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Weekly Financial Article for the Week of November 12, 2007

WILL THERE BE ANOTHER RATE CUT?

Investors say “please.” The Fed says “wait” - but it might change its mind.

Will interest rates fall to 4.25% in December? With the drama on Wall Street last week, the Federal Reserve faces pressure to make yet another interest rate cut at its December 11th policy meeting, which would be the third rate cut within a 90-day period. A quarter-percent cut in December - a dim possibility two weeks ago - is now seen as a probability by some economists and stock market analysts.

Why the Fed doesn't want to adjust rates again. The economy and the stock market are not synonymous. The Fed's job is to care about the “real” economy, not to bail out Wall Street whenever investors beg “please.” Fed Chairman Ben Bernanke noted last week that the Fed is now “very dependent” on economic data to alter its position on rates, as opposed to stock market activity.¹ The Fed's priority is to control inflation, and when you cut interest rates, you weaken the dollar and invite inflation. With oil and gas prices so high and credit-challenged consumers so pressured, rising inflation is the last thing the Fed wants to see.

Why the Fed might need to reduce rates once more. While the Fed would like to simply say “you guys are on your own” to Wall Street, it is not so easy. Yes, inflation pressures are mounting with the slumping dollar and soaring commodities prices. But at the same time, the growth of the whole economy is being threatened by tighter lending standards and the housing correction. The effects are visible on Wall Street. So the headlines and public clamor might sway the Fed, and fast.

Will it help? A rate cut is good for Wall Street, but it is not necessarily the answer for the economy. For months now, both market analysts and economists have warned of a “payback” coming to the U.S. economy in return for years of inflated real estate prices, stated-income loans and bad bets on subprime mortgages by lenders. Those tendencies have largely been curbed, but the economy is still wounded in many ways, and a rate cut may only be a band-aid.

How are you doing? As the year draws toward a close, it is time to look ahead, past the volatility of the short term to the long term. Regardless of what the Fed does in December, this is a good time to speak to a qualified financial professional about the investment options you have and the ways you can plan for the growth and protection of your assets. Be wise, touch base today, and plan for tomorrow.