Is Your TFSA Ready for an Upcoming Market Crash?

Description

Trying to predict where the stock market will go over the short term is a sucker's game. You'll never get it consistently right.

I'm much more confident in my ability to project the stock market's moves over the long term. I'm confident stocks will be much higher 10, 20, and 30 years from now.

But at the same time, I can see why certain investors are [a little bearish right now]. Overall economic numbers here in Canada look to be a little tepid. Stock markets have marched higher for years now, barely taking a break along the way. And valuations look to be stretched, especially in sexy sectors like technology.

If you're a little nervous about stocks, then let's take a closer look at some ways you can protect your portfolio on the downside — all without giving up much upside potential.

Get more boring

With top North American technology stocks booming, it's easy to see why many folks have a significant portion of their net worth invested in these names. They've performed well and the future looks bright.

But investors must remember that these stocks will crater if the overall stock market falls. We saw exactly that back in late 2018, with many top tech stocks falling 30% … 40% … even as much as 50% in just a few short months.

The easy way to guard against this is to sell a portion of your tech stocks for something a little more boring, yet something that still holds some upside potential.

One example might be real estate, especially from part of the sector investors don't particularly likeright now. **Slate Retail REIT** (TSX:SRT.UN) is one such company. It is suffering a little bit from abloated balance sheet and general bearishness towards grocery-anchored retail real estate. This couldbe a massive buying opportunity.

Slate offers a diverse portfolio spanning many medium to large cities in the United States — assets I think will slowly go up in value. In fact, I can envision a world where big grocery chains use existing real estate to roll out an online grocery delivery program. Slate's portfolio is positioned nicely for such a reality.

Meanwhile, the stock trades at a low valuation of under nine times funds from operations — a number that approximates net earnings for a REIT — which is a big discount compared to its peers. Slate's cheap valuation also shows up when looking at its dividend; the stock yields 8.3% versus yields between 5% and 6% for other companies in the same space. The distribution is secure, too, with a payout ratio in the 70% range.

Fixed income

Another easy way to decrease the risk in your portfolio is to put some cash into fixed-income alternatives.

A popular way to do that here in Canada is through preferred shares. The easiest way to get exposure to that part of the market is to just buy an ETF. The biggest preferred share ETF is **Claymore S&P/TSX Canadian Preferred Share ETF** (TSX:CPD).

This ETF is large, boasting a market cap of more than $1.3 billion. That ensures there will be ample liquidity, which is always important when choosing an ETF. It has 248 different holdings, which includes preferred shares from dozens of different Canadian companies. And it offers a fairly compelling distribution of $0.05 per share each month, which is good enough for a 4.9% trailing yield.

One downfall is the ETF's management fee, which currently stands at approximately 0.6%. That's high when compared to some of the more popular ETFs, but it's about average for a specialty ETF like this one.

This preferred share ETF should give investors a good trade-off between income and capital protection. Preferred shares are a little more volatile than bonds, but they also yield a lot more than the average bond ETF.

The bottom line

Don't sweat it if you're worried about a market downturn taking a big bite out of your TFSA. By taking a few precautionary steps today, you can successfully take much of the risk out of your portfolio. Even if you're not overly concerned about a potential dip, it's never a bad idea to go a little more conservative. You'll be thanking yourself during the worst of the next bear market.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CPD (iShares S&P/TSX Canadian Preferred Share Index ETF)
2. TSX:SGR.UN (Slate Retail REIT)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/13
Date Created
2020/01/24
Author
nelsonpsmith