# TFSA Protection 101: 2 Stocks That Will Have Your Back in the Next Bear Market

## Description

As a DIY stock picker, you shouldn't care about how the broader markets do. You shouldn't care about shallow economic predictions from so-called pundits on these entertaining financial television shows.



What you should be concerned with is how your portfolio will hold up once the market waters inevitably become rougher. Instead of trying to time the markets by overweighting either cyclical or defensives, you should have a well-diversified mix of assets with a solid foundation that will have your back when stocks take a turn that you didn't see coming.

Although you may feel like a genius after perfectly timing your moves over the short term, it's usually the humblest of investors who end up doing very well over prolonged periods of time. Just look at Warren Buffett — a man who's not only one of the most successful investors of our time but one of the humblest.

He doesn't try to time the markets or predict what's going to happen with the economy, because he knows there are far too many variables to make an accurately predict what the economy is going to do next. There will always be surprises, so it's a better use of effort to look to your own portfolio and how each constituent complements one another.

Nobody expects a hurricane to strike. But that's no reason not to have a sound foundation for your house. Here are two foundations for your portfolio that will have your back should the bear unexpectedly rear its ugly head.

# Fairfax Financial Holdings

**Fairfax Financial Holdings** (TSX:FFH) is a financial holding company that's treated like the hedge fund of legendary investor Prem Watsa, also known as the Canadian Warren Buffett.

Watsa is a risk-averse investor by nature. He's one of the doom-and-gloom investors who did extraordinarily well during the Financial Crisis with gutsy bets against the housing market. Watsa, unlike Buffett, is known to take on short positions and is willing to place bets on or against various difficult-to-spot macroeconomic trends.

Watsa has been wrong with his hedge bets though, as his firm drastically underperformed the market between 2010 and 2014. Moreover, Fairfax doesn't have the best underwriting track record in the world. More recently, Fairfax stock fell to the cheapest it's been in nearly a decade.

Fairfax has been an underperformer of late, so why is the name a great foundation?

Watsa is all about maximizing the risk/reward trade-off. Although still bullish over the long term, he still has hedges in place to protect his firm from the next unforeseen catastrophe.

And since the stock is close to the cheapest it's been in recent memory, I see minimal downside for the stock come the next correction or bear market. With a 0.39 beta, Fairfax has little correlation to the broader markets and is more accustomed to trading on its own terms, with less influence from market-wide events.

## Fortis

**Fortis** (TSX:FTS)(NYSE:FTS) is another vital foundation stock that will not fall as fast or as hard as most other stocks out there thanks to its regulated operations. It doesn't matter if the economy were to fall into a tailspin tomorrow, Fortis is one of the few options for many to keep the lights on.



Because of the regulated and extremely predictable nature of Fortis's cash flows, management is able to commit to 5-6% in annualized dividend growth. And through past acquisitions to gain a foundation into the attractive U.S. market, Fortis is able to command a higher magnitude of growth relative to most other "boring" utilities its size.

Smart managers are the reason why Fortis is the perfect stock to own forever. You'll collect the dividend (currently yielding 3.3%) and will have few worries come the next significant downturn.

When it comes time to play defence, the price of admission to the name usually goes up. So, if anything, you may be rooting for more off-the-charts volatility in the broader markets so Fortis will stand to rally.

Anytime you can root for the markets to flop, you know your portfolio has a stable foundation. And it's this foundation that'll save you from excessive damage come the next inevitable downturn.

Stay hungry. Stay Foolish.

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