Yes, the Market Will Crash: Is Your TFSA Ready?

Description

As investors, we’ve had it good for the past decade. Other than a few blips, the markets have continued a steady march upwards, with the TSX recently setting a record high. However, there are warning signs that all might not be right underneath the hood.

Nobody knows exactly when a market crash will come or what event could trigger it. One thing that is for sure is that a market crash will eventually happen. Recessions are a natural part of the stock market and economic cycle. It’s been so long since we’ve had a severe one that many investors have forgotten how to prepare for one.

One account where you want to be well prepared for in the time of a recession is your Tax-Free Savings Account (TFSA). If the value drops for your TFSA, you can never get that contribution room back. As the most flexible investment account offered to you, having a significant drop in your TFSA could be a devastating blow to your retirement plans. Here are some steps you can take to safeguard your TFSA.

Increase bond exposure

Depending on your investment goals and timeline, it might be wise to increase your bond exposure. An easy way to get flexible exposure is through ETFs. Check out the ETF offerings from **BMO**.

The great thing about ETFs is, you can trade them like you would a stock, so it is easy to increase or decrease your weighting to bonds. Unlike a bond mutual fund, which could take days to make a transaction, an ETF is traded instantly on the market. This fact makes it easier to rotate back into stocks if you choose to later.

Put your guard up

There are specific sectors that perform better in a time of economic turmoil. You might want to consider rotating out of a higher-risk sector, such as banking, to a lower-risk one, like utilities.

Take **Fortis** as an example. Most of Fortis's revenue comes from regulated utility rates, which gives stability to its cash flows and income. This $24.166 billion gas and electric utility company has a geographically diversified energy-delivery business.

An even more impressive sign of the company's strength is the fact that Fortis has increased its dividend for 45 years. With a current dividend yield of 3.45%, Fortis is a pillar of reliability and strength for Canadian stocks.

Trying to save a dollar

As Canada's largest dollar store chain, **Dollarama** would be well positioned in times of a recession. The $15.06 billion company boasts over 1,000 stores across Canada. Customers looking to save a buck could flock to Dollarama in a market crash.

Dollarama's recent Q2 reports have indicated substantial revenues of 9% year-over-year growth. Same-store sales of 4.7% growth was a significant increase year over year and up from 2.6%. At a recent close of $47.86, up from $31.85 at the beginning of the year, the stock has performed mightily well.

Conclusion

A market crash will one day come. You can count on that. You can protect your precious TFSA and own fantastic stocks at the same time.

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