



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Those Darn 12b-1 Fees

It's a fact of life: Mutual funds charge 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 learn more.

One common but controversial charge is 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 generally 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), their effect would still be a drop in the bucket in relation to the fund's overall performance. So when already 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) — but they're still charging 12b-1 marketing fees. Hmm ... Our friends at the Securities and Exchange Commission (SEC) have been looking into reforming the use of the 12b-1 fee. Drop by www.sec.gov for the latest developments and for information on how to share your thoughts with the SEC.

In the meantime, learn more about funds and fees at www.sec.gov/answers/mffees.htm and www.fool.com/mutualfunds/mutualfunds.htm. ■



My Dumbest Investment

An Accidental Wizard

My granddaughter was born in July 2001. We bought her every imaginable thing that featured Winnie the Pooh and other Disney characters. I was sending so much money to Disney and figured all the other new baby boomer grandparents were doing the same thing. So without doing any other analysis, I dumped the biggest dog in my portfolio, Enron, and bought Disney. (This was about halfway down Enron's slide to the bottom.) It was entirely a gut thing, as I certainly didn't foresee what was about to happen to Enron. It was dumb because I did absolutely zero research — but I ended up looking like the wizard of Wall Street, entirely by accident. I learned to sell my dogs, do my due diligence and to trust my gut.



— L.B., Texas

The Fool Responds: Some good companies suffer temporary slumps and are worth holding, but only if you understand them well. Few people understood Enron, yet many held it. Research can help you zero in on the most promising companies, boosting your results. ■

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 founded in 1969 and closed my first year with 53 employees and 18 products, but no sales. Today, my annual sales top \$6 billion, and I employ more than 16,000 people. I'm No. 2 in the microprocessor industry, with market share topping 12 percent. I like to make Intel work hard. My partners include Dell, Hewlett-Packard, IBM, Sun and Toshiba. My name could be rephrased as "Progressive Tiny Contraptions." Who am I? ■

(Answer: Advanced Micro Devices)

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

A Brain Teaser?

Q How can a lower-priced stock be called more expensive than a higher-priced stock?

— T.K., Champaign, Ill.

A It's because a stock's price alone is close to meaningless. To draw useful conclusions, you need to compare it to something else, such as sales, earnings, cash flow, etc.

Imagine shares of two companies called Fred and Ethel, each trading for \$20 per share. If Fred's earnings per share (EPS) for the past 12 months is \$1 and Ethel's is \$2, then Fred's price-to-earnings ratio (or P/E, representing price divided by EPS) is 20, while Ethel's is 10. You'd have to pay \$20 for each dollar of Fred's earnings versus just \$10 for Ethel. Aha — already, one company looks cheaper (Ethel).

Consider market capitalization, too, which is the current share price multiplied by the number of shares outstanding. It represents the current total price tag the market is placing on a company. If Fred sports 50 million shares and Ethel has 3 billion, then Fred's market cap is \$1 billion and Ethel's is \$60 billion. Suddenly it's clear that Ethel is being valued much higher than Fred.

Examine many numbers when studying a stock. For example, look at debt and cash levels, growth rates of sales and earnings, trends in profit margins and return on equity, and a firm's competitive position.

Q Do you offer any step-by-step online guide to investing?

— B.A., Edenton, N.C.

A We sure do. Click over to www.fool.com/school and you can read our "13 Steps to Investing," which include setting proper expectations, using index funds, opening a brokerage account, planning for retirement, studying companies and much more. Check out our book "The Motley Fool Investment Guide" (Fireside, \$15), too.

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

Name That Company

Founded in 1869 in New York by a German immigrant and his son-in-law, I became one of America's largest private companies. I went public in 1999. As an investment bank, I've helped companies raise money via debt and equity stock and have taken public firms such as Sears, Merck and Ford. I'm one of the most sought-after employers by MBA grads. My 2007



revenue totaled about \$46 billion, nearly double 2005 levels. My assets under management total nearly \$900 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

Western Union

It isn't all bad news for financial services companies. Sure, the debt markets are rattled, the mortgage industry has run out of steam, and banking giants are flirting with disaster, but money-transfer powerhouse Western Union (NYSE: WU) will hear nothing of it.

Its first-quarter revenue jumped 12 percent, to \$1.3 billion, over last year's levels, while earnings rose 8 percent. As has been the case in previous quarters, the international segment was the MVP of growth. International consumer-to-consumer revenue and volume surged 19 percent during the quarter. Two-thirds of its consumer-to-consumer business, which accounts for the great majority of Western Union's revenue,

came from overseas transactions. During the quarter, Western Union began its micro-lending strategy in Hong Kong. Micro loans are made to those who fall outside a lender's normal target market, but who still present opportunities for companies willing to accommodate smaller customers.

With a sprawling global market at its fingertips, and no sign of financial markets taking a serious toll on business, Western Union's future looks about as bright as it's ever been. Management expects between 9 percent and 11 percent revenue growth this year, and net income of \$1.19 to \$1.23 per share for 2008, up as much as 11 percent over 2007.

In the shaky financial sector, Western Union is standing strong. ■

ON THE MOVE

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Travel



Boyd

Preferred Travel of Naples was introduced as a member of the exclusive American Express Centurion Card travel representative group at the Centurion Roundtable in Las Vegas. Preferred Travel was among 18 travel agencies in the United States invited to attend the exclusive American Express event. The roundtable focused on innovative technology, marketing and advertising. The 18 Centurion level agencies ranged in volume of annual

sales from 25 million to 300 million each. Preferred Travel of Naples President and CEO **Wilma Boyd** and Manager and CFO Olga Placeres attended the recent meeting.

Non-Profits



Davis

Gray G. Davis, chief operating officer of **Oswald Trippe and Company**, has been elected to the board of directors of Uncommon Friends Foundation. The Uncommon Friends Foundation was established in Southwest Florida in 1993 to instill ethics, moral values and a sense of purpose in tomorrow's

leaders. Davis joined Oswald Trippe and Company in 2007 and is responsible for the day-to-day operations of Southwest Florida's largest independent insurance agency. He holds a Bachelor of General Studies degree from the University of Michigan and a master's in finance from Walden University.

Habitat for Humanity of Lee County announced the addition of **Karen Quantstrom** as the new Director of Development. She comes to Habitat after 12 years in the mortgage industry, where she ended her time as a Senior Loan Consultant. Quantstrom and her husband have three daughters and five grandchildren.

Sports

Florida Everblades president and



Cameron

general manager **Craig Brush** announced that **Malcolm Cameron** has been named as the new head coach of the club. Cameron spent the previous two seasons in the ECHL as the head coach of the Texas Wildcatters. Cameron, 38, becomes just the third head coach in the 11-year history of the Florida Everblades. The Nova Scotia native comes to the Everblades after leading the Wildcatters to a 52-9-11 record in 2007-08. The Wildcatters ceased operations following the season and have relocated to California where they will begin play in October as the Ontario Reign. ■