TFSA Mistakes: Don’t Let the Bear Market Ruin You

Description

Investing with a Tax-Free Saving Account (TFSA) is one of the smartest things you can do. Never forgo the opportunity to shield your capital from taxes.

But TFSA investing isn’t foolproof. There are some classic TFSA mistakes that millions of investors make every year. During a bear market, these mistakes can compound the damage.

Whether you’re planning for retirement or saving for your next major expense, don’t commit these costly TFSA errors.

Step one is simple

When a bear market hits, many TFSA holders *stop* investing. That’s the worst TFSA mistake you can make. It’s like going to the grocery store, realizing that everything is 30% cheaper, and refusing to buy.

Why do so many TFSA holders refuse to buy during a bear market? There are two obvious culprits.

The first factor is liquidity. When markets fall, investors see their net worth collapse. A recession may occur, causing them to go unemployed. At the minimum, the future suddenly lacks visibility, so long-term planning is reprioritized.

Limited liquidity during a bear market is a big reason why many long-term investors actually turn into *sellers*. That’s even worse than refusing to buy.

The second factor is fear. Imagine going to the grocery store and refusing to buy after prices fall 30% because you believe they’ll continue to fall *even more*. While that may be true, you’ll go hungry in the meantime.

Investing is a bit different, however. If you’re too fearful to invest more capital, you’re not immediately told how much that potential investment *could* have been. You’ll only know in hindsight. This mismatch is what makes it so easy to skip contributions, even though the long-term impact is huge.

The solution to this mistake is simple: Keep investing throughout the bear market. Buy at cheap prices, and be prepared to buy at even cheaper prices. Maintain a long-term horizon. Be happy to buy at lower and lower prices.

Step two is harder

Step one is to keep buying, which can be done through automatic contributions. Most TFSAs allow for this. You can establish recurring deposits of $100 every week, for example, which is automatically invested.

Step two is to ensure that you can *continue* to keep buying. The most demoralizing TFSA mistake is to want to keep buying, but to be unable to.

Your first action should help you maintain liquidity throughout the crisis. Without fresh capital, you can’t keep buying. Revise your budget from top to bottom. If you don’t have a budget, build one today. Understand how much money you have coming in and analyze where it’s spent.

Identify weak points in your financial life. How long can you survive unemployment? Do you have any debt that will need to be paid regardless of where the market heads? Which spending buckets can be reduced to create more capital for investment?

Without a budget, you’ll be flying blind. Even if you’re meticulous about your saving and spending, stress test your finances to understand your bear market vulnerabilities. By reviewing and optimizing your entire financial life, you ensure the capability of buying for months, even years into the future.

The final step is to build your buy list. Don’t just look at companies you already own. Scores of high-quality stocks are now on sale. Some bargains will be a limited-time affair.

After your financial house is in order, build a list of stocks that you want to own for a decade or more regardless of what happens in 2020.

Dirt cheap stocks are everywhere. Build a list and be prepared to strike.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/26
Date Created
2020/03/25
Author
rvanzo