TFSA Investors: How to Protect Your Retirement Fund

Description

Just days after the seemingly bullish billionaire guru Ray Dalio announced that “cash is trash,” the global markets proceeded to suffer a sudden reversal of momentum, with the **Dow Jones Industrial Average** retreating modestly before finishing the last trading day in January with a violent 2.1% plunge.

The quick reversal of fortune echos Dalio’s overly bullish commentary in early 2018, which preceded one of the sharpest corrections in recent memory.

Call it the Ray Dalio effect, if you will.

While there’s no doubt that Dalio is one of the smartest investors of our time, his abysmally timed bull calls demonstrate that not even a billionaire guru can predict where the markets are headed over the short term. There are a countless number of variables and black swan events that can cause 180-degree shifts in sentiment at any moment.

While it’d be a foolish (that’s a lower-case ‘f’) to see Dalio’s bullish calls as some sort of contrarian indicator, it does make sense to temper your expectations and to reduce risk at times where it’s easy to forget what it’s like to have a significant down day.

As we head into February, I wouldn’t rule out a 10% correction like the one experienced in early 2018, with more volatility as we inch closer to another U.S. election year. It’s times like these when you’ll be looking pretty smart by holding a bit of cash on the sidelines, so you’re not unprepared when for the inevitable turn of the tides.

Hydro One

Consider lower volatility defensive stocks, with above-average dividend yields and below-average betas. **Hydro One** (TSX:H) is the epitome of an all-weather investment, the type of risk-parity holding that Ray Dalio favours in the place of low-to-no-return assets like cash in an era of absurdly low interest rates.

With a 3.6% yield, Hydro One doesn't have the richest upfront payout, but what the dividend lacks in size, it more than makes up for in the degree of stability. You see, few firms have a moat that's as wide as Hydro One's, as the company has a virtual monopoly over Ontario's transmission lines.

Regulated operations make way for some extremely predictable cash flows, but given Ontario remains the most influential shareholder, it's been tough for the firm to pursue growth outlets in the more attractive U.S. market.

The Avista deal fell through a while back and, moving forward, it'll be tough to kick growth into high gear until a massive acquisition is made. For now, growth is expected to be modest, and while the stock may not be right for everyone, I do see it as an invaluable part of a TFSA portfolio that's overweight in cyclical areas of the market.

Great defensive play

The company has a mid-single-digit earnings forecast through 2023, which is below-average, especially in an upmarket. While Hydro One is a stalwart that won't make you filthy rich, it is one of the best defensive plays you could ask for if you are, in fact, serious about mitigating the risk in your portfolio.

With a 0.15 beta, Hydro One is less likely to follow in the footsteps of the broader market, a good thing if you think the markets are going to head south in a hurry. Furthermore, I see Hydro One as a name that can continue to surge higher despite its modest growth outlook. The hunt for yield is getting tight, and as a premium bond proxy, Hydro One is poised for continued multiple expansion over the months ahead.

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