



# THE MOTLEY FOOL®

To Educate, Amuse & Enrich

## Fool's School

### When Average Is Good

Mutual funds may sound perfect, letting you leave your money in the hands of professionals, but consider these things:

- The majority of stock mutual funds tend to underperform the overall stock market average.

- Many charge steep loads (sales fees), sometimes topping 5 percent. Even when funds charge a typical 1 or 2 percent annual expense fee, that can significantly hurt your performance.

- As funds grow bigger (and their managers often try to grow them, so they can collect more in fees), it becomes much harder to deliver strong results. The more money a fund has to invest, the more likely it is to park some in less promising investments.

Fortunately, there's a simple solution. Instead of trying to find those few above-average funds and winding up with sub-par performance, you can choose to match the market average. Invest your long-term moolah in index funds designed to track the performance of a broad market index,

such as the S&P 500 or the Dow Jones Wilshire 5000. The S&P 500 is an index of 500 leading companies in America. The Dow Jones Wilshire 5000, despite its name, contains just about every U.S. stock — many more than 5,000. It's a "whole market" index.

Index funds usually sport extremely low fees — sometimes less than 0.20 percent (that's one-fifth of 1 percent). There's little turnover within them, too, so commission costs are minimal. Best of all, investing in index funds is simple, taking very little time or energy. Once you've invested in them, you can forget about them (ideally adding money periodically, though). However the stock market performs in the coming years, your index fund won't be far behind.

If you want to beat the indexes, though, we'd love to help. For pointers to many funds that have performed much better than average, test-drive our Champion Funds newsletter for free at [www.championfunds.fool.com](http://www.championfunds.fool.com). Learn more at [www.indexfunds.com](http://www.indexfunds.com) or read "Common Sense on Mutual Funds" by John C. Bogle (Wiley, \$20). ■

## My Dumbest Investment Up and Down Like a Rocket

I know this goes back awhile, but during the dot-com boom, I bought shares of JDS Uniphase. It went up like a rocket. I was cruising! But what did I know? It soon plunged 50 percent. Whoopee! A hot buying opportunity for "smart investors," I thought. I bought more. Then it plunged another 20 percent, then another ... all the way down to oblivion. Lessons? Well, maybe: (1) In the style of Warren Buffett, never buy stock in a company whose business you don't understand. Frankly, I never did understand what the company did. Neither did most of the other investors. (2) If a stock is dropping like a rock, thoroughly understand why before buying more. In JDSU's case, it was because the market for its products sharply declined. (3) If a stock has a P/E ratio of, say, 200, don't touch it with a 10-foot pole unless you've done a great deal of disciplined, methodical research.

— Scott, California

**The Fool Responds:** You learned some excellent lessons. Today JDS Uniphase rates only two out of five stars in our free stock-rating service at [caps.fool.com](http://caps.fool.com). ■



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'm a global leader in records management and have been storing boxes of documents for companies since 1951. My founder was once known as the "Mushroom King" in upstate New York, where he grew fungi. I rake in some \$3 billion annually from my 120,000-plus customers. I also store electronic data, computer disks and tapes, microfilm, audio and video tapes, X-rays and blueprints. I can retrieve — or destroy — whichever records you want. My disaster recovery division can back up your data and store it off-site. You might call me Ferrous Peak. Who am I? ■

(Answer: Iron Mountain)



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](mailto: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

### Mutual Funds Versus UITs

**Q**How do unit investment trusts differ from mutual funds?

— K.A., Augusta, Ga.

**A** Mutual fund managers invest in assets (such as stocks or bonds) according to stated sets of objectives. Shares are issued and redeemed on demand at a specific net asset value that is determined at the end of each trading day (based on the total market value of the fund's holdings). The number of shares is not fixed. If many people want to buy in, the fund company will issue more shares.

Meanwhile, a unit investment trust (UIT) invests in a relatively fixed portfolio of investments. These are held until the trust is liquidated at a predetermined date in the future. Investors who want to trade shares of a UIT before it matures can often do so in the secondary market. Unlike a mutual fund, UIT share prices in the secondary market may be priced above or below the net asset value of the trust's actual holdings. When you buy shares of UITs, you typically pay a sales fee, or load, of around 4 or 5 percent. Many mutual funds carry no sales load at all.

Learn more about mutual funds at [www.fool.com/mutualfunds/mutual-funds.htm](http://www.fool.com/mutualfunds/mutual-funds.htm) and [www.ici.org](http://www.ici.org).

**Q**What does it mean if a company's projected price-to-earnings (P/E) ratio is much lower than its current P/E?

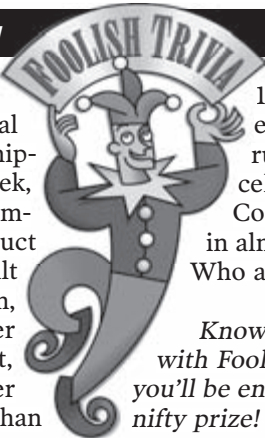
— L.W., Nevada, Mo.

**A** It suggests that rapid earnings growth is expected. Imagine that Holy Karaoke Inc. (ticker: HYMNS) trades for \$24 per share and has \$1 per share in annual earnings. Its P/E is 24 (24 divided by 1 is 24). If it's expected to earn \$3 per share next year, its projected P/E for that year is 8 (24 divided by 3 is 8). ■

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

## Name That Company

Founded by two Stanford classmates in 1939, I'm a global leader in computer printers, shipping more than a million each week, along with nearly 50 million computers each year. My first product was an audio oscillator that Walt Disney Studios used for its film, "Fantasia." I spend \$3.5 billion per year on research and development, and produce about 11 patents per day worldwide. I power more than



130 of the world's stock exchanges. My software runs more than 100 million cell phones. I merged with Compaq in 2000 and rake in almost \$120 billion annually. 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

### Linear: The Formula for Profits?

Looking at integrated circuit-maker Linear Technology's (Nasdaq: LLTC) second-quarter report, it's easy to see why the stock is a Motley Fool Stock Advisor pick. Linear's competitive moat is a mile wide, and few rivals can afford even the entry fee into this neighborhood.

Linear reported second-quarter revenue up 14 percent over last year, though earnings dropped 7 percent. All things considered in this environment, that's not bad. Linear is sitting pretty with the fattest profit margins in a notoriously cutthroat market, thanks to its contributions to high-profit, first-to-the-market proprietary products such as the iPhone.

Everything isn't smooth sailing, though,

even for this cash creator. Third-quarter sales are expected to drop another 15 percent to 20 percent from the second quarter, whereas Linear is used to about 6 percent sequential sales growth between these two periods. And even that gloomy outlook assumes that order volumes in February and March pick up a bit from current rates.

But the company appears to be weathering the recession well, buying back \$200 million of its \$1.7 billion in senior debt notes last quarter and raising its quarterly dividend by a penny to \$0.22 per share. (Its yield is around 3.8 percent.) Hard times will separate the wheat from the chaff, and Linear is practically bread already. ■

## BUSINESS BRIEFS

### Centex moves offices to Estero

Dallas-based home builder Centex has relocated its Naples-area administrative office from Naples to Estero, where local management and operations will be combined with the Company's 7,600-square-foot design center. The move was announced in December and will be completed in February.

"I appreciate the steps our local management team in Naples has taken to consolidate this office space and reduce our operating costs," said Brett Lundequam, president of Centex's Florida division, based in Orlando.

Centex is building homes in eight active communities across Southwest

Florida, including: Fort Myers, Port Charlotte, Bonita Springs and Naples. Home types include patio and garden homes, villas, carriage homes, single-family homes and residential estates. See [centex.com](http://centex.com) for more information. ■

### Sponsorships available for Junior Achievement event

Tickets and sponsorships for the Junior Achievement Business Hall of Fame, 2009, Lee County event are now available. Junior Achievement will induct Lee County business leaders Carol Hudler, president and publisher of *The News-Press*, and Charles K. Idelson, president and CEO of Investors' Secu-

rity Trust Company, into the Business Hall of Fame. The Laureates will be recognized for their professional accomplishments and community involvement with a dinner and awards ceremony on April 22, beginning at 5 p.m.

with a cocktail reception, followed by a dinner program at 6:30 p.m. at the Hyatt Regency Coconut Point Resort & Spa in Estero.

Business sponsorships are available, with the highest level being the Gold sponsorship. Gold sponsorships are \$5,000 and include a VIP table for 10, including two student seats, and prominent advertising on the event invitation, signage, slideshow, [jaswfl.org](http://jaswfl.org) Web site and newsletter, among other benefits. Silver sponsorships are \$1,650 and

include a table of 10, with two seats reserved for Junior Achievement students. Bronze sponsorships are \$850, which includes a table of five, with one seat reserved for a student.

Student sponsors are needed at the cost of \$125 per ticket. By attending the event, students have a first-hand opportunity to practice business etiquette skills and interact with local professionals.

Individual seats are \$250. Half-page advertisements for the event program book are \$500. All proceeds benefit Junior Achievement programs. To sponsor the event or purchase tickets, call the Junior Achievement office at 225-2590. ■

