



THE MOTLEY FOOL®

To Educate, Amuse & Enrich

Fool's School

Dividend Investing

You may have heard that dividend stocks have significantly outperformed their stingier counterparts since 1972. You may have heard that the majority of the market's historical gains have come from dividends. And you may have heard that dividend payers are the best stocks to own during bear markets. It's all true.

But dividend investing isn't all gumdrops and rainbows. Fully 374 companies reduced their dividends in 2008. And more dividends were cut by S&P 500 companies in the first quarter of 2009 than in all of 2008.

To avoid the next dividend implosion, you've got to keep an eye on a dividend payer's overall strength — and its ability to keep paying those vaunted dividends. So as you're looking for dividend stocks for a bear market, keep an eye out for red flags: extremely high yield, industry headwinds, a spotty track record and a high payout ratio.

A dividend yield that seems too good to be true usually is, because it's probably due to the stock having plunged in price, with few investors believing in it. If an

industry comes under attack — as happens in cyclical industries and during economic crises — there may not be any earnings to distribute, leading to dividend cuts or suspensions. Automakers and banks are good recent examples of that.

Companies with checkered histories of dividend payments aren't the strongest candidates for investment — especially in a bear market, when external factors may strain their resources. Fortunately, many companies sport long dividend histories, demonstrating their reliability. McDonald's, for example, has paid a dividend each year since 1937.

A company's payout ratio — calculated by dividing annual dividends by net income — can help you determine whether it can afford to continue paying its dividend. A high ratio suggests the company is returning most of its earnings to shareholders, with little left over for other uses.

To see which healthy and growing dividend payers we've recommended (many with yields topping 8 percent), take advantage of a free trial of our Motley Fool Income Investor newsletter at www.incomeinvestor.fool.com. ■

My Dumbest Investment

Hoping Someone Learns

I have four kids, all close in age, and huge expected college expenses. I saw that coming and saved like crazy. I built a diversified, aggressive portfolio. Didn't go on ski trips or fancy vacations, didn't get cars for the kids. But ... I also didn't move a single centavo to safer investments when it got close to college time. Oh, I knew you Fools said I needed to do that, but I needed more money to reach my goal. I'd figured I needed about \$280,000 to get the kids through an eight-year span, and I'd accumulated about \$225,000. But over the last 18 months, I lost close to \$135,000. And I need it now. All sad tales need a moral, and I've got two: (1) Bears make money, bulls make money, and pigs get slaughtered. (2) When you're a few years away from needing your money, shift it into safer investments! There you go. That's my big dumb move. I hope someone reads it and learns.

— S.J., online

The Fool Responds: We can't add much more to that. You learned the lessons well. ■



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 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 students 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. Who am I? ■

(Answer: Yamaha)



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

Look Out, Orville!

Q Is it a good time to invest in airlines?

— B.B., Sacramento, Calif.

A Some have suggested it's never a good time. Superinvestor Warren Buffett, for example, has said that "if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down."

The airline industry has to deal with challenges such as volatile fuel costs, fare wars, expensive equipment, union negotiations, complicated scheduling logistics and costly empty seats. Southwest Airlines has been a rare success in the industry — but even its 10-year average annual stock return is negative.

Q Might a company that rakes in a lot of money still be a bad investment?

— K.S., Fort Wayne, Ind.

A It's possible. Remember — the money a company takes in (its revenue, or sales) is its top line. Before you get to its bottom line of profits, you have to take out expenses, such as salaries, supplies and taxes. It's critical to know how much (if anything) the company keeps as profit, and whether important numbers, such as sales and profits, are increasing.

Las Vegas Sands' sales, for example, have risen from \$2.2 billion in 2006 to \$4.4 billion in 2008, while its net income has fallen into negative territory. That's worrisome, but ailing companies can be good investments sometimes — if they turn themselves around. Study their financial reports, to determine whether they're gaining or losing market share, how strong their competitive advantages are, how much faith you have in their management, and whether their futures seem bright. Look for red flags such as major legal problems or investigations into accounting. Or just skip them and focus instead on profitable firms.

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

Name That Company

Founded in 1807, I once published Washington Irving, Edgar Allan Poe and Herman Melville. I'm no Johnny-come-lately. More successful than a hapless coyote, I publish scientific, technical, medical, professional and scholarly journals, encyclopedias, books and more. I've published the works of more than 350 Nobel laureates. My brands include *For Dummies*, *Frommer's*, *Betty Crocker*, *Pillsbury*, *CliffsNotes*, *Webster's New World*, *J.K. Lasser*, *Jossey-*



Bass, Pfeiffer and Sybex. Subjects I cover include business, technology, architecture, culinary arts, psychology, education, travel, health, religion, consumer reference and pets. Based in New Jersey, I rake in more than \$1.6 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

Windows 7 Ready to Launch

Microsoft (Nasdaq: MSFT) plans to replace the Vista operating system with Windows 7 in October. In its initial release, Vista was a resource hog and less reliable than Windows XP. As Windows 7 steps into the fray, Microsoft is facing entirely new challenges, such as strong competitors and the rise of the netbook system that places new demands on the operating system.

Laptops are getting smaller and less impressive, while smartphones only get more powerful. The convergence of those two trends is putting new operating systems from Microsoft competitors on netbooks. And now even mobile service providers such as AT&T and Verizon are

selling netbooks.

Nonetheless, Microsoft looks prepared for these challenges. Windows 7 was designed with the red-hot netbook market in mind, so it's a fair fight. And both corporate and retail customers may jump at the chance to get out of the XP-versus-Vista dilemma when October comes. Unless 7 turns out to be another disaster — which is unlikely — it looks like Microsoft is going to ring up a lot of fresh operating-system sales this fall. And isn't that what the company is all about, anyway?

It's back to the basics for Microsoft, and that may make investors like both the company and the stock again. (Microsoft is a Motley Fool Inside Value recommendation.) ■

BUSINESS BRIEFS

Applications being accepted for Blue Chip Award

The 15th annual Southwest Florida Blue Chip Community Business Award coordinated and sponsored by Oswald Trippe and Company recognizes small businesses that have overcome adversity to achieve success. The luncheon ceremony will take place Thursday, Nov. 5, at Harborside Event Center, located at 1375 Monroe Street in Fort Myers. Registration begins at 11 a.m. The program starts at 11:30 a.m. The keynote speaker will be Todd Huston, amputee, mountain climber and world record-holding disabled athlete.

"We are honored to have sponsored the Blue Chip Award program for 15

years," said Gary V. Trippe, chairman and CEO of Oswald Trippe and Company. "We believe it is vital to recognize small businesses in our communities who have overcome adversity and are willing to share their successes as lessons for all of us."

Charlotte, Collier and Lee county for-profit businesses that have been in operation for at least three years and employ five to 400 people are eligible for the award. Applications, which must be submitted no later than Sept. 14, can be requested by calling Stacey Mercado at 433-7189. Independent judges will select the winning entry. ■



Talk deals with spiritual approach to wealth

Ray Higdon, founder and guiding light of the nationally known Forever Wealth Club, has a passion for social action. Mr. Higdon, a dynamic and powerful speaker, wants to pass some of that passion along to you, in a talk at the Unitarian Universalist Church of Fort Myers on Sunday, July 12, at 10:30 a.m.

Mr. Higdon has recently toured the nation sharing the latest information to help create a greener, stronger and kinder world. The core of his message revolves around the principles of social responsibility, personal accountability and a balanced, spiritual approach to corporate profitability.



Mr. Higdon's Forever Wealth Club is dedicated to helping those who want to be helped in wealth education, which, he asserts, is not solely about making money, but also about forging better relationships, pursuing one's passion and providing value. His programs seek to provide the tools to these ends.

For more information, contact Ray-Higdon@RayHigdon.com or visit www.TheForeverWealthClub.com. ■