



## 2 Alternative Investment ETFs to Hedge Your Portfolio Against Inflation

### Description

An alternative investment is a whole new asset class different from stocks, bonds, and cash. Some popular forms of alternative investments are real estate, precious metals, futures contracts. Recently, Bitcoin (digital gold) has also joined the bandwagon. These asset classes generally give returns in the long term. Every asset class is different from the other, and they have proven to do well when the conventional stocks and bonds don't perform. You can invest in them to hedge your portfolio against inflation and from a downside from stocks and bonds.

### A safer way to invest in the alternative asset class

The problem with alternative investments is you need a boat-load of money to buy them. You need thousands of dollars to buy a property, Bitcoin or gold. These assets generally derive their value over time as they are limited in supply. I won't talk about Bitcoin at the moment as there are other concerns with this asset class. But other asset classes rise with inflation as the price of oil and real estate rise.

Storing gold and oil is another headache as it involves cost. A better and safer way to get exposure to alternative assets is through exchange-traded funds, or [ETFs](#). The ETF buys these assets and stores them, giving you exposure to the price fluctuation for as little as \$50 per unit. Like a stock, you can buy and sell an ETF on the stock exchange.

### REIT ETFs

The best alternative investment is real estate. Most people spend their life savings on buying a house. Imagine if you could get exposure to hot properties in prime areas. The rental income of these properties increases every year. You can get exposure to properties through REITs. But there are different types of REIT like retail, residential, office, hospital, and industrial, and each REIT performs differently in different scenarios. Take the pandemic, for instance. The [healthcare REIT](#) fared well while retail REIT took a hit.

The **Vanguard FTSE Canadian Capped REIT Index ETF** ([TSX:VRE](#)) invests in 15 REITs, giving you exposure to all types of real estate. The ETF dipped 38% in March and April 2020 but has now returned to the pre-pandemic level.

The ETF charges an annual management expense ratio (MER) of 0.38%, which is more than offset by its 3.05% dividend yield. As I said before, alternative investments don't give strong returns in the short term; the ETF surged only 46% in seven years between February 2013 and February 2020. But the REIT recovered from the pandemic dip by rising ~60% in 15 months. Hence, when the conventional instruments dip the alternative asset class serve as a hedge.

## The oil ETF

The next interesting alternative investment is precious metals and commodities. There are many supporters of gold, but I am not quite bullish on the yellow metal. Gold does not have much utility, and with [fiat currency](#), the gold price declined even when inflation surged.

A better investment would be oil, as it has immense utility. The oil I am talking about is Brent crude used to make several petroleum products from jet fuel to plastic. Oil is not an environment-friendly commodity, but it *is* a necessity. Companies and economies are looking for ways to replace oil with a greener source, but that shift could take years. The oil price will continue to rise and fall depending on demand and supply and the rising inflation.

You can't just go and buy Brent crude. Almost all oil trade happens on the derivatives market. The **Horizons Crude Oil ETF** invests in the December forward contract, the most liquid contract throughout the year. Moreover, the ETF rolls over its contract once a year in June. By keeping the buying and selling of such contracts to a minimum, it reduces cost.

The ETF charges an annual MER of 0.88%. After the 2014 oil crisis, the ETF actually dipped 6% between January 2015 and 2020. But the oil prices saw a dip and recovery during the pandemic, and the ETF surged ~70% in the recovery rally that began in November 2020. If you are bullish on oil prices, this ETF is a safe way to gain exposure.

### CATEGORY

1. Investing
2. Personal Finance

### TICKERS GLOBAL

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## Author

pujatayal

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