

## Ask the Fool

### On Tax Efficiency

Does a mutual fund's tax efficiency matter in tax-deferred accounts? — *J.R., Biloxi, Miss.*

Not so much. Tax efficiency is generally important. It's tied to a fund's turnover ratio, which reflects buying and selling activity within the fund. Funds with low turnover are hanging onto their shares longer, making fewer or smaller taxable distributions of gains to shareholders. That's usually good. (Funds' after-tax returns are now required to be listed along with pre-tax returns.)

In tax-deferred accounts such as 401(k) plans or traditional IRAs, dividends and capital gains accumulate tax-deferred until you withdraw your money. Favor them with your least tax-efficient investments, such as high-yield bonds, funds with significant short-term capital gains, taxable bonds, real estate investment trusts (REITs), and stocks you plan to hold for less than a year.

Learn more at [www.fool.com/mutualfunds/mutualfunds.htm](http://www.fool.com/mutualfunds/mutualfunds.htm).

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Is it OK to hang on to my loser stocks, waiting for them to recover before I sell, so that I can get back some of my lost money? — *G.Z., Canton, Ohio*

Not really. Imagine that your shares of Tattoo Advertising (ticker: YOWCH) are underwater by \$1,000 and that you've found some companies with good potential to appreciate. If you sell your Tattoo shares for a loss and move what's left into one of those companies, you're more likely to earn back that \$1,000 — or more. Why try to earn a certain amount in a stock you've lost faith in when you can more reliably earn that same amount or more elsewhere? Keep your money invested in your best ideas.

Hanging onto a stinker can be smart if the company merely hit a temporary snag and your research suggests it still has strong prospects.

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



# The Motley Fool®

To Educate, Amuse & Enrich

## Fool's School

### Tracking Stocks

You may not know what a tracking stock is, but you've probably run across some. A tracking stock is like a spin-off — sort of. A company issues a tracking stock for one of its business divisions, but the division isn't formally separated from the company.

Imagine having a portfolio of blue chip stocks and small high-fliers. In order to get a clearer picture of how the two kinds of stocks are performing, you might separate the two groups — on paper. In reality, they're still in one brokerage account, but by setting up separate sub-portfolios, you can see how each of the two groups is doing and can compare one to the other.

When a company issues a tracking stock, it has to prepare three sets of financial statements (such as balance sheets and income statements) instead of one. One set will reflect the company as a whole, as before. The second will reflect the business line being tracked, while the third will reflect the company's operations

excluding those belonging to the tracking stock. The company hasn't really split up, but for reporting purposes, its assets, expenses, income and cash flow are allocated between the company and its tracking stock. Investors in the tracking stock will benefit (or suffer) according to how the tracked division does.

The appeal of tracking stocks is that they can help investors see a company's full value. For example, years ago, when most investors were just thinking of AT&T as a slow-moving, fuddy-duddy giant, it issued a tracking stock for its dynamic wireless operations. That allowed the division to be accorded a higher value than if it remained imbedded in regular AT&T stock. The higher-valued shares could also be used as currency if the company wanted to buy another firm or forge an alliance.

Tracking stocks are generally out of favor today, but some companies still have them. Liberty Media, for instance, has separated its QVC, Starz and movie studio businesses via tracking stocks.

Learn more at [www.sec.gov/answers/track.htm](http://www.sec.gov/answers/track.htm) and [www.ibtimes.com/articles/42398/20100811/stocks.htm](http://www.ibtimes.com/articles/42398/20100811/stocks.htm).



### Name That Company

I was born in 1985 when Britain's Racal Electronics and America's Millicom launched a joint venture to develop a cellular telephone network. I conducted Britain's first mobile phone call, in 1985, and in 1991 I enabled the world's first international mobile roaming call. Today I serve more than 350 million customers globally. I recently introduced a money transfer system to permit people in emerging markets to send and receive money safely and easily using their mobile phone. My name incorporates data, voice and telecommunications, and I rake in more than \$70 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!

## My Dumbest Investment

### \$270 Per Share Was Cheap

My dumbest investment was selling my Priceline.com shares when they hit the \$270 range. — *J.A., online*

**The Fool Responds:** Too many people erroneously think that a high number for a price means a stock is too expensive. By itself, a stock price tells you very little. A \$3 stock may be grossly overvalued, while a \$270 stock ... well, it might be headed to \$400 and beyond, as Priceline was.

You need to compare the price to other numbers, such as earnings and expected growth. Recently at \$450, Priceline shares have been trading at a P/E of 48, nearly 50 times their trailing 12-month earnings. But with earnings growing at roughly 25 percent annually, its P/E based on future earnings is closer to earth, near 25.

Before you sell, you should consider whether the company still has strong growth prospects and if its stock is trading at a reasonable or attractive price. Priceline bulls expect the recovering global economy to boost sales, and they like its low debt, fat profit margins and hefty return on equity. Bears worry that the stock has gotten ahead of itself.



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 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? (Answer: Merck)



**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.

## The Motley Fool Take

### Deere's Expectations

With its latest quarterly earnings report, farming and forestry equipment maker John Deere (NYSE: DE) trounced analysts' expectations and then expanded its forecasts.

Net earnings more than doubled over year-ago levels, to \$514 million, while revenue advanced 27 percent to \$6.1 billion. Worldwide total equipment operations' net sales increased by 30 percent year over year, with the U.S. and Canada rising 35 percent, and other areas climbing 22 percent.

Operating profit for equipment operations more than doubled. Agriculture and Turf sales expanded by 21 percent, while Construction and Forestry sales grew by a whopping 81 percent. Operating margins expanded nicely across the board.

Agriculture and Turf sales are expected to increase by about 16 percent in 2011, based on anticipated strength in global farm conditions. That's up from a previous expected increase of about 8 percent. Construction and Forestry sales are seen rising by about 35 percent, up from a 25 percent to 30 percent expectation.

Challenges do lie ahead for the industry, such as substantially higher raw material costs. Nevertheless, management believes that higher sales volumes will largely offset those increases, along with improved factory utilization and increased prices. All in all, the company has raised its 2011 profit forecast nearly 20 percent to \$2.5 billion, compared with its \$2.1 billion expectation as recently as November.

Deere has recorded a solid quarter and appears to be headed even higher.