

Investments that thrive in inflationary times

RICHARD BLACKWELL

00:00 EDT Tuesday, May 26, 2009

The large infusions of liquidity by Group of Seven governments appear likely to lead to worldwide inflation. What kinds of investments do well in inflationary conditions?

There are a number of classic inflation hedges, says Peter Lindley, head of investments at State Street Global Advisors (Canada). One approach is to buy real estate, real estate-related instruments such as real estate investment trusts (REITs), or shares of companies in the commercial real estate business.

Mr. Lindley also recommends some solid Canadian resource investments, such as energy and metals stocks. Among the metals group, gold is often seen as a good inflation hedge, and buying stocks of gold producers is a good a way of getting exposure to the sector, he said.

On the fixed-income side, real return bonds - issued by the federal government and some of the provinces - are a good bet if inflation catches hold, he said. These are readily available to individuals, with fairly low minimum investments required.

What does badly when inflation is high?"Cash is the worst possible choice," Mr. Lindley said, so be careful if inflation takes off and you've got a big cash cushion tucked away. Consumer product stocks don't usually do well in that environment, he said, because those companies have a tough time passing price shocks through to consumers. Financial firms often don't do well when interest rates are rising, something that is likely to happen if central banks feel they have to boost rates to fight inflation.

I've often heard that old advice about the stock markets: 'Sell in May and go away.' What does it mean, and is it a good idea?

Essentially, that phrase means it is wise to sell your stocks in the spring, because the market tends to decline over the summer months and not rebound until late in the fall.

CIBC World Markets chief economist Avery Shenfeld did some calculations and found that, indeed, monthly returns in the Canadian market have been better in the November-to-April period. When some unusual shocks that occurred are factored out, the May-to-October period is still weak, "but the result is no longer statistically significant."