



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 million 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 *Sybox*. 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 MEETINGS

► **The Naples Small Business Networking Group** will meet for dinner and networking at 6:30 p.m. Monday, July 6, at Noodles Cafe and Sushi Bar, 1585 Pine Ridge Road. RSVP to Becky Brooks at naplessmallbiz@yahoo.com by 1 p.m. July 6. Visit the group's Web site at <http://finance.groups.yahoo.com/group/naplessmallbiz/>.

► **American Advertising Federation-Southwest Florida** will hold its "Red, White and Yahoo!" mixer from 5-7 p.m. Wednesday, July 8, at Angelina's Ristorante in Bonita Springs. Tom Hayes, AAF Eastern Region chair, will induct the 2009-2010 AAF-SWFL board of directors. Greg Weichert of Intergraphic will be awarded the organization's Silver Medal. Admission is \$20 for members, \$30 for guests and \$15 for

students. For more information, call 489-0073 or visit www.adfedswfl.com.

► **The CBIA Remodelers Council Roundtable** begins at 5:30 p.m. Thursday, July 9, at CBIA headquarters, 4779 Enterprise Ave. Cost is \$15 for council members and \$20 for CBIA members. For more information, call 463-6100 or visit www.cbiana.net.

► **How to Start a Business on the Web**, a free workshop sponsored by SCORE Naples and the Greater Naples Chamber of Commerce, begins at 9 a.m. Saturday, July 11, at chamber headquarters. Guest speaker will be Donald Horton, owner of Scigolf.com. The workshop is free, but advance registration is requested and can be completed at www.napleschamber.org/events.

► **WNOCC Womens Networking of Collier County** meets at 11:30 a.m. on the second Tuesday of the month (next meeting July 14) at the Collier Athletic Club. For more information, call Nancy Dalaskey at 280-3803.

► **Lee-Collier Networkers** meets for lunch once a month in Bonita Springs and also in Naples. The Bonita Springs meeting is at 11:15 a.m. on the second Thursday (next meeting July 9) at the Elks Lodge on Coconut Road; \$21 at the door (cash only), \$16 in advance. The Naples meeting is at 11:15 a.m. on the fourth Friday (next meeting July 24) at the Naples Beach Hotel and Golf Club; \$30 at the door or \$25 in advance. www.leecolliernet.com.

► **The Naples Area Professional League of Executive Services, N.A.P.L.E.S.**, meets from 7-9 a.m. on the first and third Thursdays of the month at The Club at Naples Bay Resort. www.naplesgroup.net.

► **The Jewish Business Network of Southwest Florida** meets for breakfast and business on the second Friday of the month (next meeting July 10) from 7:30-9 a.m. in the conference room at Robb & Stucky in Fort Myers, 13170 Cleveland Ave. Cost for members is \$5 in advance, \$10 at the door; non-members pay \$10 in advance and \$15 at the door. Bring business cards, brochures and a friend. To RSVP and for information about how to pay in advance, call 433-7708 or e-mail yourjbn@chabad-swf.org. ■