



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Insiders and Institutions



When evaluating small companies, find out whether insiders or institutions own many shares.

Insider holdings are generally good. If employees own a chunk of a company, they have an incentive to make it succeed. Insiders buying shares is also promising, as they must expect the shares to rise. Don't be alarmed by insider sales, though. Company stock is a major portion of many executives' compensation, so they may occasionally sell some shares to send a kid to college or buy a car. Still, lots of executives selling is a red flag.

With small companies, we like to see insiders owning 15 percent or more — and little ownership by institutions such as mutual funds and pension funds.

When good small companies have little or no institutional ownership, it's often because the big players are sidelined. Small firms usually have relatively few shares outstanding, and their total worth is modest. Imagine Farm Dogs Inc. (ticker: BINGO).

It has just 20 million shares outstanding, valued at \$5 each. (Total market value: \$100

million.) Institutions that might typically buy \$10 million worth of shares can't do so with Farm Dogs without buying fully 10 percent of the entire company, something they're often prohibited from doing.

Those who discover Farm Dogs early and buy shares before Wall Street does stand to benefit. Once Wall Street gets involved, institutions will begin buying lots of shares. All that demand will boost the stock price — and the wealth of existing shareholders.

Discovering a small but growing company with significant insider ownership and low institutional ownership is a promising prelude to finding a rewarding investment. The company should be sound, though, with growing sales and earnings and a strong competitive position, among other things. You can call any public company and ask its investor relations department about insider and institutional ownership. Just remember that small companies can be volatile. They're often best for investors with a few years of experience. ■

My Dumbest Investment

How Could It Fail?



I was working for a company that provided raw materials to a company in the hydrogen battery business. It had big backers, such as Chrysler, and I was carried away with the hydrogen hype. I did no research, because it just had to be good — right? I mean, gas prices were rising, people were concerned about the environment ... How could it fail? Easy. Management spent money faster than a Hummer burns gas, and there was a plethora of competitors, too. The biggest error in this mess: NO RESEARCH on my part. Still, I'm down only 95 percent on my investment — it's not bankrupt yet (check back in six months). Who knows? It may still come back.

— Chris Acton, Salt Lake City

The Fool Responds: Be careful. You don't sound like you have much confidence in the company.

If so, then you should consider putting your remaining dollars in stocks in which you do believe. And of course, next time do more research. Determine the firm's competitive position and financial health, to start. ■



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 was formed in 2005, when Viacom split in two. I'm an international mass media company, operating in television, radio, publishing and outdoor advertising. I own a major television network and 29 stations, along with Showtime Networks, CSTV: College Sports Television and half of The CW. I own 140 radio stations in 31 U.S. markets, and the Simon & Schuster, Pocket Books, Scribner and Free Press imprints. My King World Productions unit is a top television syndicator, distributing "Wheel of Fortune," "The Oprah Winfrey Show," "Dr. Phil," "Inside Edition" "Jeopardy!" and soon Rachael Ray's talk show. ■

(Answer: CBS Corp.)



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

Inflation Measures

Q How is inflation measured?
— S.P., Syracuse, N.Y.

A Meet the U.S. Consumer Price Index (CPI). According to the Bureau of Labor Statistics (BLS), the CPI "is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services." These "urban consumers" reflect 87 percent of the U.S. population, and the "basket" includes items such as cereal, fuel oil, pet food, rent, postage, cigarettes, college tuition, prescription drugs and haircuts. The index shows that if you bought such goods and services for \$100 in 1978, in 2008 they would have cost you \$324. The BLS adds: "The CPI market basket is developed from detailed expenditure information provided by (more than 30,000) families and individuals on what they actually bought."

The index is used as an economic indicator and a means of adjusting dollar values, among other things. Learn much more at www.bls.gov/cpi/cpifaq.htm.

Q Is renter's insurance worth it?
— B.W., Ocala, Fla.

A Definitely consider getting it. It can protect you against theft of or damage to your personal property, cover some or all of your personal liability, and maybe even pay for temporary housing if your apartment is damaged.

When signing up, you decide the total dollar value of the property you want to insure. Some policies will pay you enough to cover the depreciated value of various items at the time of loss, while others will cover replacement costs. The latter is much better.

Renter's insurance can cost as little as \$100 or less per year. Compared with the losses you might incur, it's often well worth it. Learn more at www.fool.com/insurancecenter and www.iii.org.

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

Name That Company

I'm a holding company worth more than \$20 billion. Under my umbrella, you'll find: CNA Financial Corp. (89 percent owned), one of America's largest property-casualty insurers, interstate natural gas pipeline specialist Boardwalk Pipeline Partners (70 percent owned), Lorillard (wholly owned, which is America's oldest tobacco company, with brand names including Newport, Kent, True, Maverick and Old Gold), Diamond Offshore Drilling Inc. (51 percent owned), one



of the world's largest offshore drilling companies, and a bunch of hotels and resorts that bear my name. The late billionaire philanthropist Laurence Tisch was my co-founder. 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

Hewlett's Hat Trick

In its recently reported quarter, Hewlett-Packard (NYSE: HPQ) grew its revenues 13 percent over year-ago levels, topping \$28 billion. In getting to this number, it benefited from the incredible shrinking dollar, which contributed 5 percent of the revenue growth as rupees, rubles and yuan earned abroad were converted into more and more greenbacks. (HP achieved its strongest sales growth — 22 percent — in the "Asia Pacific" region. Sales in Brazil, Russia, India and China grew especially fast, up 35 percent.)

As for its profits, the company scored a double hat trick, expanding operating profit margins in all six of its business segments. And

when you mate expanding margins with rapidly growing revenues, profits just rain down on the bottom line — with diluted earnings per share up 45 percent. Meanwhile, the company has aggressively been buying back billions of dollars' worth of shares, boosting the value of the remaining ones for shareholders.

If you're thinking you've missed the boat, think again. The stock has fluctuated considerably lately, and its price-to-earnings (P/E) ratio was recently below 16. Free cash flow, a better indicator of profitability than earnings, tipped the scales at \$2.6 billion in the quarter, and the stock now sells for the low, low price of just 11 times free cash flow. From a price-to-free cash flow perspective, this stock looks significantly undervalued. ■

Figuratively Speaking

BY JOHN MACINTYRE
Special To Florida Weekly

- Percentage of hiring managers who agree with the statement, "Today's youth do not have the same work ethic as previous generations have had," according to a survey conducted for SnagAJob.com: 56

Source: SnagAJob.com.

- Ranks of birthdays, someone else's birthday, Social Security numbers and wedding anniversaries among the numbers most important to Americans, according to a survey conducted by ING: 1, 2, 3 (tie)

Percentage who said their birthday or someone else's birthday is the most important number to them, respectively: 26, 22

Percentage who said their Social Security number or wedding anniversary is the most important to them, respectively: 16, 16

Percentage who said a phone number: 12
Source: ING U.S. Financial Services.

- Percentage of Americans who say they know someone who has an unfaithful spouse, according to the March 14-16 USA Today/Gallup Poll: 54

Percentage who say they would publicly stand by their spouse at the podium if that spouse were an elected official who had to face the media to answer questions about an affair: 36

Percentage of Americans who would tell their elected-official spouse to face the media alone: 61

Source: Gallup Organization.

Percentage of U.S. employees who say they have taken "mental health days" to recover or recharge, according to a survey conducted by ComPsych: 82

Percentage who say family and relationship issues are the most likely cause: 30

Percentage who say work stress/workload: 20
Percentage who say personal issues (financial, legal, other): 15

Source: ComPsych Corp.

Percentage growth for 2007 in the number of U.S. households with a net worth of \$1 million or more (not including primary residence), according to a report, "Affluent Market Insights 2008," released today by Spectrem Group: 2

Percentage growth in the number of these households in 2006, 2005 and 2004, respectively: 8, 11, 21

Total number of these households: 9.2 million
Source: Spectrem Group.

Percentage of U.S. workers who say women have made important advancements in the workplace over the past 10 years, according to a study conducted by Adecco: 95

Percentage of U.S. workers who say the glass ceiling still exists nonetheless: 86

Source: Adecco.

Percentage of U.S. citizens ages 19 to 39 who say they are "financially independent," according to a survey conducted by AARP: 57

Percentage of U.S. citizens ages 19 to 39 who say they receive financial support from family and friends: 33

Source: AARP.

Idle Thought

"When I do good, I feel good; when I do bad, I feel bad. That's my religion."

— Abraham Lincoln