1 Stock to Rule the Recession

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"As long as there are problems to be solved, there will be innovators to solve them. Companies that use the current tough times as an excuse to de-emphasize innovation are going to severely regret it."
– Scott Anthony

At first, the idea sounds counterintuitive: Recessions actually offer disruptive companies their best opportunities to dominate. Companies tighten their belts, cash gets hoarded, consumers rein in their spending -- but for the disruptors, it's showtime. That's the chief thesis of Scott Anthony, author of *The Silver Lining: An Innovation Playbook for Uncertain Times*.

Look beyond the surface
Unusual as it may be, the theory appears to hold water. During economic downturns, Anthony argues, an abundance of scarcity forces companies to shed old, outdated business models and develop and produce new ideas. With the help of technology, innovation can occur at lightning speed. Just think, Anthony writes, how quickly Facebook went from a college dorm-room project to a global enterprise.

He also notes that many great companies, such as **General Electric** (NYSE: GE), **Walt Disney** (NYSE: DIS), and **Electronic Arts** (Nasdaq: ERTS) were all formed during times of recession.

In fact, more recently, harsh economic times didn't seem to stop **IBM** (NYSE: IBM) from popularizing the personal laptop, BMW from unveiling the first of its new hybrid vehicles, or **OpenTable** (Nasdaq: OPEN) from streamlining restaurant solutions in unprecedented ways.

In addition, merger and acquisitions (M&A) will usually pick up speed in recessions, as the companies that have cash become more willing to spend in order to finance expansion, growth, and creativity. The Boston Consulting Group says this is a smart move -- according to its research, deals done during a recession generate 15% more return to shareholders than deals done during a boom period.

These massive industry shakeups can have lasting impacts. Right now, as we steer our way through the greatest recession in decades, there are a plethora of opportunities to take advantage of.

Innovate, innovate, innovate
Craig Barrett, former boss of **Intel**, has said, "You can't save your way out of a recession; you have to invest your way out." He's right. To truly improve profits, companies can only cut costs for so long. The only true way to come out on the right side of the recession is to innovate, break rules, and hope your ideas are better than the next guy's. The Kauffman Foundation, in a study of entrepreneurship, found that about half of the current Fortune 500 companies were founded during recessionary or bear markets.

That's why companies such as IBM are holding a series of "innovation jams" designed to come up with new and influential initiatives, and why **Cisco Systems** (Nasdaq: CSCO) is using its excess cash to transform itself from a back-room network plumber to a more versatile, diversified business.

Time to break the rules
This line of thinking gets David Gardner, co-founder of The Motley Fool and head of our *Rule Breakers* team, excited about investing right now. David is a classic growth investor -- he loves companies that are breaking the bounds of normalcy and igniting risky but intelligent shifts in their industries.

I recently had the pleasure of sitting down with David to discuss his investing strategy. He said he tries to invest in companies that he believes in, but which also have "dark clouds I can see through." David explained that if you can look past that dark cloud of adversity, but others cannot, you will often gain from other people's fears.

That's what David did when he recommended buying **Marvel Entertainment** about seven years ago. Marvel was a much smaller company then, but one he believed in. Many others thought that superhero movies would be a short-lived fad, and thus assumed the company was a bad investment. David stuck with his gut, recommended Marvel several times over, and has now netted more than a 1,300% gain!

His team recently selected **Ebix** (Nasdaq: EBIX) as a *Rule Breakers* recommendation -- one with all the traits of a recession-beater. The company has positioned itself as an integral part of the insurance software arena. Ebix has stepped into the multibillion-dollar insurance field and made it possible for brokers, underwriters, and agents to seamlessly enter and find data using Ebix's software platform. It has grown both organically and through acquisitions, has a paltry 0.3% debt-to-capital ratio, and is expected to grow earnings about 18% over the next five years.

The analysts at *Rule Breakers* offer two new stock ideas every month that fit this same criteria. Some picks have turned out differently than they anticipated (witness recommendation **GigaMedia**, down more than 60% on the scorecard), but since 2004, they're beating the S&P 500 by more than 17 percentage points. That's pretty impressive.

If you're interested in seeing all of David's past and present stock recommendations, or learning more about Ebix, click here for more information. We're offering a 30-day free trial with absolutely no obligation to subscribe.

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