



# THE MOTLEY FOOL®

To Educate, Amuse & Enrich

## Fool's School

### It's All About Price & Quality

The task of finding good companies to invest in all comes down to two questions:

- (1) Is this a strong, high-quality company?
- (2) Is the company's stock priced attractively right now?

If you don't address both questions, you might end up buying grossly overvalued shares of a wonderful company, or you might snap up shares of a hapless, doomed business at what seems like a bargain price. Investors have lost big bundles doing either or both of those things.

The first question is much easier to answer than the second. An enterprise such as Nike, McDonald's or ConocoPhillips might quickly appear to be a first-rate firm. But at what price is it a good buy?

Some investors believe that as long as you've got a great company, the price isn't that important. They figure if an overvalued company keeps growing, it'll eventually grow into and surpass its price. (This can happen, but it might take a long time, and sometimes it doesn't happen. Also, the average growth rate over time might not be

that impressive.) Most successful investors recognize that buying at an attractive price is vital to reduce risk and maximize gain.

Conveniently, most company evaluation measures are related to either quality or price. Quality-related measures reflect a firm's profitability, growth and health. They include sales and earnings growth rates, profit margins, return on equity (ROE), return on assets (ROA), inventory turnover, market share and management quality, among other things.

Price-related measures help you determine whether the stock is overpriced, underpriced or priced just right. They address a company's valuation or stock price, and include its market capitalization, enterprise value, price-to-earnings (P/E) ratio and price-to-sales ratio.

Keep quality and price in mind as you examine possible investments, and your portfolio will thank you. The two questions can also help you determine when you should sell. Learn more about these factors in our Investing Basics and How to Value Stocks areas at [www.fool.com/investing.htm](http://www.fool.com/investing.htm). ■

## My Dumbest Investment

### I.P. Oh No ...

In 2004, a friend told me about a broadband provider that was soon going to go public (via an initial public offering, or IPO) for \$1 per share. I bought more than 1,000 shares. The stock tripled, and my friend advised me to sell. But I thought, "We have a rising stock market and surely the stock will go even higher."

Well, the stock plummeted to less than 10 cents per share, where it rested for almost a year. The company then changed its name, but its value remained the same.

Lesson learned: Don't buy stock for less than \$5 per share.

— Mike W, via e-mail

**The Fool Responds:** First, you're right to avoid "penny stocks," as they can be easily manipulated and hyped. They can be very volatile and are often tied to companies without strong track records of growth and earnings.

Be wary of IPOs, too. It's hard for us little investors to get in early on the good ones, and in many cases, you can do better by waiting a year or two, until the stock settles down. ■



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

The chain that shares my name was started in 1950 in Quincy, Mass., and is today the world's largest coffee and baked goods chain, serving more than 3 million customers each day in nearly 9,000 eateries. Given my name, you'd think that doughnuts would account for more than a sixth of my sales. I also own the Baskin-Robbins ice cream business, which includes roughly 6,000 franchises. I recently made all my menu items trans-fat-free. I rake in about \$7 billion globally, but you can't buy stock in me, because I'm owned by some private-equity outfits. Who am I? ■

(Answer: Dunkin' Brands)



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

### Intrinsic vs. Market Value

What's the difference between intrinsic value and market value?

— C.B., Farmington, N.M.

That's a critical concept for investors to understand. Imagine Acme Explosives Co. (ticker: KBOOM). Its intrinsic value is what it's really worth, based on its assets and debt, its anticipated growth rate and, ultimately, the amount of cash it's expected to generate over its lifetime. Unfortunately, that's not easy to determine, and different analysts will arrive at different numbers. Plus, things change. Acme's intrinsic value may be estimated around \$5 billion. But if a competitor introduces a better explosive, Acme's future, and therefore its intrinsic value, is suddenly different.

Meanwhile, market value is what investors are willing to pay for a company. It's typically measured by calculating a company's "market capitalization." If Acme Explosives has 200 million shares outstanding and the current share price is \$30, then its market cap is \$6 billion (200 million times \$30 is \$6 billion). If a firm's intrinsic value is higher than its market value, then its stock is undervalued and attractive.

Must I sell my IRA stocks when I turn 70 1/2?

— E.M., Tallahassee, Fla.

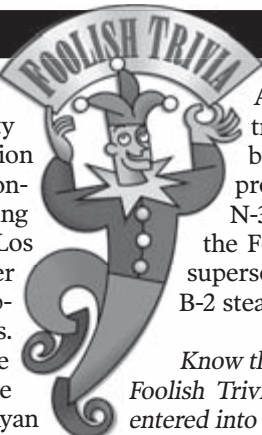
With traditional IRAs, you must begin taking distributions after you turn 70 1/2 (though due to our economic crisis, Congress is permitting us to forgo that in 2009). Your withdrawals generally will be taxable. You may need to sell some stocks in the IRA to generate the cash (though some IRAs permit distributions of shares rather than cash).

If you have a Roth IRA, there are no mandatory distributions. And if the Roth IRA is at least five years old and you're older than 59 1/2, distributions are tax-free. Learn much more about IRAs at [www.fool.com/ira](http://www.fool.com/ira).

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

## Name That Company

I started out in aircraft in the 1930s. Today I'm a global security giant that rakes in nearly \$34 billion yearly, offering aerospace, electronics, information systems, shipbuilding and technical services. Based in Los Angeles, I produce spacecraft, laser systems and nuclear-powered submarines, among many other things. My acquisitions over the years have included Westinghouse Defense Electronics, Logicon, Teledyne Ryan



Aeronautical, Litton Industries, Newport News Shipbuilding and TRW. My products have included the N-3PB patrol bomber of 1940, the F6F Hellcat of 1944, the F-5 supersonic fighter of 1959, and the B-2 stealth bomber. 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

### McDonald's Rises

McDonald's (NYSE: MCD) recently delivered appetizing quarterly results, despite the ugly economic environment. First-quarter net income increased 3.5 percent to \$979.5 million, while sales dropped 9.5 percent, to \$5.08 billion. (Excluding currency conversion, sales would have risen 2 percent.)

Proving its continued popularity with consumers, McDonald's "same-store" sales (for units open a year or longer) rose 4.3 percent overall, 4.7 percent in the U.S., 5.5 percent in the Asia/Pacific, Middle East and Africa segment, and 3.2 percent in Europe.

McDonald's has been known as a winner in the current economic environment, as consumers reduce their spending. Their search for

deals hasn't made life easier for other discounters, though. Burger King recently disclosed a drop in traffic in its fiscal third quarter, with same-store sales rising only 1 percent.

Shares of the Golden Arches were recently trading with a price-to-earnings (P/E) ratio of around 14 — in line with Burger King, yet cheaper than Yum! Brands' 18. It doesn't seem dirt cheap, but its continued solid performance and the fact that it's a steady dividend payer (with a yield recently north of 3.5 percent) make for a strong investment thesis right now.

Over the past several years, McDonald's has proven that it's a winner in good times and bad, which is impressive for any company. It remains a strong candidate for long-term portfolios. ■

# BUSINESS BRIEFS

## Commercial real estate

► **The Sands Commercial Group** - VIP Commercial TCN Worldwide reported the following transaction:

Abuse Counseling and Treatment Inc. has signed a long-term lease on the 15,000-square-foot former Sound Advice building located at 2519 S. Cleveland Ave. The location will be home to ACT's second ACT Thrift Store. The landlords are Mr. and Mrs. Srinivasan. Paul Sands of VIP Commercial negotiated the transaction for both parties.

► **CB Richard Ellis, Fort Myers/Naples** announced the following transactions:

Internal Revenue Service has expanded its lease to 3,548 square feet in Metro Center I, 2891 Center Pointe Drive, Fort Myers, from

CITEC Florida LLC. Randal L. Mercer and Enn Luthringer, CCIM of CB Richard Ellis, Fort Myers/Naples brokered the transaction.

Southern Home Care Services Inc has leased 960 square feet in Metro Park Gardens, 2830 Winkler Ave, Fort Myers, from Metro Park Gardens LLC. Randal L. Mercer and Enn Luthringer, CCIM of CB Richard Ellis, Fort Myers/Naples, represented the landlord.

Northrop Grumman Technical Services Inc leased 6,248 square feet at 3850 Colonial Blvd. Fort Myers from Orbis Properties LLC. Enn Luthringer, CCIM of CB Richard Ellis, Fort Myers/Naples represented the tenant and Jim Boback of RE/MAX represented the landlord.

Whitsyms Nursing Registry leased 1,360 square feet in the Heidt Building, 3800 Colonial Blvd., Fort Myers, from Orbis Properties LLC. Enn Luthringer, CCIM of CB Richard Ellis, Fort Myers/Naples represented the

landlord and Brad Welborn of RE/MAX represented the tenant.

Loss Mitigation Services LLC leased 748 square feet at 6360 Presidential Court Fort Myers from 6360 Presidential Court, LLC. Enn Luthringer, CCIM of CB Richard Ellis, Fort Myers/Naples represented the landlord.

► **Commercial Property Southwest Florida LLC**, a Cushman & Wakefield affiliate, announced the following transactions:

Riverview Homes LLC purchased a 9.9-acre property at 12400-12350 Palomino Road from M & I Bank for \$500,000. The property, located at the corner of Palomino Road and Renaissance Way, is approved for 24 residential lots. It was purchased for lot inventory. Gary Tasman and Shawn Stoneburner of Commercial Property Southwest Florida LLC, a Cushman & Wakefield affiliate office, negotiated the transaction.

Allegra Print & Imaging leased 3,000

square feet at 12140 Metro Parkway, Suite C from Metro Centre LLC. Allegra Print & Image has relocated to Metro Center to increase its visibility and centralize its location to better serve Lee County's printing and imaging needs. Gary Tasman, Shawn Stoneburner and Brandon Stoneburner of Commercial Property Southwest Florida LLC, a Cushman & Wakefield affiliate office, negotiated the transaction.

► **Frye Commercial Group at RE/MAX Realty Group** announced the following transactions:

Supersonic of Florida, Inc. has leased a 10,000-square-foot dock-height office/warehouse building at 3590 Metro Parkway, Fort Myers for a distribution center. Supersonic is based out of New York. Hal Arkin with the Frye Commercial Group at RE/MAX Realty Group negotiated the lease for the owner and tenant. ■