



Worried About a Market Crash? Here's How You Can Protect Your TFSA

Description

Although U.S. markets surged higher on Tuesday, it's been a tough slog for North American markets over the last few weeks.

The Toronto Stock Exchange is no exception. After the **TSX Composite Index** surpassed 16,600 in late July, Canada's benchmark stock index has fallen to close to 16,000. That's a decline of approximately 3% in just over a week.

A 3% decrease is nothing to worry about. If that's gotten you stressed out, perhaps stocks aren't for you. But what investors should be concerned about is the next move. If this is just the beginning of a feared bear market, investors should take prudent steps to protect their portfolios today. There's no time to waste.

If you believe stocks are about to dive lower, here are a few ways you can minimize the capital loss inside your TFSA.

Sell winners

As the old adage goes, there's never a bad time to take a profit.

This is especially true if you own some of [2019's best-performing stocks](#). It's likely some of these names are poised to turn lower, even if overall results continue to stay strong. A good quarter that comes up just short of analyst expectations can send a stock reeling, for example.

Even if you don't own any stocks that are up +100% in 2019, it still might be a good idea to raise a little cash. Do any of your holdings seem particularly overvalued? Just about every portfolio has a few stocks that have run up a little too fast.

A healthy cash position won't just minimize the effects of a sell-off. It'll also ensure you have lots of capital to put back to work when stocks are a bargain.

Increase your bond exposure

An easy way to protect your capital while still getting a decent yield is to buy bonds.

Exchange-traded funds make it easy to get exposure to a wide variety of high-quality government and corporate debt, all in one easily purchased product. Canada's largest bond ETF is **iShares DEX Universe Bond Index Fund (TSX:XBB)**, a product that gives investors an acceptable yield while protecting their portfolios from a major stock market correction.

So far in 2019, this particular bond ETF has delivered a boring 6% capital gain, combined with a 2.7% annualized yield. Investors should note XBB has also moved nicely higher over the last week, increasing approximately 2% while the overall market sold off. This inverse relationship to stocks is exactly why you want to buy bonds.

Get boring

The final way to minimize your portfolio's risk during a bear market is to load up on the kinds of stocks that are known to protect your capital during times of weakness. These boring stocks might go down with the rest of the market but not nearly as much as the rest of stocks. And they often help further minimize loss by paying handsome dividends.

BCE (TSX:BCE)(NYSE:BCE) is the perfect example of such a stock. Even if the economy really takes a dive, BCE's customers will still need wireless, wireline internet, and television service. A few more people than usual might not pay their bills, but most folks will continue to pay faithfully.

This is exactly the kind of business you want to own when the market decides to fall. It's so delightfully boring.

BCE offers a beta of 0.332, which tells investors the stock is only one-third as volatile as the whole market. So, if the TSX sells off by 1%, BCE shares will be down approximately 0.33%. You can see how that would be an advantage during a bear market.

And remember, BCE pays a generous 5.2% dividend — a payout that has survived many down markets and even recessions. It isn't going anywhere. In fact, I'd wager BCE increases its dividend in 2020, unless the economy gets really bad.

The bottom line

If you're worried about your portfolio, the time to act is now. There's nothing wrong with going a little conservative after such a long bull market. If stocks do fall in a significant way, you'll be thanking yourself.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:XBB (iShares Core Canadian Universe Bond Index ETF)

PARTNER-FEEDS

1. Msn
2. Newscred
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