Rising Inflation: 3 Ways You Could Profit

Description

These days, everywhere you turn you see the effects of rising inflation. Food prices at the grocer? Higher. Gas prices at the pump? Higher. Housing prices? You guessed it. *Astronomically* higher.

While the Bank of Canada is confident inflation rates will stabilize in the middle of next year, savvy Canadians might be wondering — is there a way to profit from inflation?

Yes, actually, there are numerous ways to turn a profit off rising inflation rates. Inflation may be a major bummer to most people, but if you capitalize on these opportunities, you could turn inflation into a side hustle.

1. Real estate

Historically, houses have been one of the best ways to profit off inflation. For one, inflation feeds directly into your home's equity. As manufacturing prices rise with inflation — timber, drywall, cabinets, appliances — the cost of houses will naturally rise, too. And as the cost of houses continues to rise, well, you guessed it — yours will likely become more valuable, too.

Better yet is to own rental property and rent out apartments to tenants. Like houses, apartment complexes and property tend to increase in inflationary periods. As the property rises in value, so does the rent, which could mean more profit for you.

If you'd rather not deal with cantankerous tenants (come on, it's not always flowers and roses), you could still profit from real estate by investing in a Real Estate Investment Trust (REIT). A REIT is simply a real estate company that uses investors' dollars to fund their real estate endeavors. As an owner of REIT shares, you can earn some impressive gains when a real estate company does well. And if it's doing well during inflationary periods, which historically they have, you could very well profit from the rise of property costs.

Other forms of real estate investing that could help you profit from inflation include vacation rentals, commercial property leasing, and even house flipping.

2. Buy collectibles

Okay, okay, I need to clarify here. By collectibles, I'm not suggesting you buy Pokemon cards or Pop! figures. Rather, I'm suggesting you consider a class of securities that are often overlooked: alternative investments.

An alternative investment is pretty much anything that's not stocks, bonds, or cash. It can include tangible assets, such as paintings, rare coins, stamps, or bottles of wine. Or it could include those assets that aren't tangible, such as hedge funds or certain commodities like gold and steel.

Like real estate, the value of alternative investments tends to rise with inflation. All you have to do is look at how much commodities have climbed over the years (by some estimates, a bottle of wine in 2021 is 316% more expensive than the same bottle sold in 1963) to understand how collectibles can help you profit from rising rates.

Of course, collectibles come with their own baggage of problems. For one, to realize the gain on inflation, you have to actually *sell* your collectibles. For some alternatives, such as a Flowing Hair Silver Dollar or a Picasso, that won't be a problem, while others may require more work.

3. Invest in cryptocurrency

Finally, another potential hedge against inflation is cryptocurrency. Like gold and other commodities, cryptocurrency is finite. If inflation continues to rise, the government could choose to print more Canadian dollars, which would ultimately lower its value. But with crypto, the government can't just make more coins. Crypto has a limited supply, which protects its value from rising prices.

Now, of course, there's been quite a lot of controversy over crypto's supposed inflation hedge. Many people have rightfully pointed out that crypto is far too volatile right now to be considered a proper hedge. In the long run, however, crypto could reach a point where, like gold, its value could help investors in particularly heavy inflationary periods.

Should you worry about inflation?

In general, yes, you should certainly create a strategy that will help your investments, whether in stocks or alternatives, outpace the rate of inflation. But if you're worried about the "raging" or "high" inflation based on what we've seen in 2021, here's my take: don't push the panic button just yet.

While inflation has been particularly high this year, most of that can be attributed to pandemic-induced supply shortages. When the world shut down last year, it disrupted our supply chains. According to the laws of supply and demand, when supply goes down, prices go up.

It’s not a bad idea to start adding “inflation-proof” investments into your portfolio, such as the three I touched on here. But I’d wait another year or so before I freak out over hyperinflation.

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