TFSA Investors: 3 Crucial Things to Do as the Stock Market Crash Gets Worse

Description

You might have seen your Tax-Free Savings Account (TFSA) take a massive dip due to the market correction underway in the past few weeks. While you might be worried about to the downturn in the economy, I would suggest you look at it as an opportunity.

There is a chance that this could be a full-fledged crash in the economy, and any investments you make right now might not be worth much. I agree that it is highly probable, but only in the short term. If you look at the bigger picture, you know that the stock markets will recover. It is part of the economic cycle.

I am going to discuss three crucial things you can do, as the market downturn continues to get worse before it recovers.

Go on the defensive

Re-evaluate the assets in your TFSA and invest in the shares of defensive stocks. Buying shares from stocks in Canada's utility sector can be an excellent way to go. **Canadian Utilities** (TSX:CU) has a long history of paying its dividends. It is a Canadian Dividend Aristocrat with a dividend-growth streak of 48 years.

Canadian Utilities has grown its dividend by almost 10% in the last five years, compounded annually. The stock's share prices dropped due to the ensuing recession, making it more attractive. Trading for $35.70 per share at writing, CU is close to its 52-week low.

The stock can be an excellent buy due to the nature of its underlying business. No matter how bad the economy gets, its customers will never cut the budget for their electricity. Its earnings might slow down due to the recession, but the company's bottom line is secure.

Find value stocks

We saw an utterly bullish market over the past decade. It was next to impossible to identify and pick out value investments until just a few weeks ago. With the current bear market, some attractive opportunities are springing up on the Toronto Stock Exchange.

MTY Food Group (TSX:MTY) is a stock that comes to mind. MTY is a quick-service restaurant operator that is down by almost 31% from its January 22, 2020, peak. Trading for $42.72 per share, the stock has been pummeled down to its share price from April 2018.

It is safe to say that the stock is in oversold territory. The company saw extraordinary revenue growth in the last few years. Its net income increased by 14%, 32%, and 20% year over year in 2017, 2018, and 2019, respectively. The stock currently offers a dividend yield of a modest 1.73%, but it's the potential capital gains that could make it a phenomenal value stock.

Consolidate cash reserves

Once you re-evaluate your TFSA portfolio by using defensive and value investments, you should consider using your surplus cash. While I would generally tell you to avoid keeping your capital in cash currency, the situation is different in a market crash.

As the stocks plunge further with a worsening market environment, your surplus cash can allow you to purchase discounted high-quality shares in bulk. As the market recovers, capital gains from your investments can be terrific.

Foolish takeaway

When the market crashes, stay calm and follow these steps. A defensive dividend-paying stock like Canada Utilities can keep the income coming through dividends. A value stock like MTY Food Group can likely soar and make you a wealthier individual through capital gains once the markets recover. Having surplus cash can help you scoop up shares of high-quality companies you usually wouldn't be able to buy.

It is all about being prepared.

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adamothman