TFSA Investors: 1 Industry to Stay Far Away From

Description

If you're a Tax-Free Savings Account (TFSA) holder, then you know how important it is in choosing the right stock to put in your portfolio. If you're too risky with your investments in a TFSA, you could lose your contribution space if you incur stock losses and don't make it up with profits or dividend income in other investments. And, unfortunately, during the coronavirus pandemic, many stocks are well into the red this year. Some may recover, but there are others where it may be just the beginning of worse times ahead.

The stocks TFSA investors should avoid

One industry where I wouldn't invest in today is oil and gas. It was risky before the coronavirus pandemic hit, and now it's become a waiting game to see which companies will be able to survive. Layoffs and cutbacks in spending are nothing new for the industry. But now, those cost reductions need to be even more severe. And there's no guarantee that will save them, either.

Take a company like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) for example. On Mar. 9, the company announced that it would be reducing its capital spending for 2020 by 32% as a result of the price war involving Saudi Arabia and Russia and the fear that a low price of oil could put pressure on the company's financials. There's hope that oil prices could recover, but it's a reminder of just how volatile they can be and it's still a big risk that Cenovus is facing today.

Then, on Apr. 2, the company announced that it would be implementing even further cost reductions. In addition to the $450 million that it cut from its capital spend on Mar. 9, the company would be reducing its budget by another $150 million. On top of that, it's also forecasting more cuts to its general and admin costs. The company also announced it would be temporarily suspending its dividend as well.

But the longer the coronavirus pandemic is an issue, the more of these cuts the company may need to make. In two of the past four years, Cenovus has reported a net loss, and it'll be a challenge to stay out of the red this year again.

As a result of the poor outlook, shares of Cenovus have been cratering. During the first three months of

2020, Cenovus stock fell just under 80%. Other stocks have suffered similar fates. Even energy giant **Suncor** fell 44% during the same period.

What should TFSA investors hold in their portfolios?

There's no easy decision for TFSA investors today. But one thing's clear: don't get too attached to a dividend. Dividend suspensions and cuts have been the norm of late, and if you're investing solely for a monthly or quarterly payout, you could be disappointed. No one knows how long the coronavirus pandemic will last, and that's why it's more important than ever to invest in companies that have strong, solid businesses that aren't dependent on a strong commodity price.

Utility stocks, for instance, could be a great place to invest right now, as they'll still be in demand. While investing in retail may be risky, grocery stores are likely safe buys as well. But regardless of where you invest, you should consider the strength of a company's financials.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

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