TFSA Investors: 3 Do’s and Don’ts for the Next Market Crash

Description

Stock market crashes aren’t something that happen often. Market crashes can play such a massive role in your portfolio’s long-term performance, though, which is why they always get so much attention. So, for TFSA investors utilizing the ultimate investment tool, having a prudent reaction to a market crash could make an immense difference.

Ever since the start of the coronavirus pandemic, the market has been at an increased risk of crashing. Even as it was recovering rapidly last spring, many were worried about a second selloff.

While that hasn’t materialized yet to date, uncertainty has remained extremely high. Here are three do’s and three don’ts to keep in mind the next market crash, especially if you’re a TFSA investor.

TFSA investors: Three crucial mistakes to avoid

It’s important you’re not caught off guard by a market crash. So, the first thing to remember is, don’t have money invested that you may need to spend within the next few years.

Planning your personal finances is a prerequisite to building your investment portfolio. Investors need to decide beforehand what money you’re willing to commit to their TFSA and invest for the long term. This way, you don’t run into problems of needing to sell investments for cash when markets are down.

Secondly, don’t try and time the market. This is impossible and will almost surely leave you worse off than just staying the course and reacting to what’s happening rather than trying to predict and be proactive. This goes for trying to time market crashes as well as trying to time the bottom.

Lastly, don’t panic when the stock market crash does materialize. Remember, this money is for the long term, so you can afford the short-term volatility. Once you understand what’s happening to cause the market crash and what sectors it’s affecting, you can decide how to react.

At the start of the pandemic, investors would have analyzed that a virus spreading across the world would be bad for travel and avoid stocks like **Air Canada**.

At the same time, however, you would have noticed that stocks like **Northwest Healthcare Properties** were barely impacted but lost half their value, creating the perfect buying opportunity.

Avoiding the mistakes above is crucial. However, avoiding mistakes is only half the battle. There are also things you can do to take full advantage of a market crash.

Here's what to do in a market crash

The first thing investors should do is to be prepared ahead of a market crash. Being prepared goes hand in hand with not having money invested that you can't afford to lose. After you've made your investment plan, it's crucial to ensure that your portfolio is highly resilient. That way, if a market crash hits, you'll be ready to take advantage.

The second thing you'll want to do in a market crash is to stay disciplined. Canadian investors who can show discipline will not only avoid losing money in a market crash; they'll also be in a prime position to buy the best companies.

This brings us to the final point. The last thing to make sure you do in a market crash is to buy the highest-quality stocks with the most value.

As the market is crashing, you don't want to try and catch a falling knife and buy too early. At the same time, though, you don't want to wait too long and miss the bottom.

So, investors should wait until the target stocks you're watching have value and then pull the trigger. If you think it may fall more, you can always plan to dollar cost average. However, some experts will warn against this, as you'll increase your commission costs and may not end up getting a chance to buy it for any cheaper.

If you're investing for the long term, you should just be happy to get a discount anyway, and it shouldn't matter if it's 35% or 40% off.

Investors who'd bought Northwest Healthcare in the last market crash likely don't care if they bought a little early or late at $7.50, missing the bottom at $6.27.

Bottom line

It's much more important to take advantage of the discounts as they present themselves, instead of trying to buy it as cheap as possible.

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