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How to Make Money in a Recession

Anyone can buy stocks, and buying stocks is especially attractive when the market is on an upswing. But only a special few know the right way to buy stocks in the middle of a falling market. The few investors who do, make the most money.

Buy low and sell high, that's no surprise to anyone. Investors know it's the right thing to do, but in reality they don't always do it. Fear takes over when the market falls and your stock prices collapse. It holds you in its grip, which makes you leery about buying when stocks are on sale. So to help you make those buy decisions at stock price lows and in the middle of a recession, I am going to give you some guidelines on how to find a great bargain.

First, a little history. Stock markets always bottom before the economy actually is in a recession. By the time you see statistics that tell you the economy is in a recession, the market has likely hit bottom and started to rally.

For example: In the last bear market, those that bought stocks at or near the bottom at the beginning of 2003 (where the S & P 500 low was around 800) saw that index soar to more than 1,500 before our recent fall; and even today the index is at 1,350. That return, buying at the low, is about 60%. If you bought at the high in 1999 for the same index and held on, you would be losing money after seven years.

When you see doom and gloom in the news, the politicians trying to give us back our own money and the federal reserve lowering rates, it is time to look for stock bargains. Here is what they look like:

1. Buy stocks that have good growth prospects despite --- or even because of --- the economic slow down. Typically they are stocks with growth in sales and earnings that are two times their P/E ratio. This is known as the GPE.

2. Buy stocks that have earnings yields that are 150% or

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by

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higher of the dividend yield on a 10-year treasury note. What is an Earnings Yield? It is the inverse of a P/E ratio. It is the E/P. That's Earnings divided by Stock Price.

3. Buy stocks that have sales twice the amount or more of the market capitalization of the company. If it's a billion dollar company you want its sales to be \$2 billion or more on an annual basis. In other words, it has a Price to Sales ratio of 2 or less.

Of course, there are many other rules and many different ways to invest. But these will insure low priced stocks in relationship to earnings. Earnings are the only thing that matter. When it comes to stocks, the higher the earnings and the lower the price compared to the growth of the earnings, the better. In recessions, earnings tend to disappear. That's why they call it a recession. But there are always stocks that thrive for one reason or another and it is your job to find them.

Let me warn you: This is not market timing. If you try to time in and out of the market you are going to lose money. It takes understanding and work. If you are not willing or able to do the work and buy stocks when everyone else is selling, then let someone else do it for you. If you are going to do it, then follow these guidelines. They will help you find very good prices for very good companies.

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