TFSA Investors: The Biggest Mistake You Can Make Today

Description

If you're a Tax-Free Savings Account (TFSA) holder and you've incurred some hefty losses in 2020, it may be tempting to just sell and salvage what you can of your portfolio. However, that may be the worst thing you can right about now. Although some stocks have recovered, many are still at levels not witnessed in years before this recent market crash.

If you sell at a loss in your TFSA, you can end up losing your contribution room for good. You won't be able to re-contribute just because you've incurred losses. That's why when it comes to a TFSA, investors should avoid incurring losses as much as possible.

But if you've invested in a speculative stock or one that's not likely to come out of this market crash in good shape, then you may have no other choice; in that situation, your losses may only get larger.

Why you shouldn't sell blue-chip stocks right now

If you've invested in a safe dividend stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY), you can just keep it in your portfolio and wait for it to recover. Shares of RBC were down as much as 30% at one point this year, which is unheard of for a bank stock over a period of five years, let alone a few months.

However, that's a good sign that the markets have overreacted. While RBC and bank stocks may be in for a tough year or two due to the coronavirus, they're still strong long-term investments.

As long as the economy recovers — which it will — shares of RBC and other blue-chip investments will recover. It just make take a while for that to happen. The selloff in the markets this year is extreme and completely overdone. For TFSA holders to sell right now, when the markets still have a long road to recovery, is not optimal.

As of the end of March, the **TSX** was barely above 13,000, which is even lower than the low it reached in December 2018, when the markets had their last big selloff. Prior to this market crash, the TSX hasn't been this low since 2016. In essence, many stocks are trading at levels not seen in nearly four years.

If somebody had told investors two years ago they could buy RBC or another stock at the price that it was at four years ago, they'd probably jump at the opportunity to do so.

And while the coronavirus presents a new problem for stocks and investors to consider, it won't hamper RBC's ability to turn a profit five years from now or to continue growing. While it may impact the next few years, it's not going to weigh down the stock forever.

Selling shares right now would only make sense if investors believed that RBC and other stocks were going to head even lower; that's not a likely scenario, especially over the long term.

Unless you really need access to cash in your TFSA, in most cases, you may be better off just hanging on for now.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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2. TSX:RY (Royal Bank of Canada)

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