

## Insurance Rising

Q Is it my imagination, or are car insurance rates rising, even as my car gets older? Why would that happen? — *F.R., Jackson, Michigan*

A It's not your imagination, and a bunch of factors are responsible. The bottom line is that insurers have been facing rising costs in the form of more claims than they expected. Accidents (sometimes fatal ones) due to texting while driving are one problem, along with the general distraction of smartphones. Some blame more widespread use of marijuana, as well. An improving economy and lower fuel costs have led to more driving, which also increases the number of accidents.

Meanwhile, health care costs have been rising, leading to more expensive claims. But wait — there's more! It's even getting more expensive to fix cars, as they have a lot more technology in them — think, for example, of backup cameras placed in bumpers.

Is there any hope? Well, red-light cameras have been reducing the number of accidents. Self-driving cars may reduce accidents further and could lead to lower premiums. And online services can help drivers zero in on affordable policies.

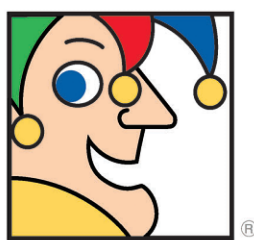
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Q What happens to the value of a stock when the company buys back its own shares? Does it change the number of outstanding shares? — *B.C., via email*

A That's exactly what happens. The number of shares outstanding shrinks, boosting the value of remaining shares. Each share will have a greater proportional claim on the company's value.

As a simplified example, imagine a company that once had its value divided among 100 shares now dividing it among just 80 shares. Each share will have more value. Companies buying back shares serve shareholders well — unless the shares they buy are overpriced.

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## Fool's School

## Paying for Underperformance

To justify the stratospheric salaries that many CEOs receive, some will explain that you have to pay for performance, and that top talent doesn't come cheap. Indeed, a 2016 survey by the Rock Center for Corporate Governance at Stanford University found that 95 percent of CEOs and 87 percent of company directors believe that CEO compensation is aligned with performance.

But according to a recent study of 429 large American companies by the investment research firm MSCI, "Companies that awarded their Chief Executive Officers higher pay incentive levels had below-median returns." The study reviewed the years from 2005 to 2015 and found "total shareholder returns of those companies whose total summary pay was below their sector median outperformed those companies where pay exceeded the sector median by as much as 39 percent."

In other words, if you'd invested \$100 in companies with the highest-paid CEOs, it would have grown to \$265 over those 10 years — but it would have grown to \$367 invested

in the companies with the lowest-paid CEOs.

That's not lost on the American public. According to a different Rock Center survey, 74 percent of respondents saw CEOs having "incorrect" pay levels — though they underestimated how much CEOs averaged in pay. Also, when asked how much more than a company's average worker wage its CEO should earn, respondents' answers averaged 17.6 times. In reality, according to several reports, the average CEO compensation among S&P 500 companies was more than 275 times that of the average worker in 2015.

It's not a baseless argument to claim that CEOs guiding their companies to great growth are worth hefty compensation. The problem is that many CEOs simply get lavish pay packages without performing well.

Fortunately, we shareholders can use our proxy ballots to vote against companies' CEO pay policies, and also to withhold votes from the compensation committees' directors who craft outrageous pay packages — and pen employment agreements that ensure ample pay for failure through "golden parachutes." CEO pay disconnected from performance (or reason) doesn't have to be business as usual.

# The Motley Fool

## To Educate, Amuse & Enrich™

## My Dumbest Investment

## A Grounded Icon

My dumbest investment was in the stock of Pan Am airlines. I bought 200 shares at about \$4 apiece back in the 1980s. The company was iconic. I figured it couldn't go under and its shares would eventually go up again. Well, while monitoring it a bit, I noticed that the company was selling their hubs (central locations) at airports. I told my wife we should probably sell, but then I didn't. I just believed it had to come back. Wrong. I lost it all.

The moral of this story: If you see a company selling its assets when it's in the tank, save some of your assets and sell. Icons can go belly-up. Look at Sears, Kmart, etc. — *R.H., Casselberry, Florida*

**The Fool Responds:** It's hard to imagine icons going out of business, but many have. Sears, which owns Kmart now, is still operating, but it's struggling. It's closing scores of stores and downsizing its staff. Other iconic companies that went out of business or are no longer what they used to be include Kodak, Woolworth, Blockbuster, Readers' Digest and Lehman Brothers.

Pan Am was in business for more than 60 years — beginning in 1927 and entering bankruptcy in 1991. It suffered great losses in the 1980s that ultimately grounded it. When investing, it's critical to consider risks and challenges facing companies, no matter how excited you may be about their potential.



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## The Motley Fool Take

## More Than Sneakers

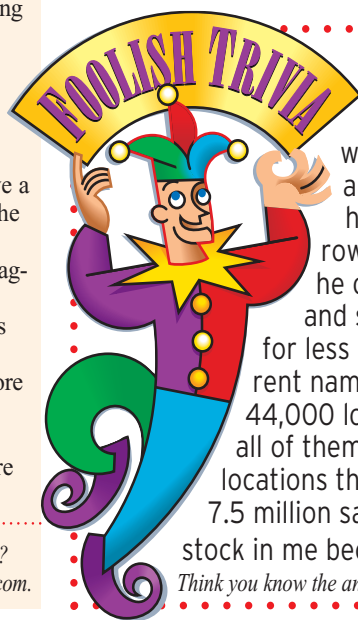
Shares of global footwear and apparel giant Nike (NYSE: NKE) were recently down about 13 percent from their 52-week highs. That spells opportunity more than trouble.

Nike has been facing a weak retail environment in the U.S., while growth in China has slowed. (Nike already gets more than half of its sales from outside North America.) As Nike is counting on its expansion in China to be a major growth driver, some investors are concerned. Those are temporary challenges, though. More lasting are strengths such as consumer brand loyalty, which can make it easier to acquire new customers and can lead to high-margin repeat customers for life.

Meanwhile, Nike is courting new customers in new ways. It's investing heavily in its direct-to-consumer platform in an effort to improve the shopping experience for consumers, as well as reach Generation Z and millennials, who are its future and core customers.

Nike is also aiming to get to \$50 billion in total revenue by 2020 in part by doubling women's apparel revenue from \$5.5 billion in 2015 to \$11 billion. (The company's annual revenue was recently around \$33 billion.) Its partnerships in digital wearable technologies may strike a chord with female consumers, too.

With a slightly depressed stock and a dividend yielding 1.3 percent, Nike is a promising long-term investment. (The Motley Fool owns shares of and has recommended Nike.)



## Name That Company

I trace my roots back to 1965, when a Connecticut teenager started a sandwich business in order to put himself through medical school. Borrowing \$1,000 from a family friend, he opened "Pete's Super Submarines" and sold 312 sandwiches in the first day, for less than 70 cents apiece. I got my current name in 1968. Today I boast more than 44,000 locations in more than 110 countries, all of them franchised. (That's many more locations than McDonald's has.) I serve about 7.5 million sandwiches each day. You can't buy stock in me because I'm privately held. Who am I? Think you know the answer? We'll announce it in next week's edition.

## LAST WEEK'S TRIVIA ANSWER

I trace my roots back to a broken typewriter ribbon in 1985 that caused my founder to envision a supermarket for office products. I opened my first store in Brighton, Massachusetts, in 1986 and by 2002 was the world's largest seller of office supplies. I debuted the Easy Button in 2005. I have more than a thousand stores in the U.S. and Canada and more than 200 in Europe. My market value was recently near \$6 billion. The Lakers, Clippers, Kings and Sparks play in a center that bears my name — though it's about 3,000 miles from my headquarters. Who am I? (Answer: Staples)



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