Buy This Devalued Stock Before the End of October

Description

Despite the U.S. Federal Reserve's latest rate cut, the Canadian interest rate is currently being kept in a holding pattern. While the move to keep the domestic rate steady seems generally approved of in financial circles, it does have its detractors, with some pundits interpreting the Bank of Canada's stance as either bullish on the domestic economy or bearish in the longer term.

Why bearish? The short answer is that a rate cut now would leave the central bank with fewer options later on if the global economy worsens, therefore suggesting that the central bank expects this scenario. While the U.S. may cut rates still further this year, the Bank of Canada could well be taking the longer view and sweating it out just in case an emergency stimulus is needed further down the road. The implication: move to safety.

Investors should weather-proof their stock portfolios

There's never a bad time to reduce risk in a portfolio, but it's increasingly looking like the right time. Low-risk assets such as utilities and consumer staples are likely to be popular during the latter part of the year, especially if the central bank does indeed go ahead with a rate cut. Indeed, there's likely to be post-election momentum in the TSX, though whether it's positive or negative depends largely on one's politics.

Another thing to consider is that households carrying debt will likely spend more money after a rate cut in the knowledge that their debt will now cost them less to service. Just as loan defaults are a risk when banks raise interest rates, when they lower rates, those loans become easier to repay. This is the very essence of economic stimulation, since it encourages increased consumerism.

Don't expect a rate cut before the election

A stimulated economy could see depressed retail stocks buoyed, for example, adding value fairly quickly. Stocks like **Canada Goose** (TSX:GOOS)(NYSE:GOOS) could see a resurgence, especially if a rate cut comes during the winter, just as the luxury clothing company's goods automatically see an uptick in popularity.

Down 50% from its year-long high, Canada Goose is good value for money at the moment and represents a bold play ahead of a potential rate cut. A strong brand and a stock that has a proven ability to go on a long tear, Canada Goose could be ready to fly again.

However, the next time we hear from the Bank of Canada likely won't now be until after the election. As a spokesman for the Bank of Canada recently stated: "As a neutral and politically independent organization, we aim to ensure our messages are not misinterpreted or misused during a period of heightened political sensitivity."

The bottom line

Will they or won't they? It's been the subject of no small amount of speculation whether the Bank of Canada will cut interest rates this year. While central banks the world over have been lowering rates, our own remains steady — but for how long? An October rate cut could see stocks like Canada Goose pop.

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