



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

What to Do When Your Portfolio Has Plunged

Here's how to keep a level head:

- Breathe — really. Take several, slow, deep breaths. This can slow your heart rate and your racing mind.
- Take control. Separate what you can control from what you can't. If the Dow plunges or a company you own cuts its dividend, you have no control over that. All you can do is reassess the long-term health of your portfolio and decide whether or not you want to make any adjustments. That's your sphere of control.
- Always come back to the business. Nearly all stocks have been taking a beating, but not all businesses face the same risks in this crisis. Morgan Stanley and Goldman Sachs aren't in the same position as ExxonMobil or General Electric.
- Look for mines in your portfolio. Regardless of the market environment, there are two main causes of bankruptcy: an unprofitable business model and excessive debt.
- Valuation matters. Review the valuations of the stocks in your portfolio.

Ignoring the direction and size of stock price movements for a moment, ask yourself whether the current valuations of the stocks you own make sense, given the companies' earnings power.

If a terrific company that you own now has a price-to-earnings (P/E) ratio of 10, ask yourself if that depressed valuation is sustainable over the long term. You may find a new confidence in holding the stock. For every stock you own, ask: "If I didn't own this stock today, would I want to buy it at its current price?"

- Don't track your portfolio on a minute-to-minute basis, and watch less financial news. Information is extraordinarily available, and continually watching your portfolio is corrosive to the kind of mindset you need to adopt under these circumstances.

Stay calm, stay focused, and you'll make better decisions. Oh, and don't forget: The market is just one part of your life. Make sure to continue allocating time to the activities and people you love. ■

My Dumbest Investment

Heeded Broker: Sold Too Soon

My biggest blunder was several years ago, when I'd bought 100 shares of Wal-Mart. Shortly thereafter, my broker went to work for a different company. My new broker advised me to sell Wal-Mart and buy shares of Cisco Systems, for \$22 per share. When it hit \$30, he advised me to sell, which I did. After looking at the value of these two stocks today, I kick myself. Needless to say, I no longer have this broker.

— James K., Cedar Hill, Mo.

The Fool Responds: As you've learned, a good way to make some big bucks is to stay invested in great and growing companies for many years. Wal-Mart shares have increased in value about fivefold since you bought them, and Cisco shares have risen more than 10-fold. Your Cisco story isn't uncommon — many people sell their stock as soon as they hit a target price (representing, for example, perhaps a 10 percent or 20 percent gain). That's profitable, but you can miss out on many more gains if the firm is still thriving and undervalued. ■



Do you have an embarrassing lesson learned the hard way? Boil it down to 100 words (or less) and send it to *The Motley Fool* c/o *My Dumbest Investment*. Got one that worked? Submit to *My Smartest Investment*. If we print yours, you'll win a Fool's cap!

Last week's trivia answer

Founded in 1982 and based in San Jose, I'm a top global software company, raking in \$3 billion annually and employing some 7,300 employees worldwide. I have something in common with sun-dried, unburned bricks of clay and straw. One of my products evokes gymnastics, while another is another term for low-energy nuclear reactions, and a third is a hit song by Gary Wright. More than 500 million devices equipped with my Flash technology have been sold. Many of my offerings focus on print and Web publishing, as well as digital imaging. I went public in 1986. Who am I? ■

(Answer: Adobe)



Write to Us! Send questions for *Ask the Fool*, *Dumbest (or Smartest) Investments* (up to 100 words), and your *Trivia* entries to *Fool@fool.com* or via regular mail c/o this newspaper, attn: *The Motley Fool*. Sorry, we can't provide individual financial advice.

What Is This Thing Called The Motley Fool?

Remember Shakespeare? Remember "As You Like It"? In Elizabethan days, Fools were the only people who could get away with telling the truth to the King or Queen. *The Motley Fool* tells the truth about investing, and hopes you'll laugh all the way to the bank.

Ask the Fool

Determining a 79-Year-Old Gain

Q If I had put \$1 in the market after the crash of 1929, how much would it be worth today?

— Jim Gargotta, via e-mail

A Not everyone realizes it, but the crash of 1929 really occurred over several months, not hours. The Dow Jones industrial average ("the Dow") peaked in early September 1929, at 381. It then slid down to 199 in mid-November, before rising again to 294 five months later, in 1930. (In October 1929, it slid more than 11 percentage points on two successive days.) From there it began a long descent, falling to 41 in July 1932.

With the Dow recently around 9,000, it's up some 220-fold since the low of 41. That's enough to turn your \$1 into \$220.

Q If I've made multiple purchases of a stock over time, how can I figure out my annual return?

— M.W., Norwich, Conn.

A What you want is the "internal rate of return" (IRR). If you invest \$1,000 and it grows to \$2,000 in one year, your holdings advanced 100 percent. (Congrats!) But if you invest \$1,000 and then add \$500 midyear, and then end the year with \$2,000, your holdings didn't appreciate by 100 percent. Part of that gain is simply from the midyear cash infusion.

Calculating an internal rate of return can be very complicated. One shortcut is to plug your numbers into a spreadsheet on your computer and to use its IRR function to do the math for you. Another possibility is to enter your portfolio into an online portfolio tracker that calculates IRR.

To learn more, go to an online search engine such as www.google.com and type in "internal rate of return." ■

Got a question for the Fool? Send it in — see Write to Us.

Name That Company

I was born 15 years ago as a printed financial newsletter sold by two brothers to friends and relatives. A year later I debuted online and became quite popular. I'm on a mission to improve people's lives, offering superior investment ideas. I produce or have produced scores of online articles weekly, along with video commentaries, a radio show, a weekly newspaper feature, more than a dozen published books and several



investing newsletters. My discussion boards are vast and busy, and my CAPS service at <http://caps.fool.com> rates thousands of stocks for free. I throw parties on April 1. Who am I? ■

Know the answer? Send it to us with *Foolish Trivia* on the top and you'll be entered into a drawing for a nifty prize!

The Motley Fool Take

Bad Moon Rising on Solar

It was a sunny day for solar power when Congress decided to bail out Wall Street. The final bill included gifts for many industries, including the renewal of investment tax credits (ITCs) for solar power for eight more years.

While the future for the solar industry seems bright, the tax credits may provide little immediate relief.

Hapoalim Securities analyst Gordon Johnson points out that 50 percent to 70 percent of solar projects are financed by debt, and the credit situation in the country hasn't improved to any extent, even with the massive bailout and capital injections the government has made.

Thus, there is expected to be little lending available to finance solar projects, at least over the short term.

The eight-year ITC extension is important for unlocking the value inherent in the solar industry, but investors would be wise to use caution when deciding whether to invest in solar companies right now.

There's a developing consensus that the U.S. can become a storehouse of demand for solar power, and the ITC is just one component furthering it. Yet with the country's credit woes still uncertain, lending criteria tightening and supply issues that need to be worked out, what appear to be cheap valuations today may seem dear by next year. And that's a cloud that shouldn't pass over your portfolio. ■

SALON

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us through that whole thing," said Ms. Schwalm, who declined to name the boat maker. But now, "It's totally exiting. The people here at the marina have been really supportive."

Back in August, her mother, brother and sisters flew to Florida for Rumours Hair Design on the Water's maiden voyage along the Caloosahatchee River to the yacht basin downtown.

Dockmaster Leif Hans Lustig hasn't seen anything like it in his 17 years in the industry. "I believe this is the only floating beauty parlor in the United States," he said. "The big question is 'What's next?'"

The 1,400-square-foot boat has been approved for its use by state inspec-



EVAN WILLIAMS/FLORIDA WEEKLY
Owner Marcia Schwalm inside Rumours Hair Design on the water

tors, the U.S. Coast Guard and the State Board for Cosmetology, which considers it a "mobile salon." It's kept steady by rings holding it to posts on the dock, so it will hardly rock, even on a windy day. It is handicapped accessible and has room for six styling stations and additional services such as manicures, pedicures and massage.

Everything has a marine theme. There are "Captain's Cuts" (for ladies), "Mate's Cuts" (men), and "Skipper's Cuts" (kids). "May Day" is a color correction. "All Hands on Deck" is a manicure. "Toe the Line" is a pedicure. "The Wave" is a perm.

Rumours Hair Design on the Water is painted robin blue inside, and has expansive views of the marina from upstairs, which is accessed by a spiral staircase. French doors lead out to the deck where customers can wait.

The boat's ceilings are made from wooden planks taken from the walls

of the Earnhardt Building. "I'm really bringing the old Rumours into the new Rumours," Ms. Schwalm said.

"It's a great little boat, and I hope it will change the way we look at the water and use it," she said. "It could be a bar, a restaurant — really anything that someone had the vision to turn it into. But for right now, it's going to be a hair salon."

When the ship-shape salon celebrates its grand opening Nov. 15, Ms. Schwalm, her husband and two daughters all will be there. And Ms. Schwalm is relishing the chance to get the last word on an old promise.

"When I was little, I used to tell my mom, 'When I'm a millionaire, I'll take care of you,'" she said. "And she used to say, 'I know, Marcia. When your ship comes in, you'll do that.'"

Millionaire or not, her ship has come in. ■