TFSA Investors: How to Prepare for a Recession

Description

In the last decade or so, the Tax-Free Savings Account (TFSA) has been an excellent tool for Canadians to start investing and generate tax-free income. While it was introduced as a retirement tool, it's since grown beyond that to become a great way for every Canadian investor to start putting savings aside for any purpose they see fit.

The problem is, the TFSA has yet to go through a major recession. It was introduced *during* the Great Recession, but beyond some downturns, it has only experienced growth. So, what should investors do with their TFSA during this time?

Let's have a look.

Don't panic!

The first rule of thumb with regards to your TFSA investments, is *not to panic*. No matter the type of investments you've made, whether they've spanned four decades or four years in pursuit of your goals, don't sell everything. That's certainly not the way to create returns and could set you up for some major losses.

For instance, your contribution limit is $6,000 this year (unless you have other contribution room remaining). That does *not* change even if you take out cash this year. You'll have to wait until *next* year to recontribute that amount. So, if you've taken out $20,000 and the market tanks, you can't buy up stocks on the cheap with all that money sitting around. So don't do it.

Instead, remain calm. Stay consistent. If you've been putting cash aside each month, continue to do so. If you need to adjust those payments or pause them for a bit, fine. But don't ruin all your hard work because of a recession.

Create a watchlist

A recession is actually a great time to consider creating a watchlist. Not for selling, but for buying. If you reframe your mindset, you could view a recession as a golden opportunity where all of your favourite stocks go on sale. But that doesn't necessarily mean you should go with the popular growth stocks of the past.

While the TFSA hasn't been through other recessions, stocks have. Blue-chip companies that have been around for decades are a great place to start your watchlist. That way, you can see what stocks did well during past downturns and invest in those ones to keep your cash moving upwards.

A great stock to consider for your TFSA is **Canadian Utilities** (TSX:CU), especially during a recession. Utilities remain necessary no matter what the market does, and Canadian Utilities stock is also the *only* Dividend King on the **TSX** right now. That means it's increased its dividend each year for the last 50 years!

Further, it has a long history of share price growth too, as you can see above. Shares soared in the first part of 2022, but recently plummeted with this economic downturn. However, it's *still* beating the market, down just 3.42% year-to-date as of this writing compared to the TSX, down 14% year-to-date.

Long-term, it's been stellar, with shares up 422% in the last two decades for a compound annual growth rate (CAGR) of 8.6%. Further, it offers a dividend yield of 5.15%, and trades in value territory at 15.15 times earnings. Overall, it's a safe stock to consider during a recession that should protect your funds for decades.

Finally, meet with your advisor

Before making any moves, go meet with your financial advisor to discuss your TFSA. You want to protect your goals, and that's exactly what they're there for. While I can make blanket statements, every situation is different. So, meet with your financial advisor to discuss whether a recession could hurt your TFSA and make it harder to reach your goals, or if it's best to keep investing and ride it out.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise

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