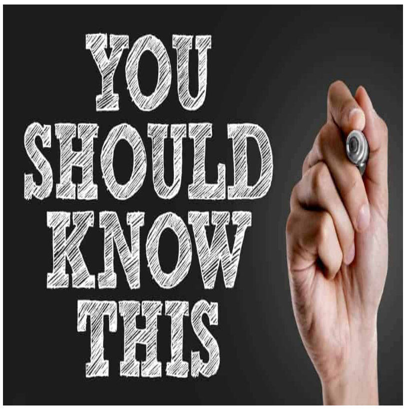

Scared of Inflation? Here's How to Make Your Money Go Further

Description

Canada's inflation rate is at its highest level in decades. In the most recent quarter, the consumer price index (CPI) rose 7.7% — the most since 1983. Many Canadians are understandably concerned. The inflation rate is way ahead of wage growth this year, and many can't keep up with rising costs. If you are one of them, it's only natural to feel a little stressed. However, you have options. There are proven ways to combat the effects of inflation, and, no, I don't mean just by cutting costs. Sure, it wouldn't hurt to save more, but there are ways to extend your existing savings further. In this article, I will explore three ways to combat inflation, without trimming your budget.

Saving idea #1: Pay off rewards credit cards every month

If you have a rewards credit card with cash back rewards, you should pay it off before your interest is due every month. That way, you pay no interest yet still collect rewards. I personally get about $20 a month in rewards on my credit card, yet I only rarely pay interest. Banks know that it's possible for consumers to avoid interest while collecting rewards, but they offer these cards anyway, knowing that most will spend more than they can afford to. As long as you don't overspend your income, you can get positive net benefits from rewards cards.

Saving idea #2: Invest for major purchases with GICs

If you're going to save for a major purchase like a car, you can consider putting the money in guaranteed investment certificates (GICs). GICs are low-risk investments that pay a bit of interest in the form of a maturity payback that's higher than what you invested. For most of the last decade, GICs have paid barely anything. But now, they can yield up to 4%. So, if you save your money in GICs instead of in savings accounts, you may have an easier time buying what you want.

Saving idea #3: Invest long term in index funds

Last but not least, we have the most important suggestion of all: invest your money!

By investing your long-term savings in stocks, you can grow them by a lot. Never mind 4% GIC interest; we're talking 10-20% in a good year.

Picking individual stocks is a complicated topic, but you can skip the complexity by investing in something much safer: *index funds.*

Index funds are diversified products that invest in the entire stock market. By spreading all of your eggs across multiple baskets, they reduce your risk.

Take **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC), for example. It holds 240 stocks, which reduces the risk of any one of them going to $0. It has a tiny 0.04% fee, so it keeps your costs low. It gives you a lot of exposure to energy and utilities, some of this year's best-performing sectors. Finally, it's highly liquid, so you can buy and sell it easily with minimal cost. Overall, it's a worthwhile investment that stands a fighting chance of keeping your savings ahead of inflation.

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