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PERSONAL FINANCE

Cash In on the Future

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Tax Time!

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Kiplinger's Economic Outlook

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Dividend Stocks for Bear Markets

These dividend payers have a history of weathering hostile markets.

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TOP 5 CREDIT & DEBT FEATURES

1. 8 Things Not to Keep in Your Wallet

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2. How to Change Your Name After Marriage

► kiplinger.com/links/namechange

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4. Habits of People With Excellent Credit

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THE CASE FOR BUYING FOREIGN STOCKS NOW

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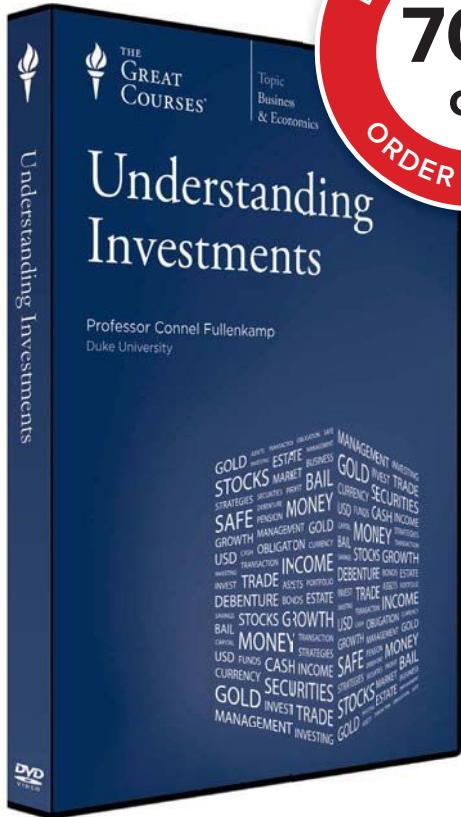
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Janet Bodnar

FROM THE EDITOR

The Second Time Around

Many of the stories you read in *Kiplinger's* are inspired by the personal experiences of our staff members and our impromptu discussions. We figure that if we're wrestling with certain financial decisions, many of you are, too. So when one of our colleagues announced that he and his significant other had decided to buy an apartment and move in together, it touched off a lively discussion that resulted in the story on page 46 about merging lives (and finances) later in life. Our Kip couple had been together for eight years; both of them had been married before and had accumulated savings and other assets. "Given our ages and the fact that we both had grown children, we just didn't see much point in getting married," says my colleague.

Of course, marriage also involves issues of philosophy and religion, and the decision to wed (or not) is a personal one. But when it comes to finances, we can weigh in with certainty: It's complicated. As senior associate editor Sandra Block points out in her story, getting married conveys a host of benefits. For example, inheritance and gift-tax thresholds are more generous, treatment of inherited IRAs is more favorable, and you're eligible for family medical leave if health becomes an issue.

What's more, choosing to live together can mean that you'll sacrifice tax and other benefits. The lack of a marriage license can squeeze how much tax-free profit you can claim when you sell your home. You won't

have a claim on your partner's Social Security benefits. In the eyes of the law, you'll be "legal strangers" and not automatically entitled to things such as visitation rights that you get by default if you're married.

Plus, "if you split up, the state won't protect you," says Sandy, so you need to create a legal framework that includes a cohabitation agreement. My colleague did just that. "We have a document that details what happens to the property should one person die before the other or should we dissolve the relationship," he says. "One lawyer wrote a draft, and then we each had our own lawyer review it."

Despite the legal and financial drawbacks, lots of older couples decide to forgo marriage. Often, they want to avoid being kicked into a higher tax bracket, or they don't want to lose pensions or other benefits from a first marriage. Adult children can be a big factor—they may not want parents to marry again for very practical reasons, such as what will happen to the house or their inheritance. And sometimes, says Sandy, older couples simply "don't want the hassles and don't need the presents."

Whether couples eventually decide to marry or not, Tom Blake, author of *How 50 Couples Found Love After 50*, recommends that they at least try out living together lest they crave the companionship but find out they're not willing to make the compromises, especially if they've been on their own for some time. How is my colleague's arrangement working out? "Other



"Despite legal and financial drawbacks, lots of older couples forgo marriage."

than the fact that we have completely different eating habits and temperature preferences, the transition hasn't been difficult at all," he says.

Tax tips. Even if you aren't pondering a new relationship, taxes are a big issue this month. In her story on last-minute tax savers (see page 56), Sandy points out that one of the best ways to trim your bill is to open or add to an IRA. You have until April 15 to make a contribution for 2014—not just for yourself but also for a stay-at-home spouse, your children or even your grandchildren if they earned money from a job last year (for more details on IRAs, see page 70). And don't miss the often-overlooked tax breaks on page 58. ■

Janet Bodnar

JANET BODNAR, EDITOR
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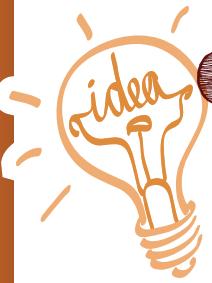


A SPECIAL PLANNING GUIDE
FOR KIPLINGER'S PERSONAL FINANCE MAGAZINE READERS

Today, There Are More Ways To Cover Long-Term Care Expenses

Planning for long-term care is an important way to protect even the most solid retirement plan. For many years the primary options for long-term care planning were self-insuring or purchasing traditional long-term care (LTC) insurance. Today, there are more ways to protect your future.

This guide from the American Association for Long-Term Care Insurance focuses on an option you might not be familiar with.



CONSIDER A DIFFERENT OPTION

Linked Benefit LTC Coverage

An increasing number of financial advisors are recommending another option that combines the PROS (features individuals seek) and addresses the CONS (reasons people may avoid initiating LTC planning) in one dynamic product.

What Is Linked Benefit LTC Coverage?

Simply, an asset is re-positioned to be leveraged for LTC coverage on a policy linked to life insurance. The primary purpose is insuring long-term care. But there is also a death benefit on the policy that assures cost recovery should the policy be little or never used.

Linked benefit LTC policies include a 'return of premium' feature that keeps the asset on your net worth statement. And, while most of these policies are paid with a single premium, there are options available that allow fixed yearly payments.



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LONG-TERM CARE A DIFFERENT WAY

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Keep in mind that as an acceleration of the death benefit, the LTC rider payout will reduce both the death benefit and other values. Care should be taken to make sure your life insurance needs continue to be met even if the rider pays out in full. There is no guarantee the rider will cover all long-term care costs.

All guarantees and benefits of the insurance policy are subject to the claims-paying ability of the issuing insurance company.

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LINKED BENEFIT LTC COVERAGE

How Linked Benefit LTC Works

Here's a quick overview based on AALTCI's 2015 price analysis.* A healthy 60-year old (female) has \$1,000,000 in retirement assets and redirects \$75,000 that has the lowest earning potential, is most liquid and will have the least taxable impact.

DAY 1 LTC BENEFIT: The \$75,000 premium secures an immediate \$311,000 in long-term care benefits. That's a monthly benefit of about \$4,321. Selecting an Inflation Benefit Option increases the monthly benefits available each year.

RETURN OF PREMIUM FEATURE: If long-term care is never needed, the policies could be surrendered at any time for the Return of Premium benefit. This can vary from one company to the next but may be 100% refund of the premiums paid less any policy distributions (loans, withdrawals or benefits paid).

THE 'DON'T USE IT - DON'T LOSE IT' BENEFIT: Designate beneficiaries who will receive tax-free death proceeds if you pass away without using any LTC benefits. The amount will vary, but assuming death takes place at age 80, the approximate life insurance benefit for our example will be \$107,000 to the designated beneficiaries.

Difference Makers Worth Knowing About

POLICY DETAILS COUNT: "The largest benefit pool may not best fit your care needs," says Shawn Britt, Director of LTC Initiatives at Nationwide. "Reimbursement policies may appear larger, but only pay qualifying expenses, while indemnity policies pay full monthly benefits, require no monthly paperwork, and offer more flexibility of use."

COMPARE FUTURE BENEFITS: "When it comes to long-term care benefits, inflation is a major consideration," says Parag Shah, vice president of product design for the Life Insurance Division at Pacific Life. "Inflation options and elected benefit periods have the greatest impact on your future total long-term care benefits"

Reposition

\$75,000

and receive up to
\$311,000
in LTC coverage

(Premium remains part of
client's financial portfolio)

If LTC is needed

First \$75,000

of benefits
are essentially paid
from the premium
paid into the policy

Then

If LTC is still needed,
insurer continues to
pay monthly
benefits up
to an additional
\$236,000

*AALTCI price analysis for policies, Jan. 2015. Policy costs, options and benefits vary by company. These examples are provided merely as an example. Consult with your tax professional for advice on tax consequences of life insurance.

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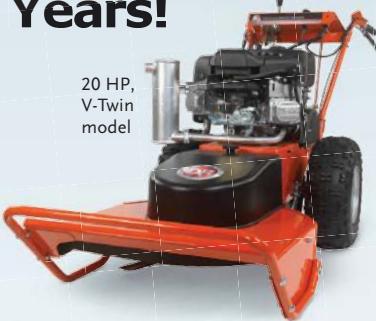
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Valuable College Advice

Kudos for your mention of the service academies in your rankings of top colleges and universities ("Kiplinger's Best College Values 2015," Feb.). Too often these institutions—particularly the one I graduated from, the U.S. Merchant Marine Academy—are overlooked in the media, despite providing outstanding educational opportunities. From personal experience, the USMMA opened doors and my eyes to a world of potential. Successfully retired at 60, I'm one of many who has this story to tell.

TOM HEFFERNAN
PENSACOLA, FLA.

Thanks to Kaitlin Pitsker for an excellent report on Haverford College. Her

Q READER POLL

In which accounts do you have retirement money?

Traditional IRA	77%
Roth IRA	56%
Employer's 401(k)	39%
SEP IRA or solo 401(k)	8%
Employer's Roth 401(k)	7%
Other	21%

To learn more about how to fund your IRA, turn to page 70.

article has revealed to us a true hidden gem that we had overlooked in helping our son choose a college. And I'm impressed by the fine-tuned and careful methodology Kiplinger uses to rank colleges.

HERB HOLROYD
MOUNT LAUREL, N.J.

I see a problem with using student-faculty ratios as a measurement of quality. Most schools have retired faculty on the payroll who count toward the ratio but never step into a classroom. For example, you report that my son's university has a 10-1 ratio, but his freshman classes averaged 30 to 40 students. I think it would be better to report the average class size for freshmen and for the remaining years in college (because class sizes tend to get smaller as you get deeper into required major courses).

RICHARD WOODRUFF
ROCKFORD, MICH.

Take the lump sum. I disagree with the advice to annuitize a pension rather than take it as a lump sum if you're planning for a long life ("Rethinking Retirement," Feb.). I took my lump sum and rolled it into an IRA. Then I invested in bonds and stocks and created a charitable gift annuity. The return on the charitable gift annuity isn't much different than an insurance annuity would have been, but it has tax advantages, and I'm helping my favorite charity.

RICHARD ANGERER
COCKEYSVILLE, MD.

ONLINE CHATTER

OUR BLUEPRINT FOR
retirement investing sparked debate ("How to Invest After You Retire," Feb.).

"I have never understood the value of an annuity unless someone else is paying for it. I already have the money, and I can disperse it myself in whatever manner I see fit."

"For someone with very little regular income to cover the basics, an annuity can help lower the risk in a long-term plan (especially for someone who expects longevity). I wouldn't get in too early, and I'd consider a living benefit rider—yes, you pay for it, but you still have a death benefit that can go back to your family if something happens."

"We balanced our portfolio to 50% fixed income and 50% equities when we retired over five years ago, and we're happy with what we did. We shy away from high-commission products, such as annuities and mutual funds; most of the money is in ETFs."

LETTERS TO THE EDITOR

Letters to the editor may be edited for clarity and space, and initials will be used on request only if you include your name. Mail to Letters Editor, Kiplinger's Personal Finance, 1100 13th St., N.W., Washington, DC 20005, fax to 202-778-8976 or e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.

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TOPIC A

UNCLE SAM TAKES AIM AT SAVINGS

Obama's proposals could mean higher taxes and complex rules. **BY KATHY KRISTOF**

IN HIS STATE OF THE UNION address, President Obama promised to shower tax breaks on the middle class. Right after the speech, however, some 66% of those polled by Rasmussen Reports said that they suspected the President's plan to hike taxes on the rich would also cause middle-income filers to pay more.

They were right to be skeptical. Diligent savers

(no matter their income) would face higher taxes and mind-boggling complexity if the plan became law, according to experts.

Much of the plan is unpopular and unlikely to pass. One of the original proposals—to tax qualified withdrawals from 529 college-savings plans—was shot down before making it into the budget. Still, tax hikes have a way of sneak-

ing back into proposed legislation, so it pays to know what's being discussed.

Obama's plan, though now silent on 529 accounts, aims to consolidate the tax breaks available for parents paying for college. His budget would expand the availability of the American Opportunity Tax Credit while eliminating most other education breaks. That would kill the Lifetime Learning credit, as well as deductions for paying college tuition and for paying interest on student loans, says Mark Luscombe, principal analyst at tax publisher CCH.

For retirement savers, there's more mixed news. The proposal would make

retirement accounts more readily available. But if you've been saving prodigiously, your ability to continue contributing could be in jeopardy. A provision billed as a "loophole closer" would subject all savers to a complex rule that now affects only defined-benefit pensions (the type with set monthly benefits for life).

Under the plan, each year you'd add up all the money accumulated in tax-deferred accounts, including IRAs and 401(k)s, then project what the total would be worth when you hit 62. If the projected savings could be converted into an annuity that would generate more than \$210,000 annually at

age 62, you'd be barred from saving any more in tax-deferred accounts. That would affect about one in 10 savers today, says Jack VanDerhei, research director at the nonpartisan Employee Benefit Research Institute. But if interest rates were to return to more-normal levels, it would hit many more people and prevent a 35-year-old who had socked away \$325,000 from continuing to save on a tax-deferred basis, according to the American Benefits Council.

The proposal with potentially the biggest kick is one that would eliminate stepped-up basis for inherited assets. Under current law, all the assets in your estate are "stepped up" to current value when you die. If that value exceeds set thresholds (currently \$5.43 million at the federal level), your estate pays tax. But your heirs don't have to determine what you paid for your home or other investments, nor pay capital gains on the appreciation that occurred during your lifetime.

Obama's plan would subject many inheritances to capital gains taxes. That would be an administrative nightmare and likely subject heirs to taxes on gains produced by nothing more than inflation, says Phil Holthouse, with the Los Angeles accounting firm of Holthouse Carlin & Van Trigt. "If you're middle class and you've spent every dime you earned, this plan wouldn't hurt you," he says. "But if you actually tried to save some money, it would beat you up."

■ **INTERVIEW**

AN UPDATE FOR AN INVESTING CLASSIC

After 40 years, *A Random Walk* still leads you to index funds.

*Burton Malkiel is professor of economics emeritus at Princeton University. The 11th edition of his book, *A Random Walk Down Wall Street*, has just hit shelves.*

You advocate index investing, a strategy outlined in the first edition of your book in 1973.

Forty years on, what's new?

Every time I update a new edition, typically every four years, I get the same results: A low-cost index outperforms two-thirds or more of active managers over time. And the one-third that outperform are never the same from one period to the next. In 2014, it was amazing how few people did better than the index: 86% of large-company fund managers lagged the market. Meanwhile, competition among exchange-traded funds has driven fees close to zero. Some have expense ratios of 0.04%.

Can you improve your odds by investing in active funds with low fees?

No question. If you want an actively managed fund that does better than average, buy one that charges lower-than-

average expenses. We need to be modest about what we know and don't know. But one thing I absolutely know is that the lower the fee, the more money is left for me.

Do index funds perform well in down or sideways markets?

Indexing works in both up



markets and down markets. But the advantage of indexing is a little bit smaller in down markets. That's because active portfolios generally hold 5% to 10% of assets in cash, which may be set aside to meet redemptions. Those managers can put that money to work in down markets, buying stocks when prices are cheaper. But an index fund is always 100% invested. So the advantages of indexing in a down market are slightly lower.

What about the "lost decade" of the '00s? Standard & Poor's 500-stock index ended up not far from where it started.

It's true that if you put all your money in the market in January 2000 and added no more, your investments would have been pretty flat by January 2009. But I'm a big believer in dollar-cost

averaging or investing fixed amounts at regular intervals. That way, you buy more shares when prices are low rather than high. So the 2000s weren't a great decade, but the dollar-cost-average investor made money.

A lot of people get a kick out of picking stocks. What about them? You don't have to index everything. Investing in individual stocks is fun. Go and do it. It's a great hobby. I buy individual stocks myself. I bought shares in Alibaba, the Chinese e-commerce company, after it went public last year. **NELLIES HUANG**

■ THIS GLENDALE, CALIF., UNIT PACKS A LOT INTO 375 SQUARE FEET.



THE BUZZ

HOW TO PERK UP YOUR TRAVEL

Ditch your coat. Flying JetBlue out of John F. Kennedy International Airport, in New York City? CoatChex will hold your heavy winter outerwear until you return (\$2 per day or \$10 for one week).

Get paid to park. With FlightCar (www.flightcar.com), available at 10 major U.S. airports, you can park free and get paid if your car is rented to a preapproved driver. For an average five-day trip, members save \$100 in parking fees and earn \$30 in rental fees.

Need a nap? Snag a private space with a sofabed and desk at a MINUTE SUITE in Atlanta, Philadelphia or Dallas/Fort Worth. Cost: \$38 an hour, one-hour minimum. Wake-up call included.

Snowed in (or out)? Chill. The LoungeBuddy app (free for Apple iOS and Android phones) will show you airport lounges around the world to which you have access (although you'll often have to pay a one-time fee) and book you in. If you're stuck in San Francisco or Chicago, meditate in an airport yoga room. The Phoenix airport has an indoor fitness trail with views of the skyline, mountains and buttes. Or rustle up a game of ping-pong in Milwaukee.

PATRICIA MERTZ ESSWEIN

REAL ESTATE

A NEW TWIST ON CITY LIVING

Micro units are short on space but long on urban atmosphere.

THE YOUNG ADULTS FLOCKING

to urban hubs are increasingly willing to trade dwelling size for a desirable neighborhood, and apartment dimensions and rents are shrinking to meet the demand. The result is a new class of living space: the micro unit, which is tinier than a conventional studio but more self-sufficient than a dorm room.

The term isn't rigidly defined, but a micro unit generally measures less than 400 square feet and contains a kitchen and bathroom. Such cozy spaces are popping up in expensive coastal cities such as Boston,

San Francisco and Seattle. And buildings are planned for in-demand neighborhoods in Cleveland and Denver. Although some empty-nesters and commuters have adopted these apartments as primary or secondary homes, they are most popular with young professionals who are comfortable living with less.

But even though the rents may be cheaper than standard studios in the same neighborhoods, don't mistake micro units for affordable housing. These minuscule pads are more expensive per square foot than their larger counter-

parts. And some of the price tags will give you pause. In Washington, D.C., for example, rent for a micro unit can top \$1,800 a month.

Instead of focusing solely on price, look for value with a vibrant location. "If I'm living in a unit that small, I want places to eat, work and entertain friends outside my front door," says John Infranca, a professor at Suffolk University who has studied this trend. Expect upscale amenities inside the building, too, from rooftop decks to communal lounges to pet-grooming stations. And assess how well the unit's compact interior meets your needs. High ceilings and expansive windows create openness. Clever workarounds, such as built-in storage, movable appliances or even new-fangled Murphy beds that convert to dining tables, will make the most of small spaces. **MIRIAM CROSS**

EXCERPT FROM
The Kiplinger Letter

TRY THIS ON FOR SIZE

Augmented reality apps will soon be all the rage with shoppers in the U.S. The apps allow you to "try on" shoes before buying to see how they look on your feet, test makeup without actually applying it to your face and determine how couches, desks and other furniture would work in your home or office. Retailers expect informed decisions will boost sales and minimize returns. (www.kiplingerbiz.com/ahead/tryon)



CELL PHONES

PAYBACK FOR SNEAKY PHONE FEES

AT&T and T-Mobile customers get refunds for unauthorized charges.

FEDERAL REGULATORS ARE cracking down on *cramming*, the practice of third-party companies adding fees to phone bills without user consent. The charges are typically for such un-

wanted subscriptions as ringtones and text messages containing horoscopes and celebrity gossip. In a settlement, AT&T is paying \$80 million to the Federal Trade Commission to refund to

consumers for cramming charges. T-Mobile will pay at least \$90 million in refunds to settle an FTC lawsuit. And, in a separate case, the Consumer Financial Protection Bureau has sued Sprint, claiming it allowed tens of millions of dollars in unauthorized charges.

The bogus fees, often for \$9.99 a month, showed up on phone bills with labels such as "AT&T Monthly Subscriptions" or "Usage Charges," according to the FTC. Current and former AT&T customers who had

service after January 1, 2009, must apply for a refund at www.ftc.gov/att by a May 1 deadline. Current and former T-Mobile customers with service going back to July 2010 have until June 30 to apply at www.t-mobilerefund.com. Both carriers have agreed not to include third-party charges on customer bills without permission. All the major wireless carriers will block third-party charges free upon request. **LISA GERSTNER**

MONEY & ETHICS // KNIGHT KIPLINGER

Should Seniors Turn Down Age-Related Discounts?

Q I'm in a circle of friends who are all elderly and well-off financially. Most of us are pleased to accept senior-citizen discounts for hotels, movies, museums and mass transit, but one member of our group says we should turn them down and pay full price. She argues that we have less need than most young adults, who can't get such discounts. What do you think?

A I like your friend's thinking. As I wrote in a 2008 "Money & Ethics" column, "Discounts for seniors go back to an era when most elderly Americans were less well-off than their fellow citizens. That's no longer the case, but the discounts linger."

I see a key distinction, however, between senior discounts offered by commercial companies—hotels, theaters, restaurants and the like—to attract your business, and discounts offered by governments and private nonprofits out of a sense of compassion for seniors who are struggling financially.

The revenue forgone in discounting by a business comes out of the profits of its owners, and they are free to subsidize any customers they wish (whether seniors, students, military, clergy or frequent buyers). But senior discounts given out by governments—if lacking a screen for income—constitute a broad,

unjustified subsidy of all elderly citizens by taxpayers, many of whom are younger and less well-off.

For example, Washington, D.C., and the state of New Jersey allow seniors to travel on their rapid-transit systems for about half the normal fare. Chicago waives the public sewer charge for seniors living in single-family homes. The federal government allows seniors with a \$10 lifetime pass to use national parks free, with 50% discounts on many of the amenities. New Jersey gives discounts to elderly hunters and fishermen. And the list goes on.

None of these discounts requires senior citizens to show that they have financial need. Replacing an age screen with proof of need, however a government wishes to define that, would put all such discounts on an ethical footing.

HAVE A MONEY-AND-ETHICS QUESTION YOU'D LIKE ANSWERED IN THIS COLUMN? WRITE TO EDITOR IN CHIEF KNIGHT KIPLINGER AT ETHICS@KIPLINGER.COM.



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CALENDAR

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WEDNESDAY, APRIL 1

April is the best month for investing in blue chip stocks, according to the *Stock Trader's Almanac*. Going back to 1950, the Dow Jones industrial average has posted an average monthly gain of 1.9%.

▲ THURSDAY, APRIL 9

Minor League Baseball Opening Day. Use the tool at www.mlb.com/mlb/tickets to find ball clubs close to you that offer big-time fun without the big-league prices.

WEDNESDAY, APRIL 15

Tax Day. The new health care law requires taxpayers to report their coverage on their 2014 returns. Read "Last-Minute Tax Savers," on page 56, to make sure you've dotted your *i*'s and crossed your *t*'s.



MONDAY, APRIL 20

Keep an eye on Apple as the tech giant releases the Apple Watch this month. Sales of the iPhone cata-

pulted the company to its most profitable quarter ever at the end of 2014.

THURSDAY, APRIL 23

Take Our Daughters and Sons to Work Day. The initiative aims to help children focus on future careers. To keep the kids busy, find activity guides and other resources at www.daughtersandsonstowork.org.

RYAN ERMEY

✖ DEAL OF THE MONTH

Let loose on Tax Day at the Hard Rock Cafe. On April 15, diners who "sing for their supper" onstage will get a free meal. For the less musical, sandwich chain Schlotzsky's will offer a free small "Original" sandwich to customers who buy chips and a medium drink.



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Nourishing a Homegrown Idea

Shark Tank provided an infusion of cash to expand this couple's family business.

PROFILE

WHO: Hanna and Mark Lim

WHERE: Monrovia, Calif.

WHAT: Own Lollaland, maker of specialty products for children

Hanna, where did you get your idea? I had been a high school chemistry teacher, but I was staying home with our first daughter, Story, now age 7. She found it difficult to drink from a sippy cup with a spill-proof valve, but if I held a cup with a straw to her mouth, she could drink just fine. I wanted a cup with a straw that would allow her to capture all the liquid from the bottom. Plus, I wanted it to be made in the U.S. from kid-safe plastic. My husband, Mark, who was studying for his MBA, encouraged me to write a business plan using one of his textbooks as a guide. If the plan was viable, he would join me in executing it after he graduated. I wrote a 35-page plan.

Why "Lollaland"? Our daughter asked for her "lolla" cup—her water cup—and we decided to broaden the idea as our company name.

Did you design the cup? No. I Googled "industrial design + LA area" and interviewed at least 10 firms. I had only \$10,000 to spend on design, but the designer was intrigued by our small project

and agreed to take it on. I found our manufacturer the same way. I think my business plan persuaded both companies that I was serious. We spent \$5,000 to \$6,000 to hire a patent attorney, who helped us obtain our design patent and trademarks. We spent another \$1,000 to create a prototype of the cup. On our first manufacturing run, we ordered the minimum of 3,000 units, which cost about \$4.50 per cup. If we had gone to China, they would have cost about \$1 apiece.

How did you sell the cup?

In October 2010, we

got our first orders at a baby-product trade show. We live in the Los Angeles area, which has lots of high-end baby boutiques and gift shops, so I also went door-to-door with a box of samples in my car and opened 50 accounts. Now we have 800 accounts across the U.S. [The cup also sells for \$16 at www.lollaland.com.]

Where did you get the money?

Our parents, immigrants from Korea, always told us to save. Plus, neither of us had any student-loan debt. So we pulled \$100,000 from our savings and took a

small-business loan for \$60,000 from a local lender, using our townhouse for collateral. We moved in with my in-laws and rented out our house.

You presented your idea on the TV show *Shark Tank*?

We were desperate for more money to pay for another production run, and my husband suggested that we audition. We asked for \$100,000 in exchange for a 15% stake. We were on TV for maybe 10 minutes [the episode aired in April 2012], but we negotiated with the investors for 90 minutes. Mark Cuban and Robert Herjavec gave us the \$100,000, but each took 20%. That was painful, but Mark Cuban has been especially responsive and has mentored us with tough love.

Are you making a living? We had about \$1 million in gross sales in 2014 and hope to double that in 2015. Neither of us took a salary for the first two years, but now we take very modest ones.

What's next? Now we're also selling a three-piece mealtime set [\$20] that was inspired by our second child, Sofia, 6, and we're developing a glass baby bottle with a great anti-colic nipple, inspired by our third, Zoe, 2.

PATRICIA MERTZ ESSWEIN



JAMES K. GLASSMAN > Opening Shot

Why I'm Still Bullish on Bonds

Against all odds, bonds issued by the U.S. government have lately proved to be a far, far better investment than stocks issued by U.S. corporations. While large-company stocks have returned an annualized 4% since 2000, long-term Treasuries have returned 9% a year. Over the past year, Standard & Poor's 500-stock index returned a brisk 18.3%, but **ISHARES 20+ YEAR TREASURY BOND ETF (SYMBOL TLT)**, an exchange-traded fund that tracks a long-term bond index, earned 26.3%.

It turns out that the safest investment in the world also puts the most money in your pocket, or at least it has recently and over the past 15 years. That seems to go against one of the basic tenets of investing. Typically, the less risk you take, the less you make. What gives?

Microscopic yield. It's true that Treasury bonds provide negligible income—that is, the interest they promise to pay you is minuscule as a proportion of the principal you put up. The yield on the benchmark 10-year Treasury note is now just 1.9%, down from 3% at the start of 2014 and 6.8% in 2000. The yield on the 30-year T-bond dropped to 2.2%, the lowest in history, before rebounding to 2.5%. (Unless otherwise stated, yields and returns are as of February 6.)

It's hard to believe that interest rates would fall so low. But that's what has happened, and the payoff for guessing right has been big. That's because as rates drop, the value of bonds purchased when rates were higher rises. Imagine, for example, that you bought a 10-year bond with a face value of \$10,000 in mid 2010, when yields were about 4%. You have been receiving interest payments of \$400 a year. A similar bond today pays annual interest of only about \$190. As a result, on the open market, your previously purchased bond will become more attractive. Anyone who buys it on the open market will have to pay a good deal more than \$10,000.

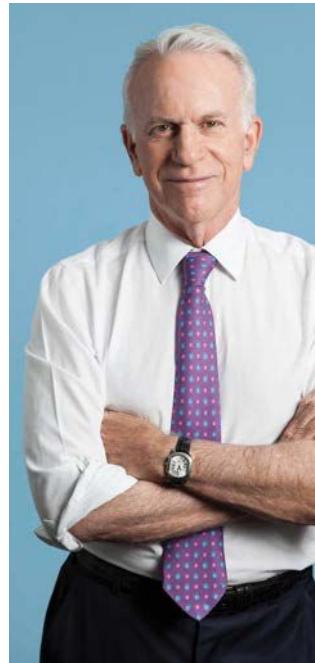
The rule is counterintuitive: When interest rates fall, the price of a bond rises, and vice versa. Also, the more time before a bond matures, the more volatile its price. That makes long-term bonds much riskier than short-term debt. The price of a 30-year bond will drop like a stone if interest rates move back to the historical average of 7.1%.

Key question. Mutual funds and ETFs hold shifting portfolios of bonds with different maturities, often from different issuers. Fund prices bounce up and down, either because rates in general fall or rise, or because perceptions of risk change and investors demand a higher yield as compensation. With Treasuries, we can forget about credit risk. The question is pretty simple: Will interest rates keep falling? If they do, then not only will you get paid a few percentage points in interest but you will also gain from increases in bond prices.

For years now, ever since the Federal Reserve slashed short-term rates during the 2007–09 recession, economists and Wall Street analysts have been predicting that rates would rise and bond prices, conversely, would fall. Instead, the opposite has happened. Rates have continued to decline, continuing the secular (that is, long-term) bull market for bonds that began in 1981. That year, the 30-year Treasury yielded 15%; in 1991, it was 8%; in 2001, 5%; today, it is half that.

My guess is that the trend will continue. Here's why:

People are still frightened. The stock market's catastrophic decline in 2008—the S&P 500 lost 37% that year—is still fresh in the minds of many investors. Economies in Europe and Japan are stagnant, and China's growth is slowing. Currencies are in disarray. Terror attacks in Europe are increasing. Money is still flowing into government bonds issued by such sound borrowers as Germany, but the U.S. remains the haven of



If you buy funds that own high-quality debt, you'll get a bit of income and stand a good chance of getting some price appreciation."

“The U.S. remains the haven of choice for investors seeking safety—not just Americans but people all over the world.”

choice for investors seeking safety—not just Americans but people all over the world.

Inflation is nowhere on the horizon. The main reason long-term rates go up is that investors demand that borrowers pay them more to compensate for the loss in buying power caused by inflation. But consumer prices in the U.S. are barely rising at all; the consumer price index rose just 0.8% in 2014. Prices may rise by more this year, but not much more.

The Federal Reserve is not going to be a factor for a while. With low inflation and annual growth in gross domestic product still less than 3%, the Fed will not increase short-term rates aggressively. Even if it does raise the rates it controls, long-term rates—which are set by investors in the bond market—may not rise in lockstep because higher short-term rates would slow the economy.

The appetite for borrowing has been sated. On the federal and state level, deficits (which have to be financed with bonds) are under control, and corporations have generally taken on as much debt as they need. Consumers are also gun-shy about borrowing too much. In credit land, in other words, supply seems to exceed demand. That means interest rates will remain steady or fall, and prices will hold steady or rise.

Now, here's what the continuing bull market in bonds means for you. If you buy

funds that own high-quality debt—Treasuries and high-grade corporate and municipal bonds—you'll get a bit of income and stand a good chance for getting some price appreciation, too. No guarantees, of course, but I like the odds. It is foolish in this sluggish economic environment, with so much geopolitical fear in the air, to reach for yield by purchasing high-yield, or junk, corporate bonds or the debt of shakier economies, such as Brazil, Greece or Puerto Rico. It's also too risky to bet on questionable European debtors whose bonds pay surprisingly little. The 10-year bonds of Portugal, for example, yield only 2.4%; those of Italy, just 1.6%.

If you firmly believe that rates will continue to fall, then buy funds that own bonds with maturities far into the future. An example is **VANGUARD EXTENDED DURATION TREASURY ETF (EDV)**, with an effective average duration of 25 years. *Duration* is a technical term that measures the sensitivity of the price of a bond or a bond fund to changes in interest rates. In this case, if bond yields fall by one percentage point, you can expect the fund's price to rise by about 25%. Because of the leverage provided by its extended duration, the Vanguard fund jumped 45.1% last year. But in 2013, when rates rose, the fund fell 19.9%. A conventional mutual fund that takes a similar approach is **WASATCH-HOISINGTON U.S. TREASURY (WHOSX)**, with an average duration of 20.5 years.

An alternative that doesn't make such a big bet on the direction of rates is **FIDELITY GOVERNMENT INCOME (FGOVX)**, with a duration of just 4.7 years. It returned only 4.9% over the past year, but it was far less risky than the other two funds. The iShares 20+ Year ETF splits the difference with a duration of 18.1 years. My preference is to go with funds with longer durations. (You can find durations at Morningstar.com and on fund sponsors' Web sites.)

How low will bond yields go? I think the 30-year Treasury will drop below 2% and the 10-year below 1%. The bonds of Germany, Japan, Switzerland, Sweden, Denmark and several other countries are already at those levels. If I'm right, buyers of long-term bond funds will profit. ■

JAMES K. GLASSMAN IS A VISITING FELLOW AT THE AMERICAN ENTERPRISE INSTITUTE. HIS MOST RECENT BOOK IS *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE*.

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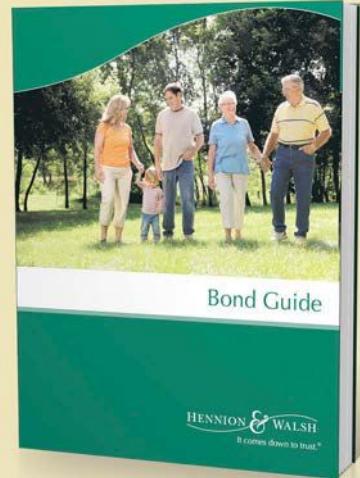


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Why municipal bonds may deserve a place in your portfolio. (Page 1)

Why insured bonds often provide an extra degree of security. (Page 2)

Why municipal bonds can potentially provide safety of principal. (Page 3)

How municipal bonds can potentially provide tax-free income. (Page 3)

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Investors tend to measure success assuming too short a time frame, often just one year, when a decades-long perspective would make more sense.”

ANNE KATES SMITH > Your Mind and Your Money

The Folklore of Finance

Every group with a sense of its own identity shares a folklore—a system of common beliefs, rooted in human biases, that governs its behavior and shapes its worldview. The denizens of Wall Street are no exception, and their implicit beliefs and assumptions tend to shape investing behavior. But new research from State Street’s Center for Applied Research suggests that the folklore is flawed and can lead investors to make unhealthy decisions.

Start with the folklore that centers on time, says Suzanne Duncan, the CAR’s global head of research. Investors tend to manage money and evaluate success assuming too short a time frame—often just one year—when a decades-long perspective would make more sense. Plus, we tend to give a lot of weight to past performance, even though it’s a poor indicator of future results, and to future forecasts, despite their abysmal track record.

Some investing folklore causes us to take “false comfort” in easily quantified benchmarks. When center researchers asked investors how they measured success, the researchers expected to hear about achieving long-term goals. Instead, participants talked about beating the market and posting gains with no losses—measures that were either impossible or irrelevant to meeting their personal goals, says Duncan.

The folklore of knowledge relates to a subconscious faith in what we think we know. For example, professional portfolio managers tend to take credit for successful investments and blame the duds on external factors—the market, say, or incompetent company executives. Individual investors are merely overconfident. Nearly two-thirds of those polled by center researchers rated their level of financial sophistication as advanced, but they scored an average of 61%, or barely above failing, on a financial literacy test.

It’s time for a new folklore, says Duncan. The first step is to become aware of the

behavioral biases that plague us as investors so that we can identify our weaknesses (you can take the center’s quiz at kiplinger.com/links/biases). The next step is to change behavior, and Duncan’s group has a host of recommendations:

- Incorporate a devil’s advocate into your decision-making process to avoid falling victim to groupthink. Draft a friend, family member or colleague; it needn’t be the same person every time.
- Keep a diary of your investment decisions so you can track what ultimately led to success or failure.
- Develop a trading discipline with rules for buying or selling. A checklist for each investment decision will ensure you cover every angle and stick to your process.
- Tweak your asset allocation to suit your own psychological tendencies (or work with an adviser who will help you do so). Investors who cut and run in the face of losses might need less exposure to volatile investments, for instance, even if it means sacrificing some gains. Duncan envisions future target-date funds that will be shaped as much by behavioral factors as by demographic considerations such as age or number of years to retirement.

Most important, we need to start measuring performance in a personalized way, based not only on how much a portfolio beats the market or its peers, but also on how well it meets our needs, whether for income, downside protection or simply to fund our initial investment goal. The folklore of finance will change only when we start benchmarking performance to the individual investor, and not to the S&P 500. ■

ANNE KATES SMITH IS A SENIOR EDITOR OF KIPLINGER’S PERSONAL FINANCE MAGAZINE.



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» **INVESTING**

CASH IN ON THESE MEGATRENDS

HEALTHY INVESTING IS A LOT LIKE HEALTHY eating: Make sensible choices carefully proportioned within a diet of moderation. We get it. But everyone needs at least a little sizzle—in their diet and in their portfolio. Perhaps, like a Walter Mitty of the investing world, you've secretly dreamed of getting in on the ground floor of a groundbreaking trend or technology that will change history and inform the future. // The 13 stocks highlighted below are all about breakthroughs, innovation and disruption. You're not likely to find them in

Five trends that will change the world and 13 stocks that will benefit.

BY ANNE KATES SMITH

PHOTO-ILLUSTRATION BY COLIN ANDERSON



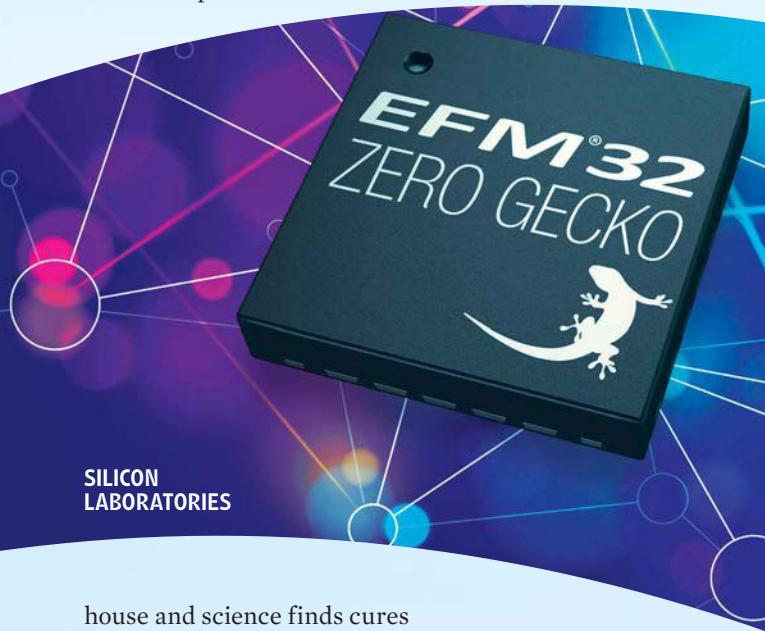
broad market benchmarks; only one of the stocks, Nvidia, is a member of Standard & Poor's 500-stock index. And just as spicier fare isn't suited to those with weak stomachs, these stocks aren't for the faint of heart. Nor are they for bargain hunters, except when a bout of market volatility gives you a chance to buy on a dip.

But if you believe in a world in which cars drive themselves, robots keep

investment firm. Embedded sensors, processors and communication technology are in effect waking machines from a catatonic state, extracting intelligence from the physical world that we can then use to make people healthier, cars safer, homes cozier and cheaper to maintain, factories and farms more efficient, and cities more livable and environmentally friendly.

house customers as Apple and Samsung, and the company is profiting from the rollout of smartphones in China. But CEO David Aldrich is leveraging decades of experience in mobile connectivity to make Skyworks a conduit to all manner of IoT devices. "The common denominator is efficient connectivity, and that's where we excel," says Aldrich.

The company's Broad Markets division, a proxy for its IoT exposure, is



house and science finds cures for cancer, consider investing in these transformative trends. And even if you don't buy into them, at least be aware that you ignore them at your peril. "You may not care about these new or disruptive companies," says Cathie Wood, CEO of Ark Investment Management, where she runs a collection of actively managed exchange-traded funds that seek to cash in on innovation. "But they're going to disrupt many of the companies in your portfolio." For a look into the future, read on. You can find key data on each stock in the table on page 32.

● THE INTERNET OF THINGS

The Internet of Things is a concept so enormous it's hard to wrap your brain around. Think of the IoT as nothing less than the dawn of inanimate consciousness, says Stifel, Nicolaus, an

Applications for the IoT are practically infinite. Nearly 5 billion connected things will be in use in 2015, according to Gartner Inc., a technology research firm. By 2020, the number of "things" will grow to 26 billion, encompassing everything from smart watches, smart cars and smart home appliances to networked factory machines and citywide energy grids. That will amount to some \$1.9 trillion in revenues generated or savings realized. The structural change resulting from the IoT will be akin to the industrial revolution, says Goldman Sachs.

SKYWORKS SOLUTIONS (SYMBOL SWKS) exemplifies how the IoT is rewiring corporate strategies. Skyworks makes smartphone chips for such power-



already helping to make up for the seasonal revenue slumps endemic in the mobile-phone chip business. The division contributes roughly one-fourth of the company's total revenues, and sales in the segment grew at a rate of 26% last year. "Over the next 10 years, it could be half the business," says Aldrich. "The Internet of Things is the biggest growth phenomenon in our lifetime. If you're a technology company and you're not there, you're not going to grow."

Connected cars are at the forefront of the IoT. Within the next five years, roughly one in five vehicles on the road worldwide will be connected to

the Internet, predicts Gartner. Eventually, cars will be self-driving. But before we take our hands completely off the wheel, expect to see widespread adoption—very possibly required by regulators—of technology aimed at assisting drivers. Adaptive cruise control adjusts to the traffic around you, for instance, while automatic braking stops your vehicle when another car or a pedestrian materializes in your path,

nearly double in 2015 and again in 2016.

Two others to consider: **SILICON LABORATORIES (SLAB)** is a semiconductor company that makes a broad portfolio of energy-efficient, IoT-enabling products, including sensors, microcontrollers (the brains of a device) and the hardware that facilitates Internet connectivity. **NXP SEMICONDUCTORS (NXPI)**, known for its security features, enables the secure connection for Apple Pay.

And a hotel opening in Nagasaki this summer will be partially staffed by robots that will check in guests, carry luggage and clean rooms.

The International Federation of Robotics estimates that 1.3 million to 1.6 million industrial robots are in use. In 2013 (the latest year for which figures are available), nearly 180,000 robots were sold, the most ever in a single year. Spending on robots worldwide is expected to jump from an estimated \$27 billion in 2015 to \$67 billion by 2025, says the Boston Consulting Group. The surge will be driven by falling prices, improving capabilities and rising demand as global workforce growth begins to decline and wages rise, particularly in China.

The key to building a better robot is imbuing it with humanoid senses—only better. While the human eye can see 30 frames per second, for example, robots today can see thousands of frames per second. **COGNEX (CGNX)** is a leading developer of machine-vision technologies used to monitor production lines, guide assembly robots, detect manufacturing defects and track parts. Cognex systems help automate the manufacture of cell phones, aspirin bottles and vehicle wheels, among other things. Factory automation should account for more than 80% of the company's revenues in 2015, and that segment is growing by 20% a year, according to Canaccord Genuity, a Canadian financial-services firm. Canaccord predicts that the share price will reach \$55 within a year, up more than 40% from the current level.

On the home front, maybe Rosie isn't so far-fetched after all. The robotics federation expects 31 million robots to be sold for personal use from 2014 through 2017, most tasked with domestic chores. You may be familiar with the Roomba vacuum cleaner, made by **IROBOT (IRBT)**. The company claims roughly 75% of the robot vacuum market. That's less than 20% of the U.S. market for higher-end vacuums, leaving plenty of room for growth, even with vacuum leader



and lane-

departure warnings keep you from drifting. Currently, only about 5% of cars worldwide have active safety features.

MOBILEYE (MBLY) is the single most important enabler of such active safety features, says Dan Roarty, manager of AllianceBernstein's AB Global Thematic Growth Fund. The company, headquartered in Israel, designs and develops camera-based driver-assistance technology—integrated hardware and software that in essence become the eyes and the brains of the car. Mobileye has clocked millions of miles on the road, garnering an 80% share of the active-safety market and a five-year lead on anyone else, says Roarty. Analysts on average expect the company's earnings per share to

● ● ROBOTS ARE FOR REAL

Robots have always held a cultural allure for Americans, from Gort in *The Day the Earth Stood Still*, to the Jetsons' maid, Rosie, to *Star Wars'* C-3PO. Robots today may not conform to the fantastic notions of Hollywood screenwriters. But they are an increasingly important, growing and widespread segment of the workforce.

The auto industry remains the largest market for robots. But they can also be found neutralizing land mines for the military, fulfilling orders in warehouses and assisting in surgical procedures in hospitals. Robots are being designed to pick fruits and vegetables. In Japan, where there are 323 robots for every 10,000 human workers, robots are being developed to assist the elderly and the disabled.

* Familiar Names

How the Big Guys Bet on the Future

SMALL COMPANIES AREN'T THE ONLY ONES INVOLVED IN THE MEGATRENDS that are shaping the future. Titans of industry are there, too, in a big way. The challenge for investors is that the profits from nascent trends are rarely enough to move the needle on the stock market value of a behemoth whose revenues are broadly diversified or predominantly generated by other businesses. Still, investments in innovative businesses and strategies will ultimately benefit many big companies, making some of them good ways to invest indirectly in key trends.

Consider **Google** (symbol GOOGL, \$534). It generates 89% of its revenues from Internet-search advertising, but it has tentacles spreading into other cutting-edge trends, such as the Internet of Things. Every consumer device that Google connects to the internet delivers information that the company can aggregate in order to target users with a growing number of relevant ads.

Google burst onto the home-automation scene with its acquisition last year of Nest, which makes smart thermostats and smoke detectors. Wearable devices include Google Glass (shelved for now) and Android Wear smart watches.

And Google's self-driving car, unveiled last December, is the ultimate connected device. In the not-too-distant future, says Gavin Baker, manager of Fidelity OTC Portfolio, all cars are likely to be self-driving or assisted-driving. "If Google software and computing powers that, it'll be very financially relevant" for the company, he says. Google also acquired eight robotics companies in 2013. And its venture-capital arm has a sizable stake in personalized medicine.

Amazon.com (AMZN, \$374) is similarly on the cutting edge. The company will soon divulge the size of its cloud-computing business, which is likely its fastest-growing segment. And a major push into robotics has the potential to cut costs in its e-commerce business big-time. Amazon bought Kiva Systems in 2012 and now counts 15,000 Kiva robots working in its distribution centers. CEO Jeff Bezos has spoken about the company's aspirations to use drones to deliver merchandise. "People have to analyze what robotics could do to the bottom line," says Cathie Wood, head of Ark Investment Management, which sponsors four actively managed exchange-traded funds that focus on innovative technologies. "It could be a tremendous boost to profit margins."

With some firms, the promise of innovation in one area is overshadowed by older, stodgier businesses. **General Electric** (GE, \$25) is developing the Internet of industrial things, which it calls the "Industrial Internet." GE's software applies powerful analytical tools to streams of data harvested from heavy equipment—think wind turbines or locomotives—to boost efficiency and cut downtime. CEO Jeffrey Immelt has said that industrial Internet operations could generate annual revenues of \$4 billion to \$5 billion in a few years. That's a pittance compared with the \$150 billion a year in sales that GE generates now. Meanwhile, although the GE Capital division is shrinking, it's still on target to account for 25% of profits in 2016. "We don't own GE—too much financial services," says Wood. But she's watching the company—in particular, GE's use of 3D printing in its manufacturing processes. "It's veering into the right spaces," she says.

Dyson scheduled to enter the robotics market later this year.

IRobot also makes bomb-disarming robots for the military. That segment is struggling as U.S. defense spending declines and troops are pulled from harm's way. But the company's disciplined research and development in that area are driving innovation in broader product lines focused on three key robotic capabilities: the ability to navigate, perceive the surrounding environment and interact with it. IRobot's



"telepresence" bots—at about \$70,000 each, they look like a mobile stand with a screen on top—allow doctors to consult from afar, or business people to meet or manage remotely. After mapping out your office (or factory floor or medical center), the bots can show up automatically for scheduled events or simply enable you to virtually roam distant halls at will, interacting with those you meet.

For the time being, the Roomba accounts for 75% to 80% of iRobot's profits, says Morningstar analyst Adam Fleck. But as other products gain ground, that percentage is bound to decline. Says Brian Gesuale, an analyst at the Raymond James brokerage, "iRobot's ambition is to be a robot company, not a vacuum company."

● ● MAKING MEDICINE PERSONAL

A decade ago, sequencing one human genome cost \$10 million and several months' worth of computing power. Today, the cost is \$1,000 and a day of computing, and within a few years, say researchers, the cost of mapping the complete set of a human being's genetic information will drop to \$100 and a few minutes. This genetic intelligence is ushering in an age of personalized

tumor will reveal which treatments will be most effective at any given point. "Instead of being diagnosed with breast or colon cancer, you'll be diagnosed as to mutations," says Baker. Within 20 years, cancer could become a manageable disease instead of a terminal one, he says.

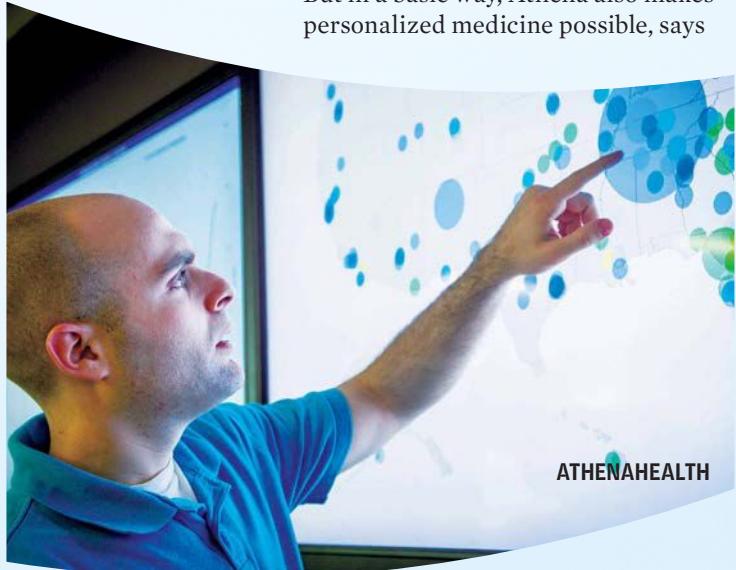
The prime mover in personalized medicine is **ILLUMINA (ILMN)**, which makes gene-sequencing tools and equipment. Illumina claims 70% of the sequencing market,

since October 2011, is certainly not cheap, trading at 60 times estimated 2015 earnings. But as the number of genomes sequenced grows from the hundreds of thousands to the tens of millions, bulls say, Illumina's earnings should continue to expand by at least 20% annually over the next few years, driving the share price ever higher.

ATHENAHEALTH (ATHN) isn't a sexy biotech with a potential cure for cancer. The electronic medical records firm started by helping doctors collect fees from insurers, which it does efficiently. But in a basic way, Athena also makes personalized medicine possible, says



ILLUMINA



ATHENAHEALTH

medicine, with one-size-fits-all protocols giving way to more customized—and therefore more effective—treatments for cancer and other challenging diseases. President Obama called the practice "precision medicine" in his State of the Union address and earmarked \$215 million in the federal budget to help fund its development.

The change is evolutionary and revolutionary at the same time. "I try to avoid military analogies, but we're moving from World War II-era carpet bombing to dropping laser-guided bombs down chimneys," says Gavin Baker, who tracks transformative technology as the manager of Fidelity OTC Portfolio. For example, each cancer tumor has its own genetic mutations, which change over time. Sequencing and re-sequencing the

which is growing at a 10% annual rate and is expected to approach \$25 billion in revenues by 2020. In addition to mapping human genomes, the company's equipment is used to sequence viruses (including Ebola), bacteria, plants for the agriculture industry—just about any organism. Oncology and prenatal screening are promising growth areas.

Potential rivals will have a tough time unseating Illumina, but that doesn't mean the stock is without risk. One serious misstep or failure to keep on the cutting edge of technology could inhibit Illumina's long-term success, says Morningstar analyst Michael Waterhouse. The stock, which has soared by more than sevenfold

Elizabeth Jones, a former physician who comanages the Buffalo Discovery Fund. "When I practiced medicine, I would see patients in the ER, and I wouldn't know what drugs they were on, what their allergies were or if an old EKG existed," she says. "That's ridiculous. That information is all there, somewhere." Even today, most medical practices are isolated islands of patient information. Athena's cloud-based platform makes it easier for data to travel among providers, giving a more complete picture of patients.

Athena claims some 62,000 providers as customers, representing 62.5 million patients. As it gathers more information into its cloud, "Athena will be

able to do predictive analysis at a very high level," says Fidelity's Baker. That allows for early intervention or preventive care that can both improve outcomes and cut costs—vital in a medical system that's transitioning from paying doctors by the visit or the procedure to paying for keeping patients healthy and costs down. Athena's earnings are likely to be down this year because of acquisition costs, and its stock trades at a stiff premium—124 times estimated 2015 earnings. Is that too much for a company that says it is building the health care Internet? Athena is the purest play on the migration of medical data to the cloud, says Ark Investment's Wood. "This is a winner-take-most stock."

● ● BLOCKING CYBERATTACKS

There's nothing like a giant health insurer's computer system getting hacked to remind us of the critical importance of defending against cyberthreats. The massive breach at

Anthem, which put at risk the sensitive personal data of millions of customers, is the latest in a long line. The number of U.S. data breaches exposing individuals to the risk of identity theft hit a record high of 783 in 2014, up 28% from 2013, says the Identity Theft Resource Center.

Our growing connectedness intensifies the risk. The Internet of Things links everything from our cars to our coffeepots to the Internet, while more of our personal data gets stored in the cloud. Consider this dire observation from the World Economic Forum's 2015 Global Threat Report: "There are more devices to secure against hackers and bigger downsides from failure: Hacking the location data on a car is merely an invasion of privacy, whereas hacking the control system of a car would be a threat to life."

Cyberattacks have become business as usual, says Sarbjit Nahal, a strategist at Bank of America Merrill Lynch. A recent survey of 257 companies, in

varied industries and headquartered in seven countries, found that they experienced an average of 1.6 attacks each week. As a result, the information-security market is expected to grow more than 10% annually, from \$96 billion in revenues in 2014 to nearly \$156 billion in 2019, according to market research firm MarketsandMarkets. RBC Capital Markets analyst Matthew Hedberg believes high-profile breaches could lead to U.S. government regulation aimed at beefing up cybersecurity.

PALO ALTO NETWORKS (PANW) is well positioned to benefit. What differentiates Palo Alto from its peers is its ability to defend against attacks all along the data pathway—in the cloud, along the network and in devices themselves.

The company's sales growth is consistently outpacing the information-security market as a whole, gaining market share relative to competitors. Hedberg sees sales growth of 41% in the fiscal year that ends this July, with roughly 30% growth in each of the following two years. The stock, which has tripled since November 2013, now trades at 170 times estimated earnings for the 2015 fiscal year, a premium ratio that Hedberg says is justified by the company's impressive growth prospects. Indeed, analysts expect earnings to double in the fiscal year that ends in July 2016.

The recent cloudburst of data breaches should mean more customers for **LIFELOCK (LOCK)**. The company protects consumers against identity theft by monitoring new-account openings, credit applications and other identity-related activities, then alerting subscribers to suspicious activity. Businesses, including lenders, retailers and cable-TV firms, use LifeLock to authenticate customer IDs and gauge the risk of fraud in any given transaction.

LifeLock has been under its own cloud, presenting opportunity for intrepid investors. The company recently set aside \$20 million to settle any charges that might stem from a Federal Trade Commission investigation

Future Stars

EXCITING PROSPECTS, EXPENSIVE STOCKS

Most of the outfits on this list are small and carry high price-earnings ratios, the price you pay for expectations of rapid growth. To cut risk, it's best to buy a bundle of these stocks.

Company	Symbol	Recent price	Market value (billions)	Revenue* (billions)	2015		2016		Price-earnings ratio†
					Earnings per share (est.)	Earnings growth†	Earnings per share (est.)	Earnings growth†	
Athenahealth	ATHN	\$145	\$5.5	\$0.8	\$1.17	-11%	\$1.50	28%	124
Cognex	CGNX	39	3.4	0.5	1.33	0	1.64	23	29
FireEye	FEYE	36	5.4	0.3	-1.87	NM	-1.24	NM	NM
Illumina	ILMN	193	27.4	1.7	3.21	17	3.91	22	60
iRobot	IRBT	31	0.9	0.6	1.36	9	1.67	23	23
LifeLock	LOCK	15	1.4	0.5	0.66	38	0.90	36	22
Mobileye	MBLY	37	5.5	0.1	0.38	90	0.71	87	96
Nvidia*	NVDA	20	11.1	4.6	1.16	4	1.26	9	18
NXP Semiconductors	NXPI	82	20.7	5.6	5.79	22	6.54	13	14
Palo Alto Networks*	PANW	126	10.1	0.7	0.74	85	1.46	97	170
Silicon Laboratories	SLAB	48	2.0	0.6	2.25	8	2.66	18	21
Skyworks Solutions*	SWKS	81	15.5	2.6	4.89	51	5.51	13	17
Splunk*	SPLK	62	7.6	0.4	0.11	175	0.27	145	NM

Figures as of February 6. *Based on revenue for the past year. †Based on estimated change in earnings per share from the previous year. #Based on estimated 2015 earnings. *Estimates are for the company's fiscal year. NM Not meaningful. SOURCES: Thomson Reuters, Yahoo.



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PALO ALTO NETWORKS



into whether LifeLock is complying with earlier orders to fairly represent its services. The charge against earnings decimated 2014 results, and the growth in the number of new subscribers dipped in the fourth quarter. Blame the FTC matter for distracting the top brass, says analyst Rob Breza, at the investment firm of Sterne Agee. But he thinks the issue will be settled soon and that LifeLock is already back on track, substantially boosting spending on marketing to take advantage of the spate of highly publicized data breaches. "Is the company broken? I don't think so; 2015 will be a year of growth," says Breza. LifeLock's stock has dropped 36% from its record high, set in February 2014, and now trades at a reasonable 22 times estimated 2015 earnings. Breza, who sees earnings jumping 31% in 2016, predicts that the stock will reach \$20 within a year, up one-third from the current price.

One other company to watch: **FIREYE (FEYE)**, whose recently purchased forensic security division has become the go-to source for investigating breaches, including Anthem's.

● MANAGING BIG DATA

The collection, transmission and analysis of data underlie every megatrend we've been talking about, with people, businesses and now things adding to the digital explosion. The digital universe is doubling in size every two

years, according to International Data Corp., a technology market-intelligence firm. By 2020, there will be almost as many digital bits as there are stars in the universe. The data we create, copy and consume annually will reach some 44 zettabytes, or 44 trillion gigabytes—enough to fill up nearly 688 billion midrange iPhone 6's.

And yet, by IDC's most recent measure, less than 5% of potentially usable data is currently being analyzed. The opportunities are enormous for companies that are able to marshal and make sense of the exploding volume of unstructured information.

If you're a gamer, you may have heard of **NVIDIA CORP. (NVDA)**, the semiconductor company that invented the graphics processing units for computer video games back in the 1990s. But the company's future rests on the power of big data, says Wood, the Ark ETF manager. "Nvidia is in every one of our funds," she says. "Its chips can handle unstructured data—social networking data, sensor data, genomic data—unlike those of any other chip maker out there." The company is making a push into the assisted-driving and auto "infotainment" market as well. Wedbush Securities deemed the stock a "top pick for 2015," based on solid growth in an array of Nvidia's products and the company's propensity to return cash to shareholders. Nvidia is one of only two stocks on

our list that pay a dividend. It sports a 1.7% yield. (The other dividend payer is Skyworks, which yields just 0.6%).

SPLUNK (SPLK) makes sense of machine-generated data. The company's software allows customers to monitor, correlate, search and analyze massive streams of data in real time, putting Splunk right at the heart of the Internet of Things. For example, a Coca-Cola executive revealed at a Splunk-hosted conference last fall that the beverage giant, using Splunk's software, was able to see that sales at vending machines on college campuses spike right before weekly airings of the hit TV show *The Walking Dead*. Splunk counts customers among a variety of industries, including retail, energy, manufacturing, financial services and travel. The technology is a natural fit for information-security applications, and about 40% of Splunk's revenues are tied to cybersecurity, says AllianceBernstein fund manager Roarty.

Investors should bear in mind that Splunk, which went public in 2012, is investing heavily in the growth of its business. That means current profits are modest, although revenues are expected to grow at a 32% clip this year. After losing money in 2013, Splunk earned an estimated 4 cents a share last year. Analysts forecast profits of 11 cents per share this year (or \$13.3 million) and 27 cents in 2016. ■

3 Energy Stocks to Buy Now

Our picks will remain profitable even if oil prices stay low. **BY DAREN FONDA**

BUYING ENERGY STOCKS MIGHT FEEL

like stepping in front of a Mack truck these days. Oil prices have collapsed, and major energy producers are playing a game of chicken as they pump at full throttle to try to drive weak producers out of business. Yet, with the sector deep in bear-market territory, share prices may already reflect much of the bad news.

For one thing, oil prices may have already bottomed. West Texas Intermediate crude, the U.S. benchmark, fell below \$44 a barrel before rebounding to \$52 in early February (at that price, it's down 49% since last summer). But the market looks balanced between supply and demand. The world is expected to consume 92.4 million barrels a day this year, and the U.S. Energy Information Administration sees supplies touching 93 million barrels. That leaves scant spare capacity in case of a supply disruption. "Prices will go up, probably sooner rather than later, and people will be surprised at how fast they rise," says Mike Breard, an analyst with Hodges Capital Management, in Dallas.

Kiplinger's forecasts that oil will recover to \$70 a barrel this spring. If we're right, energy stocks are likely to post sharp gains. But even with oil in the \$50 range, well-managed companies can make money. That's certainly true of **CHEVRON (SYMBOL CVX, \$110)**. Although the behemoth's earnings plunged 30% in the fourth quarter, to \$3.5 billion, its refining operations saw profit growth, offsetting weakness in the production side of the business. The company is spending billions each year to replace depleted wells and says it's on track to boost oil-and-gas pro-

duction by 21% by 2017. Chevron recently cut its capital budget and suspended share buybacks, but it has made protection of its \$1.07-per-share quarterly dividend a priority. (Share prices are as of February 6.)

A stock with more potential (and more risk) is **CHESAPEAKE ENERGY (CHK, \$21)**. Under former CEO Aubrey McClelland, the company acquired vast acreage throughout U.S. shale basins. Faced with a debt-laden balance sheet, current CEO Doug Lawler sold \$5 billion worth of assets last year to shore up the firm's finances, and he's now focusing on improving profitability and buying back shares, says UBS analyst William Featherston, who recommends the stock. And if oil prices rebound to \$80 a barrel, the stock will be worth at least \$40 a share, says Tom Sudyka, comanager of the LK Balanced Fund.

HELMERICH & PAYNE (HP, \$68), an energy-services stock, has tumbled more than 30% in the past six months. The firm

mostly provides rigs to land-based oil-and-gas producers. And although earnings rose 17% in the October–December quarter from the same period a year earlier, CEO John Lindsay warned that the results were "overshadowed by a rapidly deteriorating energy market." Helmerich & Payne expects drilling activity and U.S. day rates for its rigs to decline sharply.

Yet Helmerich, the largest U.S. land driller, is likely to dig out of this hole and emerge stronger. The firm used the last downturn in oil prices to bolster market share from 9% in October 2008 to 16% at the end of 2014. Its land rigs are more profitable (on a daily operating basis) than those of major rivals, and its fleet is considered one of the most advanced and efficient.

On top of that, the stock yields a robust 4%. The company boasts a strong balance sheet and has ample cash to support the dividend. "The stock's upside potential is much greater than the downside risk," says Breard. ■





JEREMY J. SIEGEL > Going Long

Europe's Latest Game Plan

European Central Bank president Mario Draghi surprised the markets earlier this year by persuading members of the bank's governing council to begin buying more than 1 trillion euros' worth of private and government bonds over the next 18 months. The strong move challenged skeptics who claimed that the ECB had run out of ammunition to stimulate sickly European economies. And investors sided with Draghi. European stocks had already rallied sharply in anticipation of Draghi's move. When the policy was announced, they soared even higher.

Draghi's policy was no small feat, considering that Germany had steadfastly opposed a major bond-purchase program. The ECB president won over doubters by pointing to the U.S. economy to bolster his argument. In 2012, Federal Reserve chairman Ben Bernanke also faced opposition to a third round of quantitative easing, but he pushed through an open-ended bond-buying program that eventually swelled the Fed's balance sheet by more than \$1.5 trillion by the time the program ended last October. Since the beginning of the third round of QE, the U.S. unemployment rate has fallen from 7.8% to 5.6%. In contrast, over the same period the unemployment rate in Europe has hovered around 11.5%. I believe that Draghi was able to convince ECB members that a good part of the difference could be attributed to the Fed's aggressive monetary stimulus.

To jump-start Europe's economy, the ECB is focusing on depreciating the euro. Up to one-half of the gross domestic product in eurozone countries depends on exports. In August 2012, I noted in my column that the euro would have to depreciate significantly in order to generate a meaningful European recovery. It has taken a long time for the ECB to move in that direction, but better late than never. Over the past several months, Draghi has talked the European currency down from its dollar equivalent of \$1.40 to \$1.13, and

some observers believe that the euro could fall to a level on par with the U.S. dollar or even lower.

The euro's rapid decline motivated the Swiss National Bank to stop linking its currency to the euro. After some volatile trading, the franc has settled down to a level relative to the dollar that's not far from where it was last September, after the euro began falling. Swiss-based firms that generate much of their revenue from exports will now find it more challenging to compete. But any anxiety that the Swiss move to decouple the franc marks the beginning of another general currency crisis is completely unfounded.

Stocks are cheap. In contrast to the Swiss situation, a depreciating euro makes eurozone exports cheaper and boosts tourism. Plus, the ECB's purchase of bonds will increase bank reserves and the liquidity of the European banking system, which finances a much greater share of companies' cash needs than do banks in the U.S. Liquidity combined with a falling euro should give considerable lift to countries in the eurozone.

What does this mean for investors? Despite their recent run-up, European stocks are still relatively cheap, selling for 15.5 times earnings compared with a price-earnings ratio of 17 for U.S. stocks. Because of the substantial decline that the euro has already experienced, the risk to U.S. investors of further currency depreciation is less than it was last year, when the euro was valued at much higher levels. Investors who concentrate on firms with a large volume of exports outside the eurozone, such as InBev, Unilever and Daimler, will probably gain the most from the currency's depreciation. Despite the otherwise dreary economic news from across the Atlantic, European stocks are definitely worth a second look. ■

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A depreciating euro makes eurozone exports cheaper and boosts tourism to Europe.”

COLUMNIST JEREMY J. SIEGEL IS A PROFESSOR AT THE UNIVERSITY OF PENNSYLVANIA'S WHARTON SCHOOL AND THE AUTHOR OF STOCKS FOR THE LONG RUN AND THE FUTURE FOR INVESTORS.

● ● THE KIPLINGER 25 UPDATE

A New Foreign Fund Joins Our List

DODGE & COX INTERNATIONAL

Stock, which had been in the Kiplinger 25 since May 2005, has closed to new customers. So, as is our policy when a Kip 25 fund closes, we sought a replacement. We found a worthy one in **FMI INTERNATIONAL**.

The fund's record is exemplary. From 2011 through 2014, its first four full years of operation, FMI International landed in the top 2% of its category twice and in the top 12% once. In the fourth year, it was in the middle of its group (funds

that focus on large foreign firms with a blend of growth and value attributes). From its launch on December 31, 2010, through February 6, 2015, the fund returned an annualized 11.7%, beating the MSCI EAFE index by an average of 6.1 percentage points per year. And it did so with about 40% less volatility than the benchmark.

International's nine managers, employees of Milwaukee-based Fiduciary Management, run two other standout funds: FMI Common Stock (symbol

FMIMX), which focuses on small and midsize U.S. companies, and FMI Large Cap (FMIHX). Both funds boast 10-year returns that rank among the top 4% of their peers (and both are closed to new investors).

FMI runs trim portfolios. International, for example, holds just 30 stocks. The ideal holding is a big, established firm that has a sustainable competitive edge over its rivals and a business that can survive the ebbs and flows of the economic cycle. The final ingredient: A stock needs to trade for less than what the managers think the company is worth. But International isn't a deep-value fund, says comanager Pat English, who is also FMI's CEO and chief investment officer. "We want the businesses healthy, growing and sound."

Even with the short list of names in the portfolio, English says, the fund covers the bases. "We diversify by industry," he says. Also, most of the holdings are multinational businesses—such as business-consulting firm Accenture and Genting Malaysia Berhad, an Asian hotel and gambling company—and that offers another level of diversification. "We own durable, all-weather vehicles," says English.

International has two other pluses: Six of its managers have invested at least six-figure amounts of their own money in the fund, and fees are reasonable, at 1% per year. That's about 20% less than the average for diversified foreign-stock funds. **NELLIE S. HUANG**

REACH YOUR GOALS: TO SEE PORTFOLIOS USING THESE FUNDS, GO TO KIPLINGER.COM/LINKS/PORTFOLIOS.

U.S. Stock Funds	Symbol	Total return*				Added to Kip 25
		1yr.	3 yrs.	5 yrs.	10 yrs.	
Akre Focus Retail	AKREX	12.8%	19.1%	19.3%	—	Dec. 2009
Artisan Value	ARTLX	14.1	13.1	13.4	—	May 2012
Baron Small Cap Retail	BSCFX	7.5	15.2	16.6	8.1%	Dec. 2007
Davenport Equity Opps	DEOPX	17.7	19.1	—	—	May 2014
Dodge & Cox Stock	DODGX	12.9	19.5	16.0	7.0	May 2008
Fidelity New Millennium	FMILX	8.2	16.1	16.8	9.9	May 2014
Homestead Small Co Stock	HSCSX	11.6	15.9	19.5	11.4	May 2012
Mairs & Power Growth	MPGFX	12.8	17.5	16.6	8.4	Jan. 2013
Parnassus Mid Cap	PARMX	15.3	16.3	16.5	—	Aug. 2014
T. Rowe Price Sm-Cap Value	PRSVX	4.9	11.9	15.0	8.3	May 2009
Vanguard Dividend Growth	VDIGX	17.9	16.1	15.6	9.2	May 2010
Vanguard Selected Value	VASVX	11.7	18.1	16.9	9.1	May 2005

International Stock Funds	Symbol	Total return*				Added to Kip 25
		1yr.	3 yrs.	5 yrs.	10 yrs.	
Cambiar Intl Equity	CAMIX	0.4%	8.8%	9.5%	5.5%	May 2014
FMI International	FMIJX	11.2	15.3	—	—	April 2015
Harding Loewner Emrg Mkts	HLEMX	8.1	4.9	6.9	9.1	May 2013
Matthews Asian Gro & Inc Inv	MACSX	5.1	8.0	8.0	9.0	Aug. 2013

Specialized/Go-Anywhere Funds	Symbol	Total return*				Added to Kip 25
		1yr.	3 yrs.	5 yrs.	10 yrs.	
FPA Crescent	FPACX	8.7%	11.0%	10.6%	8.3%	Oct. 2008
Merger	MERFX	2.7	3.0	2.7	3.5	June 2007
Bond Funds	Symbol	Total return*				Added to Kip 25
		1yr.	3 yrs.	5 yrs.	10 yrs.	
DoubleLine Total Return N	DLTNX	5.1%	4.7%	—	—	May 2011
Fidelity Intermed Muni Inc	FLTMX	6.0	3.2	4.1%	4.0%	May 2004
Fidelity New Markets Income	FNMX	5.4	4.3	7.1	8.0	May 2012
Fidelity Total Bond	FTBFX	5.3	3.6	5.2	5.2	May 2014
Met West Unconstrained Bd M	MWCRX	2.8	6.2	—	—	May 2013
Osterweis Strategic Income	OSTIX	1.5	5.0	6.1	6.4	May 2013
Vanguard Sh-Tm Inv-Grade	VFSTX	1.6	2.1	2.6	3.6	May 2010
Indexes		Total return*				
		1yr.	3 yrs.	5 yrs.	10 yrs.	
S&P 500-STOCK INDEX		18.3%	17.7%	16.5%	7.7%	
RUSSELL 2000 INDEX†		10.6	14.9	16.8	8.0	
MSCI EAFE INDEX‡		2.0	9.4	8.1	5.2	
MSCI EMERGING MARKETS INDEX		8.3	0.6	4.6	8.9	
BARCLAYS AGGREGATE BOND INDEX‡		5.6	2.8	4.3	4.7	

Through February 6. *Three-, five- and ten-year returns are annualized. —Not available; fund not in existence for the entire period. †Small-company U.S. stocks. ‡Foreign stocks. §Tracks high-grade U.S. bonds.

ETFs You Don't Need

These exchange-traded funds are too risky, often too complicated and, in most instances, just plain dumb. **BY KAITLIN PITSKER**

WHEN SPDR S&P 500 ETF, THE FIRST

exchange-traded fund, made its debut in 1993, Whitney Houston topped the pop charts, shoppers were snapping up Beanie Babies, and *Cheers* was in its final season. The newfangled gizmo was an immediate success. By the end of its first year, the ETF, which tracks Standard & Poor's 500-stock index, held \$500 million in assets. But that was only the beginning. The number of ETFs and similar products has swollen to more than 1,600, with combined assets of \$2 trillion.

The first ETFs clearly met a need. They provided low-cost vehicles to track well-known market benchmarks such as the S&P 500 and the Nasdaq Composite index, while allowing investors to get in and out of funds anytime during the trading day.

But with success has come excess. The hallmarks of many of the latest exchange-traded products are complexity, narrow focus and heightened risk through the use of leverage. In other words, a lot of these gadgets are dangerous to your financial health. With that in mind, we've come up with a list of nine categories of exchange-traded products that you should rarely put in your portfolio.

● LEVERAGED ETFs

What are they? Also billed as ultra funds, these investments aim to return twice or three times the return of an underlying index.

Why you don't need one: Few people really have the fortitude to stick with an investment that gyrates two or three

times more than the index it tracks.

Moreover, because of the way they're structured, leveraged funds can promise to match their index only on a daily basis. And that can lead to some ugly math. With a leveraged ETF, you can make the right call on the direction of a particular index but still lose money over an extended period of time. For example, although the MSCI Emerging Markets index gained 8.1% annualized over the past five years, Direxion Daily Emerging Markets Bull 3X (symbol EDC), which seeks three times the return of the index on a daily basis, lost 8.9% per year. **Who are they for?** Traders with short time horizons and cast-iron stomachs.

● INVERSE ETFs

What are they? These ETFs seek to return the opposite of the index they track, aiming to benefit from a decline in the market. Inverse ETFs also come in leveraged versions, which aim to return the opposite of the index they track multiplied two or three times.

Why you don't need one: Divining the direction of a market is tough enough. Betting *against* a market or a particular index is even tougher, even when it looks as if it's sure to go down.

Consider what happened to investors who were bearish on the U.S. stock market in recent years, when there were plenty of reasons for negativity, including global turmoil, dysfunctional leadership in Washington, D.C., and one of the weakest economic expansions ever. Pessimists might have had good reason to buy into Pro-

Shares Short S&P500 (SH), which is designed to return the opposite of the S&P 500. But since the current bull market began in March 2009, the ETF has lost 76.7% of its value, or 21.8% annualized. (Unless otherwise indicated, all returns are through February 6.)

As with leveraged funds, inverse ETFs can deliver the promised inverse return only on a daily basis. Again, that can lead to surprising results.



Over the past year, for example, the Dow Jones U.S. Oil & Gas index lost 2%. ProShares UltraShort Oil & Gas (DUG), which seeks twice the opposite return of the index, shed 9%.

Who are they for? Traders who want to make a short-term bet on a market downturn. Surprisingly, though, there is at least one justifiable use for an inverse ETF. If you're sitting on a big short-term profit, you could use an inverse ETF to cut your tax bill. Say, thanks to a powerful bull market, you have a 30% gain in a stock fund you've held for 11 months. You'd like to hang on a bit longer to qualify for favorable long-term capital-gains treatment, but you're worried that a market correction could begin at any moment. To protect your gains, you could buy an ETF that moves in the opposite direction of a stock market index, hold it for a month and a day, then sell both it and your original investment.

●● EXCHANGE-TRADED NOTES

What are they? As close cousins of ETFs, ETNs seek to match the performance of an index. They charge low fees, and you can trade them throughout the day. But ETNs don't actually own a portfolio of stocks or anything else. Rather, ETNs are unsecured debt, usually issued by an investment bank that promises, upon the note's maturity, to give you back your original principal, plus or minus the index's return over the lifetime of the note.

Why you don't need one: In addition to your other investment concerns, do you also want to worry about whether an ETN's issuer can survive the next financial crisis? In 2008, Lehman Brothers, which had issued three ETNs, failed. Investors who held those notes ultimately received just pennies on the dollar.

Who are they for? ETNs sometimes do a better job of tracking commodities

than other kinds of exchange-traded products. If you want to track a broad commodity index with an ETN, opt for one whose sponsor has solid backing. For instance, Elements Rogers International Commodity ETN (RJI) tracks 37 commodities and is backed by the Swedish government.

●● OBSCURE-COUNTRY ETFs

What are they? Funds that aim to capture the returns of a single, small nation.

Why you don't need one: We can understand that you might want to add a smidgen of fast-growing India or a dollop of powerful Germany to your portfolio. But, seriously, do you really know enough about Qatar or the United Arab Emirates to justify an investment in iShares MSCI Qatar Capped ETF (QAT) or iShares MSCI UAE Capped ETF (UAE)?

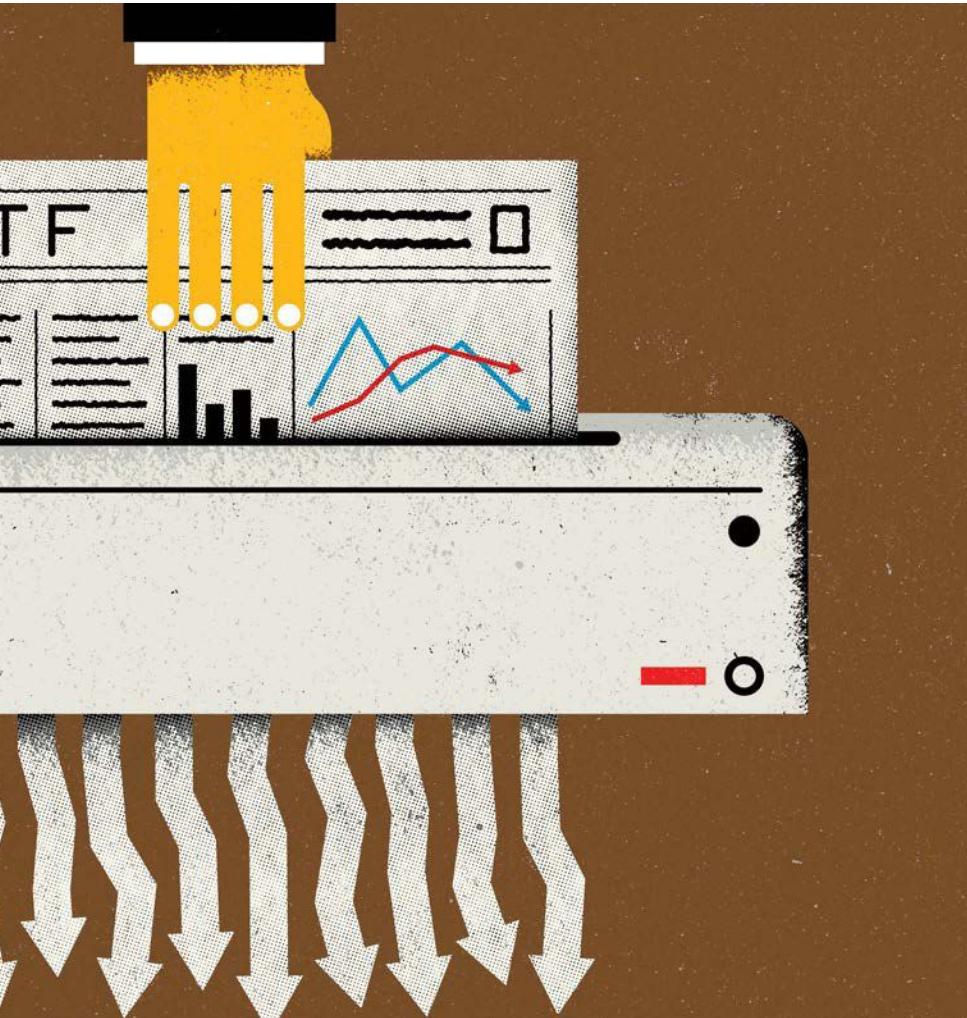
Who are they for? Investors who know a country well and want to build their allocations in emerging markets.

●● CURRENCY-HEDGED OVERSEAS SECTOR ETFs

What are they? These ETFs track an index focused on a sector of a foreign economy and hedge to protect investors from fluctuating exchange rates.

Why you don't need one: Because the dollar has been strong over the past year, foreign funds that hedge against currency fluctuations have, all things being equal, outpaced similar unhedged funds. That's because hedged funds offset the declines that unhedged funds suffer when their holdings in foreign currencies get translated into fewer greenbacks. We told you about one of these hedged overseas funds, Deutsche X-trackers MSCI EAFE Hedged Equity (DBEF), in "Coping With a Powerful Greenback" (Feb.).

But WisdomTree takes currency hedging to an absurd extreme. Only two of its 12 hedged ETFs are diversified among stocks in many foreign countries, and five of the ETFs focus on sectors in Japan—for example, WisdomTree Japan Hedged Health Care (DXJH). To invest in this ETF, you're



in effect making a bet on the country and the sector and assuming that the yen will weaken against the dollar. As tennis legend John McEnroe would say when he felt aggrieved by an official's call, "You cannot be serious!"

Who are they for? We can't imagine.

● ● NARROW SECTOR ETFs

What are they? Unlike funds that focus on a broad sector such as health, energy or technology, these ETFs zero in on slices of a sector.

Why you don't need one: These ETFs are too concentrated to reflect the broader sector. In the race to pull in new cash, firms have launched some outlandish ETFs. In 2007, for instance, XShares Advisors launched the HealthShares series of 19 niche ETFs, including a Dermatology & Wound Care fund and a Metabolic-Endocrine Disorders fund. By the end of 2008, the entire lineup was shuttered, largely due to a lack of investor interest. HealthShares is now out of business.

However, you can still invest in Global X Fertilizers/Potash ETF (SOIL), which tracks stocks in the fertilizer industry. Unless you have enough dirt on a specific sector to plant your cash wisely, stay away.

Who are they for? Investors who would rather buy a few similar stocks instead of just one.

● ● SINGLE COMMODITY ETFs

What are they? Most commodity ETFs invest in a group of things, such as agricultural goods, precious metals or natural resources. Some, however, invest only in one specific commodity.

Why you don't need one: Gold bugs will argue for the yellow metal until the cows come home. That's one reason SPDR Gold Shares (GLD), which tracks the price of bullion, now holds about \$31 billion in assets. Want to invest in those cows instead? You can do that with iPath Dow Jones-UBS Livestock Subindex (COW), an ETN that tracks an index of futures contracts for live cattle and lean hogs. Prefer crops over cows? An outfit called

Teucrimum offers ETFs for four farming staples: Teucrimum Corn (CORN), Teucrimum Wheat (WEAT), Teucrimum Soybean (SOYB) and Teucrimum Sugar (CANE). Not a sweet idea, in our view. **Who are they for?** Remember the Duke brothers in the 1983 movie *Trading Places*? They were certain they knew

✖ New Funds

Four ETFs Worth a Look

Nearly 200 new exchange-traded products debuted last year, many of them ill-advised. The roster included 11 leveraged funds and several country funds that will test your geographical knowledge. But not all of the newcomers are duds. Here are four that look intriguing.

Fidelity Total Bond ETF (symbol FBND) is an ETF version of Fidelity Total Bond (FTBFX), a mutual fund that is a member of the Kiplinger 25. Ford O'Neil manages both, and both charge 0.45% annually to cover expenses. The ETF can be traded commission-free at Fidelity's brokerage arm and yields 3.2% (yields are as of early February).

If you're a dividend hound, consider **iShares Core Dividend Growth ETF (DGRO)** and **ALPS Emerging Sector Dividend Dogs ETF (EDOG)**. The iShares ETF tracks an index of U.S. firms that have regularly hiked their payouts. It boasts a slim 0.12% in expense fees and yields 2.4%. Dogs digs for bargains by tracking an index of dividend-paying laggards across 10 sectors of emerging-markets stocks. It yields 5.5% and carries an expense ratio of 0.60%.

It may seem gimmicky, but **USCF Stock Split ETF (TOFR)**, which tracks an index of firms that have recently split their shares, isn't as far-fetched as it seems. Although splits have no impact on the value of your investment or of a stock's key ratios, they're generally seen as a sign that a company expects good times ahead. Annual fees: 0.55%.

which way the price of orange juice futures was heading. If you're as confident as they were, invest in a single commodity. Just remember that, in the end, the Dukes got their comeuppance.

● ● TREND ETFs

What are they? These ETFs hitch their wagon to the latest craze, whether it's aiming to profit from Bitcoins or the legalization of marijuana.

Why you don't need one: Some trends are nothing more than a flash in the pan; others develop into something important. When the first Internet funds launched in the late 1990s, people were skeptical. But all things Web were hot, and most of the funds were successful until the tech bubble burst in 2000.

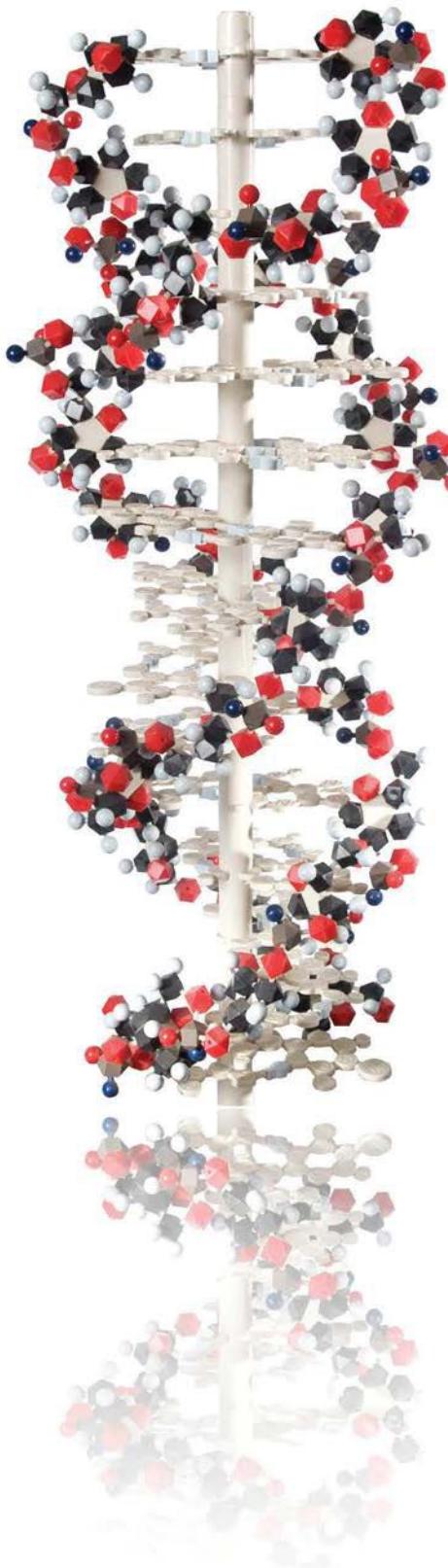
It's virtually impossible to pass judgment on a trend in its early stages. For example, a Bitcoin ETF, which would purchase the digital currency to back the ETF shares, is waiting for approval from the Securities and Exchange Commission. In some ways, a Bitcoin ETF isn't radically different from other currency ETFs: It offers investors exposure to the changing value of a currency without requiring them to buy the actual currency. But unlike, say, the euro or the yen, Bitcoin is an unregulated digital currency that, outside of a relatively small community, has yet to earn its stripes.

Who are they for? Those who think they can figure out how trends will play out.

● ● VOLATILITY ETFs

What are they? These ETFs aim to profit from other investors' fears by tracking an index that measures expected market volatility.

Why you don't need one: ProShares offers a series of volatility ETFs, including ProShares VIX Short-Term Futures (VIXY) and ProShares VIX Mid-Term Futures (VIXM). Both measure the expected volatility of the S&P 500. Over the past three years, the ETFs produced cumulative losses of 91.0% and 73.2%, respectively. Enough said. **Who are they for?** No one. ■



Now It's Personal

Leading the way in healthcare

Since our formation in 1896, our mission has been to help patients live longer, better lives by providing the best medical solutions available. We are a research-driven company using the latest technologies to make a difference, while making our products available in over 150 countries around the globe.

In 2009, Genentech, a founder of the biotech industry, became a wholly owned member of the Roche group. Together we are the world's largest biotech company, leaders in in-vitro diagnostics, tissue-based cancer testing and pioneers in diabetes management, with our teams across the world working on delivering industry-leading products to meet the needs of patients anywhere.

Our longstanding and undivided focus on innovation in all areas of healthcare research & development coupled with our expanding international presence and broad range of healthcare solutions keep us at the forefront of the pharmaceutical and diagnostics industry.

The future of medicine is personalized

Our pharmaceutical and diagnostics teams are working together to deliver personalized medicine, developing treatments tailored to the needs of specific patient populations. With this approach we are producing treatments that are safer and more effective, making sure that every patient gets exactly what he or she needs, and leading the search for better healthcare outcomes. Our expanding efforts in personalized medicine give us an advantage to face the medical challenges of the future.

With one of the top research and development investments, our history of breakthrough innovation and an extraordinary pipeline, we are ready to make the world healthier **one patient at a time.**

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If a future Congress hikes taxes on capital gains, capital losses could become even more valuable.”

KATHY KRISTOF > Practical Investing

Make Your Losers Pay Off

The ink had barely dried on my previous column (“I’m Keeping My Oil Stocks,” March) when my accountant’s annual tax package arrived in the mail. That got me thinking. I am, as I have often said, a long-term investor who is willing to wait patiently through market upheavals. But I’m also always on the prowl for reasonable ways to shave my tax bill.

After all, building wealth isn’t just about what you make. It’s about what you keep. And one way to keep more of my gains is to trigger capital losses on the losers. Such losses offset first capital gains and then ordinary income, up to \$3,000 each year. If you have more losses than you can write off in any one year, you may roll them forward indefinitely until you use them up. If a future Congress hikes taxes on capital gains, those losses could become even more valuable, particularly for those of us who reside in high-tax states. (I live in California, which taxes capital gains as ordinary income, at rates as high as 13.3%)

Most people start thinking about taking their losses near the end of the year. I think it’s smarter to take them when the opportunity presents itself. But realizing losses with individual stocks—particularly stocks that you think may rebound—is trickier than it appears because of Uncle Sam’s “wash sale” rule. In a nutshell, the IRS won’t let you claim a capital loss if you buy back the same (or a substantially identical) security within 30 days of the sale.

Satisfying the IRS. The rule applies to all sorts of assets, including mutual funds. With funds, it’s a breeze to get around the wash sale rule. If, say, I’m down in a fund that tracks Standard & Poor’s 500-stock index, I could sell and replace it for 30 days with a fund that tracks the Wilshire 5000 index. Their returns might not be identical, but they’d be close.

Sidestepping the wash sale rule with individual stocks is tougher because my

predict-o-meter always seems to go on the fritz when I try to foresee short-term price swings. The last thing I want is for a stock that I’m out of for tax reasons to skyrocket during the 30-day separation period.

One way of dealing with that potential development is to sell my loser and replace it with a similar stock in the same industry. But that’s not easy, either. For example, I’m sitting on a \$4,000 loss in **NU SKIN ENTERPRISES (SYMBOL NUS)**, a multilevel marketing company. You could argue that I could sell Nu Skin, buy Herbalife (HLF), another MLM firm, and, er, still keep some skin in the game. My rejoinder is that Herbalife is more about nutrition, and Nu Skin focuses on anti-aging products. Revenue and profit expectations, as well as the geographic location of the bulk of the companies’ customers, are too disparate for me to consider the shares an even exchange.

The one loser in my portfolio that offered the possibility of a comfortable swap was **STONE ENERGY (SGY)**, a small domestic energy producer in which I was down \$4,800. That’s because I could switch into one of several exchange-traded funds that emphasize oil-and-gas producers that are a lot like Stone. Selling Stone, which I did in early February, to get a diversified basket of similar stocks should certainly satisfy the tax man, and I’m confident that once oil prices begin their inevitable rebound, the ETF will capture most of the gains I would get from Stone. Meanwhile, the sale will cut my federal and state income taxes this year by up to \$1,675.

I temporarily replaced Stone with **SPDR OIL & GAS EXPLORATION & PRODUCTION ETF (XOP)**. It holds mostly small and midsize firms, and no stock represents more than 2% of its assets. I like that because when a fund heavily weights a few stocks, I’m tempted to research the top holdings. And that seemed like more work than taking this tax loss deserved. ■

KATHY KRISTOF IS A CONTRIBUTING EDITOR TO KIPLINGER’S PERSONAL FINANCE AND AUTHOR OF THE BOOK *INVESTING 101*.



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JEFFREY R. KOSNETT > Income Investing

4 Places to Park Your Cash

So much is happening in so many places—from Wall Street to Europe to America’s fracking fields—that your portfolio is probably suffering from motion sickness. Consider that in the first 25 trading days of 2015, the Dow Jones industrial average posted triple-digit moves on 17 occasions.

Then again, high-quality bonds, both taxable and tax-free, and high-yielding stocks, including utilities and real estate investment trusts, have begun the year in fine form. There has also been some good news on the energy front: Even as their profits slide because of the collapse in oil prices, energy giants such as ExxonMobil (symbol XOM) and Chevron (CVX) have resisted the temptation to cut dividends. Rather, they’re postponing exploration projects and paring share buybacks. Meanwhile, energy-related master limited partnerships continue to increase cash payouts.

On the fixed-income side, I grant that many bonds are expensive. How could they not be when the benchmark 10-year Treasury bond yields just 1.9%? Yet my fellow *Kiplinger’s* columnist James Glassman posits that the yield on the 10-year bond will sink below 1%. If he’s right, holders of long-term bond funds will reap additional capital gains because bond prices move in the opposite direction of yields (see “Opening Shot,” on page 21).

It’s a different story if you’re seeking steady income. A 1% yield for 10 years just doesn’t cut it. You can get as much in an insured online savings account (see “Best of the Online Banks,” on page 52).

Happily—and this is my primary message this month—you can do better than a 1% yield without taking extraordinary risks. Naturally, you’ll have to go beyond the bank for better cash returns. As always, I strongly advise against tearing up any successful income plan because of transitory news events. A broadly balanced collection of dividend stocks, high-quality bonds, and

securities that pass along energy and real estate income is as sensible a strategy today as it was last year.

We offer four worthy holding tanks for your cash—three mutual funds and one exchange-traded fund—listed in descending order of current yield. Each pays you monthly. I suggest putting 25% of your short-term, low-risk money in each. (Yields and returns are through February 6.)

FIDELITY FLOATING RATE HIGH INCOME (SYMBOL

FFRHX; current 30-day yield, 4.4%; one-year total return, 0.6%), the original no-load bank-loan fund, delivers a generous yield. The fund carries some credit risk; the loans it invests in are made to companies with subpar credit ratings. But because the rates on those loans adjust regularly, the fund should maintain its share price in the unlikely event that short-term rates surge.

WILLIAM BLAIR INCOME FUND (WBRRX; yield, 1.7%; one-year return, 2.7%) owns mortgage securities and high-quality corporate bonds with an average maturity of about four years. It provides decent yield without taking on too much interest-rate risk.

METROPOLITAN WEST LOW DURATION BOND FUND

(MWLDX; yield, 1.1%; one-year return, 1.2%) sports a modest yield, but its low average maturity pretty much eliminates any price erosion from a bump in short-term rates.

VANGUARD SHORT-TERM BOND ETF (BSV; yield,

0.9%; one-year return, 1.2%) tracks an index of government and corporate bonds with one- to five-year maturities. It pays a hair less than 1%, but on any given day, the yield can climb above 1%. Because it’s an ETF, you can get in and out of it during the trading session. Annual expenses are a rock-bottom 0.10%. ■

SENIOR EDITOR JEFF KOSNETT IS ALSO THE EDITOR OF *KIPLINGER’S INVESTING FOR INCOME*, A MONTHLY NEWSLETTER THAT FOCUSES EXCLUSIVELY ON THIS TOPIC.

Bonds for the Socially Conscious

A bond fund that applies social screens to its picks leaps to the top of the pack.

YOU'VE PROBABLY HEARD OF SOCIALLY screened stock funds. But bond funds that filter for good corporate citizenship? They're much rarer in the world of what is commonly called socially responsible investing.

Social screens have hardly hindered **TIAA-CREF SOCIAL CHOICE BOND**, the top medium-maturity taxable bond fund over the past year. The fund invests mainly in high-grade debt, although it has 10% of its assets in junk bonds. As for social screens, managers Steve Liberatore and Joe Higgins look for bonds issued by firms that lead their industries in environmental awareness, corporate governance, and such things as product safety and treatment of employees. They also allocate a chunk of the portfolio, nearly 25% at last report, to "proactive social investments"—bonds or issuers that fund initiatives to address social issues such as public housing and climate change. The fund's flexible approach allows the managers to get broad exposure to the market. With bond investing, says Liberatore, "you don't get paid for picking winners. You get paid for avoiding losers."

The managers did pick a winner, in a way. Because of what Liberatore calls their "less than sanguine" view of the U.S. economy, they ratcheted up the fund's interest-rate sensitivity by adding more long-maturity, high-quality bonds, including Treasuries. That gave the fund an extra boost relative to its peers as bond yields plunged over the past 13 months. **RYAN ERNEY**

INTERMEDIATE-TERM TAXABLE BOND FUNDS

Ranked by one-year returns

Rank/Name	Symbol	Total return through Feb. 6 ^{**}				Max. sales charge	Exp. ratio	Toll-free number
		1 yr.	3 yrs.	5 yrs.	Yield [†]			
1. TIAA-CREF Social Choice Bond Retail [‡]	TSBRX	8.6%	—	—	1.8%	none	0.74%	877-518-9161
2. AAM/Cutwater Select Income A [‡]	CPUAX	7.9	—	—	2.9	3.00% ^s	0.99	888-966-9661
3. BlackRock Total Return Inv A [‡]	MDHQX	7.7	5.6%	6.0%	2.3	4.00	0.82	800-441-7762
4. Invesco Core Plus Bond A [‡]	ACPSX	7.4	4.7	5.2	3.2	4.25	0.81	800-959-4246
5. Western Asset Core Plus A [‡]	WAPAX	7.1	—	—	2.4	4.25	0.79	877-721-1926
6. Prudential Total Return Bond A [‡]	PDBAX	7.0	4.7	6.2	2.3	4.50	0.83	800-225-1852
7. Morgan Stanley Inst Core Plus FI A [‡]	MFXAX	6.9	5.2	5.8	N/A	4.25	0.96	800-548-7786
8. UBS Core Plus Bond A [‡]	BNBDX	6.8	3.6	5.0	1.4	4.50% ^s	0.64	800-647-1568
9. Touchstone Flexible Income A [‡]	FFSAX	6.7	5.0	6.9	3.6	5.75	0.98	800-543-0407
10. Guggenheim Total Return Bond A [‡]	GIBAX	6.6	7.1	—	3.8	4.75	0.86	800-820-0888
CATEGORY AVERAGE		4.9%	3.4%	4.7%				

20 LARGEST STOCK MUTUAL FUNDS

Ranked by size

Rank/Name	Symbol	Assets [‡] (in billions)	Total return through Feb. 6 ^{**}			Max. sales charge	Toll-free number
			1 yr.	3 yrs.	5 yrs.		
1. Vanguard Total Stock Market Ixd Inv [‡]	VTSMX	\$328.6	17.1%	17.4%	16.6%	none	800-635-1511
2. Vanguard 500 Index Inv [‡]	VFINX	167.4	18.1	17.5	16.3	none	800-635-1511
3. American Growth Fund of America A [‡]	AGTHX	143.4	12.9	17.4	14.9	5.75%	800-421-0180
4. Vanguard Total Intl Stock Ixd Inv [‡]	VGTSX	134.4	2.1	6.4	6.5	none	800-635-1511
5. American EuroPacific Growth A [‡]	AEPGX	123.2	3.0	9.1	7.9	5.75	800-421-0180
6. Fidelity Contrafund [‡]	FCNIX	106.8	13.6	17.1	16.3	none	800-343-3548
7. American Capital Income Builder A [‡]	CAIBX	98.1	11.8	10.7	10.2	5.75	800-421-0180
8. American Income Fund of America A [‡]	AMECX	98.0	11.8	12.1	12.2	5.75	800-421-0180
9. Franklin Income A [‡]	FKINX	92.5	6.3	9.6	10.1	4.25	800-632-2301
10. Vanguard Wellington ^{‡,†}	VWELX	87.7	12.3	12.3	11.9	none	800-635-1511
11. American Capital World Gro & Inc A [‡]	CWGIX	87.5	9.5	13.5	11.3	5.75	800-421-0180
12. Fidelity Spartan 500 Index Inv [‡]	FUSEX	83.3	18.2	17.6	16.4	none	800-343-3548
13. American Balanced A [‡]	ABALX	80.6	12.4	13.1	12.6	5.75	800-421-0180
14. American Washington Mutual A [‡]	AWSHX	77.1	15.7	16.6	15.8	5.75	800-421-0180
15. American Invstmt Co of America A [‡]	AIVSX	75.6	16.3	17.1	14.5	5.75	800-421-0180
16. American Fundamental Inv A [‡]	ANCFX	72.0	14.2	16.2	14.8	5.75	800-421-0180
17. Dodge & Cox International Stock ^{‡,†}	DODFX	64.6	5.7	12.2	9.6	none	800-621-3979
18. American New Perspective A [‡]	ANWPX	57.0	8.2	13.4	12.2	5.75	800-421-0180
19. Dodge & Cox Stock	DODGX	57.0	12.9	19.5	16.0	none	800-621-3979
20. BlackRock Global Allocation A [‡]	MDLOX	54.8	5.5	6.7	7.3	5.25	800-441-7762
S&P 500-STOCK INDEX			18.3%	17.7%	16.5%		
MSCI EAFE INDEX			2.0%	9.4%	8.1%		

*Annualized for three and five years. [†]30-day SEC yield. [‡]Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. ^sFront-end load; redemption fee may apply. ^{**}Closed to new investors. N/A Not available. —Fund not in existence for the entire period. MSCI EAFE index consists of developed foreign stock markets. SOURCE: © 2015 Morningstar Inc.

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EXPLANATION OF TERMS

Total return assumes reinvestment of all dividends and capital gains; three- and five-year returns are annualized. Returns reflect ongoing expenses but not sales charges.

Maximum sales charge A figure without a footnote means the commission is deducted from the money you send to the fund. A figure with an *r* is the maximum redemption fee charged when you sell shares. Funds that charge both sales and redemption fees are footnoted with an *s* next to the front-end load.

Expense ratio is the percentage of assets claimed annually for operating a fund.

Merging Your Lives

When you start a relationship later in life, does it make sense to marry or move in together? Answer: It's complicated. **BY SANDRA BLOCK**

LOVE MAY BE SWEETER THE SECOND (OR THIRD) time around, but for a growing number of baby boomers, love and marriage don't go hand in hand. // The number of adults older than 50 who were living together outside of marriage more than doubled between 2000 and 2010, from 1.2 million to 2.75 million, according to the *Journal of Marriage and Family*. It's not fear of commitment that keeps older couples from making their unions official, financial planners say. Rather, they're afraid marriage will saddle them with higher health care costs, wipe out retirement benefits, raise their taxes and disrupt estate plans. // Despite all that, marriage conveys 1,138



tax breaks, benefits and protections (such as guaranteed medical leave to care for a family member), according to the Human Rights Campaign.

Those prerogatives are among the reasons same-sex couples have sought the legal right to marry, just as some opposite-sex couples are choosing not to tie the knot. If you're contemplating either marriage or just moving in together, put romance aside long enough to consider these issues.

● ● SHARING COSTS AND ASSETS

Living together means either you start fresh in a new place or one of you moves into a partner's home. The latter isn't unusual for older couples, but unmarried couples need to take extra steps to protect their interests. If one partner—say, the woman—isn't on the deed, her property may not be protected by the owner's homeowners insurance, says Russ Weiss, a certified financial planner in Doylestown, Pa.

She may also be ineligible to deduct her share of the mortgage interest on her taxes, says Alan Pinck, an enrolled agent in San Jose, Calif. That's not an issue for married couples who file jointly, even if only one spouse is on the deed, he says. And if the relationship ends and she has to move out, she has few legal rights, even if she has contributed to the mortgage and other expenses. That's why for older, unmarried couples, making a cohabitation agreement isn't just a good idea, it's a necessity, says Frederick Hertz, a lawyer and coauthor of *Living Together: A Legal Guide for Unmarried Couples* (Nolo). Older partners often own homes and have investment portfolios and other assets; they may also have adult children who aren't thrilled about their parents' living arrangement. If the relationship fizzles or one partner dies, what seemed like an uncomplicated partnership could turn into a messy legal nightmare.

An attorney with experience in counseling unmarried couples can help come up with an agreement that will govern the arrangement and ad-



dress potential conflicts. For instance, if one member of the couple owns the house, the agreement would spell out whether the nonowner will contribute to the mortgage (if there is one) and other home-related costs. If the non-owner doesn't contribute, the couple might include language that states that he or she isn't obligated to reimburse the heirs for those costs after the owner dies. The agreement can

also state that if the owner moves into a nursing home, the partner can remain in the home.

If you and your partner decide to buy a home together, a cohabitation agreement should spell out the amount each will contribute to the cost of buying and owning the home. "Do you want to think of this as a business investment, in which the more you invest, the more you own? Or as a



marriage-like investment, in which you put in more because you earn more, but each partner owns 50% of the home?" Hertz asks. You can also use the cohabitation agreement to spell out how you'll split other expenses, such as groceries and household goods, utilities and travel costs.

Your cohabitation agreement should address what will happen to the home if you break up. Will one partner have

the right to buy the other out? Will you sell it? Similarly, if one partner dies, does the survivor have the right to buy out the deceased partner's share from the estate? The agreement also lets you address what should happen to other property in the event of a breakup—particularly property you owned before you got together. For example, you can include language in the agreement that states that if you part ways, "we leave with what we came with," Hertz says.

To reduce conflicts, Hertz recommends that both partners hire their own lawyer to draft the cohabitation agreement. That way, in the event of a contentious breakup, one partner can't claim that he or she didn't understand the terms of the agreement. Whenever possible, the children should be involved, too. Including adult children will reduce the likelihood that they'll challenge the terms of the agreement. "I can write an agreement that I am sure will survive a legal challenge, but surviving a legal challenge sometimes means five years and \$100,000 in fees," Hertz says. "I want to have an agreement that avoids a legal challenge, not survives it."

If children refuse to participate, partners should consider videotaping a statement in which they outline the terms of the agreement. This can be used to demonstrate that they were competent when they signed it.

● ● **SORTING OUT ESTATE PLANS**

Tom Blake, 75, author of *How 50 Couples Found Love After 50* (Tooters Publishing), has lived with his partner, Greta Cohn, for 14 years. For the first 13 years they lived together, Blake and Cohn lived in Cohn's Orange County, Calif., home. Blake rented out his home in Dana Point, Calif. After his tenants moved out last spring, they decided to move into his home.

Although Blake has no children, Cohn, 73, has four children, eight grandchildren and three great-grandchildren. Remaining unmarried, Blake says, will make it easier for Cohn to

leave her property, which includes the home in Southern California, to her children. "My feeling is that her assets should go to the people that she wants them to go to," says Blake. Cohn has set up a will and trust to ensure that her estate will go to her kids.

How marriage affects estate plans is a common concern among older couples, who are likely to bring property and other valuables into the relationship and want them to go to children from previous marriages, says Victoria Fillet, a certified financial planner in Hoboken, N.J. Once you get married, she says, "it becomes very difficult to separate your assets."

Many states have "elective share" laws that require that a specific percentage of your estate go to your spouse, even if your will states otherwise, says Howard Krooks, a partner with Elder Law Associates and past president of the National Academy of Elder Law Attorneys. In New York, for instance, the law requires that 33.3% of the estate go to the surviving spouse unless the spouse waives that right. In Florida, it's 30%. "Even if you were to try to disinherit your spouse, the state law would trump your wishes," Krooks says.

For unmarried couples, making a will is paramount, especially if they are sharing a home owned by just one member of the couple. If the homeowner dies without an estate plan, the other member of the couple could be out on the street, Weiss says. "The state will not protect your significant other," he says. "The children can kick her out right away."

For partners who want to leave their homes to their children, one way to deal with this problem is to create a life estate for the surviving partner, says Austin Frye, a certified financial planner in Miami. This contract typically gives the survivor the right to live in the home until he or she dies or moves into a nursing home, at which time the house passes on to children or other heirs. In some cases, Frye says, the agreement will set aside

money to cover maintenance and other expenses.

Although some couples remain unmarried to protect their estates, that strategy backfires if you end up paying estate taxes. If you're married, you can inherit an unlimited amount of assets from your spouse without paying state or federal estate taxes. You can also give an unlimited amount of assets to your spouse while you're alive without filing a gift-tax return.

That exemption doesn't extend to unmarried couples. Estates of up to \$5.43 million are exempt from federal estate taxes, but 13 states and Washington, D.C., have lower thresholds for their estate or inheritance taxes. In Pennsylvania, heirs who aren't spouses or family members must pay 15% on their entire inheritance. Vincent Barbera, a certified financial planner in Berwyn, Pa., has a client whose partner of 10 years will owe about \$350,000 in taxes if she inherits his estate. "My official recommendation to him is to seriously consider marriage, because there's no other

foolproof way to avoid paying the taxes," he says.

The tax code also favors married couples when it comes to inherited IRAs. A spouse who inherits an IRA can roll the account into his or her own IRA. The surviving spouse can postpone taking required minimum distributions until age 70½. In the meantime, the account will continue to grow tax-deferred. Spouses can also roll inherited Roth IRAs into their own Roth accounts; in that case, they're not required to take RMDs.

The same option isn't available to unmarried partners. However, an unmarried partner who is named as an IRA beneficiary can minimize taxes by rolling the account into an inherited IRA and taking distributions based on his or her life expectancy (see "Get The Most From Inherited IRAs," Nov.).

●● **PRESERVING YOUR BENEFITS**

Many older couples decide not to get married because they don't want to lose spousal Social Security benefits

or a former spouse's pension, says Lili Vasileff, a certified financial planner and president emeritus of the Association of Divorce Financial Planners.

Divorced spouses are eligible for Social Security benefits based on their ex-spouse's earnings record as long as the marriage lasted for at least 10 years (see "Social Security: The Best Path for You," Jan.). That's a particularly valuable benefit for women who left the workforce to care for children or aging parents and have limited benefits of their own. They'll lose that benefit, though, if they remarry.

Widows or widowers who remarry before age 60 lose survivor benefits based on their deceased spouse's earnings. Most widows receive a higher benefit by claiming their husband's monthly benefit instead of their own, according to the Center for Retirement Research at Boston College. If your second marriage ends in divorce or your spouse dies, you have the right to reapply for benefits based on your first spouse's earnings.

Unless the divorce decree says otherwise, remarriage will end alimony payments from a former spouse. In some states, cohabitation is also grounds for terminating alimony payments, although states are having a tough time figuring out how to define the term, Vasileff says.

Remarriage could also mean losing a deceased spouse's pension benefits or other types of survivor benefits, such as annuities paid to spouses of police officers and firefighters. David Demming, a certified financial planner in Aurora, Ohio, says one of his clients has been living with her partner for more than 20 years because she doesn't want to lose her late husband's worker's compensation death benefit. "There's a case where the economics against it are so overwhelming, you're never going to marry," he says.

●● **WEIGHING THE TAX BITE**

In recent years, Congress has tried to make marriage less taxing for couples and, to a great extent, it has

❖ KipTip

Documents Every Couple Needs

ALL COUPLES SHOULD HAVE DURABLE POWERS OF ATTORNEY FOR FINANCES AND health care, but these documents are even more important if you and your partner aren't married.

A **durable power of attorney** gives you and your partner the authority to manage each other's finances if one of you becomes incapacitated. A **power of attorney for health care**, sometimes referred to as a **health care proxy**, gives you the right to make medical decisions on your partner's behalf if he or she is unable to do so (see "3 Simple Steps," on page 72).

Without these documents, you could be prohibited from making decisions on behalf of your partner, even if you've been together for years. A court may grant a family member authority to make decisions about your partner's finances. "If you're not married, you have no standing under the law," says Lili Vasileff, a certified financial planner and president emeritus of the Association of Divorce Financial Planners.

An estate-planning lawyer can help you draw up power-of-attorney documents for your state. Some banks and brokerage firms won't honor power-of-attorney documents unless they meet certain conditions, so make sure the form you use will be accepted by your financial institutions. Both the power of attorney for finances and the health care proxy should be easily accessible in an emergency.

succeeded. Many young couples who tie the knot pay less in federal income tax than they would if they had stayed single. If both spouses are in the 28% or higher tax bracket, though, their combined income could trigger a marriage penalty.

The marriage penalty is particularly punishing at the top, 36.9% bracket. In 2015, that bracket kicks in for single taxpayers once their income exceeds \$413,200; for a married couple, the top rate is triggered once taxable income tops \$464,850. A couple (or individual) in the top bracket must also pay a 23.8% tax rate on dividends and long-term capital gains instead of the 15% that most taxpayers pay.

Married couples, including those with relatively modest incomes, could end up paying higher taxes on Social Security benefits than their unmarried counterparts. Taxes on Social Security benefits are based on what's known as your provisional income: your adjusted gross income (including pension payouts and retirement-account withdrawals but not counting Social Security benefits) plus any tax-free interest and 50% of your benefits. For singles, taxes don't kick in as long as the total is below \$25,000. That means an unmarried couple could have combined provisional income of up to \$50,000 without paying taxes on their Social Security benefits.

But for married couples, the hammer comes down once their combined provisional income tops \$32,000. The disparity continues up the income ladder. Married couples with provisional income of more than \$44,000 will pay taxes on 85% of their benefits; two unmarried partners could have combined provisional income of up to \$68,000 before paying tax on 85% of benefits.

Singles who live together have another advantage over married couples when it comes to taxes: flexibility. Say one member of the couple makes a lot more than the other. In that case, the high-earning member of the couple could pay the mortgage and deduct the

interest (assuming he or she is liable for the debt and has an ownership interest in the home), and the other could take the standard deduction. Or the low earner may fall below the income limit for contributing to a Roth IRA (\$131,000 in 2015), in which case he or she could fuel the account even if the high-earning partner couldn't.

But unmarried couples could pay higher taxes when they sell a home. Married couples can exclude up to \$500,000 in capital gains on the sale of a home as long as at least one spouse has owned the home and both have lived in it for two out of the five years before the sale. For an unmarried couple to qualify for up to \$500,000 of tax-free profit, both individuals must be on the deed and have owned and lived in the home for two of the five years before the sale. If only one

meets that standard, the exclusion is capped at \$250,000.

College costs. Another drawback to marriage is that it could affect your college-age children's eligibility for financial aid. The Free Application for Federal Student Aid (FAFSA), which is used to determine how much financial aid a child will receive, counts the income and assets of both spouses, even if only one is the child's parent. As long as they were married on the date the parent files the FAFSA, the government will count the stepparent's financial resources (even if he or she declines to contribute to college costs).

If the couple is unmarried, the live-in partner's assets and income aren't counted, as long as the partner isn't the child's biological or adoptive parent, says Mark Kantrowitz, senior vice-president and publisher for Edvisors.com, a financial aid Web site. Kantrowitz notes, however, that any financial support provided by the partner—which includes living expenses, gifts and loans—must be reported on the FAFSA as untaxed income to the student. If both parents live together but aren't married, they must report their income and assets on the FAFSA.

But marriage isn't always a negative where financial aid is concerned, Kantrowitz says. If both partners have children, marriage could increase the size of the household and the number of children in college, which could increase eligibility for financial aid.

Tom Blake says he and Greta Cohn haven't ruled out getting married someday, but for now, their current arrangement makes sense. "It's just a lot easier not to have to deal with inheritances and kids and everything that comes along with the decision to get married," he says. Blake, who writes an online newsletter for older singles, advises couples who want to get married to live together first, in case the relationship doesn't work out. Even if it thrives, he says, "you can have a great life together without tying the knot." ■

Medical Costs

In Sickness and in Health?

THE HIGH COST OF HEALTH CARE— particularly long-term care—can create one big disincentive for older couples to get married. Once you wed, you are responsible for your spouse's medical debts, says Howard Krooks, a past president of the National Academy of Elder Law Attorneys. If your spouse ends up in a nursing home, the cost could deplete your estate.

Medicare doesn't cover most nursing home care, and married couples' combined assets are counted when determining eligibility for Medicaid. The spouse who remains at home is generally allowed to keep a certain amount of "countable assets" (for 2015, spouses can keep up to \$119,220) along with certain exempt assets, such as a car. An unmarried partner's investments, savings and other assets usually aren't counted at all unless they're jointly owned.

BEST OF THE ONLINE BANKS

Our top picks for checking and savings have low (or no) fees and attractive yields. **BY LISA GERSTNER**

MANY BRICK-AND-MORTAR BANKS OFFER

accounts you can manage without ever setting foot in a branch. And with new mobile banking features that let you deposit checks using an app on your smartphone, banking outside the bank is getting easier than ever.

But banks that provide services exclusively through the Internet have some distinct advantages. Because online banks don't have to cover the cost of branches and tellers, they can be more generous with interest rates. The national average rate for savings accounts, for example, was recently a scant 0.09%. Some online savings accounts yield 1% or more.

For the same reason, online banks have a leg up when it comes to fees. Fewer than half of online-only checking accounts charge a monthly fee, according to personal finance site Wallet Hub (www.wallethub.com). Some online banks reimburse the ATM fees other institutions charge. And online banks tend to levy lighter penalties (or none at all) for overdrawn accounts.

If you regularly need services best handled at a bank branch, such as depositing large sums of cash or access to a safe-deposit box, an online bank account may not be for you. And many online banks limit the accounts and services they offer to a few basic options. But if you want a great place to, say, stash your emergency fund or earn real interest on your checking-account balance, our picks are worth

considering. Here are the top accounts in a variety of categories. All are protected by FDIC insurance.

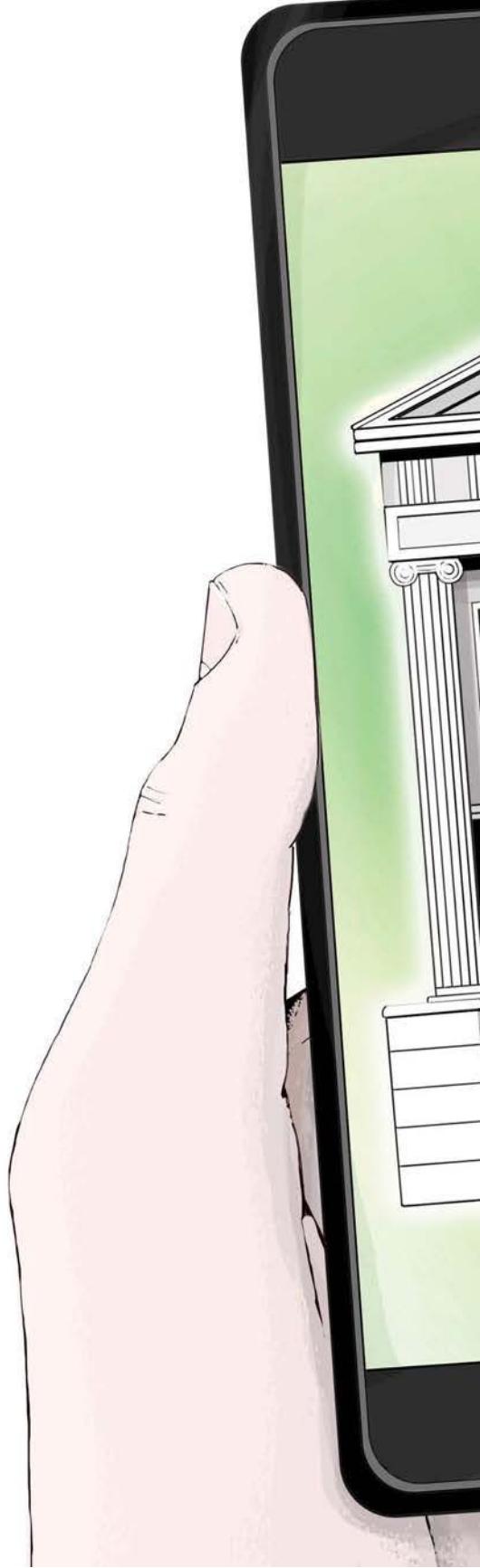
CHECKING ACCOUNTS

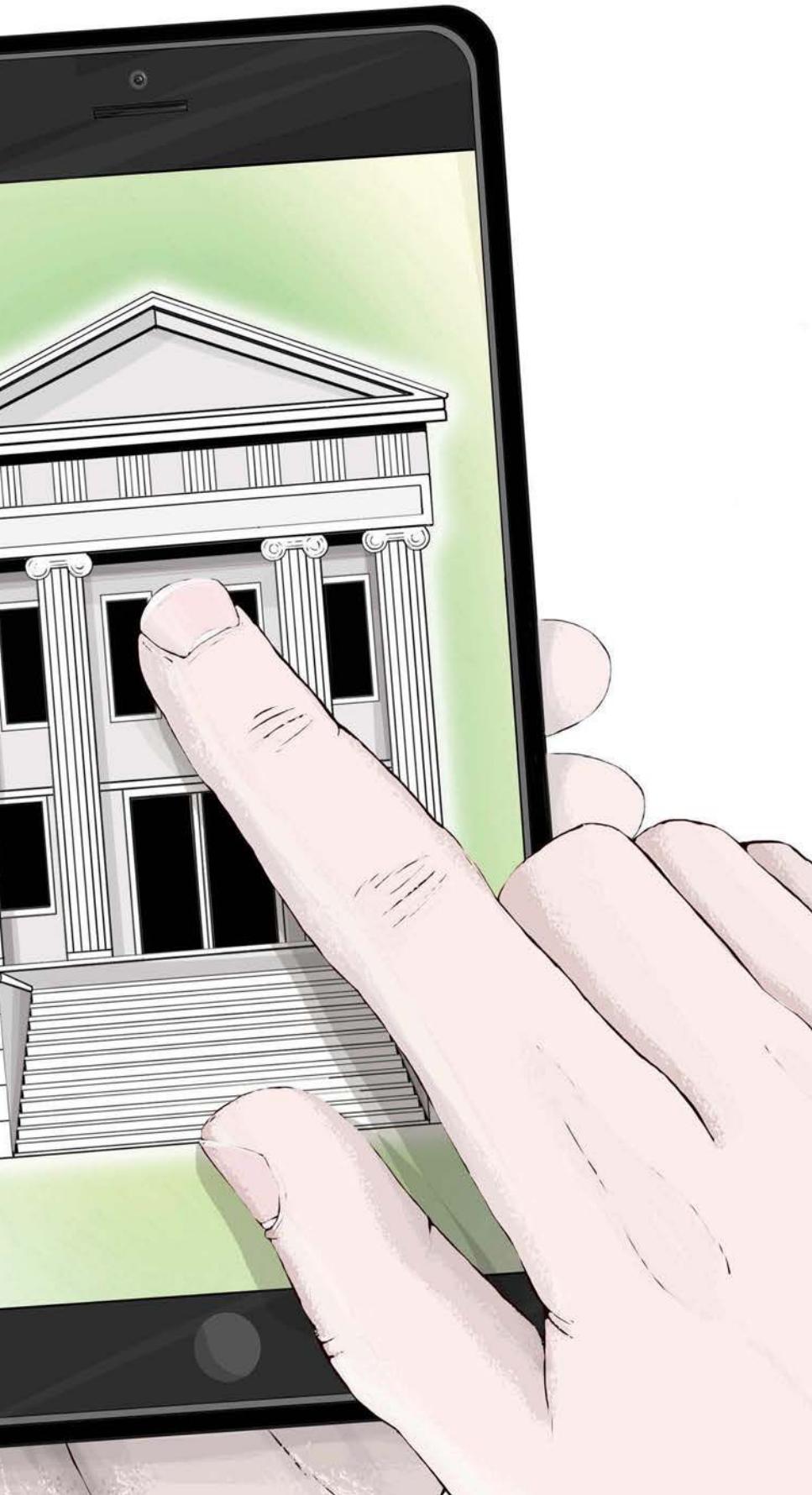
LOW FEES: **Bank of Internet USA Rewards**

Checking. You need \$100 to open this account, but as with the other checking accounts listed here, there is no minimum-balance requirement. Customers are reimbursed for all fees that other institutions charge to use their ATMs in the U.S. The account does not offer overdraft coverage, through which the bank pays the extra amount if you dip below your account balance. But you won't be charged a fee to have money automatically drawn from a linked savings account (many banks charge \$10 or more for this service). The account has other appealing perks, too: You earn 1.25% on balances of up to \$150,000 if you make a direct deposit of at least \$1,000 each month and make at least 15 debit card transactions of \$3 or more per month. You'll also get offers for cash-back rewards at certain merchants based on your spending habits.

HIGH-YIELD CHECKING: **Evantage Rewards**

Checking. You must use your debit card 10 times a month and receive electronic statements to earn 1.5% on a balance of up to \$10,000 (0.5% on amounts higher than \$10,000). Meeting the minimum activity requirement also gets you reimbursement of up to





\$25 a month for ATM withdrawal fees that other institutions charge (as well as Evantage's 75-cent fee) for both domestic and international transactions. There's no minimum-balance requirement (\$1 is enough to open the account). If you elect overdraft coverage, you'll pay a \$25 fee per item for overdrafts in excess of \$25 (no fee for smaller overdrafts). But you can link to a separate Evantage account for backup with no fees.

NO-STRINGS INTEREST CHECKING: *Bank5 Connect* High-Interest Checking.

The only requirement to earn 0.76% is to keep a \$100 minimum balance in the account—and you won't be charged a fee if your balance falls below that amount. Plus, the bank refunds up to \$15 a month in fees that other institutions charge to use their ATMs. If you opt in to the bank's overdraft coverage, you'll pay \$15 per overdraft, but having money transferred from a linked account to cover an overdraft is free. The icing on the cake: You can earn a point for every \$2 you spend on your debit card (you must sign rather than enter your PIN) and use the points for merchandise or gift cards.

NO-HASSLE OVERDRAFTS: *Capital One 360 Checking*.

Rather than charge a hefty flat fee, the bank provides a line of credit that charges an 11.25% annual percentage rate on the amount you borrow. (The bank determines how much you can borrow when you're accepted into the program and bases minimum monthly payments on the balance due.) Capital One doesn't offer the option to link your checking account to a savings account to cover an overdraft. Even for people who aren't concerned about overdrafts, it's a solid checking account: There's no minimum-balance requirement, and interest rates range from 0.2% to 0.9%, depending on your balance. To avoid ATM surcharges from other banks, you must use one of the 2,000 Capital One ATMs or one of the 38,000 domestic ATMs in the Allpoint network.

SAVINGS ACCOUNTS

EMERGENCY FUNDS: GE Capital Bank Online Savings and MySavingsDirect MySavings (tie). Neither account has a minimum-balance requirement, and each pays 1.05% in interest. The banks won't charge you transaction fees to move money into or out of the accounts (but check with any other banks involved in the transfer about their fees). Plus, there are no inactivity fees if your account sits untouched for a while, although funds in accounts left idle for years may eventually be turned over to your state's government.

BIG BALANCES: UFB Direct Savings. If you have \$25,000 or more in the account, the full balance earns 1.25% (a balance of less than \$25,000 earns 0.20%). There's no minimum-balance requirement and no inactivity fee. After you make your first deposit, UFB Direct doesn't initiate transfers into or out of its savings accounts with other banks, so check whether other institutions that you use as a funding source charge fees for transfers.

SAVING FOR A GOAL: Barclays Dream Account. If you're saving for, say, a big vacation or a down payment on a

home, consider this account. It pays a respectable 1.05% interest rate and has no minimum-balance requirement. It also offers the opportunity to earn a few more bucks in interest each year: Every time you make a deposit into the account for six consecutive months, you'll get a 2.5% bonus on the interest earned during that period. And if you make no withdrawals for six months, you earn an additional 2.5% bonus on interest earned. You can't deposit more than \$1,000 per month in a single account, but you can have up to three accounts.

CERTIFICATES OF DEPOSIT: Nationwide. The insurance giant's online banking arm consistently provides relatively healthy interest rates across the board on certificates of deposit, which require a \$500 minimum deposit. With a deposit of less than \$100,000, you'll earn 1.14% on a one-year CD, 1.33% on a two-year CD and 1.45% on a three-year CD (other maturities are available); deposits of \$100,000 or more earn 0.05 percentage point more. Early-withdrawal penalties are reasonable: 90 days' interest on the amount withdrawn from a one-year CD and 180 days' interest for a two- or three-year CD.

A DO-IT-ALL BANK

Ally offers a range of accounts with low fees and competitive interest rates, making it an attractive choice if you want to do all your banking under one virtual roof. The Interest Checking account, yielding 0.60% on balances of \$15,000 or more and 0.10% on smaller balances, requires no minimum balance. Plus, Ally reimburses all fees that other banks charge customers to use their ATMs domestically. The overdraft fee is \$9 per item, with a maximum of one fee per day, but having money transferred from a linked account is free.

With a 0.99% rate and no minimum-balance requirement, Ally's Online Savings account competes with other top-yielding accounts. The money market deposit account (no minimum balance) has a smaller yield of 0.85%, but it comes with a debit card and checks. And Ally's certificates of deposit have competitive rates (1.05% on a one-year CD) and no minimum-deposit requirement. Early-withdrawal fees are below average, ranging from 60 to 150 days' worth of interest. The No Penalty CD, with no early-withdrawal fee, has a lower yield (0.87% for an 11-month term). ■

At a Glance

FIND THE ONLINE CHECKING ACCOUNT THAT SUITS YOU BEST

None of these accounts charges a monthly maintenance fee or requires that you keep a minimum balance. Interest rates and fees are as of early February.

Checking account	Minimum deposit to open	Reimburses ATM fees	Overdraft policy	Pays interest	Mobile deposit	Free bill pay
Ally Interest	No	Unlimited	\$9 per day; free transfer from linked account	0.1% for balances up to \$10,000; 0.6% on larger balances	Yes	Yes
Bank of Internet USA	\$100	Unlimited	Free transfer from linked account	Tiered rates up to 1.25%	Yes	Yes
Bank5 Connect	\$10	Up to \$15 per billing cycle	\$15 per item; free transfer from linked account	0.76% with minimum balance of \$100	Yes	Yes
Capital One 360	No	No	You pay interest on line of credit	0.2% up to \$50,000; 0.75% up to \$100,000	Yes	Yes
Evantage	\$1	Up to \$25 a month	\$25 per item; free transfer from linked account	1.5% on balances up to \$10,000; 0.5% on larger balances	No	10 payments a month

SOURCES: Online banks

JANE BENNETT CLARK > Rethinking Retirement

Retire on the Road

Here's one of my retirement fantasies: Sell the house and put just a few things in storage. Explore this country, then spend a month in Provence and a month in Tuscany. After a year of traveling, come back, settle down in a condo, and savor the memories.

Lynne and Tim Martin had a much bolder plan. Four years ago, they sold their house in Paso Robles, Calif., and embarked on an open-ended journey that, in the first year and a half alone, included stays in Buenos Aires, Istanbul, Paris, Florence, London and Marrakech. Since then, they have spent seasons in California, New York City and Paris, with stops in Berlin and Lisbon. The couple (Lynne, now 74, once owned a public relations firm; Tim, 69, owned an electronics company) are perpetual travelers. They have no permanent home.

The Martins' vagabond lifestyle may seem like a drastic way to get the extra mile out of retirement, but plenty of similarly adventurous retirees set up housekeeping full-time or part-time in Europe, Latin America, Asia or other parts of the world. To get an idea of how many, note that the Social Security Administration sends nearly 375,000 benefit payments to banks or addresses in other countries. Plus, that statistic understates the number of retirees living abroad because many expats have their checks deposited in U.S. banks.

Affordable adventure. Why would anyone want to leave family, friends and familiar territory for foreign climes? Adventure is one reason, but for some, affordability is the bigger appeal. Costa Rica, Ecuador and Malaysia are among the many countries where you can live the good life on \$25,000 a year while enjoying great natural resources and a rich culture, according to *The International Living Guide to Retiring Overseas on a Budget*, by Suzan Haskins and Dan Prescher (www.internationalliving.com).

Another boon to the expat: the Internet.

The Martins bank and pay bills online, use PayPal to pay for home rentals, and have their Social Security checks deposited to their U.S. account. They go online to research destinations and book travel, and they get face time (if not hug time) with their grandchildren via Skype.

Like most retirees, stateside or otherwise, the Martins finance their living expenses through savings and Social Security income. "We live on exactly the same amount of money as when we lived in the house," says Lynne, who wrote about their peripatetic retirement in *Home Sweet Anywhere* (Sourcebooks). As with any budget, sticking with it involves trade-offs. Rather than stay in hotels, they rent more-affordable vacation homes through HomeAway. And they offset expensive sojourns in, say, Paris with stays in cheaper locales, such as Portugal. Because Medicare doesn't cover care beyond U.S. borders, the Martins buy travel insurance for the periods when they're out of the country. When they are no longer able to travel, they'll settle back in California, near their adult children.

Reading Lynne Martin's accounts of moonlit mosques in Istanbul, snake charmers in Marrakech and duck cassoulet in Paris tempted me to up the ante on my own plans. Why not skip the U.S. travel and try something more exotic? And why one year and not two? But a series of questions posed by Haskins and Prescher give me pause. Among them: Can you learn to speak a new language? (Not easily.) Are you okay with adventure? (Only in small doses.) "Know thyself" is the mantra in both of the books, and I know that adapting to change is not my strong suit.

So maybe I'll stick with my original idea or come up with something completely different. Whatever the plan, I like the idea of retirement as a road trip to new destinations, even if you never leave home. ■



“

Plenty of adventurous retirees set up housekeeping full-time or part-time in Europe, Latin America, Asia or other parts of the world.”

Last-Minute Tax Savers

Can't get through to the IRS? Forget the feds. We have answers that could save you a bundle. **BY SANDRA BLOCK**

THIS THREATENS TO BE A messy tax season, particularly for last-minute filers. Citing budget constraints, the IRS has warned taxpayers that it will probably answer only about half of the phone calls from taxpayers seeking help this year. Meanwhile, new filing requirements mandated by the Affordable Care Act could create extra work for tax preparers, making it more difficult to get help at the midnight hour. Don't miss the following changes.

ZOMBIE TAX BREAKS

To the surprise of no one, Congress waited until December to revive some tax-saving provisions that expired at the end of 2013. The tax breaks that refuse to die include a deduction for state and local sales taxes that you can take instead of the write-off for state income taxes. This deduction primarily benefits residents of the nine states that have no income tax. But residents of states with low income taxes, as well as older residents of states that offer special breaks on retirement income, could also nab a bigger tax break by deducting sales taxes, says Greg Rosica, contributing author to the *EY Tax Guide*.

2015. Go to www.irs.gov and search for "sales tax deduction calculator" to figure out how much you can deduct in sales taxes, based on your income and your state and local sales tax rates. If you bought a car, boat or airplane last year, you can add the sales tax you paid to the amount shown by the IRS calculator.

Congress also resuscitated a provision that allows some homeowners to deduct mortgage insurance premiums. Lenders typically require home buyers who put less than 20% down to buy private mortgage insurance. You're eligible for this tax break if you took out your loan after 2006 and if your 2014 adjusted gross income was \$109,000 or less.

Finally, Congress reanimated a provision that allows taxpayers who are 70½ or older to transfer up to \$100,000 directly from their individual retirement accounts to charity. The transfer counts as your required minimum distribution and isn't included in your adjusted gross income. Reducing your AGI could help you avoid or reduce taxes on your Social Security benefits and stay below the cutoff for the Medicare high-income surcharge.

If you squeezed in a direct transfer to charity during the two weeks between when Congress revived this break and New Year's Eve (or took a chance and did it earlier, when the provision was still in limbo), you're in luck. But if you took your RMD and donated part or all of it to charity, you'll have to report the full RMD and then deduct your contribution.

Congress declined to make these tax breaks permanent or even extend them through 2015. The soon-to-be Republican-controlled Congress wanted the flexibility to revise the tax code this year, which could involve scrapping some tax breaks in exchange for lower tax rates, says Mark Luscombe, principal analyst at tax publisher CCH. (Both parties remain far apart on how to accomplish that goal.)

TAXES ON INVESTMENT INCOME

If the economic recovery or bull market enhanced your balance sheet last year, you may have to pay a new 3.8% surtax on your investment income. The surtax, which arrived in 2013 as part of the Affordable Care Act, affects single taxpayers





with modified adjusted gross income of \$200,000 or more, and married taxpayers with modified adjusted gross income of \$250,000 or more.

The surtax is based on your investment income or the amount by which your modified AGI (which includes investment income) exceeds the threshold, whichever is less. If you are blindsided by the surtax this year, it's not too early to start making your portfolio more tax-efficient for 2015. Tax-exempt interest, for example, avoids the surtax as well as the regular income tax.

CHECK THE BOX ON HEALTH CARE

The health care law's tax requirements represent the most significant change in this year's forms. Most taxpayers, though, will simply have to check a box on their tax returns.

If you and other members of your household had health insurance through your employer throughout 2014, check the box at line 61 on Form 1040. You can also check the box if you or other members of your household received health insurance through Medicare, Medicaid or a program such as Tricare, which covers members of the military, says Mark Ciaramitaro, vice-president of health care services at H&R Block. You may receive a Form 1095-C from your employer confirming your coverage, but that's not required for 2014, so you don't need one to be able to check the box.

If you bought health insurance through one of the state exchanges, you will have more work to do. By now, you should have received Form 1095-A from the exchange. This form shows your monthly premium and the amount of any subsidy you received. You can't complete your return without this statement, so if you didn't receive it, log on to your health care marketplace Web site and look for an electronic version.

Use this information to fill out Form 8962, which is used to determine whether your subsidy (based on the estimate you provided of your 2014 family income) was too large or too small. If you overestimated your income, you'll receive a credit in the form of a larger tax refund or smaller tax bill. If you underestimated, the opposite will occur: The excess subsidy will eat into your refund or hike the tax due with your return.

Taxpayers who were uninsured for part or all of the year may, for the first time, have to pay a penalty. The penalty for 2014 is \$95 per person or 1% of your household income above the filing threshold, whichever is higher.

The law provides a long list of exemptions from this requirement, so check them out before you pay. For example, taxpayers who went without coverage for less than three consecutive months won't be penalized. You can find the full list of exemptions at www.healthcare.gov; type "exemption" in the search box.

TRIMMING THE BILL

Even at this late date, you can take steps to reduce your 2014 tax bill.

Contribute to a traditional IRA.

You have until April 15 to make a 2014 contribution to your IRA. The IRA deduction is “above the line,” which means you can claim it even if you don’t itemize on your tax return. It will reduce your adjusted gross income on a dollar-for-dollar basis, which could also make you eligible for other tax breaks that are tied to AGI.

If you’re not enrolled in a 401(k) or some other work-

place retirement plan, you can deduct an IRA contribution of up to \$5,500 (\$6,500 if you’re 50 or older) no matter how high your income. But if you have a company plan, the right to the IRA deduction is phased out as 2014 income rises between \$60,000 and \$70,000 on a single return or between \$96,000 and \$116,000 if you’re married and file jointly (see “Low-down,” on page 70).

If your spouse is covered by a workplace-based retirement plan but you are not, you can deduct your full IRA contribution as long as your joint modified

AGI doesn’t top \$181,000 for 2014. You can take a partial tax deduction if your combined income is between \$181,000 and \$191,000.

Contribute to a SEP IRA.

If you or your spouse earned self-employment income last year, you can shelter even more income with a SEP IRA. In 2014, you can contribute up to 25% of net self-employment income (business income minus half of your self-employment tax), up to a maximum of \$52,000. You have until April 15 (or October 15 if you file for an extension) to set up and fund a SEP.

Fund a health savings account.

You also have until April 15 to set up and fund a health savings account for 2014. To qualify, you must have had an HSA-eligible insurance policy—with a deductible of at least \$1,250 for individual coverage or \$2,500 for family coverage—at least since December 1. You can contribute up to \$3,300 if you had single coverage or \$6,550 if you had family coverage (you can contribute an additional \$1,000 if you were 55 or older in 2014). Money you invest in a health savings account will reduce your AGI on a dollar-for-dollar basis. ■



Don't Miss Out on These Tax Breaks

IN YOUR RUSH TO BEAT THE DEADLINE, DON'T MISS THESE tax-saving deductions (for more often-overlooked deductions, see kiplinger.com/links/overlooked).

Out-of-pocket charitable costs. You probably kept track of the checks you wrote to charities last year, but if you volunteered, you may be eligible for an additional deduction. If you drove your car for charitable work, you can deduct 14 cents per mile, plus tolls and parking fees. Other deductible expenses include ingredients you purchased to prepare food for a soup kitchen and stamps for a school's fund-raising mail campaign. One thing you can't deduct, no matter how involved you are with your favorite cause, is the value of your time.

Job-hunting expenses. With the economy on the rebound, lots of people changed jobs last year or revved up their search for better-paying employment. If you were among them, you may be able to deduct some of your costs, even if you didn't land a job. To qualify for this deduction, you must have looked for a job in your same line of work as your current or most recent job. (The costs of searching for your first job don't qualify.) Also, you must itemize, and your expenses can be deducted only to the extent that total miscellaneous expenses exceeded 2% of your adjusted gross income. Eligible expenses include transportation costs, including 56 cents per mile for driving your own car; employment agency fees; and the cost of printing résumés and business cards.

State tax paid last spring. If you wrote a check when you paid your 2013 state income tax last spring, include that when you deduct state taxes on your 2014 return, along with state tax withheld from your paychecks or paid through quarterly estimated tax payments.

Refinancing points. Did you take advantage of rock-bottom interest rates to refinance last year? Unfortunately, you can't deduct all of the points you paid, as you do with a new mortgage. Instead, you have to deduct the points over the life of the loan. On a 30-year mortgage, that works out to one-thirtieth of the points, or \$33 a year for each \$1,000 in points you paid. If you sell your house or refinance again, you'll be allowed to deduct all of your undeducted points, unless you refinance with the same lender. In that case, you add the points from the latest deal to those left over from the previous refinancing and deduct that amount over the life of the new loan.

Medicare premiums for the self-employed. Many seniors who leave the workforce start their own business because they're not ready to retire (the money is nice, too). If you're self-employed and qualify for Medicare, you can deduct the premiums for Medicare parts B and D, plus the cost of medigap or a Medicare Advantage plan. The deduction is available even if you don't itemize, and it isn't subject to the 7.5% of AGI test for unreimbursed medical expenses.

Just Say No to Medicare?

It might make sense to delay signing up. We guide you through the Medicare maze. **BY KIMBERLY LANKFORD**

YOU ARE ELIGIBLE FOR MEDICARE WHEN

you turn 65. But these days, the decision to sign up is not a slam-dunk. For example, after you enroll in Medicare, you can no longer contribute to a health savings account. If, however, you work for a company with fewer than 20 employees, you usually don't have a choice: Medicare Part A, which covers hospitalization, must be your primary insurance. The decision to sign up or not also depends on whether you're receiving Social Security benefits and whether your spouse has coverage through your health insurance. If you miss key deadlines, you could have a gap in coverage, miss out on valuable tax breaks or get stuck with a penalty for the rest of your life.

► THE SOCIAL SECURITY RULE

If you enroll in Social Security before age 65, you'll automatically be enrolled in Medicare Part A and Part B when you turn 65. Part A covers hospital costs and is premium-free if you or your spouse paid Medicare taxes for at least 10 years. Part B covers outpatient care, such as doctor visits, x-rays and tests, and costs most people \$104.90 per month in 2015 (see the box on page 60). Part B premiums are deducted from your Social Security benefits.

You'll receive your Medicare card in the mail three months before your 65th birthday. If you're still working and don't want Part B yet, you can

send back the card and have it reissued for Part A only, but you can't turn down Part A if you're enrolled in Social Security. Call Social Security at 800-772-1213 with details about your situation to make sure you won't be penalized for enrolling late in Part B.

If you haven't claimed Social Security benefits, enrollment in Medicare isn't automatic. If neither you nor your spouse has employer health coverage, you should sign up for both Part A and

Part B. Go to SocialSecurity.gov to sign up three months before or after the month you turn 65—even if you aren't signing up for Social Security.

If you miss the seven-month window, you'll be able to enroll in Medicare only at limited times during the year (from January through March, with coverage starting July 1), and you may have to pay a lifetime late-enrollment penalty of 10% of the current Part B premium for every year you should have been enrolled in Part B.

► IF YOU HAVE EMPLOYER COVERAGE

If you have coverage through an employer with 20 or more employees, you don't have to sign up for Medicare when you turn 65 because the group policy pays first and Medicare pays second. (If your spouse is covered under your policy, the same rules apply.) Most people with employer coverage enroll in Part A at 65 because it's free (unless they want to contribute to a health savings account—see next page). But you don't have to sign up for Part B if you're happy with your existing coverage. You'll avoid a future penalty



KEN KLEBAN (WITH HIS WIFE, JACKIE) DELAYED SIGNING UP FOR MEDICARE SO HE COULD KEEP FUNDING HIS HEALTH SAVINGS ACCOUNT.

as long as you sign up for Part B within eight months of leaving your job.

If you work for a company with fewer than 20 employees, however, Medicare is considered your primary coverage and your employer's insurance pays second. You generally must sign up for Medicare Part A and Part B at 65, although sometimes small employers negotiate with their insurers to provide primary coverage to people over 65. If your employer says it will cover your outpatient costs first, "it's really important to get that in writing," says Casey Schwarz, of the Medicare Rights Center.

Only coverage from a *current employer* with 20 or more employees counts as primary coverage. Retiree health insurance and coverage under COBRA, the law that allows a temporary extension of employer benefits, don't count. So if you don't sign up for Medicare Part A and Part B at age 65, you could have coverage gaps and face the lifetime penalty.

Medicare rules for federal employees

who are 65 and older and still working are the same as they are for employees still working for other large employers. But the rules are different for federal retiree coverage than for other retiree coverage. If you haven't signed up for Medicare, federal retiree coverage is the primary insurance (Medicare pays first if you have it). But if you change your mind and miss the window for signing up after you leave your job, you will face a late-enrollment penalty.

If you didn't enroll in Part B at 65 because you had coverage through your employer (even if you signed up for Part A), you'll need to sign up within eight months of leaving your job to avoid the penalty. You won't be able to enroll online, because you'll need to provide evidence of "creditable coverage" from your employer from the time you turned 65.

Joan Baraba of Chesterfield, Mo., was still working as a banking executive when she turned 65 in July 2013. She and her husband, Edward, had good coverage through her employer,

so he signed up for Part A at 65, and she waited to sign up for benefits. A few months before she retired in July 2014, she applied for parts A and B and Edward applied for Part B. Doing so was complicated because they had to provide evidence that they had been covered by her employer since age 65. "It took several months to go through the process," she says. She recommends starting the paperwork six months before you plan to retire, so you don't have a gap in coverage.

► HSA VERSUS MEDICARE

An HSA, which must be paired with a high-deductible policy, offers tax advantages, and some employers contribute money, too. But you can't contribute to an HSA after you sign up for Medicare Part A or Part B.

Before you delay signing up for Medicare to continue contributing to an HSA, do a cost-benefit analysis to determine whether the HSA tax breaks, employer contributions and other benefits are more valuable than free Part A, recommends Elaine Wong Eakin, of California Health Advocates.

That's what Ken Kleban, a lawyer in St. Louis, did before he turned 65 this year. "It was going to cost me thousands more dollars to go on Medicare," he says. He kept his company's high-deductible plan for himself and his wife, Jackie, and delayed signing up for Medicare so he could continue making pretax contributions to the HSA.

Kleban will reassess his decision to choose the HSA instead of Medicare every year. But he plans to use the HSA for his post-retirement medical expenses. He has paid out of pocket rather than tap his HSA for many medical expenses so the money in the HSA would grow tax-free. He has several manila folders with eligible medical bills he incurred since opening the HSA six years ago, for which he can withdraw funds tax-free even after he signs up for Medicare. You can also use HSA money tax-free to pay Medicare Part B, Part D and Medicare Advantage (but not medigap) premiums. ■

❖ What You'll Pay

Adding Up the Cost of Medicare

BEFORE YOU DECIDE TO SIGN UP FOR MEDICARE OR STAY ON AN EMPLOYER'S health plan, compare all the costs. Your employer's coverage may be less expensive.

You don't pay a premium for Medicare Part A, which covers hospitalization. But for Medicare Part B, which covers outpatient care, most people pay \$104.90 per month. Single enrollees earning more than \$85,000 and married enrollees filing jointly and earning more than \$170,000 pay \$146.90 to \$335.70 per person per month.

Unless you have retiree health insurance, you'll probably want a medigap policy to help cover co-payments and deductibles, and a Part D drug plan to cover prescription drugs. Part D averages \$32 per person (plus a high-income surcharge that boosts premiums by \$12.30 to \$70.80 per person if income is above \$85,000 for singles or \$170,000 for couples). The most popular medigap policy, Plan F, has a median premium of \$172 per month, according to Weiss Ratings.

Even without the high-income surcharges, your monthly costs to sign up for Part B, medigap insurance and Part D will run about \$309 per person per month. You may be able to save money by buying a Medicare Advantage plan, which offers medical and drug coverage through a private network of providers; you pay the Part B premium plus an average Medicare Advantage premium of \$33.90 a month.

You can get help with Medicare decisions from the Medicare Rights Center (www.medicarights.org; 1-800-333-4114) or your local State Health Insurance Assistance Program (www.shiptalk.org; 1-800-633-4227).



Approaching Medicare eligibility?

Now may be a good time to think about what's right for you.

GO LONG®

Did you know that Medicare doesn't cover everything?

Medicare covers only about 80% of Part B medical costs. That means the rest is up to you. But a standardized Medicare supplement insurance plan could help save you in out-of-pocket medical costs.

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KIMBERLY LANKFORD > Ask Kim

Track Down Unclaimed Assets

WHILE I WAS CLEANING OUT THE basement, I found an old American Security and Trust savings passbook with about a \$900 balance from more than 40 years ago. The bank doesn't exist anymore. How can I find out if the account has any value now?

E.L., LUTHERVILLE, MD.

Start by tracing the bank's history through the Federal Deposit Insurance Corp.'s BankFind tool (research.fdic.gov/bank/find). Turns out that after several acquisitions and mergers, American Security and Trust Co. is now part of Bank of America.

Next, call Bank of America to see if it has a record of your account. Chances of that are slim. Banks usually turn accounts over to the state as unclaimed property after several years have passed without any activity or contact—typically after three to five years for deposit accounts (it's three years in Maryland), says Betty Riess, of Bank of America. State unclaimed-property divisions also hold uncashed checks for dividends and wages, utility security deposits and uncollected insurance benefits.

Check the unclaimed-property database for the state where the account was opened and the states where you have lived (you'll find links to each state at www.unclaimed.org). You can also search the databases of 39 states at MissingMoney.com. You may need to ask the state to perform a manual search for accounts as old as yours, says Riess.

If the state is holding the money, you'll need to provide documentation of your identity and the claim, such as the old passbook, bank statement or canceled checks.

Roll over a pension lump sum? I'm looking into options for rolling over a pension payout. Can I roll it over to a Roth IRA?

T.L., EL PASO, TEXAS

You generally can roll a pension lump sum into a Roth IRA, but that may not be a good idea. You'll have to pay taxes on the roll-

over, as you would with any Roth conversion, and a big conversion in one year could bump you into a higher tax bracket or have other ripple effects, such as making you subject to the Medicare Part B and Part D high-income surcharges.

Another option is to roll the pension money directly into a traditional IRA, which creates no new tax bill, then gradually convert some of the money to a Roth every year. If you use that approach, keep an eye on your tax bracket and other income limits.

Figuring the basis of old stock. I bought shares of GTE nearly 50 years ago, and it eventually became Verizon stock. I'm trying to figure out what the cost basis would be if I sell the shares, but I am having a hard time because of the splits, mergers and spin-offs.

R.M., COLLEGE PARK, MD.

Verizon has a calculator on its site that can help you figure out your basis if you originally had GTE, Bell Atlantic, NYNEX or Contel shares (Bell Atlantic and NYNEX shares from the AT&T divestiture require a trickier series of calculations). Many companies' investor services sites have worksheets or helpful information. A database such as Wolters Kluwer's Capital Changes, available in libraries, can also help.

Try to find a record of the purchase date and price. If you can't track that down, ask the company's investor services or your brokerage firm for information. Brokers must now keep cost-basis data for stocks bought in 2011 or later, but most have older records. You might also find clues in your tax files—for example, showing when you started paying taxes on the dividends.

Another option is to give the shares to charity. You'll get a tax deduction for the current value of your Verizon stock and never have to figure out the basis. ■

GOT A QUESTION? E-MAIL ASKKIM@KIPLINGER.COM. KIMBERLY LANKFORD ANSWERS MORE QUESTIONS EACH WEEK ON KIPLINGER.COM.



Banks usually turn accounts over to the state if several years have passed without any activity."

CREDIT >

Banks Free Up Your FICO Credit Score

BIG BANKS ARE JUMPING ON the bandwagon to provide free credit scores to their customers. The majority are offering FICO scores, the most commonly used measure of creditworthiness among lenders. Citibank says that most of its consumer cardholders can now go online to see their FICO scores. Bank of America says it will provide FICO scores to its consumer card users later this year. Ally

● ● Kiplinger.com

RATE UPDATES

For the latest savings yields and loan rates, visit kiplinger.com/finances/yields.

Financial is conducting a pilot program to supply FICO scores to its car-loan customers; a full launch is planned for this summer. Those three issuers join Barclaycard, Discover, Pentagon Federal Credit Union and Sallie Mae, which already offer FICO scores.

Depending on your lender, you may be able to see your score on your monthly statement.

LISA GERSTNER

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds**	0.10%	0.10%	0.10%
U.S. Series I savings bonds	1.48	1.48	1.38
Six-month Treasury bills	0.08	0.10	0.08
Five-year Treasury notes	1.44	1.50	1.52
Ten-year Treasury notes	1.90	1.97	2.73

As of February 6, 2015. *EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.

● Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.

● Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.

SOURCES FOR TREASURIES: Bloomberg, U.S. Treasury.

TOP-YIELDING MONEY MARKET ACCOUNTS

Taxable Funds	30-day yield as of Feb. 3	Min. investment	Web site (www.)
Davis Govt. MMF A (RPGXX)*	0.09%	\$1,000	davisfunds.com
Meeder Money Market Retail (FMMX)*	0.06	2,500	meederfinancial.com
BlackRock Liquid: T-Fnd Prem (BEMXX)*§	0.03	500	blackrock.com
Delaware Cash Reserves A (DCRXX)*§	0.03	1,000	delawareinvestments.com
NATIONAL AVERAGE	0.02%		
Tax-Free Funds	30-day yield as of Feb. 2	Tax. eq. yield 25%/39.6% bracket	Min. investment
PNC Tax-Ex MMF A (PXAXX)*	0.02%	0.03%/0.03%	\$1,000
Alpine Muni. MMF (AMUXX)*‡	0.01	0.01/0.02	2,500
American Cent T-F Inv (BNTXX)*‡	0.01	0.01/0.02	2,500
BMO Tax-Free MMF Y (MTFXX)*‡	0.01	0.01/0.02	1,000
NATIONAL AVERAGE	0.01%	0.01%/0.02%	
Deposit Accounts:#	Annual yield as of Feb. 9	Min. amount	Web site (www.)
GE Capital Bank (ILL)*†	1.05%	none	gecapitalbank.com
My Savings Direct (N.Y.)*†	1.05	\$1	mysavingsdirect.com
EverBank (Fla.)*†	1.01	1,500	everbank.com
Barclays Bank (Del.)*&	1.00	none	banking.barclaysus.com
NATIONAL AVERAGE	0.09%		

*Fund is waiving all or a portion of its expenses. §HSBC Prime, HSBC U.S. Govt. and PNC MMFs offer similar yields. †Various fund companies offer similar yields. #Deposit accounts include money market deposit accounts and high-yield savings accounts. †Internet only. &AbleBanking, iGOBanking.com and Synchrony Bank offer similar yields. SOURCE: Money Fund Report, iMoneyNet, One Research Drive, Westborough, MA 01581 (508-616-6600, www.imoneynet.com).

TOP-YIELDING CERTIFICATES OF DEPOSIT

	Annual yield as of Feb. 10	Min. amount	Web site (www.)
1-Year			
Connexus Credit Union (Wis.)*	1.30%	\$5,000	connexuscu.org
iGOBanking.com (N.Y.)*†	1.30	1,000	igobanking.com
Chartway Fed. Credit Union (Va.)*	1.21	10,000	chartway.com
HeritageWest Credit Union (Utah)*	1.21	10,000	heritagewestcu.com
NATIONAL AVERAGE	0.28%		
5-Year	Annual yield as of Feb. 10	Min. amount	Web site (www.)
Barclays Bank (Del.)*†	2.25%	none	banking.barclaysus.com
GE Capital Bank (ILL)*†	2.25	\$500	gecapitalbank.com
Nationwide Bank (Ohio)*†	2.25	500	nationwide.com
Synchrony Bank (N.J.)*†	2.25	25,000	myoptimizerplus.com
NATIONAL AVERAGE	0.87%		

*Must be a member; to become a member see Web site. †Internet only. SOURCE: © 2015 Bankrate.com, a publication of Bankrate Inc., 11760 US Highway 1, N. Palm Beach, Fla. 33408 (800-327-7717, ext. 11410; www.bankrate.com/kip).

LOW-RATE CREDIT CARDS

Issuer	Rate as of Feb. 6*	Annual fee	Late fee	Web site (www.)
First Command Bank (P)	6.25%	none	\$25†	firstcommandbank.com
Lake Michigan Credit Union (P)	6.25	none#	25†	lmcu.org
Citizens Trust Bank (G)	7.25	none	25†	ctbconnect.com

RETAIL REBATE CARDS

Issuer	Rate as of Feb. 9*	Annual fee	Rebate earned Store/Other	Web site (www.)
Target REDcard	22.90%	none	5%/none‡	target.com/redcard
Amazon.com Rewards Visa	14.24	none	3/1%§	amazon.com/rewards
Costco True Earnings Card	15.24	none&	1/1§	americanexpress.com

Rates are adjustable. *If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (P) Platinum. (G) Gold. †\$25 if late more than once in 6 months. #Must be a member of the credit union; to become a member see Web site. ‡For use only at Target stores and Target.com. §2% at gas stations, restaurants, office supply stores and drugstores; 1% on all other purchases. &Must be a Costco member. §3% on gas (up to \$4,000 annually; 1% thereafter); 2% on restaurants and travel; 1% on all other purchases.

Let It Go

Winnowing your possessions can simplify your life and put some money in your pocket. BY LISA GERSTNER

ILLUSTRATIONS BY
JACQUELINE WAGNER





MAYBE YOU'RE DOWNSIZING FROM A SPRAWLING HOUSE IN THE SUBURBS
to a downtown condo. Perhaps a parent is moving to a retirement community, and you and your siblings are excavating the family home. Or maybe you're just plain tired of having too much stuff.

Whatever the reason, having fewer possessions can simplify your life and put some cash in your pocket. But doing it the right way requires patience and possibly help from the pros.

What's the right way? That depends on how many belongings you have, your timeline and how much of the work you're willing to do on your own. For large-scale downsizing, estate-sale and auction professionals can help sift through your stuff, estimate its value and sell it for a good price. If you have a number of valuable items to sell but not enough to warrant a large sale (or if you want a shot at selling things that didn't go in the first attempt), consider consignment shops and Web sites such as eBay. And don't forget charitable donations, which can reward your generosity with a tax deduction.

If you're selling or donating items of significant value—or if you're not sure whether they're valuable—call in an appraiser. At www.appraisers.org, you can search for accredited personal-property appraisers by location and specialty. Fees vary by region and by the appraiser's accreditation level but may range from \$125 to \$300 per hour. Or an estate-sale or auction company that you hire may have qualified appraisers on staff. Ask appraisers about their credentials (such as accreditation from the American Society of Appraisers, the International Society of Appraisers or the Appraisers Association of America) and how long they've conducted appraisals.

Invite family members to take anything you're willing to give away. For those who aren't in your region, you could post photographs of items online with a tool that everyone can access, such as Dropbox, suggests Mary Kay Bussse, executive director of the National Association of Senior Move Managers. Don't overlook items that may have sentimental value. "A lot of times, it's the grandchildren who want Grandmother's apron or her china set," says Victoria Roberts, a certified professional organizer and owner of Victoria Roberts Organizing, in Mill

Valley, Calif. But in your enthusiasm to clean house, don't foist leftovers on those who don't show interest. Chances are, they'll sneak it into the trash (or sell it themselves) when you're not looking.

● ● SELLING A LOT OF STUFF

Temper your expectations about how valuable your old furnishings may be. Preferences for furniture and decor, especially among younger families, have shifted from traditional and antique to modern—and easy to transport (think Ikea or Crate and Barrel's CB2). Heavy, dark furniture is flooding the market as more people downsize, and the supply is outpacing demand. Flat-screen TVs and digital music are making entertainment centers obsolete, and dining suites are disappearing along with formal dining rooms.

"I'm in the position of telling people that the market for their wonderful furniture isn't what it was 10 or 20 years ago," says Kathleen Orozco, owner of appraisal and estate-liquidation firm Kathleen Orozco & Associates, in Denver. "The buyers aren't there."

Despite the challenges, you can find a good home for your castoffs—and cash in on some of them, too.

Host an estate sale. If you have a houseful of items to sell that add up to several thousand dollars in value, hosting buyers in your home through an estate sale is a prime option. Ideally, you'll have plenty of time to choose a company and have the liquidator prepare your home and belongings for a sale. But if you're on a tight deadline, a pro should be able to help you wrap it up quickly.

Keep in mind that if your possessions aren't worth at least, say, \$10,000, a company may not agree to hold your sale. And estate liquidators take a sizable chunk of the proceeds—typically about 35% to 40%, says Julie Hall, director of the American Society of Estate Liquidators. But they will also



take a lot of the work off your hands. They often have connections with local, regular buyers of antiques and other items to whom they can advertise your goods (and they'll promote your sale to the general public, too). They'll price items and set them up in your home in a way that's attractive and that avoids bumps and breakage as buyers pass through. And a staff present during the sale can control crowds, run the cashier stand and keep an eye out for thieves. "An estate sale is not a glorified yard sale," says Hall. "There's a lot of sweat equity."

Although many antiques, carpets and furniture aren't the draw they once were, they may have a better chance of selling from your house than from other venues because buyers can more easily visualize them in their own homes, says Orozco. Utilitarian items such as tools and kitchen supplies often appeal to buyers. If having the sale in your home isn't realistic—say, because you've sold the home and



are in a rush to remove the items—look for a company that will take away the goods to sell them.

You can look for an estate liquidator at www.aselonline.com and www.estatesales.net, or ask for referrals from a professional organizer or real estate agent. Select at least three companies to invite for a walk-through of your home, and ask about credentials and training (such as for appraisals) and any required licensing in your area, as well as for references.

Check with the Better Business Bureau as well as consumer review sites such as Angie's List for a history of serious complaints. Ask whether there are additional fees beyond the standard cut, such as for advertising, cleanup or appraisal. If you have time, attend a sale to see how a liquidator runs the show. And plan not to be at home during the sale, lest you cringe

at the sight of strangers rummaging through your stuff.

The auction option. The estate-sale company might send valuable unsold items to auction, especially if they're likely to be more popular in a different region. Or you can send them to auction yourself.

Auctions come with both the potential upside of a higher price than expected and the possible downside of a disappointingly low price. Often an auction service comes to your home and takes items to a gallery to sell along with other goods. If you have enough high-value items, an auctioneer may have an off-site sale exclusively of your items or host an auction at your residence (especially if you are selling the house along with all of its contents). As with an estate sale, you'll likely need several thousand dollars'

worth of items to justify a sale from your home.

The fee to sell at auction varies depending on where you are and how the sale is conducted. Generally, the higher the value of items being sold, the lower the commission, says Tim Luke, an auctioneer and valuation expert with TreasureQuest Group. Commissions that auctioneers charge commonly range from 10% to 25% of the "hammer price" but may be as high as 50%. Plus, there may be fees for transportation, storage or marketing.

Ask for referrals to a good auction service, or comb local listings. At www.auctioneers.org, you can search for an auctioneer by location, specialty and professional designation. A Graduate Personal Property Appraiser has completed classwork to conduct appraisals and keeps up to date with continuing education; a Master Personal Property Appraiser has had more-advanced training. Interview several candidates, check reviews and licensing, and compare fees. Once you've chosen a service, a representative will outline the structure of the sale with you. If you can't stand to see certain items sell for less than a minimum price, they can be sold with a "reserve price"—if they don't capture a specified minimum bid, they don't sell.

● **SMALLER-SCALE SOLUTIONS**

If you have a handful of valuable items to sell, you could try parceling them out online. Lynn Dralle, who runs www.thequeenofauctions.com and makes a living reselling antiques and other items on eBay, says that high-end, brand-name products tend to do well on eBay. Popular items have ranged from china and flatware to old toys and perfume bottles, but to grab good prices they have to be sought-after types or brands.

To get a sense of potential money-makers you may have on hand, search the listings of sold items on eBay. Click on "Advanced" in the upper-right corner at www.ebay.com and enter keywords such as the brand name and

type of item. Check the box for “Sold listings” and click “Search” to find final selling prices. They’ll help you decide whether an item is worth posting and what price you might expect to capture.

EBay takes a 10% cut of your sale (unless you have an eBay Store), and PayPal takes 2.9% plus 30 cents per domestic transaction (up to \$3,000 a month) to process payments. Plus, you’ll want to estimate how much to charge a buyer for shipping. You can use tools on the Web sites of the U.S. Postal Service, UPS and FedEx to esti-

mate shipping prices. Dralle recommends choosing the maximum price you might pay to ship an item across the country and listing it as your domestic shipping rate.

Posting and selling household goods on Craigslist is free, but you’re limiting your audience to locals. Lower-value goods and bulky ones that you’d rather not ship are good candidates for Craigslist because buyers can come to you to pick them up. Holding a yard sale may also be worthwhile for unloading those items.

Consignment shops are a brick-and-

mortar alternative for selling high-quality furniture, antiques, clothing and other items. Typically, a shop will display your goods on the floor for 30 to 90 days, and it may discount the asking price as time passes. Stores take a cut of about half of the price of anything that sells, but you won’t have to put in the effort of trying to peddle it yourself. Call local shops to ask about their policies as well as what types of items tend to sell well and which aren’t worth the effort.

● ● DONATE IT

Giving belongings that are in good condition to charity can save you the hassle of trying to sell them, if you don’t mind forgoing the cash. (Donating is also a good way to unload items that didn’t find a home at sale.) Thrift shops, such as Goodwill and Salvation Army stores and local operations, will take a variety of household items, furnishings and clothing. Call or go online to find out which items they don’t want (for example, used computer equipment, TVs and ratty or scuffed furniture) and to see if they will pick up your donations from your home. If you have anything with cultural or historic value—say, an artifact from the Civil War—a local museum or historic house may be happy to take it off your hands. Churches may be able to use certain items, too.

If you itemize deductions on your tax return, don’t forget to get a receipt for each batch of goods you donate; it’s up to you to attach a list of the items to the receipt. You can calculate their fair market value, on which tax deductions for noncash donations are based, by using prices on resale sites (such as eBay’s listing of sold items), the Salvation Army’s donation guide at www.satruck.org/donation-value-guide, or the free program “ItsDeductible” at <https://turbotax.intuit.com/personal-taxes/itsdeductible>. You’ll have to provide a description of non-cash donations that exceed \$500 in value on Form 8323. Items worth more than \$5,000 require an appraisal. ■

★ KipTip

Deal With Emotional Baggage

IT CAN BE DIFFICULT TO LET GO OF BELONGINGS WITH SENTIMENTAL VALUE. YOUR collection of books may represent years of personal development. Gifts you've received are associated with friends and family. Use these tips to stay focused.

Compose a mission statement. Victoria Roberts, a certified professional organizer in Mill Valley, Calif., suggests writing down a goal that you can reread when the going gets tough. It can also help you resist the temptation to rent a storage unit to stash things you are having trouble discarding. Unless you’re saving something for a designated reason—say, a grandchild who has claimed a bedroom set but won’t have space for a few more months—storage units are usually a waste of money and delay an inevitable decision.

Enlist help. Someone with no vested interest in your stuff can push you to keep only the worthwhile items. She may also be able to neutralize family tension or squabbles. And for elderly folks with physical limitations, an assistant can help with lifting and moving. If you’re using a liquidation company or a senior move manager, its reps may help you sort the clutter. Or hire a professional organizer (ask for referrals, or find one at www.napo.net). An organizer may charge \$30 to \$80 an hour or by the project. Even if you decide not to pay someone to assist you, try making it a social event by bringing in friends and family. They can help make a tedious process fun. Just be sure to plan your strategy if family members want the same item.

Scope out the new place. If you’re moving, get a floor plan of your new home, and measure the door frames and windows. That will help you let go of things that won’t fit. For a stronger visualization, use masking tape to outline the dimensions of rooms in your new home on the floor of your current home.

Keep only what you love most. If you need to get rid of, say, a large collection, hang on to a couple of your most cherished items as keepsakes, suggests Lauri Ward, home design expert and president of Redecorate.com. She advises keeping only the best, most loved and most used items. “Liking something isn’t enough,” she says. (Take digital photos of what you discard to help you remember it.) Do away with anything that’s worn or outdated, unless it holds strong sentimental value. Your new home should feel fresh.



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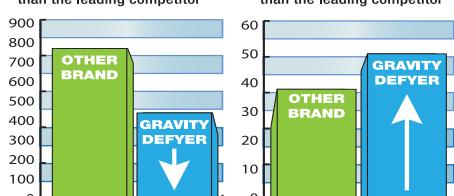
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SHOCK ABSORPTION STUDY HPW Biomechanics, 2012
Shock absorption: Measurement of maximum pressure (KPI).
Energy return: Measurement of energy returned (Joules).

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LOWDOWN

What You Need to Know About Funding IRAs

You can make contributions for 2014 as late as April 15. But why wait? **BY CAROLYN BIGDA**

1. TAKE IT TO THE LIMIT. Workers younger than age 50 may save up to \$5,500 in a traditional IRA, a Roth or a combination of the two. If you were 50 or older at the end of last year, the ceiling is \$6,500.

2. CHOOSE YOUR SIDE. You can fund a traditional or a Roth IRA, or hedge your bets by splitting your contribution. Contributions to a traditional IRA are fully tax-deductible if you don't have a workplace retirement plan; if you have an employer-provided plan, some or all of what you put away may be deductible. You don't pay taxes on your earnings inside a traditional IRA, but you will owe Uncle Sam when you make withdrawals. With a Roth, nobody gets a deduction, but you don't owe taxes on withdrawals in retirement, assuming the account has been open for at least five years. Roths have other benefits, too. You can withdraw contributions at any time free of taxes and pen-

alties. And if there's money in the account when you die, your heirs get it tax-free. With a traditional account, that legacy is subject to income taxes.

3. AND NOW FOR THE FINE PRINT.

If you have a retirement plan at work, you're single and your modified adjusted gross income was \$60,000 or less last year (or \$96,000 or less if you're married), you still qualify for a full-fledged traditional IRA deduction. As income rises above those levels, the deduction gradually disappears. Different income limits apply for a Roth: To make even a partial deposit for 2014, your MAGI must have been less than \$129,000 for singles or \$191,000 for married couples.

4. DOUBLE UP YOUR SAVINGS.

You usually need earned income (wages from a job, for example, but not income from investments) to put money in an IRA. But if you didn't draw a salary in 2014—say, because you

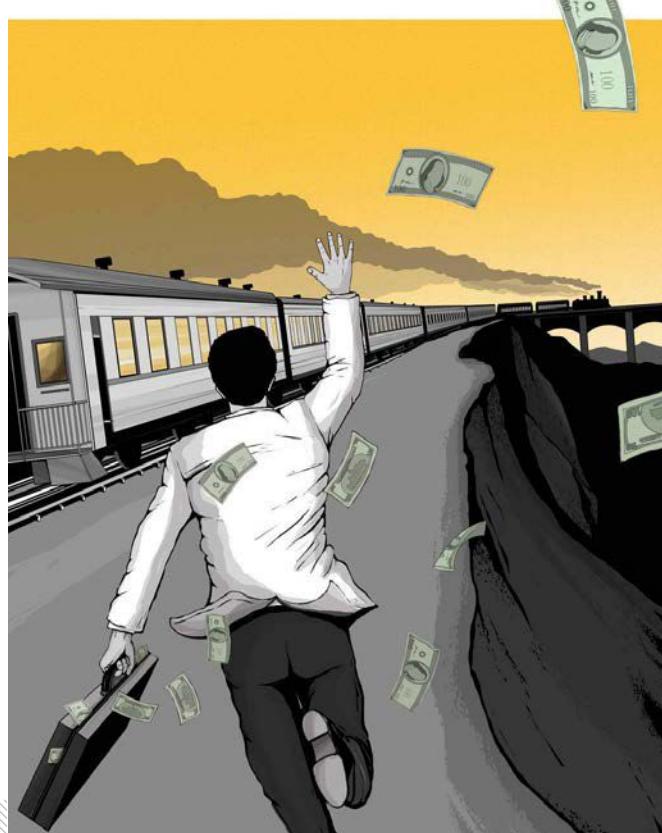
stayed at home with the kids—Uncle Sam allows you to open a so-called spousal IRA and put away up to \$5,500 using your spouse's pay. (The limit is \$6,500 if you're 50 or older.)

5. JUMP-START JUNIOR'S RETIREMENT.

Children must earn their own money to fund an IRA, but their own money doesn't have to fund the account. If your 15-year-old daughter had a summer job in 2014, you can contribute to an IRA in her name, up to her total earnings (or the \$5,500 cap, whichever is less). Go with a Roth. Your child is likely in a low tax bracket and doesn't need the up-front deduction. Fifty years from now, when her hair is turning gray, a single \$5,500 contribution will have grown to more than \$160,000, assuming an annualized return of 7%.

6. GOOD NEWS IF YOU'RE ON YOUR OWN. If you're self-employed—whether full-time or because you do freelance work on the side—you qualify for a simplified employee pension plan, or SEP-IRA. Contribution amounts are much larger—as much as 25% of your qualified earnings, up to a maximum of \$52,000 for 2014. And if you file for an extension on your tax return, you have until October 15 to make a 2014 contribution to your SEP account. With traditional IRAs and Roths, April 15 is the last day to make a deposit for 2014, whether you file a return that day or not.

7. GET A LEG UP ON 2015. You don't have to wait until April 15, 2016, to make this year's contribution. In fact, delaying means missing out on more than a year's worth of tax-free compounding. ■



Don't Run Out of Money During Retirement

What Investors Should Worry About

It's no secret that the vast majority of Americans entering their retirement years are doing so with vastly underfunded retirement savings. However, even if you have significant financial assets in your retirement savings, assets in excess of \$500,000, your hope for a comfortable retirement is hardly assured. In fact, you could be headed for a financial disaster just when you can least afford it.

And that's why you should request a free copy of Fisher Investments' *The 15-Minute Retirement Plan: How to Avoid Running Out of Money When You Need It Most*. Unlike most retirement advice, this guide is written for *Kiplinger's* readers with investible assets of \$500,000 or more. You'll be surprised at what you might learn and how much you might benefit.

The 15-Minute Retirement Plan is loaded with practical information that you can use to help meet your personal financial goals in retirement. Specifically, you'll learn:

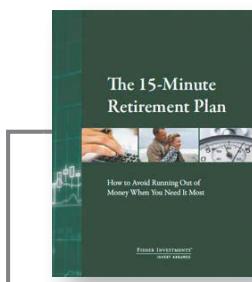
- The truth about how long your nest egg can last
- How much you can safely take as income each year
- How inflation can wreak havoc with your plan and how to deal with it
- Why so-called safe investments just might be the most risky approach
- How reacting to short-term market movements can hurt your returns
- And much, much more!

Benefit From The FREE Retirement Guide

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About Fisher Investments

Fisher Investments is a money management firm serving successful individuals as well as large institutional investors. With over \$58 billion* in assets under management and with a track record of over 25 years in bull and bear markets, Fisher Investments uses its proprietary research to manage money for investors who want their money to last.



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3 SIMPLE STEPS

Pick a Health Care Proxy

STEP 1

Choose who you want to make medical decisions on your behalf in case you become unable to do so, such as your spouse or partner, a trusted friend, or a relative. Be sure to discuss your wishes for care, including end-of-life treatment, with the person you ask (often called a health care proxy or agent). Also name one or two people as backup agents.

STEP 2

Go to www.caringinfo.org and download the advance health care directive for your state. In the section called "Power of Attorney for Health Care" (some states use other terms), list your agent and backup agent. You may also provide written guidance as to the kind of treatment you want or do not want, or limit your agent's decision-making authority. (Some states provide a separate form, known as a living will, for those purposes.) Be aware that providing specific instructions may limit your agent's ability

STEP 3

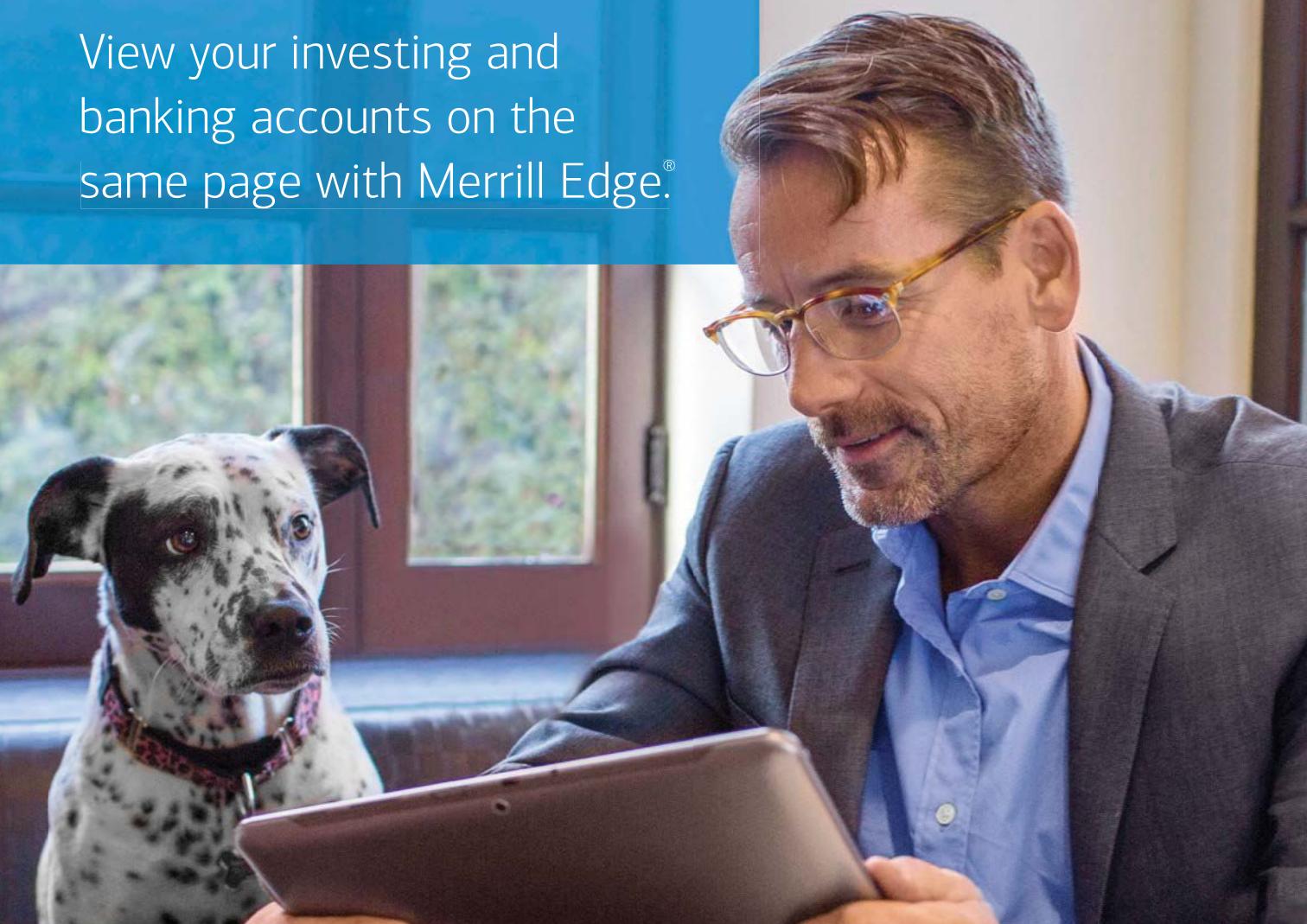
Sign and date the form in the presence of a witness or witnesses. Some states require you to have the document notarized as well, and some give you a choice between witnesses and a notary. Make copies of the document, and give them to your agent, doctors and others involved in your care. In some states, you can file your advance directive with an online registry so family and medical providers can easily find it. Or place a copy of the document in a clearly labeled envelope and attach it to your refrigerator door.

THE PAYOFF

The agent you choose will be your advocate in a medical crisis.

ILLUSTRATION BY IRYNA KORSHAK

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ZOOM-ZOOM

¹Based on EPA estimates for 2016 Mazda CX-5 Sport FWD with 2.0L engine and manual transmission 26 city/35 highway MPG. Mazda CX-5 Grand Touring FWD model shown with 2.5L engine and automatic transmission, EPA-estimated 26 city/33 highway MPG. Actual results will vary.

²Starting at \$21,795 MSRP plus \$880 destination (Alaska \$925) for 2016 Mazda CX-5 Sport FWD with manual transmission. 2016 Mazda CX-5 Grand Touring FWD model with Technology Package shown, \$30,025 MSRP plus \$880 destination (Alaska \$925). MSRP excludes taxes, title and license fees. Actual dealer price will vary. See dealer for complete details.

