TFSA Investors: How to Take Profit From the Market Rally

Description

TFSA investors are a smart bunch. They know that the best investing trick in history is to permanently shield your capital from taxes. That's exactly what a TFSA allows you to do. The recent market rally looks like a great time to be investing, especially if your gains are completely tax free.

Just be careful: short-term market fluctuations are difficult to predict. Always be sure to keep a long-term outlook. If you do that, you can take advantage of *every* market swing.

Want to bet on the market rally as a TFSA investor? Here's how.

Should you trust the market rally?

It's not clear that the recent market upturn should be trusted. Let's look at the facts.

Last month, Trudeau released the worst jobs report in Canadian history. The U.S. report was similarly bleak. More than 10% of the population is now unemployed. By some metrics, the jobless population exceeds 20%. This has occurred amid a decade-long stagnation in real wages.

Despite the reopening of some economies — a partial cause behind the latest market rally — it's not clear that we'll get back to baseline anytime soon. A second wave of the virus, real or imagined, could hinder a return to normalcy, whether it's through consumer spending or simple foot traffic.

But it's not just the coronavirus. Canada has *another* challenge that could be far worse in the long run: oil.

The energy sector accounts for 10% of Canada's GDP. It contributes billions of dollars in government tax revenue. It employs tens of thousands of people directly but indirectly accounts for many more. A huge chunk of the industry, however, could vanish over the coming years, even if the stock market continues to rally. That's because oil prices remain in the gutter.

At the start of the year, oil prices were at US$60 per barrel. Today, they're closer to US$20 per barrel.

The majority of Canada's oil production requires US$30 per barrel prices or higher simply to break even. Some mega-projects that employ thousands of people need oil prices to remain above US$40 per barrel to turn a profit.

If oil prices remain depressed, these projects could exit the industry *permanently*. This possibility hasn't been priced into the market, but it could be a blow even larger than the coronavirus pandemic.

How to profit

What does all of this mean for a TFSA investor? Should you stop contributing to your investment accounts in anticipation of another bear market? Possibly, but the best path forward is simply to keep a long-term outlook and continue to invest on a regular basis.

Just take a look at the **SPDR S&P 500 ETF**. In 2008, a market rally pushed the ETF to $156. That was the top of that bull market. Over the next few months, the price was cut in *half*.

But long term, it wouldn't have mattered much if you put money to work at those all-time highs. Today, following the latest crash and recent market rally, the S&P 500 ETF is priced at $285. So, even by investing at the very peak of the 2008 market, you'd still wind up with a long-term profit of more than 70%.

The key for TFSA investors is to continue to invest. Always be putting money to work, during a market rally and a market downturn. History has proven that if you're willing to be patient, it's always a good time to invest.

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