TFSA Investors: How to Stay Rich During the Coronavirus Typhoon

Description

Warren Buffett sounded very cautious during the 2020 **Berkshire Hathaway** annual shareholders meeting. He brought up the Great Depression and noted that while stable investments like utilities may not make investors rich, they'll certainly allow them to "stay rich" during times of tremendous market turmoil.

Like Buffett, you should be optimistic about the stock market over the long term, but you should heed his advice by picking your spots carefully with your Tax-Free Savings Account (TFSA) and not going 100% in stocks at any one instance in time. Many investors seek to get rich off stocks, with little consideration for one's true risk tolerance.

What's the real downside risk in this uncertain market?

It's likely that many of today's retail investors view the Great Recession as a "worst-case scenario" for stocks.

Heck, many financial advisors ask their clients if they're comfortable with their investments losing half of their value to get a gauge of their risk tolerance. What they should be asking is if investors are comfortable losing +80% of their investment in a Great Depression-like scenario, with an L-shaped recovery that could take many years or decades!

There's no question that most beginner investors would say "no way," and they'd be scared out of investing. However, in an era of the coronavirus, investors should really be prepared for *anything*, even a depression environment, so they're not in a position to become financially ruined should an unfathomable worst-case scenario come to be.

Nobody, not even Warren Buffett, knows where the market is headed next or just how bad the damage could get.

Given the unprecedented amount of fiscal stimulus provided by the U.S. Federal Reserve, it's unlikely that we'll have a repeat of the Great Depression, but that doesn't mean we can't suffer a bear market that could rival the one that clawed stocks during the Great Recession.

In any case, investors should have a portion of their TFSA portfolio in “bond proxies” that can allow an investor to “stay rich” and preserve their wealth, rather than risking one’s entire net worth on opportunities that could make one even richer.

Staying rich is arguably more important than getting richer

So, if you’re like Buffett and value “staying rich” as much as, if not more than, “getting rich,” consider an all-weather investment like **Fortis** (TSX:FTS)(NYSE:FTS), which can tilt the risk/reward in your favour amid these unprecedented times. Even if you’re a raging bull on the economy’s chances at posting a V-shaped recovery from the pandemic, you should still have a section of your portfolio allocated to such bond proxies that can buoy your portfolio when the market waters become that much rougher.

Fortis has regulated cash flow streams that allow for nearly guaranteed 5-6% in annual dividend hikes in an era where dividend cuts could become normalized. There’s no telling how long the pandemic is going to last, but fortunately, it matters less to Fortis, which will face minimal interruption relative to most other businesses out there.

Given the peace of mind that Fortis offers in these highly uncertain times, it’s baffling that the stock trades at a mere 1.4 times book, 2.6 times sales, and 10.8 times enterprise value/EBITDA. Fortis stock sold off modestly alongside everything else during this pandemic, which I thought made no sense given Fortis is one of the few names that can offer a glimmer of certainty in these most uncertain times.

Foolish takeaway

If you’re looking to maintain a cautiously optimistic stance on the economy, like Buffett, you may want to buy Fortis stock and collect the growing 3.6%-yielding dividend, rather than seeking to be a hero in highly speculative bets that could blow a hole in your TFSA.

Stay hungry. Stay Foolish.

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