Here's How to Spot a Coming Recession, and What to Do About it

Description

When using economic indicators, it's important to know what each one is measuring and what it says about the economy. There are two classifications of economic indicators: leading indicators and lagging indicators.

Many people will attempt to use leading indicators to forecast what they think may happen in the economy. That is essentially the point of the leading indicator.

Lagging indicators are more for confirming what you thought would happen, and whether it's proven by the data or not.

Since we are focused on trying to figure out the risk in the markets and the likelihood of a recession ahead of time, we will only focus on leading indicators.

Forecasting future economic conditions is extremely difficult, though, as the economy is extremely intricate and difficult to predict.

Using one or two indicators will never be sufficient, as it's entirely possible to have a few indicators flashing red while everything else is business as usual.

That's why investors must use a combination of data and metrics to form their conclusions and figure out the risk that exists in the economy.

Yield curve

The top leading indicator for investors to use is probably the yield curve, which is why it makes such big headlines when it inverts. The yield curve is a direct way to see the market's sentiment, as it's determined by the bond market.

It gauges investors risk level, so when they believe there is more risk in the market, investors will require more interest for shorter periods and will be happy to lend their money long term at lower rates.

That's why watching the yield curve is so heavily regarded, and when it begins to invert, it means that the general market is expecting a recession in the near term.

Labour market

The unemployment rate is also a big one to watch, but, more specifically, what is happening in the labour market in general. Just looking at the unemployment rate can paint a biased picture because of the way it's calculated.

Paying attention to the job market as a whole is a much better way to get a clearer idea of what is going on across the economy.

The job market cycles like the economy, so traditionally, as we get to low unemployment rates and the job market gets tighter, it's usually foreshadowing something that may come next, such as inflation, which would be a lagging indicator and could confirm a hypothesis you previously had about where the market is going next.

Consumer sentiment

Consumer sentiment is a third indicator, which is similar to the yield curve in that it shows the general confidence in the economy, but rather than learning of investor's confidence level, the consumer sentiment measures just that — the consumers.

This is important because consumption is such a huge part of GDP, and if people aren't spending and the velocity of money slows down, the economy is sure to contract.

Prep your portfolio

If you are looking at the economic data, and it shows the probability of a recession rising, the best stocks to buy ahead of time are gold stocks. The demand for gold and consequently the price of gold tends to rise in recessions, since gold is considered a safe-haven asset. One stock you could buy to give you exposure to gold is **Kirkland Lake Gold** (TSX:KL)(NYSE:KL).

Kirkland Lake is a top stock for investors that want to buy a gold miner to specifically get exposure to the price of gold. It is targeting nearly 1,000,000 ounces of production this year from its mines in Canada and Australia.

Kirkland Lake is a top stock for exposure to the price of gold because it can capture huge profits the higher gold's price is. Its all-in sales costs (AISC) are extremely low which gives it massive profit margins that only grow as the price of gold rises.

In 2018, its AISC per ounce was just $685, which is extremely cheap, but the company estimates it can reduce that even further to roughly $550 for 2019.

With its rapidly expanding margin, Kirkland Lake looks like one of the best gold stocks to buy, especially if you think a recession is on the horizon.

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