TFSA Investors: Use This Trick to Sail Through the Next Recession

Description

The next recession may be just around the corner. Several recent polls have shown that both fund managers *and* economists believe a recession is likely in 2020. Bear markets are tough to predict in advance, but when they occur, they can be devastating.

Years of savings can be wiped out instantly. Those in the workforce often face a tight job market, while retirees face the dilemma of a reduced lifestyle or returning to work.

If you have retirement savings in a TFSA, however, there's one strategy that could make the next recession a breeze, as the tax advantages of a TFSA are perfect for low volatility dividends stocks.

These stocks can mitigate the impact of a market downturn while delivering regular cash to support your lifestyle or redirect into more stock purchases. While regular portfolios deal with high taxes for dividend income, TFSAs generate dividend income tax-free! It's truly a win-win. Here's how to begin.

Trust in energy

Energy demand is surprisingly stable, as long as you stick with electricity. When it comes to commodities like crude oil or natural gas, prices can vary wildly. Over the past decade, for example, oil prices have ranged between US$30 per barrel and US$130 per barrel.

Electricity, meanwhile, is more stable due to regulation and consumer behavior. During the 2008 recession, Canada's demand for power only fell by a couple percent. Pricing, meanwhile, was largely flat.

Take a look at **Canadian Utilities Limited** (TSX:CU). From mid-2008 to mid-2010, through the worst of the financial crisis, this utility stock actually *rose* in value while paying a 4% dividend. This performance puts Canadian Utilities in the top 1% of stocks during that period.

One of the worst global bear markets in history actually turned their shareholders a profit. Your nest egg would have been left completely intact, while the dividend income could have been used to offset living expenses or reinvest at market bottoms.

Canadian Utilities isn't the only game in town. On many metrics, **Hydro One** (TSX:H) should be even more reliable during a downturn. That's because 99% of its business is fully rate-regulated, which means Hydro One knows how much it can charge customers, often years in advance.

The company was privatized in 2015, so we don't have hard data on how the stock will perform during a downturn, but all the fundamentals suggest that Hydro One could *grow* during a recession.

Over the next five years, management wants to increase EPS by 5% annually while delivering a 4% dividend. Due to regulation, management's forecast is likely to be achieved regardless of what happens to the global economy.

Building wealth

Utility stocks like Canadian Utilities and Hydro One are great ways to build wealth, even during a recession. Their 4% dividends are the definition of rock-solid, and their regulated business models provide visibility that few stocks possess. Building a portfolio full of these stocks is your best chance at sailing through the next recession.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:H (Hydro One Limited)

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