



TFSA Investors: How to Invest During the Bear Market

Description

The recent bear market has been difficult. Everyone has been impacted, including Tax-Free Savings Account (TFSA) investors. But if you're willing to play the long game, the current crisis could be a *benefit* for your portfolio.

If you use a TFSA, you already know about its tax advantages. All dividends and capital gains are permanently shielded from taxes. Withdrawals, which can occur at any time, for any reason, are also tax free.

But simply having a TFSA doesn't mean that you're using it to its full advantage. There are a few [tips](#) that you can use to make sure that your portfolio can transform the short-term volatility into [long-term wealth](#).

The first step to take is something that every TFSA investor should implement immediately.

Take this step today

Don't laugh, but the most valuable thing you can do as a TFSA investor is to turn yourself into a robot. Human beings are fallible. Algorithms are not. Let's look at a classic example.

Behavioural psychologists have studied the *default option* phenomenon for decades. Here's how it works. Let's say I want you to switch your electricity to renewable energy. On your next utility bill, I include an unmarked checkbox where you can indicate that renewable energy is your preference. This is called opting *in*.

Opt-in methods require the person to take action in order to make a change. Your default option — the choice you'll make if you do nothing — is to stick with conventional electricity.

The opposite to this is opting *out*. Instead of giving you a choice and requiring you to take action, I'm going to automatically enroll you in renewable energy. To stop this change, you need to proactively opt out. If you do nothing, therefore, your default option is actually to enroll in renewable energy. Laziness

results in the desired action!

But how does this information benefit the average TFSA investor?

There are two keys to successful investing: returns and contributions. We'll get to generating returns next, but the contribution side is *completely* in your control. How much money you make is a function of how much money you put in. Regular contributions are critical.

But what *is* your default option when it comes to contributions? Without you taking action, you add \$0 to your TFSA. The secret is to make laziness work for you. That's what you get by turning on *automatic* contributions, a TFSA investor's best friend.

Most TFSAs allow you to make automatic contributions. These are contributions that occur regularly without you lifting a finger. For example, you can have the account automatically withdraw \$500 from your bank account each month.

Whatever your dollar amount or frequency, establish automatic contributions today. That way, all you have to do is wait for your contributions to pile up.

TFSA investors can be bold

TFSAs are perfect for long-term investing. The tax advantages are most valuable when applied against years of gains.

As a TFSA investor, you shouldn't be afraid to continue putting money to work. This is by far the best strategy to take during a bear market if you can maintain a long-term view. Take a look at previous recessions. Every part of the cycle was a buying opportunity, even at the very top.

TFSA investors should invest consistently, when prices rise *and* when prices fall. Automatic contributions help you do this, but you also need to pay close attention to which stocks are going on-sale due to short-term challenges, taking advantage of the dips for long-term gain.

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Author

rvanzo

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