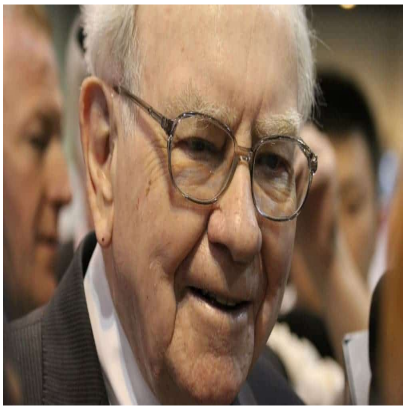

Warren Buffett on How to Ensure Your TFSA Holds Up in a Recession

Description

It's time for investors to get serious about protecting their TFSAs from excessive downside in the event of a recession.

While it's tempting to hit the panic button and sell all your stocks on the negative commentary you're bound to hear in the mainstream financial media, the biggest risk isn't staying in the market as-is, it's being caught out of the market.

So, unless your portfolio isn't diversified, with cyclical stocks and speculative securities galore, the best course of action is to do nothing at all and come back to it with a fresh mind. Money isn't made through panic, as panic can lead to rash decision-making that could well derail one's retirement plans.

By selling after three straight red days, you're probably going to be kicking yourself once the markets recover ground and you're forced to buy back your shares at a higher price.

Timing the markets is a sucker's game, and while times are becoming really scary given the recent slate of ominous events, those who've prepped their portfolio to survive a recession will be the ones that will sleep better and have the opportunity to make rational decisions (like buying as others sell) when sentiment is at its low point.

Warren Buffett welcomes a recession and market crash with open arms, and I think it's time for Foolish investors to do the same. But how do you keep your cool like Buffett as your TFSA loses value quickly in the middle of a violent downturn?

Here's a tip from Uncle Warren: have regulated utilities at the core of your TFSA!

Berkshire Hathaway has regulated utilities that buoy it when the market waters become rough while other securities have their heads below water.

Berkshire is an insurer that requires a substantial float, but unlike most other insurers, Berkshire is able to invest a good chunk of its longer-term float in assets that are far better than boring fixed-income securities.

Such assets include “bond proxies,” which offer a high degree of safety with a much higher potential reward than that of debt instruments.

Regulated utilities such as **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) have slow and steady operating cash flow streams and are virtually unscathed during times of economic hardship.

At the time of writing, Algonquin sports a stable 4.2% yield and is positioned to grow it through continued growth in operating cash flows, which will be minimally impacted by exogenous factors.

With Algonquin, we’re looking at water, natural gas, and renewable energy assets, all of which are necessary for the localities it serves, regardless of U.S. manufacturing numbers.

When you’ve got highly regulated operations, you’ve removed a massive layer of uncertainty. Although regulated utilities are still considered risky assets, I believe they’re a heck of a lot safer than long-dated bonds, especially over the course of many years.

Buffett once noted that as time goes on, bonds become riskier and stocks become safer. If you’re a long-term investor who’s not nearing retirement, you’ve got not business hoarding bonds even if you’re rattled by the recent bout of volatility.

Take a page out of Buffett’s book and inject some regulated utilities in the core of your TFSA. Like Berkshire, it will be able to survive and thrive in the next significant downturn.

Stay hungry. Stay Foolish.

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