TFSA Investors: Park Cash Here if You Expect a Recession

Description

I have a confession to make: a significant portion of my portfolio is currently held in cash. As such, part of my wealth depreciates rather than appreciating in one of the strongest bull markets in history.

However, my anxiety and concern about the Canadian economy and fears of an upcoming recession have compelled me to hold back. Turns out, I'm not alone. The Bloomberg Nanos Canadian Confidence Index is relatively low this year, particularly in Western Canada after the election; 13% of respondents to the Bloomberg survey expressed concerns about the economy — the highest on record.

Meanwhile, Oxford Economics places the odds of a recession next year at 45% and expects 1.1% growth in gross domestic product. It seems the economy is slowing down just as the **S&P/TSX Composite Index** reaches a record high.

If an economic slowdown and stock market correction is on the cards for next year, I reckon having a little cash on hand will protect me from the downside and give me an opportunity to enter some phenomenal stocks at attractive valuations. However, there is a better alternative to traditional cash.

High-yield cash exchange-traded funds

High-interest savings exchange-traded funds, otherwise known as cash ETFs, have become the most popular asset class in Canada this year. Investors have deployed over US$1.1 billion into these funds over the past 11 months — a historic amount of inflow.

Much of that money was deployed in two of the most popular cash ETFs on the market: **CI First Asset High Interest Savings ETF** and **Purpose High Interest Savings ETF** — both of which promise better yields and better liquidity than your average chequing account.

Both these ETFs hold baskets of cash accounts at major banks that earn higher-than-average interest. The advantage for investors is that they can be easily liquidated and the income is paid out more frequently.

CI First Asset, for example, pays offers a gross annual yield of 2.25% at the moment, which is considerably higher than the average yield on a government treasury (1.67%), guaranteed investment certificate (GIC)(1.37%), or a retail high-interest account (0.98%). Also, the interest is paid out monthly.

Similarly, the Purpose cash ETF offers a 2.15% annual yield, distributed monthly. At 0.16%, this ETF's management expense ratio is relatively low. After-expense returns should still outperform other savings accounts by a wide margin.

All cash ETFs are eligible for registered accounts like Tax-Free Savings Accounts and tax-efficient models like dividend-reinvestment plans and systematic withdrawal plans.

However, investors shouldn't look to these ETFs as long-term investments or sources of passive income. Instead, they're convenient and cost-effective instruments to park cash. If a recession hits and the stock market declines, you can sell these ETFs at a moment's notice and deploy cash into the companies on your watch list.

In other words, these liquid cash funds are the next best thing to cash.

Bottom line

With higher interest rates and better liquidity, placing money on reserve in cash ETFs is the best way to preserve capital and keep it ready for a market decline.

CATEGORY

1. Investing

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/07/27
Date Created
2019/11/12
Author
vraisinghani