TFSA Investors: 2 Ways to Protect Your Portfolio Against a Market Crash

Description

A Tax-Free Savings Account (TFSA) is a great tool to help build and accumulate wealth. However, you could lose the contribution room if your stocks fall in value. If you withdraw funds, you can recontribute the amount you withdrew in the following year.

But you're out of luck if your TFSA has simply declined in value. It is especially important that inside of a TFSA, you protect your portfolio against a market crash as much as possible. And there are two ways that you can do that.

Sticking to value stocks can protect your portfolio

As tempting as it may be to invest in **Amazon**, **Uber**, or whatever the next big IPO is, that can be a very risky strategy. Growth stocks can produce significant gains, but they can also suffer some of the most significant losses as well. The higher the price-to-earnings multiple, the more room there is for a stock to fall if it falls short of expectations or if there's a market crash and investors opt for safer investments.

That's why value investing is a much safer strategy. And while value stocks aren't immune to losses, there's less risk involved with investing in them. If a value stock has fallen due to conditions outside its control (e.g., a market crash), chances are it'll recover. As long as the company's business remains intact and unaffected, investors shouldn't be too concerned.

Invest for the long haul to outlast a market crash

If you hold value stocks, then over the long term, they'll likely continue to rise in value, whether a crash takes place or not. It's an easy way to protect your portfolio from a market crash. Take a stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) for example. It fell below $50 last week — the lowest it's been in years. While it's discouraging to investors that a normally stable stock like TD wasn't able to avoid a significant correction, that doesn't mean it won't recover.

The stock suffered significant losses during the financial crisis and during other market crashes as well. And it's come out stronger, hitting all-time highs in 2018. The top-five bank stock will grow along with the economy. And as dire as the situation may look today, investors need to remember that it's only temporary. A recession may very well happen in 2020, but even that shouldn't deter long-term investors from holding shares of TD and other value stocks.

As long as you're planning to hold your shares for at least five years, odds are your portfolio will recover. And that also leads to another important note: you shouldn't invest money that you may need in the next few months or years. If you know you'll have cash needs coming up, you may force yourself to sell the stock at a time when it may not be a good time to do so, like during a market crash.

By not pulling the funds out too early, you have the flexibility of being able to wait for the markets to recover.

That's why, if you're holding shares of TD or other value stocks, you shouldn't panic. If anything, it could be a great time to buy more shares, average down, and maybe even lock in a better dividend yield.

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Date
2025/08/20
Date Created
2020/03/19
Author
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