

Ask the Fool

Roth Gains and Losses

Q If you sell a stock that you hold in a Roth IRA for a loss, can you deduct the loss when you take money out of the Roth? You can deduct investing losses in regular accounts, but what about Roths? — *FTM., online*

A Sorry. In general, you're out of luck. While you pay no tax on ultimate Roth withdrawals, you also get no tax benefits from losses. Since the overall long-term trend of the market is upward, though, the Roth's benefits tend to far outweigh the costs. Imagine, for example, investing \$5,000 per year in your Roth and earning an average annual gain of 9 percent. In 25 years, you'd have more than \$450,000, and you'd be able to take it all out tax-free! Learn more at www.fool.com/retirement/ira/index.aspx.

Q I am very new to the game of investing. What low-priced stocks do you recommend? I've been lucky with a few penny stocks and want to add a little at a time. — *D.M., Ontario*

A First off, stop thinking of investing as a game. Sure, it can be exciting and a lot of fun, but it's also serious business. It's your hard-earned money, and your retirement, that you're "playing" with.

If you haven't lost money in penny stocks, you're lucky indeed. They're notoriously volatile and risky. Many beginners make the mistake of thinking that since they're not rich, they should focus on stocks with low prices. Not true. Yes, \$1,000 will buy you 5,000 shares of a 20-cent stock. But it stands a good chance of becoming a 5-cent stock. Instead, you might just buy 13 shares of a \$75 stock, or 25 shares of a \$40 stock. Learn more at www.fool.com/investing.

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



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To Educate, Amuse & Enrich

Fool's School

Market-Neutral Funds

During a bear market in which many stocks suffered huge declines, you'd think that an investment designed to eliminate market risk would have done extremely well. Unfortunately, despite what should have been the perfect environment for them, many market-neutral mutual funds failed to deliver on their promises, leaving investors with unexpected losses.

The idea behind market-neutral funds isn't complicated. Unlike most mutual funds, in which shareholders own a portfolio of stocks, market-neutral funds use a combination of stock purchases and short selling in an attempt to cancel out the impact of movements in the overall stock market. By buying stocks that they expect to outperform the market and selling stocks short that they think will do badly, fund managers seek absolute returns that theoretically should be the same regardless of whether the overall market rises or falls.

Some hedge funds have used this theory successfully, but many mutual funds, even at some well-

known fund companies, haven't managed to make it work for their shareholders. The Vanguard Market-Neutral (VMNFX) fund, for example, lost 8 percent in 2008 (much better than the market's nearly 40 percent drop), but was recently down 11 percent so far in this year of market recovery.

Those returns may not look terrible at first, but remember that these funds aim to always generate a positive absolute return for investors.

It all comes down to the stock-picking ability of the fund managers. With regular funds, managers can often hide behind the market's overall performance — lagging by a few percentage points may be costly to shareholders over the long haul, but it doesn't always draw much attention.

It's harder, though, to pick both winners and losers accurately. And when you're expected to deliver positive returns in good years and bad, it's much easier for shareholders to see your screw-ups.

Market-neutral funds are just the latest in a string of investments promising the best of both worlds: solid returns without the risk that most stock investments have. We shouldn't count on seeing those promises come true.

My Dumbest Investment

A Sensible Non-Investment

My dumbest investment is one I *didn't* make. I could have bought shares of a bankrupt company that I know well for 2 cents per share. It went up 1,100 percent in three months this year. I know people who bought \$10,000 worth, and I heard one person even bought \$100,000 worth. It was just too risky for me. My next dumbest investment was a \$500 push-button-start, self-propelled lawnmower that I could never get to start. I sold it for \$100 at a garage sale years later. I have a \$200 electric one now that needs almost no maintenance. — *J.C.E., West Lafayette, Ind.*



The Fool Responds: Avoiding that bankrupt penny stock was actually a smart non-investment, not a dumb one. Bankrupt companies often leave investors with absolutely nothing. And penny stocks, even those tied to seemingly operational companies, are generally very risky, too. Being rather easily manipulated, they can often soar and crash within a few days or hours. That \$100,000 might have turned into not a million dollars, but just enough to pay for a lawnmower.



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

Not long after the Wright brothers took flight in 1903, my founder turned a shipyard into an airplane factory. Today I'm the world's top aerospace company, making commercial jetliners, military aircraft, rotorcraft, electronic and defense systems, missiles, satellites, launch vehicles, and fancy information and communication systems. I also serve NASA, operating the Space Shuttle and International Space Station. In my past, I've made furniture, boats, subway cars and wind turbines. I merged with McDonnell Douglas in 1997. I moved my headquarters from Seattle to Chicago in 2001, and I rake in more than \$60 billion annually. Who am I? (Answer: Boeing)



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

Boos for Boeing

Boeing's (NYSE: BA) delayed 747-8 freighter program is overbudget and overdue. Late changes in plane design bear the blame for most of the \$1 billion in charges Boeing will take on the project. "Challenging market conditions," leading Boeing to build fewer planes, bear the rest. But this is just more of the same from Boeing — poor planning, execution and timing, which have combined to crash profits.

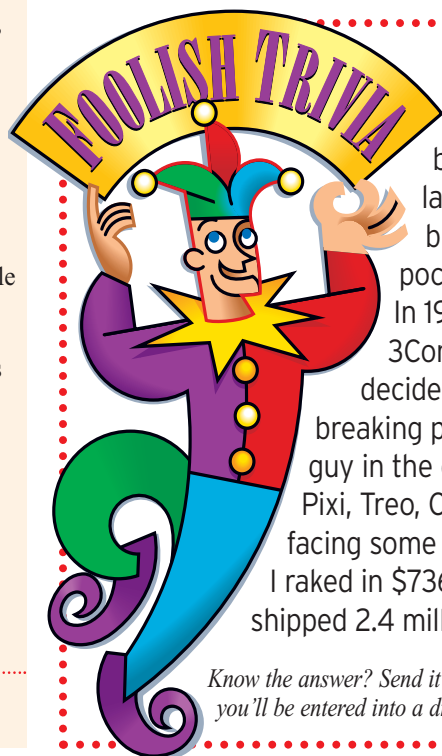
Pundits have wondered whether the 747-8 — unprofitable by Boeing's own admission — is due for a cancellation. That would be bad news for 747-8 suppliers such as General Electric and Honeywell.

But that seems unlikely. With 105 orders in backlog as of the end of August, the 747-8 is worth some \$31.5 billion in future revenue to Boeing. It may not upset that pot of gold over a trivial detail like whether it's profitable.

But that shouldn't be true for investors, who want their companies to turn profits.

The \$1 billion charge Boeing takes in the third quarter will be big enough to essentially negate the Commercial Aircraft (BCA) division's \$1.2 billion operating profit from the last calendar year.

Next time someone tells you that "Boeing's a buy" because, "Hey, the forward P/E is only 12" — take that number with a grain of salt. Just like Boeing's recent quarterly earnings, it's subject to change.



Name That Company

I was born in 1992 and bought by U.S. Robotics in 1995. A year later I introduced some groundbreaking computers that fit in pockets, or in the "me" of my hand. In 1997 I became a subsidiary of 3Com Corp., but in 1999 3Com decided to spin me off. My groundbreaking product shared its name with the guy in the cockpit. Today my darlings are Pixi, Treo, Centro and Pre — and they're facing some tough competition these days. I raked in \$736 million in fiscal 2009, when I shipped 2.4 million smartphones. 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!