TFSA Investors: 3 Ways to Hedge Against a Market Crash

Description

Sky-high valuations, record-low interest rates, and a swirling cloud of political unrest spreading across the global economy are all concerning for the average investor. A slowdown or recession in North America will have an immediate impact on the value of most stocks in your Tax-Free Savings Account (TFSA), regardless of their fundamental strengths.

Predicting a stock market crash is nearly impossible, so I'm not going to attempt it here. Instead, I want to focus on the three key strategies I believe will help the average investor mitigate their losses *if* capital markets dive in the near future.

Gold

Using physical gold and gold-backed exchange-traded funds as hedges against inflation and economic distress is a new concept for me. I didn't take these claims of gold's resilience seriously, until I saw the metal's price chart over the 2008-2009 financial crisis.

The price of a single ounce of gold shot up 48% during the crisis, as the collective value of stocks and real estate collapsed across the world. Gold mining companies, such as **Barrick Gold**, had a similarly impressive run during that period.

It seems gold has a proven track record as a defence against market crashes.

Stable real estate

In general, the real estate market is closely correlated with the stock market. Economic distress causes less home buying and office renting, so the commercial and residential real estate markets take a hit during crises.

However, the real estate market in Canada is well diversified, and some segments tend to retain their value, even during downturns in the wider economy. Hospitals and senior living facilities, for example, may not experience the slowdown in demand as other forms of real estate.

That makes real estate investment trusts like **NorthWest Healthcare** and **Chartwell Retirement Residences** potential hedges for a recession.

Dividend utilities and consumer staples

Ask yourself if you stopped paying your utility bills or stopped buying your favourite yogurt during the last recession. Canada's economy is primarily driven by the consumer, which means a slowdown in growth and job losses will impact spending. But spending cuts are usually limited to discretionary items like handbags and destination weddings.

It's difficult or nearly impossible to cut back on spending on daily necessities, which is why utility companies and consumer staples tend to retain their value during economic downturns. Stocks like **Saputo**, **Alimentation Couche-Tard**, and **Canadian Utilities** are my personal favourites for this strategy.

To serve as a hedge, the consumer or utility stock you pick needs to offer a high dividend while maintaining low debt and stable growth. Financial strength coupled with resilient demand is the key to surviving an economic downturn.

Bottom line

There are plenty of ways TFSA investors can start preparing for an economic downturn and stock market collapse. The stocks I've mentioned here offer excellent dividends and have impressive business models, which makes them worth a closer look, even if you're not worried about the economy.

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