TFSA Investors: Avoid These 2 Sectors to Protect Your Wealth

Description

My tax-free savings account (TFSA) is my sacred nest egg. I pour savings into the account and maximize the TFSA contribution limit every year with the intention of leaving money there until I retire. With that multiple-decade time horizon in mind, my greatest fear is that this money will lose its value over time.

Any experienced investor will tell you that losing money is dramatically worse than gaining an equal amount. If a stock loses 50% of its value, for example, it could take nearly 10 years for it to recover to its original price even if it grows at a 7% annualized rate. Most stocks don't even come close to that rate of appreciation.

So, while much of the content published on this site focuses on the best stocks to invest in and the most attractive opportunities, I want to spend time discussing the least attractive and most speculative industries long-term investors should stay away from.

Biotech

Probably my least favourite industry to invest in is the biotechnology sector. Unlike regular technology companies, innovators in this sector can't simply move fast and break things. The pharmaceutical industry is heavily regulated, which means getting a drug to market is an unbelievably difficult task.

On average, 80% of all new drugs that are sent to trial fail to every make it to the market. Meanwhile, biotech companies must spend millions or even billions of dollars getting their drugs through the various regulatory hurdles and clinical trials.

Larger biotech stocks with more financial resources and broader pipelines of potential drugs, like **Bellus Health**, can probably weather the occasional failure, but smaller companies in this sector risk bankruptcy if a drug fails. Recently closed companies such as Ambrilia Biopharma and BioAmber are just a few examples of this.

Construction

The construction of new infrastructure and real estate is vital to any economy; however, construction companies face massive costs and an unpredictable cycle that makes their business model inherently risky.

Across the world, construction companies contributed the highest portion of failed businesses (20%). In the United States, more than a third (36.8%) of construction contractors go out of business before they complete their first year of operation.

Contractors face a long list of challenges that include a high regulatory burden, unpredictable weather, volatile raw material prices, insurance premiums and interest rate sensitivity.

When the real estate market cycle dips or a recession hits, most these construction companies struggle to keep their projects going or funded.

A good example is **Bird Construction Inc.**, which has lost nearly 52.8% of its value since 2011, even though the value of real estate and the pace of construction across Canada has skyrocketed over that period.

Foolish takeaway

Investors cannot reap handsome rewards without any risk. However, in the case of the aforementioned industries, the risk-reward ratio is simply skewed.

When 80% of new drugs fail to pass trials and a third of new construction companies go out of business in less than a year, there's no way the potential rewards can offset the risk.

There's plenty of other opportunities in Canada's dynamic economy for TFSA investors like me, so there's no reason why I can't avoid these two volatile industries forever.

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