TFSA Investors: 2 Steps to Shield Your Money From the Market Crash

Description

I cannot talk enough about the Tax-Free Savings Account (TFSA). It is the ultimate savings and investment vehicle designed by the Canadian government for its citizens to help them better manage their finances. The TFSA is a fantastic tool to help you build and accumulate substantial wealth. However, you can lose your contribution room as the markets plunge.

If you withdraw any funds from your TFSA, you can recontribute the same amount the next year.

Your TFSA losing its value, however, is an entirely different matter. It is critical to protect your capital within a TFSA against the ravaging effects of a stock market crash. I am going to discuss two possible ways you can achieve some level of protection for your TFSA portfolio in these trying times.

Stick to value stocks

The TFSA protects you from taxes on any capital gains you earn in your account. It may make it tempting to buy up shares of all the most significant companies you can think of. Where you might be inclined toward the likes of **Uber** and **Amazon**, I would advise practicing some restraint.

Growth stocks are tempting for your portfolio, but they can also suffer some of the most substantial losses. The higher the price-to-earnings ratio, the more room there is for the price of the shares to fall. In an economic crisis, that is not what you want to hold on to in your TFSA.

Value investing is a safer strategy. The stocks are not immune from the effects of a market crash, but the equities are less susceptible to steep declines. As long as the underlying company remains intact, value stocks offer you a worry-free option.

Consider a long-term approach

I think the best way to use your TFSA is for long-term investments. Value stocks are likely to grow substantially in the long run. While it might sound surprising to hear, the **Toronto-Dominion Bank** (TSX:TD

)(NYSE:TD) could technically be considered a value stock right now.

At writing, the stock is trading below $55 per share. The current price of TD shares is the lowest they have been for several years. As an investor, it might be off-putting to see a reliable stock like TD plunge with the broader market pullback. Still, I don't think that you can count TD as being down and out.

The stock is suffering substantial losses during the ensuing market pullback. It also incurred significant losses in previous market corrections. The bank has, however, come back stronger every time. It hit all-time highs in 2018. An integral part of the Big Five Canadian banks, TD might look like it is in a dire situation right now. But I think it could potentially be a phenomenal value stock for your portfolio.

Foolish takeaway

As the COVID-19 pandemic rampages on and the oil price wars continue to worsen, it is becoming increasingly important to take protective measures for your capital. I think investing in the TD stock for your TFSA portfolio could help you become a wealthy investor as the markets recover.

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