Buy These Stocks to Make Your TFSA Recession Proof

Description

What will make your Tax-Free Savings Account (TFSA) recession-proof? That question is becoming more relevant as headwinds threatening the global economy are gathering pace.

The world's two largest economic — the U.S. and China — are embroiled in a trade war that's escalating. President Donald Trump has plans to increase tariffs on all imports coming from China, while the communist nation is letting its currency weaken to help its exports.

Morgan Stanley economists predict that if the U.S. puts 25% tariffs on all Chinese imports for four to six months and the Asian country hits back, a global economic contraction is likely within three quarters.

While it's almost impossible to completely avoid the impact of a recession on your TFSA portfolio, it is possible to minimize it by adding stocks that are recession-proof and defensive in nature.

Exactly what traits are common to defensive stocks? In my opinion, companies that command a durable competitive advantage, growing free cash flows, and sticky services are the ones that fit the bill.

You can find these stocks in those areas of the markets that rarely get the business press. For example, telecom utilities, power and gas providers, insurance companies, and large grocery chains have less to lose when the economy slips into a full-blown recession.

Defensive stocks

While you diversify your TFSA, you should certainly add one or two quality stocks from these sectors. Let's take the example of Canada's largest telecom operator, **BCE Inc.** (TSX:BCE)(NYSE:BCE).

In general, telecom utilities are great investments for defensive investors, such as your TFSA . These companies aren't too volatile when markets are going through an uncertain period.

The reason is that their services are among the last that people would consider cutting in a recession — and that stickiness provides stability to their cash flows, making them perfect TFSA stocks.

If you analyze BCE's stock performance over the past five years, you will realize it's a slow-growing investment paying steadily growing dividends while preserving your capital.

BCE has a strong dominant position in Canada's highly regulated telecom market, where three big players make most of the revenues.

BCE, through its diversified service offerings, including wireless, home internet, and media operations, has shown sustained growth in its subscribers.

This strength has enabled BCE to continue paying dividends in both good and bad times. During the past decade, BCE dividend has more than doubled.

It used a series of acquisitions to partly fuel the cash flow growth necessary to keep boosting the payout. Its latest acquisition of Manitoba Telecom Services in 2017 was one such move that began to improve both top- and bottom-line profitability.

Bottom line

Buying defensive stocks that pay regular dividends and adding them to your TFSA is a good strategy to ward off the potential impact of recession.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date

2025/08/02
Date Created
2019/08/17
Author
hanwar