1 Crucial Recession Mistake to Avoid in Your TFSA

Description

The severe impact of the 2008 recession is still fresh in the minds of most people, especially investors. The global economic conditions of that time serve as an essential reminder of the fact that the financial markets can crash and how bad things can get when they do. As an investor, there are a few ways you can protect yourself during tough times.

Tax-free savings accounts are a particular favourite among investors for several reasons. You can hold your assets in this account without the need to pay any management charges or taxes.

Investors use their TFSAs to accomplish a number of savings goals. In light of an impending recession, what could be better than an account where you will not need to worry about taxes?

The issue of greed

TFSAs being tax-free can tempt a lot of investors to take unnecessary risks. As investors know that the stocks they hold in TFSAs will not be taxed, they take risks, such as buying penny stocks, in hopes that the shares will go sky-high. While penny stocks, or any other high potential stocks, can skyrocket, they can plummet just as quickly.

If your goal is to protect your investment portfolio and your overall financial security during challenging economic times, such high risks are entirely unnecessary.

It's more risk than what a lot of investors can handle even in a good economy. In times of recession, losing a lot of money through risks like that can ruin a person's financial future.

TFSA contributions are limited. If you ever lose a lot of money in your TFSA, it can take *years* for you to recover your portfolio — years you can't spare if you're in the middle of a recession.

How to avoid unnecessary risk in your TFSA

It's *always* better to avoid risks as much as you can in your TFSA. Rather than high growth potential, you need to look for a reasonable valuation and high quality. Dividend-paying stocks that have a better chance of riding out recession better than others are ideal for your TFSA, especially amid an economic downturn.

A safe and stable dividend-paying stock will not just help you keep a reasonable value in your portfolio, but it will also add more cash to your TFSA through dividend payouts from the company.

In a tough economy, many companies suffer. Picking out a stock that can weather the storm is essential. To this end, I am confident about **Restaurant Brands International** (TSX:QSR)(NYSE:QSR).

No matter how tough times get, people do still need to eat. Restaurant Brands is a fast-food colossus with some of the biggest restaurant chains up its sleeves. Recently, the $41.18 billion market capitalization giant suffered from a downturn in performance. A massive round of insider selling saw the share prices drop from $104.41 to the current price of $88.78 at writing.

In terms of performance and prospects, everything seems to be going well for the restaurant giant. Burger King, Tim Hortons and Popeyes Louisiana Kitchen are all performing phenomenally.

Tim Hortons and Popeyes have immense room to expand internationally, and Burger King is already a household name in most countries. The stock's value will rise again.

In times of economic hardship, the demand for fast-food restaurants increases dramatically. Restaurant Brands is a stock that might see a decline during a recession, but it's likely to perform better than most stocks in other sectors. Add a 2.98% dividend yield to the mix and you can see a decent amount accumulate in your TFSA at the same time.

Foolish takeaway

TFSAs and low-risk stocks are always going to be the best combination to protect your portfolio during challenging economic times. In times of a recession, a dividend-paying and stable stock like Restaurant Brands could be a great option to consider for your TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

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