High Inflation: Avoid Doing These 2 Things With Your Money

Description

We could be in for a period of high inflation. If so, you will want to avoid doing these two things when investing. First, you'll want to avoid fixed-income investments. Second, you'll want to avoid investing in high-yield stocks with low growth.

At the end of the day, you want your money to be stored in assets that grow faster than the consumer price index growth and will help you more than maintain your purchasing power.

High inflation: Avoid fixed-income investments

In a high-inflation environment, you'll want to avoid fixed-income investments, especially those that lock your money in for a long time at low interest rates.

As inflation is higher than normal, central banks are expected to raise interest rates at an above-average rate — that is, greater than 2%. So, it's best to avoid locking in your money in five-year GICs, for example.

The best five-year GIC rate is 2.2%. As interest rates rise, locking money for a 2.2% interest is not going to maintain your purchasing power, because inflation will exceed that rate for the time being.

Some institutional money is even going as far as shorting something like the **iShares 20+ Year Treasury Bond ETF** by buying put options, as pundits expect long-term treasury bonds to fall from rising interest rates.

You might also instead place some money in short-term GICs to wait for better investment opportunities. Currently, the best one-month GIC pays an interest rate of 1.25%.

Notably, interest rates are calculated on an annualized basis. That is, if you recurrently put $1,000 in a one-month GIC for a rate of 1.25% for a year, you'll end up with $12.50 of interest in a year.

Rising inflation: Avoid high-yield dividend stocks

In an environment with high inflation, you'll want to avoid investing in high-yield stocks with low growth, especially if they're trading at high valuations.

High interest rates will make high-yield dividend stocks less attractive, especially if the dividend stocks are fully valued like **BCE** (TSX:BCE)(NYSE:BCE).

BCE is a well-loved Canadian Dividend Aristocrat. However, its 12-year track record of dividend increases isn't going to prevent the market from selling it off when interest rates reach a threshold.

That's why high-yield dividend stocks like BCE are sometimes referred to as bond proxies. Some investors would rather put their money in lower-risk bonds than higher-risk stocks like BCE when the former become attractively priced and provide sufficient income.

At $59.71 per share, BCE stock provides a 5.86% yield on an annualized payout of $3.50 per share. There's essentially no margin of safety for the high-yield stock, as its 12-month consensus price target is $60.39.

New money is better off waiting for a pullback on the stock at least to the $55 per share level. Rising interest rates might just give you that buying-the-dip opportunity real soon!

The Foolish takeaway

In today's high-inflation environment, it's risky to place money in long-term, fixed-income investments and expensive high-yield dividend stocks. So, avoid putting new money in these areas.

If you don't know where to invest, you're better off holding a bigger cash position and waiting for a market correction.

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Date
2025/07/28
Date Created
2021/05/24
Author
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