The Motley Fool®

Our Mission: To Inform, to Amuse, and to Help You Make Money

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

Losses per Share

Q Should I avoid companies reporting increased losses per share instead of increased profits? *— D. Y., Lawrence, Kan.*

A Maybe, but not necessarily. Companies sometimes make or spend a lot more in one year than another — perhaps because they've introduced a popular new product or have ramped up their research expenditures.

Imagine the young Wireless Pie Co. (ticker: WIPIE), which delivers pies electronically. Let's say it lost about $20 million in 2002 and $60 million in 2003, though its revenues nearly doubled during the same period. Some investors see numbers like this and run the other way, preferring to invest only in companies reporting steadily increasing profits. That makes a lot of sense. But those willing to take on more risk may buy, thinking that for emerging start-ups like WIPIE, this is the time when they should plow available money into advertising and growing the business. They reason that the time for profits is later, once the company has amassed a huge wireless pie-loving customer base.

By the way, we had some fun with an imaginary pie-topping company for one of our annual April Fools' Day jokes. Click over to **www.emeringue.com** for some laughs.

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Q What's a company's "payout ratio"? *— S.G., Kinston, N.C.*

A It's the percentage of net income the firm pays out to shareholders as a dividend. If Cheese Sciences Inc. (ticker: CURDS) pays an annual dividend of $2 per share and earns $10 per share, its payout ratio is 20 percent.

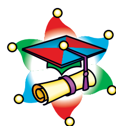
When a firm returns much of its earnings to shareholders, then less is being reinvested in operations or spent on growing the business. However, that's not necessarily bad. Sometimes reinvested earnings would return less than shareholders could get investing the payout on their own.

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

Fool's School®

A 12b-1 Fee Fuss

Pay any attention to your mutual funds, and you'll notice that they charge a host of fees. A fund's "expense ratio" (representing its operating expenses and management fees) is one way to get a handle on its overall annual fee bite, but it's good to poke around and get more details.



Along with the many recent mutual fund scandals and cries for reform, there's some outrage being expressed lately about the 12b-1 fee. It was created in 1980 with the intent of permitting funds to charge a little money in order to cover some administrative and marketing costs. The reasoning was that by attracting more investors, the fund would become bigger and could lower its expenses by realizing some economies of scale. There's some logic in that. There's some irony, too, though, since investors are essentially being charged a fee in order to lower their fees.

There's also a lack of logic in the fee. That's because the bigger a fund gets, the harder it often becomes for the managers to deliver market-beating results. As a fund swells to contain many billions of dollars, it's no longer able to easily make a profit on smaller companies. Even if it bought some exciting, fast-growing companies outright (which it can't do), they would still be a drop in the bucket, overall performance-wise. So when big funds charge 12b-1 fees, they're asking investors to cough up money in order to possibly make the fund perform more poorly. Oy.

Making matters even more confounding is this: Some funds that have closed their doors to new investors (often a good thing, preventing the fund from getting too big and therefore underperforming) are still charging 12b-1 marketing fees. Hmm ...

Our friends at the Securities and Exchange Commission (SEC) have been looking into possible abuses of the 12b-1 fee, and some reforms may be in the offing. Drop by **www.sec.gov** for the latest developments and for information on how to share your thoughts with the SEC.

In the meantime, take matters into your own hands, and learn more about the fees your funds are charging you at **www.fool.com/mutualfunds/mutualfunds.htm** and **www.sec.gov/answers/mffees.htm.**

My Dumbest Investment

All That Glitters

When I wanted to spice up my portfolio with some aggressive funds, my financial adviser recommended a mutual fund containing a gold-mining stock that was increasing rapidly in value (Bre-X Mining Co.). He had a fancy MBA degree, and I was an investing neophyte. So I relied on his expertise and bought. Soon after, Bre-X's chief geologist "fell" out of the company helicopter into the Indonesian jungle they were surveying. It turned out that the company was salting core samples and there was much less gold in the ground than it had claimed. Share prices plummeted faster than the unlucky geologist. I learned that just because someone has an MBA or CFP after his name doesn't mean he knows more than you about a certain company. *— Glen Hays, Troy, Mich.*

The Fool Responds: That's very true. Few business schools offer courses in gold mining, after all. You can learn more about this famous case of corporate fraud in "Bre-X: The Inside Story" by Diane Francis ($25, Key Porter Books).

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!

The Motley Fool Take

High-Yield Appeal

Many stocks pay dividends — cash payments to investors. With rates on money markets and certificates of deposit so low, some investors are looking for income from stocks with high dividend yields. Here are three to consider. They're not growing quickly but are reasonably priced, with low price-to-earnings (P/E) ratios.

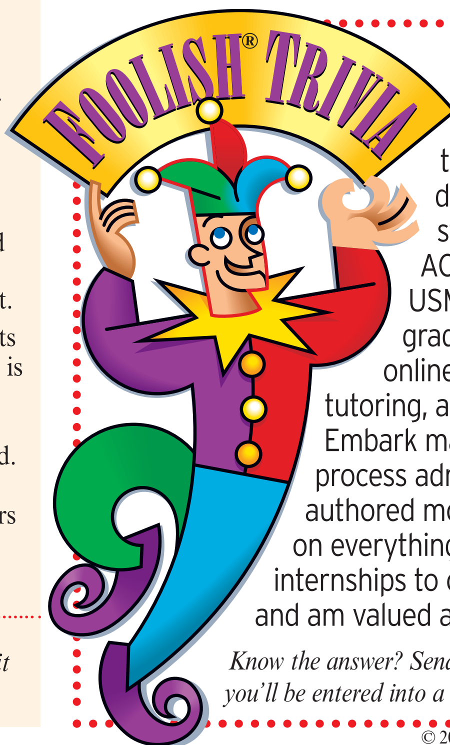
Remember that the dividend yield is the company's annual dividend divided by its current stock price.

• Sara Lee (NYSE:SLE) is expected to grow by just 6 percent annually in the near future. Its brands include Sara Lee, Wonderbras, Hanes and Jimmy Dean sausage. The dividend yield is 3.5 percent.

• Mack-Cali Realty (NYSE: CLI) is a real estate investment trust (REIT) specializing in office properties in the Northeast. It has kept occupancy rates high in both good and bad economies. The stock is now trading near its 52-week high, but it sports a 6.2 percent dividend yield.

• Gallaher Group PLC (NYSE: GLH) is the largest manufacturer of tobacco products in the United Kingdom. It makes Benson & Hedges, Silk Cut, Berkeley and Mayfair cigarettes. With any tobacco company, you should consider litigation threats. Gallaher has had relatively few cases pending against it, and there has never been a decision against it. Growing at about 6 percent annually, Gallaher's dividend yield is 4 percent.

If any of these firms intrigue you, study them further before investing. For more high-yield companies, check out our Income Investor newsletter at **www.FoolMart.com.**



Name That Company

Founded in 1981 and headquartered in New York City, I help students and schools successfully handle standardized tests (such as the SAT, ACT, GMAT, MCAT, LSAT, GRE and USMLE) and admissions to college and graduate school. I offer classroom and online test preparation courses, private tutoring, and educational Web sites. My Embark management tools help universities process admissions and recruiting. I've also authored more than 190 print and software titles on everything from test preparation to summer internships to college ratings. I went public in 2001 and am valued at $225 million today. 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!

LAST WEEK'S TRIVIA ANSWER

Last Week's Trivia Answer: I trace my roots back to Iowa in 1893. The wooden-tub washing machine I introduced in 1907 proved so popular that I abandoned farming products to focus on it. Today I'm America's third-largest home appliance maker. I rake in some $4.7 billion annually in sales and am one of "America's Most Admired" companies. My washers, dryers, dishwashers, refrigerators and ranges carry my own name, as well as the Jenn-Air, Amana, Magic Chef and Jade names. I also own the Hoover floor care brand and Dixie-Narco, a leader in refrigerated soft drink and specialty vending machines. Who am I? (Answer: Maytag)

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.*

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