
# Young TFSA Investors: Stop Hoarding Cash — Buy These on-Sale Dividend Stocks Instead!

## Description

Tax-Free Savings Account (TFSA) investors waiting for the next market crash or correction to put their 2021 contribution to work could find themselves waiting a while. It's impossible to tell when the next big plunge will happen, what will cause it, and what "shape" the recovery trajectory will be. Although it's always a wise idea to have dry powder on the sidelines to take advantage of the bargains that accompany market pullbacks, one must be mindful of the risks of holding excessive amounts of cash.



I like to view portfolio allocation and risk management as more of a balancing act. It would be best if you always had cash weighing down one end, but too much weight on this end could bring forth upside risks, which, I believe, are heavily discounted by many young TFSA investors inclined to play it too safe with their investments.

At the other end of the scale, you have "risky" securities like stocks, bonds, ETFs, mutual funds and all the sort. Having this side of the scale weighed down too much could leave you feeling the full impact of the next market-wide pullback.

What's the solution? Find the perfect balance for you. How much cash you'll need to take advantage of opportunities come the next big plunge? Can you avoid digging into your emergency fund if the next stock market crash exceeds 20%? What about 30% or 40%?

## Risky and risk-free investments

With these questions in mind, you can gauge your perfect balance to mitigate both downside risks and upside risks. The latter risk, I believe, is the greater risk to young TFSA investors, given they've got decades to make back any losses from any soured investments.

While there may not be a one-size-fits-all solution for TFSA investors, striking the optimal portfolio allocation is vital to long-term success. Being too aggressive or too conservative with your portfolio can greatly impact the size of your retirement nest egg. With the threat of inflation potentially on the horizon, investors would be wise to weigh the opportunity costs of being overweight in cash and other unrewarding, risk-free instruments.

Warren Buffett is a huge fan of investments that pay him over time. With dividend stocks, you'll be given a cash payout that's yours to keep, regardless of what happens to the share price next. If the rollercoaster ride of emotions happens to end in tears with a high-quality dividend stock like **BCE** ( TSX:BCE)(NYSE:BCE), at least you'll have your dividend payments to show for it.

Of course, the stock market tends to go up over prolonged periods of time. But if you're an overly-conservative investor who's always looking at the bear-case scenario, I do think it makes sense to weigh the cumulative receipt of dividends over the long-term against the "safe" alternative of cash and cash equivalents.

## Why cash isn't as safe as bruised dividend stocks

The longer you hold cash, the more insidious the effects of inflation over time will stand to be. While inflation wasn't a huge issue after the financial crisis of 2008-2009, one must remember that not all recessions or their recoveries are built the same. I don't view any historical comparables to the 2020-21 coronavirus crisis.



As such, TFSA investors must be mindful that an unchecked uptick in the rate of inflation could be in the cards. Unlike the environment that followed the GFC, we could witness a post-pandemic spending boom. With central banks a tad more willing to let inflation run above the 2% target, one must not dismiss the risk of higher inflation.

In any case, I view battered dividend stocks as a far better bet for young, conservative TFSA investors who are willing to hold for at least the next decade. A name like BCE will pay you a rich, well supported dividend (6% yield), and you'll actually be able to grow your purchasing power over time.

If you think we're overdue for a correction, BCE is a bargain that you should reach for, as I think it'll fair well, regardless of what ends up happening next. Find the right balance and make sure you don't discount upside risks!

Stay Foolish, my friends.

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