Inflation Is Out of Control: Here's How to Protect Your Money

Description

Inflation is quickly spiralling out of control in Canada and the United States. As of the most recent reports, U.S. inflation was at 5.4%. Canada's inflation report is set to be released today and the rate is likely to be similarly high. It's pretty scary stuff. When prices go up, your real wealth declines.

Generally, salaries go up with inflation, but that's not guaranteed to be the case for every single job. If your employer doesn't hike your wages, then inflation means you're getting poorer.

These are just facts of life. The economy is coming back to life after the COVID-19 recession, and spending is increasing, sending aggregate demand higher. The end result is that you will see higher prices at stores. While it might not be the most pleasant reality, there are ways to fight against it. In this article, I'll explore three ways to protect your money against the effects of inflation.

Buy a home

Buying a home almost always requires heavy borrowing. The average Canadian house costs $688,888, while the average Canadian worker makes only a small fraction of that. So when you buy a house, you have to borrow.

As it turns out, that's actually a positive in times of inflation. When prices and wages are rising, the real value of a loan decreases. If your salary rises with inflation then you'll find your $600,000 mortgage starts to seem smaller and smaller over time. Additionally, Canadian house prices are going up faster than the CPI, so the asset itself can serve as an excellent hedge against inflation.

Stocks that benefit from inflation

Another option for fighting inflation is to invest in stocks that benefit from it. Namely, retailers and energy stocks. Retailers are the companies hiking prices, so they should at least break even in real terms. Energy companies can actively make more money in a high inflation environment if oil pricesare among the things contributing to inflation.

For retail, you might want to look at e-commerce stocks like **Shopify** (TSX:SHOP)(NYSE:SHOP). Shopify isn't strictly a retailer, but it makes money off its online retailer clients. Companies like this earn greater fees when their vendors hike prices, but unlike the vendors themselves, they don't share in the higher costs for raw materials.

Shopify released its earnings this past Wednesday and they were absolutely phenomenal. GAAP earnings were up 2,300%, adjusted earnings up 119%, and revenue up 57%. These are the kind of results that keep inflation at bay.

For energy stocks, you want to look at fully integrated companies like **Suncor Energy** (TSX:SU)(NYSE:SU). These companies run the entire energy operation from extraction to sale. That means they directly profit from higher oil. This is in contrast to midstream companies, which charge transportation fees that don't necessarily go up with the price of oil. Suncor operates gas stations, so it directly makes money off higher gasoline prices–a huge component of this year's inflation.

The effect was observed in the first quarter when Suncor posted positive growth in revenue, earnings, and cash flow. In the prior year, when oil prices were low, the company's earnings were negative. So this is one company that could genuinely profit in real terms due to inflation.

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