Market Crash Phase 2: How to Protect Your TFSA Wealth

Description

Hope for the best and prepare for the worst. That's the mantra that Canadian investors should subscribe to, as the coronavirus disease (COVID-19) continues wreaking havoc on the global economy. Fed chair Jay Powell recently noted that the U.S. economy could "easily" shrink by up to 30% on the coronavirus, as the world waits for the arrival of an effective vaccine that could take many years.

If your Tax-Free Savings Account (TFSA) investment strategy is to bet on the hardest-hit areas of the sector to maximize your upside potential in the event of a V-shaped recovery, your portfolio could implode in the event of a retest of those March 23 market lows.

How likely is a second phase of the 2020 market crash?

Most severe market crashes tend to be more W-shaped in nature. The first plunge is driven by panic and the second is primarily driven by data, which suggests the harsh reality that a recovery could take a lot longer than initially expected. Many big-league money managers seem to be pretty skeptical about this bear market rally, as the **S&P 500** has already surged above and beyond the year-end price targets of various investment banks.

With horrible earnings and economic numbers to be released over the coming weeks of what could be the worst quarter in modern times, investors should not rule out another market crash. For investors looking to prepare, it may be wise to take a bit of profit off some frothier holdings and put it to work in some of the cheaper, more defensive areas of the market that will be able to hold their own if we're headed for phase two of the 2020 market crash.

There remains a profound haze of uncertainty that's clouding the "coronavirus timeline," as the economy looks to re-open and heal after one of the worst socio-economic disasters in recent memory. As such, investors should heed Warren Buffett's recent words of wisdom by acknowledging that they have no idea what the markets will have in store next and prepare for a wide range of possible outcomes.

A great safety play to ride out another market crash

With limited visibility on the production of a vaccine, investors should seek to rotate out of "overvalued" stocks that have fully recovered and look to scale into cheap defensive dividend stocks such as **Fortis** (TSX:FTS)(NYSE:FTS), which is in a spot to better hold its own should another market crash happen within the next few months.

Fortis might not have jaw-dropping upside potential if an effective vaccine were to land from out of nowhere. But if the markets were to roll over again, Fortis will face dampened downside, effectively acting as some sort of insurance policy for your portfolio. Moreover, as dividend cuts become normalized, Fortis will be bucking the trend by hiking its dividend by 6% every single year, regardless of what ends up happening next with the coronavirus.

The company recently missed on first-quarter earnings, with EPS of $0.68, falling short of analyst expectations of $0.73 thanks in part to mild coronavirus pressures. Despite the bottom-line miss, the company reaffirmed its 6% dividend-growth guidance through 2024.

Foolish takeaway

FTS stock trades at 11.1 times EV/EBITDA at the time of writing and is a great value bet for wary investors that are looking to play defence, as the stock market inches into overvalued territory. Fortis is by no means a sexy stock, but at current valuations, it looks to be one of the more prudent plays on the **TSX Index** at this market crossroads.

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