FINANCIAL POST

Saturday, October 25, 2008

'One of the worst times to be in debt'

Garry Marr, Financial Post

Published: Saturday, October 25, 2008

We have no savings, our credit cards are maxed out, the mortgages on our homes are sky-high and we are stuck with longer car payments. Could Canadians be in any worse shape heading into a downturn?

"You're done, you're screwed. It's one of the worst times to be in debt," is the blunt assessment from Laurie Campbell, executive director of Credit Canada, which provides credit counselling for consumers.

The real problem with record debt levels as a society is that there is no way to buy our way out of a downturn, she explains.

"In the past, you started spending and you could get some momentum in the economy," says Ms. Campbell.

But we can forget about dipping into our credit cards to spend. Consumer credit represented 40% of personal disposable income at the end of the second quarter, according to CIBC World Markets. Mortgage credit, meanwhile, was 90.6% of personal disposal income. When those numbers add up to more than 100%, it means we have more debt than income.

"Canadians, like the Americans, have had a ferocious appetite for debt and credit and as a result we are sitting in this situation [for] good reason. We shouldn't be saying we are nothing like the Americans," says Ms. Campbell.

All is not lost. There are some things you can do to protect yourself from the coming storm, says Toronto-based certified financial planner, Scott Plaskett of Ironshield Financial Planning.

"We are recommending clients come in for a review of their financial plan. Generally, financial planning is triggered by a life event," says Mr. Plaskett, adding the current state of the economy is comparable to a major life event.

One thing he suggests is extending your emergency fund horizon from a traditional period of three to six months to as much as 12 months. And tax-loss selling could lower your tax bill.

"You can look at debt-reduction strategies, [such as reducing] your interest costs by consolidating loans. You reduce your debt-carrying costs and you improve your cash flow. You can revisit your insurance portfolio. Maybe you don't need as much insurance," Mr. Plaskett suggests. And, don't forget that it was debt that got us here.

"Cash is king, for sure," says Mr. Plaskett.