TFSA: Here's How I'd Invest $6,000 if the Market Crashes Again

Description

If you've yet to invest this year's $6,000 Tax-Free Savings Account (TFSA) contribution because of the off-the-charts volatility we've experienced because of the coronavirus, you're not alone. While I'd never advise timing the market, I do think it's only prudent to have a "Plan B," with a bit of cash on the sidelines, defensive stocks, hedges, bond proxies, and all the sort, just in case the stock market crashes again.

At this juncture, it seems as though most investors have already bought into a V-shaped economic recovery. Promising vaccine news has made stocks that were the hardest hit by the coronavirus rally with fury this week. While it's good to be cautiously optimistic while you put money to work in your favourite stocks today, it's always wise to be prepared, at least in part, for a worst-case scenario to unfold.

The COVID-19 pandemic could potentially drag on into 2021 and beyond. And given the likelihood of a second outbreak that could hit before an effective vaccine is broadly available for distribution, a second market crash, I don't think, would be out of the ordinary.

How am I investing with my TFSA given the unprecedented amounts of uncertainty?

You've probably heard the "barbell approach" being tossed around in the financial media of late. The approach entails balancing your investment across the two extremes: resilient stocks that can hold their own (or even benefit) if things get worse with this pandemic and borderline speculative stocks at ground zero of the coronavirus crisis that will move violently on coronavirus news.

A name like **Shopify**, which has enjoyed pandemic tailwinds, belongs to the former category, while a name like **Air Canada** (TSX:AC), which is effectively a play on the arrival of a vaccine, is a play on the latter.

You may already have a barbell-style portfolio without even noticing it. And you should seek to strike a balance of the two extremes, rather than ditching all your most at-risk stocks at a loss and risking missing out on tremendous upside in the event of a timelier-than-expected arrival of a vaccine.

Many TFSA investors are rushing out of names at the “at-risk” extreme of the barbell, because the line between investment and speculation has been blurred with such names as Air Canada. Such a hard-hit stock could be a potential multi-bagger if a coronavirus vaccine were to arrive sooner rather than later, though, making the at-risk name worthy of a spot in an investor’s portfolio, provided that the investor also has a weighting in COVID-19-resilient stocks should the pandemic drag on for another few years.

What stocks would I look to if the market rolls over again?

Air Canada is a play that could sustain further damage if a second wave of coronavirus cases hits us later in the year. The Canadian airline stock has become an all-or-nothing speculation, but it’s a speculation that’s worth taking, especially for those who strike a balance at both ends of the COVID-19 barbell.

Shares of AC are likely going to continue to be turbulent, and should they fall back into single-digit territory, I’d consider nibbling into a position, as the discount to book widens (shares currently trade at 1.04 times book) with a portion of my TFSA. Air Canada is a play on the timely arrival of a vaccine, and should it land before the next coronavirus resurgence hits, there’s no telling how high AC stock could fly.

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