WARNING: A Recession Could Wipe Out 50% of Your TFSA!

Description

Your Tax-Free-Savings Account (TFSA) is the best weapon you have to protect the gains on your investments. However, that means nothing if you don't make any gains in the first place. All of the tax benefits of a TFSA presume you have dividends or positive capital gains.

If you realize losses in your TFSA, the account actually becomes a liability, as you can't use TFSA losses as tax deductions to offset capital gains in other accounts.

If you're opening a TFSA with the intent to realize tax-free returns, it's crucial that you pick investments that will perform well over the long term. Unfortunately, there are some alarming trends shaping up that could call all of that into question.

The financial crisis: TSX falls 49.29%

During the late 2000s financial crisis, the **TSX** fell 49.29%, from $14,969 to $7,591.

Although stock prices quickly recovered, it was a major setback to anyone who bought stocks in 2007 or 2008. If you'd purchased the TSX in 2014, it would have taken you several years just for your holdings to get back to their previous highs.

If it happened then, it could happen again–and some economists seem to think it could happen soon. In a recent survey by the National Association of Business Economics, 70% of economists said polled said that they believed a recession would hit by 2021.

GDP forecasts aren't infallible, and not all recessions are quite like the doozy we witnessed in the late 2000s. However, it's quite clear that the present North American economic expansion has been going on for a long time. History would indicate that some type of downturn is overdue.

What to do

If you're worried about a recession, that's no reason to pull all of your money out of stocks. There are actually many reasons to think that a recession *won't* be coming soon, a major one being continued solid GDP growth in the United States. However, there are enough warning signs–manufacturing declines, inverted yield curves and others–to give pause.

In light of this, you might want to consider putting some utility stocks like **Fortis Inc** (TSX:FTS)(NYSE:FTS) in your TFSA.

Fortis is an ultra-reliable utility company that has proven itself capable of withstanding even the worst recessions. In 2008 and 2009, when the global recession was raging, the company actually squeezed out two consecutive full-year earnings increases. The stock also increased its dividend in those two years, and saw its share price fall much less than the broader TSX.

Utility stocks tend to perform better than average in recessions because their service is indispensable. Heat and light are bare essentials of life, and among the last things people would cut out of their budgets, even in periods of prolonged unemployment.

For this reason, their earnings are little affected by economic downturns compared to other stocks–as we saw with Fortis in 2008 and 2009.

By loading up your TFSA with utilities and other defensive investments like bonds and treasury bills, you provide the foundation for earning a positive return when a recession does hit.

Whether or not a recession is forthcoming, such investments can always provide solid income.

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