Make Your TFSA Unshakeable With This Bulletproof Investment

Description

When it comes to your TFSA, please don't take unnecessary risks by being greedy with cyclical stocks at a time when others are also greedy. Losses realized within a TFSA are substantially more painful to bear, as you'll be unable to use losses to offset present or future capital gains. I believe that a TFSA should be balanced with a risk-parity strategy in the late stages of a bull market so that it doesn't get obliterated come the next market crash.

Think of the funds within your TFSA as scarce resources. While you may have additional cash on the sidelines, you'll only be allowed to contribute $5,500 per year, and if it goes up in smoke, you'll need to wait until the next calendar year to get that $5,500 back. Although $5,500 today may not seem like a "make or break" amount, I can guarantee you that the last year's $5,500 TFSA contribution is worth a heck of a lot more in the future after the effects of tax-free compounding have had the chance to work their magic.

It's quite profound just how powerful the TFSA is as a wealth-creating vehicle for everyday Canadians. When used correctly, TFSAs can propel today's average investors to a very wealthy retirement. Tax-free compounding can make you a TFSA millionaire a lot sooner than you'd think, and you don't need to load up on speculative securities to hit this sought-after milestone. You'll need patience, discipline and a solid strategy, however, which is arguably just as hard if not harder for today's investor who's continuously pressured to take action when in reality, no action may be necessary on their part.

Instead of speculating on questionable get rich quick investment instruments, consider buying a one-stop shop investment like the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), an ETF that's constructed from some of the most stable names on the TSX. After you've bought it, just forget you even own it, as it's one of the smoothest rides that any investor could ask for, and come the next crash, it'll fall at a much smaller magnitude than your average stock.

While you could indeed copy the holdings within the ETF to save yourself the 0.4% management expense ratio (MER), I'd argue that for most investors, it may be better to just pick up the ZLB given the sum of commissions you'd pay would likely exceed costs you'd pay for the ZLB over the longer-term. A 0.4% MER is a pretty decent value versus when compared side-by-side with a 3% MER actively managed low-volatility mutual fund!

The ZLB owns an equal weighting of a handful of 100% Canadian blue-chip stocks. The ETF is very well-diversified with 23.6% 15.1%, 13.6%, 12.8%, and 11.1% of the portfolio allocated to financials, utilities, consumer staples, consumer discretionary, and real estate, respectively. And the best part is that materials and energy only account for 4.9% of overall holdings in spite of the TSX being heavily weighted toward these sectors.

The ZLB's largest constituent is **Fairfax Financial Holdings,** which is the epitome of an investmentthat values downside protection above all else. Going down the list, I see some very attractive low-volatility names with strong competitive edges within their respective industries.

Foolish takeaway

I like the components that comprise the ZLB very much. The ETF as a whole looks like it could weather the next economic downturn very well, and best of all, the ETF actually can outperform the TSX, even if the bull were to continue running!

The 2.61% distribution yield is icing on the cake, so I'd strongly urge TFSA investors to hide out in this bulletproof investment and enjoy the smooth ride up or the padded ride down, depending on where the markets are headed next. With the ZLB, it really won't matter because you're getting the best of both worlds!

I'm considering loading up on the ZLB for my TFSA at some point over the next few weeks. I hope you'll join me.

Stay hungry. Stay Foolish.

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