

The Strike Price

Q What's a "strike price" in relation to a stock option?
— B.N., Folly Beach, South Carolina

A It's the price at which the option (which gives you a right to purchase stock before a certain date) can be exercised. Imagine that you work for Scruffy's Chicken Shack (ticker: BUKBUK) and receive 100 stock options with a strike price of \$40 each. Later — before the expiration date — Scruffy's stock is trading at \$90 per share, so you decide to "exercise" your options.

You can do so by buying 100 shares at \$40 each — rather than their going price of \$90 — paying \$4,000 for 100 shares that are worth \$9,000.

Of course, it's a bit more complicated than that. There are tax issues to consider, for example. And options do expire, so you'll need to keep that in mind. It's best to read the rules of your stock option plan carefully and consider seeking professional financial advice as well.

Q What's a stock's "multiple"? — H.S., Atlanta

A It's a ratio comparing two metrics related to the stock or company. A common one is the price-to-earnings (P/E) ratio, which is the stock's current price divided by the company's annual earnings per share. Imagine Buzzy's Broccoli Beer (ticker: BRRRP) is trading at \$50 per share. If it earned \$2 per share over the past year, its trailing P/E is 25 (50 divided by 2), so you can say it's trading at a "multiple" of 25.

Of course, you should never base an investment decision on just one or a few numbers. But it can be helpful to compare a company's multiples with companies in the same industry to see whether its stock appears to be undervalued or overvalued.

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Fool's School

How To Have a Better Retirement

Whether retirement is around the corner or it's still decades away, there are some actions you can take to make your future more financially secure. Here are some tips.

You'll need a plan. Take some time to estimate how much income you'll need for a comfortable retirement, and then figure out how you'll get it. Make your estimate as accurate as possible, considering factors such as health care costs and inflation. Consider consulting a fee-only financial planning professional, too, as they should know much more about retirement issues than you, and they can save you or earn you more than they cost. (You can find a fee-only adviser near you at NAPFA.org.)

Aim to have multiple income streams in retirement, so that if one disappoints, you'll still have others. These could include Social Security benefits, pensions, annuities, dividends, interest and/or rental income. You can gradually make withdrawals from retirement accounts. You

might consider a part-time job for your first few years, too. Other possibilities include relocating to a less costly region or taking in a boarder. You might even consider getting a reverse mortgage.

The easiest way to amass a retirement war chest is to regularly invest part of your income in one or more low-fee broad-market index funds over many years.

Be sure to learn more about Social Security, because the decision about when to start collecting your benefits is important. You can start as early as age 62 or as late as 70, and your checks will be bigger or smaller depending on when you start. (Remember that while starting earlier means smaller checks, you'll also get more of them.) Find out more at SSA.gov.

In your planning, also consider nonfinancial matters. It's common for new retirees to feel aimless or lonely. Explore activities that you might enjoy in retirement, including social outlets.

You can get more retirement advice at Fool.com by clicking on the "Retirement" tab up top. Consider asking retired friends for their tips, as well.



Think you know the answer? We'll announce it in next week's edition.

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My Smartest Investment

Protected My Portfolio

My smartest investment move happened in January 2025. I thought I could see some writing on the wall, so I rebalanced my IRA from 80% stocks, which had served me very well over the years, to 80% bonds. My portfolio still took a hit, but I protected tens of thousands of dollars. I'm glad I acted on my simple understanding that markets do not like chaos. — J.K., Richmond, California

The Fool Responds: You're right that both individual stocks and the entire stock market can pull back when there's a lot of economic uncertainty. And it's reasonable to shift some or much of your portfolio out of stocks when you're worried. Still, as if to prove how unpredictable the market can be, 2025 turned out to be another solid year for U.S. stocks, despite geopolitical conflicts, trade wars and more. The S&P 500 index, often used as a proxy for the U.S. market, gained almost 18% — on top of total returns of 25% or more in both 2023 and 2024.

We generally advise investors to stick with the stocks they believe in, through thick and thin — because despite inevitable pullbacks, the market has always eventually recovered and gone on to reach new highs.

(Do you have a smart or regrettable investment move to share with us? Email it to TMFShare@fool.com.)

LAST WEEK'S TRIVIA ANSWER

I trace my roots back to 1976, when two college dropouts built a machine in a garage. Then they built more models. I'm credited with launching the first commercially successful personal computer and was a graphical user interface (GUI) pioneer. My sales surged from \$7.8 million in 1978 to \$117 million in 1980. (Recently my market capitalization was more than \$4 trillion.) I've been a technology innovator for a long time, introducing iconic and hugely successful digital music players, wearable devices, wireless audio products and mobile communication gadgets. I've sold more than 3 billion smartphones. Who am I? (Answer: Apple)



Want to Invest? Email us at foolnews@fool.com, and we'll send you some tips to start investing. Sorry, we can't provide individual financial advice.

The Motley Fool Take

A Paycheck Giant

Automatic Data Processing (Nasdaq: ADP), also known as ADP, is a longtime dividend-paying stock — and it has increased its payout every year for more than 50 years. Its most recent increase was a solid 10% bump, and the stock recently yielded 2.8%. (It has also been rewarding shareholders via share buybacks.)

More than 75 years old, ADP is a leading provider of employer solutions, best known for its payroll and human resources services. It serves more than 1 million companies of every type and size, both in the U.S. and worldwide.

Given the nature of its business, ADP is not a high-growth company. It is, however, a highly and reliably profitable one. Its January earnings report (for the second quarter of its fiscal 2026) showed revenue up 6% year over year and earnings per share up 11%. And its stock has notched average annual gains of 12% over the past 15 years. ADP can keep growing by adding more companies to serve, and also by offering them more services to sign up for.

Businesses with ADP's kind of sustained profitability are rare. That stability, combined with a dividend yield that's well above the average of 1.1% for all S&P 500 component stocks, makes ADP a solid and reliable income stock. It's resilient during economic downturns, too, because companies will still need to keep paying workers and managing their workforces.