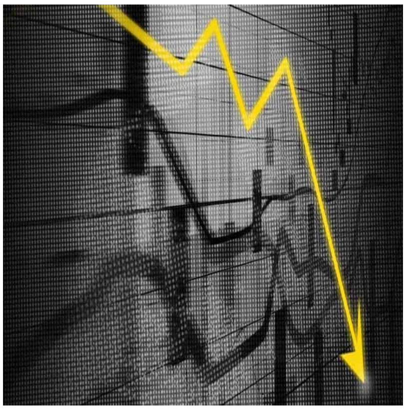

Prep Your TFSA for a 2020 Stock Market Crash Before it’s Too Late!

Description

Get ready for the recession, because, ready or not, here it comes!

Last year, investors were hitting the panic button over the inverted yield curve and the escalating trade war. Today, investor sentiment has taken a 180-degree turn, and that recession is apparently off the table, because of U.S.-China trade talk optimism, a few rate cuts, and some strong U.S. jobs numbers.

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But don’t be fooled, because it’s times like these when it pays dividends to be fearful while others are greedy. As the markets look to move higher into the new year, I’d urge investors to be cautious and not double down on overly cyclical plays to maximize your profits in a potential market melt-up.

A recession could still be around the corner, and all it’ll take are a new round of tariffs on Chinese goods that’ll likely accompany retaliatory tariffs.

Sure, a “phase one” trade deal may be enough to make investors feel bullish again, but what good is a phase one deal if that’s the furthest it goes into the U.S. election? And what if Donald Trump loses his seat at the White House to a Democrat like Elizabeth Warren?

There’s still tremendous geopolitical uncertainty heading into 2020, and should worse come to worst, stocks could slide as quickly as they did in the latter part of 2018.

Now, I’m not forecasting a recession for 2020. Nobody knows when the next recession will be, nor when the markets will tank. What I am guaranteeing, though, is that Canadians who have undiversified TFSAs and that are fully invested in overly cyclical plays will take on “double damage” come the next significant downturn, whether it’s next year or three years from now.

The bull market is over 10 years old. If you’ve positioned your TFSA such that you didn’t even think about the possibility of a recession hitting, you could be in for a nasty surprise courtesy of the bear who always strikes when investors expect it least.

Consider a cyclical, capital-intensive play in **Magna International** (TSX:MG)(NYSE:MGA), a global automotive supplier that’s in the business of producing bodies, chassis, powertrains, and various other auto technologies. In an economic expansion, auto part makers like Magna could soar above and beyond the market indices, but the reverse is also true once the markets turn on their head.

Auto sales dry up when times get tough, and this tends to cause auto-related firms to fall into severe downturns with prolonged recovery periods. Magna collapsed 75% from peak to trough during the 2007-08 Financial Crisis after treading water for years before the economy's meltdown.

While most other stocks halved, Magna halved twice, taking almost two decades for the stock to sustain new all-time highs. When the stock did rocket higher, it resulted in massive multi-bagger gains, but only for those who bought the stock while the economy was in the roughest condition.

At the time of writing, Magna stock trades at 10 times trailing earnings, with a 2.7% dividend yield.

Foolish takeaway

When it comes to long-term investing. Defence wins championships. So, don't go all-in on the offensive, because by doing so, you could be one of the investors left holding the bag when the next round of capitulation finally happens.

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