



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Omaha Wisdom

Last month, some 30,000 Berkshire Hathaway shareholders listened to Chairman (and superinvestor) Warren Buffett and his partner, Charlie Munger, answer questions for five hours in Omaha. Here are some snippets, paraphrased:

- On corporate compensation: The idea that you have to offer someone a \$10 million dollar pension just to keep him around — there's something wrong with that. ... Executives should volunteer to get paid less. (Munger opined: People taking compensation have a moral duty not to take it, a moral duty to be underpaid. If generals and archbishops can do it, why can't leaders of large enterprises take less than the last dollar?)

- On hedging against the U.S. dollar: We're happy investing in overseas companies because their currencies aren't likely to decrease in a big way against our dollar, since the U.S. government seems likely to follow policies that make the dollar weaker.

- On communication: The ability to communicate in writing and speaking is



not taught enough, but it's enormously important. If you can communicate well, you have an enormous advantage. Force yourself into situations where you have to develop those abilities.

- On teaching children: My biggest educator was my father. It is important who you marry, too. Those are great teachers. ... The most important job you have is to be a teacher to your children. You are a big, great thing to them, you don't get a rewind button, you don't get to do it twice, and you should teach by what you do, not what you say.

- On developing yourself: You can become the person you want to be. I often ask students to imagine buying one classmate to own for the rest of their life. The people they pick don't have the highest IQs, but are the most effective, the ones you want to be around. They're easy to work with, generous, on time, not claiming credit, helping others. ... Those are good habits to develop.

- How they invest: We buy businesses that are drowning in cash.

We'll share more next week.

Read Buffett's educational letters to shareholders at www.berkshirehathaway.com. ■

My Dumbest Investment

Up in Smoke

Learning how to smoke was my dumbest investment ever. My smartest one was learning how to quit and never starting up again.



— D.M., California

The Fool Responds: Right you are — health issues aside, quitting smoking is a great financial move. If you spend \$5 per day on a pack of cigarettes, that amounts to \$1,825 per year. If you took that \$1,825 and invested it in the stock market, earning the historical average return of about 10 percent per year, in 30 years, you'd have nearly \$32,000 — just from one year of not smoking. Imagine what you could do with more years of saving and investing. If you invested \$1,825 in the market each year for 30 years, earning 10 percent, you'd end up with more than \$275,000. Many of us are not saving and investing enough for retirement, and it can be hard to find ways to scrape together more moolah. Quitting smoking is a far from easy thing to do, but your lungs and your golden years will thank you for it. For more information on quitting, visit www.surgeongeneral.gov/tobacco. ■



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

Born in 1953, I'm based in San Diego. My wares are under the sink, in the garage and in toolboxes. It took 40 tries to develop my flagship product (which shares my name) as a Water Displacement formula. My Web site lists more than 2,000 uses for it, such as dissolving toupee tape residue, keeping pigeons off balconies and removing a python from a bus. My other brands include 3-IN-ONE Oil, Lava, X-14 and Solvol cleaners, 2000 Flushes, Carpet Fresh and Spot Shot. My new Smart Straw feature can help you avoid losing that little red straw. Who am I? ■

(Answer: WD-40 Co.)



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

Charged Up

Q What are the "one-time charges against earnings" that I see in company earnings reports?

— R.Y., St. Augustine, Fla.

A They're meant to reflect out-of-the-ordinary costs a company is bearing (for example, for closing plants, downsizing, writing off bad investments, etc.). The charges are meant to be removed from the company's earnings (in other words, their amount is added back), ostensibly to more accurately reflect the firm's operating performance. Imagine that Meteorite Insurance Inc. (ticker: HEDSUP) earns \$10 million in a quarter, but it lays off many employees then, too, incurring significant severance payment costs. If these costs amounted to \$2 million and were labeled as one-time charges, then the company would be suggesting that its business really earned \$12 million in the quarter.

Q What's the S&P 500?

— H.W., Seattle

A It's an index of 500 of America's biggest companies, as selected by the folks at Standard & Poor's. Though the U.S. stock market encompasses thousands of companies, these 500 together make up more than 75 percent of the market's value. The companies sport market capitalizations of at least \$5 billion, and they include names such as Amazon.com, Anheuser-Busch, Boeing, Campbell Soup, Charles Schwab, Dell, ExxonMobil, FedEx, Ford, General Electric, Google, Harley-Davidson, Halliburton, Heinz, Hershey, Kellogg, Mattel, Merck, Microsoft, Nike, Procter & Gamble, Radio Shack, Southwest Airlines, Target, Whirlpool and Whole Foods Market. Companies removed from the list in the past year include Circuit City and Hilton Hotels, while those added include The Washington Post Co. and Abercrombie & Fitch.

You can invest in the S&P 500 easily via an index fund such as the low-cost Vanguard 500 Index. Learn more at www.fool.com/mutualfunds/mutualfunds.htm.

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

Name That Company

Based in New York state, I'm a premier natural and organic food and personal-care products company. You may know some of my brands, which include: Terra, Garden of Eatin', Health Valley, Earth's Best, Arrowhead Mills, MaraNatha, WestSoy, Rosetto, Rice Dream, Soy Dream, Ethnic Gourmet, Linda McCartney, Zia Natural Skincare, JASON, Alba Botanica, Shaman Earthly Organics and Tender-Care. My natural and specialty teas,



such as Red Zinger, bear part of my name. Working Mother magazine named me one of 2008's "Best Green Companies for America's Children," thanks to my products and my recycled and recyclable packaging. 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

Legg Mason's Jarring Quarter

How tough is this market for financial companies? Tough enough that Legg Mason (NYSE: LM) posted its first quarterly loss (\$255.5 million) in 25 years. Revenue was down, too, off 6.5 percent year over year.

Two key problems killed the quarter: a \$382.8 million write-down and a whopping 5 percent decrease in assets under management.

Legg Mason announced a plan to raise \$1 billion by offering more stock. In doing so, the company becomes the first fund group to raise public capital in order to shore up losses from the credit crisis.

So let's see what we have here. The asset manager has been forced to write off mas-

sive amounts of money resulting from the credit crisis, investors are pulling money out of funds because of lousy performance, and the market environment stinks.

Really, though, it's not all that bad. Legg Mason isn't alone in this mess; its competitors have also suffered. Also, the market won't be slumping forever. Legg Mason is a well-run company that has fallen victim to short-term peculiarities of the environment. The factors that negatively affected this quarter should be less prevalent in coming quarters. Given the stock's roughly 50 percent drop over the past year, the company is looking attractive. ■

FORECLOSURE

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with default notices up just 1 percent from the previous month and auction notices down 3 percent from the previous month. However, bank repossessions continued to surge in May — posting a double-digit percentage increase from the previous month and more than twice the number reported in May 2007 — which pushed the total inventory of bank-owned REOs in our database to more than 700,000.

Nevada, California, Arizona post top state foreclosure rates.

With one in every 118 households receiving a foreclosure filing in May, Nevada posted the highest state foreclosure rate for the 17th consecutive month. Foreclosure filings were report-

ed on a total of 9,009 Nevada properties, an increase of nearly 24 percent from the previous month and a 72 percent increase from May 2007.

California foreclosure activity in May increased 11 percent from the previous month and 81 percent from May 2007, helping the state continue to register the nation's second highest state foreclosure rate. One in every 183 California households received a foreclosure filing during the month, a rate that was 2.6 times the national average.

Arizona's May foreclosure rate — one in every 201 households received a foreclosure filing during the month — ranked third highest among the states for the second month in a row. Arizona foreclosure activity increased nearly 12 percent from the previous month and almost 119 percent from May 2007.

One in every 228 Florida households received a foreclosure filing in May, giving it the fourth highest foreclosure rate

among the states. Michigan foreclosure activity in May increased nearly 25 percent from the previous month, helping the state's foreclosure rate to jump to fifth highest among the states after ranking No. 9 the previous month. One in every 353 Michigan households received a foreclosure filing in May.

Other states with foreclosure rates ranking among the top 10 were Georgia, Colorado, Massachusetts, Ohio and New Jersey.

California, Florida, Arizona report highest foreclosure totals

Foreclosure filings were reported on 71,930 California properties, 37,364 Florida properties and 12,959 Arizona properties, the three highest state totals in May. Michigan was not far behind Arizona, with 12,792 properties receiving foreclosure filings during the month.

Foreclosure filings were reported on 12,295 Ohio properties in May, the fifth highest state total despite a nearly 7

percent decrease from May 2007. With one in every 410 households receiving a foreclosure filing, Ohio's foreclosure rate ranked No. 9 among the states and was above the national average.

For the second month in a row, California and Florida cities accounted for nine out of the top 10 metropolitan foreclosure rates among the 230 metropolitan areas tracked in the report. The other Florida metro area in the top 10, besides Cape Coral-Fort Myers was Port Lucie-Fort Pierce at No. 10.

Las Vegas was the only city outside of California and Florida with a foreclosure rate ranking among the top 10. One in every 96 Las Vegas households received a foreclosure filing in May, more than five times the national average and No. 6 among the metro areas.

Metro areas with foreclosure rates among the top 20 included Phoenix at No. 12, Detroit at No. 14, San Diego at No. 17 and Miami at No. 19. ■