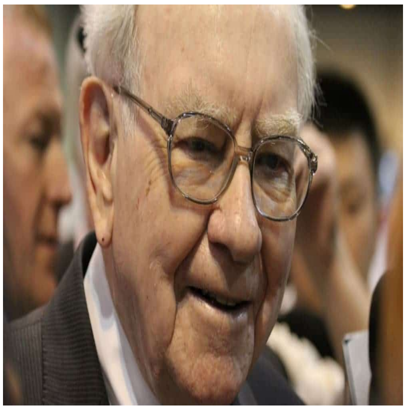

3 Tips From Warren Buffett on How to Fight Inflation

Description

When Warren Buffett talks, we can't help but listen. And when it comes to inflation, Buffett doesn't disappoint. The Oracle of Omaha has called inflation a gigantic "tapeworm" that eats at your investments' return. Inflation is a "tax on capital" and resembles the "upside down world of *Alice in Wonderland*." And my favourite: "The average tax-paying investor is now running up a down escalator whose pace has accelerated to the point where his upward progress is nil."

Tapeworms, taxes, the looking glass, escalators: Buffett definitely has some colourful imagery for what inflation *is.* But what does he say about *fighting* it? Here are three tips from Buffett and his friends at **Berkshire Hathaway** about how we can keep inflation at bay.

1. Invest in companies that are *positively* affected by inflation

While inflation has a fairly negative impact on consumers, it can have the opposite effect on certain businesses. Buffett calls this "pricing power." When a business can raise its prices without losing customers to competition, it has a high pricing power. Without that power, inflation would hurt a business rather than help it.

When a business can increase its prices without losing customers, it can cover its *own* rising costs. Otherwise, it would lose money, thus devaluing its underlying stock.

2. Cut back on your "wants"

Warren Buffett lives a notoriously simple life. The Oracle of Omaha has lived in the same house since 1958, he didn't own a smartphone until recently, and he still coupons to buy food — at **McDonald's**.

So, it's no surprise that Buffett's long-time business partner and vice chairman of Berkshire Hathaway Charlie Munger has taken a cue from Buffett and said this about inflation: "One of the great defenses to being worried about inflation is not having a lot of silly needs in your life."

Those are tall words from one of North America’s billionaires. But it’s true, right? If you want to beat out inflation, then perhaps the best place to start is your budget. Many of us still spend gobs of money on discretionary expenses (those purchases that aren’t necessary), even when inflation is pushing their prices even higher. While you don’t have to be a Scrooge about your budget, maybe now is the time to practice delayed gratification and say “no” to things you don’t need.

3. Be great at what you do

Most of us are so focused on how inflation affects prices, we often overlook how it could affect *us,* our wages, salaries, and paycheques. To this point, Buffett has given some solid advice.

“If you’re the best teacher, if you’re the best surgeon, if you’re the best lawyer, you will get your share of the national economic pie regardless of the value of whatever the currency may be,” Buffett said in 2009.

So, while you can’t control where prices will go, whether they jump up or down, you can control your own education and professional development. Perhaps now is the time to consider how you can make yourself more valuable to your employer and how you can make yourself the best at what you do.

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