Inflation Have You Scared? Why You Should Invest Anyway

Description

Inflation continues to rise across the world, hitting 6.8% year over year in Canada during April. However, some economists wonder if this might be the peak, as inflation only rose from 6.7% the month before.

After soaring prices at grocery stores, gas stations, in real estate and everywhere else, it looks like there has been a bit of stability. While prices aren't bound to come down, it could mean people can breathe a collective sigh of relief.

That is, unless you're looking at the stock market.

Inflation and stock market relationship

When you don't have to worry about inflation, you collect more cash in your pocket. This means you have more money to spend, and that benefits the stock market in two ways. First, you have money to spend on unessential items. This leads to increased revenue and profits for companies. That increased profit leads to positive investor sentiments, which leads them to want to invest in those companies.

Then, with more cash on hand, you want to put money into the stock market because you simply can afford it. So, you put money on growth stocks, even if they're not profitable. You see, your shares go higher and higher, and even a loss or two isn't scary because you have cash on hand.

But when inflation rises, the reverse is true. Consumers hoard their cash and spend mainly on essentials. They start looking for cheaper options and can't spend like they used to. They also can't afford to invest as much since inflation has them needing their cash on hand.

But the main goal remains true

This can be a scary time, especially if you're thinking about investing. That being said, even with inflation at these heights, your long-term goals are likely still the same. You still want to save for retirement, your child's education, a new deck, or whatever it may be. But you maybe just can't afford to put as much aside.

First off, I mention a lot how 10% of each paycheque is a good place to start when putting cash aside for investing. If that's still true, great! If not, maybe dip down to 5%. Something is better than nothing, and it can give you a chance to get in on these great prices.

And prices are great

Shares on the **TSX** today still trade down 9%. That's 9% in returns you're likely to see back within the next year! Even if shares dip further, remember: you're investing long term. So, it's far better to invest now and see returns in the next year, than try to time a market dip, or worse miss out on the opportunity all together!

Now, I'm not saying to jump back on growth stocks. If you're nervous about inflation, you want something solid. That's why I would recommend companies that are sure to recover. This might include utility companies, such as **Canadian Utilities**. It has solid long-term contracts with natural gas companies as well as offering power through electricity. This also provides you with a way into clean energy growth, which will be coming down the line over the next decade, with a 4.41% dividend.

You can also stick to sure things like the Big Six banks. You can get into all of them by investing in the **BMO Covered Call Canadian Banks ETF**, which invests in them all, but with covered calls for superior returns. Plus, you get a nice 5.31% dividend yield on top!

Bottom line

Don't let fear get in the way of profits. These companies and more are still trading at valuable levels and offer dividends to boot. That way, you can still look forward to superior returns and passive income while you wait for an eventual rebound.

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