TFSA Investors: Avoid The Biggest Mistake if the Market Crashes Again

Description

Human beings are of course emotional creatures. No matter how logical we become and how systematically we approach life, it's nearly impossible to disregard human emotions completely from our decision-making process. That's why we have laws, so we won't be swayed by emotions and do what's right. But it's very difficult on a personal level and requires a lot of discipline.

Fear tends to be one of the most potent forces behind a lot of our emotions. It nudges us to make wrong impulsive decisions. This is something you see a lot in the stock market. The fear of losing everything when the market is going down is enough to force people to act without thinking. They make mistakes, and one of these mistakes can be very costly.

The biggest mistake

One of the biggest mistakes you can make during a market crash is to exit your position at a loss. You might see a company declining by 20% or 30%, and you might think that instead of losing everything, you can mitigate your losses, even it means selling around the time when the company has bottomed out.

Something is better than nothing, right?

Wrong. This is one of the biggest mistakes investors make. It erases years of growth in one day. But when you see everyone selling, you are tempted to join the selling frenzy. You might sell when the company has hit rock bottom (or is about to hit rock bottom). It's a mistake, but it has a proper rationale behind it, and that's how you have to counter it: by rationalizing your fear regarding the companies you've invested in going bankrupt.

You can look into the company's assets, balance sheet, and what measures it has taken to ensure that it stays afloat. Look at **Air Canada,** it's bleeding out millions every day, and it's still far from bankruptcy. **Suncor** slashed its dividends but haven't eliminated them. Even factors like government subsidies and bailouts should be taken into account before you sell off a company at a loss, *just* because everyone else is doing it.

Another market crash

Rather than brutalizing your portfolio with your own hands during the next crash (by selling stocks at the bottom), you can use the market crash to strengthen it by adding stock like **Capital Power** (TSX:CPX) in the mix. This Edmonton-based company has a market cap of $3.1 billion and is currently offering a very juicy yield of 6.89%. While the payout ratio is not ideal, it's safe enough.

A monthly dividend payer like Capital Power can be a very profitable addition to your TFSA investments. Even if you invest less than one-third of your Tax-Free Savings Account (TFSA) into the company, that is, about $20,000, you can start a monthly dividend income of about $114 that could help you take care of a few small expenses.

Foolish takeaway

Controlling sentiment, especially when the whole world and everyone around you are panicking and uncertain about the future, is difficult. That's why it's important to follow an investment strategy, which includes market crashes and recessions. It doesn't have to be set in stone, and you can modify it as you learn more, but having a plan or certain guidelines can go a long way in preventing you from making impulsive investment mistakes.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/21
Date Created
2020/11/02
Author
adamothman