TFSA Investors: Here's What to Do Before the Stock Market Crashes Further

Description

It's horrifying to see your Tax-Free Savings Account (TFSA) down 10% in a single day after two of the worst weeks for the stock market in recent memory. That's the predicament that many Canadians found themselves in on Monday, with the **TSX Index** crashing violently, wiping out a considerable amount of wealth in what seemed like an instant.

You can't turn back time and undo the massive damage that's already been done to your TFSA. However, you *can* treat the unfortunate circumstances as an opportunity to pick up shares of your favourite businesses at a discount that only comes around every few years.

Seek a rotation if your TFSA is taking on more damage that the TSX

Now is not the time to panic. The market crash could keep on tanking as it did during the Financial Crisis, so if you find your TFSA is taking on more damage than that of the indices, you may want to rotate funds out of your riskiest cyclical stocks and into better-valued more defensive securities.

Of course, it doesn't make sense to sell a cyclical stock after it's already taken on a brunt of the damage for a potentially overpriced defensive that's been barely scathed in recent weeks. So, always consider what you'll pay and the opportunity costs of rotating holdings to mitigate risks.

With a looming oil price war on the horizon, many fossil fuel stocks suddenly look toxic, and some of them very well may be. **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) stock crashed nearly 30% on Monday in response to the news that the OPEC+ oil deal has collapsed.

While Canadian Natural was pretty cheap before the collapse, the new set of risks brought forth by what could be a US$20 oil price environment could cause CNQ stock to tank even further in a worst-case scenario.

The dividend, now yielding 8%, is completely safe and even subject to further growth. But depending on how low oil prices drop, the dividend may grow to become a burdensome commitment down the road; that's a problem, even for the well-capitalized "king" of the oil sands.

Moreover, Canadian Natural's prior oil sands project acquisitions may prove not to be such a great bargain after all should oil prices continue on a downward spiral potentially below the US$20 mark.

In any case, Canadian Natural lacks catalysts with its plethora of landlocked assets and could prove to be a risky bet for income investors amid an era of geopolitical turmoil.

As such, income investors may wish to cut their losses and go with a Canadian bank like **TD Bank** (TSX:TD)(NYSE:TD), down nearly 30% from its all-time high. While TD stock sports a smaller 5.5% dividend yield, even with the unfavourable macro headwinds, the credit downturn, and falling interest rates, TD Bank is a better bet over the next five years.

The bank will come roaring back when the tides turn and will be able to post generous dividend hikes as we move through this recession.

At 8.7 times trailing earnings, TD is also a dirt cheap dividend heavyweight like CNQ, the only difference being that the banking scene is not on the wrong side of a long-lived secular trend.

As a "dirty" energy play, CNQ will naturally be passed on by investors with a preference for ESG friendly companies. TD is a Canadian ESG leader that scores top marks and is setting an example for other Canadian companies.

Foolish takeaway

If you're looking to reduce risks in your TFSA but are reluctant to sell, consider rotating out of hard-hit, risk-on stocks for hard-hit, risk-off stocks.

The class of stocks that will give you a better chance of recovering once this nasty sell-off is over with.

Stay hungry. Stay Foolish.

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