

Economy may be headed towards another recession

Is the "R" word making a comeback? That's what everybody is asking as virtually every economic number being reported shows a downturn. The economy is crumbling, especially in the United States, our biggest economic partner.

Because our economy is so dependent on exports to the United States, the Canadian economy is very open to an immediate recession.

The real question is how do we react to this news so we can protect ourselves and our assets and secondarily, how can we prosper because of it?

A recession, by definition, is two back-to-back quarters of negative economic growth.

The first quarter of the year did, indeed, productive negative numbers. The second quarter, which ends when the month comes to an end, looks right now as though it will also be a negative.

That means that unless there is a major turnaround in the North American economy, that we will enter a recession at the end of the month.

You have to understand that every time there's ever been a recession, that interest rates have fallen. It's a simple matter of economics.

If you lower interest rates, there's less incentive to leave your money in the bank. You have a tendency to spend your money buying goods that help spur on the economy. The low interest rates are not attractive for hoarding money.

Lower interest rates, of course, also make it more attractive for business people to borrow to expand their operations. That expansion ends up creating jobs which gives those out of work purchasing power.

The flip side, of course, for politicians and central bankers is that if the economy looks like it is going to slip into a recession, you should do whatever you can to stimulate the economy to prevent the negative impact.

The problem is that the economy is like the biggest speeding train there is.

If there's a car on the train tracks, you can try as hard as you want, but it will take forever to stop.

That's why the Federal Reserve in the US and the Bank of Canada have to finally come to grips with the situation and lower interest rates.

We've talked about it before. There have been doubters who have said the economy is still growing. It isn't. It is



Your Money

Brian Costello

stagnating.

In the US, non-farm payrolls have taken their biggest drop in more than four years, unemployment insurance claims are on the rise and the leading economic indicators have fallen for the third month in a row.

The only way to stimulate the economy is to lower interest rates. That will happen both in Canada and the United States.

The question is "how do you benefit from a decline in rates or even prosper?"

The easy answer is to buy interest-sensitive investments - things that rise in value when rates fall. The Federal Reserve in the US must now lower inter-

est rates after pushing them too high.

The Bank of Canada has to come to grips with the fact that if the American economy is slipping into oblivion that we won't have as many demands for exports. That will, in turn, slow down our economy as well.

That will remove and pressure of expected inflationary increases. With no inflation fears interest rates will fall.

Some will argue that inflation is rising. As a result, interest rates should follow. And there is some inflationary increase of late. But it will be short-lived.

A slowdown in the North American economy will result in further cuts in interest rates. In anticipation, investors should buy the right investments, borrowers should borrow for the proper term.

Preferred shares, income mutual funds, equity-based mutual funds, bond mutual funds will all rise in value as interest rates fall further.

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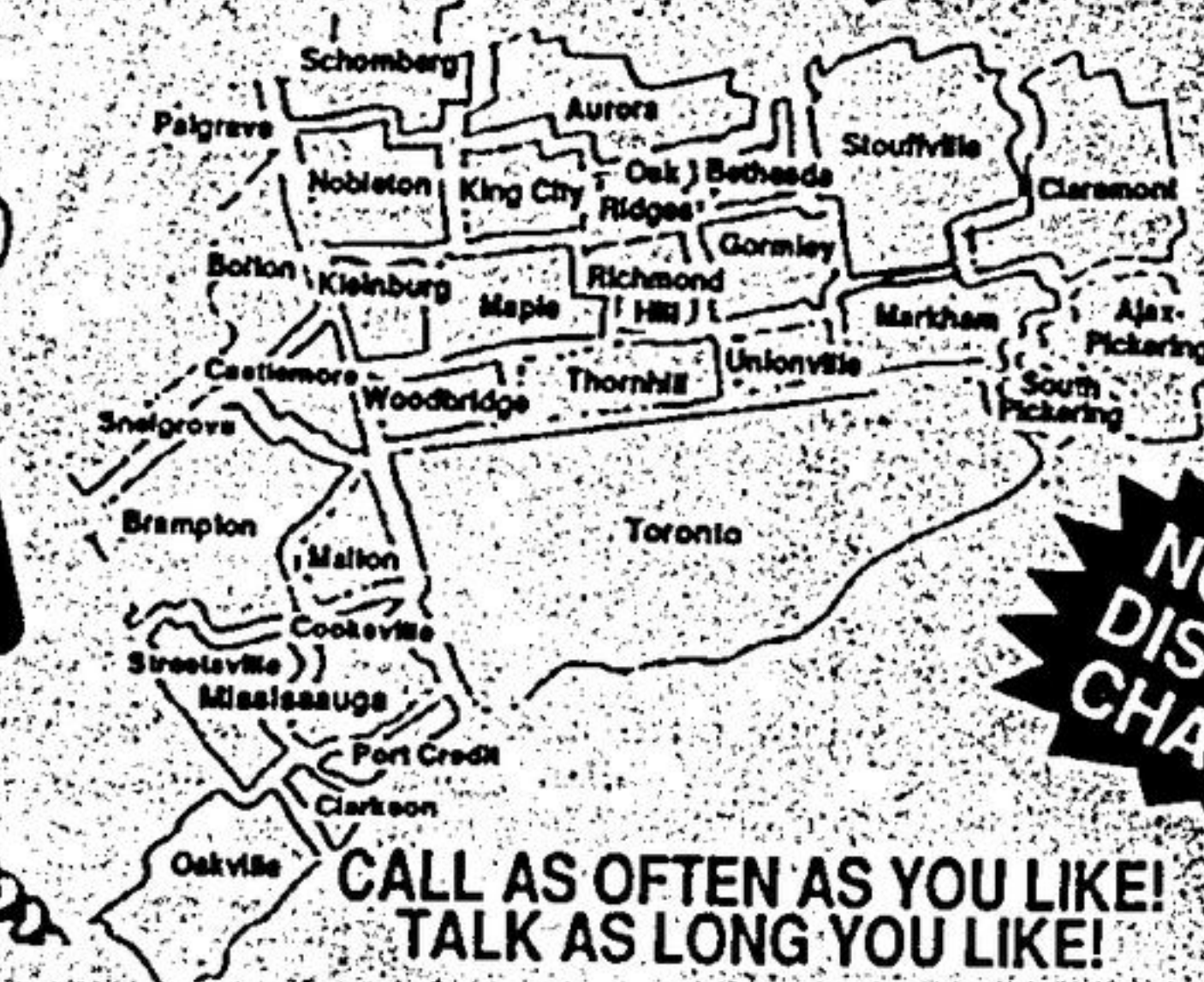
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