



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Day-Traders Beware

Day-trading does involve buying and selling stocks — but it's not investing.

Investors (at least good, Foolish ones) study businesses, carefully select stocks, and often aim to hold on for years. They consider themselves part owners of real businesses. Day-traders, meanwhile, spend hours glued to monitors, watching stock price graphs and placing orders. They'll typically place scores of orders each day and hold each stock for a few minutes or hours. Many ignore company fundamentals, focusing only on what might make the stock move in the very short term. While investors may aim to pay long-term capital gains rates by holding stocks for more than a year, day-traders are stuck paying at the generally higher short-term rate.

A study by the North American Securities Administrators Association suggested that only about 11.5 percent of day-traders might trade profitably and that some 70 percent "will almost certainly lose everything they invest." (Note that trading "profitably" does not even mean one will beat the S&P 500, available via the purchase of an index fund at very low cost.)

According to managers of day-trading firms cited in a Washington Post Magazine article, about 90 percent of day-traders "are washed up within three months." A principal of a day-trading firm even admitted that "95 percent will fail in the first two years." Former Securities and Exchange Commission (SEC) Chairman Arthur Levitt recommended that people only day-trade with "money they can afford to lose." The SEC has called it "highly risky" and warns of possible "devastating losses."

Those who have made the biggest killings in day-trading may be the ones who run day-trading firms, providing day-traders with trading equipment and charging commissions per trade.

People who trade stocks online, though, are not necessarily day-traders. Accessing brokerages online makes sense for most people, especially when commissions for trades can be \$5 or less per trade. (Learn more at www.broker.fool.com.)

Resist any temptation to buy and sell stocks rapidly in large numbers. Don't let yourself or those you care about get sucked into day-trading. Learn more about it at www.sec.gov/answers/daytrading.htm. ■

My Dumbest Investment

Placebo Pharmaceuticals

I once invested in a company that was developing new drugs. The news release the day its stock dropped 75 percent was almost comical. It went something like this: "(The company's) most touted drug was found to be no more effective than a placebo in clinical trials. Company withdraws product." The company was rated a five-star buy by Standard & Poor's before the drop.

— *Dusty, online*

The Fool Responds: This drives home the risks inherent in small drug companies that are working on a few promising medications.

If the formulas are ultimately proven successful in clinical trials, great. But many never make it that far. Big pharmaceutical companies pose less risk because they typically already have a stable of big sellers, plus a big pipeline of drugs in development. Many investors get excited by stocks with promising stories, but the stories don't always pan out. Don't get carried away by hopefulness. It's best to look for a track record of revenue and profits — along with, ideally, strong growth and competitive advantages. ■



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

Formed when China's Legend Holdings merged with IBM's personal computer business in 2005, I'm now one of the world's largest makers of PCs, with annual revenue topping \$16 billion. (The IBM division introduced its first portable PC in 1984 — it weighed 30 pounds.) I have no world headquarters and, instead, have a distributed management structure with operational hubs in Beijing, Raleigh, N.C., Singapore and Paris, a marketing hub in Bangalore, India, and research centers in China and the U.S. My name includes the Latin word for "new." I hold more than 2,000 patents. Who am I? ■

(Answer: *Lenovo*)



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

Market Capitalization

Q What does "market cap" refer to?

— *C.R., Mobile, Ala.*

A A company's market capitalization is kind of its price tag — it's the current value placed on the firm by investors in the stock market. Calculating it is simple. Just take the current stock price and multiply it by the number of shares outstanding. (Many online stock quote providers include shares outstanding and often the market cap, too.)

Imagine Dodgeball Supply Co. (ticker: WHAPP). Let's say it has 25 million shares outstanding and trades around \$30 per share. Multiply 25 million by \$30, and you'll get a market cap of \$750 million. That's the current market value of the company. If you wanted to buy the whole company, you'd have to fork over \$750 million — or more, as buyouts generally occur above market prices.

Checking out the market cap of a company you're interested in can be enlightening. For example, if you're thinking of investing in Amazon.com, note that its market cap is around \$35 billion, more than Nike's value. Compare that with Barnes & Noble and eBay, which sport market caps of roughly \$1.4 billion and \$32 billion, respectively. Does Amazon's value seem reasonable in comparison? It depends on your assessment of its potential.

Q What makes a company "large cap" or "small cap"?

— *T.C., Salinas, Calif.*

A There's no universal definition, but there's one rough take: If a company's capitalization is \$5 billion or higher, call it a large-cap; between \$1 billion and \$5 billion, a mid-cap; \$250 million to \$1 billion, a small-cap; and less than \$250 million, a micro-cap. Xerox is a large-cap, while Office Depot is a mid-cap. ■

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

Name That Company

I was founded in 1960 when two brothers bought an Ypsilanti, Mich., pizza store. One brother traded away his half of the business a year later for a Volkswagen Beetle. Today, I'm America's No. 1 pizza delivery company, with more than 5,000 stores in the U.S. and more than 3,000 abroad. I deliver 400 million pizzas per year, with my drivers covering 9 million miles weekly. I began using an



innovative hot bag in 1998 to keep delivered pizzas warm. In 1998, my founder sold 93 percent of me to Bain Capital, and in 2004 I went public. 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

Steely Investing

ArcelorMittal (NYSE: MT), the massive Luxembourg-based steelmaker, is buying London Mining South America Limited (London Mining Brazil) from London Mining Plc., for a total of \$810 million, including assumed debt.

London Mining Brazil's claims contain an estimated 1.059 billion tons of iron ore reserves. Annual production from the facilities has been running at about 1.4 million tons, and Arcelor is reportedly considering investing about \$700 million to push the output to about 10 million tons annually.

Arcelor has also reached an agreement with Canada's Adriana Resources to devel-

op an iron ore port facility in the state of Rio de Janeiro, Brazil.

In the past several years, China has played a major role in increasing global demand for iron ore, a key ingredient in the manufacture of steel. Soaring iron ore prices have been a boon for giant steel companies, triggering a wave of industry consolidation.

For its part, ArcelorMittal is the product of a 2006 merger of two major steel manufacturers, and it's now the world's largest steel company. Indeed, its 320,000 employees — more than six times those of U.S. Steel — operate in more than 60 countries. Fools interested in the global mining and natural resources sector should enjoy the company's combination of a 2 percent dividend yield and an active share buyback program. ■

BUSINESS BRIEFS

Commercial real estate

Investment Properties Corporation announced the following transactions:

Tri Tech Restoration & Remodeling leased 1,200 square feet of industrial space at 6187 Shirley Street, Unit 2, Naples from WVG, LLC. Bill Goner, CCIM, and Christine Martin of Investment Properties Corporation negotiated this transaction.

San Carlos Worship Center, Inc. purchased a building from Interfaith Caregivers of South Lee, Inc. located at 17592 Rockefeller Circle, Fort Myers. Christine Martin of Investment Properties Corp. negotiated this transaction.

Park Shore Kitchens, LLC leased

5,432 square feet of retail space at 3860 Tamiami Trail N., Naples from Cypress Park, LLC. Patrick Fraley of Investment Properties Corp. negotiated this transaction.

Christian Kerrigan Design leased 848 square feet of retail space at 3898 Tamiami Trail N., Suite 103, Naples from Cypress Park, LLC. Patrick Fraley of Investment Properties Corp. negotiated this transaction. ■

Commercial construction

Compass Construction, Inc. will start construction this month on Prairie Pines Preserve, a Lee County park facility.

This park, located at 18400 North

Tamiami Trail in North Fort Myers, will serve the community with nature trails, equestrian and walking trails, observation areas, boardwalks through nature preserves, restroom facilities, passenger care and trailer parking.

Jim Smith of Compass Construction will serve as project manager for the project, and Marian Poole will be the project administrator.

Lee County has selected **Compass Construction, Inc.** as its construction manager for the Bokeelia Boat Ramp renovation project.

This project, located on Barrancas Avenue near the north end of Pine Island, involves renovation of an existing boat ramp facility. The existing single ramp will be removed and replaced

with a double ramp; new seawalls and boat docks will be installed; storm water retention improvements will be made; and new asphalt parking and bathroom facilities will be added.

Jim Smith of Compass Construction will serve as project manager for the project, and Marian Poole will be the project administrator.

Taylor-Pansing, Inc. announced that it has completed construction of the Estero Animal Hospital project. The two-story, 9,500-square-foot facility includes a mezzanine, five exam rooms, a pet-friendly lodging facility and modern dental, surgical and radiology suites. The project is located at 9551 Corkscrew Road in Estero. The project manager was Sal Recca and the superintendent was Mike Gabor. ■