Canadians: 3 Ways to Help You Fight High Inflation

Description

According to Statistics Canada, inflation in April was 6.8% year over year, the largest increase since January 1991. The high inflation was partly triggered by supply chain issues that sparked from temporary economic shutdowns during the COVID-19 pandemic. The Bank of Canada and other central banks around the world are increasing the benchmark interest rates to combat inflation.

You can also help fight inflation via the following.

Reduce your wants

One quick and simple way to fight inflation is to cut your spending. We can't cut on essentials such as food, utilities, and housing. So, that only leave wants, including entertainment. Prioritize your wants to see if you can cut some of the items out. For example, instead of having two cups of **Starbucks** coffee a day, you may be able to survive on one. Instead of eating out every week, perhaps you can cut it down to once a month. Saving here and there can quickly add up to a respectable amount of savings each month for your needs.

Buy inflation-linked bonds

Qtrade explains that inflation-linked bonds "means the principal of the bond and interest payments rise with inflation, cushioning its impacts on your investment." By buying this type of bond, fixed-income investors can maintain their purchasing power.

Inflation-protected bonds are called Treasury Inflation-Protected Securities (or TIPS) in the United States. In Canada, they're called Real Return Bonds (or RRBs) and are issued by the central bank. Discuss with your financial advisor if these bonds are suitable for the fixed-income portion of your investment portfolio.

Invest in stocks

Long-term investors should consider buying common stocks and thereby owning pieces of great businesses to beat inflation. The average long-term stock market return is 7-10% per year.

Typically, you can increase the predictability of your returns by investing in higher-yield stocks that pay safe dividends. A big portion of the total returns come from the stable dividends. Utilities, telecoms, and banks are among these dividend stocks. They typically offer yields of 3-6% and are able to increase their dividends by about 5-7% annually in the long run.

Their steady earnings growth help investors fight inflation in two ways. First, it translates to dividend increases that are greater than the long-term rate of inflation. Second, the earnings growth also pushes their stock prices higher over time.

For instance, **Fortis** stock has delivered total returns of about 9.3% in the last 10 years. Similarly, **BCE** stock's rate of return was roughly 9.1% in the period. **Royal Bank of Canada** stock's total return was 12.5% annually in the decade.

You can potentially get higher returns via higher-growth stocks, including dividend-paying stocks that pay lower yields but have higher growth prospects. For example, **Brookfield Asset Management** yields about 1.2% but has delivered annualized returns of about 16.9% over the last 10 years. **Open Text** yields about 2.3% but total returns were 16.3%. **Stella-Jones** yields roughly 2.3% but total returns were 11.4%. This group's long-term average total returns beat the returns of the previous group, despite their stock prices declining meaningfully recently.

All stocks mentioned are Canadian Dividend Aristocrats that tend to increase their dividends every year. Online brokerages make it really easy and cheap for Canadian investors to invest in stocks. In fact, Wealthsimple and **National Bank of Canada** now offer commission-free trading! There's no more excuse not to buy stocks to beat inflation!

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