



3 Ways the Stock Market Can Help You Fight Inflation

Description

The cost of living is a hot topic across the world right now. Canada's inflation rate spiked up to 4.1% — an 18-year high. Some are concerned that the rate could climb much higher and stay stubbornly high for the near term.

That's bad for investors. [Inflation](#) is, after all, an invisible tax on wealth. If your portfolio delivers a 5% return this year but inflation is 4%, your real purchasing power has only increased by 1%.

However, there are ways you can counteract this effect. Here are three ways the stock market can help you fight inflation throughout the rest of 2021 and into 2022.

Tangible exposure

Inflation is a surge in money supply that pushes up demand while the supply of physical products lags behind. In other words, it makes real products and tangible property more valuable.

That's why investors have relied on gold, real estate, and raw materials as a hedge against inflation. This year, the value of raw materials such as crude oil, coal, coffee, and timber have all reached record highs. That means commodity mining companies listed on the stock market are a good target for investors.

However, real estate is a more convenient alternative. The value of office units and condos rise alongside inflation. In fact, Canadian real estate has outperformed inflation by a wide margin over the past decade. In some ways, it's "better than gold."

A robust Canadian real estate investment trust like **RioCan REIT** ([TSX:REI.UN](#)) could be an ideal inflation hedge for the years ahead.

Inflation winners

Some companies listed on the stock market *benefit from inflation*. In other words, they transmit higher prices. **Nuvei** ([TSX:NVEI](#)) is a great example. The payment processor should see a surge in transaction volume if all the merchants on its network raise prices for goods and services in the months ahead.

Meanwhile, the company is also aggressively expanding. Nuvei stock is up 128.6% year to date — many orders of magnitude greater than the 4% rate of inflation we now face.

Stock market growth stars

As described above, growth can “beat” inflation. If your wealth is up 100% in a year, you don’t mind inflation that exceeds even 5% or 10%.

A robust growth stock can cover inflation worth several decades. **Constellation Software** ([TSX:CSU](#)) is an excellent example. The stock is up 145% from January 2019 — a compounded annual growth rate of 56.5%. That’s the equivalent of more than a decade’s worth of inflation at the current pace of 4%.

Constellation is still a reliable growth star. The company has recently reduced its dividend payout to divert capital to new acquisition targets. Management has said they could buy companies beyond their traditional universe of niche software.

Investors who focus on growth at a reasonable price can ignore inflation, because the stock market helps their wealth grow faster than the cost of living. For most investors, I believe this could be the best long-term strategy.

CATEGORY

1. Investing

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1. Editor's Choice

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2. TSX:NVEI (Nuvei Corporation)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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