This Is the Best Strategy to Rearrange Your TFSA for the Bear Market to Come

Description

Contrary to what some investors may believe, market cycles are not a thing of the past. Record-low interest rates notwithstanding, the market remains vulnerable to shocks and slowdowns and vulnerable to changes in investor sentiment. So, how can we position our TFSA to thrive in this reality? What is the best strategy to position our TFSA for an upcoming bear market?

Markets are at all-time highs

Throughout history, we have seen markets swing from booming to busting, and we have seen the financial fallout that this has had on specific companies as well as investor wealth. The market selloff of the early 2000s, for example, which saw the S&P/TSX Composite Index fall almost 50% from September 2000 to October 2002, left many investors shell shocked and struggling to recoup their losses.

And although these losses have been more than made up in the last 20 years, life moves on and things happen that require money, meaning that not all investors have the time to wait.

Markets are at all-time highs today, despite the fact that economic and political risks are mounting, and investor sentiment has remained pretty optimistic. Recent market sell-offs have merely been blips that have quickly recovered. All of these facts may be leaving an impression on investors that this market will just keep rising indefinitely, downplaying the risks and barrelling ahead with high hopes and high expectations.

This may be a perfect set up for the next bear market, in which case we'd better start rearranging our TFSAs accordingly. Here is the best strategy to use when rearranging your TFSA for the next bear market.

Defensive stocks do best in bear markets

This one is a no-brainer. We need to look for companies whose businesses will go on regardless of the economy. We need an economically insensitive business to help our TFSA ride through the storm.

Consider **George Weston** (TSX:WN), whose stock rose 54% from September 2000 to October 2002 while the TSX Composite Index was free falling. Its leading position in the defensive food retailing and food processing industries allows it to enjoy relatively steady and stable demand, revenue, earnings, and cash flow through all economic and market cycles.

We are not looking for strong growth in a bear market; we are looking for downside protection, and George Weston can give us that plus a reliable dividend yield of 2% for some much-desired income.

Get rid of expensive, overvalued stocks

In a bear market, high-flying stocks get beaten back down to earth. Lofty valuations disappear, and what was once brimming in the glow of optimism becomes overwhelmed with the darkness of pessimism. The change in investor sentiment alone is enough to pummel stocks down to levels once never imagined.

These days, the obvious stocks that come to mind when we talk about lofty valuations are cannabis stocks. With no earnings or cash flow generation, lofty expectations and equally lofty valuations, cannabis stocks are especially vulnerable in a bear market. We have already seen their vulnerability.

We have seen leading cannabis player **Canopy Growth's** stock price fall 35% from its April highs, and we have seen the group as a whole get hit, as investors may be questioning the valuations and businesses of this group.

Foolish bottom line

TFSA investors all have one thing in common: we would like to be prepared for the bear market to come and we would like to preserve our wealth. As discussed in this article, the strategy to do this is relatively simple: hold defensive stocks and stay away from richly valued stocks. This will help preserve your capital and leave you well positioned to strike after the carnage and buy some beaten-down quality stocks at much lower prices.

CATEGORY

1. Cannabis Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:WN (George Weston Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
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Date
2025/08/17
Date Created
2019/07/30
Author
karenjennifer