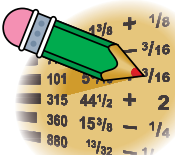


THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

How to Research Companies



Before you invest any of your hard-earned dollars into an exciting company you just discovered, you need to do some homework. Below are the kinds of questions you should ask about any potential investment. Don't be intimidated or discouraged by this list. You needn't master everything at once. Beginning investors should just keep learning slowly. We can help you at www.Fool.com, and you can learn a lot from books by experts such as Peter Lynch.

- What business is the company in? What's its business model (that is, how exactly does it make its money)? Is it in a profitable, growing industry?

- What's the company's track record? Has it regularly rewarded shareholders? Have revenues, earnings and profit margins been increasing in past years? How do these numbers compare with those of competitors?

- What can you learn from its financial statements? Has its debt level been rising or falling? Are accounts receivable and inventories rising no faster than revenues? Are profit margins healthy and, ideally, grow-

ing? How about return on equity (ROE), return on assets (ROA) and other measures? Are there any red flags to investigate further? Is anything in the statements unusually cryptic? (It's often best to steer clear of companies you don't understand very well.)

- What's the company's competitive position and strategic vision? Does it have a strong brand? Is it a leader in its field? Is it gaining market share? Do you have confidence in management — and its ability and dedication to keep the company growing, to be straight with shareholders and to look out for their interests?

- What are the risks that the company and its investors face?

- Is the stock valued attractively? This is a difficult question to answer for any stock, and there's usually no one right answer, either. You might begin by looking at the company's current P/E ratio, comparing it to the firm's historical numbers.

Next week we'll offer some resources to help you answer these questions. ■

My Dumbest Investment

Pigs Can Get Slaughtered

I bought a cable modem-maker in 1999 for under \$3 per share in three accounts — one for me, two for my sons. In 2000, I sold it at \$46 per share in one of my sons' accounts. I remember being worried I had sold too soon. My other son and I were going to sell at \$100 per share, but the stock never got there. What was our target of \$100 based on? Greed. The company wasn't making money. We never sold, and now it's worth less than a penny per share, basically worthless. At least one out of three people in my family made money. The investment wasn't as dumb as the investors. Pigs get slaughtered.

— Barry Rossheim, Venice, Fla.

The Fool Responds: It's important to have a more realistic sense of where your stock should be.

If it's earning \$1 per share, for example, and its peers sport price-to-earnings (P/E) ratios of around 15, then you might expect a \$15 price one day, though that's far from guaranteed, and you should study more factors. ■



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

I got my start in 1874, making and selling corsets. Today, based in New York, I'm a leading seller of sportswear, swimwear and intimate apparel to department stores, membership clubs, discounters, specialty stores and others. Brand names under my roof include Calvin Klein, Chaps, Lejaby, Nautica, Speedo, Warner's, Olga, Catalina, Anne Cole, Life-guard and Michael Kors. Most I own or have licensed in perpetuity. I also operate 75 Calvin Klein underwear retail stores worldwide. Drowning in debt, I filed for bankruptcy protection in 2001, emerging in 2003. I've been growing briskly since then. Who am I? ■

(Answer: Warnaco)



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

Run Rate, Run

Q What's a "run rate"?
— G.L., Jacksonville, Fla.

A Imagine that you're studying the financial statements of Librarian Supply Co. (ticker: SHHHH). It's growing very rapidly from quarter to quarter. Perhaps, for some calculation, you need to estimate its current annual level of sales. You could add up the last four quarters' worth, but that would clearly understate sales, as each quarter's numbers have been rising.

You need a run rate. Take the most recent quarter's sales of \$40 million (up from \$35 million the quarter before and \$31 million before that). Multiply that by 4 and you'll have the company's current run rate for sales: \$160 million. This is not a forecast or a measure of past sales — it's a reflection of the current level of annual sales.

Q In general terms, what's the best number of stocks to own?
— FT., Detroit, Mich.

A There's no answer perfect for everyone. Ideally, your money should be concentrated on your best ideas — the companies you believe hold the most promise. If you think a certain 10 companies are likely to increase your wealth the most, why spread your limited funds over an additional 10 or 20 (or more) less-auspicious firms?

Spread yourself too thin, and it becomes hard to keep up with all your holdings, which you should aim to do at least every quarter. (Less often can be OK with some established, stable blue chips.) If you have 25 companies in your portfolio, that means 100 quarterly reports to read. Yikes.

Focusing your money on too few stocks is extra risky, though. You stand to gain or lose a lot. For most people, eight to 15 companies is a good total to shoot for.

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

Name That Company

I was founded in 1966 in St. Paul, Minn., as an audio component systems retailer called "Sound of Music." I'm now North America's No. 1 specialty retailer of consumer electronics, personal computers, entertainment software and appliances. I sport some 1,200 retail stores in the United States, Canada and China. The Geek Squad of computer fixers is housed under my roof. Other businesses I've joined with include Magnolia Audio Video, Future Shop, Pacific Sales Kitchen



and Bath Centers, Jiangsu Five Star Appliance Co. and Speakeasy. My stock has increased more than 12-fold over the past decade, making many shareholders rich. 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

A Growing Deere

It appears that nothing runs like a Deere (NYSE: DE). In the company's recently reported fourth quarter, earnings jumped 52 percent to \$422.1 million, while net sales for the agricultural equipment and the commercial and consumer sectors both jumped by 35 percent. Credit revenues also rose by double digits. Only the construction and forestry unit saw its revenue slide, on the basis of the weak U.S. housing market.

The quarter saw Deere's several strengths handily overcoming its sole weakness. Geography was all-important in the quarter. Deere's net sales in the United States and Canada rose a solid 15 percent, but equipment sales growth in other

parts of the world was more than double that. Deere retains its spot among a steadily expanding list of big U.S.-based companies that have latched onto international growth to overcome slower expansion — or backsliding — at home. That disparate bunch includes fellow equipment manufacturer Caterpillar and big aluminum producer Alcoa.

Deere's ability to wring growth from a still-strong domestic agriculture picture and combine it with across-the-board increases overseas is rather attractive. With management forecasting continued strength for the current quarter and the newly begun fiscal 2008, the company's stock is worth adding to a watch list. Its recent price-to-earnings (P/E) ratio of 21 is above its low- to mid-teen averages over the past few years. ■

ForeverLawn®
SOUTHWEST FLORIDA

239.567.9265

SAVE WATER

SAVE TIME

SAVE MONEY

"I did my research. ForeverLawn has the best alternative to real grass."

— Steve B. San Ramon

Forever Green

Forever Waterless

Hassle Free

Durable

Beautiful

Functional

\$300 DISCOUNT & FREE ESTIMATE

Offer expires 12-31-07. With ad. Not valid with any other offer.

www.foreverlawn.com

LAWNS

DOG RUNS

PLAY AREAS

PUTTING GREENS & MORE!

Grass without limits.