MarketWatch

U.S. rate of inflation hits a 31-year high. So we asked financial pros how to invest in periods of high inflation

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From the grocery store to the used car lot, prices are up — a lot. For months, the Federal Reserve tempered concerns about higher inflation by saying it would be “transitory,” but in October, the consumer price index jumped 6.2% from a year prior, the most since December 1990. Billionaire hedge-fund manager Paul Tudor Jones has called inflation the “biggest threat” to markets. The good news? How you invest may help protect you from inflation: “Over the course of the last 100-plus years, and arguably since the beginnings of market investing, there’s been no better hedge against inflation than owning stocks,” says Matt Schwartz, a certified financial planner with Great Waters Financial. While you may not be able to turn back the clock to invest in stocks earlier, there are steps you can take now if you’re worried about inflation. Here’s what to know.

You can’t escape inflation, but you can manage its impact

“Inflation is the tax that taxes everyone — wealthy and poor alike,” says Craig James Ferrantino, a certified financial fiduciary and founder of Craig James Financial. That said, there are assets that can benefit in a higher inflationary environment, and are worth considering if you’re worried about inflation:

- **Buy TIPS.** Short for Treasury Inflation-Protected Securities, these Treasury bonds protect against inflation because the principal amount increases with inflation. TIPS pay interest twice a year, and that rate is calculated on the principal amount — so investors will earn a higher effective interest rate during periods of rising inflation. A minimum of $100 is required to purchase TIPS, they are issued in 5-, 10- and 30-year durations and you can buy them directly from the federal government or through an online broker.
- **Invest in dividend stocks.** Another way to protect against higher inflation is to earn a steady cash flow by investing in stocks that pay attractive dividends. This income can help to offset some of the bite of inflation, and some companies pay dividends that can be several times higher than the yields on U.S. Treasury bonds.

Many people are fans of Warren Buffett and his value investing style, and this strategy is particularly popular amid rising inflation, Schwartz notes, adding that sectors like consumer staples may be attractive. “In inflationary periods, we want to look for companies that have the ability to pass on those costs to consumers and maybe don’t have as much impact on supply.”

Diversify your portfolio beyond stocks

A well-diversified portfolio that includes a mix of various assets is always a smart investment strategy, but could also offer some reassurance to investors worried about inflation. “Just having a diversified approach is so important,” Schwartz says.

Beyond stocks, there are two asset classes you may want to focus on:

- **Commodities.** Because inflation typically goes hand-in-hand with higher commodities prices, adding some money to this asset class can be a strategy to combat inflation, Schwartz notes. You can invest in commodities by buying futures contracts or exchange-traded funds (ETFs) that track a specific commodity, like gold.
- **Bonds.** The risk with traditional bonds during periods of high inflation is that your principal will be worth less when the bond matures. That’s why Ferrantino recommends opting for bonds with a short duration.

While the current backdrop of higher inflation may be causing you to reconsider some of your investment choices, it’s good practice to assess your strategy at least annually to ensure it aligns with your risk tolerance and goals. Many investors may opt to do nothing in the face of higher inflation.

“To a T, everyone who is a successful investor saves consistently over the course of their career, takes a diversified approach and lets their money compound,” Schwartz says.