



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Company Types

As you learn about investing, you'll run across many categories of companies. Here's an overview of some of the most common ones.

"Cyclical" companies are defined by how their businesses react to economic change. During recessions, people spend money more conservatively, putting off major purchases such as cars and refrigerators. Thus, manufacturers of large appliances are cyclical. Companies such as pharmaceutical firms are "defensive." If you're taking heart medication, you're not going to stop because of an economic downturn.

"Seasonal" companies experience significantly different levels of business at various times of the year. Many retailers, for example, see sales surge during the holiday season. Swimming pool and lawn-servicing companies are also seasonal.

"Blue chip" companies have been around a long time and are known for being solid, relatively safe investments. They're steady growers, usually paying dividends (examples: General Electric, PepsiCo). At the other end of the spec-

trum are "speculative" stocks, typically tied to young, relatively unknown and risky companies. Many promise great things but have yet to prove themselves. Examples include gold mines or firms trying to develop cures for cancer.

"Growth" stocks, favored by aggressive investors, grow faster than the market average. They often don't pay any dividends, plowing excess cash into fueling their growth. Their stock prices can go up — and down — quickly (examples: Cisco Systems, Urban Outfitters).

"Value" stocks are favored by investors looking to buy the proverbial dollar for 50 cents. They seek promising companies that are (temporarily) out of favor.

"Income" stocks may not grow too quickly, but they pay significant dividends, ideally hiking them regularly. Pre-deregulation, utility companies reliably paid high dividends. Today many real estate companies do. Income stocks are often favored by those in or near retirement, who seek income to supplement pensions or savings.

Note that many companies will fit into several categories, and savvy investors will often seek firms with several characteristics, such as those that are both growing briskly and valued attractively. ■

My Dumbest Investment

Beginner Errors

I've been trading stocks for about three years now and have finally come to the conclusion that trading for quick profits is not the way to make big money in the long run. I've also made a lot of blunders, such as with Apple. I bought the stock in 2005 for about \$37 per share and sold at \$51, for a 38 percent gain. The shares were recently trading around \$180!



— Bill, online

The Fool Responds: At least you made money on this mistake — many beginners aren't so fortunate. By hanging on, you'd have nearly quintupled your original investment. As long as a company is healthy, has sustainable competitive advantages and is growing at a good clip, it's often best to hang on. Those who've made fortunes in various stocks have typically done so by holding on for years, if not decades. Still, you shouldn't hang on if you don't have confidence in the company or if it's trading well above what you estimate the shares are worth. In such cases, you might make more money elsewhere. ■



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 1963 in Lowell, Mass., aiming to provide Consumer Value. Headquartered in Rhode Island, today, I'm the nation's largest filler of prescriptions, managing more than 1 billion of them annually. I operate some 6,300 pharmacies in about 40 states and sport a pharmacy benefit management, mail order and specialty pharmacy division, too. I'm rolling out my MinuteClinics into my stores. Already more than 1.8 million people have visited my 500-plus MinuteClinics. I rake in some \$80 billion per year. Over the years, I gobbled up Revco, Eckerd and Osco stores, among others. Who am I? ■

(Answer: CVS Caremark)



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

Book Value, Demystified

Q What's a company's book value?
— W.M., LaCrosse, Wis.

A Book value is an accounting concept, reflecting a company's value according to its balance sheet. To get it, you start with the total assets and then subtract intangible assets (such as goodwill, patents and trademarks) and total liabilities.

Book value used to approximate a company's intrinsic value, as most assets, such as factories and land, were capital-intensive and appeared on the balance sheet. But as America's economy is becoming more service-oriented, book value has become less relevant for investors. Consider Microsoft. Its book value was recently about \$26 billion, far from its market value north of \$260 billion. Much of Microsoft's value stems from assets and competitive advantages that don't register significantly on the balance sheet: intellectual property, employees, a strong brand and market share.

As another example, imagine a firm that owns a lot of land and many buildings. Over the years, the value of buildings on the balance sheet is depreciated, eventually to zero. But these assets are rarely worthless and can even appreciate in value over time. Such a company might actually be worth much more than its book value.

With many companies, you'd do well to largely ignore book value.

Q To buy a company's stock, do I have to work for it?

— T.R., Jackson, Mich.

A Not at all. (Although some companies do offer employees stock options, stock grants or the chance to buy shares of company stock at a discount.) All you generally need is a brokerage account. You can learn how to pick a brokerage at www.broker.fool.com. Most major companies, and many smaller ones, are publicly traded. Examples: ExxonMobil, McDonald's, Ford, Nike, IBM.

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

Name That Company

I was founded in Yonkers, N.Y., in 1853 by a guy who invented a safety mechanism for a lifting platform. I installed the elevators in the Eiffel Tower, the Empire State Building and Manhattan's World Trade Center. I began installing elevators in China in 1907. Today I'm the world's biggest maker, installer and servicer of elevators, with more than 135,000 elevators and escalators sold each year. More than 2 million



of my machines are operating worldwide. United Technologies bought me in 1976.

I rake in nearly \$12 billion annually, mostly from outside the United States. 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

Catch Up With Heinz

If you think H.J. Heinz (NYSE: HNZ) is just about ketchup, you need to catch up with the times.

The company has plans over the next two years to offer 400 new products and inject roughly \$100 million into a marketing plan to keep business growing.

Heinz produces more than 650 million bottles and 11 billion packets of ketchup annually. But it also oversees a diverse portfolio of brands such as Weight Watchers, Smart Ones, Bagel-Bites and Ore-Ida potatoes. It plans to build up its core portfolio, particularly in the health and wellness segment, which it sees growing twice as fast as all packaged goods.

For the fourth quarter, Heinz saw overall sales rise 11.3 percent to \$2.7 billion, and profits increase 7.2 percent from last year. Results, however, weren't even.

International sales, which make up 56 percent of Heinz's revenue, benefited from strong surges in demand. But U.S. food service revenues were essentially flat, while U.S. consumer product sales rose 10 percent. Heinz increased its dividend 9 percent to \$0.415 per share.

At around \$50 per share, Heinz stock is at its highest levels in nearly a decade. Yet, when compared to some peers, it still looks attractively priced. Moreover, it's producing prodigious amounts of cash flow. It seems Heinz does indeed have more than 57 varieties of investor surprises. ■

ON THE MOVE

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Muller

Pittsburgh and Encinitas, Calif. The GoTo Network is based on the principal that like-minded, local business people who network will send solid referral to each other, which results in more business for everyone in the group. The GoTo Network takes this a step further.

Education

Dr. Joseph Kibitlewski, criminal justice program chair at **Hodges University**, has been selected to present his paper on Terrorism at the XV World Congress of the International Society for Criminology this July in Barcelona, Spain. The paper, "Higher

Education vs. Terrorism," examines the role that higher education plays in the war on terrorism. The major players in the area of thwarting terrorist acts have been the intelligence and militaries of affected nations.

Travel



Boyd

Wilma Boyd, president and CEO of **Preferred Travel of Naples, Inc.** has been named Outstanding Citizen of the Year for 2008 by the Naples Daily News. Boyd was honored at the Greater Naples Chamber of Commerce 61st annual dinner held in May. She was recognized for her dedication, tireless

efforts and professionalism that have made a difference in the community for more than 25 years. The award was presented by Corbin Wyant, former publisher of the Naples Daily News. Wyant noted Boyd's support of Naples Community Hospital, Naples Philharmonic Center for the Arts, Boys and Girls Club and YMCA, among other organizations.

Retail

The Florida Chamber of Commerce honored Chico's FAS's **Cole Peacock** with the organization's Business Advocacy Award. Peacock is director of corporate and government relations for Chico's. Over the last six months, Chico's hosted the Florida Chamber's Southwest Florida Pre-Session Briefing and the Regional Legislative Briefing in Fort Myers, according to Deborah Liftig, the Florida Cham-

ber's Southwest Florida regional advocate.

Engineering



Romine

Johnson Engineering has named **Jonathan L. Romine**, RLA, as the director of the Landscape Architecture Group. As director, Romine plans to continue expanding Johnson Engineering's involvement in responsible development through innovative design and ideas. His strengths and areas of expertise include parks and recreation design and master planning, sustainable design, community involvement, irrigation design, and construction observation for both private and public projects. ■