TFSA Investors: 3 Things to Do if the Stock Market Fall Deepens

Description

You might have seen your Tax-Free Savings Account (TFSA) tanking about 15% in the last couple of weeks. However, this opportunity can be used to buy high-quality businesses, which will reap benefits in the long term.

Of course, some might argue that markets could fall further, and investments made now will not be worthy enough. Yes, that is indeed a high possibility in the short term. However, in the longer term, stock markets recover and economic cycles revert over time.

This is the time when one should think like a long-term investor and not like a trader. So, here is how one can play this market downturn.

Go defensive and buy dividend stocks

This will be the classic defensive, “sleep-well-at-night” strategy to implement if markets fall further. There are some notable dividend names available at insanely cheap valuations.

One of them is **Canadian Utilities** (TSX:CU). It has a long payment history of about 48 years of consecutive dividend increases. It yields 4.6% and has grown its dividend by almost 10% compounded annually in the last five years.

The recent fall in CU stock has made it look even more attractive. It is currently trading at $37.7, close to its seven-month low.

Another premise for investing in CU stock is its high earnings stability. Even if a severe economic shock hits in the short term, people will continue to need electricity, making the company’s bottom line secure.

Also, CU’s safe and slow stock movement will provide a necessary hedge against market volatility. Thus, given its strong dividend yield and stable earnings-growth potential, Canadian Utilities can be one safe stock to buy. Also, the TFSA will give full tax exemption to CU’s dividends as well as stock appreciation, even at withdrawal.

Pick value stocks

It was indeed challenging to pick value stocks during the decade-long bull run till last month. However, this recent decline has brought forward some worthy opportunities to the shore.

Value stocks are those that have huge growth potential and are currently trading at significantly cheap valuations.

Quick-service restaurant operator **MTY Food Group** (TSX:MTY) stock has been pummeled by approximately 25% since mid-February. It is currently trading close to its April 2018 levels at $46.6.

The company has exhibited extraordinary revenue growth in the last few years. In 2017, 2018, and 2019, its net income increased by 14%, 32%, and 20% year over year, respectively. With new stores opening, and being in the high-growth industry, the company might continue to see a terrific jump in its bottom line in the coming years.

Notably, MTY Food stock is currently trading 13 times its forward earnings. This looks insanely cheap compared to its historical valuation average, and even to peers as well.

MTY currently offers a yield of 1.5%. It has grown dividends by 14% compounded annually in the last five years. It is advisable to consider dividend growth as intensely as the stock's yield, because it plays a big role in driving investors' returns over the long term.

Cash

One can hoard cash, which will be the safest but the least attractive strategy. It will prevent any capital loss in the short term but will only lose to inflation over a period. Plus, the opportunity cost could be substantial.

Legendary investor Warren Buffett's **Berkshire Hathaway** is holding a massive US$128 billion of cash as per the latest filing. However, the cash accumulated as he was short of any lucrative opportunities in the overvalued markets in the last few years. Now that the markets have fallen substantially, the Oracle of Omaha must be putting his pile of cash to its full use.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:MTY (MTY Food Group)

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1. Business Insider
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