



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Dividend Growth Power

Venerable blue-chip companies such as General Electric and Boeing deserve your attention — for their dividends.

If you buy into a healthy company when its dividend yield (annual dividend divided by share price) is 2.6 percent, you're likely to get that payout every year, regardless of what happens to the stock price.

Here's something investors rarely consider. Imagine you bought 10 shares of Porcine Aviation (ticker: PGFLY) for \$100 each and it pays a respectable 2.5 percent dividend. With a \$1,000 investment, that's an annual payout of \$25. Not bad. But dividends aren't static and permanent. Healthy companies raise them regularly. A few years down the line, perhaps PGFLY is trading at \$220 per share. Imagine that its dividend yield is 3 percent, as it's paying out \$6.60 per share. Note: \$6.60 is a 3 percent yield for anyone buying the stock at \$220, but since you bought it at \$100, to you it's effectively a 6.6 percent yield.

Decades pass. Your initial 10 shares have split into 80 shares, each worth \$120

now. Your initial \$1,000 investment is now valued at \$9,600. The yield is still 3 percent, paying \$3.60 per share, so your 80 shares deliver a whopping \$288 per year. Think about this. You're earning \$288 on a \$1,000 investment. That's effectively 29 percent per year (and growing) — without even counting any stock-price appreciation. Your yield has gone from 2.5 percent to 29 percent, because you just hung on to a growing company. Even if the stock price drops, you're still likely to get that 29 percent payout — unless the firm falls on really hard times.

By holding on to many great dividend-paying companies, you can enjoy rising dividend yields over time. Consider this: One share of Coca-Cola bought in 1919 has become 4,608 shares through stock splits, and together they kick out about \$7,000 in dividends annually. If dividends had been reinvested in more stock, the totals would be much higher.

For promising dividend-paying stocks, grab a free trial of our Motley Fool Income Investor newsletter at www.incomeinvestor.fool.com. ■

My Smartest Investment

Motoring Ahead

Back in the early 1960s, I bought shares of Toyota Motors, as ADRs. I bought 100 shares for \$112, or \$1.12 each. I didn't keep up with it too often, but in 1989, I noticed it listed in a newspaper at \$45 per share. By the time the shares were eventually sold in 2001, for about \$65 apiece, I had more than 250 of them, due to stock splits. Oh, and I also received dividends for almost 40 years.

— Helen R., Fairfield, Calif.

The Fool Responds: Great job, Helen! You made a profit of more than \$16,000 on your \$112 investment, and that doesn't even include dividends! Your story is a great example of how we can build great wealth by investing in healthy and growing companies and hanging on for the long term. We shouldn't hold blindly, though, as sometimes even great companies can face insurmountable problems. American Depository Receipts (ADRs), by the way, make it possible for us to easily invest in foreign companies with our U.S. dollars, via our brokerages. ■



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 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? ■

(Answer: Domino's Pizza)



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

Bonds vs. Bond Funds

Q Are bonds or bond mutual funds better?

— L.W., Denton, Texas

A First off, understand that long-term money is likely to grow more quickly in the stock market than bonds. But if you're seeking some traditional conservative investments, read on.

With traditional bonds, you buy them for a fixed amount, and the interest rate tells you exactly how much you can expect to receive. If a \$10,000 bond pays 6 percent over 10 years, you'll receive \$600 each year over that period. (Then you'll get your \$10,000 back.)

Meanwhile, bond mutual funds, often called "fixed-income" funds, typically pay monthly dividends. You may invest \$10,000 in one such fund that sports a dividend yield of 6 percent, but that amount will fluctuate with interest rate changes and as the fund manager buys and sells various bonds using his judgment. You may receive more or less than your original \$10,000 investment upon selling your shares, too. And bond funds charge annual expense fees.

Bond funds offer instant diversification, but individual bonds permit you to plan your financial future more precisely. Learn more at www.bondsonline.com/asp/research/bondfunds.asp and get additional retirement guidance at www.fool.com/retirement.htm.

Q Can I reduce my capital gains tax by realizing gains in a year when my income is less than normal, or is the tax the same regardless of my income?

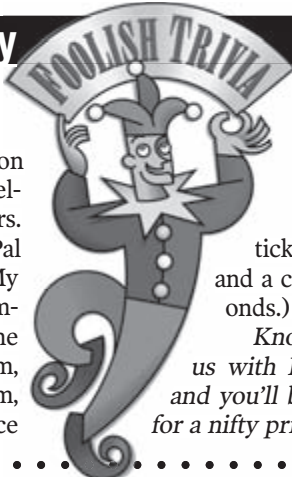
— T.G., St. Louis

A The tax will be the same, 15 percent for long-term gains, unless your income is so low that you're in the 10 or 15 percent tax bracket. Then your long-term gain rate can be as low as zero. Short-term gains are taxed at your ordinary income tax rate. If you have capital losses, you can offset your gains with them. Learn more at www.fool.com/taxes. ■

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

Name That Company

Born in 1995, today I'm "The World's Online Marketplace." In fiscal 2007 I sported nearly \$60 billion in gross merchandise sales and welcomed tens of millions of shoppers. My online payment subsidiary PayPal generates nearly \$2 billion yearly. My other units include Internet communications company Skype, the price-comparison site Shopping.com, online classified specialist Kijiji.com, and the apartment-listing service



Rent.com. I've sold more than 3 million cars and sell one every 56 seconds. Via my StubHub unit, I've sold more than 10 million tickets. (I sell a pair of shoes and a cell phone every seven seconds.) 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

GDP Grows 3.3 Percent!

Recession? What recession? The economy seems to be trudging along at a healthy pace, judging by a recent GDP report, which sent markets soaring.

Gross domestic product — a measure of the economy's output — grew at a 3.3 percent annualized rate in the second quarter. Not bad at all, considering the daily barrage of news about soaring bankruptcies, tumbling home prices and never-ending inflation.

But the growth was largely driven by factors that either won't be sticking around for long or that come with nasty side effects. Powering the GDP growth

was a surge in exports — a gain of 13.2 percent — fueled by a weak dollar, which made our goods and services look cheap to foreign markets.

The second economic jolt for the quarter came from a combo of annual tax rebates and stimulus checks, proving only that when the government sends someone a check, they'll spend it.

Unfortunately, a cruel consequence of both a weak dollar and a flood of stimulus checks is a nasty dose of inflation, which affects our real wages. From 2000 to 2007, real wages fell by \$2,000 for the average middle-class family. In short, whatever economic growth came along during that period didn't find its way into the average citizen's pockets. Serenity now! ■

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