How to Always Grow Your Money Faster Than Inflation

Description

Our central bank, the Bank of Canada, explains inflation as "…the rate of change of consumer prices as reflected in the consumer price index (CPI)." The bank goes on to say, "The CPI is the most relevant measure of the cost of living for most Canadians because it is made up of goods and services that Canadians typically buy, such as food, housing, transportation, furniture, clothing, recreation, and other items." According to *Trading Economics*, housing, transportation, and food are the most important categories in Canada. They make up 27.5%, 19.3%, and 16.1% of our CPI basket, respectively.

The Bank of Canada aims to keep inflation between 1-3% with a long-term target at the midpoint of 2% to reduce uncertainties for businesses and people. However, it's a complicated matter and it doesn't always work out. *Statistics Canada* reported that the inflation has been above 3% since April 2021 with September seeing inflation at 4.4% on a year-over-year basis.

The Bank of Canada recorded an extreme inflation rate of 14% and nearly 13% in 1973 and 1979, respectively! Let's hope we don't return to those days of high inflation. Canadians shouldn't have to worry about inflation and their cost of living inching higher and higher and potentially out of control.

Low interest rates prevent your money from beating inflation

Risk-averse Canadians could embrace GICs if the inflation rate was at about 2%. Under today's relatively high inflation environment, low-interest rates from GICs no longer suffice to keep up with inflation. The best five-year GIC rate stands at 2.5% currently, which is not enough to help conservative Canadian investors maintain purchasing power.

Bond prices move with changes in interest rates. Government bonds typically provide lower yields than corporate bonds because the former are perceived as lower-risk investments. Currently, the five-year benchmark government bond yields almost 1.5%. Again, this is a far cry from today's inflation rate. Corporate bond yields vary depending on the length of time to maturity and the financial strength and quality of the underlying companies. The longer until maturity, the higher the yield.

Always grow your money faster than inflation

In order to beat inflation, Canadians are then pushed toward higher-risk investments like stocks. Thankfully, you can choose to invest in defensive dividend stocks. For example, right off the bat, you can enjoy a yield of about 4.8% from **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN). On Thursday, the regulated utility and renewable power company just reported solid results for its third quarter. Its revenue jumped 40% and its adjusted EBITDA soared 27% year over year.

Not only does Algonquin's juicy yield immediately help its shareholders to beat inflation, but its stable growth profile will also allow it to do so with flying colours! This year, it's on track to complete a US$4-billion capital program, which should drive meaningful growth, given its total assets of US$13.2 billion at the end of 2020. Over the last decade, Algonquin has increased its dividend at a compound annual growth rate of 10%! Its five-year capital plan and the recent acquisition of Kentucky Power are setting up to support industry-beating dividend growth.

With easy access to online brokerages, Canadians can always grow their money faster with a crafted, diversified dividend stock portfolio.

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