

E1 Asset Management Says: 5 Investment Strategies to Protect Your Portfolio from Inflation

This article offers five investment strategies to protect your portfolio from inflation.

JERSEY CITY, NJ, UNITED STATES, November 15, 2021 /EINPresswire.com/ -- Higher inflation is typically bad for stock market returns. For example, from 1973 to 1981, inflation averaged more than nine percent a year - while stock returns fell around four percent each year, according to analysis from Morningstar. That means rising consumer prices and lower (even negative) stock returns can hurt the value of your portfolio.

Here are five investment strategies that can help protect your portfolio from rising inflation.

1. Avoid long-term fixed-income assets

The Federal Reserve is often forced to raise interest rates to combat higher inflation. Unfortunately, higher interest rates lower the value of long-term bonds. While investing in bonds is generally safer than investing in stocks - over the long run - buying long-term bonds during periods of higher inflation is a bad investment.

Therefore, you want to limit your exposure to long-term fixed-income investments when you believe that the Federal Reserve will have to tighten the money supply to combat rising inflation.

2. Consider Buying Treasury Inflation-Protected Securities (TIPS)

As an alternative to buying long-term bonds, you should consider investing in TIPS, especially when interest rates could rise in the near term. Unlike traditional fixed-income assets, TIPS includes an additional hedge against rising inflation by adding an adjusted principal amount



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should inflation increase.

3. Avoid growth stocks

Higher inflation can also be negative for growth stocks. Since much of the expected return on growth stocks comes from future cash flows, rising inflation reduces the value of those future cash flows. However, that doesn't mean you need to sell all of your growth stocks. You need to ensure that your portfolio is well-diversified to shield you from potential losses.

4. Consider investing in value stocks

While you want to limit your exposure to growth stocks during periods of higher inflation, value stocks can become a great investment opportunity. These companies are typically relatively well-established already. They happen to be trading at lower prices than the average market, which is where their value comes from. Furthermore, they have greater flexibility regarding pricing power and can raise their prices to match inflation.

5. Consider real estate investments

Many investors might not realize it, but real estate can be another good hedge against rising inflation. For example, property owners and landlords often see the values of their real estate holdings grow along with increasing consumer prices everywhere else. Therefore, landlords can easily pass along rent increases to tenants. Furthermore, when the cost of building supplies increases, it makes existing structures (homes, apartments, and commercial properties) worth more.

In short, the best advice for protecting your portfolio from inflation is to ensure that you aren't too heavily invested in an asset class that could lose value when prices or interest rates rise. If you are looking for a safer investment like long-term bonds, consider buying TIPS. Instead of investing in growth stocks, look for value stocks to buy. Depending on the size of your portfolio, you might want to consider real estate as an investment to hedge against inflation

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