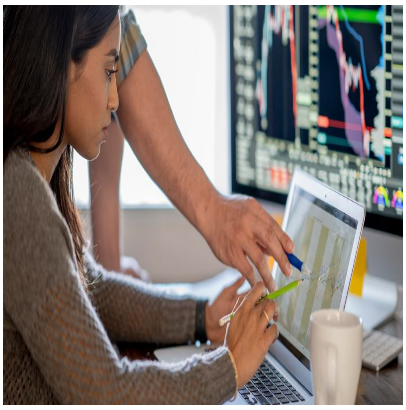

Beginners: How to Invest As Inflation Rears its Ugly Head

Description

Inflation jitters have been gripped the broader markets of late, with many of the top-performing Canadian growth stocks of 2020 now feeling the pain. If you're one of many beginner Tax-Free Savings Account (TFSA) investors who have been borrowing money to invest in the hottest stocks that only seemed to go up, you got hurt by an unforgiving Mr. Market who's since turned his back against tech and growth stocks. Call it a trap set by Mr. Market, if you will.

While the coronavirus crisis has profoundly accelerated the adoption of next-generation technologies, the growth- and tech-heavy **Nasdaq 100** couldn't climb forever.

Eventually, a majority of the unprofitable, high-multiple growth stocks saw their market prices surge above and beyond their intrinsic value, and with that came a vicious sell-off that would have mostly been avoided with a properly diversified portfolio of securities. For most of last year and the start of 2021, growth was in and value was out. Now, the tables have turned thanks to the return of +2% inflation in Canada and the U.S.

Expect inflation woes to remain

The Fed argues that such inflation is transitory, and many pundits agree. But what is the market all jittery about? The action in the bond market (bonds plunged as their yields ascended) seems to suggest that there's a chance the Fed could be wrong. Only time will tell if this recent spike in inflation is temporary in nature.

Regardless, investors shouldn't speculate as to when the Fed or the Bank of Canada (BoC) will hike rates. Instead, investors need to be ready to roll with the punches. There's no sense in timing interest rates, the bond market, or trying to predict what Fed chairman Jerome Powell is up to. One must position their portfolios so as to remain resilient in any environment. Inflation, reflation, disinflation, or deflation, it really doesn't matter. Portfolios should be ready to endure any such environment, favourable or otherwise.

A wake-up call for beginners

For the many beginners who heavily weighted themselves in growth, that means learning from your mistakes and bringing your portfolio back into balance with value, dividend-paying names that will fare better in an inflationary environment. Remember, growth suffers as inflation surges. The higher the growth and the farther you have to look into the future to gain a glimpse of profitability prospects, the riskier a name will be.

So, if your portfolio is down by high double-digit percentage points while the **TSX Index** is within 1% of all-time highs, it's time to make the adjustments if the pain is too much for you to handle. On the flip side, if you're like ARK Invest's Cathie Wood, it may make sense to double down on the hardest-hit names at lower prices. That said, a vast majority of investors, I believe, aren't well equipped to handle a 30%, 50%, or even 70% decline.

How to combat inflation volatility?

As such, it's a wiser idea to bring your portfolio in a position such that you'll be comfortable with the volatility brought forth by any future inflation surprises. That means rotation into high-quality, dividend-paying bond proxies like **Fortis** or **Emera**, which can help your portfolio remain a steady ship in any inflation-induced typhoon.

Their growing dividends and low correlation to the broader markets will help you stay afloat as most other growth-heavy investors sink. Sure, you won't punch your ticket to a quick gain with such names, but at the very least, you won't be in a spot to give up on investing.

The bottom line

For beginners, it's about staying invested for the long term and not chasing returns that could result in potentially irrecoverable losses. Remember, great investors seek to maximize their returns relative to the risks taken on. Maximize your risk/reward, not just your prospective rewards, and you'll do very well over time.

Stay Foolish, my friends.

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