



# The Motley Fool

To Educate, Amuse & Enrich

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## How to Turn Panic 2008 into Profit 2009

### Dear Fellow Fools,

“Abandon all hope, ye who enter here.” Although author Dante Alighieri penned these words with a slightly different environment in mind, they could easily describe today’s stock market.

The S&P 500 has given back more than 12 years’ worth of gains, and its constituents are cutting dividends by the largest levels in history. The Chicago Board Options Exchange Volatility Index (or VIX, for short) is just below its all-time high — of course, that doesn’t make daily market swings of “only” 3% to 4% any easier to stomach.

But painful though this may be, there is one major difference between this economic downturn and the eternal inferno Dante wrote about: We’ll see a reprieve ... eventually.

### IT’S ALL BEEN DONE BEFORE

This certainly isn’t the first time stock markets have plummeted so precipitously. In the crash of 1929, they fell 89.2% in less than three years. The bear market of the 1970s resulted in a 48.2% drop. And on Black Monday in 1987, investors witnessed a 22.6% freefall of the Dow Jones Industrial Average *in one day!* Coupled with each of these were instances of exaggerated volatility similar to today’s, according to data from stock market chroniclers Eugene Fama and Kenneth French.

During each of these slumps, there were also naysayers who proclaimed that conditions would never improve. However, the markets ultimately recovered and rewarded investors who kept their wits about them, held onto their stocks, and bought more when prices collapsed and circumstances seemed most dire. This latter strategy of being “greedy when others are fearful” has guided Warren Buffett throughout his business career — and it’s the reason he’s one of the world’s wealthiest men today.

After all, measured over decades, even 50% drops are mere bumps in the road for the market’s long-term journey upward, as this chart from *Rule Your Retirement* contributor Doug Short makes clear: <http://dshort.com/charts/bear-recoveries.html?bears-since-1950>. And although the Dow went from 66 to an impressive 11,497 during the 20th century, only those folks who persevered and continued to invest during uncertain times experienced such astounding gains.

### UNCERTAIN TIMES SUCH AS THESE

Given that, it’s no wonder that today, the world’s greatest investors — Buffett, Marty Whitman, Mohnish Pabrai, Eddie Lampert, George Soros, Bill Ackman, and others — are ferociously buying stocks. And we at The Motley Fool agree with their actions. In a *New York Times* op-ed, Buffett wrote that holding cash — or even flocking to the safety of bonds — is a losing strategy right now. Bruce

Berkowitz, manager of **The Fairholme Fund** (FAIRX), points out that many of the companies he's buying have a free cash flow yield of more than 12%, which trounces the 10-year Treasury yield of roughly 3%.

All of this means that in this rocky market, you must ask yourself two questions:

Am I able to keep adding money to my stock portfolio in the face of a market collapse?

Is my portfolio “properly positioned today for an uncertain economic environment and an unstable world (to quote Chuck Akre, who manages the \$582 million **FBR Focus Fund** (FBRVX))?”

If you can say “yes” to the first question and are looking for some guidance to confidently affirm the second one, you've come to the right place!

First, I'll show you ways in which you can uncover extra capital to invest. Then I'll show you how to take advantage of this market downturn — and reveal stocks that are positioned to turn a profit when the major indexes eventually begin to recover.

And because the unthinkable is becoming an unfortunate reality for so many, I've also included a bonus section on how to survive a layoff. Feel free to pass it along to your friends and family should this difficult event befall them.

## Freeing Up Cash When There's No Cash to Free Up

Have you found yourself digging deep into your sofa cushions for loose change? Are you questioning whether that second kidney is really all that necessary? While these might be thrifty ways to garnish extra money in an economy where it no longer grows on trees, I've compiled a collection of, well, more promising ways to increase your discretionary cash.

### GETTING BETTER TERMS ON BILLS

#### Credit card rates

First, you'll need to clear away your debts. If that sounds about as feasible as rebuilding Rome with your toes, know that there are concrete steps you can take to lighten and eventually eliminate your debt load — and since one in seven Americans has 10 or more credit cards, it seems natural to kick off this discussion with tips for paying down your plastic.

How did we end up with so much personal debt, anyway? In addition to loose credit regulations, part of it comes from how we're wired psychologically to think about spending. It's not fun to spend money. Dan Ariely, behavioral economist and author of the recently published book *Predictably Irrational: The Hidden Forces That Shape Our Decisions*,

calls this “the pain of paying.” He notes that credit cards play off of this emotion by allowing us to receive gratification now and delay the pain of spending to a later time.

This might be fine if we all paid off our balances at the end of the month. Unfortunately, we don't. Ariely notes that humans think about money in relative terms — that is, in percentages (part of the reason why sales that advertise “20% Off All Linens” are more effective than “Take \$0.50 off the Price of a Hand Towel”). So if we have a large balance — like the national average credit card balance of \$5,710 — adding another \$200 doesn't strike us as significant. After all, it's only about 3.5% of what we currently owe on that card, so why not? This thought process compounds over time as balances grow, and the amount we're comfortable spending grows as well.

That's how we wind up with 10 credit cards and some \$16,635 in per-person debt (excluding mortgages). But don't lose hope — these steps will help you get back on your feet to a debt-free life:

1. Compile a list of what you owe. Go through all your credit cards and write down your outstanding balance on each, plus the interest rate. If you're tech-savvy, putting these details into an Excel spreadsheet will enable you to track them easily and monitor them as the totals shrink over time.
2. Compile a list of potential credit cards that offer better rates. Many websites track this data, such as Bankrate.com, LowCards.com, or IndexCreditCards.com. Most of these resources will provide the industry averages, but they also offer the ability to sort rates by creditworthiness.  
  
Be honest when gathering this information. If you know your credit is subpar, your credit card company will know, too. So negotiating a rate that people with immaculate credit usually get just won't happen. What should you look for? If you have a small balance that you can pay off in a few months, seek out credit cards that have low introductory APRs. If you have large balances that could take a while to whittle down, look for general low-interest cards whose rates will remain steady for more than just a few months.
3. Next, it's time to slap on your master negotiator cap and call each of your current credit card companies. (Most include their customer service numbers on the backs of their cards.) Tell the rep that you're considering transferring your balance to another credit card company unless this one gives you a better rate. They'll likely push back at first and insist there's nothing they can do, but be persistent and keep reminding them that it makes

no sense for you to stick with a higher interest rate when you're looking to save money. Unless you're lucky, the rep won't give you the exact rate you request, but it should be close. If so, congrats — you're a negotiator!

Move on to the next card and do the same thing. If you're not successful at the first attempt, call back and try again with another rep. Eventually, you'll find someone who will budge. And remember, even a small decrease in the interest rate can have a significant effect — going from a 20% APR to an 18% APR on a card with a \$5,000 balance means saving around \$100 in the first year alone.

4. Return to the list of what you owe. Now that you've negotiated the terms of your interest rate, update the rates you put together in Step 1.
5. Assemble a game plan. There are two schools of thought when it comes to whittling down credit card debt:
  - (a) The plan that makes the most financial sense: Pay down the cards with the highest interest rates first.
  - (b) The plan that makes psychological sense if you get discouraged: Pay down the cards with the smallest balances first.

In determining your personal game plan, make like Socrates and know thyself. If you're one to throw in the towel quickly on your New Year's resolutions, Plan B might be the most effective option. But if you're easily able to persevere with a goal, then Plan A will save you the most money in the long run.

6. Commit to paying for things without your credit card. The above plans only work if you're paying down your credit cards more quickly than you're adding to the balances. So prepare a budget (see "Trimming the pork" on page 4 for more help in that regard), stick to it, and before you know it, your credit card debt will be a thing of the past.

Once you've eliminated your credit card debts, close down the accounts with zero balances immediately. The temptation to revert back to your days of spending can become too great, so if you wipe out the source and go back to — gasp — the days of cash, you'll manage to kick your credit habit to the curb — for good!

## **REFINANCING YOUR MORTGAGE**

This may be another big contributor to your debt pile. Mortgage rates have fallen quite a bit in the past few months, and the interest rate on the 30-year fixed-rate variety now sits just above 5%. If you've been in an adjustable-rate

mortgage (ARM) that will reset soon or are paying a rate of more than 7%, refinancing could be a smart move.

Of course, refinancing isn't necessarily easy money in the bank. It involves all the steps you went through to get the mortgage in the first place, including application fees, property appraisal fees, a credit check, lawyers' fees, and so forth. Bankrate.com has a handy calculator that enables homeowners to input all the costs associated with a refinance and see how many months it would take to recoup that money. Although you could save a lot of dough by getting a lower rate, if you plan to move more quickly than it will take you to recoup the costs of the refinance, you're better off sidestepping this strategy.

## **NEGOTIATING EVERYTHING ELSE**

While you're at it, take a look at your other bills — your phone bill, Internet bill, etc. Nearly every service fee is negotiable as long as you go into the discussion with the right facts and a strong case. Quite often, if you call and tell the company that you're considering cancelling its service to go with a cheaper one, you'll be amazed by how quickly the customer service rep finds a discounted rate or one-time deal. All it takes is a quick wit, some determination, and a little bit of homework.

## **NAVIGATING THE WORLD OF INSURANCE**

### **Automobile Insurance**

Let's step out to the garage — what's your automobile insurance deductible? Is it less than \$500? If so, your insurance company is making quite a bit of money off of you.

But don't fret; you can easily fix this and pocket a pile of cash in the process. According to the Insurance Information Institute (III), increasing your deductible from \$200 to \$500 means 15% to 30% savings on your annual premium. Bumping it up to \$1,000 could save you 40%. Based on the average annual premium, this equates to saving an estimated \$100 to more than \$300 per year per car.

If you're driving around in an old beater, it's probably best to drop collision and comprehensive insurance altogether. The III suggests scrapping this coverage if the car is "worth less than 10 times the amount you would pay for coverage." If you're not sure how much yours is worth, visit this link to get your vehicle's estimated Kelley Blue Book value: <http://www.kbb.com>.

Have you been driving less often as the price of gas has increased? Many insurance companies offer low-mileage discounts. You can also find savings opportunities among the specials insurance companies offer for partnered organizations. For example, GEICO is synched up with more than 200 groups and even offers an 8% discount if you're a shareholder of **Berkshire Hathaway** (NYSE: BRK-B), of which GEICO is a subsidiary.

Most insurance companies offer a slew of other discounts, too, so be sure to give yours a call, particularly if you haven't had an accident in three years, are between age 50 and 55, have an anti-theft device installed on your vehicle, or if your vehicle has airbags, anti-lock brakes, or daytime running lights. And don't be afraid to inquire about other discounts!

### Home Insurance

Similar to auto insurance, raising your home's insurance deductible to \$1,000 equates to savings of about 25% per year according to the III. Many companies also offer discounts for owning a burglar alarm or for being 55 years old and retired. These offers vary from state to state and company to company, so the best way to determine all the savings you're eligible for is to call the company and ask.

### TRIMMING THE PORK

Speaking of pork, could you feed a family of seven with just \$350 per month in grocery money? The book *America's Cheapest Family* spotlights one couple that has done just that. They were able to buy their cars in cash, pay off their home in nine years, raise a growing family, and still stash some savings into the bank on an average annual household income of just \$35,000. That kind of financial savvy sure would make today's recession a lot easier to manage, wouldn't it?

Budgets are never fun to make, but they help eliminate useless expenses and free up cash so that you can live more comfortably and afford the things you enjoy. Here are three simple steps for building your budget.

1. Identify inputs and outputs. Compile a list of everything that comes in each month (your income) and everything that goes out (your bills). After you've got together your required monthly amounts, make a list of all the discretionary items you typically buy (all those restaurant trips, jester cap shopping sprees, bowling nights, etc.).
2. Determine what's changeable and what's not. Chances are, when you see everything laid out in front of you, you'll quickly spot items that you can easily live without. Cut those out immediately. Others might be a little harder to give up but are ultimately not necessary — so be strong-willed and cross those off, too.
3. Admittedly, this will require a great deal of will power. But this last step will make it a lot easier: Watch as the savings pile up. One of the most rewarding aspects of a budget is that the results are pretty immediate. It won't take long before you'll notice that there's extra cash in your bank account at the end of the month. It might just inspire you to make more budgetary cuts!

### Frugal finds

The modern world gives us numerous opportunities to find cheap or even free items — you just need to know where to look. Because building a budget often seems like all work and no play, I've gathered ways to score new toys without breaking the bank.

### Freecycle.org

The Internet has made bargain hunters' lives a lot easier, and as the saying goes, "One man's trash is another man's treasure." This is the unofficial motto of The Freecycle Network, whose website, [Freecycle.org](http://Freecycle.org), offers everything from furniture to bicycles to that Chuck Norris lunchbox you've always wanted — 100% free!

You can use [Freecycle.org](http://Freecycle.org) to link up with folks in your neighborhood who want to get rid of items that are cluttering up their homes. Often, they'll be giving away slightly-used items, but every once in awhile, you'll find something that someone bought but never got around to using (like the mint-condition portable propane grill, complete with two filled propane tanks I scored over the weekend). Higher-end items can go very quickly, so you've got to move fast when you see something you like, but hey — you can't beat getting free stuff in an economy like this!

### Craigslist.org

You can also find free or cheap items on Craig's List. Select your city name and check out the "free" section, or click on more specific categories to find people who are selling their old wares (auto parts, jewelry, clothes, etc.). It's worth visiting on a regular basis, especially if you're in the market for something specific.

Similarly, if you want to get rid of some junk in your closet, try posting an ad on [Craigslist.org](http://Craigslist.org) to sell it. It won't cost you anything, and you might be surprised by how quickly someone rushes to buy your "trash." You can also list items for sale on [eBay.com](http://eBay.com), but Craig's List makes the process quick and simple, and you don't have to worry about shipping anything — the buyer will come straight to your house to pick up that 200-pound, polyester, lime-green couch.

### Thrift never goes out of style

Lastly, check out your local thrift store. This tactic might not be for everyone, but if you're a bargain shopper and don't mind slightly used items, these shops can be a goldmine. And, as with [Freecycle](http://Freecycle.org), every once in a while you'll come across something you've been wanting that is brand-new. The best part is that you're getting it well below the retail price and usually supporting a charitable cause (e.g., Goodwill or The Salvation Army).

## Positioning Your Portfolio for the Inevitable Upturn

Now that you've rounded up some extra cash, it's time to put that money to work! Before you crack open your brokerage account, remember that you should never invest money you'll need within the next five years. Keep that cash in an FDIC-insured CD, savings account, or money market account.

However, if you do have investable cash and are wondering whether you've positioned your portfolio to take advantage of the market's current pricing, or if you're not sure whether your stocks are the ones that are poised to bounce back the most when the market spikes, read on for helpful suggestions. I've also included stock recommendations to help you get started.

### GETTING PAID THROUGH THE SELL-OFF

Dividend-paying stocks offer some of the best places for investment money in difficult markets, and they tend to be the top performers when measured over decades. Jeremy Siegel, professor of finance at Wharton School of Business, writes in his book *The Future for Investors* that "From 1871 to 2003, 97 percent of the total after-inflation accumulation from stocks comes from reinvesting dividends. Only 3 percent comes from capital gains." What's more, "portfolios with higher dividend yields offered investors higher returns." The highest-yielding portfolio resulted in nearly *three times* the value of the index with reinvested dividends.

Investing in dividend-paying companies in today's market makes for a tried-and-true bear market strategy — following the Great Depression, it took the Dow Jones Industrial Average 25 years to break even. However, those who reinvested the dividends came out vastly ahead. These reinvestments enable investors to buy more shares of a business when its stock price is down. Couple that with the fact that the stock's dividend yield (a company's annual dividend divided by its current share price) is higher during periods when the stock is depressed, and you're looking at a profitable system for us Fools.

It is for this reason that those who invest in dividend-paying stocks should prefer bear market periods such as today's, when their reinvested dividends are able to work overtime until the market turns around once more. Even better, it's typically the case that if a business pays a dividend — especially if it raises dividends during recessionary times — it has the financial wherewithal to survive the downturn.

So what kind of dividend-paying companies should you be eyeing right now? I've got two recommendations for you from our *Motley Fool Income Investor* newsletter service.

## Diageo



NYSE: DEO  
Market Cap: \$26.8 billion  
Current Price: \$42.63  
52-Week Low/High: \$40.93 - \$86.19  
Dividend Yield: 3.7%

**Diageo** (NYSE: DEO) is the U.K.-based booze behemoth behind such renowned brands as Tanqueray gin, Johnny Walker scotch, Smirnoff vodka, Jose Cuervo tequila, Captain Morgan rum, and Guinness stout. In all, it owns an impressive 28 of the world's top 100 liquor brands, and these top-shelf products brought in nearly \$16.1 billion in sales during the most recent fiscal year.

Diageo isn't a high-flying growth machine, but it has managed to fatten its gross profits by a compounded 21% annually in the past five years. Its dividend has followed suit, increasing by 6% annually over that same timeframe.

Even hard-core booze businesses aren't completely immune to the effects of a global recession, but the breadth of Diageo's brands and its global footprint (less than one-third of its sales in the trailing 12-month period came from North America) should help it push through the slowdown. Plus, I don't know about you, but it's especially when times are tough that I go home craving a glass of scotch on the rocks.

## Paychex



Nasdaq: PAYX  
Market Cap: \$7.8 billion  
Current Price: \$21.69  
52-Week Low/High: \$20.31 - \$37.47  
Dividend Yield: 5.8%

**Paychex** (Nasdaq: PAYX) does just what you'd expect — processes paychecks — and provides other human resource services for nearly 600,000 small- to mid-sized businesses nationwide. Moreover, it still has loads of growth potential. Paychex estimates that about 15% to 20% of the potential market (some 8 million businesses) uses payroll-processing companies, and of those that do, Paychex has a market share of only around 10%.

Plus, this company's dividend has grown at an astounding pace — a compounded 22% annually over the past five years. Paychex has a pristine balance sheet with \$402 mil-

lion in cash and investments and absolutely no long-term debt. Add in the fact that its founder, Tom Golisano, is still a majority shareholder with more than 10.5% of the company and remains active by serving as chairman of the board, and you've got a company that will help you bring home the bacon for many years to come.

### FINDING THE RIGHT COMPANIES IN SMALL PACKAGES

Another strategic move you can make is to position your portfolio to take advantage of the spike that should occur in small-cap stocks when the market rebounds.

Conventional wisdom advises that as a recession starts, investors should begin to take shelter in more stable, more "recession-proof" large-cap stocks. Accordingly, small-cap stocks — through no fundamental fault of their own — tend to take quite a pounding, and they become vastly oversold. However, when the market eventually turns around, investors become more willing to take on the greater risk that comes with small caps, so these stocks get bid up.

We don't want you to miss out on this upward trend, but rather than haphazardly choosing some small-cap investments (that New Jersey thimble company simply may not be the best candidate), I've selected two stocks from our *Motley Fool Hidden Gems* newsletter service that you'll want to hold not just through the market recovery, but potentially for many years to come.

## KHD Humboldt Wedag



NYSE: KHD  
Market Cap: \$215 million  
Current Price: \$7.06  
52-Week Low/High: \$6.50 - \$35.79  
Dividend Yield: N/A

Several factors have depressed the price of **KHD Humboldt Wedag** (NYSE: KHD). KHD is a global company (based in Hong Kong), and more than 90% of its sales come from emerging markets, whose economies have fared much worse than our own. It's also a small-cap company (see above) and makes money by supplying equipment and technology to cement and coal producers, two groups that have experienced a downfall in demand of late.

This certainly sheds light on why the share price has dropped — except that it has dropped too far. KHD trades with a negative enterprise value. In other words, the company's market value is less than the net cash it has in the bank. So an investment in KHD basically entitles you to cash in

the bank and all of the company's operating business and future profits — free!

This strange valuation means the market believes KHD will destroy shareholder value at a rapid pace. I agree that the company's short-term prospects are grim, but the risks are more than factored into the current price. Over the next five to 10 years, demand for KHD's services should rise — and its stock should vastly outpace the market.

## Chipotle Mexican Grill



NYSE: CMG-B  
Market Cap: \$824 million  
Current Price: \$47.10  
52-Week Low/High: \$32.47 - \$105.14  
Dividend Yield: N/A

**Chipotle Mexican Grill** (NYSE: CMG-B), for those who haven't yet experienced its delectable cuisine, has changed the face of the restaurant industry. How so? Its "fast" food is not synonymous with sloppy, unhealthy fare. Rather, founder and CEO Steve Ells works tirelessly to ensure that the ingredients his restaurants use are of the best quality.

While Chipotle's strength is admittedly under-advertised (top management agrees that it could market the sustainability and quality of its ingredients much more effectively), the company's growth prospects are remarkable. Chipotle boasts more than 830 stores after just 14 years of doing business, and that could easily hit the 3,500-store mark within the next 10 years. Yet even that would equate to just 63% of Taco Bell's domestic presence. And this doesn't include international opportunities, in which Chipotle has expressed interest.

Consumers are tightening their belts, and many might cut out Chipotle's premium fare, but over the long term, this stock is a definite winner. Add some fire to your portfolio and buy this company today.

### FOCUSING ON THE RIGHT SECTORS

Technology could also be ripe for a rebound when the market turns. As *The McKinsey Quarterly* reported, "In three of the four most recent recessions, higher consumer discretionary and IT spending led the way." It's also worth noting that many high-growth technology stocks that have typically carried pricey valuations — **Intel** (Nasdaq: INTC), for example — are now in value territory and boast above-average dividend yields. I've gathered two such companies from our *Motley Fool Inside Value* newsletter service that look to be smart tech plays right now.

## Nokia



NYSE: NOK  
Market Cap: \$33.7 billion  
Current Price: \$9.71  
52-Week Low/High: \$8.47 - \$34.90  
Dividend Yield: 5.3%

**Nokia** (NYSE: NOK) is the world's largest cell phone maker and cell phone software supplier. It reportedly has around 40% of the global market share and owns even more of the market in Asia. The massive size of this franchise enables Nokia to spend an unbelievable amount on researching new technologies and developing them to bring to market — all told, it shelled out nearly \$7.6 billion in 2008 alone. For comparison, BlackBerry purveyor **Research in Motion** (Nasdaq: RIMM) spent a little more than \$600 million on R&D last year.

You might think Nokia will have a tough time competing against smart phones like the BlackBerry and **Apple's** (Nasdaq: AAPL) iPhone. However, Nokia is more than just a cell phone manufacturer. Nearly 30% of its 2008 sales came from its “Nokia Siemens Networks” division, a venture designed to implement network infrastructure for clients. It also bought GPS-data provider NAVTEQ, which rounds out Nokia's suite of products and services.

And now the best news: This stock trades at nearly 65% below our estimated intrinsic value. Add in the dividend yield of more than 5%, and you've got a solid long-term winner.

## Microsoft



Nasdaq: MSFT  
Market Cap: \$146 billion  
Current Price: \$16.48  
52-Week Low/High: \$14.87 - \$32.10  
Dividend Yield: 3.4%

**Microsoft** (Nasdaq: MSFT) has made four billionaires and roughly 12,000 millionaires out of the early holders of its stock, and this technological giant appears to have what it takes to vault more shareholders into the seven-figure stratosphere.

Microsoft is far from the garage startup Bill Gates and Paul Allen founded in the recessionary 1970s. Today, the company generates more than \$17 billion in earnings on nearly \$62 billion in sales. It's the third-largest company by market cap in the United States and is one of the few that boasts a AAA credit rating (meaning that its debt carries virtually

zero risk and is approximately as safe an investment as U.S. Treasury bonds.) Why such a favorable rating? Look no further than Microsoft's balance sheet, where you'll find \$20.3 billion in cash and short-term investments — and no long-term debt.

Few companies are better positioned to survive an economic slowdown and thrive following the recovery. As Microsoft continues to spend more than \$8 billion a year on R&D, it should persist in bringing innovative products to market, which could spell impressive profits for many years to come. This stock trades at a discount to our estimated intrinsic value of roughly 50%, so if you buy it now, you might have a chance to add your name to the tally of Microsoft millionaires in several years' time.

## Special Extra: Layoff Survival Guide

Unfortunately, in times such as these when companies are forced to tighten their belts to keep shareholders happy, even the best employees become mere numbers on a page. Worse yet, they can be eliminated before they're able to prepare. Though it's of little consolation, many of us know what it feels like — and know that it can take what seems like forever to get back into the workforce again.

I've compiled some strategies to help you along the way. These include preventative measures so that you're prepared if the unthinkable happens. If it has already occurred, you'll get advice on working with any severance package you might receive from your employer, as well as straightening out your personal life. I also have some job tips that should put you light-years ahead of your competition.

### PREPARATION IS EVERY WORKER'S BEST FRIEND

If you get laid off, the news may come unexpectedly, so the best you can do is prepare for the worst. First, re-examine and make sure you completely understand your company's severance policy. Most businesses make you sign an agreement on your first day that relates to your potential severance package. If you're unable to find your copy, ask your human resources (HR) office for one and review the terms you agreed to when you signed your life away.

With this knowledge, you'll be able to think about how you could make your severance package work. How many months would the pay cover? Perhaps you have some extenuating circumstances such that health-care coverage would mean more than a lump-sum payment — like if your wife is pregnant.

Knowing what you'll need in order to survive for a stretch of time means that if you're called into that dreaded meeting with HR, you'll know the points of the agreement you'll need to negotiate to make the process work for you. Remember: Just because you signed the agreement years ago, this doesn't mean it's a done deal — many companies are willing to make it suitable enough that you leave as satisfied as you're able, given the circumstances.

It is extremely important that you know exactly what the company is giving you as outlined in the severance agreement, and it is just as crucial that you don't sign any documents (severance or otherwise) until you've read them carefully, examined the fine print, and had the agreement reviewed by a trusted friend, advisor, or attorney. Below is some guidance on what you can expect.

### COMPENSATION AGREEMENTS

Many companies offer several months' worth of pay in exchange for the abrupt severance of your employment con-

tract. If you've been with your employer for a long time, this could be a sizeable sum of money — something you might not be used to. It's best to stash this cash in an FDIC-insured bank account or money market account immediately so that it's safe and accruing interest while you figure out how to make it last. Though your first instinct might be to pay off any credit card debt you owe or buy that new television you've been eyeing, fight these urges and know that you've got to make this money last as long as possible — at least until you find a suitable replacement job.

### UNEMPLOYMENT BENEFITS

Unemployment laws and rules for collecting unemployment benefits vary from state to state, but the general rule is to apply early because it can take several weeks for the benefits to be processed. Also, understand that if you receive a severance package with several months' worth of pay, you might have forfeited your right to unemployment checks for the duration of the time covered by the severance.

### HEALTH INSURANCE

The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) stipulates that your employer must continue to offer you health care after you leave for a maximum of 18 months. The catch? You have to pay the full cost. Typically, you have 60 days to decide, and you're able to elect to opt in retroactively.

If you have pre-existing medical conditions or you're planning to take a trip overseas in the near future, it's best to get COBRA coverage immediately. However, if you have no urgent conditions, your best bet is to look elsewhere. COBRA is a pricey option, and fees easily top \$1,000 per month for families. Instead, check out health insurance plans offered by Costco, your local chamber of commerce, or any other professional and alumni organizations to which you belong. Typically, these places offer group health insurance at a much cheaper rate than you'd pay under COBRA.

The recent \$787 billion economic stimulus package has a nine-month subsidy that would cover 65% of the premium for which you'd be responsible under COBRA. According to *The Wall Street Journal*, "The new subsidy applies to workers involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009 and phases out for individuals with an adjusted gross income of \$125,000, and \$250,000 for married couples filing jointly." If you're eligible, be sure to ask your employer how you can apply to receive this subsidy.

### PENSION PLANS

If you're within 10 years of when you were planning to retire, some companies might allow you to start receiving your pension now. There's certainly no harm in asking. If you're more than a decade away from retirement and are vested in your company's pension plan, you should receive

notification of when you can begin to receive your accrued payout. Keep a clear record of this.

### **STOCK OPTIONS**

The typical policy is that you have 90 days following your dismissal to exercise vested stock options, or you forfeit the right. Times are tough, and companies know this, so they might be willing to extend the term. Here again, it doesn't hurt to ask.

### **401(K) PLANS**

Although the temptation will be strong to cash out your 401(k) plan and use the proceeds to pay bills, this tactic should be the ultimate last resort. Not only will you incur a 10% early withdrawal penalty, but you'll also have to pay income tax on everything you take out, so keep the money in for maximum long-term effects. Similarly, if you borrowed loans against your 401(k), you will owe them back immediately after severance. Failure to pay back such loans will also result in an early withdrawal penalty and will become a taxable event.

We advise that you roll over your 401(k) into a Traditional Rollover IRA. Here, you'll be able to keep investing your savings in a tax-sheltered manner with the brokerage of your choosing. (You'll have to pay taxes when you pull the money out, but by then, you'll (hopefully) be retired and in a much lower tax bracket.) Be sure to take advantage of the tax-sheltered nature of a Rollover IRA and load it up with dividend-paying stocks and mutual funds with high turnover ratios, since neither of these events will be taxed.

### **NON-COMPETE CLAUSES**

These days, many companies require you to sign a "covenant not to compete" (CNC) when you start working there. You're basically agreeing that when you leave the company, you won't work for a competitor and use what you know from your previous job to gain an advantage against your former employer. Sounds pretty depressing, right? You build up years of experience and then some document you skimmed over and signed a few years back now prevents you from getting a job in the same industry. Ug!

As you can imagine, CNCs often make their way into the courtroom. Fortunately for you, the employee tends to walk away as the winner in these cases. Courts have ruled that, quite simply, it is unjust to ban you from working in the industry in which your skills lie just because of a document you signed as a condition of employment at your previous job. That's not to say the employer is always in the wrong, but if you suspect the agreement is overly harsh and limiting, chances are you might not be required to fully adhere to the terms. Of course, before you breach them, it would be wise to confer with a trusted attorney.

### **VACATION PAY**

Most companies allow you to accrue vacation pay — many employee agreements even spell this out. Review your compensation package to make sure that the unpaid vacation time you've earned has been included in your parting package. If it's not, make it known — and don't worry; this is unlikely to be contested.

### **ENDURE THE JOB SEARCH**

#### **Resumes**

Haven't updated your resume in half a decade? If you're feeling out of the loop or simply need some pointers on effective resume writing, this section should help.

The first step toward finding a new job is making sure your resume helps you stand out from the crowd. Here are five rules of thumb for success:

1. **Bullets are your friend.** Most recruiters see hundreds of resumes a day. Odds are, they're not going to read every word you put down on the page. So make their jobs easier and ensure that your main points stand out. Put job descriptions in bullet form — perhaps even embolden key phrases that are sure to catch their eyes.
2. **Don't write too much.** Similar to the first point, don't submit a five-page resume — that is, unless you've been in an industry for many decades, have spearheaded national campaigns, have authored multiple books and articles, and hold numerous degrees (honorary and actually earned). For most of us, one or two pages is all the recruiter will read, so be sure to cut down the most impressive facts to a manageable level. Been in the workforce for more than 15 years? Unless you held particularly esteemed positions back then, most recruiters advise including only the most recent 10 to 15 years of employment history.
3. **Jazz up your writing.** Eliminate boring buzzwords and phrases such as "Responsibilities included," or "Duties were," which are likely to be on every other resume the recruiters read. Instead, use action verbs (think "minimized," "solved," "established," etc.). Most important, don't be afraid to brag — this is your chance to market yourself! Proud of certain accomplishments? Make sure these appear on your resume so that you can wow the people who review it.
4. **Prioritize.** Put the most impressive items in a place of prominence on your resume. Don't let your reader lose interest by listing the menial tasks, while notable achievements flounder at the bottom of a section.

5. **Read over it five times.** Ensure that there are no spelling typos, grammatical errors, or erroneous facts. If you misspell “client” and you were a client manager, you’ll come off as careless and might be overlooked even though you were the most qualified candidate. Don’t trust your own spelling or grammar skills? Ask a friend — or three — to review your resume for you.

Also, don’t forgo the cover letter. You’re able to convey only so much personality in a resume. The cover letter is your chance to show these companies who you are, what you’re like, and why you want to work for them. Do some research on each company and mesh in their buzzwords throughout your cover letter. Prove to them that you know who they are, what they do, and are not just looking for a paycheck and sending out a generic letter. A little bit of research will go a long way, and many folks claim that their cover letters are what ultimately got them the interview — and the job.

### **NETWORKING**

Enlisting the help of everyone you know (family, friends, professional associations, alumni groups) is the surest way to find a job quickly. In fact, more than 80% of all jobs are found this way! Get back in touch with old coworkers, join business networking websites such as LinkedIn.com, ask former colleagues to write public recommendations, and don’t forget to browse job postings on websites such as indeed.com, Monster.com, and Craigslist.org.

There are also plenty of additional avenues you can take to find work: Re-join professional organizations or get back in touch with alumni groups if you’ve fallen out of contact. As Seneca said, “Luck is what happens when preparation meets opportunity.” So do your part and be ready for a lay-off so that you’re one of the lucky ones who’s able to find employment quickly.

### **ACCOUNTING FOR TAX**

You can deduct certain job search expenses for tax purposes if you itemize your deductions. As with anything related to the IRS, there are eligibility requirements and exceptions, so to see if your expenses are deductible, browse through IRS Publication 529.

### **VOLUNTEERING**

It’s possible that finding the right job will take more time than you’d like. But don’t let your skills wither away out of lack of practice. Find a charitable or non-profit organization where you can enlist your talent — either for a small fee or for free. Not only will doing good in the community feed your soul, but it will also fill gaps in employment history on your resume and prove to a potential employer that your skills have not become rusty or lost.

### **VENTURE OUT ALONE**

Have you been contemplating starting your own business but never really felt like the time was right? There’s no time like the present. Perhaps it seems counterintuitive, but establishing a business in an economic environment such as today’s is actually a smart idea. Of the 30 companies that make up the Dow Jones Industrial Average, 16 — more than half! — began business either during recessionary times or during the Great Depression.

Make sure you’ve thought through your niche in the marketplace and your competitive edge. The competition you’ll be up against is likely struggling, so if you attack the industry with a ferocious game plan, chances are you’ll be able to take significant market share and emerge a key player.

### **TAKING TIME FOR WHAT MATTERS MOST**

Blogger Robert Scoble advises those who are laid off to use this time “to work on family and health.” No more excuses for missing your son’s Little League game or your daughter’s ballet recital. Now’s the time to reconnect with those who admire you most. Been putting your hobby on hold? Pick it up once more. This is a chance to re-establish a peaceful balance between work and your personal life, and if you don’t take steps to forge that balance now when you have a lot of time on your hands, it will be difficult to do so once you’re back in the workforce.

This time away from the hustle and bustle of the office also gives you the opportunity to put those diet goals you made on Jan. 1 into practice. No more justifying a greasy “burger for lunch because you only had time for the drive-thru. On a similar note, make time for daily exercise. Even a walk around the block for some fresh air can be therapeutic, and it will help take your mind off things after spending more time than you’d prefer in front of a computer searching for a job.

### **TAKE A DEEP BREATH**

It’s natural to unknowingly take out your frustration and anger on those you love most, so be cognizant of this tendency. While it might not make sense to call a babysitter and head out for a night on the town, preparing a romantic dinner for you and your spouse could help take your mind off the situation for a brief moment, as well as remind you of what’s most important after it’s all said and done.

Lastly, you must do your best to remain optimistic. If you don’t believe with full conviction that you’ll find a job soon, it will be hard for others to buy into your story as well. Look for positive ways to spin this seeming catastrophe into a blessing in disguise. Perhaps you were getting bored with the same old routine you’d followed for several years — this could be just the excuse you needed to make a change. Or maybe you felt undercompensated for your

hard work — you might be able to find a company that's willing to pay you even more for your skills! Recruiters and headhunters say that those who ultimately survive layoffs and emerge stronger are those who are able to stay optimistic throughout the episode.

This advice corroborates with what Laurence Gonzales writes in his book *Deep Survival: Who Lives, Who Dies and Why*. He states that those in a crisis situation who make it out alive are the ones who stay calm, remain humble, form a plan and act in accordance with it, count their blessings, and believe they will succeed. The ones who perish are those who let their emotional responses get the best of them and act more in fits of passion than in a composed and rational manner. Be the survivor.

### **PARTING THOUGHTS**

Dear Fool, our consolations go out to you during this difficult time. Hang in there. You'll get through it, and I hope the steps I've outlined here will help you endure. Remember, you're not in it alone — in fact, if you'd like to connect with folks who are going through similar circumstances, here's a link to The Unemployment/Job Loss Support Center, where you'll find even more links to articles, book recommendations, and tips for where to find help, all compiled by others who have gone through what you're experiencing: <http://www.thesurvivorsclub.org/support-center/money/jobs/unemployment/-/job-loss.html>

We wish you the best of luck.

Fool on!

Adam Wiederman  
Motley Fool Analyst

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