



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

The Bond Fund Scoop



Do you expect interest rates to rise soon? If that happens, it will cost more to borrow money and you may get a little extra on your income investments. But your bonds may lose value.

There's an inverse relationship between bond prices and yields. If interest rates rise, the prices of existing bonds drop. Why? Well, imagine you have a bond that yields 5 percent. Then rates rise, and a new bond yields 5.25 percent. If you want to sell your now-less-attractive bond, you'll have to offer a discount to compensate for the lower yield.

This is not a big deal for those who invest in individual bonds. As long as you hold the bonds until maturity, the issuer will return your entire principal (assuming the issuer is still in business).

However, if you invest in bond mutual funds, you may be in for a surprise. In 1994 and 1999, for example, a series of rate increases resulted in losing years for the average bond fund. With interest rates still near historic lows, it would seem that rates have nowhere to go but up.

Still, bond funds do have advantages. They

offer diversification, they make the investment of small amounts (including the reinvestment of dividends) a snap, and they offer the potential for capital appreciation.

If you're truly after principal preservation, though, here are some considerations:

- If you have the resources and know-how, invest in individual bonds. It's easy to invest in Treasury securities, including the popular inflation-indexed I-Bond. Visit www.treasury-direct.gov to buy, commission-free. (Another good site is www.bondsonline.com.)

- Consider short- or intermediate-term bonds or bond funds. Long-term bonds are more volatile, and the extra yield you get may not be worth the risk.

- Check out bond alternatives for your short-term savings. We offer guidance at www.fool.com/savings.

Learn more about mutual funds at www.fool.com/mutualfunds/mutualfunds.htm. To get recommendations of top-notch, low-fee bond (and stock) funds, try our Motley Fool Champion Funds newsletter for free at www.championfunds.fool.com. ■

My Dumbest Investment

Bad Professional



My husband died at age 42, leaving life insurance proceeds to invest. I relied on a "professional" to do this for me. Needless to say, I had lots of up-front costs and it took years to recover. I should have put the money in CDs until I knew more. Now, 18 years later, I am doing all the decision-making. I've been doing better than many pros, and I am looking forward to learning more and doing even better. I appreciate the good returns, but even more important are the greater feelings of independence and confidence in handling my finances.

— B.M., Salmon, Idaho

The Fool Responds: Yours is a great story. It's very smart to take time to learn some investing basics before you hand over your money to others. When you deal with any pros, make sure to get details on all fees you'll be charged and how your money will be invested. Know, for example, that over decades, the stock market's average annual return has been around 10 percent, and compare that with the alternatives presented. ■



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

You may not know my name, but I'm one of America's largest companies. I own Dairy Queen, Benjamin Moore, Johns Manville, GEICO, Nebraska Furniture Mart, Executive Jet, See's Candies, Acme Brick, The Pampered Chef, Fruit of the Loom and much more. My class A shares sell for around \$140,000 each. My class B shares sell for nearly \$5,000. Insurance is my main business. I've invested money from it in stock of American Express, Procter & Gamble, Wells Fargo and Coca-Cola, among others. Over 41 years, my per-share book value has grown an average of 21 percent annually. Who am I? ■

(Answer: Berkshire Hathaway)



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

Gift Versus an Inheritance

Q If an uncle gives me stock when he dies, will I be taxed on the gains?

— G.B., Grand Rapids, Mich.

A There's a big difference between a gift and an inheritance (received from someone's estate). With a gift of appreciated stock or property, your basis (or cost, for tax purposes) is the same basis that the person who gave you the gift originally had. So you'll need to attempt to trace the cost all the way back to the person who gave it to you. This can sometimes be difficult.

With an inheritance, you get what is called a "stepped-up" basis. Your basis is the fair market value of the stock on the date of death of the donor. The estate's tax return should disclose the value of the stock at date of death. Alternatively, if you know the date, you can get the stock price online at various sources, or even by calling your broker or the company's investor relations department and asking. Once you determine the value, back up your findings with a letter from the broker or the shareholder relations department. You'll need that information just in case the IRS wants to double-check (read: audit) your tax return.

Q What do business reporters mean when they refer to "profit-taking"?

— Y.H., Augusta, Ga.

A When a stock price suddenly jumps up, some investors will decide to sell their shares, taking their profits and moving their proceeds into some other investments. If many investors sell their shares, this will have the effect of depressing the stock's price for a while. So you're likely to hear now and then that such-and-such stock is down due to some profit-taking.

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

Name That Company

Founded in 1888, I'm a financial services, education, and information and media services giant. My Standard & Poor's division offers credit ratings on more than 220,000 securities and funds worldwide, indexes for benchmarking, independent investment analysis and more. I'm a major K-12 publisher in America, and I publish *BusinessWeek* magazine. I bought Standard & Poor's in 1966 and television stations in 1972. American Express tried to take over



me in 1979. I'm a rare company, with fully funded pensions — and dividends that have been increased annually for 34 years. I take in \$6 billion annually. 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

Apollo Group



For-profit educator Apollo Group (Nasdaq: APOL) started off its new fiscal year with a bang, reporting a rollicking 17 percent rise in revenue for its first quarter, to \$781 million. Free cash flow rose 44 percent year over year to \$184 million.

Meanwhile, enrollment rose 11.4 percent. And when you see sales climb faster than enrollment, you know that students are paying higher tuition bills. Indeed, Apollo credited "selective tuition price increases based on geographic areas and programs" for much of its growth.

CEO Brian Mueller has pointed to Apollo's "improved operating efficiencies." Oper-

ating margins rose to 28.1 percent. Apollo's bad news concerned "bad debt expense," which increased year over year because of "the continuing trend of changes in the company's enrollment mix to a higher percentage of associate's degree students."

Keep an eye on that trend, because those seeking associate's degrees made up 50 percent of new enrollments at Apollo this quarter. Considering that Mueller also ties this portion of the student body to both "higher write-offs" and a "greater risk of default," it seems Apollo is taking a calculated risk here. These short-term students contribute, on average, 16 percent less revenue per capita than Apollo's average student. Associates are proving to be Apollo's growth engine, but one relatively light on horsepower. ■

BUSINESS BRIEFS

Shaw Development to set up shop in South Lee Aerospace company expects to bring 75 jobs to area

In one of the largest commercial real estate deals in Southwest Florida this year, Shaw Aero Realty Corporation has purchased a building in Bonita Springs for \$6.3 million. The transaction, arranged by Randal L. Mercer of CB Richard Ellis, Ft. Myers - Naples, involved the purchase of a 5.98 acre site and 50,665 square-foot building from Noland Properties, Inc. The property is located 25190 Bernwood Drive, in the Bernwood Business Park off U.S. 41 North and Old 41 Road.

The facility will house Shaw Development, founded in 1959 in New York

as the sister company of Shaw Aero Devices, an aeronautics manufacturing company which was acquired in November 2007 by Parker Hannafin Corporation through its subsidiary "Parker Aerospace." The development company specializes in parts for ground vehicles, including commercial, construction and military vehicles. The company works with John Deere, Caterpillar and the U.S. military. It currently is making fuel tanks for military vehicles used in Iraq and Afghanistan.

"This is very exciting news ... because

it allows the company to reshape its identity, have its own facility," said Kevin Hawkesworth, president and CEO. "It will be a first-class, state of the art facility."

"The purchase is strong testimony to the investment grade real estate opportunities of the Lee County market and the value of well-positioned commercial property within this market," said Mercer. "Through ownership, Shaw has committed to a long-term occupancy of the facility which may be expanded to 72,000 square feet and will be converted to state of the art design and manufac-

"This is very exciting news ... because it allows the company to reshape its identity, have its own facility," said Kevin Hawkesworth, president and CEO. "It will be a first-class, state of the art facility."

turing center. The company has committed bringing all 75 jobs to Lee County and through additional product lines and acquisitions, expects to continue its growth at the current rate of 20 percent per year. ■