



How to Survive Inflation and High Interest Rates, Warren Buffett-Style

Description

Inflation and interest rates are the two big topics everybody is concerned about this year. Inflation is taking a bite out of everybody's purchasing power, high interest rates are making it even *more* expensive to borrow. Canadians are so concerned about these two issues that banks are starting to send them e-mails offering "inflation help."

If you're living paycheck to paycheck, then perhaps the banks' solutions will work for you. But if you have disposable income to invest, you might want to listen to somebody else: *Warren Buffett*.

[Warren Buffett](#) is generally regarded as the best investor of all time. Others have gotten higher returns than he has, but none have gotten comparable returns over such a long period of time. Warren Buffett has doubled the S&P 500's annual return over a 60-year time frame, his cumulative return is *185 times* higher than the index. If you're looking to *invest* for a period of high inflation, it pays to listen to what Buffett has to say. Here are two of his most important pieces of advice for investors wanting to beat inflation.

Keep cash on hand to invest

Warren Buffett is well known for keeping large amounts of cash and treasury bills on hand. He doesn't do this because he thinks treasuries are good investments — he has disparaged them many times. Rather, he does it because treasuries are liquid investments that can be sold easily, raising cash to buy stocks with later.

Buy stocks that can do well when inflation is high

As we've seen, Warren Buffett likes to keep cash around to invest. That's advice worth taking, but it's maybe a little obvious. What would be really powerful would be to know *what* Buffett buys when inflation is running hot.

This year, there's no question about what Buffett is buying: *oil stocks*. Buffett has acquired over 20% of **Occidental Petroleum**

already this year and is looking to add more. Recently, Buffett got permission from regulators to buy a full 50% of that company, so we could see a buyout in the future.

Another type of stock Warren Buffett has held in times of high inflation is banking stocks. **Bank of America** ([NYSE:BAC](#)) is currently the second-biggest holding in Buffett's stock portfolio. It's worth about 13% of the total portfolio, and it pays significant dividends.

Banks don't make money off inflation directly — in fact, old loans become less valuable when inflation goes up. They do, however, make money off central banks' efforts to combat inflation. When interest rates go up, banks pass on the cost to borrowers. As a result, they collect more interest on their loans. Bank of America demonstrates this phenomenon perfectly: in its [most recent quarter](#), its revenue increased 8%, and its net interest income grew 24%. The bank's net income declined, but that was only due to on-paper factors like provisions for credit losses (i.e., money set aside for potential defaults). Operating performance improved.

On the whole, it was a great quarter for BAC, and the release sent its stock soaring 6% in a single day after the results were published!

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