TFSA Investors: How to Protect Yourself if the Market Corrects

Description

The Tax-Free Savings Account (TFSA) was designed to help Canadians improve their savings practices and achieve their financial goals. Considering that the primary purpose of the account is to help you secure your financial freedom, you need to be careful with how you manage investments in your TFSA.

If the market crashes in 2021, you could incur significant losses of 30% or more within your tax-advantaged account. Remember that any losses you incur due to a market crash are not withdrawals or part of your contribution room. The maximum contribution room will remain the same, and you cannot gain back your TFSA losses caused by a market crash.

Why many Canadians prefer investing in stocks for their TFSAs

TFSA users can use their contribution rooms to hold cash or assets of the equivalent value. It means that you can use your TFSA to hold bonds and Government Income Certificates (GICs). Bonds and GICs are fixed-income assets that can provide you with guaranteed returns on your investments. However, the potential return is not as high as what you can get with equity securities.

Using your TFSA contribution room to hold stocks can provide you with much more substantial returns. Any earnings through capital gains and dividend payouts from stocks in your TFSA can grow without incurring any taxes or affecting your contribution room. It is essential to allocate the contribution room to stocks that can weather a market crash to avoid permanent losses in your TFSA.

Fortify your TFSA for capital protection

Fortis (TSX:FTS)(NYSE:FTS) is an excellent asset to consider for this purpose. With bonds yielding 1.5% over 10 years on average, investing in Fortis could be a far better investment for your TFSA in terms of returns without adding substantial risk to your portfolio.

Fortis is a Canadian Dividend Aristocrat with an almost 50-year dividend-growth streak. The company does not just provide you with reliable dividends — it keeps growing how much it pays its shareholders each year. Fortis is paying its shareholders at a juicy 4.07% dividend yield at writing. It means that investing in the stock could provide you with 4.07% annual returns through its dividends alone.

Fortis uses its predictable income to finance its growing dividend payouts comfortably. Additionally, the company is constantly growing through acquisitions. The company plans to expand its rate base over the next few years and increase its cash flows even further. Between its capital gains and virtually guaranteed dividends, you can get far better returns on your investments in the TFSA.

Fortis is also an excellent asset to consider in case a market crash takes place. Unlike most other companies trading on the TSX, Fortis can continue generating predictable revenues during market crashes. It provides essential services for all industries and individuals, ensuring strong cash flows for the company regardless of market environments.

Foolish takeaway

Using your TFSA contribution room to hold assets that could decline significantly without recovering can result in permanent losses for you in case of a market crash. Fortis could be a much safer investment for your TFSA portfolio due to its increasing dividends and virtually guaranteed returns. It could be a strong foundation for your TFSA portfolio.

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1. Dividend Stocks
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