A Market Crash Could Wipe Out 30% of Your TFSA: Here's How to Prepare

Description

Tax-Free Savings Account (TFSA) users have the same optimism as other stock market investors heading into 2021. The **Toronto Stock Exchange** (TSX) is over the COVID-19 hump and on track to finish 2020 in positive territory. As of December 11, 2020, Canada's primary stock market index is enjoying a 3.11% year-to-date gain.

Despite the dramatic volatility for most of the year, the TSX endured the pandemic's carnage. With news of the vaccines rolling out soon, it should be smooth sailing next year. Bull market predictions outnumber the negative scenarios, although no one can be 100% sure.

A market crash comes like a thief in the night. If it does, it could wipe out 30% of your investments' value, and you'd never recover the losses. Thus, preparing your TFSA for any eventuality is key to mitigating the risks or minimizing losses. Make informed decisions and choose investments that can overcome an unexpected turn for the worse.

Rosier outlook in 2021

Investors who deep dive into revenue and earnings before making an investment decision had a hard time in 2020. It was impossible to use them as a gauge since nearly all companies experienced fallout from the pandemic. It was investing at your risk, given the heightened volatility.

The outlook for 2021 is rosier due mainly to the COVID-19 vaccines that could end the pandemic once and for all. Many analysts see them as massive tailwinds. Companies that have struggled could rebound and shine again. The general sentiment is that there will be no more huge surprises and market shocks next year.

Climb to Mt. Everest

Still, TFSA users must be ready for anything. Many ask whether the vaccines are indeed effective. What if the vaccinations can't protect against transmission of infections? Aside from efficacy, global distribution is a challenge. Dr. Kate O'Brien, World Health Organization's director of immunization, said, "Getting to vaccine efficacy is like building a base camp at Everest, but the climb to the peak is really about delivering vaccines."

Defensive strategy

You can make your TFSA a fortress by adopting a defensive strategy. **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) is proving to all and sundry in 2020 that it's a reliable income stock regardless of the market environment. The utility stock's year-to-date gain 58%, while the dividend yield is a decent 3.01%.

The emerging giant in the renewable energy space operates hydroelectric, wind, and solar facilities in North America, Latin America, Europe, and Asia. Since 2015, its power generation capacity has increased six-fold. A host of development projects will boost its capacity further. Over the last 20 years, the $13.52 billion renewable energy company has delivered an annualized total return of 18%.

Management's target in the long-term is 15% total return. The estimate appears conservative as Brookfield Renewable could even exceed that goal. Since dropping to $34.36 on March 23, 2020, the stock is trading at $73.81 today, an incredible 115% appreciation. Brookfield Renewable can fortify a TFSA stock portfolio.

Don't allow your contribution room to shrink

A decline in investment value in your TFSA means less money to withdraw. Similarly, a market loss can shrink your future contribution room. Rebalance your portfolio now by adding defensive assets to protect your capital.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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