The Motley Fool®

To Educate, Amuse & Enrich

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

The Scoop on Arbitrage

Q What's arbitrage? *— E.M., Dalton, Ga.*

A It's the practice of profiting from short-term differences in price. Imagine that in the United States, you can buy stock in Meteorite Insurance (ticker: HEDSUP) for $30 per share. Meanwhile, you see that it's currently selling for $30.50 per share in England. If you simultaneously buy shares in America and sell the same number of shares in England, you've earned a profit of 50 cents per share (not counting commission costs).

This may not seem like much, but those who engage in arbitrage are usually large institutional investors with millions to invest in big positions.

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Q Can you explain what "FFO" refers to in relation to REITs? *— M.R., Adrian, Mich.*

A A REIT (Real Estate Investment Trust) may look and act like an ordinary stock, but it's really a rather different kind of company. REITs typically own many properties, such as offices, hotels, shopping centers or apartments.

With most companies, net income is a useful number to evaluate, reflecting the profits left over from sales after all expenses have been subtracted. With REITs, though, net income isn't as meaningful.

According to accounting rules, the value of REIT properties is decreased over time, with depreciation charged against net income, reducing it. In reality, however, real estate properties are probably not falling in value and may even be appreciating. So a REIT's net income tends to understate its health. This is why, with REITs, you should look at the "funds from operation," or FFO, instead. It ignores the effect of depreciation and other non-cash charges and gives you a truer picture of the REIT's true performance.

Learn more about REITs at **www.reit.com**.

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

Fool's School

Quarterly Checkups

When you own stock in companies, it's best to review the companies each quarter. (If they're slow-moving, established giants such as McDonald's or Colgate-Palmolive, you can get away with checking in on them less often.)

Thus, it's best for most of us to aim to hold stock in between about eight to 15 high-quality companies. If you hold stock in 50 companies, that amounts to 200 quarterly reviews per year, more than most of us have the time or the energy for.

Start your reviews with your companies' quarterly reports. Most publicly traded American businesses issue an annual report, along with a more detailed 10-K report, once a year. In the intervening quarters, they issue abbreviated (but still enlightening) 10-Q reports. Each of these features important financial statements that track sales, profits, debt loads, inventory levels and more.

Public companies also often hold quarterly conference calls between management and Wall Street analysts. You may be able to listen in on the call live, or to listen later via a company's website. A quick online search might even turn up transcripts. The calls can help you stay in touch with your companies, as you learn not only from the information given, but also from the tone of the questioners and management.

It's also good to regularly visit each company's website, to see what press releases it has issued and how it's presenting itself to the world. You can check out what people are saying about the company in online discussion boards, too, such as those at **http://boards.fool.com**, **http://caps.fool.com** and **http://messages.yahoo.com**.

As you review your holdings, ask yourself: Is this company still on track? What progress is it making, and what obstacles is it encountering? Is it going in any new directions? Is management clearly laying out and executing a convincing strategy? Are there any red flags or troubling trends in the financial statements' numbers? What should I look for in future reports? Do I still believe in its future? Should I hold on?

The more you know, the better you can do.

My Dumbest Investment

Portfolio Toxification

I made my dumbest investment in the 1960s, in a company supposedly specializing in the detoxification of soil and oil recovery. I bought based on what I knew about the need for such products rather than analyzing the company itself, which turned out to have been very shaky.

There was no use trying to sell it because it would cost more than it was worth. *— A.E., Chadds Ford, Pa.*

The Fool Responds: It was a lot harder to research a company back in the 1960s. Today, the Internet offers many easy resources, and online brokerages make lots of Wall Street research available, as well.

It's a common mistake to get excited by a company's story and ignore its fundamentals. It may be offering an irresistible product or service, but if it's saddled with unmanageable debt, or isn't turning a profit, or is mired in costly legal battles or has more powerful competitors, then it's not such a slam-dunk investment.

Even when such an investment is close to worthless, it may be worth selling, to offset your taxable income with the capital loss.

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!

The Motley Fool Take

Comcast Losing Ground

Investors adored Comcast's (Nasdaq: CMCSA) recent quarterly report: Revenue grew by 7 percent. Operating profits climbed even higher. Share buybacks will be beefed up. The dividend is rising considerably. But look closer.

The country's largest cable provider closed out the year with 22.8 million video subscribers. That may be a big number, but it's 135,000 fewer than last quarter, and marks 757,000 net defections through 2010.

Comcast is making up for the shortcoming by selling more Internet access and broadband telephone services and upgrading accounts to pricier digital cable offerings. But it's still losing couch potatoes.

Netflix may have only 20 million subscribers now, but if it tacks on another 3.1 million this quarter, as it did last quarter, it will become the country's leading premium entertainment service.

Satellite television juggernaut DIRECTV may also surpass Comcast soon, gaining ground that Comcast is yielding. It has more than 19 million subscribers, having added 493,000 over the past year.

There's also satellite radio player Sirius XM, which closed out 2010 with 20.2 million subscribers and is targeting an audience of 21.6 million accounts by the end of this year.

Are you still excited by Comcast's report? Today's premium entertainment golden child could soon settle for silver. By the end of the year, it may not even be fit to be bronzed. (Netflix is a "Motley Fool Stock Advisor" selection.)

Name That Company

I began as an apothecary purchased in Germany in 1668. By the 1800s I was not only selling drugs, but also making them. I set up operations in the U.S. in the late 1800s and first published my famous "Manual of Diagnosis and Therapy" in 1899. It appears in 17 languages today. My German and U.S. divisions split during World War I, and in the 1940s my labs discovered vitamin B12, cortisone and streptomycin. I introduced measles and mumps vaccines in the 1960s, and merged with Schering-Plough in 2009. Outside the U.S. and Canada, I'm known as MSD. 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!

LAST WEEK'S TRIVIA ANSWER

I trace my history back to Hawaii in the mid-1800s, before it became the 50th state. I'm now the world's largest producer of fresh fruit and vegetables, raking in nearly $7 billion annually. I also offer packaged and frozen fruits and veggies. I began with pineapples, helping turn them into Hawaii's second-largest industry (partly via recipes in women's magazines). At one point I was joined with Castle & Cooke, now a private real estate and resort enterprise. In 1911, I developed a machine to peel and core pineapples quickly, and in 1922, I bought the island of Lanai. Who am I? (Answer: Dole)

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.*