



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Debt: Good and Bad



You're considering investing in a company. You check out its balance sheet and see some debt. That's not necessarily a red flag — debt can be both bad and good.

First, the bad. If a company is saddled with a lot of debt, it's locked into interest payments that it must make. If it doesn't have the cash to cover these at any point, it's in deep doo-doo. (Many of us can relate to this, having racked up debt on credit cards.) Even if the company can make the payments, it's spending money on debt that it might have been able to use to boost profits.

Now, the good. Debt can help businesses survive and grow. Consider that most people would never be able to buy their homes without debt. Without car and school loans, many of us would probably be driving used cars and taking correspondence courses we found on matchbook covers.

Many great companies, such as Wal-Mart, FedEx and Walt Disney, came to life because of early loans to their founders. Established companies can make good use of debt, as well, borrowing to expand opera-

tions and grow the business. Interest payments also decrease a company's taxable income, as they're deductible.

Investors considering companies with debt need to evaluate whether the debt taken on is manageable and whether the money raised and invested is earning more than it costs.

Perhaps you're worried about the debt load of Fingernail-on-Blackboard Car Alarm Co. (ticker: AIEEEE). Glance at the notes in the annual report, and you may find that the effective interest rate for its debt is just 5 percent. If AIEEEE is putting the borrowed funds to work earning, say, 8 percent, then things aren't so bad.

When companies need money, they typically can issue more stock or debt. Issuing stock can dilute the value of existing shares. Issuing debt can sometimes be more efficient. All things being equal, though, we prefer to see little debt on a balance sheet. Still, you needn't balk at the first sight of debt. Just evaluate it carefully. ■

My Dumbest Investment

Sunk by Love of Doughnuts



I figured out early that you don't make any real money working for companies — you have to own them, such as via stocks or mutual funds. I've always done my own investing, whether it was choosing funds inside my 401(k) or choosing the stocks to buy and sell in my brokerage account. I've never been afraid of risk as long as I spread it across a large number of different stocks. One of my biggest mistakes was trying to "catch a falling knife" — stock in Krispy Kreme Doughnuts — and not having the guts to just let it go. I've always looked at a fallen stock as a possible buying opportunity, but I let my love for the doughnuts cloud my better judgment. I guess I was in denial that it could drop much further. I eventually took what was left and put it in some companies that have done very well.

— R.T.S., Sandston, Va.

The Fool Responds: Be careful — fallen stocks have often dropped for good reasons. ■



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'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? ■

(Answer: Loews)



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

Moving Your IRA Money

Q In my IRA, can I shift money invested in mutual funds into other mutual funds or individual stocks?

— K.T., Henderson, Ky.

A If your IRA is maintained by a brokerage, you should be able to move your money from one fund to another, and to and from individual stocks. You won't have to pay taxes on any gains, but you probably will have to pay trading commissions.

If your IRA is with a mutual fund family, you can probably switch between its own funds with minimal or no charge. You might not be permitted to invest in individual stocks at all. If so, you might consider transferring your IRA to a brokerage. Learn how to find the best brokerage for your needs at www.broker.fool.com.

Q What's the prime rate?

— G.B., Reno, Nev.

A It's an interest rate (found in most newspapers' business sections) — one that banks charge their best (lowest-risk) commercial customers. It's important because lots of other interest rates, such as mortgage rates, home equity rates, credit card rates and other business loans, take their lead from the prime rate. A car loan rate, for example, might be calculated by taking the current prime rate and adding a certain amount to it. There actually isn't a single prime rate. Each bank may set its own, but the major commercial banks tend to sport the same one most of the time.

The prime rate doesn't change every day. It stays put for a while until major banks change their rates, generally moving in step with economic conditions. (That often happens when the Federal Reserve changes its discount rate, which is what it charges banks that borrow short-term money.)

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

Name That Company

Founded in 1911, when a guy with a celestial name started selling butter-cream candies, today I'm one of the world's largest family-owned firms, producing confectionery, food and pet-care products. My Milky Way bar, introduced in 1923, was my first big hit. I make more than 15 million Snickers bars daily. It takes me eight to 12 hours to make my M&M's and seven days to make Starburst jelly-beans. My other brand names include



Twix, Skittles, Uncle Ben's, Pedigree and Whiskas. I make seven of the world's 20 best-selling chocolate snacks. My annual sales top \$21 billion. 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

Morningstar

Morningstar (Nasdaq: MORN) has evolved from a mutual fund research resource into a provider of financial data on more than 250,000 different investment vehicles (such as stocks and hedge funds), a resource for both individual and institutional investors, and an investment manager in its own right. This is making Morningstar more profitable than ever.

Morningstar grew its annual revenues 38 percent in fiscal 2007, with profits rising 38 percent and operating profit margin jumping 51 percent. CEO Joe Mansueto explained, "Our Institutional segment continued to drive revenue and operating margin increases." Within that segment, Morningstar's investment-con-

sulting businesses, Morningstar Associates and Ibbotson Associates, contributed 24 percent of the year's revenue growth.

It's also helping Morningstar churn out more and more cash profit from its business. Free cash flow totaled \$101 million for the year. With the company recently valued at about 28 times free cash flow and expected to grow its profits at perhaps 26 percent per year long term, Morningstar is beginning to look fairly valued once again and is considerably cheaper than rivals such as TheStreet.com.

While we wouldn't mind seeing Morningstar's stock drop a bit further, to build up a bit of a margin of safety, we're at a point where the market is offering a good price on a great company. ■

Figuratively Speaking

BY JOHN MACINTYRE
Special To Florida Weekly

- Percentage of prospective graduates who expect to "boomerang" and spend at least some time living with their parents, according to a survey conducted by MonsterTrak: 48

- Percentage of 2007 graduates who are still living with their parents: 43

- Of this group, percentage who say it is due to limited financial resources: 75

Source: *MonsterTRAK*.

- Percentage of travelers who said money is the biggest barrier when it comes to taking family vacations, according to TripAdvisor's Family Survey: 51

- Percentage of respondents who take trips

- with their children who said the hardest part of taking a family vacation is staying on budget: 30

Source: *TripAdvisor*.

- Percentage of job-seeking executives who said they would be comfortable setting their sights on new employment opportunities even while on their current employers' payrolls, according to a survey by Accountemps: 75

Source: Robert Half International.

- Percentage of Americans who classify themselves as "early birds," according to a survey conducted by Braun Research for Panera Bread: 46

Percentage who say they are "night owls": 24

Source: *Panera Bread*.

- Year the comic strip "Mutt and Jeff" first

- appeared in the nations' newspapers, according to the U.S. Census Bureau: 1908

- Estimated number of daily newspapers that were printed at that time: 2,600

- Estimated number printed today: 1,450

Source: *U.S. Census Bureau*.

- Percentage of homeowners who have received reverse mortgage loans who said they needed the funds because their budget was too tight, according to a survey conducted by Consumer Credit Counseling Service of Greater Atlanta: 19

- Percentage who said they needed more liquid assets on hand: 16

- Percentage who said the money was needed for repairs and maintenance: 15

- Percentage who needed to care for dependents and/or pay medical bills: 8

Source: *Consumer Credit Counseling Service of Greater Atlanta Inc.*

- Percentage level of employee engage-

- ment — measured as overall satisfaction with their jobs, pride in working for their employers, whether they would recommend their organizations as a place to work and their willingness to put forth extra effort — by traditionalists, those employees 63 and older, according to research by Sirota Survey Intelligence: 84

- Percentage employee engagement level of baby boomers (ages 43 to 62): 77

- Percentage employee engagement level of Generation X (ages 28 to 42): 78

- Percentage employee engagement level of Generation Y (ages 27 and younger): 80

Source: *Buchanan Public Relations*.

Idle Thought

"To want to be what one can be is purpose in life."

— Cynthia Ozick