



# THE MOTLEY FOOL®

To Educate, Amuse & Enrich

## Fool's School

### The Roth IRA

If you aren't contributing to a Roth IRA already, maybe you should be, as it offers potentially massive tax breaks. There are some important issues to consider first, though.

Like other IRAs, the Roth allows you to accumulate funds for retirement and to enjoy some tax advantages at the same time. While traditional IRAs are tax-deferred, Roth IRAs are designed to be tax-exempt. Traditional IRAs permit you to contribute pre-tax dollars; Roth IRAs accept only already-taxed dollars.

Let's say you're 40 and you invest \$5,000 of your post-tax income into a Roth IRA each year, starting today. You earn a 10 percent annual return for the next 25 years until you retire at 65. By then, your contributions would have grown to about \$540,000. With a Roth, that's your take-home pay, tax-free.

If those investments had been made into a regular IRA, you'd pay taxes on any withdrawals, netting just \$460,000 or so, assuming a 15 percent tax bracket during

retirement, or merely \$405,000 if you're in a 25 percent bracket. So far, this makes a great case for the Roth. But remember that if the \$5,000 had gone directly into a traditional IRA, you would have reaped about \$1,250 in tax savings each year at a 25 percent tax rate (more, with a higher tax rate). If that savings was also invested, the total difference between the Roth and the regular IRA would become slimmer. Still, the Roth is a very compelling proposition to most investors.

You may be able to roll over, or convert, your traditional IRA into a Roth by paying taxes on it, counting the entire value of the account as income. You can also roll over a 401(k) account into an IRA when you change jobs.

There are more benefits and limitations to consider before you decide whether the Roth is for you. Get details at [www.irs.gov](http://www.irs.gov), [www.fool.com/ira](http://www.fool.com/ira), or from a tax professional. For clear and concise retirement advice, along with stock and fund recommendations, take advantage of a free trial of our Rule Your Retirement newsletter at [www.ruleyourretirement.com](http://www.ruleyourretirement.com). ■

## My Dumbest Investment

### A No-Name Loss

I'm not even sure of the name of my dumbest investment. It was one of those tech stocks — a search engine, I believe. It's still in my portfolio. Selling it would be admitting I made the mistake to begin with.

— Greg B., McLeansville, N.C.

**The Fool Responds:** We've all got regrettable moves in our investing histories. It's best not to let them linger too long, though. Many people hang on to imploded stocks because of a small hope that they might surge one day, regaining dollars lost. Others hang on out of some sort of pride. But consider the alternative. For one thing, by selling, you'll generate a capital loss, which you can use to offset a capital gain, thereby owing less in taxes. If you have no capital gain, you can deduct up to \$3,000 from your income per year, carrying forward the remainder of the loss. And finally, you might recoup your loss, but the better way to do so is to move whatever money you have left in the loser into a stock in which you have a lot of confidence. ■



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 one of the world's largest hotel companies, with names such as Sheraton, St. Regis, Le Meridien, Aloft, The Luxury Collection, Westin, Four Points and W. I own, lease, manage or franchise more than 900 properties with more than 280,000 rooms in more than 90 nations. I also develop, own and operate vacation ownership resorts, marketing and selling ownership interests to customers, along with providing financing. I introduced my popular Westin "Heavenly Bed" in 1999 and launched my environmentally friendly "element" hotel chain in 2006. I employ more than 140,000 people, and my ticker symbol can scald. Who am I? ■

(Answer: Starwood Hotels and Resorts)



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

### How to Sell Worthless Stock

Q Can I claim a loss on worthless stock without selling the shares?

— F.T., Erie, Pa.

A You might, but you'll have to determine whether your stock qualifies as "worthless" according to IRS rules. It's often simpler to just sell. If selling through your broker isn't worth it, you can sell the shares to a friend (or cousin, aunt or uncle) for pennies. (But not to a spouse, siblings, parents, grandparents or lineal descendants.) Here's one way to do it:

(1) Get the actual stock certificates from your broker. (2) Formally sell the shares, with a payment check and bill of sale. (3) Sign over the stock certificate (on its back) to the buyer. Have the signatures verified by your banker and/or a local stockbroker. (4) Send the certificate to the stock's transfer agent, explaining that the shares have been sold. Ask them to cancel the old shares and issue a new certificate to the new owner.

Some brokerages will buy your shares for a penny as a service to customers. Learn more at [www.irs.gov](http://www.irs.gov) and [www.fool.com/taxes](http://www.fool.com/taxes).

Q I see that the I Bond is paying zero percent right now. Should I be worried?

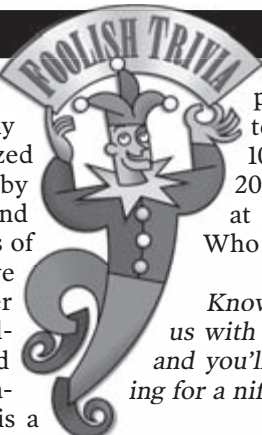
— C.M., Mason City, Iowa

A I Bonds feature returns that keep up with inflation, which was recently negative. Their interest rates have two components. There's a fixed rate that lasts for 30 years and an inflation rate that changes every May 1 and Nov. 1. If you expect inflation to rise in the future, as many do, I Bonds will help you keep up with it. They won't pay zero percent forever. (Still, consider top-quality dividend-paying stocks, instead, as they offer income plus probable capital appreciation over time.)

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

## Name That Company

I was born in Palo Alto, Calif., in the mid-'90s and already, my brand is one of the most recognized in the world. I help you search by evaluating billions of Web pages and solving an equation with millions of variables to determine the relative importance of each page. I offer e-mail, maps, directions, satellite photographs, news alerts and financial information. I own Picasa and YouTube, too. My name is a



play on the mathematical term for a 1 followed by 100 zeros. I went public in 2004 and am already valued at more than \$125 billion. 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

### Yum! Brands

Yum! Brands (NYSE: YUM), operator of KFC, Taco Bell and Pizza Hut, among other names, may be in healthier shape than the market believes, profiting from immense growth in foreign markets.

In its most recent quarter, Yum!'s earnings declined 14 percent, to \$218 million. While there was a 12 percent drop in sales in the United States, sales from China rose 12 percent. In fact, the Chinese profit growth was 21 percent before currency translation — yuan-denominated gains shrink when reported in dollars.

China represents a major part of Yum!'s growth strategy. The company was one of the first to open American fast-food chains

there and it has been expanding aggressively, with store count at its main restaurants up 18 percent year over year. Besides sheer growth in locations, other macro trends could continue to propel earnings forward, such as Chinese stimulus spending.

Yum! isn't just relying on importing popular U.S. brands into China. In March, it bought a 20 percent stake in Chinese hot-pot chain Little Sheep for \$63 million, planning to expand it, and it's rolling out its East Dawning concept as China's first national Chinese-food chain.

Yum! isn't inexpensive by traditional measures; it recently sported a price-to-earnings ratio of 17. But it would look more reasonable if it could convert its swelling Chinese earnings back into dollars at a better rate. ■

## BUSINESS BRIEFS

### Fitch affirms Southwest Florida International Airport's bond rating

Fitch Ratings has affirmed the 'A' rating on Southwest Florida International Airport's \$348 million airport revenue bonds, saying the rating outlook on all bonds is stable. The bonds are payable from the net revenues generated by the operations of Southwest Florida International Airport.

The 'A' rating is based on the airport's history of strong passenger demand, the airport's new terminal and existing airfield facilities that provide adequate terminal and airfield capacity, the diverse group of air carriers serving a 100 percent origination and destination market, the airport's strong balance sheet position, manageable near-term

capital requirement with no bonding needs and the lack of material airport competition in the region.

The stable outlook reflects the airport's somewhat resilient traffic in light of the economic downturn.

"The Lee County Port Authority is pleased that Fitch recognizes the resilience of RSW and the strength of our balance sheet during these difficult economic times," said Robert M. Ball, A.A.E., executive director of the Lee County Port Authority.



"We will continue to contain costs and manage our resources as part of our commitment to maintain a stable financial position."

Fitch publishes ratings of credit worthiness from AAA to D.

Southwest Florida International Air-

port served more than 7.6 million passengers in 2008 and is one of the top 50 U.S. airports for passenger traffic. No ad valorem (property) taxes are used for airport operation or construction. For more information, log onto [www.flylcpa.com](http://www.flylcpa.com). ■