TFSA Strategies: 1 Investment Is All You Need to Build Wealth in This Volatile Market

Description

As Foolish investors, we're all about long-term investing with little to no consideration for shallow short-term forecasts that are regularly the main topic of discussion on most financial television shows.

Yes, every investor wants to know where the markets are headed next, especially after a big down day. But unfortunately, nobody, not even the most seasoned economist, knows with any degree of certainty how the markets will fare over the near term.

Warren Buffett, the greatest investor of our time, is humble enough to acknowledge that he doesn't know what the markets are going to do over the next week, the next month, or even the next year. The sooner investors stop trying to time the markets, the sooner they can get out of their own way and start to really build wealth using TFSAs.

With securities held within a TFSA, you're off the hook for taxes on your capital gains and domestic dividends. And if you reinvest your dividends, you can unlock the full power of long-term tax-free compounding, which can snowball your wealth quicker than you'd ever imagine possible.

Right now, unexpected events are moving this market. We're hearing less about the earnings of individual companies and more about macroeconomic trends. So, like it or not, the markets over the short term have become a casino.

The funds within your TFSA are precious and shouldn't be gambled on some analyst's prediction of where he thinks the markets will be in a week or two. While it's tempting to want to take action in response to the volatility we've faced over the past few weeks, doing so will only increase your commission bill and cause you to miss out on potential recovery days that nobody will see coming.

All it takes is missing out on a day or two to stunt your returns severely.

So, if you're not sure how to react to such elevated levels of market volatility, the best course of action when it comes to your TFSA is to take a hands-off, risk-off approach with ETFs like the **BMO Low Volatility Canadian Equity ETF** (TSX:ZLB), a "smart beta" ETF that I've praised numerous times over the past few years.

I'm a fan of the ZLB not just for the low management fees, but also for the compelling strategy that has delivered terrific results relative to the benchmark.

It's a more prudent way to invest than index funds, as you're getting lower beta securities and a strategy that doesn't entail managers trading in and out of stocks over the short term due to subjective reasoning.

In this kind of market, where the markets are a roller coaster ride, you'll get some much-needed smoothing thanks to the ZLB's low-volatility constituents. While the ZLB isn't immune from going down, it will take a lot more to send the ETF down by the triple digits than it would the broader indices, which now appear to be on unstable footing.

As others jump in and out of the markets based on meaningless short-term noise, the best thing you can do for yourself is to tune out and stay invested in ETFs like the ZLB. Volatility is the new normal, so investors need to respond accordingly, not by selling stocks for bonds, but by reducing one's beta to reduce volatility without reducing potential returns.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/06/30
Date Created
2019/10/11
Author
joefrenette