

Plan To Outlast A Crash

Sonja Carberry *Thu Oct 25, 6:01 PM ET*

Surviving a market bust -- real estate or otherwise -- takes fortitude. The first rule is don't panic. Every downturn has an upside. So say Chad Parks, whose startup company outlasted the 2001 dot-com bust, and David Decker, author of "Cash In on the Coming Real Estate Crash." Their tips:

Strength training. The dot-com bubble's bursting meant exuberant investment in Internet-based companies came to a halt, leaving countless startups without funding.

Parks' fledgling company, Online 401(k), was an exception. He convinced investors to continue their financial support -- on the promise that his company would be cash-flow-positive within 12 months.

To do it, Parks had to put the company on a strict financial diet. The belt tightening made the company healthier. "If you starve it, it gets stronger," Parks told IBD.

Renegotiate. Under the new budget, Parks couldn't afford his office lease. Since area vacancy rates had soared to 25%, Parks had leverage to bargain for fair market value.

Parks says being nice before the crash helped when he had to renegotiate other bill payments: "We weren't arrogant or cocky, which a lot of people were at that time."

Take the hit. Parks took the deepest salary cut and reduced paychecks for every staff member. Some left the company, he says, but the best ones stayed.

Live your mission. What kept Parks and his employees going was a belief that their product -- fee-for-service 401(k)s for small businesses -- served the greater good.

"We truly want to get more people into retirement plans, because it's the right thing to do," he said. "You have to have the strength to look past the current situation. Just think of it as some turbulence."

Accept cyclical realities. Decker says trying to get rich quick in real estate is a sure loser. Winners respect real estate's cyclical nature.

Overextending is a common mistake. "Statistics show there's been a huge spike in second-home ownership," Decker told IBD. "You could see a crash in that market niche."

The resulting bargain prices could mean opportunity -- but only for investors who can outlast the downturn.

Think local. How much a real estate market crash hurts depends on where you live. While the West Coast and Southwest are indeed struggling, "historically there is unprecedented affordability in the Midwest," Decker said.

What matters most is your corner of the world. To get an accurate read, Decker suggests checking out the housing affordability index published by the National Association of Realtors at realtor.org.

Clean house. If you have a mortgage with a variable or adjustable rate, Decker recommends getting into a fixed rate ASAP. Meanwhile, put yourself in the best position by cleaning up your credit profile.

Hang tough. An overextended homeowner might think that downsizing to a cheaper home is the solution.

"That's terrible advice," Decker said. The transaction fees add up, and you'll create your own "minicrash," he said. "If you can keep making your mortgage payments, do that."