Prep Your TFSA: A Market Crash Could Wipe Out 50% of It

Description

COVID-19 continues to threaten global economies and the investment landscape. The second wave of coronavirus forces many countries, including Canada, to implement strict lockdown measures again. On November 23, 2020, the government reported the highest number of new COVID-19 cases (5,713) in a single day.

According to Alberta's Dr. Deena Hinshaw, the province has reached a precarious point in the pandemic. There were 1,549 new cases, raising the number of active cases to 13,166. Despite news of a 95% effective COVID-19 vaccine coming soon, the market is vulnerable to another crash.

If you have stock investments in your Tax-Free Savings Account (TFSA), it would be best to review your holdings and prep your portfolio if necessary. A pandemic-induced market crash could wipe out 50% of the investments' value.

The fall of a Dividend Aristocrat

A case in point is **Cineplex** (TSX:CGX), an erstwhile Dividend Aristocrat that many income investors held in their TFSAs. The iconic movie theatre chain operator and media company were among the highest dividend payers until the arrival of COVID-19. Movie theatres and entertainment venues had to shut down to contain the spread of the deadly virus.

If you held Cineplex shares in your TFSA on March 16, 2020, you lost 54% of its value. The stock price sunk from $20.41 to $9.33 in one day. As of November 23, 2020, the share price is $9.22, while the year-to-date loss is a staggering 72.64%. This entertainment stock has been paying an average 5.89% dividend over the last five years.

COVID-19 had a horrible impact on all aspects of Cineplex's businesses. The company suffered significant decreases in revenues, operations, and cash flows. Since March 2020, its daily net cash burn was between $15 million and $20 million. In Q3 2020 (quarter ended September 30, 2020), the average net cash burn per day was $16.6 million monthly.

Cineplex posted a net loss of $121.2 million after three quarters in 2020 compared with $13.4 million net income in the same period last year. Total revenue fell by 85.4%, while theatre attendance dropped by 91.1%. The stock lost its appeal as a core holding in a TFSA due to the pandemic. Like airline stocks, recovery might take years.

Prep recommendations

Review the asset allocation in your TFSA. Cash, bonds, GICs, mutual funds, ETFs, and stocks are the eligible investments in a TFSA. The first line of defence against an imminent market crash is diversification. You diversify the risks by having exposure to various asset classes.

What you can do next is to review the asset allocation to see if you need to rebalance the portfolio. Identify which of the basket's assets is the bad apple or investment that will not endure the crash. Move to safer assets like cash, bonds or pandemic-resistant dividend stocks.

For example, the distribution could be 50% cash, 25% bonds, and 25% stocks. The allocation depends on your risk appetite and how it aligns with your financial term goals.

Be on guard

Some businesses will suffer in a market crash, others will display resiliency, and new ones will benefit from the emerging environment. The sound advice to TFSA users is to be on guard and prepare.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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