Retirees: 2 Ways to Beat Inflation This Year

Description

There's no question that it's hard to beat such high levels of inflation, but it is possible. Most notably, high-yield stocks with reasonable multiples are an intriguing place to hide. That said, retirees shouldn't feel the need to boost their risk tolerances drastically. In this piece, we'll look at two passive options to diversify one's portfolio into fairly conservative investments that can provide some protection from broader market volatility alongside passive income that can help one stay ahead of inflation or, at the very least, minimize the blow.

I have no idea where inflation is headed this year. Could it peak? Sure, but it could also stick around, especially if Omicron or some other COVID variant of concern causes the Fed to take a dovish step backward. Still, hyperinflation is highly unlikely. So, don't feel the need to panic. Rather, insist on getting paid a nice dividend or distribution for your time invested in a stock or fund.

In this piece, we'll look at **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC) and **SPDR Gold Trust** (NYSEARCA:GLD) — two ways to keep your portfolio's defences up once inflation is ready to strike once again in 2022.

The ZWC

The ZWC is arguably one of the most intriguing retiree-friendly options in the ETF space today. It offers a jaw-dropping yield of 6.3% at writing. And yes, it's a safe payout. The fund's objective is not only to have high yielders, but high yielders with secure and growthy dividends. Further, value traps with sky-high payouts are excluded. The ETF has a good mix of the large-cap Canadian stocks we all know and love, ranging across sectors. Financials, energy (especially pipelines), and telecom make a decent chunk of the pie.

Though the 0.72% MER is a tad on the high side for an ETF, I find the fee to be worthwhile, given management is also writing covered-call options against names owned in the fund. By doing such, the fund is able to pay a larger distribution from the premium income gained from the writing of such options. Still, covered calls are no free lunch. Premium income comes at the cost of capital upside. And the higher fee reflects the extra labour involved in the writing of such covered calls. For retirees, the trade-off is worthwhile. Heck, the trade-off may be worthwhile for any investor, given the muted expectations for 2022 and the downside risks moving forward.

In a rocky environment, the ZWC is a brilliant way to take the value and high-yield side of the trade.

The GLD

Finally, we have the GLD, which is one of the most popular ways to expose yourself to the spot price of gold. Indeed, bullion and ETFs like GLD are far less volatile than both broader markets and the gold miners, making them intriguing options for retirees who want to fight off persistent inflation. The GLD is a U.S. ETF that I prefer over the Canadian ones, primarily due to its higher liquidity and its very reasonable MER of 0.4%.

As inflation spikes, gold could gain its lustre again. Indeed, 2022 could be the year that gold really shines. Although miners could have more upside, I'd argue that retirees can sleep easier at night knowing they're not in a play that's more leveraged to the spot price of a commodity. Indeed, leverage works both ways! And when playing it safe, it's best to play the less volatile asset in case your forecast doesn't go the way you're expecting. In any case, gold is a nice inflation fighter at a compelling entry point after a year of weak performance.

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