Markets Are Dropping: Time to Sell Your TFSA?

Description

Markets are plunging. On March 9, the **New York Stock Exchange** briefly closed as a sudden drop tripped circuit breakers. Global markets are falling more than they have in years.

Tax-Free Savings Account (TFSA) holders are rightfully nervous. Young savers are seeing their hard-earned savings vanish. Retirees are growing worried about the longevity of their money.

I've heard several stories in recent days of TFSA investors selling their entire portfolio with the goal of revisiting the market once conditions have calmed down. Should you do the same?

Know the odds

Legendary investor Ray Dalio, who manages one of the largest hedge funds on earth, once likened market timing to "playing poker against the best." That doesn't sounds like a winning strategy.

The truth is that few people can accurately predict short-term swings in the market. If something seems obvious to you, such as the global contagion risk of coronavirus, you have to ask yourself why this risk isn't already priced into the market.

Literally trillions of dollars in capital is reallocated daily to take advantage of even the slightest mispricings. While larger mispricings do occur, they're even harder to take advantage of. Betting that you're smarter than the market is a tough wager to make.

Ask anyone who has repeatedly tried to time the market. Professionals and novices alike will tell you that it's incredibly difficult to do successfully. Over time, stock prices tend to rise, so by getting in and out of the market, you're stacking the odds against yourself.

Pick and choose

I get it. When prices fall, there's an urge to sell what you have and call it a day. Thousands of investors do this during every downturn. But protecting yourself doesn't mean you have to time the market completely. You can greatly mitigate your risk without sacrificing long-term upside by choosing the right stocks.

Take **Hydro One**, for example. After being privatized in 2015, the company took over Ontario's energy grid. Its 30,000 kilometers of transmission lines service 98% of the province. All the company needs to do to make money is transmit electricity from power plants to customers.

Energy transmission is a pure middleman game. Power plants need to get their energy to end-users that demand it, yet Hydro One owns the infrastructure in between. This pricing power makes the stock extremely reliable during a downturn.

The opposite example would be a company like **Whitecap Resources Inc**. As an energy producer, Whitecap is directly exposed to a slowing economy. The firm was already losing money before oil prices plunged by 30% this week. With a valuation of just $900 million, it's not clear that the company can continue to raise financing to stay afloat.

Don't time the market by moving in and out of cash, but *do* take a hard look at your portfolio to understand where you're at risk. Knowing which stocks are most vulnerable can help you avoid permanent capital loss.

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