How to Prepare Your TFSA for the Next Recession

Description

Tax-Free Savings Account (TFSA) investors need to begin preparing their portfolios for the next recession. We all want a perfect world in which there are no periods of financial hardship. To achieve this, smart Canadians need to save money for times of high unemployment, inflation, or a combination of the two.

Short- and medium-term savings should be in high-yield savings accounts and government-insured certificates (GICs). Canadians can put long-term savings in active consumer defensive retail stocks like **Dollarama** (TSX:DOL) and **Saputo** (TSX:SAP).

Consumer defensive retail stocks are equities, which pay a dividend and can withstand economic downturns like the global financial crisis of 2008. Dollarama and Saputo qualify as consumer defensive stocks because they sell consumer staples, which are less likely to be cut from a family's budget early on during a downturn.

Dollarama

Dollarama may not be the highest dividend payer on the **Toronto Stock Exchange** (TSX), but the value in this stock is in its brand and position as a consumer defensive stock.

Dollarama shares are trading for approximately $50.59 and issue a dividend of $0.044 per share at writing. At this price, the dividend yields an interest of about 0.35% annually. Although the return is low, shareholders pay for the safety of Dollarama's industry.

Dollarama operates in discounted consumer staples such as candy, office supplies, junk food, and cleaning products. These are all items on which households will not initially reduce spending in their budgets at the start of an economic recession.

As Dollarama is in the discount segment, the retail brand may gain loyal customers during a downturn.

Saputo

For investors who need a higher yield than what Dollarama has to offer, Saputo is also a high-quality defensive stock. It issues stronger dividends than Dollarama at a lower price per share. Saputo issues a dividend of $0.17 per share. Currently trading at $40.13 at the time of writing, the dividend yield sits at 1.69%.

Like Dollarama, Saputo is a consumer defensive retail stock. Instead of discounted home and office supplies, Saputo produces and distributes dairy products. TFSA investors may do better with Saputo in their portfolio than Dollarama. Dairy is the quintessential household staple and comes with higher guaranteed dividend returns.

For the fiscal year 2020, annual earnings estimates average around $1.76 per share. Last year, the company achieved earnings of $1.59 per share. Thus, corporate profits are growing year over year, meaning that the stock price is likely to increase as well.

Foolish takeaway

The global economy has its ups and its downs. While it feels like just yesterday that the world recovered from the financial crisis, the truth is that this is more than likely only a brief reprieve before the economy declines again.

Ultimately, the future of the economy is uncertain, and even the inverted U.S. yield curve cannot foretell what is in store for Canadians. Aspiring retirees must prepare for all outcomes through diversified savings strategies to ensure that they do not get caught in the crosshairs of the U.S. and China trade war.

Dollarama and Saputo are great examples of the kind of stocks TFSA investors should be adding to their tax-free savings.

CATEGORY

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

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:SAP (Saputo Inc.)

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Date
2025/08/04
Date Created
2019/09/03
Author
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