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Examining An Online Investment Research Service: The Motley Fool

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ABSTRACT

The Motley Fool has been described as “the most popular Internet stock chat website” (Hirsch et al, Financial Analysts Journal, 1999). Per the company’s website, the mission of the privately-held multimedia financial services company is to educate, amuse, and enrich” in order “to build the world’s greatest investment community” (www.fool.com/press/about.htm). The Motley Fool notes that their products are designed to “help people take control of their financial lives”. While other internet financial services exist, this article examines the performance of the investment services/advice provided by The Motley Fool (TMF) because of its notoriety. We use investment publications, information posted on the company’s website, and academic research for our analysis. Our findings show that, despite the popularity of TMF, investors need to critically evaluate TMF financial recommendations. Considerable time and effort are required to effectively manage financial resources and, undoubtedly, there will be mistakes, even by financial advisors such as TMF. It is doubtful that performance that beats the market can be accomplished in 15 minutes per year as suggested by TMF.

Keywords: Online Investment Research Services/Advice; Internet Financial Websites; Financial planning

INTRODUCTION

In July of 1993, David and Tom Gardner, along with a college friend, Erik Rydholm, began a 16-page print newsletter, The Motley Fool, on investing information. Included was humor written for the individual investor. Soon, in 1994, The Motley Fool (TMF) incorporated. TMF’s company perspective is “The Motley Fool is here to educate, amuse and enrich you.” Today, TMF offers personal financial advice and investing strategies through several media: online through America Online (debuted in 1994) and its own website, www.fool.com, (which attracts over two million visitors per month), books (began in 1996 with TMF Investment Guide with the best-known, the Motley Fool Investment Guide which, in 2003, was called the "#1 All-Time Classic" by investment club members of the NAIC), nationally syndicated newspaper columns (1997), weekly radio shows, television appearances, subscription newsletter services and, in 2009, TMF launched The Motley Fool Independence Fund. A more detailed description of TMF’s history can be found at the company’s website.

An article by Investor Home (http://www.investorhome.com/fools.htm) notes that part of the popularity of TMF results from the performance of real portfolios, which are discussed on the TMF website and its books. This paper describes and evaluates the performance of the TMF investment advice provided through real-money portfolios, newsletter subscription services, and a website service, The Motley Fool CAPS. This evaluation examines the performance of TMF investment strategies using a variety of independent sources that includes both academic and nonacademic research and the TMF website. The first section of this paper examines the real-money portfolios that we were able to identify. Section two examines the premium online subscription services, including a discussion of the Revised Foolish 8 Strategy (a methodology for screening small stocks), while the third section examines the web service, Motley Fool CAPS. The TMF mutual fund, The Motley Fool Independence Fund, is briefly discussed in section four. Section five examines academic research related to TMF services and products. The final section provides concluding comments.
TMF REAL-MONEY PORTFOLIO SUMMARY

TMF documents performance of their real-money portfolios in their website on a daily basis. In addition, TMF provides actual returns (net of commissions) and comparisons to the S&P 500 and NASDAQ indexes. Investor Home (http://www.investorhome.com/fools.htm) praises TMF for its performance reporting:

The Motley Fool deserves a great deal of credit for openly supplying a vast amount of information on a timely basis. While many investment industry participants offer model portfolios or other forms of advice, few actually maintain real-money accounts in public view (in effect, putting their money where their mouths are). The Motley Fool reports include results net of costs and they have a policy of announcing trades before placing orders.

Investor Home also notes that performance evaluation can be challenging and conclusions can be debated as fund managers tend to promote outstanding performance while deemphasizing underperformance. Investor Home and Peter Bernstein of Worth Magazine both note that investors need to examine the performance or advice of a fund manager over longer periods to evaluate whether such performance is a result of skill or luck.

Table 1 (http://www.investorhome.com/fools.htm) summarizes the performance of seven real-money portfolios of TMF between 1993 and 1998:

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Start Date</th>
<th>Start Value</th>
<th>Current (Status)</th>
<th>Historical Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motley Fool #1</td>
<td>1993</td>
<td>$15K</td>
<td>Closed</td>
<td>Underperformed</td>
</tr>
<tr>
<td>Motley Fool #2</td>
<td>8/94</td>
<td>$50K</td>
<td>Open</td>
<td>Very Strong Performer</td>
</tr>
<tr>
<td>Running with the Market</td>
<td>8/95</td>
<td>$50K</td>
<td>Closed</td>
<td>Down 50%+ in &lt; 6 months</td>
</tr>
<tr>
<td>Boring Portfolio</td>
<td>1/96</td>
<td>$50K</td>
<td>Closed 11/6/00</td>
<td>Underperforming</td>
</tr>
<tr>
<td>Drip Portfolio</td>
<td>7/97</td>
<td>$ .5K</td>
<td>Open</td>
<td>Underperforming</td>
</tr>
<tr>
<td>Cash-King Portfolio</td>
<td>2/98</td>
<td>$20K</td>
<td>Open</td>
<td>Ahead of S&amp;P 500</td>
</tr>
<tr>
<td>Foolish Four Portfolio</td>
<td>12/98</td>
<td>$4K</td>
<td>Closed</td>
<td>Mixed performance</td>
</tr>
</tbody>
</table>

Three of the real-money portfolios began with $50,000 and four of them began with less than $50,000 combined. In the summer of 1994, the original portfolio (Motley Fool #1) was closed, prior to the introduction of the second (“online”) portfolio. As of the end of 1998, three of the portfolios were closed. Later, the “Foolish Four” portfolio was closed in December of 2000. During the fourth quarter of 1998, TMF renamed Motley Fool #2 as the Rule Breaker Portfolio and the Cash-King Portfolio as the Rule Maker Portfolio. As of 12/31/98, the Boring Portfolio was no longer updated daily by TMF.

As the website for Investor Home indicated, the second Motley Fool portfolio (now the “Rule Breaker Portfolio”) had outstanding performance through 1998, but the Boring Portfolio significantly underperformed the market during its shorter lifetime. On an annualized basis, the second Motley Fool Portfolio had returned approximately 69% versus approximately 28% for the S&P 500. The Boring Portfolio returned roughly 10% per year annualized versus 28% for the S&P 500 during the corresponding period. Returns for the second Motley Fool portfolio were strong through the second quarter of 1996 and in 1998, but underperformed for four straight quarters from July 1996 through June 1997.

Before being closed in early 1996, the Running-with-the-Market portfolio was evaluated regularly. As Table 1 indicates, returns for that portfolio were down over 50%. Befumo (http://www.fool.com/foolport/1997/foolport970210.htm) stated in February 1997:

Despite the wildly unsuccessful project we aired in 1995, called Running-With-the-Market, a real-money portfolio that finished down more than 60% after less than six months, the company’s reputation, as a hip company run by savvy investors, has not changed.
TMF has published an investment guide, *The Foolish Four: How to Crush Your Mutual Funds in 15 Minutes a Year*. The guide explains the mechanics and rationale for the Foolish Four and shows historical performance (pp. 39, 63-66, 99-133) of three variations (High-Yield 10, Foolish Four, and RP4) of the portfolio, the S&P 500 and the DOW (industrials).

In February of 2001, Birger described the Foolish Four as ‘A portfolio of stocks that only a mathematician could love’. Birger went on to state:

*The Foolish Four were culled from the 30 stocks in the Dow by taking each company’s dividend yield and dividing it by the square root of its share price. The stock with the highest ratio was then discarded and the runners-up became the Foolish Four. For 2000, the stocks that made the grade were Caterpillar, Eastman Kodak, SBC Communications and, alas, GM.*

*In December (2001) with the Questionable Quartet (Foolish Four) down 14% for the year, the Gardners admitted that they no longer had ‘confidence’ in their strategy. Their website later blamed it all on faulty analysis of historical data, specifically ‘finding random correlations and considering them valid and repeatable.’ Like so many sure-fire schemes before it, the Foolish Four strategy was first popularized in a best-selling book. The tome in question – *The Motley Fool Investment Guide: How the Fools Beat Wall Street’s Wise Men and How You Can Too* – is now being revised.*

Through 1998, thanks to $5,000 investments in America Online and Iomega (each yielded many times the original investments), the second Motley Fool portfolio outperformed the market in its first few years. Although Iomega has returned much of its gains, America Online and Amazon.com have yielded excellent returns.

<table>
<thead>
<tr>
<th>Table 2: Additional Discontinued Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WORKSHOP (1/8/01-5/4/01):</strong></td>
</tr>
<tr>
<td><em>Purpose of strategy:</em> Stock screens were used to create portfolios that were purchased on a set schedule without human intervention.</td>
</tr>
<tr>
<td><em>Reason for closure:</em> TMF didn’t have a written contract with Value Line and Value Line felt TMF’s actions were a breach of contract.</td>
</tr>
</tbody>
</table>

| **RETIRE PORTFOLIOS (12/10/99-12/4/00):** |
| *Purpose of strategy:* Three portfolios were established using the Foolish Four strategy. The differentiation among the three was the allocation between stocks and bonds. |
| *Reason for closure:* “Scholarly critics claimed, with some justification, that the strategy is simply a random association of variables and that the FF method is the product of data mining, a grievous statistical error. Further, an internal study lent strong support to those arguments”. |

| **HARRY JONES (1/4/99-8/26/99):** |
| *Purpose of strategy:* Indexes were used to keep investing simple and match market performance without a broker, low fees and low taxes. The name was based on a fictional farmer. |
| *Reason for closure:* According to TMF, there was nothing wrong with the strategy; however, TMF felt there were better ways to teach the value of index investing. |

| **RUNNING WITH THE MARKETS (9/95-1/96):** |
| *Purpose of strategy:* This was a low-diversity, high-risk technique that concentrated funds in what was considered one or two hot industries using technical analysis. |
| *Reason for closure:* The strategy wasn’t providing educational value and the portfolio lost over 60% when the S&P held steady. |

Table 2 lists other real-money portfolio strategies that were started and discontinued, along with a brief description of each strategy and explanation for discontinuing the strategy. While this information was once shown on the website, it has been removed but is still available at another site (http://www.fool.com/portfolios/discontinued/intro.htm). TMF noted the following regarding the discontinued strategies:
We offer our investing strategies as teaching tools, but that doesn’t mean we know it all. Of course not. We’ve made our share of mistakes along the way, offering up some strategies that ultimately turned out to not be good services for you.

In February of 2003, TMF announced that it was discontinuing its real-money model portfolios (Hulbert: http://www.marketwatch.com/story/requiem-for-the-motley-fool-portfolios). Moving away from the real-money portfolios, TMF began a series of financial investment advice newsletters.

CURRENT MOTLEY FOOL PREMIUM ADVICE PRODUCTS

TMF spent several years, as documented in their articles and books, criticizing mutual funds and fund managers before they launched their first investment newsletter - Champion Funds. As noted by Chuck Jaffe, senior columnist for MarketWatch, an introduction piece for the Champion Funds newsletter states that the top secret to beating the market with mutual funds is to "look for seasoned fund managers" (http://www.commercialappeal.com/news/2009/jan/25/your-funds-motley-fool-starts-independent-fund/). As of January 2010, TMF showed the following premium services on its website (annual subscription rates in parentheses):

- Champion Funds
- Duke Street
- Global Gains ($299)
- Hidden Gems ($199)
- Income Investor ($199)
- Inside Value ($199)
- Million Dollar Portfolio
- Motley Fool Options
- Motley Fool Pro
- Pay Dirt
- Ready-Made Millionaire
- Rule Breakers ($299)
- Rule Your Retirement ($149)
- Stock Advisor

As of September 2010, a web link (http://www.fool.com/fool/free-report/40/duke-waitinglist-52920.aspx?aid=3012&source=) indicates that TMF is not accepting new members for the Duke Street service or enrolling members for the Champion Funds (http://www.fool.com/shop/newsletters/13/2b6a8ef2-8ba4-4362-8712-faa2e6d6376f.aspx), and the Pay Dirt newsletter is no longer listed. Appendix A provides an explanation of each of these premium services. The Hidden Gems newsletter regularly updates the Foolish 8 and modified Foolish 8 screens. The screen was originally developed by David Gardner in the first edition of the Motley Fool Investment Guide and was subsequently modified by Rex Moore. The Revised Foolish 8 is a methodology for screening small stocks. While the original strategy used eight criteria to look for profitable and rapidly growing companies, the revised strategy incorporated valuation, management effectiveness and relaxed small cap criteria.

One way to evaluate the value of an investment newsletter is to examine the rating by the Hulbert Financial Digest. Mark Hulbert has tracked investment newsletters for more than 20 years in his Hulbert Financial Digest. We accessed the Hulbert Financial Digest to get a listing of the investment newsletters that Hulbert profiles. None of the newsletters offered by TMF appeared on the Hulbert list. Perhaps the performance measures for TMF newsletters are not available.

MOTLEY FOOL CAPS

In September 2006, the company began Motley Fool CAPS. This service monitors and ranks the most successful stock pickers among its members. Motley Fool CAPS operates from a simple premise - “Working
together, we can improve our investing results”. This revolutionary new service pools the resources of the Motley Fool Community to help you identify the best stocks at the best times to buy them - and also which stocks to avoid, too! Following are steps involved in the process (as described by TMF at http://caps.fool.com/Help.aspx):

**Step 1: Members Rate Stocks**

At the heart of CAPS are thousands of predictions. Members predict whether stocks will outperform or underperform the S&P 500 and over what time frame this will happen.

We compile the data, showing all the picks you have made and all the picks for individual stocks.

**Step 2: We Keep Score**

As stocks change in value, we evaluate members' predictions. Members receive an accuracy percentage, indicating how often they make correct predictions, and a score, which is the percentage by which their picks beat the S&P 500.

**Step 3: Members Receive CAPS Ratings**

Based on the performance of their picks, CAPS members receive a percentile rating (from 1 to 100). This rating indicates the percentage of people that member is outperforming. The higher the rating, the better!

**Step 4: Stocks Receive CAPS Ratings**

A stock's CAPS rating is the aggregation of every prediction for that stock. The rating indicates whether or not members think that stock will outperform the S&P 500.

Important concept to follow... pay attention!! Here it is:

Members with higher ratings have more influence on a stock's rating.

If you're a great investor with a great track record, we think what you have to say is very important, so we give you more weight. However, if you don't know the difference between a stock and a parking ticket, we're not going to allow you to affect the company rating very much.

**Step 5: CAPS Gets Smarter**

Each CAPS rating is updated every five minutes and with each additional prediction, CAPS recalculates and recompiles the data, constantly refining the community sentiment.

Over time, the best investors will naturally work their way to the top and will gain more influence over the stock ratings. Conversely, the less successful members will have less impact.

Then the cycle repeats. Members make more predictions, which affect their member ratings, which affect the stock ratings, and so on. The result is a service which will help you find better stocks and follow the best investors.

Given the nature of this service, there are no overall performance measures available. However, individual members are given ratings. As noted later in the paper, the findings of an academic study (Avery et al. 2009) suggest CAPS predictions have information not captured in market prices and earn statistically significant excess returns.
MUTUAL FUND

The Motley Fool Independence Fund

TMF has progressed from managing real portfolios to newsletters and now to asset management with the introduction of The Motley Fool Independence Fund in 2009. It is ironic that after years of criticizing mutual funds, followed by investment newsletters, that TMF entered into the asset management business. TMF communications have noted that the best fund managers are those with low costs and long and consistent records, yet Chuck Jaffe, senior columnist for Market Watch, notes the following: “As the Independence fund prospectus notes in Footnote 28, ‘We’re sure you’ve heard that past performance is no guarantee of future results.’ The adviser and members of its investment committee do not have past performance managing a mutual fund or other client accounts” (http://articles.sfgate.com/2009-01-25/business/17197085_1_motley-fool-independence-fund-mutual-funds-fund-investors). The opportunity to generate additional revenues appears to be more important than previously offered investment advice.

ACADEMIC RESEARCH

We examine seven academic studies that focus either directly or indirectly on the products and services offered by TMF. We believe the research findings show that investors should use caution and good judgment when considering the use of the TMF products or services. A brief summary of those studies follows.

Research Related to Advice/Performance of TMF

McQueen and Thorley (1999) examined the TMF Foolish Four portfolio to illustrate it as a case study in data mining. They show (1999b, p. 1) “that data mining can be detected by the complexity of the trading rule, the lack of a coherent story or theory, the performance of out-of-sample tests, the adjustment of returns for risk, transaction costs, and taxes”. They also find the Foolish Four trading rule became popular enough to influence selected stock prices.

Herschey, Richardson and Scholz (2000) examined the buy-sell stock recommendations of the TMF Rule Breaker Portfolio to determine the extent to which TMF is able to generate herd-like behavior among Internet investors. Their findings suggest that TMF buy-sell recommendations are more newsworthy than such recommendations published in traditional and electronic media and that such recommendations are closely followed and acted upon by Internet investors in a herd-like manner.

Giacomino and Akers (2003) examined the Flow Ratios invented by Tom Gardner in the early days of the Rule Maker Portfolio. An article (Richey, 2000) in The Motley Fool.fool.com introduced a new ratio that Richey claimed to be useful for measuring the investment worthiness of a company.

\[
\text{Flow Ratio} = \frac{\text{Current Assets - Cash}}{\text{Current Liabilities - Short-term Debt}}
\]

The logic behind the Flow Ratio is like this:

- It is best to see “as low a numerator as possible, since the numerator represents inventory, accounts receivable, and prepaid expense”.
- Reverse your thinking for the denominator. As Richey explains, current liabilities represent goods and services that the company has already purchased and received but hasn’t yet paid for. They represent a chance to get “something for nothing – for a short period of time, at least”. The only “bad” type of current liability is short-term debt because it carries interest charges. Thus, short-term debt is subtracted from the total current liabilities. We would like to see the denominator as high as possible.
- Therefore, using the logic for both the numerator and denominator, we would like to see a low value for the Flow Ratio.
Thus far, this seemed logical and we thought that perhaps the Flow Ratio has some value when doing a financial analysis. Initially, Richey and Gardner seemed to be proposing the ratio only as a measure of the effectiveness of managing working capital. However, the illustration that they use to demonstrate the value of the Flow Ratio also suggested that the Flow Ratio has additional usefulness for predicting stock price. This piqued our curiosity since this is something analysts and investors have sought for decades.

In 1997, Gardner suggested a cutoff for the Flow Ratio:

Any Flow Ratio below 1.00 reflects a company that appears to be very aggressively managed and whose products are in great demand. Conversely, any Flow Ratio above 2.00 reflects a company that appears to be managed sloppily and whose products aren’t coveted.

On 8/7/00, Richey (“Lucent vs. Cisco: Go with the Flow”) stated that a Flow Ratio value below 1.25 is desirable. However, no basis for either cutoff value is given in any of the articles that we have seen from Motley Fool. To illustrate the value of the Flow Ratio and its relationship to stock price, Richey chose to compare Lucent with Cisco as shown in Table 3:

<table>
<thead>
<tr>
<th></th>
<th>Flow Ratio</th>
<th>Stock Price</th>
<th>Flow Ratio</th>
<th>Stock Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/97</td>
<td>1.47</td>
<td>$22.05</td>
<td>1.44</td>
<td>$10.51</td>
</tr>
<tr>
<td>03/98</td>
<td>1.56</td>
<td>$38.01</td>
<td>1.31</td>
<td>$12.21</td>
</tr>
<tr>
<td>06/98</td>
<td>1.57</td>
<td>$46.07</td>
<td>1.17</td>
<td>$15.96</td>
</tr>
<tr>
<td>09/98</td>
<td>1.69</td>
<td>$40.01</td>
<td>1.13</td>
<td>$18.84</td>
</tr>
<tr>
<td>12/98</td>
<td>1.89</td>
<td>$56.19</td>
<td>1.12</td>
<td>$27.89</td>
</tr>
<tr>
<td>03/99</td>
<td>2.03</td>
<td>$59.92</td>
<td>1.03</td>
<td>$28.52</td>
</tr>
<tr>
<td>06/99</td>
<td>2.18</td>
<td>$65.62</td>
<td>0.87</td>
<td>$31.06</td>
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<tr>
<td>09/99</td>
<td>2.26</td>
<td>$64.19</td>
<td>1.03</td>
<td>$44.59</td>
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<tr>
<td>12/99</td>
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<td>$55.48</td>
<td>0.99</td>
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<td>03/00</td>
<td>2.80</td>
<td>$62.19</td>
<td>0.87</td>
<td>$69.33</td>
</tr>
<tr>
<td>08/00*</td>
<td>2.89</td>
<td>$42.38</td>
<td>N/A</td>
<td>$65.56</td>
</tr>
</tbody>
</table>

Table 3: Flow Ratio and Stock Price (Lucent vs. Cisco)

Giacomino and Akers (2003) tested for the relationship between the Flow Ratio and stock price. They concluded the following:

Since our statistical testing found mixed results regarding this relationship for Lucent and Cisco, we decided to apply the test to other companies.

In addition, until this study was conducted, there has been no statistical testing for the relationship between the Flow Ratio and stock price. The findings of our study contradict the claims made regarding the value of the Flow Ratio for predicting stock price. Our study computed the quarterly Flow Ratio and stock prices for Lucent and Cisco, eight manufacturing companies, eight discount retail companies, and seventeen dot.com companies. For each of the groups studied, we found only one case with a significant statistical relationship between the Flow Ratio and stock prices.

The Motley Fool suggests other ratio benchmarks or cutoff figures; i.e., the Cash is King Margin of 10%, the Return on Invested Capital greater than 11%, and cash no less than 1.5 times current liabilities. As is the case for the Flow Ratio, we find that the Motley Fool provides neither logical nor empirical bases for these benchmarks.

Avery, Chevalier and Zeckhauser (2009) examined the informational content of predictions of individual investors about the future price movements of individual stocks by using stock picks of individuals made between
November 1, 2006 and October 31, 2007 through the CAPS website operated by The Motley Fool Company. Their findings, which they note are prior to the financial crisis that started in 2008, indicate CAPS picks yield information that predicts future stock market returns for individual stocks, generate statistically significant returns for highest-rated stocks, and CAPS predictions generate excess returns over a lengthy time period as compared to a short period, such as hours or days. They further comment that these findings suggest that CAPS participants possess price information that is not incorporated in market prices.

**Newsletter/Stock Screens Research**

Using a dataset that covers more than 17 years and 153 different newsletters, Metrick (1998) examines the investment value of newsletters’ stock selection advice as well as the strengths and weaknesses of the performance evaluation methodologies. He finds that:

*Overall, there is no significant evidence of superior stock-picking ability for this sample of newsletters. Some individual letters do have superior performance records, but this does not occur more often than would be expected by chance, and these records are never more extreme than would be expected for the sample size. In addition, a strategy of buying past winners does not earn positive abnormal returns.*

Graham and Harvey (1997) examined the performance of 326 newsletter allocation strategies for the period 1983-1995 and found that newsletters, which provide both hot and cold advice, contain important information. Investors can earn superior returns using “hot” advice and investors should ignore or do just the opposite of “cold advice”. The problem is in identifying those newsletters that provide “hot” advice as compared to “cold advice” and the only way to distinguish such advice is to purchase every newsletter, thus cost prohibitive for most investors.

Schadler and Cotton (2008) tested the performance of 54 portfolios offered to the members of the American Association of Individual Investors (AAII). They conclude (198) that “although we do find support for AAII’s statement that 91% of their screened portfolios beat the S &P 500, we note that this overstates the effectiveness of their screens, as many of the return differences are not statistically significant, their return analysis ignores transaction costs, and the S & P 500 may not be the appropriate benchmark for all of the AAII strategies. Accounting for this, we find that about 20% of all portfolios and 25% of the low transaction portfolios significantly beat their best-fit indices. Although these numbers are less spectacular, we agree with AAII that many of their screens may be a good starting point in the portfolio selection process”. The TMF Foolish 8 Revised was included in this study.

**SUMMARY AND CONCLUSION**

The Motley Fool, which began in 1993 with the publishing of the financial newsletter *The Motley Fool*, describes itself as a “multimedia financial-services company dedicated to building the world's greatest investment community” (http://www.fool.com/press/about.htm?source=ifltnsvn0000001) whose mission is to educate, amuse and enrich. TMF hopes that their products and services will help people take control of their financial lives. TMF’s products and services have included real-money portfolios, subscription investment newsletters, an open web based stock rating service (CAPS) and a mutual fund. Because of the notoriety of TMF, we examined some of those services (real-money portfolios, investment newsletters, web-based stock rating (CAPS) and, more recently, their mutual fund. Our findings show that, while TMF does provide financial information, they often contradict their own advice, cancel or change products/services frequently and offer advice that has been disputed by academic research. Academics also suggest that, despite these concerns, TMF recommendations, because of their large following do impact the market and internet investors. We encourage investors to critically examine the advice provided by TMF or any other online investment service.

**AUTHOR INFORMATION**

Dr. Don E. Giacomino, CPA is Professor of Accounting and the Donald and Beverly Flynn Chair Holder at Marquette University. He earned a DBA from the University of Kentucky and the MBA from the University of Montana. Giacomino has published a Management Accounting text and over 50 refereed articles in academic and
Dr. Michael D. Akers, CPA, CIA, CMA, CFE, CBM is the Charles T. Horngren Professor of Accounting and Chair, Department of Accounting. He earned his doctoral degree at the University of Mississippi and his MBA at the University of Louisville. In addition to serving on the editorial advisory board of two journals, he has authored more than 50 articles in academic and professional journals. He currently serves on the Audit Committee and Board of Directors of two publicly traded companies and one nonprofit organization.

REFERENCES

APPENDIX A

Description of Premium Services

Motley Fool Champion Funds

TMF has the following message, in letter form, regarding the Motley Fool Champion Funds:

*Thanks for your interest in Motley Fool Champion Funds. Unfortunately, we’re no longer enrolling members at this time.*

*But don’t worry! Retirement expert Robert Brokamp has put together a set of model portfolios to help individual investors like you enjoy the retirement you deserve.*

*On top of that, each day Robert provides thousands of investors with tips, tricks, and secrets that can help you rule your retirement, including loads of information on how to make the most of your money with top mutual funds.*

*Right now, you can put his years of hard work and experience to work for you by joining his community at Motley Fool Rule Your Retirement.*

*Read on to get all the details - and discover how you can get a FREE 30-day guest pass to Rule Your Retirement.*

Duke Street

As is the case with the Motley Fool Champion Funds, TMF provides this statement in letter form for visitors to the site:

*Motley Fool Duke Street is currently only available to members of our Motley Fool newsletter services. To be notified when spots become available in this service, please join our waiting list by entering your email in the box below.*

Global Gains

The Global Gains product includes a 30-day free trial. The service consists of an online newsletter, unlimited use of a members-only website, including full, unlimited access to the Global Gains International Community, as well as online discussions with Tim Hanson, Nathan Parmalee and their dedicated team of expert analysts. A one-year subscription costs $299 and a two-year subscription costs $499.

Hidden Gems and Income Investor

Members get 12 print issues of Hidden Gems/Income Investor, unlimited use of a members-only website, weekly updates on the companies recommended, online discussions with the Hidden Gems team, three special reports, and a 30-day money-back guarantee. We have no data on performance.

Inside Value

Members get 12 issues of Inside Value in print and online, all back issues and recommendations, periodic updates and alerts on holdings, and the standard 30-day money-back guarantee. We have no data on performance for Inside Value.
Ready-Made Millionaire

This service is described as perfect for FOOLS who 1) don't have time to research and assemble picks into a market-beating portfolio, 2) want to protect and grow their nest egg in these volatile times, 3) want a portfolio powered by a dream team of money managers (without paying an arm and leg for it!), and 4) want a seasoned pro – a fellow fool who shares their vision - looking after their investments.

Again, the visitor receives this message:

Due to the overwhelming response, we are no longer enrolling new members in Ready-Made Millionaire at this time. We have no performance data for the Ready-Made Millionaire.

Rule Breakers

Members receive 12 print issues, unlimited use of a members-only website, online discussions with David Gardner and his team of experts, weekly e-mail and online updates, and a 30-day money-back guarantee.

Motley Fool Options

The TMF website indicates that members get the “opportunity to step into a wider investing world, immediately discovering things like how to:

- GUARDRAIL YOUR PORTFOLIO with zero out-of-pocket costs...
- PROFIT AGAIN AND AGAIN from a sideways-moving stock...
- POCKET CASH MONTH AFTER MONTH with options so safe that even retirees depend on them...
- FORGET THE S&P and make money when the market is flat or sliding...
- BUY YOUR STOCKS CHEAPER and sell them for higher prices... and much more!

Visitors to the website receive a letter indicating that due to the overwhelming response, TMF is no longer enrolling new members in Motley Fool Options. We have no data on performance for Motley Fool Options.

Pay Dirt

Clicking on “Pay Dirt” under Premium Advice gets only this response: “FREE!”.

Million Dollar Portfolio

Visitors to the TMF website get this statement, in letter form, when attempting to access information on the Motley Fool Million Dollar Portfolio:

A small group of Fools have joined Motley Fool co-founder, Tom Gardner, on a historic investing adventure.

It involves a $1 million REAL MONEY portfolio... composed of handpicked investments from across the Motley Fool's market-beating newsletter services, including:

- COMPLETE ACCESS to every single move the team makes as they create and manage a $1 million real money portfolio...
- TOP RATED INVESTMENTS from across our Motley Fool investing newsletter services, including Stock Advisor, Hidden Gems, Rule Breakers, Global Gains, Income Investor, and Inside Value...
- SUBSTANTIAL SAVINGS by gaining access to picks from across our universe of premium investment ideas in one great Motley Fool product!
Due to the overwhelming response, we are no longer enrolling new members in Million Dollar Portfolio at this time.

If you are interested in learning more about Million Dollar Portfolio, please enter your email address below and click the button. We will notify you the moment we begin accepting new members again.

Rule Your Retirement

The TMF website promotes the Rule Your Retirement membership as follows:

In fact, you can read every issue of Rule Your Retirement (that’s over 50 issues from July 2004 up through today) to access the dozens of special reports we’ve written on everything from 8 Ways to Supercharge Your Retirement to How to Give Your Retirement Plan an Annual Check Up and so much more - absolutely Risk-FREE for the next 30 days.

You’ll see how amazingly easy it is to:

• Get rich buying stocks that no one else wants. (This is critical if you're near or even in retirement right now!)
• Find beaten-down stocks that will pay out huge dividends.
• Slip money from your retirement account before you turn 59 - without paying a penalty!
• Uncover stocks that make money even in bad times.
• ...and more.

Rule Your Retirement is the best place for objective, winning investment advice. We're not beholden to Wall Street. In fact, you get all the proven wisdom in Rule Your Retirement for less than it would cost you to meet with your accountant for an hour.

We review the data, crunch the numbers and then spill the truth. We warn you about the little known traps that can cost you a fortune, like:

• The common mistake loads of new retirees make that could cost you a whopping 50% penalty - the highest imposed by the IRS. Here’s how to avoid it...
• 4 big fees that rot even the most golden of nest eggs (how to reduce or even walk away from them now!)
• Why some investors get burned the minute a company fails - and the easy way to guarantee it doesn’t happen to you!
• Why gold is one of the worst ways to dodge inflation
• The 401(k) rip-off that could suck your retirement account dry

Members get 12 print issues of Rule Your Retirement, unlimited use of a members-only website, online chat with Robert Brokamp and his team of experts, and the 30-day money-back guarantee. Although the site alludes to high profits, we are not aware of any independent objective measures of the return for Rule Your Retirement.