

Ask the Fool



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*Chatt.
Times Free Press*

Front-running

Q What's "front-running"? —
P. C., Huntsville, Ala.

A Front-running is a shenanigan practiced by some unscrupulous folks in the financial realm. A mutual fund manager, for example, may buy shares of a company for her personal portfolio and then begin buying many shares for her fund, driving the price up and generating profits for herself. A talking head on television may talk up a company after having bought into it.

A broker, knowing that his firm will be releasing a positive report on a company, may buy shares of it for himself. These are all examples of front-running, which in some cases is illegal.

The CFO's duties

Q What does a company's CFO do? —
L.V., Chicago

A A company's chief financial officer (CFO), such as PepsiCo's Indra Nooyi,

Home Depot's Carol Tome and Merck's Judy Lewent, is responsible for all things financial at the firm. These include determining what its financial needs are and will be, how best to finance those needs, and informing all stakeholders (investors, creditors, analysts, employees, management) of the firm's financial condition.

The CFO is also focused on creating and maintaining the best mix of internal cash, debt financing and equity financing for the company (this is known as a firm's "capital structure"). As part of those responsibilities, the CFO plans and oversees the forecasting and budgeting process, maintains relationships with funding sources such as commercial and investment banks, and oversees the process of developing and communicating the quarterly and annual financial statements.

Finally, the CFO has ultimate accountability for maintaining the books and records of the company, ensuring that the company's assets are protected.