TFSA Investors: How to Respond to the Brutal Growth Sell-off

Description

If you've yet to put your latest Tax-Free Savings Account (TFSA) contribution of $6,000 to work, there's never been a better time now that the growthier areas of the stock market are in free-fall.

Value stocks have held their own remarkably well, with the **TSX Index** actually moving higher on a day that saw the **NASDAQ 100** crumble a very painful 3%. I've been warning TFSA investors all year that the next growth-focused sell-off would have the potential to be unforgiving to investors who chased returns last year. Although the **TSX Index** has barely budged, many tech-centric investors are likely licking their wounds, with portfolios down well over 20%.

The 10% drop doesn't tell the whole story, however. Many great big tech stocks like Apple are flirting dangerously close to bear market territory, and those overweight in the name have taken an uppercut straight to the chin. The importance of diversification is key to avoiding such further damage to growth stocks that's likely to continue as U.S. bond yields continue inching closer to the 2% mark.

Right now, the U.S. note isn't that competitive with stocks. Stocks, I believe, are still the only game in town. But that could change over the coming weeks and months if bond yields continue to swell at this staggering rate.

Rattled by volatility? The worst thing TFSA investors could do is panic sell!

If you're a beginner TFSA investor who's rattled by the recent bout of volatility, know that you're not alone. Many investors who've piled into Cathie Wood's **ARK Innovation ETF** are looking at a 30% decline. Painful? Yes. But as long as one doesn't sell at such a steep loss, one isn't breaking Warren Buffett's number one (and number two) rule of investment by not losing money.

Paper losses are recoverable. And while I wouldn't sell your biggest losers here if you've got enough dry powder on the sidelines, I certainly would think about trimming modestly in the names that you believe are trading at levels above your estimate of its intrinsic value. Should this growth sell-off continue, you're going to want cash to put to work on the bargains, which will be plentiful.

In any case, I wouldn't feel the need to make moves to raise cash if you're not in the right state of mind. If you're in a state of panic, take a breather and come back to your portfolio when you're calm and collected. Trim profits where you can and consider rotating some funds into value stocks that your TFSA portfolio may be lacking in.

Finding value in rich dividends

At this juncture, I view **BCE** (TSX:BCE)(NYSE:BCE) stock as a dividend-rich value name that can act as a foundation for your TFSA growth fund. The stock surged nearly 2% on a Monday that was quite cruel to growth investors. I've stated on numerous occasions that the telecoms, especially BCE, which is doubling down on investing in 5G investments, will be among the first COVID-hit firms to make a full recovery to pre-pandemic levels.

BCE stock is picking up traction again, now up over 6% since late February. While the yield has compressed from 6.5% to 6%, I still think the stock reeks of value and is one of the timelier value investments that a TFSA investor could make in today's highly certain market.

While the stock may seem pricey at just shy of 23 times trailing earnings, given the 5G tailwinds up ahead and the likelihood that Canadians will be hungry for data again once COVID-19 is conquered, I'd argue that the stock remains a bargain here, perhaps one of the better high-yield bargains on the TSX.

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