

DON'T MISS THESE TAX SAVERS! p34

Kiplinger's

**MONEY
SMART
LIVING**

PERSONAL FINANCE

The Secrets of Women Investors

Men have their strong suits, too. Use the combined wisdom of both sexes to boost your results. p44

PLUS

Earn 3% Tax-Free p64

New Phone Plans: Get the Best Deal p66

7 Ways to Survive a Market Swoon p37

Nicole Sherrod,
managing director
and head of trading
at TD Ameritrade

APRIL 2016



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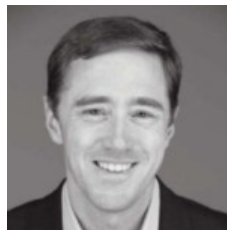


SHOULD YOUNG ADULTS ACCEPT PARENTAL SUPPORT?

Miriam Cross explains when it makes financial sense to stay tethered to your parents.

kiplinger.com/links/independence

MIRIAM CROSS
@MiriamSCross



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Columnist Charles Sizemore shows how self-employed workers can build their own pension.

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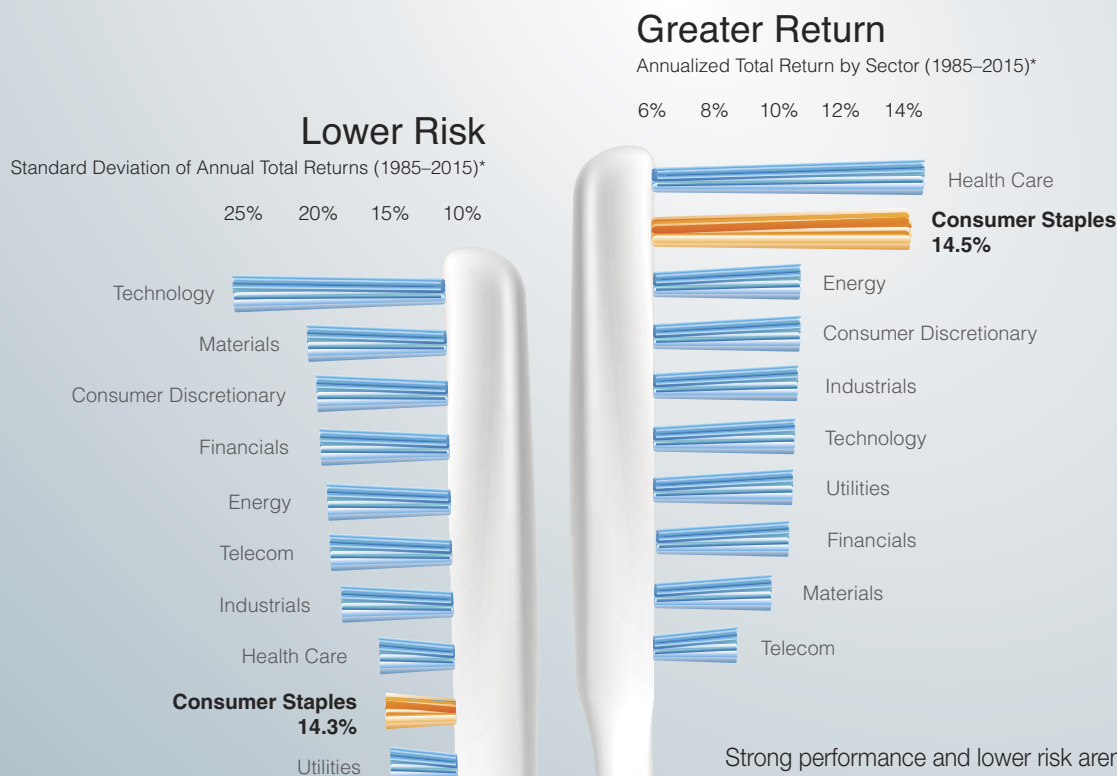
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*Source: Haver Analytics, Fidelity Investments, as of July 31, 2015. Past performance is no guarantee of future results. Sectors are defined by the Global Industry Classification Standard (GICS) and are based off the top 3,000 U.S. stocks by market capitalization.

Annualized Total Return by Sector (1985–2015): Health Care (14.93%); Consumer Staples (14.47%); Energy (11.15%); Consumer Discretionary (11.13%); Industrials (10.94%); Technology (10.73%); Utilities (10.49%); Financials (10.41%); Materials (10.04%); Telecom (9.16%).

Standard Deviation of Annual Total Returns (1985–2015): Technology (25.45%); Materials (20.73%); Consumer Discretionary (19.27%); Financials (19.26%); Energy (19.08%); Telecom (18.93%); Industrials (17.72%); Health Care (15.93%); Consumer Staples (14.32%); Utilities (14.02%).

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Janet Bodnar

FROM THE EDITOR

An Investing Gender Gap?

In answer to a reader's request in our December issue, I promised that we would publish more stories on financial issues of particular interest to women. That prompted a handful of letters from concerned male readers. "Financial issues are financial issues," wrote Charles Busbey, of Dripping Springs, Texas. "Income is income and good stocks are good stocks, regardless of the gender of the owner." I completely agree, as I assured Mr. Busbey. But research shows that women tend to differ from men in their approach to investing. That's the subject of our cover story on page 44. We titled the story "The Secrets of Women Investors," but we might easily have added "and How They Can Make You Rich" in parentheses.

Of course, as contributing editor Kathy Kristof writes, men have their strong suits, too, and you can read about them on page 49. I won't divulge the secrets of either men or women here, but let's just say that together they make a socko combination.

As part of our research for the cover story, we partnered with *Investment-News* to survey *Kiplinger's* readers via e-mail. We received more than 1,500 completed surveys, almost evenly divided between men (53%) and women (47%). Some noteworthy results:

- *Kiplinger's* readers feel comfortable with a wide range of investments. Overall, 81% of our readers own stock mutual funds and 62% own individual stocks, with both men and women giving very similar responses (see page 51).

But our survey shows some interesting differences. For example, men are more likely to own exchange-traded funds (45% versus 33%), and women are more likely to own insured money market accounts (24% versus 16%).

- Not surprisingly, nearly 90% of respondents said they primarily learn about personal finance from financial publications and websites. Men are more likely than women to watch financial news on TV (27% versus 20%), and women are more likely to ask questions of a financial adviser (26% versus 20%) or talk to friends and family (10% versus 4%).

- Men were more likely than women to say they have an above-average risk tolerance (39% to 29%). But among unmarried women with a high net worth (\$750,000 or more in investible assets), a larger percentage—41%—said their risk tolerance is above average.

- Overall, 62% of respondents consider themselves "extremely knowledgeable" about their investments. However, men were much more likely to say this than women (70% versus 53%). Among women who earn about as much as their spouses—or who are the primary wage earners—and make household investment decisions equally, the figure jumps to 61%.

- Women were more likely than men to say their number-one personal financial goal is to "retire with financial security and peace of mind" (52% ver-



"Together, men and women make a socko combination."

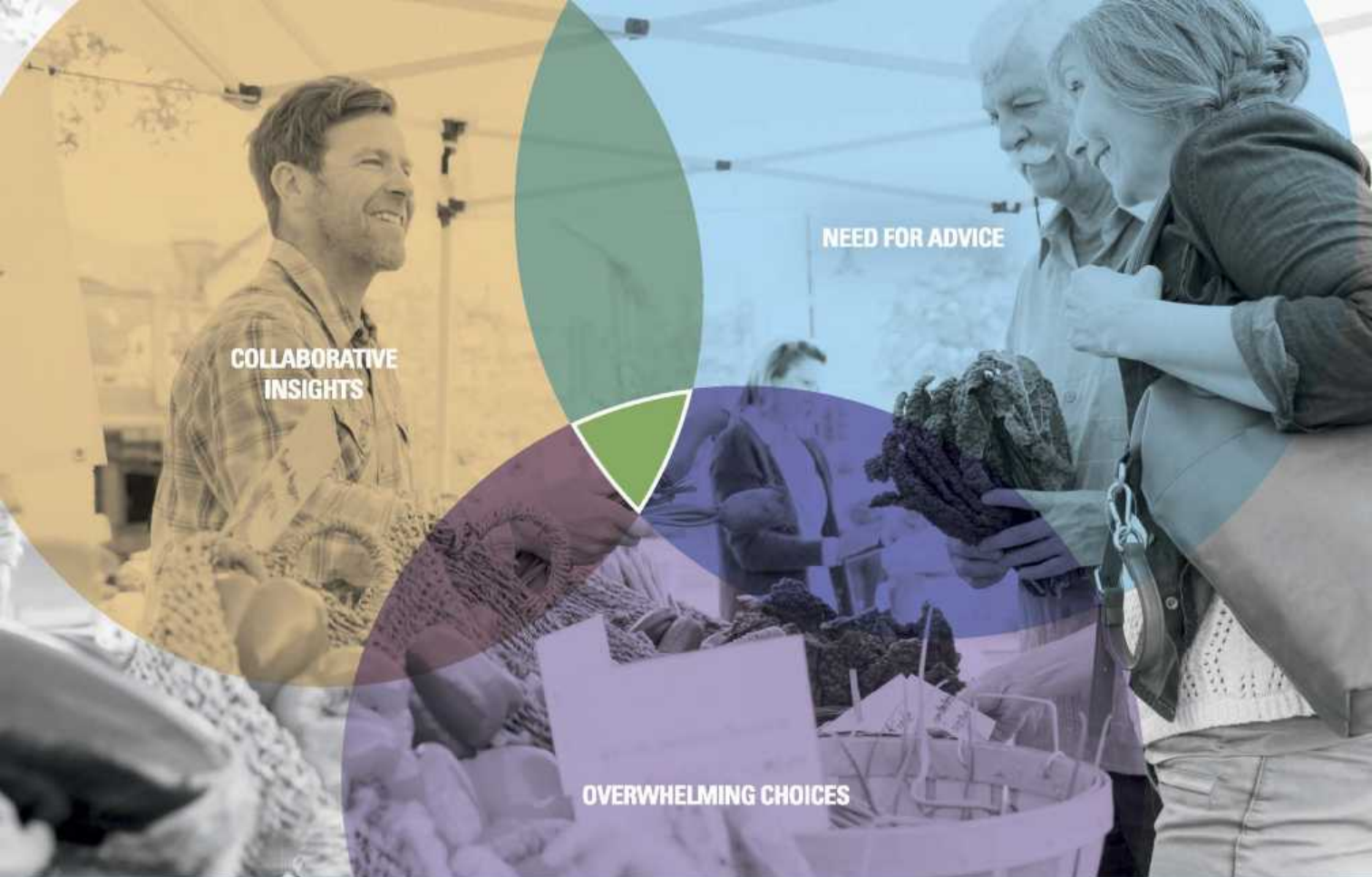
sus 45%). Men are more interested than women in leaving a legacy for future generations (15% versus 8%).

- Among women, 39% currently use a financial adviser, compared with 35% of men. And women are more likely than men to value the adviser's services in planning retirement income (64% versus 59%).

To their credit, nearly 80% of those surveyed, both men and women almost equally, have done a projection to determine how much they'll need in retirement—and 93% are on track to meet their goal.

P.S. If stock market dips have you worried about cracking your retirement nest egg, see our advice on page 37. ■

JANET BODNAR, EDITOR
FOLLOW JANET'S UPDATES AT WWW.TWITTER.COM/JANETBODNAR.

A photograph of a man and a woman at a farmers market. The man is on the left, smiling and looking towards the right. The woman is on the right, looking down at a bunch of leafy greens she is holding. In the background, there are other people and market stalls. Overlaid on the image is a Venn diagram with three overlapping circles. The top circle is green and labeled 'NEED FOR ADVICE'. The bottom-left circle is purple and labeled 'OVERWHELMING CHOICES'. The bottom-right circle is blue and labeled 'COLLABORATIVE INSIGHTS'. The intersection of all three circles is a darker shade of green.

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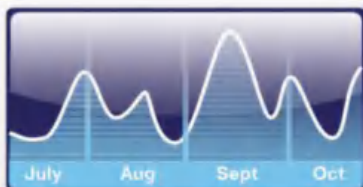
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KIPLINGER'S PERSONAL FINANCE (ISSN 1528-9729) is published monthly by THE KIPLINGER WASHINGTON EDITORS INC. Editorial & Executive Offices: 1100 13th St., N.W., Suite 750, Washington, DC 20005 (202-887-6400). Subscription Center/Customer Service: Visit us online at kiplinger.com/customerservice, call 800-544-0155, or e-mail PersonalFinance@customersvc.com. POSTMASTER: Send change of address to: Kiplinger's Personal Finance, P.O. Box 62300, Tampa, FL 33662. GST# 123395253. Volume 70, Issue 4, Copyright © 2016 by the Kiplinger Washington Editors Inc. Periodical postage paid at Washington, DC, and at additional mailing offices. Subscription prices: In U.S. and possessions \$23.95 for one year, \$39.95 for two years, \$54.95 for three years. Additional international postage: \$17.00 per year. Single-copy price: \$4.99.



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45 Great Ideas

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- Take a cruise around the world
- Buy muni bonds for more income
- Invest in a rental property
- Start a family foundation

AND MUCH MORE! p.18

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★ WE FACT-CHECK THE CAR INSURANCE ADS p.42



FEBRUARY 2016

The Kiplinger Legacy

In a society replete with scams, financial corruption and Ponzi schemes, it was a breath of fresh air to read about the career of Austin Kiplinger ("From the Editor in Chief," Feb.). Kiplinger was a gentleman, and he fostered a proud family-grown business driven by integrity. This is a heritage to be proud of, and as a subscriber I am privileged to share in the financial knowledge I gain by faithfully reading each monthly issue.

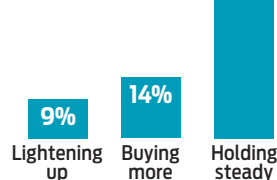
TONY WYAN
PUNTA GORDA, FLA.

The shadow of terrorism. James Glassman's column "Investing in a Time of Terror" was

a brilliant exposition on the ongoing and long-term effects of the fear of terror-

Q READER POLL

New and soon-to-be retirees: What are you doing about stocks?



For our advice on how to survive a market swoon, see page 37.

ism on the financial markets since 9/11 ("Opening Shot," Feb.). Most market pundits blame relatively subpar results on one thing or another, ignoring what is right in our face and in the back of all of our minds.

LAWRENCE LIPSITZ
TEANECK, N.J.

Just in time. Your description of what to do when you pay off your mortgage was excellent ("Game Plan," Feb.). I am within six months of paying off my home loan, and before reading the article, I was asking friends what to do. Your article answered every question I had and will be by my side during those last 60 days.

BRUCE UHALLEY
RANCHO CUCAMONGA, CALIF.

Breaking up is hard to do. I loved Kathy Kristof's column on selling her losing stocks ("Practical Investing," Feb.). I, too, have an issue with breaking up. I have just started to sell my losers in small increments, and every time I sell one I feel as if I've lost an old friend. Where could this attachment come from? Then again, I can't throw away the running shoes that accompanied me through a half marathon, either. Imagine what will happen when my dog dies!

KEVIN O'HARA
SUFFERN, N.Y.

College values. I'd like to pass on words of encouragement to parents and students at schools that do not appear near the top of your lists of best college values ("Kiplinger's College Rankings

2016," Feb.). In my years of working with a broad spectrum of college graduates, I found that the school they attended was not a reliable indicator of performance. Some of the most disastrous business decisions were made by graduates of elite universities. Conversely, some of the greatest successes I knew of were the work of B students who graduated from public universities. There is much more to a person than the prestige—or lack thereof—of the diploma.

S.C. GRAVES
SUMTER, S.C.

● CORRECTIONS

Invesco Diversified Dividend Fund is no longer available ("Great Ideas for \$1,000," Feb.). Investors may substitute Parnassus Fund (symbol PARNX) or Schwab Total Market Index (SWTSX).

In our list of mutual fund winners, Fidelity Select IT Services was incorrectly named among the top 10 sector funds ("A Lousy Year for Stocks," March). The correct fund is Fidelity Select Software & IT Services.

> LETTERS TO THE EDITOR

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Potential Regular Predictable Income

Municipal bonds typically pay interest every six months unless they get called or default. That means that you can count on a regular, predictable income stream. Because most bonds have call options, which means you get your principal back before the maturity date, subsequent municipal bonds you purchase can earn more or less interest than the called bond. According to Moody's 2012 research,* default rates are historically low for the rated investment-grade bonds favored by Hennion & Walsh.

Potential Triple Tax-Free Income

Income from municipal bonds is not subject to federal income tax and, depending on where you live, may also be exempt from state and local taxes. Triple tax-free can be a big attraction for many investors in this time of looming tax increases.

About Hennion & Walsh

Since 1990 Hennion & Walsh has specialized in investment grade tax-free municipal bonds. The company supervises over \$2 billion in assets in over 15,000 accounts, providing individual investors with institutional quality service and personal attention.

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We're sure you'll want to know more about the benefits of tax-free Municipal Bonds. So our experts have written a helpful Bond Guide for investors. It's free and comes with no obligation whatsoever.

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TOPIC A

MIXED SIGNALS ON A RECESSION

Sinking stocks don't necessarily presage an economic downturn. **BY ANNE KATES SMITH**

STOCK INVESTORS PUMMELED

by a double-dip downturn since last May are beginning to wonder if the market is trying to tell them something—specifically, whether it is telegraphing an imminent recession. The stock market is a legitimate warning sign. After all, it's a barometer of the expectations for the future of corporate America. And indeed, stock market peaks have histori-

cally preceded economic downturns by seven to eight months, on average, although the range is much wider.

But as a prognosticator, the market's record is spotty at best. Stocks have flashed 11 warning signals for the past six recessions, according to global economist Ethan Harris, at Bank of America Merrill Lynch (see the graphic on page 55).

The market gauges Harris watches recently pointed to a 50% chance of recession—as they did in 2011, when no downturn materialized.

It seems clear, however, that expectations for robust growth are fading. At the end of 2014, Harris was predicting 3% growth in U.S. gross domestic product this year. Last November he lowered his forecast to 2.5%, and now he sees just 2.1% growth, with a 25% chance of recession within the next 12 months.

There's plenty to worry about. The most recent Purchasing Managers' Index (PMI) showed that manufacturing activity contracted for the fourth straight month. Strength

in the dollar is hurting exporters and multinational companies. The most recent employment report showed disappointing payroll growth. And a slowdown in China is sparking worries about a global recession.

But context matters. Manufacturing is just 12% of GDP, and the PMI reading is still above overall recession levels. The dollar's rise is moderating, and exports, too, play a minor role in GDP. Consumer spending and housing (both healthy) account for roughly 80% of the U.S. economy. The unemployment rate is below 5%. And developments outside the U.S. rarely cause recession here, as the recent eurozone debt crisis shows.

Nor are the usual culprits that typically trigger a recession present in a big way. Rising oil prices? Finding a floor is more the problem these days. Is a market bubble bursting or an industry sector collapsing? Stocks are selling roughly in line with long-term average prices in relation to earnings, and the scale of energy-sector troubles is nothing compared with the financial and housing collapse of a few years ago. Are soaring interest rates choking off growth? Hardly. This time around, a dramatic drop in 10-year Treasury bond yields, to 1.8% in early February, is an ominous sign that investors are worried about the economy.

If anything, the Federal Reserve's extremely accommodative policies, including ultra-low rates, have distorted the view when it comes to spotting the next recession. Moreover, some experts wonder if the Fed has the firepower left to fight one. Investment strategist Jim Paulsen, at Wells Capital Management, would like to see the Fed hike rates more aggressively. "Treating the economy as if it is unhealthy isn't helping anymore," says Paulsen. "Those policies are hurting confidence more than they're helping fundamentals."

A full-fledged bear market would be another blow to confidence. "If we hit a decline of 25% to 30%, we'll have a recession," says Leuthold Group chief investment officer Doug Ramsey. Sometimes, he notes, stocks not only lead a recession, they help cause it, too.

INTERVIEW

NEW CREDIT SCORES HELP BORROWERS

More-flexible criteria especially benefit millennials and retirees.

Gerri Detweiler is head of market education for Nav, a website that helps entrepreneurs build and manage business and personal credit.

SoFi, a company that offers student loan refinancing, mortgages and personal loans, will no longer use FICO scores to determine a borrower's credit risk. Other lenders have indicated they may also develop their own scores. Why is this happening?

One of the frustrations with the FICO score and the score of its competitor, VantageScore, is that someone who is financially healthy might not have a good score—not because they're doing anything wrong but because they're not very involved with credit. Maybe it's someone older who has paid off everything, or someone young who hasn't had a chance to build credit. Interest in alternative data comes from a desire to bring more borrowers in.

What do traditional credit scores miss? They may miss responsible financial behavior that doesn't show up

in most credit reports. For example, many millennials shy away from credit cards. A millennial who doesn't have a credit history may be using debit cards very responsibly. And a retiree could have a lifetime of good credit but no longer needs to borrow. Both may be paying rent as well as

insurance, Internet or cell-phone bills, none of which boosts traditional scores.

SoFi said it will consider savings, cash flow and future earnings when deciding whether to issue credit. Should consumers be concerned about such alternative criteria? We have strong regulations around credit record data with regard to a traditional credit score. For instance, if you get turned down for a loan, you have the right to see the score. The rules are murky with alternative data. That's why alternative data are used more robustly in small-business lending as opposed to consumer lending, where regulations are stricter.

Can consumers stop worrying about their FICO scores? Absolutely not. A large majority of lenders for credit cards, cars and mortgages are still using FICO and VantageScore numbers. Alternative scoring is still a subset of what's going on in mainstream lending, which covers 90% of consumer loans.

How can people build a good credit history in this environment?

Use accounts that report to traditional credit bureaus, keep debt levels low and pay on time. Getting a credit card is still one of the fastest and easiest ways to build credit.

SANDRA BLOCK





■ **TAKING TIME OFF WASN'T EASY FOR KIPP CHAMBERS.**

WORKPLACE

TAKE TIME OFF, LIKE IT OR NOT

Some employers are requiring workers to take a vacation each year.

WITH WORK CONSTANTLY beckoning and access to the office a smartphone away, it can be hard to take a vacation—let alone truly unplug. About 40% of employees take less than one-fourth of their earned vacation time annually, according to Glassdoor.com. Now a growing number of companies are turning to

mandatory vacation policies to require employees to take a certain number of days off each year.

Tech companies and young companies that have grown rapidly are most likely to adopt the new policies. For instance, software company FullContact allows employees to take as much time off as their workload

permits but requires that they take at least three weeks off each year. The company sweetens the deal with an annual \$7,500 stipend, but vacationing employees must stop checking e-mail or otherwise keeping tabs on work. Job-search site Anthology now requires vacations, and digital note taker Evernote offers vacation stipends.

Forced vacations help employees who find it hard to step away from their desk take time to recharge. Kipp Chambers, director of marketing strategy and operations at FullContact, once went more than a decade without a real vacation. Now, with a nudge from his boss, he has taken three, including a trip to Italy last year with his wife, Marnie.

No matter what your employer's vacation policy is, talk to your manager or human resources department before leaving vacation time on the table. More than one-third of employers require employees to use all of their vacation time each year or forfeit the remainder, according to the Society for Human Resource Management. And most companies that permit you to roll over vacation days limit the number that can be saved.

KAITLIN PITSKER

EXCERPT FROM
The Kiplinger Letter

WHAT STORES KNOW ABOUT YOU

Retailers are working out ways to mine a vast trove of customer data collected from inside stores and online. Big-box stores are hiring data analytics firms to sift through info from loyalty cards, wearable technology, social media, in-store Wi-Fi and more. Even salesclerks are supplied with personal customer info. Retailers must walk a fine line: Sending more-personalized messages can push a consumer to buy, but the practice raises privacy concerns. (www.kiplingerbiz.com/ahead/stores)

THE BUZZ

BIRKIN BAGS BAG BIG RETURNS

Birkin bags—those high-end totes from designer Hermès—have proved to be a stellar investment as well as a status symbol. From 1980 through 2015, the bags increased in value by an average of 14% annually, according to Baghunter.com, an online platform for buying and selling luxury handbags. You'll have to ante up to speculate in this market. Recently, an Electric Bleu crocodile Birkin bag carried a \$94,500 price tag on Baghunter.

Here's how Birkins stack up against other investments:

Standard & Poor's 500-stock index. The broad market barometer returned 11% a year on average over the same period.

Gold (price per ounce). The volatile metal returned an average 2%.

Rare collectible cars. The Top Index, compiled by the Historic Automobile Group International, includes the 1950s-era Mercedes-Benz 300 SL Coupe and the mid 2000s Porsche Carrera GT. The index kept pace with Birkins, increasing by an average of 14% annually.

Annual inflation over the period was just over 3%. **LISA GERSTNER**



HOMES

MORTGAGES ARE EASIER TO GET NOW

Relaxed rules help retirees, first-time buyers and buyers in expensive markets.

Changes to look for in 2016:

Higher loan limits. Home buyers in nine high-cost metro areas can borrow more be-

fore resorting to “jumbo” loans. For most of the country, the limit is still \$417,000 for loans backed by Fannie Mae or Freddie Mac. Regu-

lators raised the conforming-loan ceilings in Napa, Salinas, San Diego and Santa Rosa, Calif.; Denver and Boulder, Colo.; Boston, Nashville and Seattle. New limits range from \$437,000 in Nashville to \$625,500 in Napa.

More qualifying assets. Freddie Mac allows borrowers to include the full value—up from 70%—of retirement-account assets to meet reserve requirements. Borrowers can also use vested stock options

as a source of funds for reserves, down payments and closing costs.

First-time-buyer help. Buyers whose parents help them as co-borrowers don’t have to ante up a minimum of 5% of the down payment, as long as the total down payment is more than 20% of the purchase price. Co-borrowers can also contribute toward reserves, down payments and closing costs.

PATRICIA MERTZ ESSWEIN

MONEY & ETHICS // KNIGHT KIPLINGER

“Why can’t I give more to my candidate’s campaign?”

Q I asked a candidate for a congressional seat how much I could lawfully contribute to his campaign committee, and he said just \$2,700, which would have to be publicly disclosed. But some individuals (as well as corporations and unions) are pouring millions of dollars into political organizations that have no contribution limits and, in some cases, not even donor disclosure. Does this strike you as bizarre?



A It sure does. Reasonable people can disagree on the big philosophical issues of campaign finance: Should all elections be publicly financed, with strict spending limits and no private donations allowed? Or, conversely, is campaign finance a First Amendment, free-speech right that shouldn’t be abridged by any restrictions on giving and spending?

But everyone should agree that after court rulings opened the floodgates for “independent” campaign donations—for good or ill—the 1970s-era restrictions on donations to particular candidates are pathetically archaic. We’re left with a patchwork of laws that make no sense—inconsistent, inscrutable and expensive to comply with.

You are constrained in your giving to a candidate’s campaign. But megarich donors, such as conservative industrialists Charles and David Koch and liberal financiers Tom Steyer and George Soros, can give unlimited amounts to SuperPACs, which operate indepen-

dently of a candidate’s committee. So can businesses and unions.

The most bizarre anomalies relate to disclosure. It’s required for donors to all traditional campaign committees, plus political action committees (PACs), SuperPACs and even certain nonprofit advocacy groups—which promote causes but do not expressly urge the election or defeat of a particular candidate. But one fast-growing species—501(c)(4) “social welfare” organizations—can collect and spend unlimited millions on general political advocacy, often without revealing the names and donated amounts of supporters.

The most needed reform—modest but feasible in the current judicial and legislative climate—would be immediate disclosure of every donation to every political fund of any kind. That’s crucial for a healthy democracy.

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

CALENDAR

04/2016



▲ FRIDAY, APRIL 1

Tech investors: Keep an eye on GoPro's first-quarter earnings. Following a ghastly fourth quarter, the CEO announced the company would discontinue all but three cameras from its product lineup, including the cheapest model.

SUNDAY, APRIL 3

Eliminate sources of financial stress during Stress Awareness Month. Consider paying down a chunk of high-interest-rate debt. Or, if saving

is a source of worry, set up automated deposits through your bank.



SUNDAY, APRIL 10

April is also National Volunteer Month. Can you take a tax deduction for donating your time? Find out by taking our "Is It Tax Deductible?" quiz at kiplinger.com/links/taxdeductible. (Hint: Don't plan on it.)

TUESDAY, APRIL 19

Now that you've filed your taxes, do you have a big refund on the way? Maybe it's time to adjust your withholding. Check out Kiplinger's easy-to-use withholding calculator at kiplinger.com/links/withholding.

SATURDAY, APRIL 30

Kiplinger expects oil to trade between \$35 and \$40 per barrel by the end of the month. For an update on our favorite energy companies, see "Don't Give Up on Energy," on page 57. **RYAN ERMEY**



❖ DEAL OF THE MONTH

April is a sweet spot for buying clothes. Watch for discounts of 15% to 30% on spring fashions, two months after their arrival in stores in February. Shoppers could see discounts of up to 80% on winter clothing.



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1 National savings rate courtesy of Bankrate.com's 2015 Passbook & Statement Savings Study, as of 10/15/2015; survey is compiled semi-annually April 15 and October 15 of current year

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FDIC



JAMES K. GLASSMAN > Opening Shot

Buying What Everyone Hates

Shoppers love bargains, except when it comes to stocks. When a stock's price falls sharply, few investors react with giddiness at the prospect of getting something for less. More likely—especially if they already own the stock—they respond with anxiety or cold fear. Rather than buy the stock, they're more apt to sell it.

Certainly, there are valid reasons for stocks to lose value, but you need to train yourself to see such declines as opportunities, not as calamities. Warren Buffett, the most successful stock investor of modern times, put it well: "Look at market fluctuations as your friend rather than your enemy."

The sell-off that began in early December serves as a good illustration. The market as a whole fell about 10% in two months, but individual stocks fell a lot more. Consider these three, all members of the Dow Jones industrial average: **AMERICAN EXPRESS (SYMBOL AXP, \$54)** fell from \$72; **BOEING (BA, \$124)**, from \$149; and **CITIGROUP (C, \$41)**, from \$55. All three stocks could decline more, of course. But if you want to become an owner of three great companies for the long haul, seize the day. (All returns, prices and related figures are as of February 4; investments in boldface are those I recommend.)

However, the declines of these Dow stocks pale in comparison to the devastation in the energy sector, as the price of oil crashed from more than \$100 a barrel to about \$26, before recovering to \$32 in early February. **SPDR S&P Oil & Gas Exploration & Production ETF (XOP)**, an exchange-traded fund, fell 29% in 2014, 36% in 2015 and 10% in the first five weeks of 2016. Meanwhile, prices for other commodities, from copper to wheat, have tumbled because of weakening demand in Asia and Europe. And Chinese stocks are down by nearly half since June because of concerns about slowing growth in the world's second-largest economy.

Opportunities abound today, but so do

risks. The old Wall Street warning about not trying to catch a falling knife exists for a reason. When **United States Oil (USO)**, a security that reflects the price of West Texas Intermediate crude, fell by more than half from July 2014 to December 2014, it looked like a bargain—only to drop by half again by January 2016. Similarly, **WYNN RESORTS (WYNN, \$64)**, a casino company that has traditionally benefited from the management skill of its eponymous founder and CEO, Steve Wynn, sank from \$219 a share in July 2014 to \$96 a year later. Good entry point? Maybe not.

Mistakes, such as buying Wynn in the second half of 2014, will happen. But you will rarely triple or quadruple your investment by purchasing a stock when everyone is lusting for it. Here are four tips on how to buy low—or at least try to.

Think of buying a stock as becoming a minority partner in the business. When the price falls, you can acquire a bigger stake in the business for less. But you have to have confidence in the business itself. And it's even better if you *love* it. Here's an example. When I encountered **NETFLIX (NFLX, \$90)**, it was love at first sight. I liked the original idea of sending DVDs through the mail on a subscription basis. And it seemed clear to me from the start that as technology improved, Netflix had a good chance of becoming the leading video-delivery service. From last December 4 through February 4, Netflix shares plunged 31%. They could fall another 30%. I don't care. As long as the business remains sound and the company maintains its powerful competitive position, I want to own as much of Netflix as I can afford. I feel the same way about **WHOLE FOODS MARKET (WFM, \$29)**, which has lost half of its value since February 2015.

Avoid the psychological torment of falling share prices by engaging in dollar-cost averaging. Put a set amount of money into a stock or mutual



You need to train yourself to see declines in the stock market as opportunities, not as calamities."



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“Energy stocks are probably the best example right now of good values caused by investors being short-sighted.”

fund each month or quarter or year. If you invest \$1,000 a month and the stock you love trades at \$100, you'll add 10 shares to your portfolio. If the stock plummets to \$83 the next month, your \$1,000 will fetch 12 shares. Instead of feeling as if you're losing wealth, you'll feel as if you're gaining it.

Make a wish list. Write down a few companies you would be thrilled to own at lower prices. Among stocks that aren't quite cheap enough now but may be soon are **EXXONMOBIL (XOM, \$80)**, **LULULEMON ATHLETICA (LULU, \$63)** and **STARBUCKS (SBUX, \$58)**.

Capitalize on the myopia of your fellow investors.

When a company runs into trouble, Mr. Market frequently assumes that the problem will continue. The truth is that you don't have to know *how* a company will solve its current problem. You just have to look at the track record of the firm and its management and have a strong belief that it will solve it *somehow*. I call this approach faith-based investing, and it applies mainly to companies with strong brand names and impressive balance sheets.

A good recent example is McDonald's (MCD, \$121). Starting in 2011, revenues began to stagnate, profits started to fall, and the stock went into a funk from 2012 through 2014. The company's board of directors replaced the CEO, and the new leader made quick changes, including insti-

tuting an all-day breakfast. The stock began to recover in January 2015. Over the past year, it returned 32%.

Today, Wynn Resorts epitomizes the concept of a faith-based stock. Steve Wynn is a perfectionist and an innovator. Right now, he's having problems in Macau, a former Portuguese colony that is a specially administered part of China—and suffering from China's current economic malaise. But Wynn will find a way to right his company, just as he did after the Great Recession, when the stock traded below \$20.

Energy stocks are probably the best example right now of good values caused by investors being shortsighted. Stocks in the sector are valued as if oil prices will never recover. The best strategy today is to invest in high-quality industry leaders that can withstand further adversity and will benefit as their competitors go broke. Consider **SCHLUMBERGER (SLB, \$71)**, the giant Paris-based energy-services company. Its price has fallen by more than 40% since mid 2014 as profits have declined. But Schlumberger's balance sheet remains strong, and the company earns a top rating of A++ for financial strength from the *Value Line Investment Survey*. Analysts, on average, see earnings decreasing this year, then rising by more than 80% over 2017 and 2018.

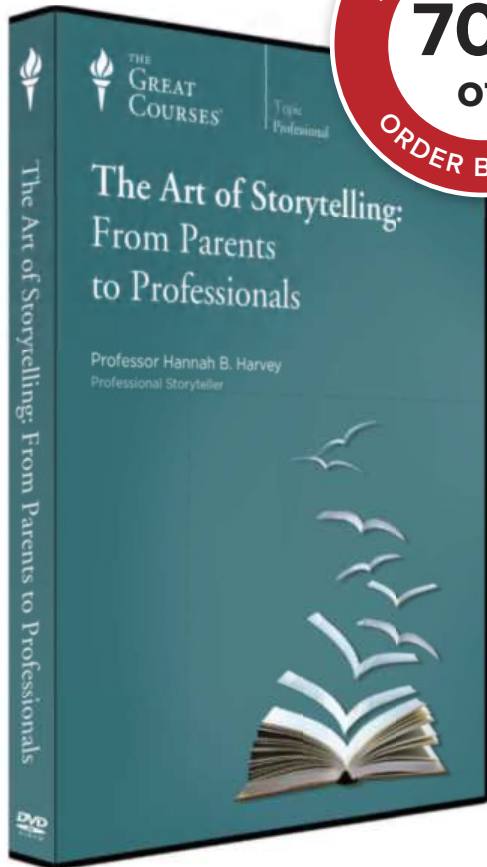
Meanwhile, investors who have soured on China are missing a key trend: a shift toward more consumer spending. Among Chinese stocks, consider telecom provider **CHINA MOBILE (CHL, \$55)**, whose stock has fallen 27% since April 2015, and **CONCORD MEDICAL SERVICES (CCM, \$5)**, which runs a network of radiology centers in 56 cities around the country. The stock, which has a market value of only \$220 million, has fallen by more than half over the past two years.

Alert readers will remember that I recommended Concord in February 2015 at a higher price. Admonish me if you must, but remember the words of J.P. Morgan. When asked by a young elevator operator what the stock market would do, the great financier replied, “It will fluctuate, my boy. It will fluctuate.” ■

JAMES K. GLASSMAN, A VISITING FELLOW AT THE AMERICAN ENTERPRISE INSTITUTE, IS THE AUTHOR, MOST RECENTLY, OF *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE*. OF THE STOCKS MENTIONED, HE OWNS NETFLIX.



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A Different Kind of Service Station

He sells vegan power bars, organic eggs, a great cup of joe—and, oh yes, gasoline.

PROFILE

WHO: Lonnie McQuirter, 29

WHERE: Minneapolis

WHAT: Owner and manager, 36 Lyn Refuel Station

How did you come to own a gas station? My dad bought the right to operate the station and convenience-store fixtures from the former owner, a BP franchisee, in 2005. Dad already owned a commercial cleaning business, and he tried to run both businesses until his father became ill and he began spending half his time with him. I was working for Häagen-Dazs, going to college and trying to help my dad, too. I began to work in the store full-time. He gave me the business in 2007, but I like to say that I earned it through sweat equity and proving myself.

You had a different vision for the store? We serve blue-collar workers, commuting professionals, after-event crowds, families and students [see www.36lyn.com]. To better serve our customers, I knew that we needed to offer something better than conventional convenience-store offerings. So we started offering bananas and nutrition bars at the checkout. Now we work with local suppliers of yogurt, honey, peanut butter, organic eggs, vegan power bars, chai tea and more. We grind and

brew Peace Coffee [a fair-trade brand], so our store smells like fresh coffee, not hot dogs and nacho cheese.

And you also installed a charging station. I paid \$60,000 for a DC fast-charging station. It charges a Nissan Leaf in less than 15 minutes at 12 cents per minute.

You still sell cigarettes? Yes, but our goal is to do without them. Sales of cigarettes—and candy and chips—have been shrinking, and the profit margins are ter-

rible. Working with smaller suppliers provides better margins, which allows us to reinvest in the store and pay our employees better.

Did you take on any debt? In 2007, BP decided to sell the real estate and the gas pumps, so we had to get a mortgage. After visiting about a dozen banks, my dad and I got a loan of \$875,000 with an interest rate of 10% from a community bank. We're still paying on that. And BP still gets a percentage of gasoline sales and BP credit card transactions.

How's business?

In 2005, we did about

\$3 million to \$4 million in gross revenues. From 2008 to 2010, we hit some speed bumps: Traffic fell due to roadwork that changed commuting patterns, and after the [April 2010 Deepwater Horizon] oil spill, people decided they didn't want to support BP. But in 2015, our gross revenues were about \$11 million. Our staff of six, not including me, served an average of 1,500 customers a day.

Are you making a living? Yes, a pretty good one. Last year, I took a monthly salary for the first time.

You're employee-friendly?

Retail sets a low bar for employees, especially at gas stations, and employers treat employees as commodities. We spend a lot of time and resources to find and train good employees who will care about the customers. But we also empower them to exercise good judgment and say something like "This may not be the right store for you" when a customer is being verbally abusive.

What's your greatest satisfaction?

When a customer says, "I wasn't expecting..." or "This really helped me out," or "I tell all my friends about your place," that helps me keep my energy up and my staff working here.

PATRICIA MERTZ ESSWEIN





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Keep Your Investing Simple

There are more than 8,100 mutual funds in the U.S., some 1,500 exchange-traded funds and just over 4,300 stocks listed on U.S. exchanges. Roughly \$40 trillion worth of bonds trade here. Then there are options, futures and other derivative securities (credit default swaps, anyone?)—and let's not forget variable annuities and other insurance products. When you consider that there are countless ways to combine these and other investment vehicles in an infinite array of strategies, it's clear that investing can get very complicated very quickly. And that's a problem.

As investors, we have a hardwired preference for complexity, says Jason Hsu, co-founder of Research Affiliates, a Newport Beach, Calif., firm that specializes in investing using indexes that are tweaked to maximize returns. Markets are complicated, so we often rationalize that a complicated strategy is necessary to beat them. That logic is faulty. Research shows that simple strategies with minimal trading perform about the same as more-complex, high-turnover strategies—until you add in the fees. Then, simplicity, which is often less expensive, has the edge.

Most investors will delegate the management of complex investments to a pro—an adviser or a mutual fund manager to whom they attribute more acumen than perhaps they should. Your inner voice tells you that the person does something you don't understand, and because you're no dummy, that person must be a big expert. When the complicated investment goes south, the natural instinct is to blame the manager, who obviously has lost his or her touch and needs to be replaced. Then we compound our error by firing the manager and looking around for the next complicated, expensive scheme. "Complexity tends to lead to more delegation, and once you delegate, you see a lot more rapid hiring and firing," says Hsu. That's often what accounts for the

gap between what an investment returns and what investors actually earn, he says.

Just hang on. Interestingly, when people make their own investment decisions, they're less likely to cut and run. There's a natural tendency toward overconfidence in something we've researched and chosen. When it doesn't perform, it's the market that's irrational. A desire to avoid realizing losses keeps us holding on. "A desire to not fire yourself has a positive effect," says Hsu. "You're more able to be a buy-and-hold investor. As long as you're not in something fraudulent, buy and hold generally leads to a better outcome than rapid buying and selling." He adds one caveat: "Complex products are often expensive, with layers of fees on fees. Buying is a bad idea, and holding on for a long time is a horrible idea."

There's another problem with too much complexity, says Harold Pollack, a University of Chicago professor who gained renown for his assertion that everything you need to know about personal finance would fit on an index card—and then coauthored a recently released book about it (*The Index Card: Why Personal Finance Doesn't Have to Be Complicated*). "The hidden cost of complexity is that it ties up too much cognitive bandwidth," he says. Unless your situation itself is complicated—you're juggling stock-option grants with the risk of being over-invested in your employer, say—Pollack says most people will do just fine with something along the lines of a target-date fund, or index funds that they don't think about more than once or twice a year when they rebalance.

So skip inverse leveraged ETFs and other investments of that ilk. Devote your efforts to the things you actually have control over, such as doing a good job at work, formulating a livable budget and setting up a consistent savings plan. ■

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



Markets are complicated, so we often rationalize that a complicated strategy is necessary to beat them. That logic is faulty."

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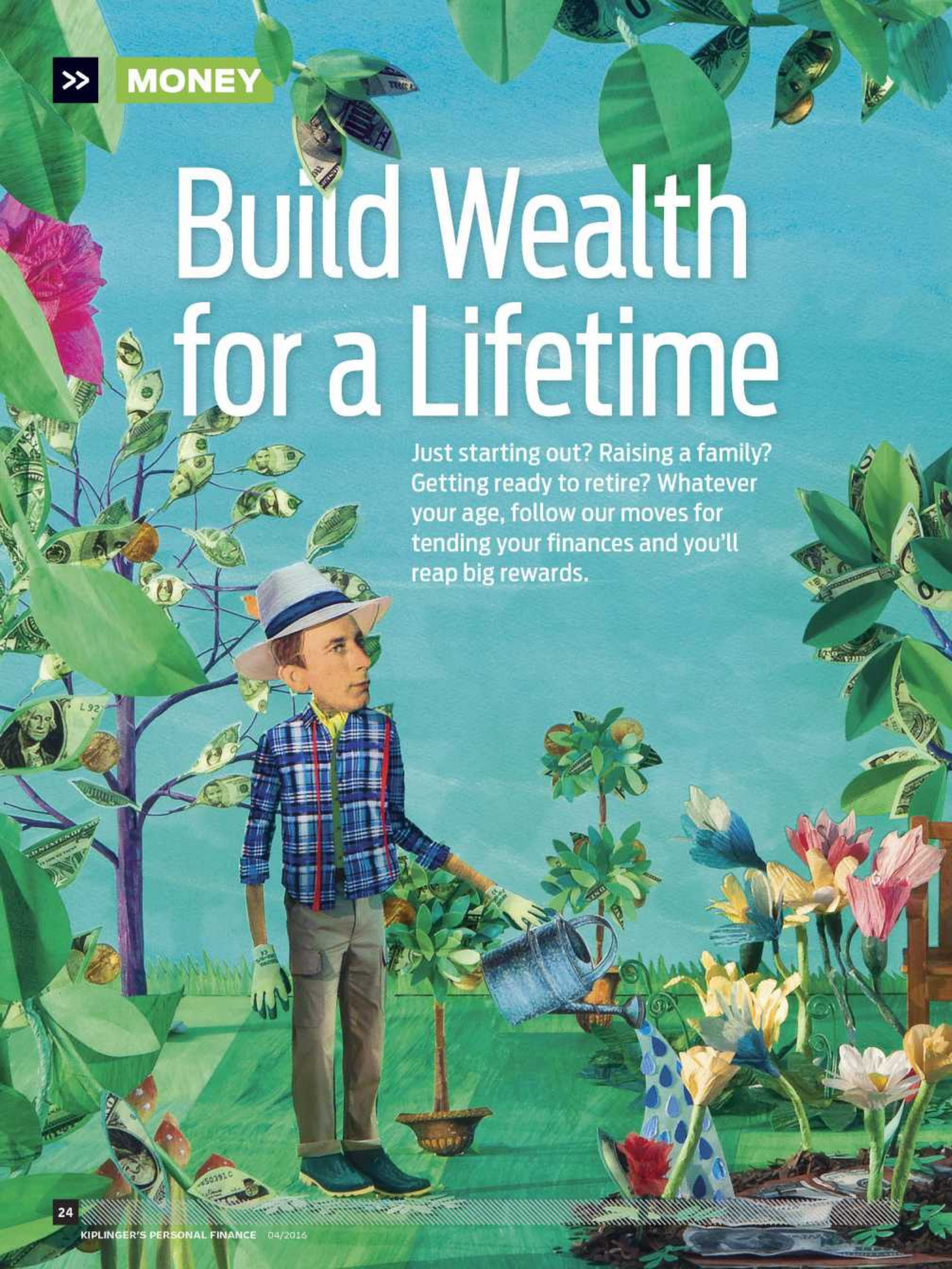
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PLANT THE SEEDS

Get Off to a Strong Start

Wealth may seem a far-off prospect when you're in your twenties. But the personal finance habits you establish now will help you manage (and accumulate) money in the years ahead.

Know where the money goes. By creating a budget, you earmark for spending money that you've already made, not what you expect to make, says Philip Olson, a certified financial planner (CFP) in Austin, Texas. You also set priorities. Track your spending using a spreadsheet or a budgeting tool (see "Budgeting Made Easy," on page 41), breaking your monthly expenses into a few categories (such as housing, entertainment, debts and savings). Then impose limits based on your spending history and monthly income. If you bust the limit on one category (or fall short on saving), you'll have to pull money from another. Be realistic: If the limits are overly ambitious, the budget won't stick.

If you'd rather keep things simple, forget about categories. Cristina Guglielmetti, a CFP in New York City, recommends calculating an overall cap for your variable monthly expenses, including food, entertainment and bills that you could reduce if need be (such as clothing or your cell-phone plan). To come up with your variable-expense cap, subtract from your monthly income all fixed expenses—rent, utilities, debt payments, and savings for your emergency fund or

future goals. Use a rewards credit card for the variable charges. That way you can easily track spending, set up alerts when you're nearing your cap, and earn some cash back in the process.

Build a credit history. The longer you demonstrate that you handle bills and debts responsibly, the stronger your credit history will be—and the higher your credit score. When it's time to buy a home or a car, your credit history could help you qualify for lower rates or better terms.

Start by ordering a free annual copy of your credit report from all three of the major bureaus at www.annualcreditreport.com. Make sure student and other loans are reported correctly. One of the most important factors in boosting your score is paying bills on time. Your score will also benefit if you keep your overall charges, or "utilization," to less than 30% of the limit on each credit card. Keeping your spending low will also allow you to pay off your balance in full each month and not rack up interest charges.

If you have trouble qualifying for

your first credit card, start with a secured card (one that requires a deposit), such as the Secured MasterCard from Capital One. Use the free tools at CreditKarma.com and CreditSesame.com to monitor your credit reports and credit score every couple of months.

Start an emergency fund. A cash stash can bail you out if you have an unexpected medical or car-repair bill, or come to the rescue if you suddenly lose your job. "It also allows you to make better decisions," says Guglielmetti. "You can walk away from a job that's not right for you." Ideally, this fund should cover six months of essential living expenses, including rent, food and bills. Keep it out of sight and out of mind in a savings account (see page 43 for FDIC-insured accounts with competitive yields).

To get the ball rolling, set up an automatic transfer from your checking account to savings; if money is tight, start with, say, \$20 a week. Once you're in a saving mindset, you'll be more likely to add bonuses and income from side gigs, says Pam Capalad, a CFP in New York City. If you have debts to tackle, sock away at least a month's worth of emergency reserves as a priority. Then work on your debts while continuing to shore up your emergency fund, even if that means paying down your debt more gradually.

Invest in your 401(k).

You probably won't touch your retire-





ment account for decades, but seeding it now will pay off handsomely when you're ready to retire. Suppose at age 25 you put \$500 into a mutual fund and then add \$100 each month. Assuming the fund earns an 8% annual return (tax-deferred), you'll have more than \$335,000 by the time you're 65. If you wait until you're 35, invest \$2,500 and then add that \$100 a month, you'll have only about \$167,000 by age 65.

Start by contributing enough to snag the employer match. Many companies match contributions dollar for dollar between 4% and 6% of your salary. Increase your deferral over time so that eventually you're adding at least 10% of your annual salary. Contributions to a traditional 401(k) plan are pretax, but consider using a Roth 401(k) if your employer offers that option. Deposits to a Roth are after-tax, but you'll be able to withdraw the money in retirement tax-free. (Your employer's contributions will go into a pretax account.) Or you could split contributions between your 401(k)

and a Roth IRA (see "Reap the Roth Rewards," Dec.). Allot most of your portfolio to low-cost index funds, with a mix of U.S. and international stocks. Or invest in a target-date fund, which tweaks your mix of stocks and bonds as you get closer to retirement.

Manage your student loans. Among college students who borrowed in 2014, the average debt was \$30,200 for those who attended four-year private colleges and \$25,500 for public-school borrowers. A typical monthly payment on \$30,000 in federal loans is about \$310. That's not a crippling amount, but it's not a breeze to come up with that kind of money each month, either. When you're about to enter the repayment period, take a close look at how much you owe and your interest rates. A loan-management tool, such as the one at Iontuition.com, can help you organize and track your loans. Or you may choose to consolidate your federal loans under one lender and rate.

The most straightforward option for federal loans is the standard 10-year plan—you pay the same amount each month until your loan is repaid. But if loan payments are taking too big a bite out of your income, you can choose a repayment plan that stretches the loan over a longer period of time or gradually increases monthly payments. Or you can choose an income-based repayment plan, which lets you put 10% to 20% of your discretionary income (the amount by which income exceeds \$17,820 in 2016) toward your loans for 20 to 25 years, after which any remaining amount is forgiven. You'll typically pay more in interest under these plans.

To see which plan best fits your budget, go to www.studentloans.gov and click on "Repayment Estimator" under "Managing Repayment." No matter which repayment plan you choose, sign up for automatic debit. You'll typically qualify for a 0.25-percentage-point reduction on your federal interest rate.

PUT DOWN ROOTS

Make the Right Moves

We get it. You're busy. You're preoccupied with raising your children, holding on to a demanding job, and maintaining your sanity during your daily commute. But it pays to take time to nurture your long-term wealth.

Buy a house (if it makes sense). Owning a home is the American dream. Growing home equity is also a key to long-term wealth. But before you buy, make sure you plan to stay put long enough to recoup the up-front cost of getting a mortgage and the back-end cost of selling your home.

Generally, you should stay in the home for at least five years, but there are exceptions depending on where you live. In Toledo, for example, buying is usually cheaper than renting even if you move after two or three years, says Ralph McLaughlin, economist for Trulia.com, a website that provides home-value data. An analysis by SmartAsset, a financial website, found that home buyers in Philadelphia, Baltimore, St. Louis and Dallas break even in less than four years. Trulia offers a calculator you can use to compare the cost of renting versus

buying in 100 metro areas. Find it at www.trulia.com/rent_vs_buy.

A higher down payment—say, 20% or more—may tilt the scale in favor of buying, and the higher your tax rate, the more you'll benefit from owning a home because you'll get a bigger tax break from the mortgage-interest deduction. But as mortgage rates rise, the scales start to tilt toward renting.

Save for college in a 529 plan. Few expenses will deplete your wealth faster than a big college tuition bill—or two. So even though you have lots of other

demands on your paycheck, you should start socking away money for college as soon as your kids are born.

For most families, a 529 college-savings plan is the best way to save. Most plans have low minimums—\$25 a month or less, says Joe Hurley, founder of Savingforcollege.com. College 529 plans are sponsored by 48 states and the District of Columbia. Your investment grows tax-free, and earnings are also tax-free as long as the money is used for qualified college expenses.

You don't have to save in your own state's plan, but two-thirds of states sweeten the pot with tax breaks. These tax deductions can be generous, particularly if you live in a high-tax state. New York, for example, allows married couples filing jointly to deduct annual contributions of up to \$10,000 from state taxable income. Many employers let you contribute through payroll deduction, and a few will even match your contributions. Nevada and Illinois provide a 25% tax credit to employers that match state 529-plan contributions, up to \$500 per employee.

If you live in one of the nine states with no income tax, or your state doesn't offer tax breaks for contributions, look for a plan with a strong investment record and low fees. Kiplinger.com offers a tool you can use to find the best plan for your family at http://sites.savingforcollege.com/kiplinger/plan_details.php.

Buy life insurance.

You need life insurance as soon as anyone depends on you

financially. That could be when you get married, but it's a certainty when you have kids.

Calculate how much money your family would need to cover their expenses and save for college and retirement without your income. Buy at least enough insurance to cover seven to 10 times your gross income, or more if your earnings are rising or you plan to have more children. Nonworking spouses need insurance on their lives, too, to pay for child-care and other expenses. Use a life insurance calculator such as the one at www.lifehappens.org for a more precise figure.

A 20-year term insurance policy may be long enough to see your kids through college, but a 30-year policy can be worth the extra money if you want coverage to last until they are on their own and, say, your mortgage is paid off. A healthy 35-year-old man can buy a \$500,000, 20-year term policy for about \$260 per year; a healthy

35-year-old woman would pay \$235, says Byron Udell, CEO of AccuQuote.com. A 30-year policy costs about \$460 per year for the man and \$390 for the woman. Make sure the policy lets you convert to a permanent policy in case you end up needing coverage for longer than expected and your health changes.

Invest in yourself. In this disruptive world, it's dangerous to become complacent about your job. Consider this sobering prediction from the World Economic Forum: More than 5 million jobs worldwide will be lost by 2020 because of robotics, artificial intelligence and other technologies. Plus, "someone else is coming up behind you who doesn't have the distractions of home life and kids and a spouse," says Robin Reshwan, founder of Collegial Services, a career counseling and staffing company.

Just as you need to diversify your investments, you should diversify your résumé, Reshwan says. That doesn't necessarily mean you need to get an advanced degree or change jobs. Talk to your manager about steps you can take to learn new skills and improve your value to the company.

This is also a good time to take stock of how much you're worth. Review openings on LinkedIn for jobs that are similar to yours to get an idea of what other employers pay someone with your skills, Reshwan says. Indeed.com, a job-search website, provides another source of information about how much your peers are earning. It's also a good way to see how much demand there is for someone with your background and abilities.





WORK HARD. PLAY HARD. 401(k) ROLLOVER: NOT HARD.

You appreciate the value of hard work. But you also appreciate the value of easy work. That's why we take the stress out of rolling over your old 401(k).

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NURTURE YOUR ASSETS

Lock In Long-Term Goals

The kids are old enough to drive themselves to band practice, and you're planning an anniversary getaway with your spouse. Life is good. But college bills loom, and you're neglecting your retirement accounts as you sock away money for college.

Beef up investing. Saving for retirement is the priority. First, max out contributions to your workplace retirement plan. In 2016, you can contribute up to \$18,000 to a 401(k) or similar employer-provided savings plan (or \$24,000 if you're 50 or older; see the next section). But be careful. If you stash all of your retirement savings in tax-deferred accounts, you could find yourself facing a big tax hit when you retire, says Jon Meyer, a CFP in Minneapolis. Withdrawals from 401(k) plans and traditional IRAs are taxed at your ordinary income tax rate.

If you aren't contributing to a Roth IRA, this is a good time to start. Contributions are after-tax, but withdrawals are tax- and penalty-free as long as you're at least 59½ and have owned the Roth for at least five years. In 2016, you and your spouse can each stash up to \$5,500 in a Roth (\$6,500 if you're 50 or older) if your adjusted gross income is \$184,000 or less; if your AGI is between \$184,000 and \$194,000, you can contribute a reduced amount.

Taxable savings accounts will also help minimize your tax bills in retirement. Most investors pay 15% on long-term capital gains and dividends; investors in the 10% and 15% tax brackets pay 0%. Choose tax-efficient index funds or actively managed funds with low turnover to hold down your tax bill even further, Meyer says.

Save at least enough in your retirement plan to take full advantage of the company match. After that, says Meyer, the breakdown between taxable and tax-deferred accounts depends on your tax bracket. Workers in lower tax brackets are better off diverting some of their savings to a Roth and taxable accounts because the immediate benefit of tax deferral is less valuable. If you're in a high tax bracket—say 35%—sock away as much as you can in tax-deferred accounts be-

cause you'll probably be in a lower tax bracket when you take withdrawals.

It is also an excellent time to sit down with a financial planner and review your investment mix. Over long periods, stocks deliver higher returns than bonds. You need a healthy share of stocks and stock mutual funds in your portfolio to build a nest egg that will last 30 years or longer.

Juggle saving for college and retirement.

It's tempting to put retirement savings on hold in order to give your children the best college education that money can buy. But financial planners are nearly unanimous in their belief that this is a bad idea.

The reason is simple: You (or your children) can borrow for college, but you can't borrow for retirement, and it's difficult to make up for lost time.

Working longer isn't always an option: Many people are forced to retire earlier than they planned because of health problems or corporate downsizing. If you reach retirement and you've saved more than you need, you can help your children pay off their student loans, says Andrew Houte, a CFP in Brookfield, Wis. Plus, "it's not the worst thing in the world for your kids to have some skin in the game," says Houte.

Max out your earnings.

Remain technologically nimble, even if





you don't work for a high-tech company. There are plenty of online courses you can take to improve your social media and digital skills. Constant Contact offers online seminars (some of them free) on how to use social media for a variety of business purposes. Many local community colleges and university extension offices provide courses designed to enhance your digital skills. You can find YouTube videos on everything from computer coding to Adobe Photoshop.

Don't focus just on how much money you take home every week. Make sure you're taking advantage of employee benefits that could build wealth and contribute to your retire-

ment security. Does your employer match contributions to a health savings account? Offer retiree health benefits? A pension? Houte says some of his clients have switched jobs—and even taken a pay cut—in order to work for an employer that provides better retirement benefits.

Pay off debt. Retiring mortgage-free is a worthy goal. You'll eliminate one of your largest expenses, which means you won't be forced to take large withdrawals from your retirement savings during market downturns to pay the bills. But at this point in your life, there may be better uses for your money, especially if you have a mort-

gage with a low interest rate. Focus on paying off debt with higher interest rates, such as credit card balances and parent college loans.

If you still have money left over, consider accelerating your mortgage payments. You could refinance to a 15-year mortgage, or you could simply make extra payments on your current mortgage. You'll pay the equivalent of 13 monthly payments instead of 12 by dividing your payment by 12 and adding that amount to each monthly bill. Or you could simply make an extra payment at year-end. On a 30-year mortgage, making an extra monthly payment each year would reduce the term of your loan by about four years.

ENSURE A BUMPER CROP

Ramp Up to Retirement

Now that you're in your fifties, you're in your peak earning years, and you may be done with college bills or about to retire your mortgage. Age 67 is the full retirement age for Social Security for those born in 1960 and later, so you still have plenty of time to get your retirement plan in order.

Max out your accounts. One way to get in shape is to kick your retirement saving into high gear. Starting at age 50, you can stash an extra \$6,000 in catch-up contributions in your 401(k) or similar employer retirement plan—for a total of \$24,000 in 2016—plus an extra \$1,000 in an IRA, for a total of \$6,500. Add it up and you're looking at \$30,500 in tax-favored savings each year, or \$61,000 for you and your spouse.

But there's more. If you have a high-deductible health plan that qualifies you for a health savings account, you can save another \$3,350 a year if

you're single (\$6,750 for families) in 2016, with a \$1,000 catch-up contribution if you're 55 or older. Not only are those contributions sheltered from income tax, but the money also grows tax-deferred—and you can withdraw it tax-free for medical expenses. You can't contribute to an HSA after you sign up for Medicare, but if you use cash now and in upcoming years for medical expenses instead of savings in the HSA, you'll have a treasure trove of cash to tap after you retire.

Plan for long-term care. Sticker-shock alert: The median annual cost of a private room in a nursing home in 2015 was \$91,250 (about \$250 a day), according to Genworth, an insurance company, and the cost is much higher in some areas. A year in an assisted-living facility ran \$43,200 (about \$120 a day), about the same as hiring a home health aide for 44 hours a week. Two

years of care could top \$100,000—and the cost grows every year.

If you're relatively healthy, you can buy long-term-care insurance to cover these expenses. But premiums have become much more expensive over the past few years. A more affordable option is to cover some of the potential costs from your savings and income and buy enough insurance to fill in the gaps. For example, a healthy 50-year-old couple would pay a total of \$2,023 a year for two Genworth policies with a \$150 daily benefit, 3% inflation adjustment and three-year benefit period. Buying the same policy at age 60 would cost them \$2,721 per year.

If you have health issues, it can be difficult to qualify for coverage. Another way to cover potential costs is with a deferred-income annuity, which delays the start of income payments, usually until you're in your seventies or eighties. That allows you

to spend down your savings earlier in your retirement. You can use the money for anything, not just long-term care. A 60-year-old man who invests \$125,000 in New York Life's guaranteed future income annuity will receive \$84,510 a year for life starting at age 85.

Create a retirement budget. Start with your current expenses, separating the essentials—including food, housing and clothing costs—from nonessentials, such as travel, entertainment and dining out. Some expenses, such as payroll taxes, retirement saving and commuting costs, will disappear in retirement, while others—say, for travel, health care and hobbies—may go up. Don't forget to include non-recurring expenses, such as replacing a furnace or buying a new car. Also factor in inflation: Figure on an annual rate of 2% to 3%.

Then identify retirement income, including Social Security benefits (for an estimate of your benefits, start by going to www.ssa.gov and clicking on "my Social Security"), payouts from pensions and annuities, and distributions from retirement accounts. One rule of thumb is to withdraw 4% of your total nest egg in the first year of retirement and to adjust it each subsequent year based on inflation. That strategy can work well when the markets are healthy, but you may want to tweak withdrawals in a down market (see "7 Ways to Survive a Market Swoon," on page 37).

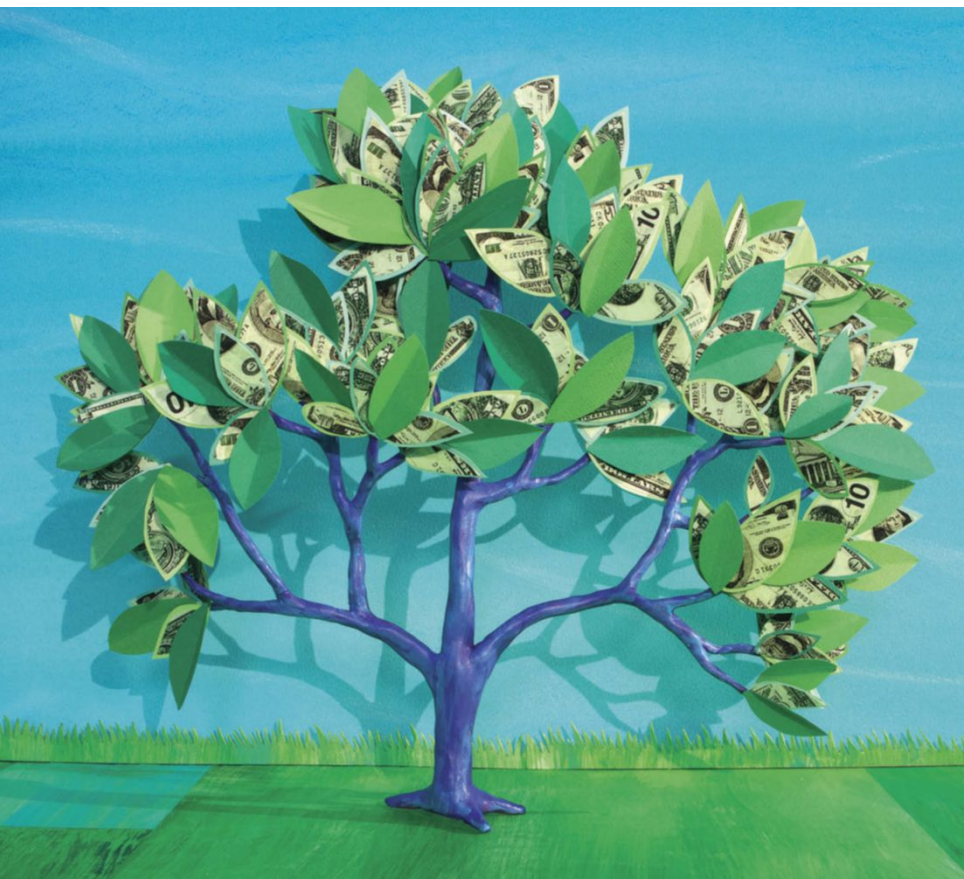
Compare income with spending, and figure out how you'll cover essentials and what you'll have left for luxuries. If spending exceeds income, "you want to identify that now so you have time to come up with a new plan, either for retirement or for spending," says Elizabeth Buffardi, a CFP in Oak Brook, Ill.

Plot your Social Security strategy. Deciding when to file is a biggie. You can claim benefits as early as age 62, but for each month you wait, your benefit grows. Claiming at full retirement age (currently 66) gets you 33% more than at age 62. Wait until age 70, and you'll get 76% more than at 62, plus all the cost-of-living increases in between. Unless you need the income now or don't expect to reach the average life expectancy (84 for a 65-year-old man and 87 for a 65-year-old woman), plan to hold off as long as you can.

The choices are more complicated if you're married. Congress tightened the rules for couples, but you can still use the "file and suspend" strategy if one of you is at least 66 by April 30, 2016. In that case, the 66-year-old can file for a benefit and then suspend it, allowing the other spouse (who must be at least 62) to get a spousal benefit based on the filing spouse's earnings record. The spouse who suspends will see his or her own benefit grow by 8% a year until claiming it at age 70.

Tap your home's equity. If you want to cut housing costs in retirement, consider downsizing to lower-cost digs now, says Gary Klaben, president of Coyle Financial Counsel, in Glenview, Ill. "The sooner you do that, the more wealth you can accumulate." But before you put out the For Sale sign, calculate the costs of selling your place and moving to a new one. Include closing costs on the mortgage, moving expenses, homeowners insurance and property taxes—and, if you buy a condo, homeowners association fees.

You may conclude that staying put is a better idea. In that case, look into a reverse mortgage. These deals, available to homeowners age 62 or older, give you access to home equity. The loan does not have to be repaid until the last surviving borrower dies, sells the house or moves out for at least 12 months. To find out more about reverse mortgages, see "Reverse Mortgages Get a Makeover," on page 39. ■



Fund an HSA Before an IRA

I JUST RECEIVED A \$5,000 TAX refund. Does it make more sense to contribute to my health savings account or to my Roth IRA?

H.N., ST. LOUIS

Start with the HSA, which provides a triple tax break: Your contributions are tax-deductible (or pretax if you make them through an employer), the money grows tax-deferred in the account, and it can be used tax-free for medical expenses in any year. If you have an HSA-eligible health insurance policy—with a deductible of at least \$1,300 (or \$2,600 for family coverage)—you can contribute up to \$3,350 to an HSA for 2016 (or \$6,750 for family coverage), plus \$1,000 if you're 55 or older. If you still have money left over, contribute it to the Roth.

Among the expenses that qualify for an HSA: your deductible, co-payments, prescription drugs, dental and vision care, and other out-of-pocket medical expenses. You can even tap the HSA tax-free to pay long-term-care insurance premiums, up to certain limits that depend on your age. You can't make new HSA contributions after you enroll in Medicare, but you can use the money tax-free for Medicare Part B, Part D and Medicare Advantage premiums (medigap does not qualify). You'll maximize the tax benefits by letting the health savings account grow and using other money for current medical expenses. If you keep the receipts, you can reimburse yourself from the account for any eligible expenses since you opened the HSA (even years later), providing a tax-free stash of money for retirement.

Look for an HSA administrator that lets you invest in mutual funds rather than a low-interest savings account. To find one and compare fees, see www.hsasearch.com.

Rules for 529 withdrawals. *Can I withdraw money tax-free from a 529 college-savings*

account to buy a computer? What records do I need to keep?

M.W., ALEXANDRIA, VA.

Yes. Now, in addition to tuition, room and board, fees and required books, you can withdraw money from a 529 plan tax-free for a computer and related expenses, such as a printer, scanner, education-related software (not games) and Internet access, whether or not they are required by the school. However, the college student must be the primary user.

You don't need documentation to withdraw the money, but you do need to keep records of your expenses for your tax files.

Tax on lottery winnings. *If I'm lucky enough to win the lottery, how much will I be taxed? Will the winnings be reported to the IRS?*

L.L., VIA E-MAIL

You'll have to pay federal income taxes on your winnings, and you may have to pay state income taxes, too, depending on the rules in the state where you live or bought the ticket (some lotteries tax out-of-state ticket buyers). If you win more than \$600, the lottery will send you and the IRS Form W2-G reporting your winnings. Include your winnings on line 21, "Other income," of your Form 1040.

If you win more than \$5,000, the lottery will withhold 25% of your winnings for federal income tax and may withhold 3% to 8.82% for state taxes (the amount varies by state; see www.taxfoundation.org/maps). You may owe more if you hit a big jackpot: The top federal tax rate is 39.6% if your taxable income is more than \$415,050 (including winnings) in 2016, or \$466,950 if you are married filing jointly. Although you may not need to make estimated tax payments on your winnings, Greg Rosica, a tax partner at accounting firm EY, says you should set aside money so you have it when you file your taxes. ■

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



You'll maximize the tax benefits by letting the health savings account grow and using other money for current medical expenses."

TAXES >>

Tax Savers You Don't Want to Miss

This year, you have a few extra days to make sure you get all the breaks you deserve. **BY SANDRA BLOCK**

TAX PROCRASTINATORS, REJOICE.

You have until April 18 (April 19 if you live in Maine or Massachusetts) to file your tax return this year. That's because federal offices in Washington, D.C., will be closed on Friday, April 15, for Emancipation Day. So resolve to use the extra time to make sure you take advantage of all of the tax breaks available to you.

Don't expect a lot of help from the IRS. Last year, fewer than 40% of taxpayers who called the agency reached a customer service representative, and the average wait time for those who did was 30 minutes. This year, the IRS was able to use a \$290 million budget increase to hire additional customer service reps. Still, you can expect dropped calls and long wait times.

At the end of December, Congress revived some expired tax provisions that could cut your taxes. Better yet, lawmakers agreed to make some of the tax breaks permanent. And don't overlook money-saving tax deductions and credits that have been around for years. For example, if you looked for a job last year in your same

line of work, you may be able to deduct your job-hunting costs, even if you didn't land a new position. You must itemize to claim this tax break, and the expenses can be deducted only to the extent that total miscellaneous expenses exceed 2% of your adjusted gross income. If you changed jobs last year and moved at least 50 miles farther from your home than your old job (or 50 miles from home if it was your first job), you can deduct a long list of moving expenses. You don't have to itemize to claim this write-off.

Help for homeowners. Lenders typically require buyers who put down less than 20% to buy private mortgage insurance. Congress revived the break

allowing itemizers to deduct PMI premiums—as long as you obtained your mortgage in 2007 or later and the loan is for your primary residence or a second home that's not a rental property. The deduction

phases out if your 2015 adjusted gross income exceeds \$100,000 and disappears if your AGI exceeds \$109,000. This tax break is good for 2015 and 2016.

There's relief for taxpayers who had mortgage debt written off due to fore-

closure or a short sale, which occurs when a home is sold for less than the mortgage balance. Ordinarily, forgiven debt is taxable, but Congress extended through the end of this year a provision that excludes from taxes up to \$2 million in forgiven mortgage debt on a principal residence. The exclusion will also apply to mortgage debt forgiven in 2017 if the agreement to discharge the debt was signed in 2016.

Write off sales taxes. Congress also revived and made permanent 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 with no income tax, but taxpayers who live in states with low income taxes, along with seniors who live in states with special breaks for retiree income, could also get a bigger tax break by deducting their sales taxes. Taxpayers who made a big purchase last year may also get a bigger deduction by claiming sales taxes, says Lisa Greene-Lewis, a CPA with TurboTax. Go to www.irs.gov and search for "sales tax calculator" to figure out how much you can deduct in sales taxes, based on your income and your state and local sales tax rates.

An opportunity to deduct college bills. If you paid college tuition bills last year, don't overlook the American Opportunity tax credit. This credit is worth up to \$2,500 per eligible student during the first four years of college. Now it's permanent, so you no longer have



to worry about losing the tax break before your child gets a degree.

You can claim the credit for qualified expenses you paid for a dependent child, yourself or your spouse. If you have more than one child in college at the same time, you can claim multiple credits. Married couples filing jointly qualify for the full credit if their modified adjusted gross income is \$160,000 or less; for single filers, the cutoff is \$80,000. Married couples with MAGI of up to \$180,000 and singles with MAGI of up to \$90,000 can claim a reduced amount.

When claiming qualified expenses toward the credit, make sure you report the amount you paid, not the amount you were billed, says Aaron Blau, an enrolled agent in Tempe, Ariz. For example, if you received a tuition bill in December but didn't pay it until January, you can't use that amount toward your American Opportunity credit for 2015, he says. By now, you should have received a Form 1098-T from your child's college or university. Look at Box 1, which will show you how much you paid in qualified educational expenses during the year. (Some schools report the amount that was billed during the year in Box 2; in that case, use receipts of your payments.) If you claim expenses that don't match what's on the form, expect the IRS to reject the credit. Starting in tax year 2016, taxpayers will be required to have a 1098-T in order to claim the American Opportunity credit, along with other educational tax credits.

Tax breaks for good

deeds. As you scramble to finish your tax return, don't overlook charitable contributions you made during the year online or via pay-roll deduction in addition to donations

made using credit cards and checks. You're required to keep records for all donations, even small ones. For contributions of less than \$250, keep the bank record, credit card statement, receipt or written acknowledgment from the charity. If you made a donation via text message—a popular option after a natural disaster—your cell-phone bill should be sufficient. For donations of cash or property valued at \$250 or more, you should have an acknowledgment in writing from the charity, which should state whether you received any goods or services in exchange for your gift.

Congress reanimated an expired tax provision that allows taxpayers age 70½ and older to transfer up to \$100,000 from their IRAs to charity. The contribution counts toward donors' required minimum distributions without increasing their adjusted gross income. If you didn't transfer the money from your IRA to charity before December 31, you can't take advantage of this tax break to reduce your 2015 AGI. But if you want to make a charitable transfer in 2016, you don't have to wait until December to see whether the provision will once again be extended. It's here to stay.

New health care rules. If you have health insurance through your job, you should receive a Form 1095 from your employer confirming your coverage. Some employers provided this form to their workers last year, but it wasn't mandatory. Employees of large companies will receive a 1095-C; those who work for small companies, as well as those covered by military or government insurance plans, will receive a 1095-B. Employers send a copy of



the form to the IRS, too. You don't need to attach the 1095 form to your return, and if you filed before you received the document, you don't need to amend your return. As was the case last year, you simply check a box on your tax return to show that you had health insurance coverage in 2015. Keep a copy of the 1095 with your tax records.

If you bought health insurance through one of the exchanges set up by the Affordable Care Act, you should have received IRS Form 1095-A. This form shows the amount of any subsidy

✦ KipTip

Reporting HSA Distributions

IF YOU TOOK MONEY OUT OF A HEALTH savings account last year to pay for medical expenses, you should have received Form 1099-SA from your HSA provider. The IRS will also receive this form, so make sure you reconcile it on Form 8889 of your tax return. (This is also the form you use to report contributions to your HSA.) You'll be asked how much of the distribution was used for qualified medical expenses; for most taxpayers, it will be the entire amount. Here's why it's important to get this right: Withdrawals from an HSA for *nonqualified* expenses are taxable, and you'll also pay a 20% penalty if you're under 65.



you received. You do need this form to file your return, so if you haven't received it, log on to your health care marketplace website and search for an electronic version.

Use the information to fill out Form 8962, which is used to determine your subsidy, based on the estimate you provided of your 2015 income. If you overestimated, you'll receive a credit in the form of a larger tax refund or smaller tax bill. If you underestimated and got a more generous subsidy than you deserved, your refund will be reduced or what you owe will increase.

As was the case last year, taxpayers who were uninsured for all or part of the year may owe a penalty. The penalty for 2015 is \$325 per person or 2% of household income above the filing threshold, whichever is greater. (To see what you owe, use the calculator at www.healthinsurance.org.) Before you pay, make sure you're not eligible for an exemption. There are more than 30 provisions that could eliminate or reduce the size of your penalty, says Mark Ciaramitaro, vice president of health care services at H&R Block. You can find a full list at www.healthcare.gov; search for "exemption."

Contribute to a traditional IRA. You have until April 18 to make a 2015 contribution to your IRA. The IRA deduction is "above the line," which means you can claim it even if you don't itemize. It

will reduce your adjusted gross income dollar for dollar, which could also beef up other tax breaks tied to AGI.

If you're not enrolled in a 401(k) or some other workplace 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 2015 adjusted gross income rises between \$61,000 and \$71,000 if you're single or between \$98,000 and \$118,000 if you're married and file jointly.

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 AGI doesn't top \$183,000 for 2015. You can take a partial tax deduction if your combined AGI is between \$183,000 and \$193,000.

Contribute to a SEP-IRA. If you or your spouse earned self-employment income last year, you can shelter even more from the tax man with a SEP-IRA. In 2015, you can contribute up to 20% of net self-employment income (business income minus half of your self-employment tax), up to a maximum of \$53,000. You have until April 18 (or October 18 if you file for an extension) to set up and fund a SEP.

Fund a health savings account. You also have until April 18 to fund a health savings account for 2015. To qualify for the full contribution, you must have had an HSA-eligible policy on December 1, which means your policy had a deductible of at least \$1,300 for individual coverage or \$2,600 for family coverage. You can contribute up to \$3,350 if you had single coverage or \$6,650 if you had family coverage (and you can contribute an additional \$1,000 if you were 55 or older in 2015). As with contributions to a deductible IRA or SEP, money you invest in a health savings account will reduce your AGI dollar for dollar. ■

✦ KipTip

Fraud Victim? What to Do

MANY IDENTITY THIEVES ARE USING stolen Social Security numbers to file fraudulent tax returns. You won't know whether you've been a victim until your tax return is rejected. Resolving the issue and recovering your refund could take months.

If you believe someone has filed a tax return in your name—either because your return bounced back or you received a notice from the IRS about a suspicious filing—notify the IRS Identity Protection Specialized Unit at 800-908-4490. Next, go to www.irs.gov and download Form 14039, "Identity Theft Affidavit." Mail or fax the form, along with a paper copy of your tax return, to the IRS (instructions are on the form).

If a delay in receiving your refund will create a severe financial hardship, contact the IRS Taxpayer Advocate Service at www.irs.gov/advocate, says Aaron Blau, an enrolled agent in Tempe, Ariz. The taxpayer advocate will intervene for taxpayers who demonstrate that their need is urgent, he says.

When the case is resolved, you may receive an Identity Protection PIN (IP PIN) to use in the future when you file your tax return. If someone tries to file a tax return using your Social Security number and doesn't include the IP PIN, the return will be rejected. You can also request a copy of the fraudulent return that was filed in your name. Some of the information will be blacked out, but the bogus return should help you determine how much of your personal information was stolen. For more information, go to www.irs.gov and search "Instructions for Requesting Copy of Fraudulent Returns."

If you've been a victim of tax fraud, take other steps to prevent thieves from hijacking your identity. Contact one of the three main credit bureaus—Equifax, Experian or TransUnion—and have a fraud alert put on your account. (The credit bureau you contact will alert the other two.) For other tips, see "How to Fend Off ID Thieves" (Sept. 2015).



7 Ways to Survive a Market Swoon

The worst thing to do is panic. But that doesn't mean you should sit back and let your retirement nest egg crack. **BY ANNE KATES SMITH AND JANE BENNETT CLARK**

THERE'S NOTHING LIKE A STOCK

market rout to remind investors how important it is to follow the tenets of sound investing. The past several months have been one such baptism by fire, with Standard & Poor's 500-stock index recently down 12% from its May peak. Blame the free fall on the Chinese stock market, plunging oil prices or the fact that the current bull market, at seven years old, is experiencing fatigue. Whatever the cause, such market mayhem is particularly worrisome for retirees and near-retirees, who have less time to make up for big market declines. Here are some tips to help you survive the turmoil.

1 Don't panic. One of the important lessons from the devastating 2007–09 downturn is that even in the worst of times, “recoveries happen within a reasonable period,” says financial planner Cicily Maton, of Aequus Wealth Management Resources, in Chicago. Since 1945, it has taken an average of just four months to recover from market declines of 10% to 20%. Bear markets (resulting in losses of 20% or more) have taken an average of 25 months to break even (see the table on the next page). Fight the urge to cut and run, and avoid selling your depreciated stocks, if you can. If you are in your seventies, remember that you have until December 31 to take required minimum distributions from your retirement accounts.

2 Keep your portfolio on track. Even retirees should have an investment horizon long enough to weather

this storm or whatever the market can dish out. For a retirement that can last decades, T. Rowe Price recommends that new retirees keep 40% to 60% of their assets in stocks. And because stocks stand up to inflation better than bonds and cash over time, even 90-year-olds should keep at least 20% of their assets in stocks.

If you've been regularly monitoring your portfolio, you've already been cutting back on stocks periodically over the past few years. Now is a particularly good time to revisit your investment mix to ensure that it is consistent with your tolerance for risk. During the bull market, “people were getting comfortable with those re-

turns and may have let their stock allocation drift higher,” says Maria Bruno, a senior investment strategist at Vanguard. “We've been reminding them to rebalance.”

3 Make sure you're diversified. Investors who had planned to dump bond holdings in anticipation of higher interest rates just got a good lesson in how bonds, especially high-quality government issues, can provide ballast. In other words, when stock prices are being pummeled, bonds are often pushed higher by investors seeking a safe place to hide.

From the start of the year to the beginning of February, the yield on the

■ IN A DOWNTURN, LET STOCKS RIDE AND LOOK FOR OTHER SOURCES OF INCOME.



benchmark 10-year Treasury bond dropped from 2.3% to 1.8%, and because bond prices and interest rates move in opposite directions, prices of Treasuries have climbed. In general, investors should own a mix of domestic and foreign bonds and U.S. and overseas stocks. And within the stock allocation, you should have a variety of market sectors. No single sector should claim more than 5% to 10% of your holdings, says T. Rowe Price senior financial planner Judith Ward.

Also remember that the headlines are not about you, says Ward. Retirees, especially, are likely to have a healthy mix of bonds and cash in their accounts to temper stock market declines. The market is not a monolith, and some of your stock holdings may buck the downtrend.

4 Stick with high-quality holdings. This is no time to speculate. Look for companies with dependable earnings, impeccable balance sheets and healthy dividends, or funds that invest in such companies. **VANGUARD DIVIDEND GROWTH (SYMBOL VDIGX)**—a member of the Kiplinger 25, the list of our favorite no-load mutual funds—delivers steady returns with below-average volatility by focusing on companies with low debt, high profitability and a consistent history of raising dividends. **POWERSHARES S&P**

500 LOW VOLATILITY PORTFOLIO (SPLV, \$38) is a good choice for exchange-traded fund investors. Opportunistic investors can use market volatility to think about buying high-quality stocks, such as industry leaders Alphabet and Nike, on the cheap (see “Play Defense With Fortress Stocks,” on page 52).

5 Tap your cash bucket. Instead of dumping stocks, use Social Security and any annuities, plus the portion of your portfolio that comprises cash and short-term CDs, to meet your expenses. Some advisers recommend creating three “buckets” of investments: one with cash and short-term CDs, the second with short- and intermediate-term bonds, and the third with stock and bond funds. Relying on the first bucket will leave the stocks-and-bonds bucket of your portfolio intact. If you’ve planned for the inevitable downturns (you did, right?), you should have enough in cash and cash-like investments to cover two to three years of living expenses. Eventually, you can use the second two buckets to replenish the first.

One other thought: A home-equity line of credit or reverse mortgage can provide income for living expenses while you wait for stocks to recover (see “Reverse Mortgages Get a Make-over,” on page 39).

6 Rethink your withdrawal strategy.

Don’t rely blindly on a rule of thumb that bases its assumptions on historical returns rather than current conditions. For instance, the 4% rule—a withdrawal strategy based on back-testing 30-year periods starting in 1926—says you can safely take 4% of your total portfolio in the first year of retirement and in subsequent years, adjusted for inflation. Now, with stocks down and 10-year Treasury bonds yielding less than 2%, you might be wise to scale back distributions to, say, 3% or less of total assets (plus an inflation adjustment) or to take 4% and skip the inflation adjustment.

Such measures are especially important if you’re at the beginning of your retirement. An unrealistic first-year withdrawal during a bear market could cripple your portfolio’s potential for long-term growth. “Today, retirement is very expensive,” says David Blanchett, head of retirement research at Morningstar Investment Management, which provides retirement consulting and investing services. “The key is to be flexible.”

If you don’t have other income to offset lower withdrawals, consider deferring gifts, trips and other discretionary expenditures until the market stabilizes. Also keep in mind that your spending changes—and typically declines—in retirement. You may find that cutting back is more doable than you think, says Blanchett.

7 Postpone retirement. Sound drastic? Maybe so, but “delaying

retirement does an amazing amount for improving retirement success,” says Blanchett. Not only do you have more time to save, including making catch-up contributions to your retirement accounts (see “Build Wealth for a Lifetime,” on page 24), but you’re also letting the money in your accounts grow, and you have fewer years during which you must rely on savings once you do retire, says Blanchett. “Working longer really reduces the stress on your portfolio.” ■

Downturns

HOW LONG IT TAKES THE MARKET TO RECOVER

Since the end of World War II, U.S. stocks have experienced 20 corrections (a decline of 10% to 20%) and 12 bear markets (drops of 20% or more). After a correction, it has taken an average of four months to recover all losses. It has taken 14 months, on average, to recover losses after less severe, “garden variety” bear markets, and nearly five years to erase the effects of a severe bear market.

Type of down market	Number	Average decline	Average length	Average length of recovery
Corrections	20	14%	4 months	4 months
All bears	12	33	14 months	25 months
Garden variety	9	26	11 months	14 months
Catastrophic	3	51	23 months	58 months

SOURCE: S&P Capital IQ

Reverse Mortgages Get a Makeover

Now, with lower costs and less risk, these loans can be a flexible source of retirement income. **BY PATRICIA MERTZ ESSWEIN**

THE LARGEST STORE OF

wealth for most retirees resides in their home. At the same time, low rates on savings and longer life expectancies have sent retirees scrambling for new sources of income.

Enter the reverse mortgage, which allows homeowners to convert their home equity into cash. Over their 29-year history, reverse mortgages have earned a bad rep, thanks to smarmy TV ads and fears that borrowers could easily lose their home to the bank. And many financial advisers have given reverse mortgages the cold shoulder, knocking them as high-priced, risky loans of last resort.

But the Federal Housing Administration, which insures home equity conversion mortgages (or HECMs), as reverse mortgages are formally known, has made rule changes that have reduced the cost of these products and the risk to borrowers. Before the changes took effect, as many as 10% of loans went into default because borrowers could not keep

up with homeowners insurance and property taxes. The new rules require a financial assessment to ensure that borrowers have enough money to pay on-going costs. The amount of equity available immediately has also been limited, but so has the up-front cost of mortgage insurance that borrowers are required to pay.

Now financial advisers are coming around to reverse mortgages, says Wade Pfau, the director of retirement research at McLean Asset Management, in McLean, Va. Reverse mortgages offer flexibility to help make other retirement resources last, he says. You can continue living in your home or buy your next one without a monthly mortgage payment (for more about an HECM for purchase, see kiplinger.com/links/reverse). You could take monthly payments to supplement your income and defer taking Social Security until age 70, when you'll qualify for the maximum payout, or substitute those payments for an annuity.

One of the biggest risks in retirement is that a market downturn could force you to sell investments at a loss to maintain income. With an HECM line of credit, you could make withdrawals when the market is down and, when your portfolio has regained value, sell investments to replenish the line (see "7 Ways to Survive a Market Swoon," on page 37).

The basics. A reverse mortgage lets you convert your home's equity into a lump sum or a line of credit. You don't make principal and interest payments to repay the loan; withdrawals accumulate and interest on them accrues until the loan is due—usually after you or your heirs sell the home.

To be eligible for an HECM, borrowers must be at least 62 years old. The maximum payout, or principal limit, for which you'll qualify depends on your age (or that of a younger co-borrower or a nonborrowing spouse), the current interest rate, and the appraised value of your home, up to a maximum of \$625,500. (Some lenders offer larger, "jumbo" reverse mortgages.) The older you are, the lower the interest rate and the higher your home's value,



the greater the initial maximum payout.

You can withdraw up to 60% of your principal limit in the first year, unless you need more to pay off a mortgage or make repairs required by the lender. At closing, you'll pay an initial mortgage insurance premium equal to 0.5% of the appraised value of the home if you take 60% or less in the first year, or a 2.5% premium if you take more than 60%.

Interest charges and annual mortgage premiums (at a rate of 1.25% of the amount you borrow) will accrue on any outstanding balance—though no principal or interest payments are due until the home is sold. The interest rate on lump-sum payouts is fixed—a typical rate is 5%. Monthly payouts or draws from a line of credit will have variable rates (recently ranging from 3.1% to 4.1%).

You must also pay a lender's origination fee and fees for third-party services (such as an appraisal or inspection), plus closing costs, which can run \$1,000 to \$2,500 or more (see the box at right). You can pay up-front costs out of pocket or from the loan proceeds.

Lump sum or line of credit? You can take the money up front in a single payment and lock in a fixed rate, but if you do, that's all you get. Some borrowers choose this option to, say, eliminate debt or buy their next home, and it preserves a chunk of home equity for heirs. Or you can take a series of monthly payments or a line of credit, or some combination.

A line of credit offers the most flexibility, allowing you to tap 100% of your principal limit within the first two years. And right now, interest rates remain historically low; the lower your rate, the more you can borrow.

Pfau recommends that you take a reverse mortgage with a stand-by line of credit as soon as you're eligible, even if you don't need the money right away. That's because the amount of credit available to you will grow over time, and you can take advantage of the higher credit line if you need money later to, say, pay long-term-care bills or wait out another market downturn.

This is where reverse mortgages get counterintui-

tive. Your untapped credit line increases as though interest and mortgage insurance premiums were being applied to the balance, even though you don't pay interest or insurance on money you don't tap. Plus, if the variable interest rate increases over time, so does the rate of growth of your available credit.

For example, say that you had \$400,000 in equity in a \$500,000 home and you qualified for an initial credit line of \$165,014 at 4.1% interest. Over 10 years, if you took no withdrawals and the interest rate never rose, your available credit would grow to \$279,938. If you plan to preserve your available credit for as long as possible to maximize its

growth—rather than tap your equity immediately—look for the highest interest rate you can get for the lowest up-front cost.

Your end of the bargain.

Although you'll no longer make a monthly mortgage payment, you must maintain your home and pay property taxes, hazard insurance premiums and homeowners association or condo dues, or you'll risk defaulting on the loan. If the lender determines that you can't handle those costs, it will set aside funds from your payout in an escrow account and pay those bills.

The money you receive will be tax-free. It won't affect what you pay for Medicare, how your Social Security benefits are taxed or your eligibility for Medicaid. You or your heirs can deduct interest on the first \$100,000 of indebtedness when the loan is repaid.

The loan—the sum of payouts and accrued costs—comes due and payable when the last surviving borrower sells the home, leaves for more than 12 months due to illness, or dies. Lenders must allow a nonborrowing spouse or committed partner to stay after the borrower dies.

You'll never owe more than the value of your home when you or your heirs sell it to repay the reverse mortgage, and you can keep any leftover equity. If your heirs want to keep the home, they can refinance the reverse mortgage, or they can pay the outstanding debt or 95% of the home's appraised value, whichever is less. ■

✧ KipTip

Smart Shopping Strategies

IT PAYS TO TALK WITH AT LEAST A FEW LENDERS AND COMPARE their offers. You will also have to get mandatory counseling from a HUD-certified housing counselor (to find one, call 800-569-4287 or search for "HUD Approved Housing Counseling Agencies" online). You can do the session over the phone or in person; a session costs \$125 to \$250.

Run what-if scenarios. Use the reverse mortgage calculator at the Mortgage Professor website (www.mtgprofessor.com) to try out a variety of loan terms. You'll also receive competitive offers from participating lenders. You can use the offers as a basis of comparison if you want to shop more.

To find other lenders doing business in your state, visit www.reversemortgage.org, the website of the National Reverse Mortgage Lenders Association, and click on "Find a Lender." Look for a loan officer who is a "Certified Reverse Mortgage Professional."

Haggle over origination fees. The Federal Housing Administration says lenders can charge an origination fee equal to the greater of \$2,500 or 2% of your home's value (up to the first \$200,000), plus 1% of the amount over \$200,000, to a cap of \$6,000. But lenders aren't required to charge the max, so if a lender says, "The government sets the origination fee," keep negotiating.

How Your Credit Card Can Protect You

More than a convenient way to pay, it also comes with valuable consumer benefits. **BY MIRIAM CROSS**

Disputing an error.

When you see a mistake on your credit card bill, don't delay: The law gives you 60 days after an error appears on your statement to take it up with your card company. Many issuers will encourage you to try to resolve the problem with the merchant first. Also, make sure the charge is a mistake and not an unfamiliar name for a legitimate charge. To enjoy the benefits of the Fair Credit Billing Act, including a temporary credit to your account for the amount in question, you will need to contact your issuer. And if you suspect fraudulent activity, contact the issuer immediately.

You will likely have the option of registering the dispute online, by phone or by mail. Writing to your issuer preserves your billing rights, and you can more easily document the dispute as well. Remember that even though you don't have to pay the disputed amount during the investigation, you must pay the remainder of your balance. Whether or not the dispute wraps up in your favor, be sure you receive a written explanation from your issuer. And if your claim is rejected, you may have to pay any interest that accumulated on the charge.

Weekend due dates. Due dates must land on the same day every month, with a cut-off time no earlier than 5 P.M. If the due date falls on a day that mail



is not delivered, an online payment must still arrive by the due date, but a check is on time if it arrives the following business day. Don't play chicken: Allow sufficient time for your check to be delivered or your online payment to clear. First-time offenders might have luck asking their issuer to waive any late fees.

Late-fee limits. Late fees are levied when you pay less than your minimum by the due date or you miss a payment altogether. A late fee may not exceed your minimum payment, but the cap can move up or down with inflation. For 2016, your first late fee maxes out at \$27; subsequent offenses—for late payments within the following six cycles—can be punished by a \$37 fee.

Falling from grace. Many credit cards offer a grace period—the interval between your statement closing and your due date—during which you can pay your bill and not incur interest. But if you fail to pay off the entire balance by the due date, you lose the entire benefit, so both your unpaid balance and new charges will start accruing interest immediately. Many credit card issuers will restore your grace period if you pay your balance in full two cycles in a row. Also, disputing a charge won't affect your grace period. ■

Budgeting Made Easy



WITH MORE THAN 20 million users, **MINT** is the big kahuna among budgeting tools. It tracks and categorizes expenditures automatically and creates a breakdown of where your money has gone. Plus, it's free. But it's not the only player.



Whereas Mint shows you where your money has gone, **YOU NEED A BUDGET** is a more hands-on tool that makes you choose how to put your *future* earnings to work. You start by inputting your monthly income and assigning dollar amounts to various categories. The goal is to get you to spend last month's paycheck for this month's expenditures. The tool, accessed via the Web or mobile app, costs \$5 a month, or \$50 a year.



For **LEVEL MONEY** users, maintaining a budget comes down to a simple question: What can I afford to spend today? The free app uses your bank and credit card information to track expenses. You enter your income along with bills due and how much you'd like to set aside for savings. The app tells you what you can spend on a given day, or for a week or month.



READYFORZERO is a budgeting tool designed for one purpose: getting you out of debt. The site aggregates your obligations, from credit cards to student loans, and helps you create a customized repayment plan. The service (also available as a mobile app) tracks payment due dates, keeps tabs on your credit score and plots your repayment progress on a graph. **RYAN ERMEY**



“If my home is hit by spring storms, will my homeowners insurance cover all the damage?”

STANDARD HOMEOWNERS

and renters policies cover the damage wreaked by wind, hail, falling water or wind-driven rain, but not from rising water from any source, including a sewer or drain backup or sump-pump failure. The cost can be substantial: Mother Nature's forces of wind, water and hail accounted for more than half of all homeowners insurance losses between 2009 and 2013, with an average claim amount of \$7,610, according to the Insurance Information Institute.

If you live in a federally designated flood zone, or if your house could be flooded by melting snow, an overflowing creek, or water or mud running down a steep hill, you can buy flood insurance from the National Flood Insurance Program (www.floodsmart.gov) by calling your insurance agent. The program covers homes for up to \$250,000 of the cost to rebuild and insures contents for up to \$100,000. The average premium is \$700 per year, but rates depend on a home's features and location.

Prevention pays. You can take steps to minimize the risk. Visually inspect your roof for damage, clean your gutters, and attach extensions to downspouts and regrade



soil to divert water away from your home's foundation. Test your sump pump and recharge its battery.

To avoid coming home and finding that a deluge has created a sodden (or worse, moldy) mess, install a remote alarm system, such as the Samsung SmartThings Hub (about \$300 with five water-leak sensors). It will notify you when the sensors—placed where leaks or overflow are most likely to occur—detect water. Home insurers usually offer their biggest discount for a combination of approved protective devices, which may include a water-leak detection system. State Farm offers discounts of 10% on the ADT

Pulse home-monitoring system (\$636 a year) and the Comfort and Control Kit for the Iris by Lowe's smart-home system (\$339). Plus, State Farm offers customers a premium discount of up to 10% to 15% for the ADT system and up to 2% to 7% for the Iris.

If your home (or neighbors' homes) experience sewer backups, hire a plumber to install a sewer-backflow valve (\$600 to \$1,400) to keep pure nastiness from backing up through toilets and drainpipes into your home. The valve allows waste to flow out but closes when the flow reverses. You can also add, say, \$5,000 of sewer-backup coverage to your

homeowners policy for about \$50 annually.

Fortify your home. Your roof is your home's first line of defense against the elements. When it's time to replace it, strengthen it. You can install impact-resistant shingles that are rated for superior resistance to hail damage, and you may earn a premium discount.

Four coastal states—Alabama, Georgia, Mississippi and North Carolina—require insurers to give homeowners a premium discount of 5% to 35% for retrofitting a roof to meet the “Fortified” standards of hurricane resistance developed by the Insurance Institute for Business & Home Safety (see www.smarthomeamerica.org). Florida, Louisiana, South Carolina and Texas have similar programs.

Also consider storm shutters (\$9 to \$30 per square foot of openings) or impact-resistant windows (\$50 to \$70 per square foot). Florida requires insurers to discount premiums by 35% to 44% for storm shutters that meet code.

Wherever you live, check with your insurance agent or state department of insurance to learn about incentives for preventing storm damage. **PATRICIA MERTZ ESSWEIN**

CREDIT»

How Your Credit Card's Rate Is Set

NOW THAT THE FEDERAL

Reserve has begun to raise short-term interest rates, most credit card holders are seeing the annual percentage rate on their cards tick up, too. Most credit cards come with a variable rate tied to an index, such as the prime rate. Each time the Fed hikes rates, the index typically follows. For example, in response to the Fed's rate increase in December, the prime rate rose from

for example, charges customers the prime rate plus 10.74 to 19.74 points (depending on your credit history), for a recent APR of 14.24% to 23.24%. As the index rises, card issuers apply the new rate to both outstanding balances and new charges, and they don't have to notify you of the bump.

For now, your minimum payment probably won't increase by more than a few dollars each time the rate goes up, unless you're carrying a hefty load of high-rate debt. But paying down credit card debt as quickly as possible is always a smart move.

Fixed-rate cards, which are rare these days, are less sensitive to rate hikes. An issuer may raise the rate on a fixed-rate card, but it must give you at least 45 days' notice, and the new rate may apply only to new purchases. Issuers aren't likely to increase fixed rates for current customers anytime soon, says Nick Clements, cofounder of financial education site Magnify Money.com. (For more credit card protections, see page 41.) **LISA GERSTNER**

Kiplinger.com

RATE UPDATES

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

3.25% to 3.5%. Kiplinger expects two more quarter-point increases in 2016.

To determine a variable APR, card issuers add a set number of percentage points, called a *margin*, to the index rate. (Check your card's account agreement and monthly statement for information on the index, margin and current APR.) The Chase Freedom card,

TOP-YIELDING DEPOSIT ACCOUNTS

No-Minimum Checking Accounts	Annual yield as of Feb. 9	Website (www.)	
EverBank (Fla.) ^{*†}	1.03%	everbank.com	
MyCBB (Calif.) [*]	0.79	mycbb.com	
Bank of Internet USA (Calif.) [*]	0.71	bankofinternet.com	
Alliant Credit Union (Ill.) ^{#§}	0.65	alliantcreditunion.org	
NATIONAL AVERAGE	0.11%		
Rewards Checking Accounts	Annual yield as of Feb. 9	For balances up to [‡]	Website (www.)
America's Credit Union (Wash.) [#]	5.00%	\$1,000	youracu.org
Northpointe Bank (Mich.)	5.00	5,000	northpointe.com
Consumers Credit Union (Ill.) [#]	4.59	20,000	myconsumers.org
Destinations Credit Union (Md.) [#]	3.01	10,000	destinationscu.org
NATIONAL AVERAGE	1.64%		
Savings Accounts	Annual yield as of Feb. 9	Min. deposit	Website (www.)
North American Savings Bank (Mo.)	1.12%	\$100	nasb.com
EverBank (Fla.) ^{*†}	1.11	1,500	everbank.com
Silvergate Bank (Calif.)	1.11	1,000	silvergatebank.com
Dime Savings of Williamsburgh (N.Y.) ^{&}	1.10	1,000	dime.com
NATIONAL AVERAGE	0.11%		

^{*}Internet only. [†]Promotional rate for first-time clients; available for the first year. [#]Must be a member; to become a member, see website. [§]1st Constitution Bank, Clear Sky and FNBO Direct offer a similar yield. [‡]Portion of the balance higher than the maximum earns a lower rate or no interest. To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. [&]iGObanking and Northeast Bank offer a similar yield. SOURCES: Bankrate.com, Depositaccounts.com.

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of Feb. 9	Min. amount	Website (www.)
Live Oak Bank (N.C.) [*]	1.30%	\$10,000	liveoakbank.com
AloStar Bank of Commerce (Ala.) [*]	1.26	1,000	alostarbank.com
BAC Florida Bank (Fla.) [*]	1.26	1,500	bacflorida.com
iGObanking.com (N.Y.) ^{*†}	1.25	1,000	igobanking.com
NATIONAL AVERAGE	0.27%		
5-Year	Annual yield as of Feb. 9	Min. amount	Website (www.)
First Internet Bank of Indiana (Ind.) [*]	2.27%	\$1,000	firsttib.com
Barclays Bank (Del.) [*]	2.25	none	banking.barclaysus.com
Synchrony Bank (N.J.) [*]	2.25	25,000	synchronybank.com
CIT Bank (N.J.) ^{*#}	2.20	1,000	bankconcit.com
NATIONAL AVERAGE	0.83%		

^{*}Internet only. [†]BankDirect, Colorado Federal Savings Bank, Lone Star Bank, Sallie Mae Bank and Synchrony Bank offer a similar yield. [#]Discover Bank and State Farm Bank offer a similar yield. SOURCE: © 2016 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. 9 [*]	Annual fee	Late fee	Website (www.)
First Command Bank (P)	6.25%	none	\$27 [†]	firstcommandbank.com
Lake Michigan Credit Union (P)	6.50	none [#]	27 [†]	lmcu.org
Citizens Trust Bank Visa (G)	7.25	none	27 [†]	ctbconnect.com

RETAIL REBATE CARDS

Issuer	Rate as of Feb. 9 [*]	Annual fee	Rebate earned store/other	Website (www.)
Barnes & Noble MasterCard	14.24%	none	5%/1% [^]	barnesandnoble.com
L.L. Bean Visa	14.24	none	3/1	llbeanrewards.com
Amazon.com Rewards Visa	14.49	none	3/1 [‡]	amazon.com/rewards

Rates are adjustable. ^{*}If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (G) Gold. (P) Platinum. [†]\$37 if late more than once in 6 months. [#]Must be a member of the credit union; to become a member, see website. [^]2% at restaurants; 1% on all other purchases. [‡]2% at gas stations, restaurants, office supply stores and drugstores; 1% on all other purchases. SOURCE: Bankrate.com. Banks may offer lower introductory rates.

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	1.64	1.64	1.48
Six-month Treasury bills	0.42	0.45	0.08
Five-year Treasury notes	1.15	1.57	1.49
Ten-year Treasury notes	1.73	2.13	1.96

As of February 9, 2016.
^{*}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.

THE SECRETS OF WOMEN INVESTORS

For starters, they do more research and they panic less.
And guess what—they get better results.

BY KATHY KRISTOF

WOMEN USED TO GET A BAD RAP on Wall Street. Industry observers maintained that women started too late, saved too little and invested too conservatively. But research is increasingly proving otherwise. Just as Little League pitching phenom Mo'ne Davis turned the phrase “you throw like a girl” into a compliment, author LouAnn Lofton says you should be flattered if someone says you invest like a girl. After all, says Lofton, who wrote *Warren Buffett Invests Like a Girl*, the nation's best-known investor does. // A raft of surveys

indicate that women do more research, are better at matching their investments to their goals, trade less and remain calmer during market upheavals. If you're unsettled by this year's stock market swoon, you may be interested to know that, on average, the portfolios of female investors hold up better than those of their male counterparts during a downturn. An analysis of the 60,000 users of Openfolio, an online investment-sharing platform, found that in 2014, a stellar year for the markets, the women investors it tracks outpaced their



“When you see a product that’s really unique or is flying off the shelf, find out who makes it.”

—Nicole Sherrod, TD Ameritrade

male peers by an average of 0.4 percentage point. In 2015, a poor year for markets, women lost an average of 2.5%, compared with a loss of 3.8% for men. In both years, women on average achieved their results with smaller swings than men had, adding luster to their already impressive achievements.

Of course, men can be marvelous investors, too, and in some areas women would be wise to take their counsel (see the box on page 49). But women have a different and valuable approach that can help almost anyone become a better investor.

To that end, *Kiplinger's* asked a group of accomplished women from Wall Street and beyond to share their investing advice. From bringing everyday experience to bear on stock selection to rehearsing your reaction to market upheavals, these nuggets can help you improve your investment performance (for a look at how *Kiplinger's* readers invest, see page 51).

► INVEST IN WHAT YOU KNOW

Women make roughly 70% of household purchases, putting them in a great position to benefit from the strategy that once made Peter Lynch the best-known mutual fund manager on the planet. Lynch, who ran Fidelity Magellan (symbol FMAGX) from 1977 through 1990, said in his book *One Up on Wall Street* that investors' best research tools are their own eyes and ears; he got many of his best investment ideas while walking around shopping malls and talking with his friends and family. In fact, Lynch wrote, his wife was responsible for turning him on to what turned out to be one of his best picks ever, Hanes Co., when she told him how much she liked L'eggs panty hose, which Hanes makes.

Investing in companies that make products or deliver services that you use can be a great way to discover winning investments when the firms are still young and have the potential to grow rapidly, says Nicole Sherrod,

managing director and head of trading at TD Ameritrade. She invested early in Amazon.com (AMZN), Apple (AAPL) and Disney (DIS) because they provided products or services that she, as a working mother, couldn't live without. All of the stocks have had great runs in recent years at one time or another. "When you see a product that's really unique or is flying off the shelf, find out who makes it," Sherrod suggests. "You're choosing products every day, so you have tremendous exposure to great companies."

Not sure who makes the great product you're buying? With TD Ameritrade's smartphone app, you can scan a bar code on any product and find out the name of the company that makes it. Of course, you'll need to undertake more research before you invest. But using your own experience to find potentially attractive stocks is a great place to start.

► TEMPER RISK

Women approach risk differently than men do. Studies show that men are more inclined to behave like baseball sluggers, who swing for the fences, even if it means running the risk of striking out far more often. Women, by contrast, are more like contact hitters, who are satisfied with a string of singles. These tendencies show up in various forms. For example, a 2013 study by Fidelity Investments found that men were much more likely than women to hold 100% of their assets in stocks. Openfolio's data show that portfolios owned by men are subject to far wider swings in value. The problem is that investors who strike out frequently because they're always trying to smash home runs can undermine their results.

Consider a male slugger who puts \$1,000 each into two speculative stocks versus a female lead-off hitter who invests the same amount in two dividend-paying blue-chip stocks. The high-quality stocks each return 10% over the course of the year, leaving the female investor with \$2,200. Mean-

while, the male investor hits a home run with one of his picks, which doubles, but strikes out with the other, which loses 90% of its value. His total after a year is \$2,100.

The lesson, says Ramona Persaud, manager of Fidelity Global Equity Income Fund (FGILX), is that it's important to manage risk and avoid huge losses. If you invest in individual stocks, says Persaud, look for strong companies that are willing and able to pay generous dividends. "Your investment return is a combination of dividends and price appreciation," she says. "If you have enough dividend yield, it dampens the downside."

Before she invests in a stock, Persaud asks a series of questions: Is the company well established, and does it have clear competitive advantages? Is it profitable and capable of generating enough cash to pay a healthy dividend? Can you buy the shares for a reasonable price? Affirmative answers to all of those questions are likely to result in investments that provide competitive returns with a minimum of volatility.

► THINK LONG TERM

In nearly three decades on Wall Street, Sallie Krawcheck says she has never heard a group of women investors swapping tips on hot stocks or bragging about their portfolio performance—topics you're more likely to hear in a gathering of men. "Men are all about the competition; women are all about the goal," says Krawcheck, the former head of Bank of America's Merrill Lynch division and chair of Ellevest Network, a financial networking group for women, and cofounder of Ellevest, an investing platform for women that is due to launch this year.

Focusing on the goal is smart because it forces you to consider your personal needs rather than some arbitrary measure of success. "It's not that women aren't concerned about getting a great return," says Zaneilia Harris, a certified financial planner and president of Harris & Harris Wealth Management, in Upper Marlboro, Md. "But they



“It’s not that women aren’t concerned about getting a great return. But they don’t care what their friends are doing.”

—Zaneilia Harris, Harris & Harris Wealth Management

don’t care what their friends are doing; it’s all about their individual goals.”

Focusing on your goals rather than on, say, how your portfolio stacks up against Standard & Poor’s 500-stock index provides another benefit: It helps you tune out market noise, which can make you jittery and prone to trade more frequently.

➤ **TRADE SPARINGLY**

Studies going back decades reinforce a simple point: Men trade more often than women, and that hurts their investment returns over time. The seminal study on the topic, by University of California–Davis professors Brad Barber and Terrance Odean (the latter is now at UC-Berkeley), tracked the trading patterns and results of nearly 38,000 households, over a six-year period during the 1990s, for which they could identify the gender of the primary account holder. The finding: Men traded 45% more frequently than women and, as a result, earned an average of 0.94 percentage point per year less than women did. More-recent research has shown much the same pattern. For instance, Openfolio’s data show that in 2015, men traded an average of 7.4 times, while women traded an average of 5.1 times.

Trading can result in three problems, according to the Barber and Odean study. Whenever you buy or sell a stock, you’re likely to pay brokerage commissions. If you sell a stock at a profit in a taxable account, you’ll have to share some of your winnings with Uncle Sam and, possibly, with state and local tax collectors.

Finally, you need to find a new investment that performs better than

“Men are all about the competition; women are all about the goal.”

—Sallie Krawcheck, Ellevest Network and Ellevest



the one you sold. That turns out to be really tough to do. The Barber-Odean research found that, on average, the investments that were sold delivered about two percentage points more return over the subsequent 12 months than the investments that replaced them. Women and men fared about the same on this score, but women earned more than men simply because they traded less. “Some people think that if you’re not doing something, you’re not investing,” says author Lof-ton. “Warren Buffett’s favorite investment strategy is lethargy bordering on sloth. Inaction is not a bad thing.”

➤ **SELL WITH DISCIPLINE**

Every investor makes mistakes. Sometimes it is an error of commission: You buy a real stinker. Sometimes it is an error of omission: You hang onto a loser, or a winner, for too long. But knowing what and when to sell is at least as important as knowing what to buy. “You have to know when to pull the plug,” says Sarah Ketterer, chief executive of Causeway Capital Management and the longtime comanager of her firm’s flagship fund, Causeway International Value (CIVVX).

Because women are more inclined to do research and more likely to ex-

hibit patience than men, they’re well equipped to take the same disciplined approach to selling as they do to buying and are less prone to unloading their stocks during a market panic (see the next section). Ketterer suggests establishing triggers that prompt the reevaluation of each holding. A trigger could be a set date (say, at the end of a quarter or the end of a year), or it could be a specific rise or fall in the share price. Ketterer sets a target price for each stock she buys and reevaluates it when the price approaches that level. A falling stock price is not a reason to sell, she says. But it may indicate

that your initial analysis was flawed and requires review. “The greater the frequency of review of a company, its industry and the economic environment, the better,” she adds.

When considering whether to sell a stock, apply the same analysis you used when you weighed buying it. That’s likely to involve a look at the company’s products or services, its position in its industry, its balance sheet, its history of profit growth, and its share price relative to such key numbers as earnings and sales. After reviewing the case, Ketterer asks herself two questions: First, would I buy today given the firm’s outlook and its share price? Second, if I choose to sell, do I have a better place to invest the proceeds?

Discipline is the key. “Great investors are disciplined about the price they’ll pay when they buy and will buy even if the world is falling apart around them,” says Ann Kaplan, a former Goldman Sachs partner who is now a partner at Circle Wealth Management, an advisory firm with offices in the New York City area. “They’re the same way when they sell. Even if the markets are frothy and could continue to go up, once a stock hits the point where it’s overvalued, you should have the discipline to sell it.”

What about selling mutual funds? Evaluate them at least once a year, says Christine Benz, director of personal finance at Morningstar. She says three factors might warrant selling a fund: year-by-year results that are consistently worse than a fund’s benchmark index or peer group, wildly erratic performance and management changes.

► REHEARSE YOUR SCRIPT

If you’ve invested long enough, you know that stock markets are prone to bubbles and busts (the sharp drop early in 2016 was an example of the latter). The problem for most of us is that we tend toward euphoria during bubbles and depression during busts. As a result, we often make the wrong decision at the wrong time—that is, we tend to buy when we’re euphoric and prices

✦ Strong Suits

When Men Are Better

WHEN IT COMES TO INVESTING, MEN HAVE THEIR OWN STRENGTHS. STUDIES

show that they save aggressively—both inside and outside of retirement plans—and are better than women at running the numbers to ensure that they’re on track to a comfortable retirement. They are comfortable both with discussing finances and with their knowledge of the topic.

These factors, coupled with women’s lower average wages and greater longevity, go a long way toward explaining why men’s poverty rate in retirement is half the poverty rate of women. “My real concern is that the retirement-savings crisis is a gender crisis, and we are not talking about it that way,” says Sallie Krawcheck, the former head of Bank of America’s Merrill Lynch division and chair of Ellevest Network, a financial networking group for women. “Women can save more and invest more. They have to find a way that works for them and just do it.”

The numbers are stark. Although women contribute an equal or larger share of their earnings to workplace retirement plans, they have saved about half as much as men have, says Liz Davidson, CEO of Financial Finesse, an employee-benefits consulting firm. That’s partly because women earn less, on average, and partly because they take time off from work for child-rearing and other family-related matters.

Saving less. But other factors are at play, too, says Davidson. About 20% of women don’t contribute enough to get the full benefit of employer matching contributions, according to Financial Finesse research. Only 14% of men leave that money on the table. Additionally, 63% of men have an emergency fund, compared with just 48% of women.

Women don’t appear to compensate for their workplace shortfalls by investing outside of company plans. Nicole Sherrod, head of trading at TD Ameritrade, says that 69% of the individual accounts at her firm are held by men, as are the bulk of TD Ameritrade’s IRAs.

The reluctance to invest outside of company plans may be related to women’s lack of confidence in their investing abilities, which can make them prone to procrastination. “Women hold back because they think they need to know everything before they invest,” says Alexandra Lebenthal, chief executive of Lebenthal & Co., a New York City money-management company. Krawcheck agrees, saying that wanting to know more before getting started can be a trap. “There’s always a desire to know more. But if you wait, it just gets harder,” she says.

Knowledge shortfall. In truth, women do appear to be less knowledgeable about investing than men are. A 2015 study by Financial Finesse found that 67% of women answered yes when asked whether they have “general investment knowledge regarding stocks, bonds and mutual funds,” compared with 84% of men. And the figures don’t just represent women’s lack of confidence, says Kathie Andrade, president of personal advisory services at TIAA-CREF. The financial-services firm asked men and women a series of questions about bonds, asset allocation, inflation and interest rates and found that men scored considerably higher overall.

This problem may also result from a reluctance to talk about money. Women talk about marriage, kids, college, politics, religion, shopping and sex, but money matters tend to be taboo. “Men have no trouble talking about money, but it’s the one thing that women are hesitant to discuss,” says Zaneilia Harris, a certified financial planner and author of the book *Finance ’n Stilettos*. “If you won’t initiate that conversation, you’re hurting yourself. Sharing stories about money is a great way to learn.”



“You are going to do much better with a team. Have people around you to support you when times get tough.”

— Sarah Ketterer, Causeway Capital Management

spouse, other family members or even a paid adviser. “You are going to do much better with a team,” she says. “Have people around you to support you when times get tough.”

And women are nothing if not team players. In Vanguard’s 2014 study “How America Saves,” which tracked the behavior of participants in the retirement plans it administers, the fund company found that women are more likely than men to seek professional help in managing their portfolios, mainly through the use of balanced and target-date mutual funds. (The former hold a fairly static mix of stocks and bonds; the latter adjust their asset mix as the fund approaches the target date.) And Vanguard’s research shows that participants who use professionally managed portfolios have better results than those who don’t. “Women are natural collaborators,” says Ketterer. “Building a team is playing to our strengths.”

Moreover, the evidence suggests that your team will be stronger if it consists of both men and women. A 2011 *Harvard Business Review* study discovered that single-gender teams were less effective at problem solving than mixed groups. The Barber-Odean study found that married men performed better than single men in the stock market and concluded that this was likely due to a spouse’s influence. “When you ask if men or women are the better investors, you’re asking the wrong question,” says Suzanne Duncan, global head of research at the State Street Center for Applied Research, a think tank sponsored by the big financial-services firm. “We are better together. Men and women should have an equal voice in the investment process.” ■

are high, and sell when we’re depressed and prices are low.

Your goal, therefore, is to try to keep your emotions in check. Although there’s little direct data to suggest that women are less susceptible to market euphoria, they do seem a bit calmer during panics. The Vanguard Group looked at whether customers of its retirement plans were moving money out of stocks during 2008, when the U.S. market plunged 37%. Overall, the fund giant found, investors were fairly steadfast, but women were more so, proving to be 10% less likely to sell their stock holdings than men.

To keep from acting impulsively,

Kaplan suggests writing a script that outlines how you will react to a plunge or a rapidly rising market. Following that plan—be it reading from an investment policy statement that you’ve prepared for yourself or simply calling your adviser—should help you in both booms and busts, tempering the inclination to invest the rent money in stocks during run-ups and to bail out of the market with money you might not need for 30 years.

➤ **WORK WITH A TEAM**

Investors perform better when they don’t act alone, says Ketterer, whether you consult friends, colleagues, a

How Our Readers Invest Their Money

In partnership with *InvestmentNews*, Kiplinger's conducted an e-mail survey of our subscribers to learn more about their attitudes and preferences regarding investing. We received more than 1,500 completed questionnaires, 53% from men and 47% from women. Below is a sampling of survey responses. For more details, see "From the Editor," on page 4.

79%

Overall percentage of survey respondents who have done a projection to determine how much money they'll need in retirement

93%

Percentage of respondents who are on track to meet their retirement goal

63%

Percentage of those surveyed who are do-it-yourself investors and don't use a financial adviser

How would you describe your investment risk tolerance?

	Women	Men	Total
Low risk tolerance	8%	5%	6%
Below-average risk tolerance	11	9	10
Average risk tolerance	49	43	46
Above-average risk tolerance	29	39	34
High risk tolerance	3	5	4

Which of the following statements best reflects your #1 personal financial goal?

	Women	Men	Total
Leave behind a legacy for future generations	8%	15%	12%
Retire with financial security and peace of mind	52	45	48
Accumulate as much wealth as possible	3	4	3
Accumulate wealth in order to fulfill an ambition (travel, opening a business, etc.)	7	3	5
Lead a comfortable and predictable lifestyle	30	34	32

Which of the following investment types do you prefer to own?

	Women	Men	Total
Individual stocks	60%	65%	62%
Individual bonds	18	17	18
Stock mutual funds	82	80	81
Bond mutual funds	54	56	55
Exchange-traded funds	33	45	40
Money market funds	34	34	34
Insured money market accounts	24	16	20
CDs	28	25	26
Annuities	19	17	18

Which of the following types of mutual funds do you prefer to own?

	Women	Men	Total
Actively managed funds	65%	72%	69%
Index funds	68	70	69
Target-date funds	17	13	15

STOCKS»

Play Defense With Fortress Stocks

Our seven picks are well positioned to handle a global economic slowdown. **BY DAREN FONDA**

WARREN BUFFETT HAS MADE A FORTUNE

by investing in everything from bank stocks to shares of a Chinese battery maker. But no matter the industry, the one thing he always looks for is a business with a wide “economic moat.”

Companies that prosper over the long term tend to have defenses that protect their profits and shield them from competitors. Such companies take advantage of low costs, a dominant brand or service, steep barriers to entering a business—anything that helps them maintain their financial edge and keep profits afloat.

Of course, few fortresses remain impregnable forever. If a business must perpetually reinvent itself to survive, or if it operates in an industry that’s deteriorating (think coal and other commodities), a moat may offer scant protection. As Buffett puts it, “A moat that must be continually rebuilt will eventually be no moat at all.”

Today, investing in fortress-like companies seems especially prudent. Although Kiplinger expects the U.S. economy to expand by 2.5% in 2016, estimates for global growth are slipping. Many firms are struggling to lift sales because of a slowdown in foreign markets and the headwind of a strong dollar, which makes profits earned abroad worth less when converted back into greenbacks. As a result, analysts have been trimming their forecasts for corporate profits in the U.S. They now expect companies in Standard & Poor’s 500-stock index to

increase earnings by 7% in 2016, down from estimates of 10% in September and 12% last June, according to research firm FactSet.

Companies with wide moats aren’t immune to such downdrafts, nor are they shielded from broad declines in stock prices. But if the global economy *does* weaken, wide-moat companies, including the seven we describe here, should be more stable and suffer less collateral damage than weaker rivals, potentially leading to a quicker recovery in their stocks. “The strong get stronger in periods of weakness,” says Timothy Fidler, comanager of Ariel Appreciation Fund, which invests in wide-moat stocks. (All returns, share prices and related data are as of January 31; price-earnings ratios are based on estimated earnings for the next four quarters.)

1 Alphabet (symbol GOOGL) Share price: \$761

52-week range: \$503–\$799

Market capitalization: \$523.3 billion

Annual sales: \$86.1 billion

Estimated 2016 earnings per share: \$34.44

Price-earnings ratio: 22

Google’s parent company, Alphabet, is now involved in everything from self-driving cars to “smart home” energy products. At its core, though, Alphabet has erected ramparts around two huge sectors of the technology world: mobile devices and digital advertising. And despite stiff competition, Alphabet has tightened its grip in those



areas. Launched in 2008, its Android operating system now powers an astounding 85% of mobile devices around the world, creating a platform for Google to sell more ads, map services and apps. Google is also winning the race for digital ads, taking an estimated 54 cents of every search-related ad dollar in 2015 and nearly 13% of digital ads in total, according to research firm eMarketer. Analysts, on average, see the company earning \$34.44 per



■ **JELLY GIANT**
J.M. SMUCKER USES
ITS HEFT WITH
RETAILERS TO WIN
SHELF SPACE FOR
NEW PRODUCTS.

share in 2016, up 16% from last year.

Google is one of the FANGs—along with Facebook (FB), Amazon.com (AMZN) and Netflix (NFLX)—which led the stock market in 2015. Although Alphabet shares have come down so far this year, they’ve climbed 42% over the past 12 months. The stock’s price-earnings ratio of 22 is high relative to the overall market’s P/E of 16, but it is reasonable in light of Alphabet’s expected profit growth.

2 American Tower (AMT)

Share price: \$94

52-week range: \$86–\$104

Market capitalization: \$39.8 billion

Annual sales: \$5.3 billion

Estimated 2016 earnings per share: \$2.41

Price-earnings ratio: 17

Cell-phone towers rake in cash for American Tower, the largest owner of such structures in the U.S. With a customer base of big wireless-service providers, American Tower doesn’t often lose tenants. Telecom firms sign multiyear leases to put antennas and other equipment on towers, which relay calls and data. Once settled in, firms rarely move to other tower operators because it’s usually too costly.

American Tower borrows heavily to fund its business and could see profit margins slide if interest rates climb, driving up its debt expenses. Yet the firm, which is set up as a real estate investment trust, can raise its tenants’ rents incrementally. Business is thriving in countries such as Brazil and India, where mobile communications are taking off. Although the stock yields just 2.1%, American Tower aims to raise its dividend at a 20% annual clip in coming years (as a REIT, American Tower must pay out 90% of its pretax income as dividends). With rental income climbing steadily, the stock should deliver average annual returns in the “mid teen” percentages over the next five years, says David Rainey, comanager of Hennessy Focus Fund. (Note that the P/E for American Tower is based on the ratio of price to funds from operations, a REIT industry standard that adds back depreciation and amortization to earnings.)

3 Berkshire Hathaway (BRK.B)

Share price: \$130

52-week range: \$124–\$152

Market capitalization: \$319.9 billion

Annual sales: \$226 billion

Estimated 2016 earnings per share: \$8.29

Price-earnings ratio: 16

Run by the maestro of moats himself, Berkshire blends a portfolio of stock investments with an empire of firms

that Buffett has assembled, including Geico, BNSF railroad and Fruit of the Loom. Although Buffett takes a hands-off approach to the businesses, they earn piles of cash that he can dole out as he sees fit. Even after spending about \$32 billion to acquire aerospace parts maker Precision Castparts (a deal that closed in late January), Berkshire should still have more than \$35 billion on hand for investments and acquisitions, says James Wilhelm, manager of Touchstone Focused Fund.

Not all of Buffett’s stock picks have panned out, and that’s part of the reason Berkshire’s stock has fallen 9.8% over the past year, trailing the S&P 500 by 9.2 percentage points. Investors may also fret that Buffett, 85, may not run the company for many more years. But the stock looks cheap, trading at about 1.2 times book value (assets minus liabilities), Buffett’s preferred method for valuing his company’s shares. That’s just below the five-year average of 1.3 times book value, and it’s right around the price at which Buffett says the stock would be cheap enough for Berkshire to buy back its own shares. Wilhelm says the stock could hit \$170 over the next two years, based on the value of its underlying businesses and stock investments. Other Berkshire fans, such as hedge fund manager Whitney Tilson, think the shares could appreciate by 45% over the next year.

4 Nike (NKE)

Share price: \$62

52-week range: \$45–\$68

Market capitalization: \$105.1 billion

Annual sales: \$32.8 billion

Estimated earnings per share for the fiscal year that ends in May 2016: \$2.15

Price-earnings ratio: 27

LeBron, Kobe, Odell. Athletes known by their first names dominate Nike’s roster of stars pitching its shoes, clothing and other athletic gear. And they’re helping the *swoosh* brand scale new heights. Sales are surging in China, where revenues climbed 24% over the

past two years, reaching \$1.8 billion in the six-month period that ended in November 2015. Over the next four years, Nike aims to hit \$50 billion in global sales, up from an estimated \$32.8 billion in its fiscal year that ends this May. Profits are climbing, too, with analysts expecting earnings per share to jump 16% in the current fiscal year.

The knock on Nike stock is that it trades at a lofty 27 times estimated earnings. Moreover, Nike earns more than half of its profits abroad, where weakness in foreign currencies is denting its earnings when translated into dollars. But Nike's profit margins have been climbing. And the firm recently authorized a 14% dividend increase and \$12 billion share buyback over the next four years—both signs that Nike's new products and expansion plans are on the right track.

5 Oracle (ORCL)

Share price: \$36

52-week range: \$33–\$45

Market capitalization: \$152.5 billion

Annual sales: \$37.3 billion

Estimated earnings per share for the fiscal year that ends in May 2016: \$2.60

Price-earnings ratio: 13

Dominating the market for database software, Oracle hauls in more than \$37 billion a year from roughly 420,000 customers worldwide. Moats don't get much bigger than that. But sales and profits have slumped because of the strong dollar. And Oracle's high walls are buckling a bit. The firm must now compete against companies that are delivering software via cloud subscription services, cutting into Oracle's model of selling big packages of hardware and software up front.

But Oracle isn't resting on its laurels. The firm is booking more cloud-based business, which now accounts for roughly 7% of revenues but should become a much larger share in coming years. Sales of Oracle's high-end hardware and business software products are gradually picking up. And the firm still makes plenty of money off

its bread-and-butter database software and related products.

Oracle's balance sheet swells with \$54 billion in cash and short-term securities—money it can use to re-invest in the business, increase its dividend or share buybacks, or snap up other companies. With the shares trading at 13 times estimated earnings, the stock looks like a bargain in comparison with other big software developers, says analyst Bill Kreher, of brokerage Edward Jones. "Oracle is making investments today that will eventually pay off," he predicts.



6 J.M. Smucker (SJM)

Share price: \$128

52-week range: \$102–\$128

Market capitalization: \$15.4 billion

Annual sales: \$7.9 billion

Estimated earnings per share for the fiscal year that ends in April 2017: \$6.44

Price-earnings ratio: 21

Smucker's may be known for colorful jars of strawberry preserves, but the company has been swallowing other food brands, including Jif peanut butter, Folgers coffee and Meow Mix pet food. Acquisitions have lifted sales by an estimated 10% over the past three years. Profit margins are also inching up as Smucker's lowers manufacturing costs and uses its heft with retailers to expand sales of new products.

Smucker's shares aren't cheap, trading at 21 times estimated year-ahead earnings—well above the overall market's P/E of 15. But Smucker's earnings per share include some big noncash charges related to its acquisitions. Strip out those charges, says

Ariel fund manager Fidler, and Smucker's "cash earnings" should hit \$7.35 a share in the 2017 fiscal year, about a buck per share higher than the average of analysts' estimates. Based on measures such as its price-to-sales ratio, he adds, Smucker's is one of the "few defensive stocks that's both high-quality and attractively valued."

7 Zoetis (ZTS)

Share price: \$43

52-week range: \$38–\$55

Market capitalization: \$21.4 billion

Annual sales: \$4.8 billion

Estimated 2016 earnings per share: \$1.86

Price-earnings ratio: 23

Many people want organic meat these days. But farmers still use antibiotics and other medicines in animal feed to keep their livestock healthy. Despite government pressure in Europe and the U.S. to reduce antibiotic use, things look bright for Zoetis, which makes a range of animal-health products and dominates the industry. It had an estimated \$4.7 billion in sales in 2015, well ahead of its closest rival, Merck.

Spun off from Pfizer (PFE) in 2013, Zoetis has developed multiple drugs that face scant competition. In 2009, the firm won approval for a swine-flu vaccine. In 2013, Zoetis came out with a drug to protect pigs from a type of pneumonia. Like medicines developed for humans, livestock drugs eventually lose patent protection. But farmers tend to stick with branded drugs, in part because their costs are relatively low compared with animal feed and other production costs, and because farmers don't want to risk their animals' health by using generic drugs that may not be as reliable.

Even with a slowdown in antibiotic use, analysts see Zoetis's profits climbing by 7% in 2016. Although the stock isn't cheap—trading at 23 times estimated 2016 earnings—Zoetis's perch atop a steadily growing industry makes it a good long-term bet, says David Kalis, co-chief investment officer of Calamos Investments. ■

A Long-Term Case for Stocks

Downturns, often nasty ones, come with the territory. **BY MANUEL SCHIFFRES**

IF THE STOCK MARKET'S

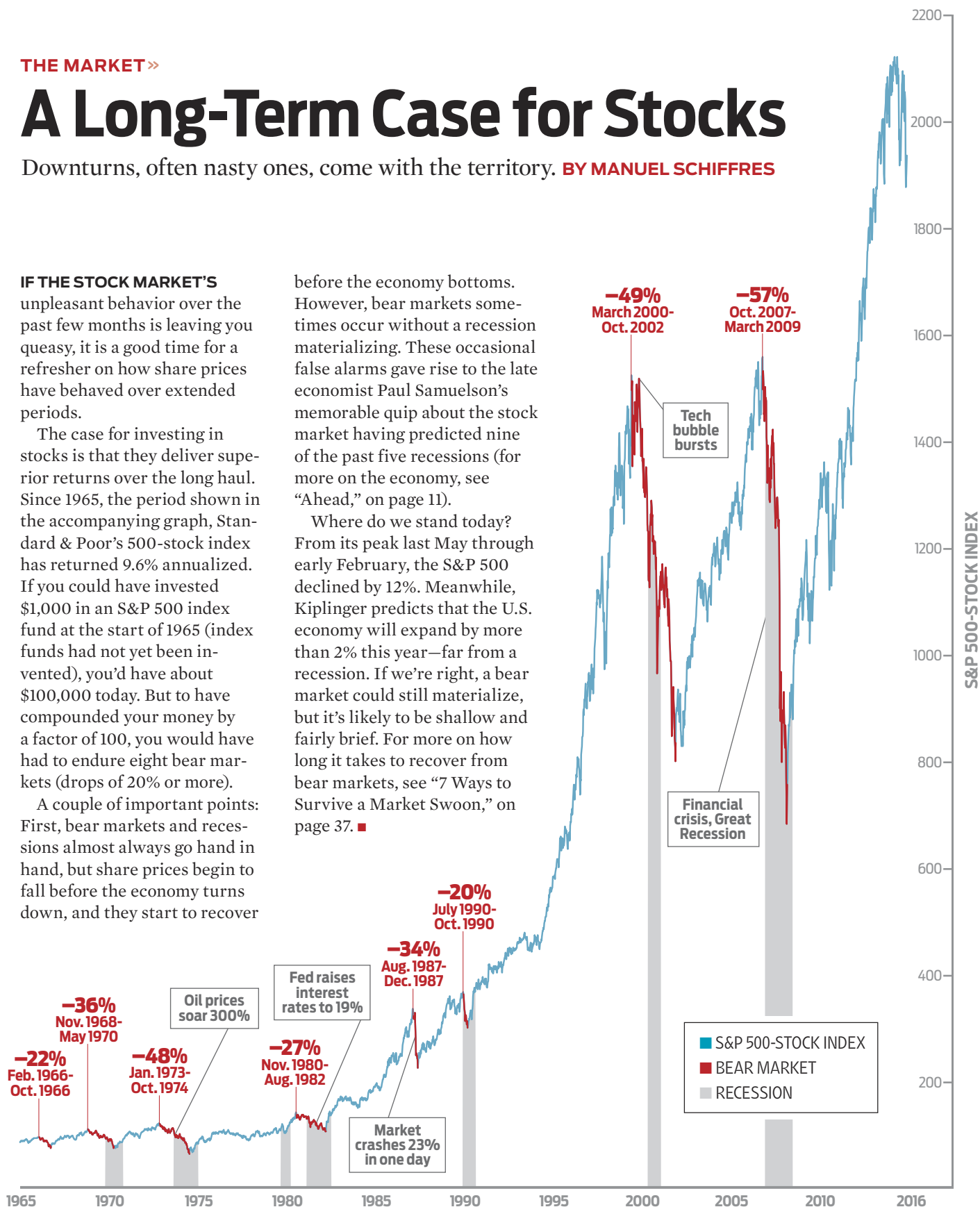
unpleasant behavior over the past few months is leaving you queasy, it is a good time for a refresher on how share prices have behaved over extended periods.

The case for investing in stocks is that they deliver superior returns over the long haul. Since 1965, the period shown in the accompanying graph, Standard & Poor's 500-stock index has returned 9.6% annualized. If you could have invested \$1,000 in an S&P 500 index fund at the start of 1965 (index funds had not yet been invented), you'd have about \$100,000 today. But to have compounded your money by a factor of 100, you would have had to endure eight bear markets (drops of 20% or more).

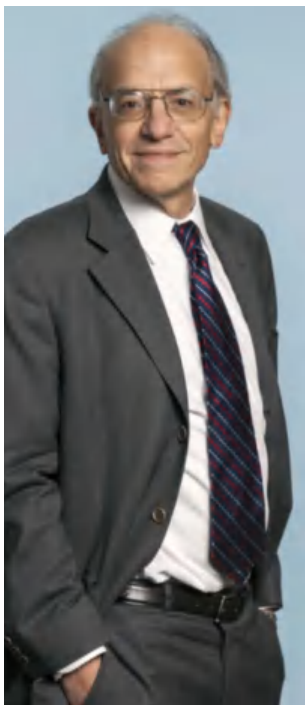
A couple of important points: First, bear markets and recessions almost always go hand in hand, but share prices begin to fall before the economy turns down, and they start to recover

before the economy bottoms. However, bear markets sometimes occur without a recession materializing. These occasional false alarms gave rise to the late economist Paul Samuelson's memorable quip about the stock market having predicted nine of the past five recessions (for more on the economy, see "Ahead," on page 11).

Where do we stand today? From its peak last May through early February, the S&P 500 declined by 12%. Meanwhile, Kiplinger predicts that the U.S. economy will expand by more than 2% this year—far from a recession. If we're right, a bear market could still materialize, but it's likely to be shallow and fairly brief. For more on how long it takes to recover from bear markets, see "7 Ways to Survive a Market Swoon," on page 37. ■



SOURCES: National Bureau of Economic Research, S&P Dow Jones Indices, Yahoo.



JEREMY J. SIEGEL > Going Long

Can the Fed Save the Market?

Stocks started off the year hit by a double deflationary whammy—in the oil patch and in China. It's true that the U.S. is a net importer of energy, and in the long run we will all benefit from a decline in energy prices. But in the short run, the 75% drop in the price of oil, from \$108 a barrel in June 2014 to less than \$27 earlier this year, has cast doubt on the viability of hundreds of billions of dollars of capital in the energy sector. That investment was based on the assumption that oil would sell for at least \$50 to \$60 a barrel. Energy firms, especially those with a lot of debt, are already feeling the pain, and bankruptcies are expected to rise.

Those developments perfectly suit the rulers of Saudi Arabia. Their failure to curtail oil supplies in light of surging U.S. supply and slumping Chinese demand has contributed to the oil glut. The Saudis are happy to see the U.S. fracking industry struggle and developers of alternative energy sources, such as wind and solar, squirm under the pressure of falling oil and natural gas prices. They rightly reason that after the frackers cap their wells, oil prices will rise. And low-cost Arab producers can profit quite well in the \$50-to-\$60 range.

But oil and its ripple effects on capital spending and the debt markets are not the only woes facing the stock market. Chinese policymakers have fumbled their handling of both the Chinese stock market and, more important, the foreign exchange market.

I was shocked when the International Monetary Fund admitted the Chinese yuan into its currency bundle last year without first forcing the Chinese to let markets determine the currency's value. After allowing the yuan to appreciate for nine years between 2005 and 2014, the Chinese government devalued the currency without warning last August. Since then, the yuan has weakened further. The slowdown of the Chinese economy, combined with an anticorruption campaign that threatens the

wealth of many of China's richest individuals, have prompted Chinese citizens to move money out of the country.

For the first time in many decades, these developments have forced the Chinese to sell U.S. Treasury securities to hold the yuan steady. If the Chinese would let market forces determine the yuan's value, many observers believe, the currency would depreciate by 10% to 20% and perhaps more. If that were to happen, the price of Chinese goods would plunge in world markets, adding to deflationary forces and possibly triggering reciprocal devaluations in Japan, Korea and other Southeast Asian countries.

Fighting back. The good news is that central banks are not powerless to counteract these deflationary pressures. In retrospect, it was ill-timed for the Federal Reserve to hike the benchmark short-term interest rate last December. But that quarter-percentage-point increase was hardly fatal and can easily be reversed if necessary. Furthermore, the Fed can lower the rate of interest on bank reserves, not only to zero but to a negative level, just as the European Central Bank and, more recently, the Bank of Japan have done. The Fed currently pays an interest rate of 0.5% on bank reserves, far above comparable rates on short-term assets. Shifting the rate negative would boost incentives for banks to lend their excess reserves, which could increase economic activity and corporate earnings.

As a last resort, the Fed could always undertake another round of bond buying, but I strongly doubt that will be necessary. Despite the turmoil in the oil patch, consumer spending and the labor market remain strong. Investors have certainly been challenged with a new set of deflationary threats in 2016, and the Fed stands ready to act if these forces worsen. The rest of 2016 should prove far kinder to stock investors. ■

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In retrospect, it was ill-timed for the Federal Reserve to hike short-term interest rates last December. But that can easily be reversed if necessary."

UPDATE >>

Don't Give Up on Energy

A FEW MONTHS AGO, ENERGY stocks seemed poised to revive. Yet oil prices have continued to slide, taking a toll on the seven stocks we featured in “How to Profit From the Oil Crash” (Feb.).

Only one of our choices, pipeline operator Spectra Energy Partners (symbol SEP, \$45), posted a gain through February 5, returning 7%. The other picks lost an average of 12%. Exxon-Mobil (XOM, \$80) held up well, sliding just 2%. The biggest loser: refiner Valero Energy (VLO, \$57), off 20%.

Should you dump the stocks? We think not. Oil prices are likely to stabilize and gradually recover. Energy companies are scaling



back on plans to explore for more oil, which should curtail future production. Supply growth may also taper off if major producing nations, such as Russia and Saudi Arabia, can hammer out a deal to trim output.

Until oil prices rebound,

several of the stocks we recommended still hold appeal for their dividends. Exxon reported a \$2.8 billion profit in the fourth quarter of 2015 and looks financially solid enough to sustain its quarterly payment of 73 cents. Despite losing \$588 million

in the fourth quarter, Chevron (CVX, \$83) says it has no plans to cut its quarterly dividend of \$1.07 per share. The firm should be able to maintain payouts if oil prices edge up a bit, says Credit Suisse, and, in any case, it can tap cash on its balance sheet and sell assets to raise money. Occidental Petroleum (OXY, \$65) reported a \$129 million loss in the fourth quarter but said its quarterly dividend of 75 cents per share was secure. (The stocks of Exxon, Chevron and Occidental yield 3.7%, 5.2% and 4.6%, respectively.) Spectra, our most generous payer, with a yield of 5.7%, looks like a solid bet, thanks to a rising tide of profits from its natural-gas pipelines. The master limited partnership recently hiked its quarterly payout by 1.2 cents, to 63 cents per share. **DAREN FONDA**

FUNDS >>

Pitfalls of Exchange-Traded Funds

INVESTORS HAVE POURED hundreds of billions of dollars into exchange-traded funds and notes since early 2012. But as appealing as these products may be, you have to approach them with some care.

Exchange-traded notes—debt securities that offer a return linked to an index—have been particularly problematic. In February, UBS terminated two ETNs that sought to deliver twice the monthly returns of their respective energy indexes

after those benchmarks plunged. About the same time, iPath S&P GSCI Crude Oil ETN (symbol OIL), an ETN designed to track the price of crude, began to trade at a price that was nearly 50% greater than the note's underlying value.

ETFs, which hold baskets of securities, can also give investors grief. On August 24, when the Dow Jones industrial average began the trading session by plunging 1,000 points, several ETFs lost 30% to nearly 50% early

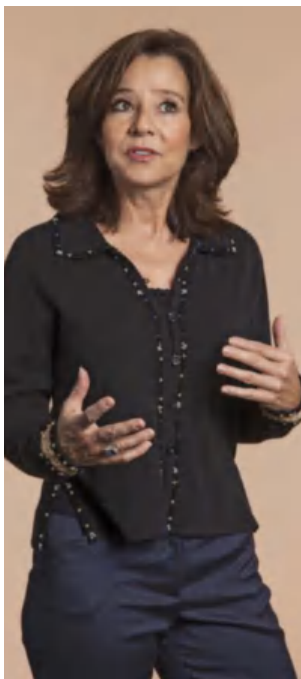
in the day—much more than warranted by the drop in the indexes they tracked.

To protect yourself from the pitfalls of ETFs and ETNs, follow these three rules, says Dave Nadig, director of ETFs at FactSet, a markets data provider.

Use limit orders. With a limit order, you specify the price at which you are willing to buy and sell shares. That lessens the risk of getting an unfavorable price on your transaction.

Watch volume. Limit your purchases to products with reasonable trading volume. Nadig's rule of thumb: Make sure your trade doesn't represent any more than 1% of a product's average daily trading volume.

Be skeptical. Most ETFs seek to match an index. But many new products engage in more-esoteric strategies. That doesn't make them bad funds, says Nadig, but you should always question the strategy. **NELLIE S. HUANG**



KATHY KRISTOF > Practical Investing

Why I Keep Buying Apple

When I launched my Practical Investing portfolio in 2011, I bought stocks in equal blocks of \$10,000, figuring that taking this tack would make it easy for me to spot issues that needed attention. The approach also helped highlight my growing stake in **APPLE (SYMBOL AAPL)**, which has come to occupy a disproportionately large part of my portfolio, even after it performed poorly over the past year.

I first invested in Apple because the stock was depressed in the aftermath of the death of its iconic CEO, Steve Jobs, in October 2011. I added to my stake in 2013 when the stock fell after a lackluster earnings report that seemed to reinforce Wall Street's view that Apple would struggle without Jobs. When the stock plunged in late January, after the company warned that it expected revenues in the January–March quarter to decline 11% from the same period a year earlier, I bought yet again.

The bullish case. Why do I keep buying Apple? First, I believe that not only was Jobs brilliant and innovative, he also hired bright and innovative people—among them his successor, Tim Cook. The idea that thousands of talented Apple employees would lose their mojo without Jobs badgering them and bringing out their best defied common sense, in my view.

Second, I love Apple products so much that I'm willing to pay a premium for them. And so does much of the rest of the world. In Apple's October–December quarter, a record 74.8 million iPhones were sold at an average price of \$691. By contrast, the average price of Android-based phones was \$347, according to ABI Research.

Finally, because I'm a diehard bargain hunter, I find Apple's stock too cheap to pass up. The stock, which peaked at just below \$135 in April 2015, dropped 6.6% on January 27, after Apple issued its startling sales forecast. At \$95.66 a share, the price I paid for my latest 45-share purchase, Apple

sold for only 10 times estimated calendar-year earnings and offered a 2.2% dividend yield. Compare that with a price-earnings ratio of 16 and a 2.3% yield for Standard & Poor's 500-stock index. And, of course, Apple has an amazing balance sheet, with \$216 billion in cash and securities. (My Apple stake is now worth \$33,477 and represents nearly 13% of the portfolio.)

Beyond the forecasted revenue drop, Wall Street worries that Apple will no longer produce consistent, above-average profit growth. That Apple's growth is slowing should not come as a shock. When you generate \$234 billion in sales, as Apple did in its last fiscal year, you need to sell an additional \$2.3 billion worth of products and services to eke out a 1% gain. To put that figure in perspective, Twitter (TWTR) rang up a total of \$2.2 billion in sales last year.

And although Apple's growth rate may be slowing, the company is hardly heading toward oblivion. For starters, the expected launch this summer of the iPhone 7 will surely goose sales. Moreover, Cook says the company is using this period of economic uncertainty to invest heavily in emerging nations—most notably in China and India, where a favorable combination of demographics (young populations) and economics (growing wealth) bode well for high-quality consumer brands, even if they are a bit pricey. Apple's sales in India spiked 38% in the October–December quarter, and the company plans to open 12 new stores in China by summer, bringing the total to 40.

It's true that China's economy is slowing, and that might make a dent in the China-expansion part of the story. But that brings me back to valuation. At 10 times earnings, Apple is priced more like slow-growing Bank of America (BAC) than a magnificent technology leader. I feel confident about my latest purchase and might even buy more Apple shares if the price drops further. ■

KATHY KRISTOF IS A CONTRIBUTING EDITOR TO *KIPLINGER'S PERSONAL FINANCE* AND AUTHOR OF THE BOOK *INVESTING 101*. YOU CAN SEE HER PORTFOLIO AT KIPLINGER.COM/LINKS/PRACTICALPORTFOLIO.



Because I'm a diehard bargain hunter, I find Apple's stock too cheap to pass up."

STOCKS»

MORE PAIN FOR EMERGING MARKETS

Concerns about China, oil prices and weak currencies suggest that you approach this sector gingerly. **BY ANNE KATES SMITH**

EMERGING MARKETS CONTINUE TO GIVE stock investors fits. The MSCI Emerging Markets index, representing markets in 23 countries, has plunged 29% since late April 2015. And the pain may not be over. “The perfect storm that has hit emerging markets in the past two years has become even more perfect,” says Nariman Behravesh, chief economist at IHS Inc., a business-consulting firm.

Start with the slowdown in China. The world’s second-largest economy expanded by 6.9% last year (its slowest growth rate in a quarter-century), and IHS expects growth to decline to 6.3% this year and in 2017. “Slowing growth in China will by default slow everything else around it,” says Christopher Wolfe, a strategist at Merrill Lynch Wealth Management.

Plunging commodities prices are a huge problem. The IHS Materials Price index is at its lowest level since December 2003, spelling disaster for such exporters as Brazil, Russia and South Africa. Currencies of troubled countries have collapsed as confidence in their economies has flagged. Cheaper currencies can help struggling economies by making exports more attractive. But the declines are also a sign that investors are cashing in their chips. The Institute of International Finance estimates that net capital outflows from emerging markets soared from \$111 billion in 2014 to \$735 billion last year.

On top of everything else, a dangerous debt bubble is forming. Borrowing,

by both governments and companies in the private sector, exploded in the developing world after the Great Recession. In China, for example, the ratio of debt to gross domestic product



A Year to Forget

ONE PLACE TO HIDE

Hungary soared. Other emerging markets ranged from poor to pathetic.

5 BEST	1-yr. return
Hungary	40.9%
Russia	-1.6
Czech Republic	-13.1
Mexico	-14.1
Chile	-14.7
5 WORST	1-yr. return
Greece	-69.3%
Brazil	-41.1
Colombia	-40.1
Egypt	-37.6
South Africa	-32.6
MSCI EMERGING MARKETS INDEX	-22.5%

Through February 4. SOURCE: MSCI

has more than doubled since 2007, to about 280% last year.

For investors, the key question is whether stock prices already reflect all the bad news. The MSCI Emerging Markets index sells for 10 times estimated 2016 earnings. That compares with 14 for the MSCI EAFE index, which tracks stocks in developed foreign markets, and 16 for Standard & Poor’s 500-stock index. GMO, a Boston investment firm, says that emerging-markets stocks are cheap and believes the group will return an annualized 4% after inflation over the next seven years. By comparison, GMO expects U.S. stocks to lose 1.8% after inflation over the same period.

Even with all of the problems in developing markets, there are some bright spots. The slowdown has had little effect on India’s service-driven economy, and Mexico will prosper because of its proximity to the U.S. Markets on Europe’s periphery could do well as the economies of developed Europe rebound.

Investors with a long-term outlook should not ignore such a large part of the global economy, but for now the weight of the evidence demands caution. For clients with moderate-risk portfolios, that means no more than 5% in emerging-markets stocks, says Merrill Lynch’s Wolfe.

Your best bet is to tackle this corner of the investment world with a professionally managed fund. **HARDING LOEVNER EMERGING MARKETS PORTFOLIO (SYMBOL HLEMVX)**, a member of the Kiplinger 25, is a good choice. James Syme, manager of **JOHCM EMERGING MARKETS OPPORTUNITIES (JOEIX)**, another solid fund, skirts the dickest markets in favor of India, South Korea, Taiwan and China. “Stocks like Taiwan Semiconductor or Kia Motors benefit from recovery in Europe and a strong U.S. economy,” he says.

Hedging against currency swings can be counterproductive over the long haul. But those who expect the greenback to continue to strengthen should consider **ISHARES CURRENCY HEDGED MSCI EMERGING MARKETS ETF (HEEM)**. ■



JEFFREY R. KOSNETT > Income Investing

And the Oscar Goes to...Bonds

As stocks, oil, gold and assorted economic indicators flutter daily, high-quality bonds continue to rollick. They're doing so well, in fact, that some fixed-income pros who had been cautious last year have begun to take a more positive view of the bond market. As a longtime bond booster, I find this heartwarming. Thus, I repeat: If recent stock-market turbulence worries you, add more bonds to your portfolio.

I got a sense of the growing affection for fixed-income investments during a recent swing through Los Angeles, which has become America's bond-fund mecca and where industry stars manage money as expertly as John Ford directed movies. Three superb families—DoubleLine, Payden & Rygel and TCW Group—are all downtown. Pimco is in Newport Beach, an hour south. The traders and managers at these firms take their places at 5:30 A.M. local time. But predawn traffic is light, they get buckets of coffee, and, best of all, there is no snow.

L.A. state of mind. In this wired world, distance is immaterial when it comes to moving money. But L.A. is 3,000 miles west of Washington, D.C., and the Federal Reserve, and that's a good thing. Instead of changing strategies in reaction to Fed fog and gobble-dygook, the West Coasters tend to focus more on the creditworthiness of individual issuers and basic economic factors. Steve Kane, a group managing director at TCW, and I talked for 10 minutes before Kane mentioned the Fed. When he finally did, it wasn't with reverence. "The Fed has lost control of the markets," he said. It has lost the capacity "to shock the world."

The practical effect is that even if Yellen & Co. raise short-term interest rates, investors, who set long-term rates in the bond market, may not go along. Moreover, the economy may not be able to withstand an overly aggressive credit-tightening regimen. So TCW, which also manages the Metropolitan West funds, is becoming a bit less

defensive than it has been the past two years and, except for junk bonds, expects to buy more and sell less in 2016. The firm sees value in high-grade corporate debt, government-backed mortgage bonds and more-esoteric securities, such as credit card receivables. Meanwhile, flagship bond fund **METROPOLITAN WEST TOTAL RETURN BOND (SYMBOL MWTRX)** earned 1.3% in the first five weeks of 2016, adding to a great long-term record. (For a look at another MetWest fund, see "The Kiplinger 25 Update," on page 61.)

Kane divides the bond world into three groups. "Risk off" assets are Treasuries, Ginnie Maes and anything else with government backing. The principal is safe with these securities, but it's best to buy them after yields rise a bit from current levels. The 10-year Treasury, yielding 1.8% in early February, will look more appealing at 2.25%. Next are "bendable" bonds, such as investment-grade corporates and municipals and non-government-backed mortgages. The last category consists of "breakable" stuff, including junk bonds, emerging-markets debt and even investment-grade bonds issued by energy companies. Kane and his team are bearish on the breakables and avoiding them.

With worries about the health of the economy growing, the appetite for high-quality bonds is strong. At Payden & Rygel, managing principal Scott Weiner says "tons of institutions need to own risk-free securities, and there are not that many of them." That includes Treasuries, whose manufacturer, Uncle Sam, is slowing the production line because of smaller federal deficits. The star of Weiner's shop is **PAYDEN CORPORATE BOND (PYACX)**, which provides a nice complement to MetWest Total Return. Add Kiplinger 25 member **DOUBLELINE TOTAL RETURN (DLTNX)** for mortgages and you have three jewels from the same neighborhood. Who's handing out the statuettes? ■

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



I got a sense of the growing affection for fixed-income investments during a recent swing through Los Angeles, which has become America's bond-fund mecca."

A Flexible Bond Fund Prepares for Trouble

THE FOUR MANAGERS OF

Metropolitan West Unconstrained Bond are hunkering down. As its name suggests, the fund can invest in any kind of debt with just about any maturity. The managers are using this flexibility to their advantage, positioning the fund for the rough times they see coming.

For starters, the MetWest team anticipates that the Federal Reserve will raise short-term interest rates once or twice in 2016. Although the yield of the 10-year Treasury bond, 1.8%

in early February, has *dropped* since the Fed hiked rates in December, the managers see the 10-year's yield rising to 3% over the long term (alas, they decline to divulge a more specific timetable). That's a negative for investors because bond prices move in the opposite direction of rates.

MetWest also sees trouble ahead for corporate bonds (both high-yield and investment-grade) and emerging-markets debt. The reasons: falling commodity prices, slowing economic growth in

China and increased doubts about the health of the global economy.

Because of these concerns, the MetWest team has built a portfolio with low interest-rate sensitivity and a large cash stash, which the managers plan to put to work when prices of corporate and emerging-markets bonds fall to bargain levels. "It's a wait-and-act year," says comanager Laird Landmann.

Not only have the managers put 14% of the fund's assets into cash, but 20% is in high-quality commercial-mortgage-backed and asset-backed securities that, comanager Steve Kane says, "can be turned into cash quickly." And despite concerns about corporate bonds, the fund has 18% of its assets in corporate IOUs. The fund's average duration is

a low 1.4 years. The figure suggests that if interest rates were to rise by one percentage point the fund would lose 1.4%. By contrast, the duration of the Barclays U.S. Aggregate Bond index is 5.4 years.

Because of the managers' cautious approach, Unconstrained Bond held steady in a blah year. Over the past 12 months, it lost 0.1%, about the same as the Aggregate Bond index but less than the 2.6% loss in the average nontraditional bond fund. "We're not beating our chests about our performance," Kane says, "but the fund behaved defensively in a year when many of our peers suffered losses." The fund currently yields 2.2%. **NELLIE S. HUANG**

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

U.S. Stock Funds	Symbol	Annualized total return				Added to Kip 25
		1 yr.	3 yrs.	5 yrs.	10 yrs.	
Akre Focus	AKREX	1.3%	12.2%	14.1%	—	Dec. 2009
Davenport Equity Opps	DEOPX	-9.2	8.9	11.1	—	May 2014
Dodge & Cox Stock	DODGX	-5.9	9.2	9.4	4.5%	May 2008
Fidelity New Millennium	FMILX	-4.9	8.3	9.2	6.8	May 2014
Homestead Small Co Stock	HSCSX	-5.6	7.7	9.4	8.0	May 2012
Mairs & Power Growth	MPGFX	-2.2	9.0	10.9	7.1	Jan. 2013
Parnassus Mid Cap	PARMX	-3.1	8.4	9.7	7.9	Aug. 2014
T. Rowe Price Divers Sm-Cap Gro	PRDSX	-5.8	10.4	10.7	7.7	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	-6.3	4.1	7.0	5.4	May 2009
T. Rowe Price Value	TRVLX	-4.2	10.4	10.3	6.5	May 2015
Vanguard Dividend Growth	VDIGX	2.4	11.7	11.7	8.4	May 2010
Vanguard Selected Value	VASVX	-8.7	8.2	8.7	6.7	May 2005
International Stock Funds	Symbol	Annualized total return				Added to Kip 25
Fidelity International Growth	FIGFX	-2.8%	3.7%	5.2%	—	Feb. 2016
FMI International	FMIJX	-0.6	8.4	9.1	—	April 2015
Harding Loevner Emrg Mkts	HLEMX	-18.8	-6.1	-2.2	2.4%	May 2013
Matthews Asian Gro & Inc	MACSX	-7.3	-1.7	2.1	6.1	Aug. 2013

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return				Added to Kip 25
		1 yr.	3 yrs.	5 yrs.	10 yrs.	
FPA Crescent	FPACX	-5.2%	5.1%	6.3%	6.1%	Oct. 2008
Merger	MERFX	-1.5	1.3	1.5	2.9	June 2007
Bond Funds	Symbol	Annualized total return				Added to Kip 25
DoubleLine Total Return N	DLTNX	2.0%	3.0%	5.3%	—	May 2011
Fidelity Intermed Muni	FLTMX	1.6	2.6	4.3	4.1%	May 2004
Fidelity New Markets Income	FNMIX	-0.6	-1.0	4.8	6.6	May 2012
Fidelity Total Bond	FTBFX	-1.8	1.7	3.6	4.9	May 2014
Met West Unconstrained Bd M	MWCRX	-0.1	1.7	—	—	May 2013
Osterweis Strategic Income	OSTIX	-3.2	1.2	3.2	5.6	May 2013
Vanguard Sh-Tm Inv-Grade	VFSTX	0.8	1.4	2.0	3.5	May 2010
Indexes		Annualized total return				
		1 yr.	3 yrs.	5 yrs.	10 yrs.	
S&P 500-STOCK INDEX		-0.7%	11.3%	10.9%	6.5%	
RUSSELL 2000 INDEX*		-9.9	6.1	7.3	4.9	
MSCI EAFE INDEX†		-8.0	1.1	2.0	2.1	
MSCI EMERGING MARKETS INDEX		-20.6	-8.9	-5.2	2.2	
BARCLAYS AGGREGATE BOND INDEX#		-0.2	2.2	3.5	4.7	

Through January 31. —Not available; fund not in existence for the entire period. *Small-company U.S. stocks. †Foreign stocks. ‡High-grade U.S. bonds. SOURCE: © 2016 Morningstar Inc.

●● THE KIPLINGER ETF 20 UPDATE

Own 6,000 Foreign Firms

MANY PEOPLE PREFER THE COMFORTS OF home when investing. That's been a winning strategy lately, with Standard & Poor's 500-stock index clocking the MSCI EAFE index, which tracks stocks in developed foreign markets, by an average of 10 percentage points per year over the past three years. But foreign stocks are cheaper than those in the U.S., and governments in Europe and other regions continue to promote easy-money policies even as the U.S. has begun to raise interest rates. These factors enhance the appeal of an exchange-traded fund such as **VANGUARD TOTAL INTERNATIONAL STOCK INDEX ETF**.

Packed with about 6,000 stocks, the ETF tracks an index that holds everything from global giants, such as Nestlé and Daimler, to smaller firms, such as Canadian grocery chain Loblaw's and video-game maker Nintendo. Because it weights stocks by market value, the biggest companies dominate the fund; the median market value of its holdings is \$22 billion. Overall, the fund recently had 83% of its assets in developed markets, led by Japan at 18%. Emerging markets rounded out the total, with 17% in countries such as China, India and South Korea.

Compared with the U.S. market, overseas bourses are cheap. Total International boasts a dividend yield of 2.9%, compared with 2.3% for the S&P 500. Moreover, foreign stocks in developed markets trade for less than 14 times estimated 2016 profits, compared with 16 for the S&P. Emerging markets sell for just 10 times earnings.

Granted, Americans face a big hurdle these days when they invest overseas: the mighty dollar. The greenback's ascent over the past year and a half has made investments denominated in foreign currencies worth much less when

converted to bucks. The MSCI EAFE index returned 5.8% in local-currency terms in 2015, according to J.P. Morgan. But for U.S.-based investors, the index dipped into the red because of the dollar's gains. Emerging-markets stocks fared even worse, as commodity-producing nations suffered at the same time as their currencies slid against the dollar.

Although timing currency markets is notoriously difficult, some analysts

see the greenback's rally petering out. Slowing economic growth in the U.S. will eventually push down the dollar as investors look for better opportunities abroad, says David Kelly, chief global strategist for J.P. Morgan Funds. Rising U.S. interest rates (which should theoretically push up the dollar) may not spark much of a rally, either. The last three times the Federal Reserve embarked on a cycle of raising rates, the dollar fell in the six months after the first rate hike, says Kelly.

Leaving currencies aside, foreign stocks could get a lift from other forces. Profits of European companies haven't recovered as much as those of U.S.-based firms, creating greater potential for expanding earnings to drive up stock prices. **DAREN FONDA**

Returns/Fees/Free Trades

KIPLINGER ETF 20: VITAL STATISTICS

Fund	Symbol	Recent price	Annualized total returns			Yield	Exp. ratio	Commission-free trades
			1yr.	3 yrs.	5 yrs.			
CORE STOCK MARKET FUNDS								
iShares Core S&P 500	IVV	\$195	-0.7%	11.2%	10.8%	2.1%	0.07%	F, FT, TD
iShares Core S&P Mid-Cap	IJH	132	-6.8	7.9	8.9	1.6	0.12	F, FT, TD
iShares Core S&P Small-Cap	IJR	103	-4.8	9.1	10.0	1.4	0.12	F, TD
Vanguard FTSE Devel Markets	VEA	35	-6.8	1.2	1.9	NA	0.09	TD, V
Vanguard FTSE Emerg Mkts	VWO	31	-21.0	-8.9	-5.5	NA	0.15	FT, TD, V
Vanguard Total Intl Stock	VXUS	43	-9.8	-1.2	0.0	NA	0.14	V
Vanguard Total Stock Market	VTI	98	-2.6	10.5	10.4	2.1	0.05	TD, V
DIVIDEND STOCK FUNDS								
iShares US Preferred Stock	PFF	\$38	2.0%	4.9%	6.1%	5.6%	0.47%	F
Schwab US Dividend Equity	SCHD	38	0.7	11.1	—	3.1	0.07	S
Vanguard High Dividend Yield	VYM	65	0.4	10.9	12.1	3.4	0.10	TD, V
WisdomTree Intl LgCap Div	DOL	41	-11.3	-0.6	1.1	3.6	0.48	E
CORE BOND FUND								
iShares iBonds Mar 2020 Corp	IBDC	\$104	0.1%	—	—	2.6%	0.10%	
OPPORTUNISTIC STOCK FUNDS								
Financial Select Sector SPDR	XLF	\$22	-3.7%	9.6%	7.7%	2.1%	0.15%	
Guggen S&P 500 Eq Wt Health	RYH	141	-1.5	19.0	17.8	NA	0.40	S
Vanguard Information Tech	VGIT	102	2.6	14.4	11.0	1.4	0.10	V
WisdomTree Euro Hedged Eq	HEDJ	52	-6.4	8.2	6.3	1.7	0.58	E
OPPORTUNISTIC BOND FUNDS								
iShares J.P. Morgan USD EM Bd	EMB	\$106	-0.6%	0.4%	4.7%	5.7%	0.40%	F
Market Vectors Fallen Angel HY	ANGL	24	-7.6	1.9	—	6.0	0.40	
Pimco Total Return Active	BOND	105	-1.2	2.3	—	2.7	0.55	
PowerShares Senior Loan Port	BKLN	22	-3.5	0.1	—	6.7	0.65	S
INDEXES								
S&P 500-STOCK INDEX (large U.S. stocks)			-0.7%	11.3%	10.9%	2.3%		
MSCI EAFE INDEX (foreign stocks)			-8.0%	1.1%	2.0%	3.4%		
BARCLAYS US AGGREGATE BOND INDEX			-0.2%	2.2%	3.5%	2.3%		

Key: E=E*Trade F=Fidelity FT=Firsttrade S=Schwab TD=TD Ameritrade V=Vanguard
Through January 31. NA Not available. —Fund not in existence for the entire period. SOURCES: Barclays, Morningstar, MSCI.

To Investors Who Want to Retire Comfortably



The Big Switch—Saving to Spending

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Our Free Guide Can Help

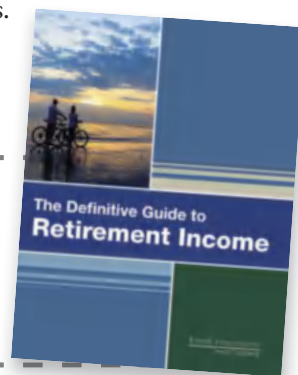
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FUND SPOTLIGHT

This Fund Pays 3% Tax-Free

A Pimco fund gets a boost by holding tobacco bonds and avoiding Puerto Rican debt.

WITH STOCKS DOWN AND INVESTORS scrambling for income, high-yield municipal bond funds are now the number-two mutual fund category over the past year (behind only bear market funds). The funds mainly own low-grade tax-free debt issued by states and municipalities. Because muni issuers rarely default, their bonds are less “junky” than their corporate counterparts, says David Hammer, comanager of **PIMCO HIGH YIELD MUNICIPAL BOND**.

Hammer and comanager Joe Deane take their cue from a committee that sets the big-picture strategy for all of Pimco's funds. The pair then turn to a team of 17 analysts, who assign grades to each of the bonds they research. The fund's recent results were boosted by a big-picture decision to avoid bonds from economically troubled Puerto Rico and the analyst-driven call to allocate a hefty slug of assets (15%, at last word) to tobacco bonds—debt backed by revenue from a 1998 pact between states and cigarette makers.

Hammer and Deane have become more defensive in reaction to a market they think has become overvalued. They've boosted the average quality of the fund's holdings to triple-B-minus, the lowest investment-grade rating. They've also added more-liquid, easier-to-trade IOUs to take advantage of the greater volatility they expect in the junk muni market. The fund sports a current yield of 3.0%, equivalent to 5.3% for a taxpayer in the highest federal income tax bracket. **RYAN ERMEY**

HIGH-YIELD MUNICIPAL BOND FUNDS Ranked by one-year returns

Rank/Name	Symbol	Annualized return through Jan. 31			30-day SEC yield	Max. sales charge	Exp. ratio	Toll-free number
		1 yr.	3 yrs.	5 yrs.				
1. Principal Opportunistic Muni A [®]	PMOAX	5.2%	4.0%	—	2.6%	3.75%	0.90%	800-222-5852
2. Pimco High Yield Muni Bond D [®]	PYMDX	5.0	4.0	7.4%	3.0	none	0.85	888-877-4626
3. Invesco High Yield Muni A [®]	ACTHX	4.7	5.3	8.8	3.9	4.35	0.86	800-959-4246
4. Transamerica High Yield Muni A [®]	THAYX	4.6	—	—	2.4	3.25	0.91	888-233-4339
5. American Century High-Yield Muni Inv [®]	ABHYX	4.3	4.0	7.7	2.6	none	0.60	800-345-2021
6. BlackRock High Yield Muni Inv A [®]	MDYHX	4.2	4.3	8.5	3.1	4.25	0.93	800-441-7762
7. MainStay High Yield Muni Bond Inv [®]	MMHVX	4.2	5.1	9.4	2.8	4.50	0.89	800-624-6782
8. Wells Fargo High Yield Muni Bond A [®]	WHYMX	4.1	6.3	—	2.9	4.50	0.85	800-222-8222
9. Dreyfus High Yield Muni Bond A [®]	DHYAX	4.1	3.5	7.0	2.7	4.50 [†]	1.03	800-373-9387
10. Nuveen High Yield Muni Bond A	NHMAX	3.9	5.7	10.8	4.1	4.20	0.78	800-257-8787
CATEGORY AVERAGE		3.0%	3.6%	7.4%				

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets† (billions)	Annualized return through Jan. 31			Max. sales charge	Toll-free number
			1 yr.	3 yrs.	5 yrs.		
1. Vanguard Total Stock Market Idx Inv [®]	VTSMX	\$332.2	-2.7%	10.4%	10.3%	none	800-635-1511
2. Vanguard Total Intl Stock Idx Inv [®]	VGTSX	178.4	-9.8	-1.3	-0.1	none	800-635-1511
3. Vanguard 500 Index Inv [®]	VFINX	171.1	-0.8	11.1	10.7	none	800-635-1511
4. American Growth Fund of America A [®]	AGTHX	132.7	-1.4	10.9	9.9	5.75%	800-421-0180
5. American EuroPacific Growth A [®]	AEPGX	116.0	-7.8	1.7	2.2	5.75	800-421-0180
6. Fidelity Contrafund [®]	FCNTX	102.9	1.8	12.4	11.2	none	800-343-3548
7. American Capital Income Builder A [®]	CAIBX	93.3	-4.4	4.5	6.2	5.75	800-421-0180
8. American Income Fund of America A [®]	AMECX	91.6	-3.0	6.1	7.5	5.75	800-421-0180
9. Fidelity Spartan 500 Index Inv [®]	FUSEX	86.7	-0.7	11.2	10.8	none	800-343-3548
10. Vanguard Wellington [®] s	VWELX	84.2	-1.4	7.3	7.9	none	800-635-1511
11. American Balanced A [®]	ABALX	83.1	0.6	8.3	8.9	5.75	800-421-0180
12. American Capital World Gro & Inc A [®]	CWGIX	77.7	-7.1	5.1	5.6	5.75	800-421-0180
13. American Washington Mutual A [®]	AWSHX	72.8	-1.3	10.4	10.6	5.75	800-421-0180
14. Franklin Income A [®]	FKINX	72.7	-10.2	0.9	3.8	4.25	800-632-2301
15. American Invstmt Co of America A [®]	AIVSX	69.1	-3.0	10.6	9.4	5.75	800-421-0180
16. American Fundamental Inv A [®]	ANCFX	69.1	0.5	10.3	9.6	5.75	800-421-0180
17. American New Perspective A [®]	ANWPX	55.5	-1.1	7.2	7.4	5.75	800-421-0180
18. Dodge & Cox International Stock**	DODFX	51.6	-19.0	-1.1	0.5	none	800-621-3979
19. Dodge & Cox Stock	DODGX	50.9	-5.9	9.2	9.4	none	800-621-3979
20. Vanguard Mid Cap Index Inv [®]	VIMSX	49.1	-7.0	9.4	9.2	none	800-635-1511
S&P 500-STOCK INDEX			-0.7%	11.3%	10.9%		
MSCI EAFE INDEX			-8.0%	1.1%	2.0%		

[®]Ratings exclude share classes of this fund with different fee structures or higher minimum initial investments. [†]For all share classes combined. [§]Open to new investors if purchased directly through Vanguard. ^{**}Closed to new investors. [†]Maximum redemption fee. [‡]Front-end load; redemption fee may apply. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

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EXPLANATION OF TERMS

Return means total return and 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.

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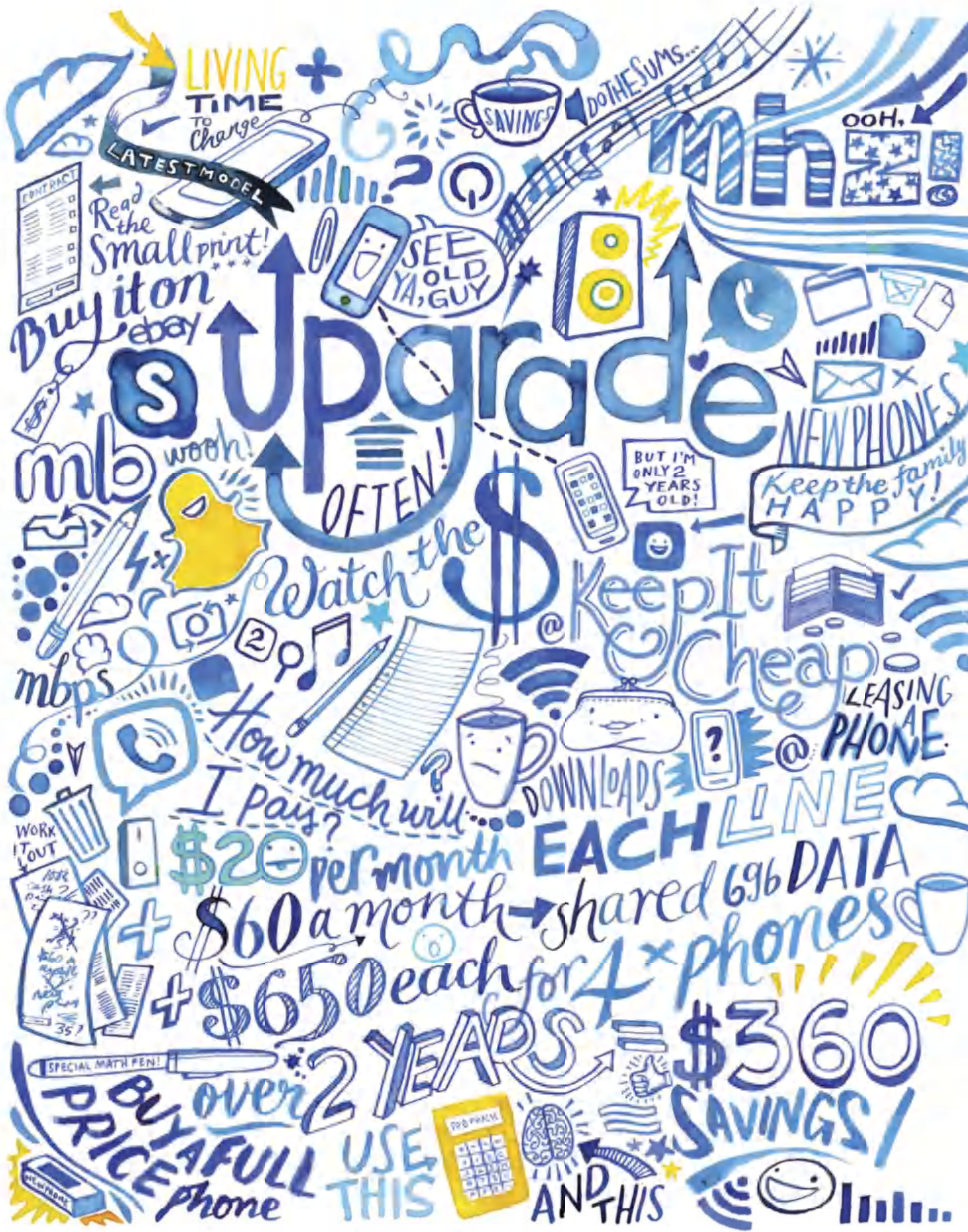


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PHONE PLANS?

Got Questions?

WE'VE GOT Answers.

The industry has upended the model of how you buy a phone and pick a plan.

— BY LISA GERSTNER —

1f your cell-phone carrier hasn't already nudged you into a no-contract service plan, expect a not-so-subtle push the next time you go to the store. The two-year contract has been moving toward extinction since 2013, when T-Mobile dropped the option from its offerings. Other carriers began to stray from the two-year commitment, too, touting no-contract plans as a more flexible alternative. Then, last

Illustrations by

SARAH J. COLEMAN

summer Verizon Wireless eliminated the two-year contract as an option for new customers. “That was the nail in the coffin,” says Logan Abbott, president of phone-plan comparison site Wirefly.com. Now the remaining two major wireless carriers, AT&T and Sprint, have stopped providing two-year contracts to new customers, too.

At first glance, the contract model may seem more attractive. When you upgrade your phone, the carrier subsidizes the device’s price, allowing you to buy, say, a \$650 iPhone for only \$200. But the discount is deceptive: While you’re locked into the contract, you pay more each month for your phone plan. And if you want to cut ties before the contract expires, you’ll have to cough up an early-termination fee of as much as \$350.

The newer, no-contract plans sever the price relationship between your phone and the service plan. You pay the full retail price of the phone, unless you participate in a lease or early-upgrade program. But because the carrier is no longer picking up part of your phone’s cost, the price of monthly service is lower. Plus, you can often bring a phone that you already own to the plan rather than purchasing one from the carrier.

Overall, the no-contract arrangement means more transparency and flexibility for customers. “It’s better in the sense that you know what you’re paying for, and it gives you the opportunity to shop around,” says Maggie Reardon, author of the CNET.com column “Ask Maggie.” Here we answer questions you may have about navigating the new world of cell phones and service plans.

WILL I PAY LESS WITH A NO-CONTRACT PLAN?

Over the course of a couple of years, the total price for a no-contract phone and plan is often about equal to the total you’d pay with a contract, says Abbott. But crunch the numbers to be sure you’re getting the best deal. If you’re permitted to renew a two-year contract (see below), tally up how much you’d pay for the phone plus monthly service fees (which may include separate prices for the phone’s line access and the data plan) during the contract. Compare that with the total two-year price of a plan and full-price phone without a contract. (The plan you choose usually depends on your data usage because standard plans from the major carriers come with unlimited calling and text messaging.) Explore your options and gather details by perusing your carrier’s website, calling customer service or visiting a store.

Say, for example, that a family of four renews a two-year contract with Verizon, paying \$40 per month for line access on each smartphone, sharing 6 gigabytes of data for \$70 monthly, and handing over a one-time payment of \$200 each for four new 16GB iPhone 6s devices. Over the course of two years, they’d pay a total of \$6,320. If they switched to the no-contract plan—handing over \$20 a month for each line, \$60 a month for a shared 6GB of data and \$650 for each 16GB iPhone 6s—they’d pay \$5,960 over two years, or \$360 less.

The longer you hang on to a phone that you purchased with a no-contract plan, the more you’ll benefit from the lower monthly rate for service. You can expect most smartphones to last two years or so; if you’re lucky, yours will last up to twice that long, says Reardon. Just be prepared for your friends’ ribbing when you whip out a four-generations-old iPhone.

WHO STILL OFFERS A TWO-YEAR CONTRACT?

If you already have a two-year contract with Sprint or Verizon, you may renew it and get a subsidized phone. But you’ll pay a higher fee for monthly service. AT&T requires current customers with two-year contracts to switch to a no-contract plan when they upgrade their devices. T-Mobile has dropped two-year contracts entirely.

HOW DO I FIGURE OUT WHICH PLAN IS BEST FOR ME?

Start with your data needs. By logging in to your wireless account online or through your carrier’s app, you can see how much data you usually use. For many people, 1GB or 2GB of data per person per month is enough. You can reduce the amount of data you consume if you connect to Wi-Fi networks (preferably secure, trusted ones that require a password) whenever possible. And on a family plan, parents who are light users may balance out kids who gobble data with social media and music and video streaming. If you use a little extra data now and then, the fees won’t break the bank. The Verizon Plan and AT&T Mobile Share Value plan, for example, charge \$15 per extra gigabyte in most cases. If you don’t use all of your data one month, AT&T lets you roll it forward to use the next month, and T-Mobile carries over unused data up to 12 months if you have a 6GB or 10GB plan.



WHAT IF MY FAMILY MEMBERS ARE DATA HOGS?

A service plan that provides unlimited data may be the way to go. On standard plans from both T-Mobile and Sprint, you'll get unlimited low-speed data if you surpass the amount of high-speed data included in your service plan. Both carriers offer plans with unlimited high-speed data, too. And with the new Binge On feature that comes free with T-Mobile Simple Choice plans that include at least 3GB of high-speed data, customers can stream unlimited video content from Amazon Video, ESPN, Netflix, Hulu, HBO, Showtime, Sling TV and other services, and the data usage doesn't count toward their high-speed limit. (T-Mobile also lets you stream from Apple Music, Pandora, Spotify and other music services without using your data plan.)

DO I HAVE TO FORK OVER THE FULL RETAIL PRICE OF A NEW PHONE UP FRONT?

You can pay for the phone in full if you wish, but all of the major carriers have installment payment plans that divvy up the price of the phone into monthly payments over a couple of years or longer. If your credit is in good standing, you should be able to finance a device with no down payment and no interest charges. Once you pay off the phone, you're no longer committed to that carrier.



SO I CAN TAKE MY PAID-OFF SMARTPHONE TO ANY CARRIER?

A device that you buy through your carrier may be “locked”—usable only on the carrier’s network. But all of the major wireless carriers will unlock a phone free of charge once the customer has met certain requirements, including the fulfillment of a two-year contract or complete payment of the device’s retail price. For details on your carrier’s rules, do an Internet search for “[carrier’s name] unlock policy.” (Most of Verizon’s phones come unlocked from the start.)

Even if you have an unlocked phone, don’t jump ship just yet. The phone won’t necessarily work with any carrier. Many phones are tied to one of two network technologies, called CDMA and GSM. (Verizon and Sprint are CDMA carriers, and AT&T and T-Mobile operate with GSM.) And even if you take your phone to a carrier that uses the same network technology as your previous one, the device may not be fully functional. Generally, GSM phones are easier to swap among compatible carriers than CDMA phones. But don’t count on using any unlocked phone with a new carrier until you’ve asked about it.

Increasingly, phone manufacturers are selling unlocked phones directly to consumers, and some of them are compatible with all of the major carriers. You can buy an iPhone 6s or 6s Plus at Apple.com and use it with any of the four big carriers. Motorola sells the unlocked Moto X Pure edition (starting at \$400), Moto G (starting at \$180) and Moto E (starting at \$120) at Motorola.com—but Sprint and Verizon customers must buy the Moto G and Moto E through their carriers. Google sells the Nexus 5X (starting at \$299) and Nexus 6P (starting at \$449), compatible with all four major carriers, at www.google.com/nexus.

HOW CAN I SAVE MONEY WHEN I PURCHASE A SMARTPHONE?

Discounts on popular, newly released phones, such as recent iPhone and Samsung Galaxy models, are hard to come by, although you may be able to snag a promotion from your carrier or a third-party seller.

If you look beyond the newest high-end devices, you can find more palatable prices. One idea: Buy a previous generation of the model you like. AT&T, for example, recently sold the 16GB iPhone 5s for \$450 and iPhone 6 for \$550, compared with \$650 for the latest-generation iPhone 6s. Or consider a phone from a less costly line of devices.

Buying a refurbished phone is another avenue to a lower price. On the Verizon Wireless website, for example, you could recently buy a certified pre-owned 32GB Samsung Galaxy S6 for \$480, compared with \$576 for a new model. For the most reliable factory testing and warranty, get a phone refurbished by the manufacturer, says Benjamin K. Glaser, features editor for DealNews.com.

You can also shop for used or discounted phones on Amazon.com and eBay, but product quality can be a roll of the dice. Check a seller’s reviews to see how customers have fared.

Your carrier may buy your old phone through a trade-in program, providing a little extra money toward the next device when you upgrade. Or see how much cash you can get for your phone at sites such as Gazelle.com, NextWorth.com and uSell.com.

I LIKE TO HAVE THE LATEST PHONE MODEL AS SOON AS IT'S RELEASED. WHAT'S THE BEST WAY TO UPGRADE FREQUENTLY?

If you don't mind trading in your device rather than keeping it, an early-upgrade program (or leasing; see below) is worth a look because it's less costly than purchasing a new phone every year. Each plan is a little different, so you'll have to drill down into the offerings to find out what is most cost-effective. (The carriers tweak these programs often, so some of the information here may have changed since press time.)

To an extent, all of the major carriers incorporate an early-upgrade option into their standard installment-payment plans; if you choose not to upgrade early, you keep the phone after you've paid its full price. With Verizon, users of the iPhone 6s and 6s Plus can trade up to the next iPhone after they've paid half their current phone's full retail price, but customers with other phones have no option to upgrade before a device is fully paid for, except through occasional promotional offers. AT&T Next spreads the full price of a phone over 20 to 30 months, and you can trade in the phone for a new one after 12 to 24 payments, depending on which plan you choose.

With T-Mobile Jump, pay a \$10 monthly fee (which includes insurance and security software for your handset) in addition to the regular device payment and you can trade in your phone after you've paid half its full price. Similarly, Sprint allows customers on its 24-month Easy Pay device payment plan to pay an extra \$10 a month and trade up to a new phone after 12 months.

WHAT ABOUT LEASING?

Sprint and T-Mobile also offer leasing options for certain phones that can be less costly for customers who upgrade frequently. With the T-Mobile Jump on Demand program, you make a monthly payment on a qualifying device, including the latest-generation iPhone and Samsung Galaxy phones, over the term of an 18-month lease. Upgrade anytime you wish, up to three times a year. The monthly leasing rate on the 16GB iPhone 6s, for example, was recently \$27—about the same monthly payment you'd make on the phone with a standard purchase plan. Through Sprint's iPhone Forever plan, you can lease an iPhone over an 18-month term and upgrade after 12 payments; recently, the standard monthly fee for a 16GB iPhone 6s was \$26.39. Certain popular Android devices are available with a 24-month lease through Sprint with lower monthly payments than you'd make with a standard purchase plan, but you have to pay an additional \$10 monthly fee if you want to upgrade after 12 months.

SHOULD I UPGRADE MY IPHONE DIRECTLY THROUGH APPLE?

With the iPhone Upgrade program, you pay a fee ranging from \$32.41 to \$44.91 a month, depending on which model you have, and you can trade up for a new phone after 12 payments (or after six months, as long as you make the equivalent of 12 payments). AppleCare+, Apple's insurance and customer-care program for the iPhone, is included. If you make 24 payments, you keep the phone. The overall cost over two years is within about a dollar of buying a full-price iPhone and AppleCare+ separately, so you get a negligible discount on Apple's insurance and warranty. If you'd rather skip the insurance, you can get lower monthly prices through many other carrier plans. But if you do plan to upgrade after 12 months, you'd pay slightly less per month on the Apple plan than, for example, with AT&T Next for the 16GB iPhone 6s, which doesn't come with AppleCare+. ■

✧ KipTip

Dissecting the Promotions

Lease a phone for a dollar a month! Switch carriers and slice your bill in half! The wireless companies push promotions to entice new customers to their plans or to encourage current customers to try something new. You could save a chunk of cash, but make sure you understand all of the details by reading the fine print and asking questions.

If you're getting a temporary rate on a phone or service plan, find out what the terms will be once the deal expires. When the latest iPhone was released last fall, for example, Sprint let new or current customers trade in a phone and lease a 16GB iPhone 6s for a bargain \$15 a month (or as little as \$1 monthly for 21 months if you traded in an iPhone 6). But if customers trade up to the next iPhone, the rate rises to \$22 a month for the remainder of the lease; after the lease expires, the rate stays at \$22 on a month-to-month basis until the next phone upgrade or purchase.

Carriers regularly offer to pay up to several hundred dollars to cover the remainder of your device payment plan (or an early-termination fee, if you still have a two-year contract) when you switch to their network. But such deals come with stipulations. To qualify, you typically have to trade in your current phone in good condition and lease or buy a phone from the new carrier. And you may be eligible only if you're moving from one of the major carriers.

Before you switch to a new carrier, investigate its network coverage in your region; a discount isn't very satisfying if your service is spotty. Ask neighbors, coworkers and friends about their experiences, and check the map at www.rootmetrics.com to compare performance among carriers in your area.



What You Need to Know About an Unpaid Bill

If debt collectors hound you over a forgotten bill, here's what to do. **BY KAITLIN PITSKER**

1. Uh oh. You forgot. It can happen to the best of us: A bill gets buried in a pile of papers and, before you know it, you've missed a payment. If you have a solid history of paying your bills on time, you'll likely be given a longer leash than customers with a history of late payments, but you may still be subject to late fees or an increase in your interest rate. You will usually be contacted before the debt is turned over to a collection agency or debt collector. You cannot be reported to the credit bureaus, which will ding your credit score, until your payment is 30 days past due. An unpaid medical debt cannot be added to your credit report for 180 days to allow time for insurance payments to be applied.

2. You may request forgiveness. If you have a good history with the creditor, call and ask for the late fee to be waived, says credit expert John Ulzheimer. Some credit card issuers extend an olive branch for late pay-

ments as a cardholder benefit. For example, the Citi Simplicity card doesn't charge late fees, and the Discover It card lets first-time offenders off the hook. But such flexibility ends when the debt has been reported to the credit bureaus; it will remain on your record for seven years from the date that the account went into default. A medical debt, however, must be removed from your credit report as soon as it has been paid.

3. If a debt collector calls. Debt collectors typically charge the original creditor about 40% of what they collect as a fee, or they buy debts outright and keep everything they collect. Debt collectors are required to send a written validation notice within five days of contacting you. If you don't think you owe the money, or you believe that there has been a mistake, you have 30 days from the time you receive the notice to dispute the debt. That buys you time. If it's a company you've done business

with, start by checking your own account transactions, or ask the company to check its files to see if there's a record of a payment. "You may have forgotten that you co-signed for a credit card or for an apartment, but, most of the time, you really do owe the debt," says Ulzheimer.

4. You have recourse. The Fair Debt Collection Practices Act is designed to shield you from debt collectors' most egregious tactics. For example, they may not contact you before 8 A.M. or after 9 P.M., and they may not use obscene language or threaten you with violence. If a collection agency violates the rules, you can report the problem to the Federal Trade Commission (www.ftc.gov), the Consumer Financial Protection Bureau ([\[finance.gov\]\(http://finance.gov\)\) or your state attorney general's office.](http://www.consumer</p>
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5. When it's time to settle up.

Banks and credit card issuers will be looking to collect the debt in full, but they will usually work with you to schedule payments. If your debt has gone to a collection agency, always make a settlement offer rather than pay in full, says Ulzheimer. "Even if you pay them 20% of what they're trying to collect, they're still going to make a mint off of you." Keep a record of the payments you make.

6. The tax man calleth? The IRS is preparing to use private debt collectors to go after people who owe back taxes, according to the Association of Credit and Collection Professionals. Details will be announced soon. ■



THEN AND NOW

■ Powerball winner Brad Duke used a chunk of his cash to buy a bigger house during the real estate crash.



April 2007

After a Powerball Win, a Rich Life

THEN: Brad Duke appeared in our April 2007 issue, two years after winning a \$220 million Powerball jackpot (he chose the lump sum over the annuity, netting about \$85 million after taxes). Duke, then 34, shared his goal of expanding his fortune to \$1 billion over the next 10 to 13 years, primarily by investing in real estate. He was still working at Gold's Gym and still living in the same house in Star, Idaho, that he lived in before buying his magic ticket.

NOW: Duke, 43, did not anticipate the financial crisis and downturn in real estate, which forced him to push back his goal of reaching 10 digits. "It's more like a lifetime goal now," he says. But the crisis turned out to be an invaluable learning opportunity. In particular, he received a baptism by fire in the hazards of business partnerships. A partner in one

large real estate venture declared bankruptcy. Other partnerships had to be renegotiated. One partner even sued him. Duke emerged a more cautious and more seasoned investor. "I never rush a deal now," he says.

The experience didn't sour him on real estate. "One thing I've learned is you can always make money on commercial real estate as long as you have good partners and good terms," he says. Today, his holdings range from apartment complexes in Brooklyn, N.Y., to a brewery in Boise, Idaho.

Increasingly, though, Duke sees his mission as less about amassing wealth and more about giving back. The Duke Family Foundation, which he started in 2006 with a \$1.3 million gift, has become an important part of his life. The foundation focuses on helping children in Idaho and has donated to charities such as the local chapters of Big

Brothers Big Sisters and the Make-A-Wish Foundation. And Duke's fund-raising work keeps him involved in his community. For example, for the foundation's last fundraiser, a golf tournament, "we worked with almost every major business in our region, whether on sponsorships or other support."

Still naturally frugal, Duke does allow himself the occasional luxury. He lives in a bigger house—which he purchased during the real estate crash. He flies first-class on long trips. He even bought an Aston Martin, though he rarely drives the car because it's too showy for Idaho roads. And he quit his job at Gold's Gym in 2007 after we interviewed him because his fortune was attracting unwanted attention.

But wealth hasn't jaded him. "Even after all this time," he says, "I still think it's so cool that it happened to me." **ELIZABETH LEARY**



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