Prep Your TFSA: A Market Crash Could Take Out 40% of It

Description

Most headline news today warns of a potential market crash. Investors are on edge again because stock prices could fall and wipe out 40% of investment value. You could incur the same massive losses even if your stock holdings are in a Tax-Free Savings Account (TFSA).

Several factors threaten the investment landscape. COVID-19 remains the prime nemesis because the pandemic is shrinking the global economy. The secondary threat that can heighten uncertainty is the November presidential elections in the U.S.

Historically, the stock market recovers from sever crashes. But why wait for the rebound when you can preserve capital and still optimize returns? The best preparation for such eventuality is revisiting your TFSA portfolio allocation and prepping it up with a defensive asset against the market risks.

A standout asset

In the **TSX**, the utility sector is home to recession-resistant stocks. Thus far, in 2020, it's outperforming the general market (+8.01% versus -2.93%). Names such as **Fortis** and **Emera** are among the top choices of risk-averse TFSA investors.

However, **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) seems to be the most resilient in the pandemic environment. Current investors are winning by 15.75% year to date and enjoying a 4% dividend.

Perfect for TFSA

Algonquin should appeal to TFSA users. The $12.18 billion company operates non-regulated and regulated utilities. However, there's more focus on renewable power assets such as solar and wind. Some of its older facilities use wood pellets from waste wood instead of natural gas and coal.

The stock's resiliency is evident in the 2020 health crisis. It dropped to a low of $13.46 on March 23,

2020. Had you invested $10,000 on December 31, 2020, the value of your investment would have fallen to $7,583.10.

As of October 9, 2020, Algonquin is trading at $20.57 per share. Thus, there’s capital preservation plus a gain of $1,588.73. Since the stock pays a 4% dividend, investors have a tax-free income of $463.55.

Algonquin is well positioned to see further growth in its unregulated renewable power business and deliver outsized gains. The company started paying dividends in 2012. As the payout ratio is less than 60%, the payouts should be safe and sustainable. The chances of increasing the yield are high too.

Management desires are to align the company’s resources and expertise to its Environmental, Social, and Governance impacts and conduct its business responsibly. There are tremendous growth opportunities for utility companies using renewable energy than traditional energy sources.

You can consider Algonquin as a global leader in renewable energy, given its portfolio of long-term contracted hydroelectric, solar, and wind generating facilities. The installed capacity is over two GW, and more than 1.6 GW of incremental renewable energy capacity is under construction.

Finally, Algonquin belongs to the Top 10 of Corporate Knights’ Global 100 Most Sustainable Corporations in the World. The company is expanding through acquisitions. It will invest around $9.2 billion from 2020 to 2024 to strengthen its infrastructure and add more renewable power to the generation portfolio.

Stable footing

Losses are inevitable in a market crash, even for TFSA investors. However, you can fortify your portfolio, preserve capital, and optimize returns by adding defensive assets.

CATEGORY

1. Dividend Stocks
2. Investing

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