TFSA Investor: Don’t Make This Market Crash Mistake!

Description

With COVID-19 having sweeping effects across global economies, we’ve witnessed a severe stock market crash. In these scenarios, it’s vital for investors to stick to their fundamentals and focus on their long-term plans.

So, Canadians investors should now be especially careful with decisions they make involving their Tax-Free Savings Account (TFSA). While the market crash offers a great opportunity to buy cheap equities, investment mismanagement caused by fear can hinder an investor’s long-term TFSA plan.

Today, we’ll take a look at one panic-induced blunder that can be avoided with careful planning.

Withdrawing from a maxed-out TFSA

It’s natural for investors to feel overwhelmed during a market crash. However, selling positions due to fear often does far more harm than good in the long run.

Buying when the markets are positive and near all-time highs and then selling when markets plummet is the exact opposite of a winning investment strategy.

Exiting investments during these times is especially risky when talking about investments within a TFSA. Sure, holding some cash in a TFSA ready to scoop up discounted stocks is one thing. However, outright withdrawing funds from a maxed-out TFSA is another story.

If you were to withdraw part of your funds from a maxed-out TFSA, you wouldn’t get that contribution room back until January 2021, which means you wouldn’t be able to capitalise if the markets continue to sink in the coming days, weeks, or months.

Of course, you can always invest the money in a non-registered account, but then you’re liable for tax on any capital gains.

Stay the course, invest for the long term

Over a long horizon, the stock market tends to always recover. Most market crashes don't last any more than 12-18 months. So, instead of selling and withdrawing due to fear, the Foolish investor should be adding to long-term positions for cheap.

To harness the tax-saving power of the TFSA, consider adding a blue-chip stock like **BCE** (TSX:BCE)(NYSE:BCE).

Bell is a well-regarded dividend powerhouse, and Canada's largest telecom company. The company is looking to use its industry leading networks to lead the pack as 5G technology starts to roll out in the not-so-distant future.

With the recent market crash, Bell's stock price has tumbled down to new 52-week lows. As of writing, it's trading at $52.09, which represents a whopping 6.39% dividend yield. When a Canadian dividend superstar like Bell is so cheap, investors should have it on their radars.

With the current yield on offer, and assuming quite modest growth rates in both share price and the yield itself, a TFSA investor could turn $6,000 into over $32,000 in 20 years.

This calculation assumes that the dividends are reinvested, but it doesn't even account for additional contributions beyond the initial $6,000.

Be prepared in a market crash

The bottom line here is to be ready to strike during a market crash. While it may sound counter-intuitive, it's actually the best time to be investing for the long term.

Withdrawing money now from a maxed-out TFSA will only put you on the sidelines for the rest of the year. Remain vigilant, follow your long-term plan and continue to invest in blue-chip stocks to build wealth.

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