



# THE MOTLEY FOOL®

To Educate, Amuse & Enrich

## Fool's School

### Term Life vs. Cash Value

If you're single or have no dependents, you probably need little or no life insurance. With a little planning, you can establish a low-risk savings fund to cover funeral costs, and then invest the money you would have paid in insurance premiums.

But if anyone depends on your income stream, you need life insurance to protect it. Aim to replace it, but don't think you need to pay a lot for a policy that will give your family a lottery-like payout if you die.

There are two main types of life insurance: "term" and "cash value."

With term insurance, your premium payments are applied entirely to the cost of the insurance, and coverage can easily be dropped when you no longer have dependents. It's a very simple and effective option.

Cash value insurance, meanwhile, encompasses a wide variety of financial products, such as whole life, universal life and variable life. These combine term life insurance with a long-term, tax-sheltered savings plan. The most important thing to understand about

these policies is that they're designed to be held for life. There are usually significant up-front charges associated with setting up the savings plan, investing the money and paying the agent's commission. Even with these charges, tax-sheltered savings can still catch up to taxed investments and begin delivering a real advantage — but that can take 10 to 20 years.

So never opt for cash value insurance without doing a lot of homework. Don't let an aggressive agent sway you with confusing presentations and emotional arguments. Remember that term life can last as long as you want, via guaranteed renewable policies. If you're attracted to the investment portion of cash value insurance, know that you can always buy less-expensive term insurance and invest the difference on your own. You stand a good chance of outperforming the insurance company, too.

Don't make the common mistakes of buying more insurance than you need, or the wrong kind of insurance. Learn more at [www.Fool.com/insurance](http://www.Fool.com/insurance) and <http://insurance.yahoo.com>, and look up some prices at [www.insure.com](http://www.insure.com). ■

## My Dumbest Investment

### Worth \$50 or \$2?

My dumbest move was leaving a lot of money in my former company's stock. I did this after talking to a professional stock analyst who worked for a hedge fund. The fund owned about 7 percent of the company's stock. He told me that according to his analysis, the stock, which was trading around \$18 per share, was worth about \$30 with the current management and would be worth \$50 with better management. It's now selling for about \$2. I paid a high price for not diversifying enough. Part of what made the company valuable was that it sat on some once very valuable real estate in California.

— J.G.T., Queen Creek, Ariz.

**The Fool Responds:** It's important to understand that not all stock analysts are good ones, and even the good ones are wrong sometimes. In addition, as you now know, it's risky to have too much of your money in one stock, even your employer's. Remember what happened to Enron workers. Even employees at companies such as International Paper and Whirlpool have suffered through prolonged slumps or stagnation. ■



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 born in Brooklyn in 1938. My chewing gum was considered a "change-maker," as it was positioned near cash registers, attracting people's pennies. After World War II, I introduced Bazooka Joe bubble gum, after Atom Bubble Boy failed to take off. In 1951, I introduced baseball trading cards. Now I offer not only basketball, football and soccer cards, but also Obama and other specialty cards. I'm an international marketer of collectible trading cards, confections (such as Ring Pops, Push Pops and Baby Bottle Pops), stickers, games and more. I take in around \$300 million annually. Who am I? ■

(Answer: Topps)



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

### Low Margins

#### Should I avoid companies with low profit margins?

— T.F., Tampa, Fla.

**A**In general, higher-margin companies are more promising than lower-margin ones. High margins can reflect some competitive advantages, such as a strong brand. Also, amid a price war, companies with higher margins have more wiggle room. Still, you shouldn't necessarily avoid lower-margin businesses.

Imagine that Buzzy's Broccoli Beer (ticker: BRRRP) has a whopping net profit margin of 28 percent, while Scruffy's Chicken Shack (ticker: BUK-BUK) has only a 2 percent margin. If Buzzy's sells only five beers a year, while Scruffy's sells out of chicken each week, Scruffy's may well be the better buy, generating more cash in total than Buzzy's.

Some industries, such as software, typically have high profit margins. Discount stores and supermarkets typically have very low ones — but if they turn over inventory fast enough, they might still be good investments. Wal-Mart's margin, for example, is around 3 percent.

#### How much will health care cost me in retirement?

— D.E., Mankato, Minn.

**A**According to recent estimates, the Medicare trust fund is expected to run out of money by 2017. Not so long ago, the expected date was 2026, but rising health-care costs, lower tax receipts and new prescription-drug policies are having an effect.

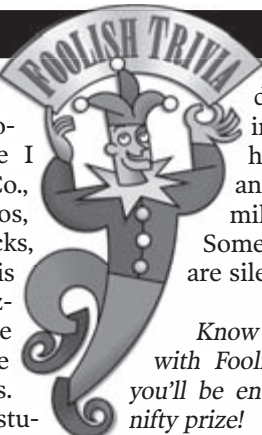
Medical expenses not covered by insurance or Medicare must be paid for out of a retiree's nest egg. How much will be needed to cover such expenses? According to Fidelity Investments, an average 65-year-old couple retiring this year will need to have \$240,000 socked away just to cover health-care costs for the following 20 years (this doesn't include the cost of long-term care).

Get retirement-planning guidance at [www.fool.com/retirement.htm](http://www.fool.com/retirement.htm).

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

## Name That Company

I was founded in 1897, when I made reed organs. In 1932 I introduced pipe organs. At that time I was known as Nippon Gakki Co., Ltd. I make or have made pianos, motorcycles, drums, skis, tape decks, boats, golf clubs, furniture, tennis rackets, semiconductors, synthesizers, computer drives, fancy home furnishings and snowmobiles. I've even owned and run some resorts. There are more than 700,000 stu-



dents in my music schools in more than 40 nations. I hold nearly 10,000 patents and have made more than 6 millions pianos since 1900. Some of my newer instruments are silent. ■

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

### E\*Trade's Hurdles

It's so easy to kick discount broker E\*Trade (Nasdaq: ETFC) when it's down. Standard & Poor's Ratings Services is downgrading its debt.

Yes, the picture is ugly. Regulators want the company to raise new capital as it continues to pay for its aggressive online banking mistakes. With \$8.1 billion in debt, E\*Trade's balance sheet won't win any beauty pageants. Its income statements aren't any prettier, with seven consecutive quarterly losses.

But when will E\*Trade be given credit for its growth? It tacked on 32,550 net brokerage accounts in April alone. It now sports a record 4.5 million accounts.

It's struggling in attracting new banking

accounts, but that's not a surprise. E\*Trade's bread-and-butter Complete Savings Account (CSA) has gone from yielding 3.01 percent at the beginning of the year to a puny 0.95 percent recently.

If the growth is gravitating toward its discount brokerage business, that's a good thing. Many of E\*Trade's peers, such as TD Ameritrade, are consistently profitable.

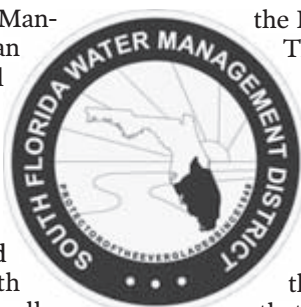
The hurdles along the way — billions in debt, deficits projected to continue in the near term and regulator capital requirements — won't be easy to clear. However, at this price (down more than 90 percent over the past two years), and with so much potential upside if it catches up to its discount-brokerage peers, it's an intriguing speculation. Proceed with caution, though. ■

## BUSINESS BRIEFS

### Water district hosting small business open house

The South Florida Water Management District is hosting an open house event for small businesses interested in learning about the district's procurement process and its Small Business Enterprise Program.

The open house, titled "How to do Business with the District," will give small business owners and executives the opportunity to interact with contract specialists and purchasing agents during one-on-one sessions. The event will



be held Tuesday, June 30, from 9 a.m. to noon at Big Cypress Basin Service Center, Poinciana Professional Park, 2640 Golden Gate Parkway, Naples.

The SBE Program gives small businesses additional preferences during the District's solicitation process.

The rule that created the Program includes provisions for bid equalization, sheltered markets, points for SBE participation in proposals and SBE subcontract participation goals. A participating firm must be certified by the District and demonstrate that its three-year average gross receipts, together with those of its affiliates, do not exceed \$13 million for construction, \$5 million for commodities and \$6 million for services. ■

### Social media subject of workshop

The Southwest Florida Chapter of the Florida Public Relations Association has added extra spice to the Social Media Café: Second Course on Friday, June 26, from 9 a.m. to 3 p.m., at Hodges University, 4501 Colonial Blvd., Fort Myers.

Flame Productions will be on hand to take head shots of non-members for a discounted cost of \$25 and complimentary for FPRA members.

Startpoken.com has also joined the SMC as a top sponsor. Throughout the event, FPRA will be holding special drawings for several Pokens — a device that allows one to exchange social networking information and connect with friends and colleagues on the spot —

compliments of [www.startpoken.com](http://www.startpoken.com).

This lecture-style seminar will provide attendees a specialized look at incorporating social media with other Web 2.0 technologies. Ibrey Woodall, director of marketing communications for the TEK group International Inc., will discuss online newsrooms with social media interaction. Miami Marketwire's Account Executive, Robyn Medlin, will discuss search engine optimization for press releases and will introduce a social media release. Birgit Pauli-Haack, CEO and founder of Pauli Systems LC, will share her knowledge on putting social media to work with RSS feeds.

Registration and networking begins at 9 a.m. with presentations beginning at 9:30 a.m. The cost is \$25 for members and \$50 for non-members. Lunch is sponsored by Honey Baked Ham. ■