

# Money Matters

by Angelo R. Imbrogno

## The 'R' Word

Today, the economy is a primary concern for most Americans, and lately, the 'R' word; Recession- comes up often in our daily conversations. Let's explore the potential causes of recessions, general characteristics and finally, investing through one.

### What is it?

The National Bureau of Economic Research (NBER) defines *economic recession* as: "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment, industrial production and wholesale-retail sales.

### Characteristics of Recession

Each recession is different; however, you will typically see higher levels of unemployment, a decline in housing prices, a decline in the stock market, increased volatility, a reduction in business expenditures and consumers slowing their own purchases. Since 1949, the U.S. has experienced 10 major recessions lasting an average of 12 months. The longest came in 1973 lasting 16 months and the shortest in 1990 at 10 months. Many economists debate the current recession began in October 2007, 14 months ago.

### Causes of Economic Recession

Generally speaking, recessions are primarily caused by the actions taken to control the money supply in the economy. The Federal Reserve is responsible for maintaining an ideal balance between money supply, interest rates, and inflation. When a manageable balance is lost, the economy may spin

out of control. This is exactly what we have seen in 2007. Low interest rates, relaxed lending policies and practices made it easy for individuals to borrow money and many argue contributed to the collapse of the housing market.

Recessions can also be caused by factors that diminish short term growth in the economy, such as higher commodity prices. Crude oil, for example, peaked in July 2008 at \$147 per barrel. Gasoline reached \$4.30 per gallon. Consumers buy less at higher prices which also slows the economy. These factors, however, are short term in nature and tend to correct themselves in a quicker manner than the full blown recessions that have occurred in the past.

### Investing through a Recession

You may be surprised at my next statement. A study done by Ned Davis Research shows that over the last 10 major recessions, starting in 1949, the S&P 500 has averaged a gain of +15.8%, 3 months after the recession low point! The S&P 500 has averaged a gain of +24.1%, 6 months after the low. The average gain 9 months after the low is +32.2% and finally, 12 months after the recession lows is +32.4%! Surprised? Interesting isn't it?

### Conclusion

Although they feel like turbulent times, and they are, recessions can represent a buying opportunity. It is in times of turmoil where opportunities began to present themselves for those prepared to discover them. Of course, past performance is no guarantee of future results. If you would like a free copy of the study I mentioned in the article, please contact us.

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