



TFSA Investors: Prepare for a 2021 Stock Market Crash

Description

Tax-Free Savings Account (TFSA) investors rejoice as we enter a new year! First, it's the classic opportunity to take a good, hard look at your portfolio, set some goals, and adjust your strategy if need be. Second, you get a clean slate. Mistakes made in 2020 can be lessons for 2021. You have a year of experience under your belt; use it wisely to profit in 2021. Third, the Canada Revenue Agency has authorized a \$6,000 TFSA contribution increase! Who isn't happy about more tax savings?

A market correction in early 2021?

You could put that \$6,000 to work on January 1, or perhaps you may want to wait and feel out the market. Since stocks have been seeing a massive bull rise, my preference would be to wait. Markets never rise in a straight line. While I believe stocks will continue to do well in 2021, [there is bound to be a correction or crash](#). It could be some negative COVID-19 news (i.e., a new strain), a stutter in vaccine deployment, bad economic data, or an increase in interest rates.

Those will be some of your best opportunities to deploy that \$6,000. Regardless of a market crash, you want to own great companies in your TFSA. Since it is a tax-free account, you can't claim any losses to offset gains in non-registered accounts, so choose your winners wisely.

Use market fear for your TFSA gain

One lesson I learned in 2020 was to take advantage of other investors' fear. If markets start freaking out, that is the time for me to pull out my stock wish list and start buying. It is important to be prepared in advance. If the market correction has no impact on the fundamentals of the businesses on that list, I should most certainly be doubling down.

One **TSX** stock that I'm holding extra room in my TFSA for is **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)). This stock has had a tremendous run in 2020. Accounting for a three-for-two stock split in early December, the stock is up over 68% this year. As investors increasingly become conscious about creating a green future, renewable stocks like BEP have become incredibly popular.

BEP is one of the largest pure-play operators and developers of [renewable power](#) on the planet. It has \$52 billion worth of hydro, solar, distributed generation, and wind assets that power 19,400 MW of electricity. Typical of its Brookfield name, BEP searches out value-priced assets or projects, recapitalizes them, and then utilizes its operational expertise to turn them into world-class power-production facilities. I like this TFSA stock for the long run for a few reasons.

Firstly, corporations and governments are aggressively pursuing carbon-reduction initiatives. BEP has the products, scale, and assets to meet help meet these initiatives. It is an ideal partner across the globe.

Secondly, renewable power assets, like solar, are now some of the most efficient sources of power production. BEP acquired a 1,200 MW solar project in Brazil. It will be one of the largest solar fields in the world. Likewise, it has an 18,000 MW development pipeline that would double its power production capacity.

Lastly, the company is well capitalized with \$3 billion of liquidity and debt that is mostly at the asset level. The company has very minimal financial risk, despite pursuing an aggressive development pipeline.

Not cheap, but stable growth and a best-in-class business

This TFSA stock is not cheap by any means. It is trading at a premium to its historical valuation. That is why I would likely wait for a pullback. Currently, the stock pays a historically low dividend yield of only 2.8%. Yet, for such a solid company investors can expect cash flows to expand steadily every year by 9-15% (as per management targets). Compound that tax-free in your TFSA over the next decade and you will be happy you bought this stock in 2021!

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider

2. Koyfin
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Author

robbybrown

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