3 TFSA Mistakes Setting You Up to Fail

Description

Ahead of a recession is the perfect time to take a good hard look at your portfolio and see what changes should be made. It provides a perfect opportunity to buy up stocks on the cheap and juggle your cash around so that you're providing yourself with a safe cushion should markets tumble.

But before you go ahead and buy up some stocks, I'd like to offer a few points of warning. What you want at the end of the day is a strong portfolio that can see you through for years, not just a portfolio that could *potentially* see some strong gains by the end of next year.

So let's take a look at some mistakes you'll want to avoid if looking to reinvest in your TFSA.

Hoarding cash

When you look at your investments, is there a huge collection of cash just sitting there untouched? While pretty much everyone should have a bit set aside — especially if you have dividends — it shouldn't be all that much.

This can make many people nervous, especially before a recession where investors fear a correction in the markets.

I repeat: think long term. If you have a diversified portfolio, then even a downturn shouldn't bring your overall portfolio to incredible lows. You might also be telling yourself that it's better to wait until the time is right, but I have news for you: the time is never exactly right.

How are you going to know the day when the markets are set to make a comeback? Likely, you won't. So it's better to get that bargain now and put on blinders while shares go down knowing full well your strong choices will come right back up again soon.

Yield chasing

I get it. You see that high dividend yield and you think, “Yes! The answer to my prayers is more cash!” But not so fast. While a company might promise high dividend yields, it doesn’t necessarily mean that company can deliver it long term. In fact, during a downturn the company may cut or even suspend the yield all together.

While companies with dividend yields are definitely a great option to consider, it shouldn’t be the focus of your entire portfolio. It also should be companies with a proven track history of dividend increases even in the face of market downturns.

Buying local

When I say diversify, it doesn’t just mean get into different areas of the market though that’s certainly something you want to do. No, instead you’ll need to think outside the box, which means outside the country.

If you want your portfolio to do well, you need to have other countries involved that could see a rise out of the recession before Canada. That gives your portfolio the best chance for success not only now, but in the future.

I’m not saying you should buy foreign investments, however, as that would incur taxes on your TFSA. Instead, find Canadian stocks that include diversified investments.

A great option to consider that sums up all the points I have here is the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB). This stock has outperformed the market in the worst of times, and seen strong and stable growth during normal market conditions.

It has a dividend yield that — while not incredibly high — provides solid returns at 2.39% as of writing. Finally, it’s an exchange-traded fund with a diverse set of stocks all with the goal of keeping risk at a minimum.

This stock is the perfect option to buy and hold for decades. While you won’t see huge jumps in share prices, you also want see huge dips either. So take a good look at your portfolio today and see if you’re making any of these mistakes heading into a recession.

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