



Protect Your TFSA Portfolio From a Market Crash With This 1 Strategy

Description

When is the next market crash coming? Not to startle you or anything, but the TSX could fall off a cliff next week.

I know, I'm probably going to sound glib by telling you this, but nobody knows when the bull market is going to end. And while you could certainly spend your valuable time looking for the opinions of economists or other pundits, you should know that not even they know exactly when it's time to take profits and run for the hills.

Surprisingly, the only person who may know is President Trump. If he's willing to bring his trade war with China to the next level, a recession is plausible. And while Xi Jinping and Trump can blame one another for the fallout that could ensue, I think investors would be wise not to gamble on what the outcome will be.

Instead, investors should be prudent by adopting a risk parity or ["all-weather"](#) strategy to protect their TFSAs from a potential market implosion, which I'm sure you've heard we're way overdue for!

Who knows? It may not be the trade war that triggers the next recession. It could be an event that's flown under everybody's radar!

How can you "makeover" your TFSA portfolio to hold its ground come the next downturn?

If you're one of the investors who's overweight in cyclical or growth names and have neglected defensive dividend stocks, then it's time to re-balance with downside protection in mind, not maximum upside from the strengthening of the U.S. (and Canadian) economies.

Extremely cyclical stocks like **Magna** ([TSX:MG](#))([NYSE:MGA](#)) got crushed in its latest quarter due to tariffs. The stock is down nearly 10% in the three following trading sessions, and in the event of an economic slowdown, Magna has the potential to fall around 75% as it did during the Financial Crisis. While the stock may seem “cheap” based on traditional valuation metrics like the P/E ratio, I believe the stock is a dangerous TFSA holding, both due to concerns over tariffs and the potential for a recession, which may be triggered by Trump’s trade war.

If you’re looking to “batten down the hatches” with an all-weather portfolio, you’ll need to eliminate cyclical stocks the auto part makers and opt for defensive names like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). Yes, it’s boring and an uneventful name, but you’re getting a 5% dividend hike per year on average, even if the market were to crash as it did in 2008.

Foolish takeaway

Now is not a great time to be greedy. If you’ve profited off cyclical names, it’s time to take profits off the table and use the proceeds to buy defensive dividend payers to dampen out volatility that may be on the horizon. Of course, you shouldn’t dump all of your growth names as you rotate to value names, but you should at least consider a more equal weighting if you’ve found that you’re overweight in cyclical names like Magna.

Stay hungry. Stay Foolish.

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