

How to make smart investments to beat inflation

Inflation is a very common term now days. Inflation is such a word which can take the confidence away from investment bankers to government. Controlling inflation becomes most important thing for the central bank in recent time.

Inflation is a state where there is a steady growth in goods and services. Once the consumer has more money, he/she will be paying more money to consume that goods and services

But we have to remember that inflation will go up as the economy grows. Inflation can't be treated as bad word all the times as it gives higher purchasing power parity (PPP) among common people. But an investor should beat the inflation to keep his money growing.

Increasing inflation affects almost all the sectors either directly or indirectly. The inflation affects the economy in different ways like rising interest rates, stock market crash, unemployment and rising bond yields etc.

The main reason for inflation is extra money in the system. To control inflation the central banks increase the interest rate. With rising interest rates, the cost of capital rises and profitability of the companies fall. The fall in profitability leads to stock market crash and investors took away the money from stocks to bonds. By investing in bonds the money moves into passive instruments and extra money goes away from the system. And fall of inflation starts.

But this can be an opportunity for long term investors to move their money in stock market as the valuation becomes cheap. Long term investors should find good companies/mutual funds to invest their money. The return will definitely beat the inflation by a handsome margin in long run.

Another way to beat inflation is inflation indexed bonds. The returns of these bonds are slightly higher than the inflation. These bonds are good for risk adverse investors.

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