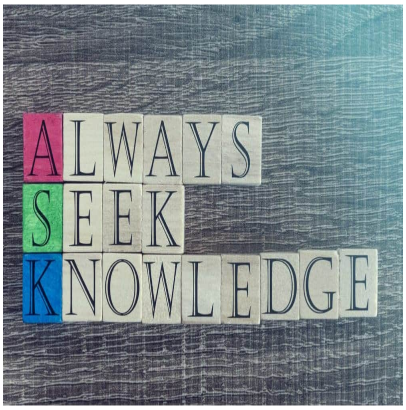

Inflationphobia: How to Avoid Overreacting to High Inflation (and Possibly Wasting a Lot of Money!)

Description

For the seventh month in a row, inflation has been above the Bank of Canada's 1% to 3% target rate. And, aside from June, in which the rate dropped from 3.6% in May to 3.1%, every month has seen a slight rise:

- January: 1%
- February: 1.1%
- March: 2.2%
- April: 3.4%
- May: 3.6%
- June: 3.1%
- July: 3.7%
- August: 4.1%
- September: 4.4%
- October: 4.7%

Not surprisingly, Canadians are panicking over inflation. In fact, according to a CIBC study, for every 10 Canadians in a room, six are worrying over inflation rates. It's not hard to see why: grocery bills are higher, gas per litre is breaking historic rates, and even plastic bags are becoming a luxury for shoppers.

While some reactions to inflation are completely justifiable (like adjusting your budget to account for rising grocery bills), others are just panic-induced. If you're feeling more jittery this holiday season, here are four ways not to overreact.

1. Don't drastically change your investing approach

You should always aim to build a well-diversified investment portfolio, heavy inflation or not. That means allocating an appropriate amount to stocks, bonds, commodities, and, yes, even cryptocurrency.

But heavy inflation doesn't mean you should sell your stocks in favour of traditional "inflation hedges," like gold. While gold can help balance out your portfolio, investing too much in the yellow metal can cause you to miss out on the upsides of more lucrative securities, like stocks and funds.

As a long-term investor, try not to overreact to market news and change your investing strategy. Put some money aside for inflation-proof assets, sure, but don't be afraid to invest in stocks, if that's your approach.

Some stocks, in fact, benefit highly from inflation. For instance, bank stocks, utility stocks, and certain tech stocks will gain value as inflation goes up. Be sure to add these winners to your portfolio, as they could help you with future inflationary periods, too.

2. Stock up on gas

By now, you've probably noticed that gas prices aren't going down anytime soon. In fact, they seem to climb upward by the day.

One approach is to buy gas at today's rates and hoard it. Seems logical, right? After all, gasoline can last three to six months in a properly stored container. Why not lock in today's prices and store gas in a safe place?

In general, stocking up on gas isn't a smart idea. For one, it's dangerous to store high quantities of gas in a closed area. Not only that but you don't know how old the gas is when it enters your jerry can. It could have already aged by several months, making it more likely to be degraded by the time you use it.

In addition, if everyone were to panic-buy gasoline "American-style," we would only exasperate supply lines further, causing gas prices to rise even more.

A better approach is to use a rewards card or cash-back credit card on your fuel purchases. Some cards will earn you a substantive amount back, like 2% or 3%. You can even double-dip your credit card rewards with a gas rewards program, earning double the points.

3. Don't invest your emergency fund

Finally, if you have an emergency fund, don't feel pressured to invest it or lock it away in a GIC. While, yes, inflation might hurt the power of your emergency fund's dollars, that doesn't mean you have to risk it for a higher rate of return.

If you want your emergency fund to keep pace with inflation, you could add money to it. But don't put your emergency in stocks or funds. Losing money to investments is far worse than losing purchasing power under inflation.

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