April 2009
Brains + Guts = Opportunity

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The Biggest Opportunity Of Your Lifetime

Although you probably don't realize it you are probably living in the midst of the greatest opportunity in your entire lifetime. That's right, the greatest opportunity. Right now as you read this, entire industries are being transformed, entire markets are undergoing fundamental long term shifts, and the global economic system is being restructured and reorganized. What this means as an individual and as an owner/manager of a small to medium sized business is that for the first time in decades perhaps in your entire lifetime, you have a strategic competitive over larger, and better capitalized competitors. Let's explore why this is so in more detail.

Herd Mentality

I think we all know how common herd behavior is. We see examples of it all the time. Remember when people were sleeping outside Walmart to get their child a Tickle-Me-Elmo doll? Same thing when the i-Pod was first released. This type of herd behavior is fairly harmless. But what about when someone calls their broker in a panic and tells him to sell all of his stock holdings and put everything in cash? Even worse, their only justification is that all of a sudden the stock market started going down and the media is all negative. They just dump all their stocks without regard to individual performance or circumstances. How about when a business owner slashes prices because they are afraid of losing customers, but have no actual data to support this fear? Or they cut the marketing budget in the middle of a recession because they feel the need to cut costs, any costs, without truly understanding the ramifications.

Now let's suppose you don't follow the herd. Let's say when everyone was dumping the stocks of the Big Three (General Motors, Chrysler, and Ford) last Fall; you calmly analyzed the situation and realized that Ford was not in the same situation as the other two. Your analysis shows that Ford is not taking government bailout money. Ford has five new vehicles out of the top ten with the highest design ratings. Ford has just tied Toyota and beat Honda for the first time ever in overall J.D. Power vehicle quality ratings. And Ford has used the specter of an impending Chapter 11 filing of General Motors and Chrysler to negotiate huge concessions from the UAW and its bondholders. For the first time in its 102 year history all stakeholders in Ford have a vested interest in its stock price increasing. At the height of the panic selling in November Ford is selling for $1.26 per share. So armed with your knowledge, and in spite of the herd, you act decisively and purchase a large block of shares. It would have taken guts to buy this stocks back in late 2008 when all the headlines were uniformly gloomy.

Well as I write this newsletter, Ford is now selling for $5.12 per share, a 406% profit in five months! What if you did the same with the bank stocks that were all being dumped equally? That is, you kept your cool and analyzed each one on its own merits. If you decided that Bank of America, Goldman Sachs, and JP Morgan were fundamentally in a different situation than Citigroup, you would have profits of 287%, 235%, and 146% respectively.

The point is not to teach you how to buy stocks. The point is to demonstrate how damaging and dangerous it can be to blindly follow the herd. And more importantly how profitable and successful you can be by remaining calm and looking for once in a lifetime opportunities in the midst of chaos. This same lesson can be applied to your personal life and the management of your business.

Some tips:

- Keep the long view. Everything happens in cycles. This is not the end of the world.

- Ask yourself what has really changed and how permanent is it?

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- Do I need to act right now?

- Have I validated my initial analysis of the situation?

- Which direction is the herd traveling and why?

- Does a contrarian approach make sense?

- What opportunities are being created by this situation? How can I capitalize on them?

- A calculated risk is acceptable. Gambling is not.

- Don't ever try and time events. Base all strategies on the long term view.

Brains And Guts

As an individual or a small to medium sized business your biggest strategic competitive advantages are speed and flexibility. In essence you can analyze a situation, evaluate your options, and change direction in the time it takes your largest competitor to schedule a management meeting to even discuss the issue. The politics of actually reaching a decision will slow them even more. In general, people who work in large companies do not like to take risk. That is why they work there in the first place. Therefore, many large companies will remain frozen in place during times like this as there is no clear, low risk alternative immediately visible. This creates a great opportunity for the smaller company that has identified a fundamental shift in the marketplace and has the guts to make a decision and act on it. This was evidenced during the early 1980's recession (which was as deep and long as the current one) which witnessed the birth of both Microsoft and Apple. Their larger competitors were not as decisive and it cost them. Remember Digital Equipment, Data General, and Wang Labs?

It's Your Opportunity

I actually look forward to times like these. It is like someone bangs the chessboard and all the chess pieces get rearranged. This creates great personal and business opportunities for those who are prepared and can calmly analyze their options and opportunities.

Some thoughts to help get you moving in the right direction:

- There will be less competition. Many of the weaker players in your industry whose presence only served to drive down prices will not make it.

- Many larger companies are currently understaffed and have a demotivated work force. In addition, as outlined above they will typically not adapt very quickly to changing markets. This gives you a keen competitive advantage. Capitalize on it now as it will not last forever.

- The depth and nature of this downturn will produce lasting structural changes including:

- More conservative, risk adverse behavior by people and businesses.

- Less assumption of debt.

- Higher savings rates.

- Less trust of individuals, companies, and governments.

- More pragmatic purchasing behavior. Less bells and whistles are better.

- Smaller and local perceived as safer than larger and global.

- There will be a major scramble for talent as the upturn becomes apparent. Many companies cut too deep in key areas. Also most businesses cut at almost exactly the wrong time. That is why unemployment is a lagging indicator.

- There will be some great fire sale prices on quality businesses. When the upturn becomes apparent there will be a surge in M&A activity. If an acquisition makes sense don't wait.

So, you are in the middle of what may be the greatest opportunity of your lifetime. If your only goal is to hunker down and survive you will probably be successful. If your goal is to take full advantage of this fantastic opportunity that will take brains and guts. Because one rule never changes. Nothing in life that is worth achieving is ever free.

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