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Kiplinger's PERSONAL FINANCE

MONEY SMART LIVING

10 Great Places to Retire

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Carlsbad, Calif., north of San Diego, combines plenty of culture with a spectacular seaside setting.

PLUS

We rate the robo investment advisers p 52

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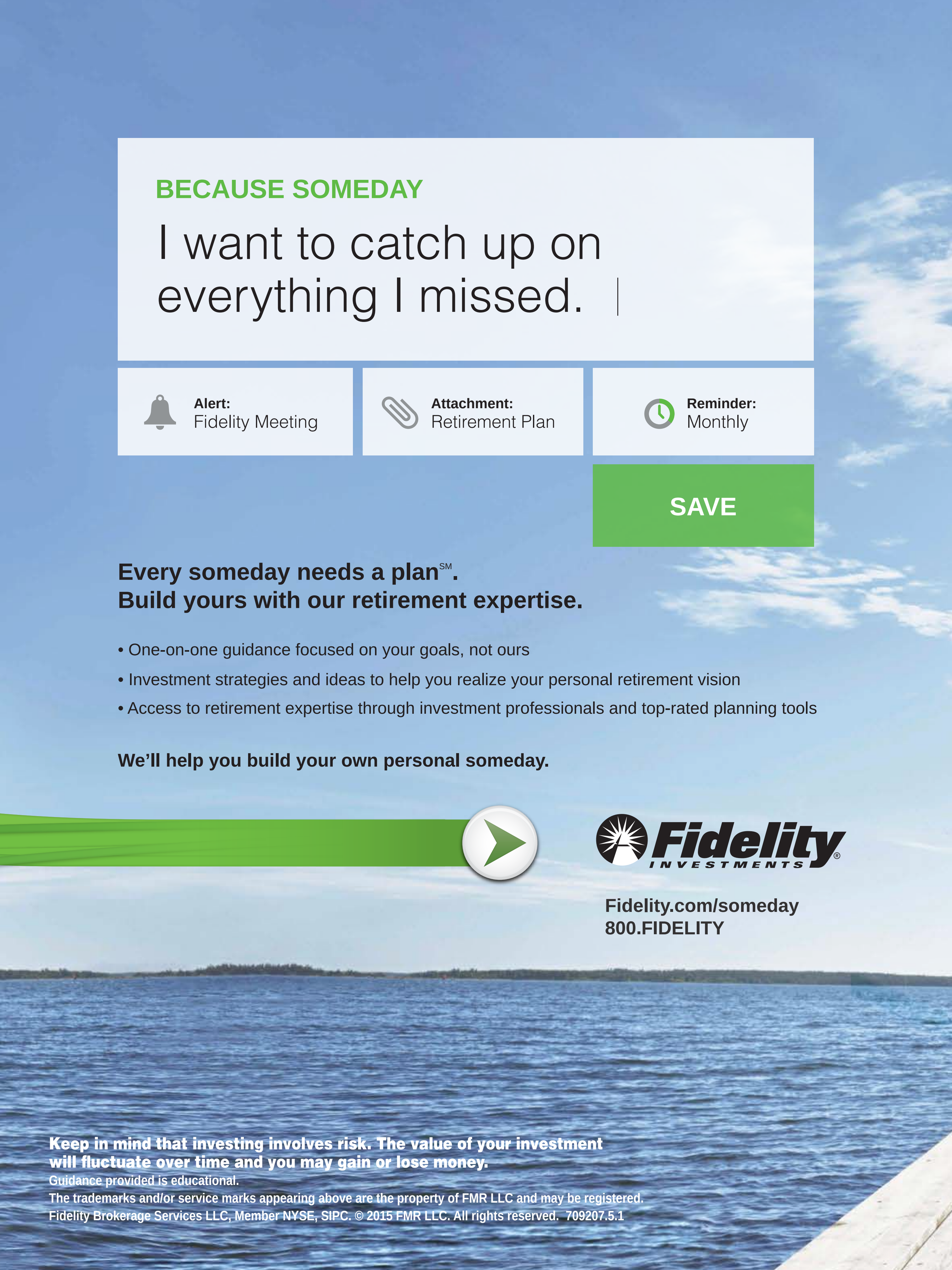
8 foolproof ways to teach kids about money p 36

AUGUST 2015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Janet Bodnar

FROM THE EDITOR

Our Best Advice for Kids

In my June column on how not to spoil your grandchildren, I wrote about my friend Laura Vault, who makes her grandchildren save 10% of all the money gifts she gives them. Laura shared a follow-up anecdote about her grandson, William, who's 6. When William's mother asked him to put money in the collection plate at church, he balked. "Nana told me to save my money," he said.

Which just goes to show that parents (and grandparents) really do have power. That's the first of eight guidelines in our story on how to raise money smart kids (see page 36). As part of the story, I asked my Kiplinger colleagues to ask their children, What was the best money advice you ever got from your parents? The answers were enlightening, especially because as parents we often underestimate the influence we have on our children.

Copy editor Denise Mitchell's daughter, Katie, 23, is a good example of guideline number two, about sticking to the basics. Katie says she always uses her mother's trick to help her figure a 20% tip, by moving the decimal point to the left and multiplying by two. Katie's friends are surprised that she can calculate a tip so easily.

Several responses followed guideline number three, matching lessons to your child's age. Online editor Cameron Huddleston recalls that she and her husband taught daughter Maya to stash coins in a piggy bank from the time she was young. Now 10, Maya says she's "learned that it's better to save than spend so you can buy the things you really need or want."

At the other end of the age spectrum, managing editor Barbara Marcus's son Sam, 29, says the best advice Mom ever gave him was to pay off the larger of his two student loans. "It felt liberating to see a very large chunk of debt vanish," says Sam.

In the same vein, senior editor Jane Clark's daughter, Devon Madison, 26, appreciates that her mother advised her to buy a Honda instead of a more expensive Prius—especially now that she's decided she doesn't need a car.

Hands-on experience. Having money of their own to manage (rule number four) was cited by a couple of Kip kids. Contributing editor Kathy Kristof's daughter, Samantha Magnuson, 25, says that getting an allowance that required her to pay for just about everything was "a really important way to learn about managing cost-of-living expenses against frivolous ones. Since I had to pay, even for gas, I had to think more carefully about whether it was worth eating out."

My son Peter, 26, thought it was "cool" that his father would deposit a lump sum into his bank account once each semester to use for basic college expenses, such as rent and utilities. "Seeing how much I had in my bank account in December compared with August made my expenses more real than if Dad had just paid everything without involving me," says Peter.

Staff writer Miriam Cross, 28, contributed her own recollection: "I follow my mom's advice to sleep on a decision to see if I still want to make a purchase the next day. This has saved me from many pointless purchases."

"We underestimate the influence we have on our children."

Finally, Anne Kates Smith's son, Nick, 22, tells how important it is to set a good example (rule number eight): "Through your actions, you taught me that I would need to work for my money, decide what I wanted to spend it on and what I could live without. What I remember most is you teaching by example, which is probably the sneakiest and most effective way to reach a kid."

P.S. For adult financial insights from Kiplinger writers and leading financial planners, check out our new Wealth Creation Channel at http://wealth.kiplinger.com. ■

JANET BODNAR, EDITOR
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LISE METZGER

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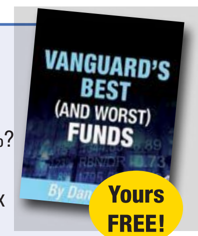
Most of us have two basic goals: We don't want to miss clear opportunities to grow our wealth, and we want to protect what we already have.

Even at a conservative fund company like Vanguard, you have a lot of decisions to make: For example, Vanguard has dozens of funds with the word "growth" in their names. Some of those funds did very well—LAST YEAR. In the months ahead however, I predict a number of those "growth" funds will actually shrink in value. Others will continue to outperform—**those are the few growth funds you should own…**



Inside:

- How to double your income in Vanguard funds
- Is your Vanguard portfolio up 1,480%? This one is—learn how
- When to index and when NOT to index
- Avoid these 5 COSTLY MISTAKES
- BEWARE of "look alike" funds—one's a superstar, the other's a dog. Can you guess which is which?
- Vanguard award winners—find out which Vanguard funds are positioned to skyrocket in the coming months… And which will likely plummet.

So, how do you choose winners consistently? Which stock funds and bond funds should you buy and sell? What are the smartest ways to minimize taxes on your investments? I'll show you in my new report, *Vanguard's Best and Worst Funds.*

Learn how we pick the best funds and ETFs among Vanguard's 170+ products. How we completely avoid making costly mistakes. And the best ways to avoid unnecessary income tax.

Begin discovering secrets of Vanguard investing that separate the "average" Vanguard customer from more successful investors. It's all available in a brand new exclusive report—*Vanguard's Best and Worst Funds,* and you can download it FREE.

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My name is Dan Wiener and I'm not paid or endorsed by Vanguard or any mutual fund company, which means I can tell you things you won't hear from them or anyone else. And all those little secrets add up to greater profits.

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About Daniel P. Wiener

Dan Wiener

Dan Wiener is America's foremost expert on The Vanguard Group. After serving as a reporter for U.S. News & World Report and Fortune magazine, he founded *The Independent Adviser for Vanguard Investors* in 1991.

The *Independent Adviser* newsletter is consistently rated highly by the Hulbert Financial Digest and is recognized for the impressive performance and low risk level of its model portfolios. Dan is a five-time recipient of the Newsletter Foundation's Editorial Excellence Award.

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For the past 18 years we've worked with a service bureau located in Harlan, Iowa. Over the years you may have sent written correspondence, subscription orders, renewal instructions or payments to a post office box in Harlan.

Starting now you will begin to see the Tampa address on all customer service, subscription and renewal correspondence. You can also find the Tampa address published in the masthead of this publication.

Rest assured that the change to the new Tampa address is authorized by us. We're aware of unscrupulous agents who attempt, **without our permission, to solicit subscription and renewal payments—at higher prices than we charge—at various addresses elsewhere.** Be advised that P.O. Box 62300 and 62301 in Tampa, Fla., are the only legitimate addresses to which you should send correspondence or subscription and renewal payments for Kiplinger publications.

Know also that during the transition any correspondence or payment you send to Harlan, Iowa, will be automatically forwarded to the new Tampa customer service bureau.

Thank you as always for your continued readership. We look forward to continuing to serve you in years to come.

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Kiplinger's PERSONAL FINANCE

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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 sub.services@kiplinger.com. POSTMASTER: Send change of address to: Kiplinger's Personal Finance, P.O. Box 62300, Tampa, FL 33662. GST# 123395253. Volume 69, Issue 8.

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.

Your Cover Made Me Smile

Did your designer intend to produce a cover for the June issue with a "smiling" yellow ladies' handbag? Great stuff! I love the sight of all of those Ben Franklins emerging on their way into my wallet!

Bob Harrison
Chambersburg, Pa.

What low rates? I have been receiving 6% to 10% for years on various investments, all of which I consider relatively safe ("Put More Cash in Your Wallet," June). For example, Barclays Bank preferred shares pay me 8% (current yield: 7.8%). BlackRock Corporate High Yield Fund pays 7.4%. I own two closed-end funds, one that pays more than 10% and the other that pays me 9.5%. You could say that the funds invest in risky items, but I figure with so many items in each that if a few go belly-up it won't affect the overall fund much.

Ed Foote
Pittsburgh

Q READER POLL

What factors will most influence where you retire?

Access to good health care	54%
Mild climate	48%
Proximity to family	36%
Affordable housing	36%
Low taxes	36%

To read *Kiplinger's* take on the best places to retire, turn to page 26.

Wise advice. Congratulations to editor Janet Bodnar on becoming a grandparent ("From the Editor," June). My wife and I joined the club about eight years ago, and we have tried to keep in mind two things we think are important. First, we are not the parents, and it is not our role to raise our granddaughters. Second, because education is so important for opening opportunities in life, we have started a 529 account for each of the girls.

Jim Youngquist
Burnsville, Minn.

Favorite ETFs. Why hasn't *Kiplinger's* come out with an ETF list to mirror your list of favorite mutual funds?

Susan Heller
San Marcos, Calif.

EDITOR'S NOTE:: Funny you should ask. We will be introducing a list of *Kiplinger's* favorite ETFs in our September issue.

College choices. Frank Bruni, the author you interviewed, seems to have a Marie Antoinette "Let them eat cake" worldview ("Ahead," June). Intellectual curiosity is not the only factor controlling the ability to study abroad.

Michael L. Mulhern
Arlington, Tex.

EDITOR ANNE SMITH REPLIES: I can't speak for Mr. Bruni, but I'm not sure I'd agree that study abroad programs are only for the privileged. I've taken more than a dozen college tours with my three kids, and researched many more schools. The cost of study abroad programs is frequently comparable to attendance at the local campus (financial aid often transfers), and, depending on where the program is located, may even be less.

ONLINE CHATTER

KNIGHT KIPLINGER'S discussion of driving without auto insurance drew these comments ("Money & Ethics," June).

"No insurance should equal no driving rights!"

"A single mom with a low-paying job and three teens can easily pay 30% of her income for mandatory auto insurance. I think it is bad policy to try to make her pay this huge amount."

"Get auto insurance! It's really not expensive if you do your research. I will say, though, that if you don't ask them for discounts, they will not tell you."

LETTERS TO THE EDITOR

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IKER AYESTARAN

TOPIC A

GET A DEGREE ON THE BOSS'S DIME

Employers are offering tuition perks to get and keep workers. BY KAITLIN PITSKER

A TIGHTER JOB MARKET IS bringing a valuable but often-overlooked benefit to a growing number of workers: the chance to head back to school on the boss's tab. As the economy and labor market continue to improve, employers are facing stiff competition to attract and retain the best talent. As a result, some companies are ramping up tuition assistance programs in order to help employees pay for classes, certificates and degrees.

In June, health insurer Anthem announced a program that offers its 55,000 full- and part-time workers free tuition for an associate's or a bachelor's degree through College for America at Southern New Hampshire University. Fiat Chrysler Automobiles recently announced that it would pay for employees to earn their associate's, bachelor's or master's degree through Strayer University. And earlier this year, Starbucks expanded its program to cover four years of undergraduate studies at Arizona State University, rather than just two years.

You may get more bang for your buck when your employer writes the tuition checks. Most companies still limit annual contributions per employee to $5,250, the IRS maximum for tax-free employer-provided educational assistance. But in an effort to stretch those dollars further, benefits managers are negotiating with large universities for a better deal on tuition than you would get if you were paying for classes on your own.

For example, Starbucks' agreement with Arizona State University knocks 42% off the price of online classes. College for America, which has partnerships with more than 65 employers nationwide, including Anthem, offers online degree programs designed specifically for working adults for $2,500 a year or less, often covered in full or in part by the employers. "As universities roll out their online programs, more companies are going to create these partnerships," says Bruce Elliott, manager of compensation and benefits at the Society for Human Resource Management.

Some of the newer tuition benefit programs ease the rules and restrictions of traditional assistance plans. For example, although many programs limit employees to career-related coursework, Fiat Chrysler and Starbucks both allow employees to select from a wide range of majors, including information technology and nursing. In most cases, employees must pay their own way and wait until the end of the semester to be reimbursed. But Fiat Chrysler and Verizon will pay tuition up front.

Still, potential students should study the fine print before stocking up on school supplies. Many programs reimburse employees only if they meet the company's definition of academic success (often a B average or better), and some require employees who pursue an advanced degree to repay the money if they leave the company within a few years of receiving the benefit.

Just because your company's not making headlines with a new program doesn't mean it doesn't have a tuition benefit. According to SHRM, 56% of employers offer financial assistance for undergraduate programs, and 52% have programs for graduate-level studies. So if you're interested in taking a course or working toward a degree, it pays to ask your company's benefits manager about resources that may be available.

INTERVIEW

MAKING SENSE OF NEGATIVE YIELDS

Will you have to pay someone to hold your cash? Probably not.

Kathy Jones is the fixed-income strategist at the Schwab Center for Financial Research.

A number of European bonds have had negative yields recently. What about in the U.S., where the rate on new I-bonds just hit a 0% floor, at least through October? We've seen extremely low yields and 0% rates, but not much in the way of negative yields. Since the financial crisis there have been momentary slips in, say, a very short-term T-bill. We've escaped negative yields because the U.S. generally has had positive economic growth and inflation.

Why the negative yields in Europe? Protracted economic weakness there has led to several months of deflation. With no inflation to erode their purchasing power, investors accept lower yields. Also, the European Central Bank said earlier this year that it would buy bonds to stimulate economic growth. The amount of bonds that the ECB indicated it would buy was so great relative to the supply that it caused speculative buying, pushing down yields, which move in the opposite direction of prices.

How do negative yields work? Do you actually pay someone to hold your money? Say you buy a German T-bill. Usually, you'd buy at a discount. So, you might pay $99.50 and get back $100 at maturity. But in this case, you would pay $101 and get back $100 at maturity. You literally get back less than you deposited. But in periods of deflation, when prices overall are falling, even if you earn 0% or less on your savings, you still come out ahead.

GABRIELA HASBUN/REDUX

When will U.S. savers get some relief? The ECB has said that it will buy bonds through the end of September 2016. That will likely keep a lid on our rates because a lot of money invested in our market comes from overseas. A two-year Treasury, which today yields 0.7%, looks attractive relative to everywhere else in the world.

The Federal Reserve is expected to start raising rates soon. Won't that help? A rate hike here would attract a lot of money from abroad. So even if the Fed raises rates, our rates shouldn't go up very much.

What advice do you have for income-hungry investors? Buy intermediate-term bonds. A five-year Treasury bond yields 1.7%. Next year that becomes a four-year bond yielding 1.7% and the year after, a three-year bond yielding 1.7%. The Fed would have to raise rates a fair amount for that bond not to make sense. Or buy some high-quality, floating-rate notes. Their rates reset every 90 days, so they will adjust upward if the Fed starts raising rates. Right now, floating-rate notes yield about 1%. Not spectacular, but better than zero.

CAROLYN BIGDA

THE BUZZ

CHECK UP ON YOUR MISSING REWARDS

Devotees of rewards credit cards, take note: You may not be getting your full allotment of points for purchases made through third parties. Such transactions, which may include those made through mobile wallets, payment services such as PayPal, mobile card readers, and sites such as Groupon and Expedia, aren't necessarily eligible for the extra points or cash-back awards on purchases in bonus categories (the 3% or 5% you might get on gas or groceries, for example, when you get a lesser percentage on everything else).

The reason? Merchant codes that card issuers use to classify purchases don't always transfer. Apple Pay transactions should earn full rewards because of Apple Pay's direct relationships with banks and card issuers, says Kari Luckett, content director for CompareCards .com. It remains to be seen whether Android Pay, a mobile tool replacing Google Wallet for in-store payments, will deliver full rewards.

Check the rewards breakdown on your statements to make sure you're getting what you're due. If you've been shortchanged, ask the issuer whether it will supply the extra rewards. LISA GERSTNER

RYAN SAVARA TALKS, TEXTS AND SURFS ALL HE WANTS FOR $25 A MONTH.

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If you have Wi-Fi, you can cut your monthly mobile bill to nothing.

IMAGINE CALLING, TEXTING and surfing the Web for a few dollars a month—or even free. The catch? You must rely primarily on Wi-Fi hotspots instead of a cellular network.

FreedomPop and Scratch Wireless both offer a basic package that costs nothing. Republic Wireless charges $5 a month for Wi-Fi–only mobile service. Cablevision and Google recently debuted similar plans. Freewheel charges $9.95 a month for Cablevision customers, $29.95 for all others. Google's Project Fi, available by requesting an invitation at http://fi.google.com, costs $20 a month. Price depends on the connectivity and services you choose. All except Freewheel include, or let you add at an additional cost, traditional cellular service as a backup for those times when you're not in a Wi-Fi zone. You'll be bumped to Sprint's network, or, with some plans, to T-Mobile's.

Those add-ons are where the savings start to diminish. Opting for more gigabytes or higher data speeds can boost the price of a plan to $40 a month or more. Plus, in most cases you have to buy one of the company's designated smartphones.

Before you switch carriers, assess your proximity to Wi-Fi on a regular basis and the backup carrier's coverage in your area. Each service is customizable in a different way, so dig for perks that work for you. Project Fi gives refunds for unused data (and, soon, so will Republic). FreedomPop lets you bring your own phone from a select list. For Ryan Savara, who enrolled in Republic's $25-per-month plan, affordability is key. The Central Michigan University student is usually connected to campus Wi-Fi, but he relies on Republic's cellular service to fill in the gaps. "For unlimited everything, it's a deal," he says. **MIRIAM CROSS**

EXCERPT FROM *The Kiplinger Letter*

THE SQUEEZE IS ON

One thing 2016 presidential hopefuls agree on: the need to cut government down to size. GOP candidates will line up in favor of ditching whole agencies to save money and tame the bureaucracy. Hillary Clinton, the likely Democratic nominee, will call for shrinking the federal workforce, as her husband proposed in the 1990s. Don't hold your breath. At 4.2 million, the number of Uncle Sam's employees has held steady since 1995. (www.kiplingerbiz.com/ahead/gov)

FROM LEFT: ISTOCKPHOTO.COM, JAMES FOSTER

SPENDING

FEWER BIG SALES, MORE CUSTOM DEALS

Stores reward loyalty by tailoring their discounts to your shopping habits.

BARGAIN HUNTERS MAY NEED to tweak their strategies as more retailers change markdown policies and some scale back on traditional sales altogether. Stores hope to lure shoppers and build loyalty without resorting to big discounts, so expect more promotions based on previous purchases. For example, you might earn credit on one trip to use later. Retailers are tracking you more closely to better personalize deals. A few stores, such as Lord & Taylor and Macy's, use "beacons"—devices that feed deals to a customer's phone via Bluetooth as they shop.

Other retailers, including Express, Kate Spade and New York & Company, say they'll dial down the frequency and depth of large sales and emphasize the value of their brand at full price. Bucking the trend, Nordstrom, known for department-specific blowouts, will instead mark down merchandise storewide on traditional sales holidays, such as Memorial Day and Labor Day.

Shoppers will snag the most discounts with loyalty programs—by signing up for a mailing list, say, or by using a store app to enable in-store notifications of deals. Or ask a sales associate whether a promotion is approaching. You might be able to hold the item, or decide to wait. **MIRIAM CROSS**

MONEY & ETHICS // KNIGHT KIPLINGER

Is it ethical for a company to terminate its pension plan?

Q My husband receives a sizable pension check from his former employer every month. Now this company, which is highly profitable today, has notified him that it is closing the pension plan and offering him either an annuity for life or a lump-sum payment. Is this ethical?

A Yes, assuming the company is honoring the commitments it made to current pensioners and vested active employees in the defined-benefit plan. There is nothing unethical about a company replacing a pension payment from its own plan with the same amount of money from an annuity it buys for plan members. And the choice of a lump sum—which both you and your husband would have to agree to—could be a better financial choice for some retirees. A properly terminated pension plan will have these characteristics:

- The monthly amount paid by the annuity will be the same as the current benefit, whether for the life of the individual retiree or with a survivor's benefit for the spouse, too.
- The annuity payment will come from a financially solid insurer, such as Prudential, John Hancock or MetLife, to name just a few. This is almost as safe as backing by the federal Pension Benefit Guaranty Corp.—and probably more so for an annual pension of more than $60,000, because the PBGC caps its guarantee at that amount.
- The lump-sum alternative is calculated to be the present value of those future monthly payments, assuming average life expectancy (about 16 years for today's 70-year-old) and a government-set interest rate of just less than 3%.

Talk to a financial planner about whether the lump sum or the guaranteed monthly income for life is the best bet for you and your husband. This will depend on many factors, such as your other assets and income, your financial savvy, your health and the typical life expectancy in your families.

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

LISE METZGER

Member FDIC

LOOKING FOR A GOOD REASON TO MOVE YOUR SAVINGS TO ALLY? HERE ARE FOUR.

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– Money® magazine, 2011, 2012, 2013, 2014

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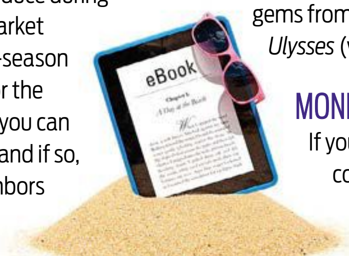
▲ SUNDAY, AUGUST 2
Grab some fresh produce during National Farmers Market Week. Stick to peak-season fruits and veggies for the lowest prices. Ask if you can get a bulk discount, and if so, go in with your neighbors next time.

FRIDAY, AUGUST 7
If you're taking a vacation, let your credit and debit card issuers know where you're headed. Charges made in an unfamiliar place could be questioned, and your card might even be declined or suspended.

MONDAY, AUGUST 17
The stock of consumer-goods giant Procter & Gamble, currently yielding 3.4%, pays a quarterly dividend in August. For a portfolio of 12 stocks that will pay you a dividend every month, head to kiplinger.com/links/dividends.

SUNDAY, AUGUST 23
Skip the forgettable beach reads and curl up with a classic. Project Gutenberg's library of more than 49,000 free e-books includes literary gems from *The Odyssey* to *Ulysses* (www.gutenberg.org).



MONDAY, AUGUST 31
If your kid went off to college sans car, you may qualify for an insurance discount as long as the school is at least 100 miles away from your home. **RYAN ERMEY**

DEAL OF THE MONTH
Get back-to-school specials on laptops. Windows users can expect a discount of 50% on older models and up to 30% on new models. Also, if you run Windows 7 or 8.1, upgrade to Windows 10 free.

ISTOCKPHOTO.COM (3)

SUCCESS STORY

Helping Girls Get a Head for Tech

A former engineer introduces young women to computer coding.

PROFILE

WHO: Kimberly Bryant, 48

WHERE: San Francisco

WHAT: Founder and executive director of Black Girls Code

You're an engineer? Yes. At Vanderbilt University's engineering school, which I attended, there weren't that many women, and not many women of color. I had not one female instructor. I graduated in 1989 with a degree in electrical engineering and worked in the chemical and biotech industries for 25 years.

Why Black Girls Code? In 2010, I began networking with the intention of founding a start-up. Everywhere I went, people asked, "Where are the women in tech? Where are women of color?" They weren't available to hire, and they weren't in the pipeline. That summer my daughter, Kai, now 16, attended a game-design camp at Stanford University with a handful of girls and 35 or more boys. She said the instructor paid more attention to the boys than the girls, and that was a moment for me. I ultimately realized that I wanted to create a program for girls to provide them with education, skills and mentorship.

How did you begin? I connected with a developer from Code for America [which promotes open-source technology and supports civic-minded start-ups] and two other biotech colleagues to put together a six-week pilot program with a computer-science and coding curriculum. We launched in late 2011 with 12 girls from Bayview–Hunters Point, a San Francisco neighborhood with high unemployment and few resources.

Where are you now? We've reached more than 3,000 girls of color, ages 7 to 17, from communities whose members are underrepresented in the tech industry. We offer after-school and weekend workshops and summer camps in programming, game development, robotics and tech entrepreneurship, plus hackathons, during which the girls work together to build problem-solving apps. More than three-fourths of our participants attend on full or partial scholarships that cover a nominal fee, if there is one. We have chapters in nine cities as well as pilot programs in Dallas and Miami.

How are you funded? We fundraise for the entire program locally and nationally. Our corporate partners support the program with funding or in-kind donations of food, space and equipment. For example, Google supports the chapter in New York City, and Verizon supports Raleigh and Washington, D.C. In 2014, our budget was about $750,000, and this year it's slightly more than $1 million. We also rely on more than 2,000 dedicated volunteers.

Do you make a living? Yes. I initially worked full-time at my job *and* at Black Girls Code, but in mid 2013 I bit the bullet and left the corporate world. I couldn't take a full salary until 2014. I make a lot less than the six figures I made in private industry.

What's your greatest challenge? To grow quickly enough to meet demand. We have as many as 40 cities that would like to have a chapter. We also hope to build an internship pipeline for our older and advanced students.

Your greatest satisfaction? We have several students who now attend colleges such as Spelman and Dartmouth, where they're pursuing degrees in computer science and are recognized as technology leaders. They point to Black Girls Code as the primary influence on their decision to go into tech. **PATRICIA MERTZ ESSWEIN**

ERIC MILLETTE

JAMES K. GLASSMAN > Opening Shot

Investing in a Tepid Economy

Nearly all investors know that stocks are for the long term. Buy low-cost stock-owning mutual funds or a diversified bundle of individual shares and hold on to them until you retire (or later). History shows that you'll get average annual returns of 10%. A dollar invested today turns into $8 in 20 years. What could be simpler?

But history, of course, tells us about the past. It may or may not tell us about the future. Lately, some smart economists and other financial experts are saying the future won't be as fulfilling as the past.

Gross domestic product is the single best indicator of economic health. Since 1947, U.S. GDP, the sum of all goods and services produced, has risen at an average rate of 3.3%. But since 2001, the average rate has been just 1.9%. The last time GDP grew more than 3% was in 2005. We seem to be in the midst of a secular, or long-term, slowdown. GDP fell at an annualized rate of 0.7% in the first quarter of 2015, and Michael Feroli, J.P. Morgan's chief U.S. economist, said recently that he "may have been too optimistic" in estimating annual U.S. growth at 1.75%.

Sluggish recovery. A real danger sign is that we haven't had a sharp rebound from the 2007–09 recession. Typically, the economy behaves like a rubber band: big drop, big snapback. But not this time. In the aftermath of the 10 downturns we've had since World War II, it took a little less than two years, on average, for employment to get back to its level at the start of the downturn. But following the most recent recession, it took 6½ years. (Even more ominous, the three slowest rebounds have occurred after the past three recessions.)

In August 2012, Northwestern University economist Robert Gordon published a paper with the provocative title, "Is U.S. Economic Growth Over?" He makes a convincing argument that it pretty much is. "There was virtually no growth before 1750," he writes, and "the rapid progress made over the past 250 years could well turn out to be a unique episode in human history."

The direct relationship between the economy and the stock market is complicated. In the short term, the link between GDP and share prices is nonexistent. But over the long term, it stands to reason that businesses won't collect as much revenue and generate as much profit in a stagnant economy as they would in a robust one. I'd rather own stocks in an economy growing at 4% a year than in one growing at 1%. Who wouldn't?

Then again, if you knew for sure that the U.S. economy was in a secular slowdown, should you change your investing strategy?

Before I answer that question, let's go back to Gordon. He believes that the most recent industrial revolution—which brought us personal computers, the Internet and mobile phones, among other technological breakthroughs—has been a dud. It hasn't done much to increase productivity—that is, generate greater output from the same input. And productivity growth, combined with population growth, is what creates GDP growth.

By contrast, the first two industrial revolutions had enormous impact on productivity. The first, from roughly 1750 to 1830, brought us steam-powered engines and railroads; the second, from 1890 to 1972, brought airplanes, air-conditioning and improvements in public health that increased life expectancy by more than 20 years. Gordon believes we have been living off the diminishing benefits of the second revolution (IR #2), while the third brought a short-lived productivity revival from 1996 to 2004, but not much more.

Gordon's point is that "many of the original and spin-off inventions of IR #2 could happen only once—urbanization, transportation speed, the freedom of females from the drudgery of carrying tons of water per year, and the role of central heating and

LISE METZGER

"If economic growth slows by half—say, from 3% to 1.5% annually—then future stock returns will fall as well."

"Assuming you have a reasonably high tolerance for risk, put 20% of your stock portfolio in emerging markets."

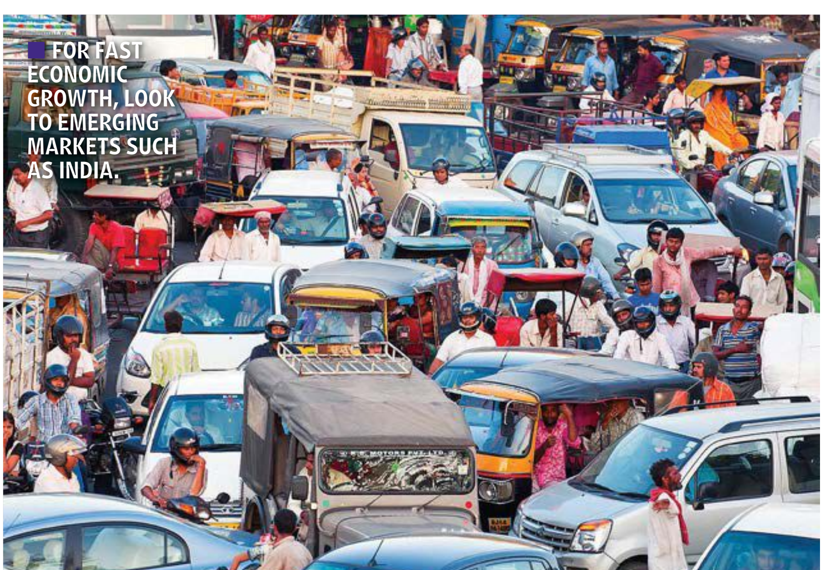
air-conditioning in achieving a year-round constant temperature."

In other words, those gains are already built into the economy. We can't get any more growth out of air-conditioning. Tyler Cowen, an economist at George Mason University, makes a similar argument, claiming that Americans have plucked all the low-hanging fruit. For example, we've already taken advantage of all the free and fertile land.

Stanley Druckenmiller, a billionaire former hedge fund manager, points to yet another drag on the economy: an aging population that will present a "massive, massive problem" for the U.S. over the next 15 years.

Sorry for all the pessimism, but the evidence is hard to deny. Now the big question: What does all this mean for investors? If economic growth slows by half—say, from 3% to 1.5% annually—then future stock returns will fall as well, from about 10% a year to maybe 7%, or even less. U.S. stocks have been booming lately, returning an annualized 22.4% from the start of the bull market on March 9, 2009, through June 5. That increase may be the result of the huge hit the market took during the financial crisis, or it may be because investors are anticipating a better economy than we are likely to get. Either way, the outlook is not good.

If you buy into the secular slowdown theory, consider shifting some of your stock investments from U.S. companies to areas where the low-hanging fruit is still blooming: developing markets such as India and China, which are still feeling the effects of IR #2. Check out **ISHARES MSCI INDIA (SYMBOL INDA)**, an exchange-traded fund, or **MATTHEWS CHINA (MCHFX)**, a mutual fund that's a longtime favorite. Assuming you have a reasonably high tolerance for risk, put 20% of your stock portfolio in emerging markets.



FOR FAST ECONOMIC GROWTH, LOOK TO EMERGING MARKETS SUCH AS INDIA.

As for U.S. stocks, I still believe that we have not absorbed all of the benefits of IR #3. The big things—food, shelter, education and transportation—haven't changed much because of the computer revolution. They probably will at some point, but it is nearly impossible to pick winners and losers among individual companies. A better strategy is to pick diversified businesses that will benefit from innovation—for example, private-equity firms, which typically borrow money to buy companies, then revamp them and sell them, often for large profits. Consider **BLACKSTONE GROUP (BX, $42)**, **CARLYLE GROUP (CG, $29)**, **FORTRESS INVESTMENT GROUP (FIG, $7)** and **KKR (KKR, $23)**.

With U.S. population growth expected to fall to just 0.5% annually by 2040, compared with nearly 1% today, and with more people shopping and working at home, I would stay away from real estate. What I would really like to buy are great logistics and transportation companies. As consumers rely more on Internet orders, the business of delivering the goods is enhanced. But beyond **FEDEX (FDX, $182)**, I have no brilliant selections.

Finally, some smart operators are putting their chips all over, not knowing which number will come up on the technological roulette wheel but ready to profit from whatever eventually hits. Among well-established firms, **AMAZON.COM (AMZN, $427)**, **GENERAL ELECTRIC (GE, $27)**, **GOOGLE (GOOGL, $550)** and **MICROSOFT (MSFT, $46)** are good examples.

In a low-growth, low-inflation environment, there's nothing wrong with 7% annual returns from the stock market, if that's the new normal. So also own index funds, such as **VANGUARD 500 INDEX (VFINX)**. That way, if I turn out to be wrong and growth picks up, you'll still be a winner. ■

JAMES K. GLASSMAN, A VISITING FELLOW AT THE AMERICAN ENTERPRISE INSTITUTE, IS THE AUTHOR, MOST RECENTLY, OF *SAFETY NET: THE STRATEGY OF DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE*. HE OWNS NONE OF THE STOCKS MENTIONED.

GAVIN HELLIER/GETTY IMAGES

ANNE KATES SMITH > Your Mind and Your Money

Sometimes It's Okay to Spend

"Highly frugal people are driven by the pleasure of saving, whereas tightwads actually feel pain when forced to spend."

You may have heard the news reports about Ron Read, a Vermont man who spent his working life as a gas station mechanic and janitor yet managed to amass an $8 million stock portfolio. When Read died recently, he bequeathed much of his fortune to the town library and hospital. Neighbors and even a stepson expressed shock at the hidden wealth of a man who drove a 2007 Toyota Yaris he'd bought secondhand and who occasionally used safety pins to hold his coat together. Once, reported the *Rutland Herald,* a customer at the Friendly's where Read liked to eat breakfast paid for his meal because he looked like he needed the help.

The news got me thinking: Is our Vermont friend to be admired for his investing acumen? Or pitied for not enjoying the fruits thereof? I'll say yes to the former; by all accounts he was a diligent student of the markets who accumulated a diverse portfolio of blue-chip stocks that he held forever.

As to the latter question, we don't know enough about Read to determine whether his frugality crossed the line to an unhealthy extreme. But for 24% of the population, spending is a struggle, says George Loewenstein, a professor of economics and psychology at Carnegie Mellon University who has looked into the psyches of both tightwads and spendthrifts. There's a difference between tightwads and the merely thrifty: Highly frugal people are driven by the pleasure of saving, whereas tightwads actually feel pain when forced to spend.

Outliers on the saving continuum are usually grappling with more than sticking to a budget. "When you're talking about extremes, you're talking about emotional issues," says Mary Bell Carlson, a certified financial planner who speaks and consults on behavioral issues. Extreme frugality is often the result of early deprivation—think of a childhood marked by the Great Depression, for example, or by a family business going belly-up or a parent with gambling troubles. Without sufficient emotional support, survivors of such events might never shake the fear that the sky could fall tomorrow. Or tightwads could be status seekers (even if they don't look it) because of the value our culture puts on money and net worth as an indicator of character and success. Severe limitations on spending might also be an expression of a need for control, whether over oneself or others.

Lessons in spending. There isn't enough money in the world to fix an emotional issue that requires therapy. But for most super-savers, spending wisely is a money lesson that can be learned. Retirement can be especially challenging. "Frugality is a decades-long habit for some that is now a way of life," says Susan Zimmerman, a chartered financial consultant and licensed therapist at Mindful Asset Planning, in Apple Valley, Minn. The realization that work income has stopped can be paralyzing. But a clear analysis of your nest egg and a reasonable withdrawal strategy can build confidence.

Young frugalistas can be conflicted, too. Lance Cothern and his wife, Victoria, are in their mid twenties. They've paid off more than $80,000 in student debt, have a year's worth of emergency savings and are socking away 20% of their income for retirement. "Now that our savings goals are where they should be, we're trying to make the shift to spending money rather than just squirreling it away," says Lance, a CPA who writes a blog called Money Manifesto.

To feel comfortable spending on "wants" instead of "needs," the couple evaluates large purchases based on several criteria. Is it a planned purchase or merely a splurge? Are they getting a high-quality item that will last, even if it's a bit more expensive? Finally, the Cotherns set a price limit—and not surprisingly, they stick to it. ■

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

LISE METZGER

Pick Your Dream Place to RETI

We came up with 10 great spots from coast to coast so you can choose the one with the features you value most. BY SANDRA BLOCK

MAYBE YOU LIKE THE IDEA OF RETIRING TO A TOWN WHERE YOU'LL NEVER WIELD A SNOW SHOVEL again. Or trading your pricey home in a high-tax area for a more affordable city. Or ditching the suburban cul-de-sac for an urban neighborhood. // Our dream retirement places run the gamut: big and small, north and south, mountains and seashore, coast to coast. They all rank high on access to health care—a must for a retirement destination. Some are affordable, with a cost of living that's at or below the national average (shown as 100). Others are more expensive, but with an attractive location and amenities for retirees who have deeper pockets. We also evaluate cities based on climate, walkability, housing costs compared with the national median ($200,000), tax-friendliness, culture and entertainment, and access to outdoor activities. Icons show at a glance whether the city has the features that are important to you.

VADIM DMITRIYEV/GETTY IMAGES

MILES OF WHITE-SAND BEACHES LINE SARASOTA, FLA.

Sarasota, Fla.

POPULATION: 53,326
COST OF LIVING: 104
MEDIAN HOME PRICE: $218,000
COOL FEATURE: The Ringling estate's museums and 66-acre Bayfront Gardens

LORRAINE AND BOB Massaro vacationed all over the state of Florida before deciding to retire to Sarasota. Six years after settling into their new home, they are still finding new activities, such as attending a show at the Sarasota Opera and taking an art class at the Ringling College of Art and Design.

Life in this small city moves a bit more slowly than in St. Petersburg and Tampa, both of which are about an hour's drive away. But Sarasota offers plenty of amenities, such as the many restaurants and 130-plus stores in the island shopping center of St. Armands Circle, as well as access to the Sarasota Memorial Health Care system, which is one of the largest public health systems in Florida.

Located along the Gulf of Mexico, Sarasota has miles of white-sand beaches, including Siesta Beach and Lido Beach. Homes a few miles inland tend to be newer and more affordable than homes along the waterfront, which start at about $500,000. Nature lovers will find lush landscapes and subtropical wildlife at the local parks, as well as at Celery Fields (an erstwhile celery farm now known for its birds and wetlands) and the Marie Selby Botanical Gardens.

Sarasota also has a lively and diverse arts scene, which includes a ballet company and an 80-member orchestra. The Van Wezel Performing Arts Hall hosts Broadway shows, comedy acts and concerts throughout the year. Residents can choose among an array of music offerings, from jazz clubs to bluegrass jams, and browse art galleries as well as the Sarasota Museum of Art and the Marietta Museum of Art & Whimsy.

Florida is one of the most tax-friendly states in the country for retirees. There's no state income tax, estate tax or inheritance tax. Permanent residents are entitled to a homestead exemption of up to $50,000. Seniors may qualify for an additional exemption.

Charlotte, N.C.

POPULATION: 792,862
COST OF LIVING: 96
MEDIAN HOME PRICE: $193,000
COOL FEATURE: Nascar Hall of Fame

THE LARGEST CITY ON our list has seen steady population growth in recent years—and for good reason. Charlotte has an affordable cost of living and a mild climate year-round, with an average of more than 200 days of sunshine a year. It is home to Carolinas HealthCare System and Novant Health, and more than two dozen art museums and galleries. Downtown, amid the banking and financial offices that keep the local economy humming, locals can browse the 7th Street Public Market for produce, meats and other goods, or grab a bite at local favorite Alexander Michael's Restaurant & Tavern.

While active-adult communities abound in Charlotte's suburbs, retirees who prefer an urban lifestyle often head to Charlotte's lively Center City, including the historic South End neighborhood. The bus

HOW WE RATE THE CITIES

Climate: Moderate to warm temperatures; lots of sun or little or no snow.

Housing affordability: Median home prices near or below national median.

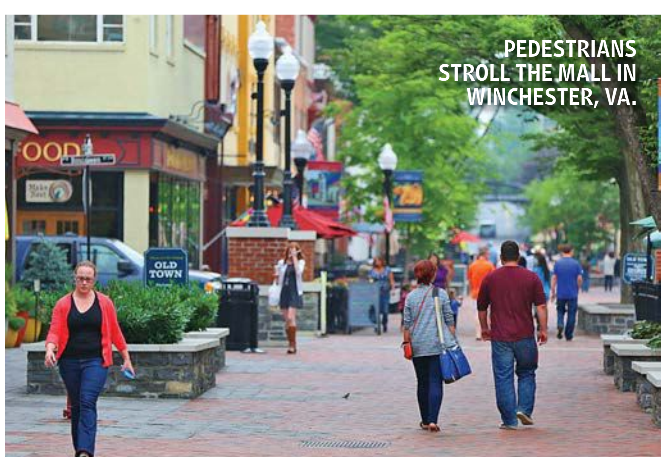
Tax-friendliness: Most retirement benefits are tax-free.

Walkability: Residents can do most errands without a car.

Cultural amenities: Art galleries, theater, restaurants, concerts.

Outdoor activities: Easy access to hiking and biking trails, beaches or ski slopes.


BANKING AND FINANCE FUEL THE ECONOMY IN CHARLOTTE, N.C.



PEDESTRIANS STROLL THE MALL IN WINCHESTER, VA.

SOURCES: U.S. Climate Data, Clear Capital, Kiplinger Retiree Tax Map, WalkScore.com, Council for Community and Economic Research.

COURTESY VISIT CHARLOTTE; DENNY GAINER.

and light-rail systems make for easy access to everything from shops and restaurants to museums and sports venues.

Center City has single-family homes, condos and apartments. In the South End alone, more than 2,000 new housing units have recently been completed or are under construction. Homes within Center City generally cost between $250,000 and $300,000.

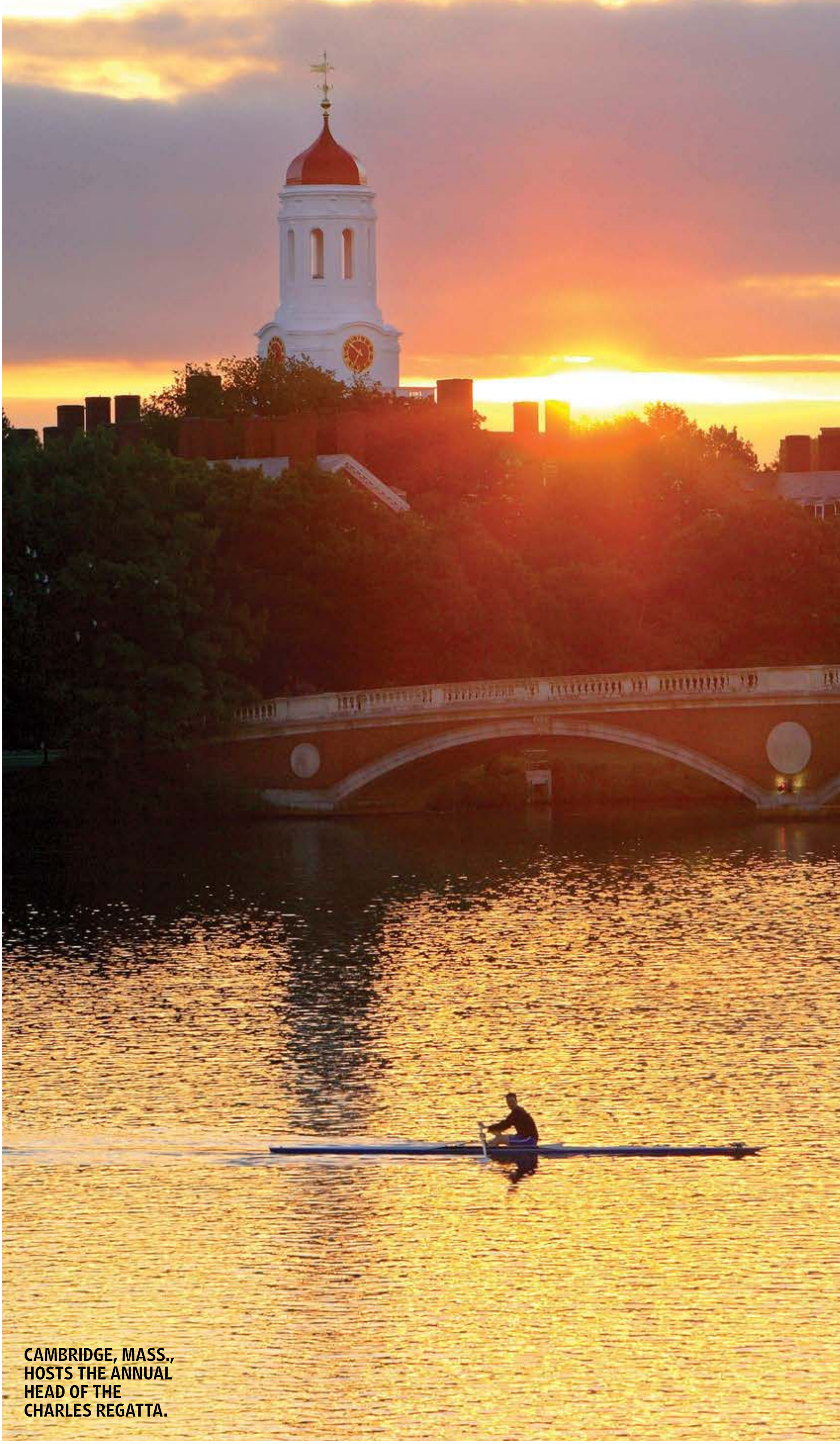
Taxes are another reason the Tar Heel State appeals to retirees. North Carolina exempts Social Security benefits from income taxes, and homeowners 65 and older may qualify for a homestead exemption.

Winchester, Va.

POPULATION: 27,543
COST OF LIVING: 100
MEDIAN HOME PRICE: $192,000
COOL FEATURE: The Beaux Arts–style Handley Library

THIS CITY, FOUNDED in 1744 and surveyed by George Washington, appeals to retirees who love its small-town Southern charm and big-city amenities.

Old Town Winchester, the city's recently renovated pedestrian mall, features more than 30 restaurants and bars, serving up everything from sushi to Jamaican cuisine (try the sweet Negril Sunrise coffee at Lloyd's). On Saturdays from May through October, the Old Town Farmers Market offers produce and baked goods from area farms.



CAMBRIDGE, MASS., HOSTS THE ANNUAL HEAD OF THE CHARLES REGATTA.

ROBBIE GEORGE/GETTY IMAGES

One nearby farm, Holy Cow Delivery, provides home delivery of organic milk and other dairy products year-round.

In 2012, the top-rated Winchester Medical Center completed a $161 million project that expanded emergency services and added beds.

Four new active-adult communities in the Winchester area offer homes and apartments at just under $300,000 to $500,000 or more. Retirees can also find one-level, single-family homes ranging from $150,000 to $250,000. Condominiums start at about $125,000. The city is walkable only for retirees who live near downtown.

Located 75 miles from Washington, D.C., Winchester experiences all four seasons, but winters aren't as fierce as they are farther north. Every April, residents of all ages turn out for the Shenandoah Apple Blossom Festival, an 88-year-old celebration of the area's apple-growing heritage.

The area surrounding Winchester is a playground for outdoor enthusiasts. Residents can kayak and fish in the Shenandoah River or hike in Shenandoah National Park. Local farms feature days for you to pick your own produce, including strawberries, apples and pumpkins.

Virginia doesn't tax Social Security benefits. It has no estate tax or inheritance tax. Seniors age 65 and older who meet income limits can deduct up to $12,000 each from state income taxes.

COLUMBIA, MO., IS A COLLEGE TOWN WITH AN ACTIVE OUTDOOR LIFE.

RESIDENTS OF ROCHESTER, MINN., ENJOY SPORTS YEAR-ROUND.

Cambridge, Mass.

POPULATION: 107,289
COST OF LIVING: 140 (Boston)
MEDIAN HOME PRICE: $643,000
COOL FEATURE: Harvard Square

ONE WAY TO REMAIN intellectually agile in retirement is to spend time with really smart people. And it's hard to find a city that has a higher collective IQ than Cambridge, home to Harvard and the Massachusetts Institute of Technology. There's no excuse for boredom: On any day of the week, you can attend a lecture, a museum exhibit or a concert. If you run out of things to do in Cambridge, you can take the subway (known as the T) to downtown Boston for only $1.05 if you're 65 or older.

The Cambridge/Boston metropolitan area offers some of the best health care in the country. Massachusetts General, the largest teaching hospital for Harvard Medical School, has specialists in more than 60 areas of health care.

Cambridge is one of the country's most walkable communities, and residents can accomplish most errands on foot. The city's crime rate is below the median for the U.S. and for Massachusetts.

Other than frigid winters, the biggest drawback is the cost of living. Massachusetts doesn't tax Social Security benefits and most government pensions, but other income is taxed at a flat rate of 5.2%. An influx of downsizing retirees who want to live near their alma maters has pushed up home prices in the Cambridge area, says Sara Rosenfeld, a real estate agent with Coldwell Banker. The median home price in the Boston-Cambridge-Quincy metro area is well above the national median, and within the Cambridge area, many condos are priced at $600,000 or more.

On the plus side, the property taxes in Cambridge are among the lowest in Massachusetts. Tax revenues from MIT, Harvard and other colleges and universities enable the city to offer lower residential rates than surrounding cities.

Columbia, Mo.

POPULATION: 115,276
COST OF LIVING: 94
MEDIAN HOME PRICE: $112,000
COOL FEATURE: Art in the Park, held each June

COLUMBIA, MO., HAS three institutions of higher learning within its boundaries: the flagship University of Missouri;

PHOTODISC/GETTY IMAGES; KIMBERLY WALKER/GETTY IMAGES

Columbia College, a liberal arts and sciences school; and Stephens College, the second-oldest women's college in the U.S. The upshot: lots of bookstores, restaurants, indie films and other amenities that keep both college students and full-time residents entertained and informed. The Osher Lifelong Learning Institute at the University of Missouri—a university-based, noncredit program for adults 50 and older—offers courses on everything from Missouri's role in the Civil War to how to use your iPad.

Columbia's hospitals are top-rated and offer rehab facilities as well as geriatric and other specialty services. The Milken Institute's 2014 survey of "Best Cities for Successful Aging" ranks Columbia third for small metropolitan areas, largely because of its outstanding health care services and job opportunities for older residents.

With the exception of a few close-in neighborhoods, such as Douglass Park, Columbia isn't a walkable city. It's a great place, though, for active retirees, says Megan McConachie, marketing manager for the Columbia Convention and Visitors Bureau. The 4.7-mile Nature and Fitness Trail, popular with walkers, bikers and joggers, cuts through the city and connects to Katy Trail State Park, a rails-to-trails conversion that stretches for 185 miles.

The median home price in Columbia is $112,000, well below the national median. There are more than a dozen retirement communities in the area, with more under construction, says JulieAnne Mattson, a real estate agent with House of Brokers Realty. Other senior-friendly residential options include condos and single-level homes in planned communities.

Most retirees don't have to pay state taxes on Social Security benefits and can deduct part of their retirement benefits. Missouri has no estate or inheritance tax.

Columbia has a relatively low violent crime rate, and traffic jams are rare. Despite its growth, Mattson says, "we're not choked and bogged down by city living."

Rochester, Minn.

POPULATION: 110,742
COST OF LIVING: Not available
MEDIAN HOME PRICE: $174,000
COOL FEATURE: Skyways that shield shoppers from the elements

LET'S GET THIS OUT OF the way: Nobody retires to Rochester for the weather. But once you figure out how to bundle up properly during the winter months, Rochester has a lot to offer, says Mayor Ardell Brede. Don't just take his word for it: The Milken Institute's survey of best cities for aging ranks Rochester seventh on its list of small metropolitan areas.

IN SANTA FE, N.M., SUNSHINE, CULTURE AND FOOD ATTRACT RETIREES.

DANITA DELIMONT/GETTY IMAGES

COURTESY VISIT SALT LAKE

Its most recognizable asset is the Mayo Clinic, which attracts thousands of patients every year from around the world. Rochester has the most doctors per capita in the U.S., as well as an abundance of hospital beds. The city's nursing homes are top-rated, and its hospitals provide specialty care for Alzheimer's patients.

Rochester has a thriving downtown connected by a series of skyways that shield shoppers from the elements. "You can get virtually anyplace downtown without having to go outside," Brede says. Every February, the Rochester Downtown Alliance sponsors SocialIce, which features ice-carving demonstrations for the kids and seven themed ice bars—complete with signature drinks and sofas made of ice—for the adults. During the summer months, the alliance sponsors Thursdays on First and Third, a weekly outdoor market on a plaza with live entertainment and more than 100 food and arts-and-crafts vendors.

The median home price in Rochester is well below the national median. The violent crime rate is below average, too. Although Rochester isn't a walkable city (other than the skyways), it has a large fleet of taxicabs and shuttle buses, which allow retirees who no longer drive to remain active in the community, Brede says.

Brede, 76, a retired Mayo Clinic administrator who is serving his fourth term as mayor, has no intention of moving anywhere else, despite the cold winters. "You just sort of adapt to it," he says. "Nobody appreciates a fireplace more than we do in Minnesota."

Santa Fe, N.M.

POPULATION: 69,976
COST OF LIVING: Not available
MEDIAN HOME PRICE: $244,000
COOL FEATURE: *Game of Thrones* author George R.R. Martin is a longtime resident.

SANTA FE IS IDEAL FOR retirees who crave sun, culture and really good food. It has an average of 283 sunny days a year. You can get to the ski slopes in 35 minutes or less, hike or bike for miles in the nearby

SALT LAKE CITY, UTAH, INCLUDES A THRIVING DOWNTOWN AND MOUNTAIN VIEWS.

Sangre de Cristo Mountains (bring sunscreen), or watch the sun set and imagine that you're in a Georgia O'Keeffe painting (Santa Fe is home to the only museum in the U.S. dedicated to the artist).

The city has more than 250 art galleries and 12 museums. The Santa Fe Opera, an outdoor amphitheater located seven miles from downtown, provides world-class entertainment. In addition to innovative southwestern fare, local restaurants offer every kind of cuisine, from French to Middle Eastern.

Santa Fe's major hospital is Christus St. Vincent Regional Medical Center, which has 200 beds and 34 specialties. University of New Mexico Hospital in Albuquerque is about an hour away.

The median home price is about $44,000 above the national median, and living in "The City Different" isn't cheap. Still, "there are plenty of homes here that are affordable for seniors," says Gary Wallace, of Santa Fe Properties. Prices range from $200,000 for a small town house to $400,000 for a single-family home.

The city's West Guadalupe Historic District is within walking distance of restaurants, shops and downtown Santa Fe. In most other parts of the city, though, you'll need a car.

New Mexico is less than tax-friendly; it taxes Social Security benefits. However, seniors 65 and older qualify for an income tax exemption of up to $8,000 in retirement income, including Social Security benefits, if their adjusted gross income is less than $28,500 for individuals or $51,000 for married couples.

Salt Lake City, Utah

POPULATION: 191,180
COST OF LIVING: 98
MEDIAN HOME PRICE: $226,000
COOL FEATURE: 12 local breweries in the metro area

IF YOU WATCHED THE 2002 Winter Olympics, you know that the area surrounding Utah's capital is stunningly beautiful. What you may not know is that Salt Lake City boasts a thriving, walkable downtown that is becoming a haven for retirees. "Active seniors like myself are all downsizing, and they all want to live downtown," says Babs De Lay, 61, owner of Urban Utah Homes and Estates, in Salt Lake City. Downtown attractions include a huge library, Broadway shows at the Capitol Theatre, the Utah Symphony at Abravanel Hall and many restaurants. The city even has a vibrant bar scene that emerged after Utah relaxed its restrictive liquor laws in 2009.

The city's light-rail system, TRAX, serves downtown Salt Lake City, surrounding areas and Salt Lake City International Airport. During the winter months, the Utah Transit Authority provides bus service to popular ski resorts. Anyone age 65 or older can take the bus for $4.50 round-trip.

The median home price in Salt Lake City is a bit higher than the national average. Prices for condos in the downtown area range from as low as $125,000 for small units to $400,000 and up for newly built, high-end condos, De Lay says.

Local hospitals include University of Utah Health Care, an academic medical center that offers specialists in geriatrics and Alzheimer's care, and Salt Lake Regional Medical Center, which also provides specialists in senior health. The city has a large

THE FLOWER FIELDS, IN CARLSBAD, CALIF., BLOOM FROM MARCH TO MAY.

COURTESY VISIT CARLSBAD

number of home health care providers and offers affordable assisted-living communities and nursing homes, according to the Milken Institute, which ranks Salt Lake City fifth in its best cities for aging survey.

Utah is one of a few states that tax Social Security benefits. It imposes a flat income tax rate of 5%.

Carlsbad, Calif.

POPULATION: 110,972
COST OF LIVING: 142
MEDIAN HOME PRICE: $662,000
COOL FEATURE: Batiquitos Lagoon, a coastal salt marsh

SCOTT WHITE, 65, a former executive at Boeing, has always loved the arts and has devoted his spare time to volunteering for nonprofit arts groups. So when it came time to retire, he was determined to find an area with a vibrant cultural community. A longtime resident of Huntington Beach, Calif., he also wanted to remain near the ocean.

His research led him to Carlsbad, Calif., a small city 35 miles from San Diego. The city's Cultural Arts Office organizes a full calendar that includes Foreign Film Fridays, a four-part lecture/performance series on American jazz, and free summer concerts in four local parks. Since moving to Carlsbad five years ago, White has become arts commissioner for the city and chairs the board for the New Village Arts Theatre.

PORTLAND, ORE., HAS A LAID-BACK VIBE.

The arts aren't the only draw. Although Carlsbad isn't a walkable community, the city has 25 parks, nearly 50 miles of hiking trails and a strong commitment to preserving open space. "We're an urban community, but you don't feel like you're in an urban community," White says.

Carlsbad offers lots of housing options for retirees, including retirement communities with ocean views. The city's crime rate is well below the national average. The Tri-City Medical Center in nearby Oceanside is a full-service, acute-care hospital with specialties that include cardiovascular and orthopedic care.

Not surprisingly, all of this comes at a cost. The median home price in Carlsbad is more than three times the national median. California isn't a tax-friendly state for retirees (or anyone else). Social Security benefits are exempt, but all other income, except interest on California bonds, is taxed. California residents pay the highest income tax rates in the nation, with a top rate of 13.3%.

Portland, Ore.

POPULATION: 609,456
COST OF LIVING: 129
MEDIAN HOME PRICE: $312,000
COOL FEATURE: Powell's, a huge independent bookstore

PORTLAND MAY BE the city where young people go to retire—at least, that's the joke on the TV series *Portlandia*—but older retirees will find a bright future in Portland, too. The World Health Organization selected Portland as one of its first "age-friendly" cities, and the city is developing policies to make it a comfortable place to grow old.

Meanwhile, neighborhoods are increasingly designed to be compact and pedestrian-friendly, with "hubs" that contain grocery stores, cafés and other amenities. A popular neighborhood for retirees looking to downsize is the Pearl District. One-bedroom condos usually start in the mid $400,000s, says Marissa Sainz, of Pearl District Properties. That's well above Portland's median home price, but the area is centrally located and offers ample green space, bustling eateries such as Irving Street Kitchen, and monthly art walks. Portland also has an excellent public transit system—for which adults 65 or older pay only $1 a ride—as well as more than 300 miles of bikeways.

Oregon Health & Science University, the only academic medical center in the state, specializes in heart transplants and complex brain surgeries.

Frequent drizzles don't keep Portlanders inside for long, thanks to the otherwise moderate weather. "We have a few days of snow a year and a few days of 100-degree temperatures," says Mark Noonan, of advocacy group Elders in Action. Outdoorsy types will love the proximity to Mount Hood and the ocean, but residents can also stay active within the city by strolling in Forest Park or hiking up extinct volcano Mount Tabor.

Portland bursts with theater and music, including the summertime Blues Festival. And the food scene is "on fire," says Noonan, serving up everything from food carts to flashy restaurants, as well as craft beers and locally distilled spirits and wine. People age 62 and older can audit classes free at local colleges.

Oregon's tax picture isn't so appealing. Social Security isn't taxed, but most other retirement income is. There is no sales tax. ■

KAITLIN PITSKER AND MIRIAM CROSS CONTRIBUTED TO THIS ARTICLE.

COURTESY TRAVEL PORTLAND

Credit Unions Anyone Can Join

Take advantage of their high-yielding checking and savings accounts. **BY LISA GERSTNER**

CREDIT UNIONS TEND TO PAY HIGHER yields on their deposit accounts than banks, as well as go lighter on fees. But membership is usually limited to people who live in a defined region, work for a certain employer or have other common affiliations. We've highlighted attractive accounts from three credit unions that open their doors to anyone. To become a member, you must pay a onetime fee of $5 to $10 to a charity or association affiliated with the credit union.

At **CONSUMERS CREDIT UNION (ILLINOIS; 877-275-2228)**, the Free Rewards Checking account is a standout: You can earn a hefty 5.09% yield on balances of up to $20,000 (the rate is guaranteed until 2016). But you have to be committed. Each month, you must make

ISTOCKPHOTO.COM

12 debit card purchases, schedule a direct deposit (or make a monthly transfer out of the account or use online bill pay), access online banking and receive electronic statements. You must also be a dedicated credit card user and spend at least $1,000 a month on one of the credit union's Visa credit cards. You'll get a refund of all ATM fees charged by other institutions.

LAKE MICHIGAN CREDIT UNION (800-242-9790) also offers an enticing yield on its Max Checking account: 3% on up to $15,000 when you make 10 debit card purchases each month, use direct deposit, log in to online banking four times a month and receive electronic statements. You'll get refunds of up to $15 in ATM fees monthly.

ALLIANT CREDIT UNION (800-328-1935) offers several appealing features. The High Rate Checking Option yields 0.65% if you get electronic statements and set up direct deposit. But even if you don't meet those requirements, you'll be refunded up to $20 in ATM fees a month, and the first box of checks is free. The Regular Savings account yields 0.9% on balances of $100 or more.

FAMILY FINANCES

Raising Money Smart Kids

It's more challenging in a digital world. Use these eight rules to teach your children money skills and financial values. BY JANET BODNAR

When I wrote my first column about kids and money in the 1990s, the hot topic was whether to buy Pump sneakers, one of the first items of kids' apparel with a price tag that passed the $100 mark. Two decades later, I found myself weighing in on whether to pay for LeBron X sneakers, which topped out at $270. While some challenges are a matter of degree, today's parents (and grandparents) are also wrestling with new quandaries that didn't even exist back in the '90s. Should they let teens spend with a prepaid card? What happens if kids run up charges on the family cell-phone bill? Should children be allowed to download games to Dad's iPad?

What I've learned from raising my own three children and speaking with thousands of other parents and kids over the years is this: The circumstances may change, but you are guaranteed to raise kids with sound financial values if you follow these eight guidelines.

1 Harness your parent power. Studies show that parents—not the media and not peers—carry the most weight when it comes to teaching kids about money. In a recent study of millennials by Bank of America and *USA Today*, 58% of those interviewed cited their parents' advice or example as most influential in how they handle their own finances. Nevertheless, a study by T. Rowe Price found that 72% of parents are at least somewhat reluctant to talk to their kids about financial matters.

What parents need is a confidence boost: Even if you feel a little insecure about your knowledge of finance or your money-management skills, you always know more than your kids. You don't have to understand or explain the nuances of the Federal Reserve's monetary policy. Just use everyday examples to talk with your children about how you make financial decisions—say, which brand of cereal to buy at the grocery store, whether to purchase a new car or repair the old one, and why you're cutting back on eating out to save up for a family trip to Disney World. Learning to make choices is what managing money is all about.

2 Take small steps to reap big rewards. There's no need to overwhelm kids with information. In a major international study of financial literacy among 15-year-olds in 18 countries, U.S. teens ranked in the middle of the pack. But students scored appreciably higher on the exam if they simply had a bank account.

When teaching teenagers about credit cards, for example, the first lesson should be that plastic is not cash; it's a loan that you have to repay plus interest if you don't pay off the entire amount each month (the calculator at www.moneychimp.com can help make your point). If they understand that, they'll be well on their way toward staying out of debt even if they're too young to understand a credit card agreement.

And when talking about investing, ease up on the jargon. When I attended an investing boot camp for teens last summer, the kids asked basic questions that cut to the heart of the matter: "Can you tell a company whether you'd rather buy a stock or a bond?" "What's the dif-

ILLUSTRATIONS BY JOHN PATRICK THOMAS

ference between a bond and a savings account?" "What's the Fortune 500?"

3 Match the lessons to your child's age. Preschoolers, for instance, think in concrete terms. They're prime candidates for playing with fun coin banks, putting change in vending machines or using their money to buy something at the dollar store. You've accomplished a lot if you teach very young children that money can be exchanged for other things.

When kids enter elementary school and start learning about money in math class, they develop a more mature understanding of how much a dollar will buy and how to save for short-term goals. Now's the time to help them open a real bank account and to start an allowance (see below for more details) so that they can take more responsibility for spending and saving their own money.

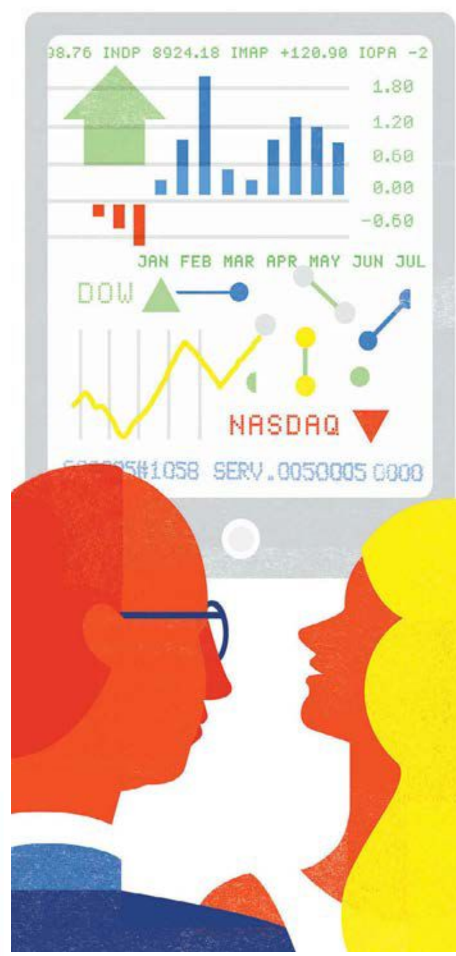
As kids move into middle and high school, you can expand their financial responsibilities to include paying for their own clothing, entertainment and cell-phone charges. Encourage them to get a summer job, and help them open a checking account.

Once they're in college, they should be responsible for making their spending money last for a whole semester and paying the rent on an off-campus apartment. If they've accomplished all that by the time they graduate, they should be able to move seamlessly into real life—with a little help from our starting out guide for millennials (kiplinger.com/links/startingout).

4 Let kids manage money on their own. They'll spend unlimited amounts as long as it's yours. When their money is on the line, it's a whole new ball game. An allowance is the best hands-on tool for children who are too young to earn money. But here's the rub: Should you tie the allowance to chores, or should you expect kids to pitch in around the house without payment?

My solution is a two-tier allowance system. Give kids a base allowance that isn't tied to basic household chores, such as doing the dishes and making their beds, which they're expected to do without pay. But the money does come with what I call financial chores: spending (and saving) responsibilities that the kids take over from you. To make the connection between work and pay, let children earn more by performing extra jobs, such as taking out the trash or recycling, mowing the lawn, washing the car, or whatever tasks you define as service above and beyond.

This system has three pluses: It sets up a sensible, workable arrangement for tying allowance to chores; it's easy to keep track of (you can pay for jobs



on the spot); and it's an effective way to make kids responsible for managing their money.

How much should you give? Start with a weekly allowance equal to half a child's age, and then increase it as necessary depending on where you live, how old your children are and what they're expected to pay for.

5 Think like a kid. A prepaid card or a credit card may seem like a convenience to you, but in a child's mind, it often represents a direct line to your wallet. Kids won't learn personal responsibility if you're the one loading the card or paying the bills, so be judicious in your use of plastic. I think prepaid cards are most suitable for special situations, such as when young teens are managing their earnings from a part-time or summer job, or when a student goes out of town on a class trip. (If you go this route, *Kiplinger's* likes the Bluebird card from American Express and Walmart, which is light on fees.)

The cashless society may be a techie's dream, but even for older teens nothing beats the hands-on experience of managing real cash. That means a regular checking account linked to a debit card. In a study of 42,000 first-year college students by education technology companies EverFi and Higher One, experience with a checking account made a positive difference in students' financial knowledge and behavior. "Feeling prepared to manage money in college was not related to a student's experience with credit cards—it actually decreased as they got cards earlier in life," the report concluded.

Once young people have proved they're mature enough to cover their expenses without overdrawing their accounts, they can consider applying for a credit card—preferably when they're 21 and can do it on their own.

6 Be straight with your children. They need to hear you say no. The key to making it stick is to tell them why you're denying their request and offer an alternative, if possible. For example, if your 13-year-old wants a new video-game system and you think his existing one is fine, say so—and tell him that if he wants to replace it, he'll have to spend his own money.

Don't shy away from awkward questions. If your kids ask how much money you make, they aren't necessarily looking for an accounting of every dollar and decimal point. Young children may simply be seeking reassurance and will be satisfied with a response along these lines: "We have enough money to buy the things we need and also save for the future."

With adolescents, you can be more forthright about your finances, but it's always best to put your income in context. They need to know that taxes and retirement savings take a bite out of your salary, and that you have to pay the mortgage and the car insurance bill before you can buy a new flat-screen TV. And before they start applying to college, they need to know how much you can afford to pay and how much they'll be responsible for.

7 Use common sense. Adapt these guidelines to your own children and to new issues that are bound to crop up. If you're concerned that your kids are running up the bill on the family's cell-phone plan, have them pay the overcharges (or get a better plan; see "Best Phone Plans," Nov. 2014). Paper checks still play a key role, but teens can also manage a checking account online or with an app as long as they learn the discipline of tracking their expenses.

To avoid your kids downloading games and apps to your tablet, don't give them the password. One of my coworkers limits his two sons, ages 8 and 5, to free downloads, for which they still have to ask permission. (And the boys have to earn tablet-time credits with their good behavior, such as washing hands before dinner, bringing in belongings from the car and doing homework without complaint.)

8 Set a good example. By giving kids a clear message and practicing what you preach, you can set any standard, teach any lesson or pass along any value, whether it's saving for the future, giving to charity or, one of my favorites, saying thanks. A written thank-you note is most desirable, especially when a gift is extra special or extra generous. But that's adaptable, too. An e-mail, a text message or a Facebook photo or video also works. The key is to teach children how to express gratitude, rather than feel entitled, so they'll pass along that tradition to their own children. ■

KIPLINGER'S EDITOR JANET BODNAR IS THE AUTHOR OF *RAISING MONEY SMART KIDS* AND WRITES THE MONEY SMART KIDS COLUMN AT KIPLINGER.COM/LINKS/KIDS.

KIMBERLY LANKFORD > Ask Kim

Cut Prescription Drug Costs

I HAVE TO PAY MUCH MORE OUT OF pocket for prescription drugs than I did in the past. What can I do to reduce these costs?

S.R., TAMPA

Prescription drug costs spiked 13.6% from 2014 to 2015 for a family of four with employer coverage, according to the Milliman Medical index. That's why it's important to compare out-of-pocket costs for your drugs when picking a plan each year and to review the differences in co-pays within each plan.

Generic drugs can cost up to 85% less than brand-name versions. Ask your doctor if you can switch. And generic prices can vary even within the same category, says John Lee, a senior director at Walgreens. Your pharmacist should be able to point you to the least-expensive option. Paying cash for generics sold at Walmart, Costco and Target, or through the Walgreens prescription savings club, may be cheaper than your insurance co-pay.

Most insurers now have preferred pharmacies, which have lower co-pays than other in-network pharmacies. For instance, you might pay a $1 co-pay for a preferred generic instead of $10; $4 for a non-preferred generic instead of $33; and 35% of the cost instead of 50% for non-preferred brand-name drugs. Your insurer may have a preferred mail-order pharmacy that charges no co-pay for certain generics. Filling the prescription for 90 days rather than 30 can also reduce your co-payments.

Extra mortgage payments. *My mortgage company is offering to sign me up for weekly or biweekly, rather than monthly, payments. The program is free, and I'm told it will help me pay off the loan faster. Should I sign up?*

M.W., SACRAMENTO, CALIF.

Because a year has 52 weeks—or 13 four-week periods—making weekly payments works out to be an extra monthly payment each year. Making weekly or biweekly payments can be an easy way to help you pay off your loan faster and save money on interest. Paying biweekly on a $300,000, 30-year mortgage with a 4% interest rate rather than monthly will pay off the loan more than four years early (see the biweekly mortgage calculator at Bankrate.com).

But you can accomplish the same goal on your own and maintain more flexibility by making one extra monthly payment each year. Do that whenever you have extra cash, rather than locking yourself into a program. You may have more-pressing uses for the money, such as saving for retirement, building your emergency fund or paying off higher-interest debt. "Unless you are maxing out your 401(k) and IRA, there are other, higher priorities for your spare cash than paying down a low, fixed-rate, often tax-deductible mortgage," says Greg McBride, chief financial analyst at Bankrate.com.

Flexible spending account cash-out. *I'm leaving my job in the middle of the year and will have spent more from my flexible spending account than the amount I will have contributed by then. Do I need to pay back the extra money?*

M.F., COAL VALLEY, ILL.

One special benefit of flexible spending accounts is that you can use all of the money you plan to contribute for the year starting on January 1. Even if you leave your job before contributing that much, you generally don't need to pay back the extra money you spent, says Jody Dietel, chief compliance officer for WageWorks, which administers FSAs for employers.

In rare cases, the plan documents specify that any remaining contributions must be taken from your last paycheck when you leave your job, says Dietel. Ask your employer about its rules. ■

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

"Paying cash for generics sold at Walmart, Costco and Target may be cheaper than your insurance co-pay."

LISE METZGER

FAMILY FINANCES »

Life Insurance for Your Stage of Life

Your needs change as you age. BY KIMBERLY LANKFORD

LIFE INSURANCE IS AN ESSENTIAL part of every family's financial plan, but people often underestimate the amount of coverage they need and pay too much for what they get. What's more, your needs change as you age: The policy you bought when your kids were born may not have the right amount of coverage when they are about to go to college. And when you retire, you may be able to drop coverage altogether, unless you have a cash-value policy you plan to tap for income or include in your estate plan.

Life insurance rates have dropped significantly over the past 10 years, and it can be a lot less complicated than you think to figure out what you need. The key is to reassess your coverage when your family reaches certain milestones.

THE FIRST POLICY

You need life insurance when someone depends on you financially. If you're married without children, you may need coverage if your spouse relies on your income to help pay the mortgage and other bills. But when you have kids, you really need life insurance. "Most people do not have enough, and the people we see who need it the most—younger people with very small children—have it the least," says Mari Adam, a certified financial planner in Boca Raton, Fla.

When you're young, your life insurance needs are greatest because you're supporting a young family. Your life insurance must help your family cover their expenses, including the mortgage and other bills, and enable them to save for college and retirement without your income.

You can use a life insurance calculator (such as the one at www.lifehappens.org) to come up with a precise figure. But worrying about precision tends to intimidate people into procrastinating. "Keep it simple, and just go and get it," says Adam. She generally recommends buying a policy worth at least seven to 10 times your gross income (or more, if you plan to have more kids and your income and expenses are on the rise). "Don't ever aim low on this," she says. "Round up, and be generous."

What kind of insurance should you buy? At this stage of your life, buy term (for shopping strategies, see the box on the facing page). Term is simple and has no investment or savings component. "Term insurance is good not just because it's cheap but also because it's relatively easy to understand and shop for, and it's easy to compare prices," says Glenn Daily, a fee-only life insurance adviser in New York City. Also, says Daily, it's easy to figure out after you buy the policy whether it's still a good deal. "You can go online and compare what you can get with a new policy."

A healthy 30-year-old man can buy a $500,000, 20-year term policy for just $250 per year, or $1 million for $430. Women pay less: $215 per year for a $500,000 policy or $360 for a $1 million policy.

ILLUSTRATIONS BY OLIVER WEISS

A parent who doesn't earn an income needs life insurance, too. If she dies, her spouse will have to cover child care expenses. "The high-income earner may want to cut back to part-time or spend a lot more time with the kids, and that's a justification for having a healthy-size policy on both spouses," says Donna Skeels Cygan, a certified financial planner in Albuquerque. She recommends a death benefit large enough that you can cover the annual income you need by withdrawing 4% of the money each year. For example, if you expect to need $20,000 a year for more than 20 years, buy a policy with a $500,000 death benefit.

After deciding how much coverage you need, figure out how long you need it. If you plan to have more kids or to keep working for several decades, you might need a 30-year policy, even though it costs a lot more than 20-year coverage. A $1 million, 30-year term policy would cost a 30-year-old man about $710 per year ($580 per year for a woman). "If you can afford it, go for the longer term and the higher amount," says Adam.

If you can't afford a 30-year policy, it's better to "ladder" coverage than to skimp on the insurance amount. You could get a 30-year policy for half or two-thirds of the amount you need, and a 20-year policy for the other part, says Tim Maurer, a certified financial planner in Charleston, S.C., and director of personal finance for the BAM Alliance, a network of independent financial advisers. You can add more coverage as your kids get older and your income increases.

UPDATING YOUR COVERAGE

If your income and expenses increase as your children get older, you may need more coverage than when you were starting out. Maurer recommends reviewing your life insurance needs every five years and whenever you experience a major change, such as having another child, starting a new job, taking out a bigger mortgage or getting divorced. The annual premiums will be higher because you're

KipTip

How to Shop for a Term Policy

YOU CAN COMPARE PRICES FROM MANY INSURERS AT WEB sites such as AccuQuote.com (800-442-9899) and LifeQuotes.com (800-324-6370). The lowest premiums are for people who are in good health. You might have to pay more if you have any health issues, or even if your family had health problems. If both your parents died of cardiovascular disease before age 60, for example, your rate could almost double, says Byron Udell, CEO of AccuQuote.com.

Insurers generally ask about your height, weight, cholesterol and blood-pressure readings, and medical problems, as well as whether your parents had certain kinds of cancer or heart disease. Having a poor driving record, declaring bankruptcy, or participating in risky hobbies such as scuba diving or flying could also affect the cost of your premiums.

You may want to call the number listed on the Web site, rather than use the online tool, if you have a medical condition. Even if you're working with an insurance specialist, compare rates online to make sure premiums are in the ballpark. Give your insurance agent all of the details up front because some insurers charge much more than others for similar conditions. "Insurers have their niches," says Udell. For instance, some care if your parents had cancer or if you're taking blood pressure or cholesterol medication, while others do not.

You may be able to buy extra coverage through your employer without a medical exam. That could be a good deal if you have health issues, but it's a bad deal if you're healthy and can buy a policy elsewhere for less.

older, but if you're in good health, they'll still be reasonable. And you may need the extra coverage only for another 10 or 15 years if your kids are teenagers (especially if you already have other coverage that will last longer).

A healthy 40-year-old man can get a $500,000, 20-year term policy for as little as $350 per year ($310 for a woman) or a 30-year term policy for $630 per year ($525 for a woman), according to AccuQuote.com. A $1 million policy would generally cost about $1,200 for a man and $970 for a woman. A healthy 50-year-old man can get a $500,000, 20-year term policy for $925 per year ($675 for a woman).

This is also a good time to think about what to do if your policy is set to expire before your need for coverage is up. Options include buying extra insurance for a longer term, converting your current coverage to a permanent policy (see the box below) or buying some permanent insurance.

If you've already maxed out your IRA and 401(k) and are looking for other tax-advantaged investments, you could buy a whole life policy, which builds cash value based on the performance of the insurer's investments. Premiums are expensive, but the insurer promises to increase your cash value by at least a minimum amount every year, and the policy usually pays dividends. For example, a 40-year-old man could pay about $8,000 a year for a $500,000 whole life policy, but he may accumulate more than $325,000 in cash value by age 65 (based on current dividends), with nearly $200,000 guaranteed and a death benefit that could grow to about $750,000.

Later, you can withdraw the cash value tax-free up to the amount you

Convertible Term

Should You Make It Permanent?

MOST PEOPLE CAN BUY A TERM POLICY FOR THE LENGTH OF time they need life insurance and add (or reduce) coverage as their needs change. But you may not have that option if you develop a medical condition. Whenever you buy term insurance, make sure the policy has the option to convert to a permanent policy.

Most term policies offer you that option for a certain number of years after you buy. The permanent policy's premiums will be based on your health when you originally bought the insurance and the age when you convert.

You can use term insurance for long-term needs "as long as it gives you the option to convert to something that's worth having," says Glenn Daily, a fee-only life insurance adviser in New York City. "Without that option, term insurance would be a riskier choice."

It's important to know the type of permanent policy to which you can convert. For the least-expensive way to provide coverage for more than 30 years, consider a no-lapse universal life insurance policy. "It's essentially like term insurance that lasts forever," says Byron Udell, CEO of AccuQuote.com. Annual premiums for this type of policy are about half as much as they are for the same level of coverage with whole life, but they build up very little cash value.

A healthy 40-year-old man would pay about $630 per year for a 30-year, $500,000 term policy or $2,850 per year for a no-lapse UL policy, says Udell. A 50-year-old could pay $1,590 per year for a 30-year term policy or $4,200 per year for a no-lapse UL policy (women pay less). If you have a term policy that lasts until you're in your seventies, conversion would be worthwhile only if you developed a medical condition and couldn't qualify for a new policy but needed coverage. If you are relatively healthy, compare the cost and coverage for a new policy and for the conversion policy.

Find out how long you have to convert the policy; some insurers allow conversion only in the first 10 or 15 years, even if the term is longer, or only to a certain age, such as 65, says Bob Bland, of LifeQuotes.com.

paid in premiums over the years. Withdrawals above that level are taxed in your top tax bracket. Or you can borrow the cash value; the loan will not be taxed as a withdrawal as long as you keep the policy for the rest of your life. (Withdrawals and loans reduce your death benefit.) For an added premium that boosts the cost by about 10% a year, you can attach a rider to some permanent policies that lets you tap the death benefit for long-term-care expenses.

INSURANCE FOR EMPTY NESTERS

Your need for life insurance "begins high and stays there until your kids go to college, then it drops drastically," says Maurer. Nevertheless, he says, "getting rid of your life insurance entirely after your kids leave is a big mistake."

Even after your kids are on their own, Maurer suggests keeping some insurance as long as you're working to help your spouse pay the bills and save for retirement if you die. At this point, most people can finally afford to boost their retirement savings contributions. "In that window—the five- or 10-year bridge to retirement—you still need some coverage," he says. Maurer recommends calculating how much money you need to add to your nest egg to reach your savings goals, then keeping enough term insurance coverage to fill in that gap in case you or your spouse dies early.

Cygan, the Albuquerque financial planner, is at that bridge to retirement. She and her husband, Randy, each bought a 25-year, $500,000 term policy when they were in their early thirties and had their first child. When they were in their forties, they each added a 30-year term policy to make sure they had more coverage while supporting their kids, as well as to provide some insurance until their seventies.

The laddered approach is working well for them. They're now in their mid fifties, and the 25-year term is about to end. "I'm going to let those policies expire because we don't need as much coverage as we used to. We got our kids through school," says Cygan.

The 30-year policies will carry her to age 70 and Randy to 72. "We're going to keep those because we don't want to worry about anything financially related if either of us were to die." They figure they won't need life insurance after that because they won't be dependent on each other's income.

DECISIONS FOR RETIREES

The need for life insurance ends at retirement if you've done your financial planning, says Daily. "You ought to have built up enough assets so you have enough to live on in retirement." If you have a term insurance policy, you can just keep the policy until the term ends, as long as you have enough cash to pay the premiums, or let it drop and use the money for a more pressing need, such as paying for long-term-care coverage.

But there are exceptions. You may need a policy that lasts for your lifetime if you and your spouse rely on a pension that does not have a death benefit for the survivor, or if your heirs will need cash to buy a stake in a business, or if you're supporting a special-needs child. Some retirees maintain coverage to provide a legacy for children or charities.

One option is a term policy with a conversion feature. Or if you bought a permanent policy that has built up cash value, such as a whole life policy, you can withdraw some of the money for income in retirement. Randolph Melville, 56, of Dallas bought a Northwestern Mutual whole life policy about 25 years ago, when his first child was born. Now that his three sons are in their twenties, he has borrowed some of the cash value to pay for a home-improvement project, and he may eventually tap it for retirement income (tax-free up to the amount he paid in premiums). He can also transfer money tax-free to pay long-term-care premiums, or keep some coverage and leave a legacy to his sons or to a charity. "It protects your family and gives you flexibility," he says. ■

CREDIT »

Shop Around for a Student Account

AS STUDENTS HEAD TO campus this fall, many will be offered checking accounts or prepaid debit cards from financial institutions that pay the schools to promote their products.

About 40% of students attend colleges that have such arrangements, according to the Government Accountability Office. Although the GAO found that fees were generally in line with those of standard bank products, the accounts may not be the best deals for students. Check the fine print for monthly fees, overdraft charges, ATM surcharges, minimum balance requirements and the number of local in-network ATMs. The ideal is a free, no-strings-attached account.

Community banks and credit unions—both local and national—often offer free checking accounts that don't impose harsh penalties for using out-of-network ATMs or overdrawing your account (see "Credit Unions Anyone Can Join," on page 35).

Some national banks also cut students a break. The U.S. Bank Student Checking account charges no monthly fee, includes four free monthly withdrawals from out-of-network ATMs and provides the first box of checks free. Capital One 360 Checking, an online account, is well suited for students, says Nico Leyva, of personal finance Web site NerdWallet. The free account provides access to 40,000 fee-free ATMs, comes with a free box of checks, charges no overdraft fees (but you pay interest on a line of credit if you dip below your account balance) and pays interest of 0.2% to 0.9%. Among prepaid debit cards, the Bluebird card from American Express and Walmart is a solid choice; it charges few fees, comes with checks and has a mobile app for managing the account and depositing checks. **LISA GERSTNER**

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RATE UPDATES

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

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds*	0.30%	0.30%	0.50%
U.S. Series I savings bonds	0.00	0.00	1.94
Six-month Treasury bills	0.08	0.08	0.06
Five-year Treasury notes	1.71	1.50	1.66
Ten-year Treasury notes	2.38	2.16	2.60

As of June 8, 2015. *EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.

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

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

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

TOP-YIELDING MONEY MARKET ACCOUNTS

Taxable Funds	30-day yield as of June 2	Min. investment	Web site (www.)
Davis Govt. MMF A (RPGXX)*	0.13%	$1,000	davisfunds.com
Meeder Money Market Retail (FFMXX)*	0.06	2,500	meederfinancial.com
Delaware Cash Reserves A (DCRXX)*	0.05	1,000	delawareinvestments.com
HSBC Prime MMF A (REAXX)*§	0.03	1,000	us.hsbc.com
NATIONAL AVERAGE	**0.02%**		

Tax-Free Funds	30-day yield as of June 1	Tax. eq. yield 25%/39.6% bracket	Min. investment	Web site (www.)
PNC Tax-Ex MMF A (PXAXX)*	0.02%	0.03%/0.03%	$1,000	pncfunds.com
American Cent T-F Inv (BNTXX)*‡	0.01	0.01/0.02	2,500	americancentury.com
BMO Tax-Free MMF Y (MTFXX)*‡	0.01	0.01/0.02	1,000	bmo.com
CAT/Deutsche T-E Mny (DTDXX)*‡	0.01	0.01/0.02	1,000	deutscheawm.com
NATIONAL AVERAGE	**0.01%**	**0.01%/0.02%**		

Deposit Accounts#	Annual yield as of June 9	Min. deposit	Web site (www.)
My Savings Direct (N.Y.)†	1.25%	$1	mysavingsdirect.com
Palladian PrivateBank (Ill.)†	1.10	10,000	palladianprivatebank.com
iGOBanking.com (N.Y.)†	1.10	25,000	igobanking.com
GE Capital Bank (Ill.)†&	1.05	none	gecapitalbank.com
NATIONAL AVERAGE	**0.09%**		

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

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of June 9	Min. amount	Web site (www.)
CIT Bank (N.J.)†	1.25%	$25,000	bankoncit.com
Synchrony Bank (N.J.)†	1.25	2,000	synchronybank.com
BankDirect (Tex.)†	1.21	10,000	bankdirect.com
BAC Florida Bank (N.J.)†‡	1.20	1,500	bacflorida.com
NATIONAL AVERAGE	**0.27%**		

5-Year	Annual yield as of June 9	Min. amount	Web site (www.)
Barclays Bank (Del.)†	2.25%	none	banking.barclaysus.com
Everbank (Fla.)†	2.25	$1,500	everbank.com
Synchrony Bank (N.J.)†	2.25	25,000	synchronybank.com
Capital One 360 Bank (Va.)†	2.20	1,000	capitalone360.com
NATIONAL AVERAGE	**0.86%**		

†Internet only. ‡Colorado Federal Savings Bank offers a similar yield. SOURCE: © 2015 Bankrate.com, a publication of Bankrate Inc., 11760 US Highway 1, N. Palm Beach, Fla. 33408 (800-327-7717, ext. 11410; www.bankrate.com/kip).

LOW-RATE CREDIT CARDS

Issuer	Rate as of June 4*	Annual fee	Late fee	Web site (www.)
First Command Bank (P)	6.25%	none	$25†	firstcommandbank.com
Lake Michigan Credit Union (P)	6.25	none#	25†	lmcu.org
Simmons First Bank Visa (P)	7.25	none	25†	simmonsfirst.com

CASH-REBATE CARDS

Issuer	Rate as of June 8*	Annual fee	Rebate earned Category/Other	Web site (www.)
Amex Blue Cash Preferred	12.99%	$75	6%/1%‡	americanexpress.com
Chase Freedom	13.99	none	5/1^	chase.com
Citi Double Cash	12.99	none	2&	citi.com

Rates are adjustable. *If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (P) Platinum. †$35 if late more than once in six months. #Must be a credit union member; to become a member see Web site. ‡6% on groceries up to $6,000 per calendar year (1% thereafter); 3% gas/retail; 1% other purchases. ^Categories change quarterly on up to $1,500 of spending. &Earn 1% back when you buy and an additional 1% when you pay your bill. SOURCE: Bankrate.com. Banks may offer lower introductory rates.

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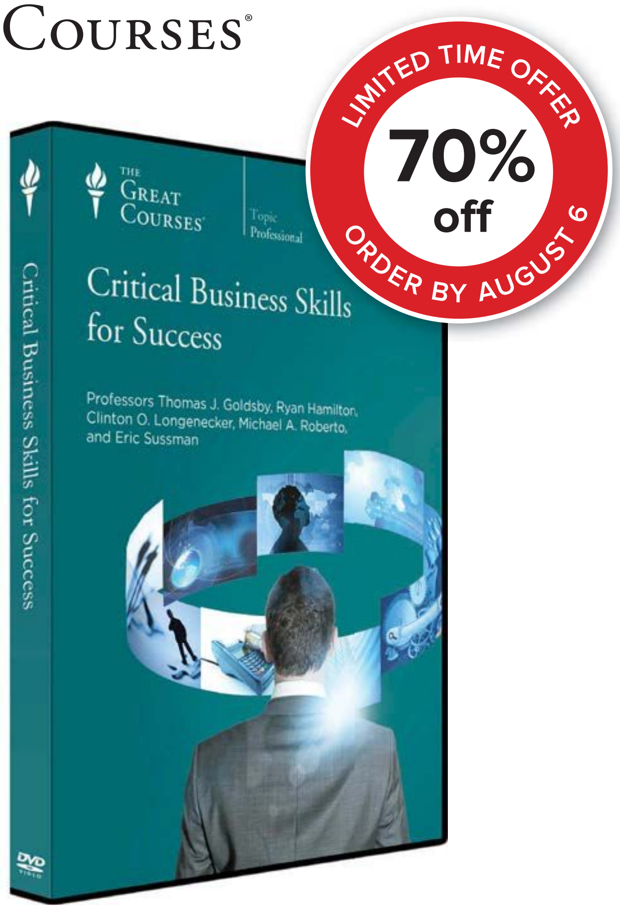

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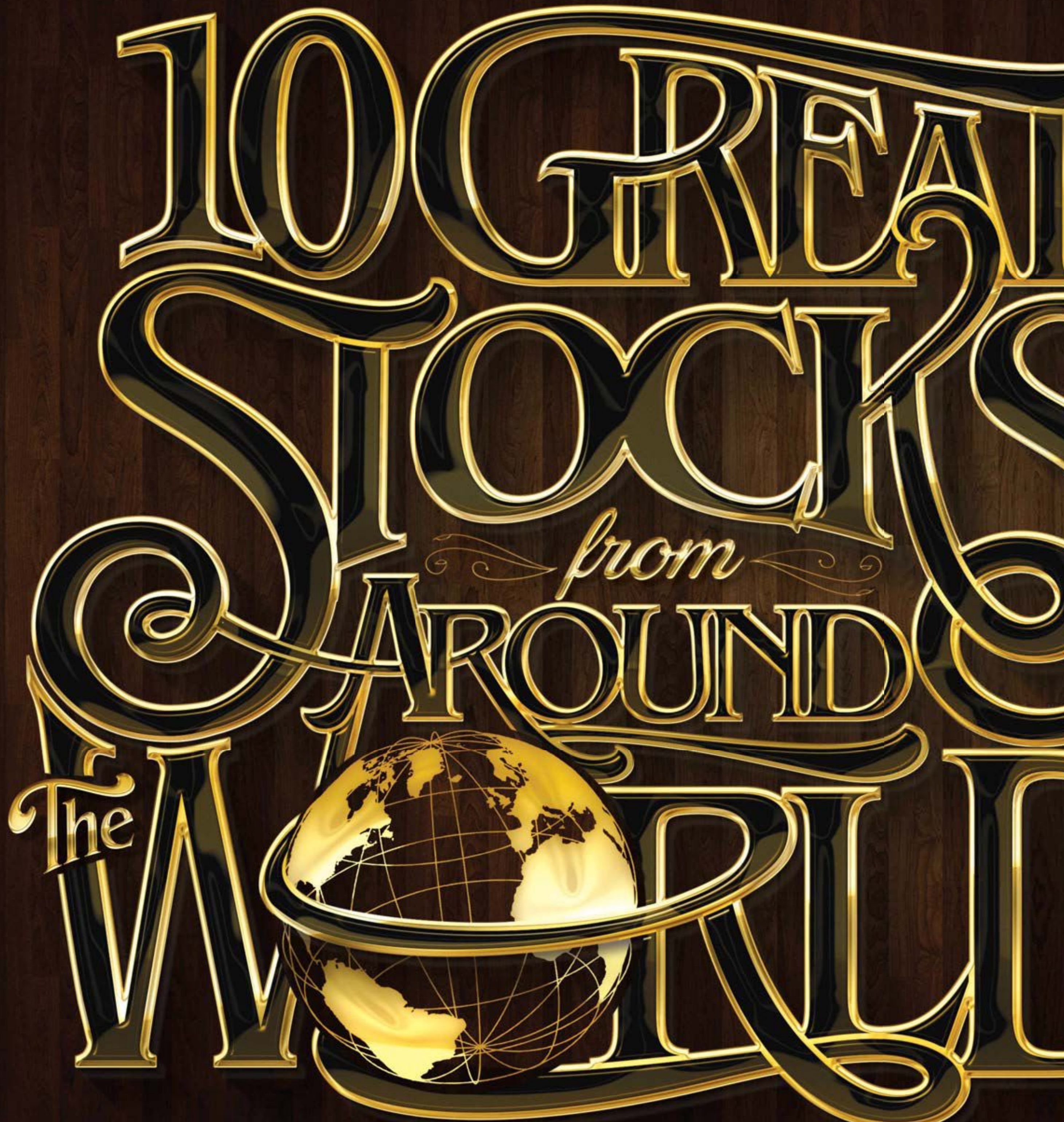

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We expect our picks to generate superior earnings growth, which should translate into market-beating returns.

BY KATHY KRISTOF and DAVID MILSTEAD

IF YOU WANT TO INVEST IN STOCKS, we have two words of advice: Go global. With the U.S. accounting for just 22% of the world's economic activity, it's hard to justify owning only domestic stocks. In that vein, we've identified 10 great stocks from around the world. In compiling the list, we started with a few simple requirements. First, the stocks had to trade in the U.S. (that's not always the case for foreign companies). Next, we wanted companies with superior profit-growth prospects. We also wanted stocks that are on an upward trajectory; each of the U.S. stocks had to have beaten Standard & Poor's 500-stock index over the past five years, and each of the foreign stocks had to have outpaced the MSCI EAFE index. Finally, although we recognize that great companies never come cheap, we made sure our picks did not trade at sky-high valuations. After polling experts and doing some digging on our own, we found our candidates. (Share prices, returns and related data are as of June 5.)

1 It should come as little surprise that **APPLE (SYMBOL AAPL)**, the world's most valuable company, makes the list. The irony is that Wall Street remains nervous about Apple's prospects despite the company's explosive growth and its ability to command premium prices for its popular phones. Critics argue that Apple is a one-trick pony, with little more than its iPhones to drive sales growth. But just this year alone, Apple has introduced a smart watch, struck a deal to provide HBO on its devices and reported record sales in its App Store.

And those iPhones? They still have the magic to drive record profits. Apple stunned analysts by selling 74.5 million of the new, sixth-generation phones in the last three months of 2014, and sales remained strong in the January–March quarter. Earnings are expected to soar 40% in the fiscal year that ends in September, which is shocking growth for a company with a market capitalization of $741 billion.

Meanwhile, Apple is rewarding shareholders by boosting dividends and buying back shares. And Apple has the wherewithal to do plenty more; at last report, its treasury held cash and investments worth a whopping $194 billion, or $33 per share.

2 **AVAGO TECHNOLOGIES (AVGO)** is a leading maker of semiconductor devices that are used in smartphones and other products. Perhaps unsurprisingly, about 15% of its revenues come from Apple, says analyst Atif Malik, of Citigroup Global Markets. But Avago is more than just a "derivative play" on Apple, Malik says.

Avago, which has headquarters in San Jose, Calif., and Singapore, has been moving into other fast-growing markets through a string of acquisitions. In May 2014, it acquired LSI (once known as LSI Logic), which designs chips and software that speed up storage and networking in data centers, mobile networks and the cloud. Since then, Avago has bought two more companies involved in cloud computing. And on May 28, Avago announced a blockbuster deal to buy chipmaker Broadcom (BRCM) for $37 billion. Many analysts endorsed the combination because the companies' products overlap little.

3 When it comes to Chinese e-commerce juggernauts, Alibaba (BABA) got most of the buzz over the past year. But over the long term, **BAIDU (BIDU)**, the leading Chinese search engine, has been a huge winner. Shares of Baidu have soared more than 40-fold since their low in February 2006. Revenues and earnings have jumped from $123 million and $44 million, respectively, in 2006 to $7.9 billion and $2.1 billion in 2014.

Of course, it's possible that Alibaba and other Chinese Internet firms may steal some market share from Baidu in China's Internet search and online advertising businesses, says S&P Capital IQ analyst Scott Kessler. But Baidu's early lead and well-known brand mean it will likely maintain its market share over the next few years. The stock has retreated by some 17% since last November as investors reacted coolly to Baidu's sales and earnings projections for 2015. Despite all the angst, however, analysts on average expect revenues to climb by 38% this year, and profits to increase by 15%.

4 Warehouse retailer **COSTCO WHOLESALE (COST)** has a simple formula for success. It builds customer loyalty by selling high-quality products with razor-thin markups, generating profits mainly from membership fees. The result: Costco's customer base continues to grow steadily, with the number of basic memberships up 9% in 2014. About one-third of Costco members end up upgrading to executive status, paying $110 annually (twice the price of a standard membership) in exchange for a 2% rebate on all purchases.

Costco is hardly resting on its laurels. Over the next 10 years, the Seattle company expects to double the number of stores in the U.S., to about 1,000 locations, and to expand rapidly overseas.

APPLE IS OUT TO PROVE THAT THERE'S FAR MORE TO THE COMPANY THAN ITS POPULAR IPHONES.

COURTESY APPLE

Although a technology-modernization program may pressure earnings through 2016, Costco will benefit in the long run. The program will enable the firm to double in size while it generates millions in cost savings, says William Blair analyst Mark Miller.

Moreover, Costco is in good position to hold the line on demands for higher wages, which seem to be gaining traction throughout the U.S. The company pays its workers $12 to $23 per hour—well above state minimum wages. Yet it still manages to deliver low prices to consumers and great returns to shareholders. The downside of Costco's success is that its stock is almost never cheap, and such is the case today, with shares trading at 27 times estimated earnings for the current fiscal year.

5 One of two purely domestic plays, **NEXSTAR BROADCASTING GROUP (NXST)** has 107 television stations across the U.S. The company's largest market is Phoenix, followed by Salt Lake City. Operating in small and midsize cities helps boost Nexstar's profits because the company pays less for its programming than do TV stations in big cities. As a result, Nexstar is one of the fastest-growing firms in its industry, as evidenced by its first-quarter results. Net revenues jumped 52% from the first quarter of 2014, and free cash flow (cash profits after the capital expenditures required to maintain a business) skyrocketed by 70%.

Growing through acquisitions is a priority for Nexstar, says analyst Michael Kupinski, of Noble Financial Capital Markets. Since March 2014, the Irving, Texas, company has closed deals to buy 36 stations and two advertising companies for more than $750 million. Expect more to come. Nexstar's stations cover 18% of the nation's households, well below the 39% maximum that government regulators allow. Kupinski believes Nexstar will post above-average revenue and cash-flow growth relative to other broadcasters by continuing to focus on small markets and by making smart acquisitions.

WAREHOUSE CLUB GIANT COSTCO MAKES A MINT ON MEMBERSHIP FEES.

6 People around the world are growing older, and a fair number of them are putting on too many pounds. That likely means a rise in diabetes cases, which in turn will mean a greater demand for drugs made by **NOVO NORDISK (NVO)**.

The Danish company started in 1923, selling insulin, an essential hormone that diabetics either lack or don't use properly. Today, Novo is a world leader in treatments for diabetes, which afflicts 347 million people worldwide. Diabetes drugs accounted for nearly 80% of the company's revenues in 2014 (the remaining 20% came from Novo's growing biotechnology business). Its top-selling insulin medicines—NovoRapid, Levemir and NovoMix—have been driving sales for many years, says *Value Line* analyst Mario Ferro. But Novo continues to roll out new diabetes treatments. And in April it began selling Saxenda, a drug to combat obesity, in the U.S. Novo has said that it expects sales from Saxenda to reach $1 billion annually.

One recent problem: the strong dollar. Although Novo posted higher earnings in 2014 in Danish kroner, the company experienced an earnings decline in dollar terms. Ferro says the "uncharacteristically wide fluctuations in currency translation rates have obscured the company's underlying growth story." Still, Novo's American depositary receipts returned a respectable 17% last year, and they've surged 37% since February 9.

7 For many years, **O'REILLY AUTOMOTIVE (ORLY)**, an auto-parts chain founded in 1957, stuck close to its midwestern roots. Ten years ago, it had 1,300 stores, mostly in the South and Midwest. But over the past decade, O'Reilly has expanded, partly through acquisitions, and it now operates more than 4,300 stores in the U.S.

O'Reilly serves both do-it-yourselfers and professional car repairers. Serving both kinds of customers means carrying a wide range of parts to satisfy professionals and being able to provide expert advice to amateurs. Ira Rothberg, a comanager of Hennessy Focus Fund, says the company's scope means it can purchase its inventory at lower prices than its smaller competitors can. It is also well run, says Rothberg, with 24-hour service centers and an efficient inventory-management system that delivers products to stores quickly.

The O'Reilly story isn't exactly undiscovered. Its shares have rocketed nearly 10-fold since June 2008 and, as a result, are on the pricey side. But if the company keeps generating double-digit-percentage earnings growth, the stock may be worth the price. First-quarter results provided encouragement for the bulls: O'Reilly's earnings surged 28% on a 10% increase in sales.

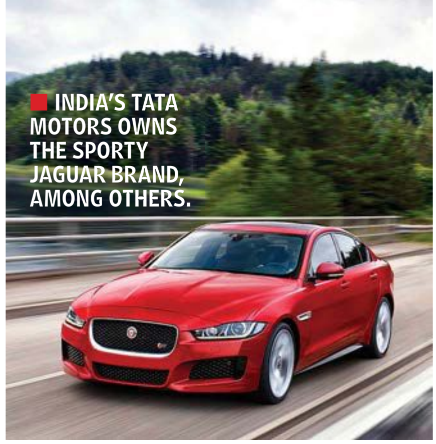
8 William Shatner, *Star Trek's* original Captain Kirk, is best known today as the "name your price" pitchman for **PRICELINE GROUP (PCLN)**, which has used those ubiquitous commercials to boost name recognition and dominate the online travel-booking industry. With four Web brands—Priceline.com, Booking.com, Agoda.com and Kayak—Priceline's travel sites are by far the busiest in the world. Last year, the company struck a partnership with Ctrip.com, a Chinese online travel company, that gives Priceline customers access to Ctrip's Chinese hotels and gives Ctrip's outbound Chinese customers access to hotels that have arrangements with Priceline's sites. The widely lauded

COURTESY COSTCO WHOLESALE

deal gives Priceline a foothold in China and solidifies its hold on the international travel market, which accounts for 88% of Priceline's gross bookings.

Priceline shares suffered through an uncharacteristically poor 2014, during which they lost 2%, and they now trade at 14% below their all-time high. A key reason for the weakness was investor concern about the strong dollar's impact on Priceline's results. In fact, first-quarter results were tepid: Earnings climbed only 4% from the same period in 2014. And analysts see earnings gains of only 4% for all of 2015. But they see profits expanding by 20% next year. UBS analyst Eric Sheridan thinks the shares offer compelling potential reward relative to the risks and that a price-earnings ratio of 21 times projected profits is not too much for a company with a dominant position in a fast-growing space.

9 The name **SHERWIN-WILLIAMS (SHW)** isn't synonymous with paint, but it comes pretty close. Not only is the 149-year-old company a leading



INDIA'S TATA MOTORS OWNS THE SPORTY JAGUAR BRAND, AMONG OTHERS.

maker of paints and coatings, it also has more than 4,000 eponymous stores in North and South America and a broad customer base ranging from do-it-yourself homeowners to professional builders. Credit Suisse analyst John McNulty says that over the next few years, Sherwin-Williams could experience the "opposite of a perfect storm" because of such positive developments as an improving real estate market, possible declines in raw-materials costs and a new partnership to sell paint in Lowe's home-improvement stores.

Another boost comes from overseas acquisitions. After going on a deal-making spree over the past seven years, Sherwin-Williams now owns subsidiaries or licensing agreements to sell its products in 50 countries outside the U.S. That helped boost sales by 9.3% in 2014. (The strong dollar pinched results, but only a bit; it trimmed the company's sales by 1.4% in 2014, according to the firm.) For 2015, the company expects sales to rise by high-single-digit percentages and earnings to reach about $11 per share, which would represent a 28% increase from last year. Sherwin-Williams has raised its dividend in each of the past 36 years (including a 22% boost in 2015).

10 **TATA MOTORS (TTM)** is the leading automaker in India, the world's second-most-populous country. The company also owns the Jaguar and Land Rover brands, which it purchased from Ford in 2008. Those premium brands have boosted Tata's sales and profit margins beyond what it could record with its own brand on its home turf.

The JLR segment, as Tata calls its Jaguar and Land Rover businesses, is in overdrive: Led by a 17% gain in Land Rover sales, U.S. sales in April exceeded those in April 2014 by 15%. Sales of Tata commercial and personal vehicles in India, by contrast, gained 5% in April compared with the year before. (JLR sales accounted for 43% of Tata's total vehicle sales in 2014.)

A slowdown in India's growth rate (from 8% in 2011 to roughly 5% annually from 2012 through 2014) hurt Tata's domestic business, as cash-strapped consumers bought motorcycles instead of cars. But things are turning around. Kiplinger expects growth of almost 7% in 2015. And car ownership is modest in India: 17 vehicles per 1,000 people. (By contrast, in the U.S. there are more than 600 vehicles per 1,000 people.) Those factors give Tata an opportunity to sell more cars in the coming years, says Morningstar analyst Piyush Jain. He adds that as roads, traffic laws and consumer safety awareness improve, car ownership in India should get another lift. ■

COURTESY JAGUAR

Big Winners

GREAT PAST, PROMISING FUTURE

You generally have to pay up to buy great companies. Except for Apple, Avago and Tata, the stocks on our list sport price-earnings ratios well above the U.S. market's P/E of 18.

Company	Symbol	Recent price	Market value (billions)	5-yr. annualized return	Price-earnings ratio*	Estimated earnings growth	
						This year	Next year
Apple	AAPL	$129	$741.2	29.7%	14	39.7%†	7.5%#
Avago Technologies	AVGO	144	37.3	47.9	17	77.1†	7.4#
Baidu	BIDU	206	72.3	23.0	30	14.9	34.8
Costco Wholesale	COST	139	61.1	22.8	27	12.0†	8.8#
Nexstar Broadcasting	NXST	58	1.8	60.2	23	25.2	62.8
Novo Nordisk	NVO	57	147.7	30.9	31	2.8	19.0
O'Reilly Automotive	ORLY	222	22.4	34.9	26	18.5	13.4
Priceline Group	PCLN	1,178	61.1	45.9	21	4.1	20.2
Sherwin-Williams	SHW	280	26.1	31.1	25	28.4	16.9
Tata Motors	TTM	35	22.5	16.6	8	23.0†	NA

As of June 5. *Based on estimated earnings for 2015 or the company's current fiscal year. †For the current fiscal year. #For the fiscal year ending in 2016. NA Not available. SOURCES: Morningstar, Thomson Reuters, Yahoo.

ADVICE »

Is a Robo Adviser Right for You?

If you're a novice, computerized advice may make sense. For others, it's a tougher call. BY NELLIE S. HUANG

CAN A MACHINE DISPENSE GOOD investment advice? Plenty of people seem to think so. As the number of online investment advisers has swelled in recent years, so has the pot of money they manage. Financial-services giants Charles Schwab and Vanguard Group recently joined such upstart sites as Betterment, SigFig and Wealthfront in dispensing customized, computer-generated financial advice. Vanguard's offering officially launched in May, but from the time testing began in early 2013 through early June, it had already pulled in $7 billion. Schwab's online advisory business, which opened in March, attracted more than $2.6 billion in assets in just over three months. "It just goes to show there was this massive unmet need," says Naureen Hassan, head of Schwab Intelligent Portfolios, the firm's online advisory business.

Robo advisers (a term the industry detests) use technology to generate investment advice and manage your portfolio. You answer a few easy online multiple-choice or fill-in-the-blank questions that touch on your risk tolerance and time horizon. In seconds, a program analyzes your answers, applies modern investing theories about diversification that include gauging thousands of possible risk-reward outcomes, and—presto!—out comes a portfolio designed for you.

Because keeping costs low is a key objective, robos mostly use low-fee exchange-traded funds to build portfolios. In most cases, the firms charge a management fee of 0.25% to a bit less than 1% a year, based on the amount you have with them (some charge a flat annual fee). You also have to pay the expenses charged by the funds you own. But in most cases, you pay no commissions when you trade ETFs.

No two robo advisers are exactly alike. Some are fully automated. With others, you can speak with an investment professional by phone or online chat if you need personalized advice. And still others provide a nearly full-service experience by matching technology with a real adviser. Some robos are better for young, inexperienced investors with small portfolios, and others are geared toward investors in their forties and fifties. Below, we tell you where to go, depending on where you are in your investing life cycle. For a quick look at robos that pass other litmus tests—from the one that suggests the most-aggressive portfolios to the one with the most-conservative advice—see the box on page 53. For key details on each of the 12 advisers we examined, see the table on page 54.

➤ IF YOU'RE STARTING OUT

According to the stereotype, millennials expect instant gratification and they prefer to be spoon-fed. And they love a good bargain. We mean no offense, but if any of that is true, robo advisers are perfect for them.

Luckily, young investors have a cornucopia of firms from which to choose. Fees at Betterment and Wealthfront are low; TradeKing Advisors charges nothing the first year and keeps fees low thereafter; and WiseBanyan charges nothing at all (its plan is to make money in the future by charging fees for financial services that it expects its younger clients will need as they get older). And none of these levy trading commissions. You have to transfer your money to each of the firms if you want them to invest it for you (other firms use a major brokerage, such as Fidelity or Schwab, as their custodian and clearinghouse for trades; more on them later).

For a 25-year-old just starting out, Betterment is best. It has no minimum to open an account (beyond the $10 required to set up an electronic transfer

VIDHYA NAGARAJAN

from your bank). Its databank has more than 400 portfolios, all of which invest in ETFs. The typical Betterment portfolio costs 0.14% in underlying annual expenses. On top of that, you have to pay the firm a management fee that runs from 0.35% a year on assets of less than $10,000 to 0.15% for accounts of more than $100,000.

Another plus for young investors is that Betterment's algorithms tend to spit out stock-heavy portfolios, which is the way to go for someone with a long-term horizon. For example, for a 25-year-old saving for retirement who has $5,000 to invest, Betterment recommends a portfolio with 90% devoted to stocks, with half of that in foreign companies. Most of the U.S. holdings are ETFs with a value tilt.

Runner-up is WiseBanyan, which charges no management fee and requires just $10 to start. One drawback: Although the one-year-old firm is growing quickly, it managed just $30 million at last report. That pales in comparison with the $2.3 billion at Betterment. And frankly, size is a concern in a fledgling industry in the midst of an aging bull market. When stocks head south, as they eventually will, and investors start to bail out, as they are wont to do, the smallest firms may not survive.

Whither the other players? Both TradeKing and Wealthfront charge low fees. But each firm has a $5,000 minimum, which may be a big hurdle for someone just starting out.

➤ IF YOU'RE BUILDING WEALTH

As people move past their thirties, they may have a portfolio made up of myriad pieces, such as a taxable account, an IRA to which they are currently contributing and one that was rolled over from a former employer's 401(k) plan. On top of that, they

KipTip

Find Your Match

➤ Best for conservative investors. Each of Schwab's Intelligent Portfolios holds cash, which might appeal to a risk-averse investor. In our test, Schwab prescribed a portfolio with 70% in stocks, 21.5% in bonds and 8.5% cash for a 25-year-old saving for retirement.

➤ Best for adventurous investors. Hedgeable's portfolios hold alternative investments, such as master limited partnerships and bitcoins, as well as the usual suspects. "Accredited" investors (individuals with $200,000 of annual income, couples with $300,000 of income or clients with $1 million in investable assets) can buy a stake in firms that have yet to go public. There is no minimum, and fees are between 0.30% and 0.75%; the more money you invest, the lower the percentage.

➤ Best for investors who don't want to move. You can stand pat if you currently do business with a big broker. Fidelity, E*Trade and Schwab offer several levels of advisory services, whether you just need suggestions of what to invest in or you want someone to handle everything for you. Minimums and fees vary, depending on the track you take. At Fidelity, the Portfolio Review tool is free, but it's up to you to monitor, rebalance and execute the trades, for which you may incur fees.

➤ Best for investors who only have an employer-sponsored retirement plan. Blooom (yes, that's the correct spelling) patches into your 401(k) account, your 403(b) or your federal-government Thrift Savings Plan. It invests in the lowest-cost funds and monitors, rebalances and shifts the asset allocation over time. Of course, you could just invest all of your money in a target-date fund, if your plan offers one, and save yourself the $15 monthly fee for balances of $20,000 or more ($1 a month for balances of less than $20,000).

may have multiple goals, such as saving for a bigger house, kids' educations and their own retirement. What's more, all that money may be held by multiple firms, so hiring a robo adviser may mean you'll have to move your money. If so, be sure to consider the potential tax consequences.

Some online investment advisers actually have arrangements with the big brokerage firms. SigFig, for instance, can manage your money in an account at Fidelity, Schwab or TD Ameritrade. Its minimum is $2,000, and it charges 0.25% per year. Its portfolios are appropriately aggressive, but we were surprised to find that we got the same asset-allocation recommendations for three different kinds of investors. (We may have encountered a technical glitch; SigFig says that its service recommends 20 different portfolios.) FutureAdvisor can connect through Fidelity or TD Ameritrade. It has no minimum, but its 0.50% annual management fee is on the high side.

And then there are the brokerage firms themselves. Fidelity, E*Trade and Schwab offer their own version of online investment advice (if you already have accounts with any of them, all the better). Fidelity's option, called Portfolio Review, analyzes your holdings and makes recommendations about how to fix them. Then with a click of a button, you can buy and sell based on those suggestions; some moves may involve a commission, but the tool itself is free.

E*Trade's adviser takes a tiered approach. It offers a "minimal help" service (just allocation guidance with some investment picks) and a "some help" service (a free recommended portfolio of ETFs or mutual funds).

Schwab's Intelligent Portfolios is worth a special mention, in part because it's new, a little different and growing like gangbusters. It's free—no management fees and no trading commissions—and it requires just $5,000 to start. But it comes, in our view, with one hitch: The portfolios that Schwab recommended in response to our queries were among the most conservative of the bunch. Schwab advised even the most aggressive investor, a 25-year-old saving for retirement, to hold only 70% in stocks, with the remainder in bonds (21.5%) and cash (8.5%). (When we asked Schwab about this, it said that its "broadly diversified approach will serve investors well through inevitable periods of volatility, while also providing an appropriate amount of long-term growth potential." It also told us that its most aggressive portfolio allocates 94% to stocks, a reasonable figure.) In any case, it's a good no-fee, low-cost option for investors who need guidance.

Fees and Minimums

WHAT THEY CHARGE

If you just need asset-allocation guidance, you may be able to get by with a free robo service.

Firm/Web site	Minimum investment	Annual fee
Betterment betterment.com	$10	0.15% to 0.35%
Blooom blooom.com	$0	$12 for accounts of less than $20,000; otherwise, $180
E*Trade etrade.com	$0 for "minimum help," $10,000-$25,000 for "some help" portfolios	$0*
Fidelity fidelity.com	$0	$0*
FutureAdvisor futureadvisor.com	$10,000	0.50%
Hedgeable hedgeable.com	$0	0.30% to 0.75%
Schwab intelligent.schwab.com	$5,000	0%
SigFig sigfig.com	$2,000	0.50%
TradeKing tradekingadvisors.com	$5,000, Core portfolios; $25,000, Momentum portfolios	0.25%, Core portfolios; 0.50%, Momentum portfolios
Vanguard vanguard.com/pas	$50,000	0.30% for balances under $5 million
Wealthfront wealthfront.com	$5,000	0.25%
WiseBanyan wisebanyan.com	$10	0%

*Computerized advice service is free; other advisory programs charge management fees. SOURCES: Adviser firms

➤ IF YOU'RE IN THE HOMESTRETCH

For people near or in retirement, it is often the point at which even those who have never had an investment adviser want a sit-down with a pro. That's where the hybrid robos come in. They mix complex algorithms with a human touch.

Vanguard's new Personal Advisory Services program stands out. You need $50,000 to start. For 0.30% of assets a year, you get access to 300 certified financial planners employed by Vanguard. You typically consult with them by phone, video or e-mail, though you can also drop in at one of the firm's offices, which are located in Charlotte, N.C.; Scottsdale, Ariz.; and Malvern, Pa. "At the heart of the advice is the investment portfolio, but comprehensive true financial planning is available," says Karin Risi, head of the Vanguard program.

You begin the process by answering 15 questions online. The computer generates a portfolio, which an adviser then customizes for you. Naturally, the portfolios toe the Vanguard line, which means they contain only index funds. The adviser will give you holistic advice on all of your investments (even those held in accounts at other firms) but if you want the firm to handle all of the monitoring, trading and rebalancing, you'll need to move all of your accounts to Vanguard. If you come in with a few holdings you just can't bear to part with—say, some shares of Apple or Dodge & Cox Stock fund—the adviser will build a portfolio that incorporates those securities, says Risi. ■

JEREMY J. SIEGEL > Going Long

Bursting the Bubble Talk

I would be wealthy if I had a dime for every time I heard the stock market is in a bubble. The term *bubble* should be reserved for assets trading for at least twice their true value, based on such fundamental factors as earnings, dividends and interest rates. For example, the U.S. stock market was just entering a bubble early in 2000, when Standard & Poor's 500-stock index reached 31 times earnings, nearly twice its historical average. Tech stocks, many of which sported price-earnings ratios in the triple digits, were already in bubble territory.

By that standard, stocks today are definitely not in a bubble. It's true that stock prices have more than tripled from the lows reached in March 2009. But those lows occurred in the worst bear market since the Great Depression. Today, stocks in the S&P 500 are selling for about 18 times estimated 2015 earnings. That's only about 10% higher than the market's median P/E of 16 since 1954, and it's below the median if you exclude periods when interest rates were 8% or higher (all prices, P/Es and returns are as of June 5).

Except for the energy sector, which has seen earnings plunge (and its P/E rise) as a result of the falloff in the price of oil, each of the other nine industrial sectors of the S&P sell for 20 times earnings or less. The two largest sectors, financials and technology, account for more than 40% of S&P 500 earnings, and they are selling at P/Es of 14 and 17, respectively—below that of the S&P 500. Despite the strong run-up in technology stocks, that sector still looks particularly attractive. S&P estimates that earnings for companies in the S&P 500 Information Technology index will climb at an annualized rate of 13% over the next few years.

Earnings shortfall. It's true that earnings growth for 2015 does not look great. Analysts, on average, expect earnings for companies in the S&P 500 to rise all of 0.5% in 2015, according to Thomson Reuters. The two major causes of weak earnings growth are the continuing strength of the dollar and the collapse in oil prices. More than 45% of the earnings of S&P 500 companies come from overseas, and measured in dollars, those numbers are depressed because the greenback has appreciated 21% against a basket of major foreign currencies since July 2014.

Before the sharp fall in energy prices, the sector contributed more than 10% of total S&P earnings. This year, the contribution from energy firms was negative in the first quarter and is expected to average just 3% for the entire year. In fact, S&P reports that although first-quarter S&P 500 earnings sank by 5.6% overall from year-ago levels, earnings would have been up a healthy 7.0% if the energy sector were excluded.

Energy losses were due to the write-down of oil reserves, the cost of shuttering wells and the sharp slowdown in exploration, all of which hit drillers and service providers hard. But there are signs that stability is returning: The rig count has stopped falling, and oil prices have recovered to about $58 a barrel. As a result, the factors that depressed earnings should dissipate later this year.

If oil prices and the dollar stabilize at their current levels, foreign sales will get a boost and earnings from the energy sector should rebound. Future earnings estimates often tend to be overly optimistic, but there's good reason to believe that analysts' forecasts of a 12% increase in earnings next year—as a result of moderate economic growth, more stable currency and oil markets, and continued share-buyback programs—are on the mark. Bottom line: Don't let fearmongers deter you from buying stocks. The stock market is not in a bubble. Earnings and today's extraordinarily low interest rates fully justify current trading levels. ■

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

LISE METZGER

"There's good reason to believe that analysts' forecasts of a 12% increase in earnings next year are on the mark."

STOCKS»

Breakups With Benefits

We name three attractively priced companies that are heading for splitsville. **BY NELLIE S. HUANG**

IN MATTERS OF ROMANCE, breaking up may be hard to do. But when it comes to business, corporate chieftains suffer little separation anxiety. Last year, 65 publicly traded firms broke up or spun off some of their units (the most since 2000), and as many as 55 firms may do so this year, says Joe Cornell, editor of the *Spin-Off Research* newsletter.

Investing in spin-offs has been rewarding. Over the past five years, the Bloomberg U.S. Spin-Off index returned an annualized 25.1%, compared with 16.9% for Standard & Poor's 500-stock index. The index tracks the prices of shares in newly spun-off companies, from the first trading day to the end of their third year of independence. Over the same period, **GUGGENHEIM SPIN-OFF ETF (SYMBOL CSD)**, an exchange-traded fund that tracks up to 40 spin-off stocks, earned 20.3% annualized. (Returns and share prices are as of June 5.)

To make money, look for a breakup that makes strategic sense. In a sound deal, a sprightlier parent company can focus on its core business, and the jettisoned firm can escape the shadow of its parent and grow on its own merit. Of course, not every breakup is a winner. "Some can create shareholder value, and others are just rearranging the deck chairs on the Titanic," says David Berkowitz, co-chief investment officer of the RiverPark Funds. Plus, the price has to be right. You can buy before the split or after, but "valuation always matters," says William Mitchell, a hedge fund manager who specializes in spin-offs.

One promising breakup is the plan by eBay (EBAY, $63) to spin off its PayPal unit later this year. Though details aren't out yet, the two businesses may be better off apart. By spinning off fast-growing PayPal, eBay can focus on its struggling online-auction business. We're not endorsing eBay because we think the stock, which has jumped 32% since mid October, is too pricey. Using a "sum of the parts" calculation, newsletter editor Cornell thinks eBay is worth $60 a share.

DANAHER (DHR, $86) is a better bet. Arguably one of America's least-known industrial giants (its market value is $61 billion), the Washington, D.C.–based conglomerate announced plans in May to split in two. One firm will retain the Danaher name and focus on the rapidly growing science and technology businesses (including Pall, a maker of filtration and purification systems, which Danaher is buying in a deal expected to close before year-end). The other firm, whose name has yet to be determined, will hold Danaher's steady, highly profitable industrial businesses, including the unit that makes testing and measurement instruments. The breakup, which is likely to occur in late 2016, will allow both sides to rev up acquisitions and spur growth, says UBS analyst Shannon O'Callaghan, who pegs Danaher's worth today at $94 per share.

Cornell favors two other upcoming breakups: **BARNES & NOBLE (BKS, $25)** and **SPX CORP. (SPW, $74)**. B&N plans to spin off its college stores as Barnes & Noble Education in August. Cornell thinks the book-retailing and campus-bookstore businesses combined are worth $27 a share. After the split, the ailing bookseller will be able to focus on reviving its stores and its ho-hum Nook e-reader. And the Education division, which the firm says reaches 24% of students in the U.S. with its 714 campus stores, is one of the largest contract operators of campus bookstores in the U.S.

SPX, a conglomerate that makes, among other things, processing systems for the food industry and cooling systems for power-generation plants, plans to spin off its flow-control business this year. That unit, which accounted for 55% of SPX's sales in 2014, makes products that are used to process, blend and transport fluids for various industries. Cornell thinks SPX's parts are worth $86 a share in total. ■

■ BARNES & NOBLE PLANS TO SPIN OFF ITS COLLEGE BOOKSTORES.

COURTESY BARNES & NOBLE

Don't Run Out of Money During Retirement

What Investors Should Worry About

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

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

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

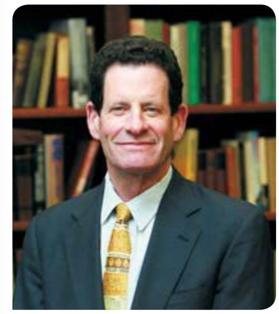
- The truth about how long your nest egg can last
- How much you can safely take as income each year
- How inflation can wreak havoc with your plan and how to deal with it
- Why so-called safe investments just might be the most risky approach
- How reacting to short-term market movements can hurt your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

Benefit From The FREE Retirement Guide

If you have investible assets of $500,000 or more, you're invited to take advantage of this opportunity to benefit from the research professionals at Fisher Investments. These insights are unique, not available from anyone else and absolutely free. We are making this guide available to you for two reasons. First, we believe this information will be of great interest and usefulness to investors with substantial assets. Second, while there is no obligation or assumption that you will be interested in our money management services, by sharing our intellectual capital we simultaneously provide a solid introduction to Fisher Investments' philosophy and approach.

About Fisher Investments

Fisher Investments is a money management firm serving successful individuals as well as large institutional investors. With over $61 billion* in assets under management and with a track record of over 35 years in bull and bear markets, Fisher Investments uses its proprietary research to manage money for investors who want their money to last.



I want to send you *The 15-Minute Retirement Plan* because it contains valuable information you can use to help attain one of life's most important assets: financial peace of mind. After living through the bear market and the Great Recession, it's more important than ever to request your free report, even if you have an investment plan in place. Just one insight might change your future.

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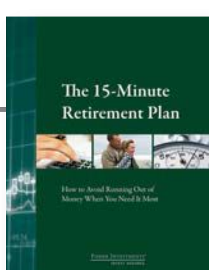
Ken Fisher

Ken Fisher

- CEO and Co-Chief Investment Officer, Fisher Investments
- *Forbes* "Portfolio Strategy" columnist for 30 years
- Author of more than 10 financial books, including four *New York Times* bestsellers



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"Unlike mutual funds, newsletters have a lot of freedom to highlight figures that cast them in the best possible light."

KATHY KRISTOF > Practical Investing

Beware Newsletter Hype

I don't know about you, but my e-mail in-box is flooded with pitches for investment newsletters. The solicitations typically brag about the letters' incredible results. "I don't want to say 'I told you so,' but [my picks generated] an impressive 63.8%," says a pitch I received recently from one letter. "That's the average gain investors who first accepted my offer to join are bragging about." Another letter touted "winners" that would have generated $485,000 in gains for a hypothetical investor. "Becoming a millionaire is absolutely possible for you, but you must take this critical first step [to subscribe] now!" it said.

After being bombarded with dozens of similar promotions, even a self-confident investor might begin to feel inadequate. So you may be tempted to pay a few hundred bucks to learn a letter's secret sauce, abandoning the comparatively bland investment strategy you've been using, no matter how rational it once appeared to be.

Grain of salt. But before you act, take a moment to examine the promotion's claims. Unlike mutual funds, whose advertising is heavily regulated, newsletters have a lot of freedom to highlight figures that cast them in the best possible light. One way they do that is to make it difficult, if not impossible, for you to verify the figures. Others may provide accurate data but no benchmarks. That allows them to mislead through omission rather than prevarication.

Would you be as impressed with that 63.8% return, for instance, if you knew that a broad market index earned 62% over the same 37 months? The outperformance amounts to just 0.4 percentage point per year. And with such a short record, it's impossible to know whether that letter writer is good, lucky or simply knows how to cherry-pick the time frame to look smart.

Likewise, the alleged millionaire maker mentioned above failed to note that the trades that generated those $485,000 gains would have required an initial stake of $1.8 million. Worse, although the pitch noted that 170 of the letter writer's trades were "winners," it failed to mention the total number of trades she recommended.

To put this in perspective, consider what I might say in materials promoting my Practical Investing portfolio. They would shout: Kathy's pick of **SPIRIT AIRLINES (SYMBOL SAVE)** would have earned you a 368% return; her recommendation of **APPLE (AAPL)** would have made you 137%; and her choice of **SEAGATE TECHNOLOGY (STX)** would have won you a 164% gain. I would proclaim that if you had invested $600,000 in each of those picks (to match the millionaire maker's $1.8 million investment), you'd have $5.8 million today—a profit of more than 200%!

I might also mention that at one cleverly chosen point in time, the performance of my portfolio was solidly ahead of its benchmark. But I'd neglect to say anything about my losing picks or to fess up that my portfolio is trailing its benchmark today.

I mention these things not to tar all investment newsletters, much less my own stock-picking skills. I find many letters to be informative and enjoyable to read. And I know that professional investors trail their benchmarks at times. But bull markets tend to breed big winners who will happily sell you their swill. As the old Wall Street adage says, however, don't confuse a bull market with genius. If you're not skeptical, claims of astounding gains could make you abandon a reasonable strategy for the mindless buy-at-any-price approach that often signifies a stock-market top.

It is especially crucial in the late stages of a bull market to understand what you own. When this bull market ends, as it will one day, the confidence you have in your stock selection and strategy can help you survive the next bear market without panicking and selling at the worst possible time. ■

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

LISE METZGER

ETF SPOTLIGHT

Runts Today, Behemoths Tomorrow

This ETF owns the fastest-growing companies in a popular small-stock index.

EVERY INVESTOR DREAMS OF HITTING a grand slam by investing in the next Apple or Netflix while the company is still small and its stock relatively undiscovered. The problem is that because many prospects fail to live up to their promise, investors who swing for the fences with small-capitalization stocks often end up striking out. This is where a well-diversified exchange-traded fund can come in handy.

Consider **ISHARES RUSSELL 2000 GROWTH ETF**, which tracks an index comprising the faster-growing stocks in the small-cap Russell 2000 index. To determine which firms go into the ETF, Russell ranks the stocks in the 2000 index using three measures: share price to book value (assets minus liabilities); growth in sales per share over the previous five years; and forecasted two-year earnings growth. The most growth-oriented companies are put into Russell Growth and account for some 35% of the ETF's assets, while the 35% that represent the cheapest stocks go into the Russell 2000 Value index and its corresponding ETF. Stocks that fall in the middle are assigned to both funds.

Although Growth holds nearly 1,200 stocks, it is heavily concentrated in two sectors: 48% of the ETF's assets are in health care and technology stocks. That concentration helped the fund outpace the Russell 2000 by 6.9 percentage points and the Russell Value index by 13.6 points over the past year. The ETF charges 0.25% of assets annually. **RYAN ERMEY**

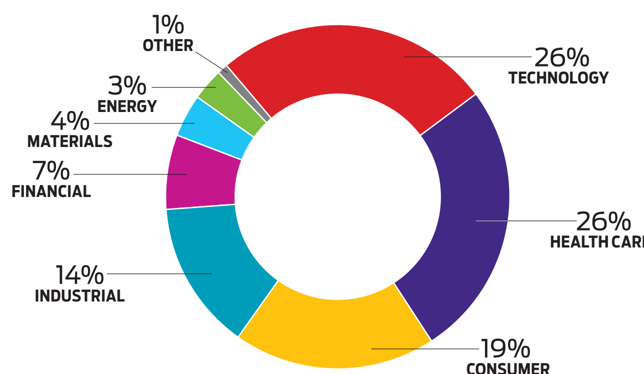
iShares Russell 2000 Growth

Key Facts

SYMBOL: IWO
CLOSING PRICE: $155
ASSETS: $7.1 billion
START DATE: July 24, 2000
FUND HOLDINGS: 1,197
AVG. PRICE-EARNINGS RATIO: 26
AVG. MARKET VALUE: $1.9 billion

Performance

Sector Breakdown: Tech and health care vie for top place



SOURCES: BlackRock, Morningstar.

Small-Company Growth ETFs Ranked by one-year return

Rank/Fund	Symbol	Annualized total return* 1 yr.	3 yrs.	5 yrs.	2011 market correction†	Exp. ratio
1. Vanguard Russell 2000 Growth	VTWG	17.7%	23.1%	—	−29.4%	0.20%
2. iShares Russell 2000 Growth	IWO	17.6	23.2	18.6%	−29.2	0.25
3. Guggenheim S&P SmallCap 600 Pure Gr	RZG	16.5	21.5	19.1	−24.6	0.35
4. iShares Morningstar Small-Cap Growth	JKK	13.5	21.0	18.1	−27.0	0.30
5. SPDR S&P 600 Small Cap Growth	SLYG	13.4	21.0	19.0	−25.4	0.15
AVERAGE SMALL-COMPANY GROWTH ETF		13.1%	21.0%	18.2%	−27.1%	

LARGEST U.S. STOCK ETFs Ranked by assets

Rank/Fund	Symbol	Assets (billions)	Annualized total return* 1 yr.	3 yrs.	5 yrs.	2011 market correction†	Expense ratio
1. SPDR S&P 500	SPY	$174.3	10.0%	20.0%	16.8%	−18.6%	0.09%
2. iShares Core S&P 500	IVV	69.6	10.1	20.2	16.9	−18.7	0.07
3. Vanguard Total Stock Market	VTI	56.9	10.2	20.5	17.1	−20.3	0.05
4. PowerShares QQQ	QQQ	38.7	19.8	23.0	20.7	−13.1	0.20
5. Vanguard S&P 500	VOO	32.5	10.1	20.2	—	−18.8	0.05
S&P 500-STOCK INDEX			10.1%	20.2%	16.9%	−18.6%	

Through June 5. *Assumes reinvestment of all dividends and capital gains. †Market correction is from April 29 through October 3, 2011. —Not available; fund not in existence for the entire period. **Expense ratio** is the percentage of assets claimed annually for operating a fund. SOURCE: © 2015 Morningstar Inc.

JEFFREY R. KOSNETT > Income Investing

A Municipal Bond Sideshow

LISE METZGER

Illinois, home to Abe Lincoln, Barack Obama and a mob of felonious former officeholders, is the epicenter of the latest municipal bond fright fest. Politics, fittingly, is the cause. The state and the city of Chicago both have huge pension obligations that they not only can't afford but also can't modify, thanks to ironclad language in the state constitution recently affirmed by the Illinois Supreme Court. The Democratic legislature and the Republican governor are at loggerheads. No quick solution is at hand.

This casts Chicago and Illinois in the roles previously played by Detroit and Michigan, and by Stockton and California, in the long-running drama *Fear and Loathing in Muniland*. In this series, a local money squeeze begets scary headlines warning that the entire $3.7 trillion U.S. municipal bond market is in peril. In the end, the sun shines and the gloom passes. California is prospering, and its bonds have rallied for several years. Michigan is also better off. But as the plot unfolds, legions of bondholders and financial advisers dump sound investments while they spread the hogwash that a credit emergency is coming your way, wherever you live.

In truth, the Land of Lincoln and the Windy City are ailing. In May, Moody's busted the rating on Chicago's general obligation bonds to junk status. Illinois remains investment-grade, rated A– by Standard & Poor's and A3 by Moody's; but that's weak for a state, so Illinois GO bonds offer bountiful yields. In early June, debt maturing in 10 years boasted current yields of 4.0%. That's equivalent to a taxable yield of 5.6% for taxpayers in the 28% federal bracket and a whopping 7.1% for those who pay the top rate of 43.4%.

Ten-year Chicago GO bonds yield only 3.3%. That's mainly because many existing Chicago GOs are insured against default. But other Chicago-related bonds are caught in the web. An O'Hare International Airport passenger-revenue bond due in 2035 and carrying a 5.0% interest coupon began the year at $110 (relative to par value of $100) with a current yield of 3.3%. It sank by early June to $101, giving the bond a yield of 4.3%.

Moody's spared city-owned O'Hare from the same fate as Chicago's debt, knowing that airline fees and ticket taxes back those bonds. As a result, the O'Hare bonds look cheap and seem to be an example of an issue suffering from guilt by association.

Buying opportunity. These events have the cooler heads in the world of tax-exempts puzzled, just as they were when Detroit's struggles scared investors away from muni bonds from all over the nation. Remember, Detroit lost half its residents and almost all of its industry. Chicago has problems, but it is still vibrant. Dick Larkin, director of credit analysis for HJ Sims, a bond brokerage, says Chicago "is in much better shape than Detroit was for 30 years or more" and that "knowledgeable investors don't panic at the sight of a headline."

There's another, and broader, takeaway: Elevated yields at scattered trouble spots push up all yields, making muni bonds more attractive for buyers. Gurtin Fixed Income, a firm with offices in Chicago and San Diego that manages portfolios for individuals, cites "pension paranoia," the questionable assumption that all public retirement funds are on thin ice, as the cause of these yield bonuses. Michael Johnson, Gurtin's head of research, avoids Chicago bonds and distrusts New Jersey and Rhode Island bonds, but he doesn't expect any of them to default. He simply prefers bonds from richer counties, states and school districts, knowing he'll get a bit more interest than otherwise because the woes of credit weaklings prop up yields everywhere else. ■

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

"Elevated yields at scattered trouble spots push up all yields, making muni bonds attractive for buyers."

THE KIPLINGER 25 UPDATE

Be Patient With This Quirky Fund

MAIRS & POWER GROWTH wowed us in 2013 (the year we added it to the Kiplinger 25), when it beat Standard & Poor's 500-stock index by three percentage points. Since then, however, the fund's results have been dreary. Over the past year, it lagged the S&P 500 by 4.8 points.

But let's keep things in perspective. Growth isn't always in sync with the overall market. It invests in a mix of attractively priced, growing firms of all sizes. The managers keep the $4 billion fund lean (it held just 47 stocks at last report) and they tend to hang on for the long haul. Annual turnover is just 6%, suggesting that stocks remain in the fund for an average of 17 years. Another quirk: The managers, who are based in St. Paul, Minn., stick close to home. Two-thirds of the firms in the portfolio are based in the Upper Midwest.

Longtime comanager Bill Frels retired at the end of 2014. Remaining is Mark Henneman, who has been comanager since 2006. He was joined in January by Andrew Adams, who has helmed Mairs & Power Small Cap (symbol MSCFX) since 2011. Adams continues to comanage Small Cap.

But manager turnover hasn't been the cause of Growth's so-so results. The chief culprit has been a big stake in industrial firms—33% of the fund's assets at last word. The strong dollar has been particularly problematic for midsize industrials, says Henneman, because they "do most of their manufacturing in the U.S. and make most of their sales outside the U.S." Holdings such as Donaldson (DCI), which produces filtration systems, and Graco (GGG), a maker of pumps and meters, suffered from unfavorable exchange rates.

Growth's shareholders need to be as patient as the fund's pilots. As longtime Target investors, the managers held on while other investors dumped the stock in early 2014 (after hackers breached the company's computers). The retailer's stock rose 41% over the past year (returns are through June 5). The stock of three-dimensional printer maker Stratasys (SSYS), which the managers first began buying in January, fell 41% over the past three months. Their response? They bought more shares as the price fell. "A year ago, 3-D printing was going to take over the world, and now it's never going to grow again," says Henneman. "We don't believe either story, but we're taking advantage of the poor performance over the short term." **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 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Akre Focus	AKREX	11.0%	21.0%	19.5%	—	Dec. 2009
Davenport Equity Opps	DEOPX	16.7	23.0	—	—	May 2014
Dodge & Cox Stock	DODGX	8.5	24.1	17.3	7.4%	May 2008
Fidelity New Millennium	FMILX	6.0	19.9	16.8	10.8	May 2014
Homestead Small Co Stock	HSCSX	11.1	21.2	18.3	11.6	May 2012
Mairs & Power Growth	MPGFX	5.3	19.2	16.0	8.5	Jan. 2013
Parnassus Mid Cap	PARMX	6.6	17.7	16.0	9.3	Aug. 2014
T. Rowe Price Divers Sm-Cap Gro	PRDSX	17.4	23.6	20.6	11.2	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	0.8	15.8	14.0	8.7	May 2009
T. Rowe Price Value	TRVLX	7.8	23.9	17.4	8.7	May 2015
Vanguard Dividend Growth	VDIGX	7.8	17.7	15.9	9.2	May 2010
Vanguard Selected Value	VASVX	4.8	21.8	16.6	9.2	May 2005

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Artisan International	ARTIX	3.0%	16.9%	14.0%	7.9%	May 2015
FMI International	FMIJX	8.2	17.5	—	—	April 2015
Harding Loevner Emrg Mkts	HLEMX	–6.4	8.1	6.2	8.8	May 2013
Matthews Asian Gro & Inc	MACSX	0.1	10.3	8.4	9.2	Aug. 2013

Specialized/Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
FPA Crescent	FPACX	3.6%	13.3%	11.3%	8.3%	Oct. 2008
Merger	MERFX	0.8	3.3	3.1	3.5	June 2007

Bond Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
DoubleLine Total Return N	DLTNX	3.1%	3.8%	6.8%	—	May 2011
Fidelity Intermed Muni Inc	FLTMX	1.8	2.2	3.4	3.8%	May 2004
Fidelity New Markets Income	FNMIX	–1.8	4.5	6.9	7.9	May 2012
Fidelity Total Bond	FTBFX	2.1	2.8	4.6	5.0	May 2014
Met West Unconstrained Bd M	MWCRX	1.5	5.1	—	—	May 2013
Osterweis Strategic Income	OSTIX	2.0	5.7	6.3	6.8	May 2013
Vanguard Sh-Tm Inv-Grade	VFSTX	1.0	2.0	2.5	3.6	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	**10.1%**	**20.2%**	**16.9%**	**8.0%**
RUSSELL 2000 INDEX*	**10.7**	**20.7**	**16.3**	**8.8**
MSCI EAFE INDEX†	**–2.1**	**16.0**	**10.3**	**5.8**
MSCI EMERGING MARKETS INDEX	**–2.5**	**6.3**	**4.3**	**8.7**
BARCLAYS AGGREGATE BOND INDEX#	**2.1**	**1.8**	**3.5**	**4.5**

Through June 5. —Not available; fund not in existence for the entire period. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds.

FUND SPOTLIGHT

A China Fund That Favors Hong Kong

Its manager focuses on large firms, but she sees good deals in small and midsize stocks.

CALL IT THE LATEST CHAPTER OF THE Great Leap Forward. The Chinese government is in the midst of a new round of efforts to reboot its decelerating economy, including cutting interest rates, boosting spending on infrastructure and opening up the Shanghai stock exchange to overseas investors. Investors have responded enthusiastically. Over the past year, the Hong Kong and Shanghai markets soared 34% and 146%, respectively.

ALLIANZGI CHINA EQUITY FUND D has participated in the rally more than most China funds. The fund, which invests mostly in Hong Kong–listed shares, benefited from holdings in industrial stocks, such as rail maker CRRC Corp. Exposure to small and midsize firms helped as well. Among Hong Kong–traded stocks, smaller companies are generally more attractive than larger ones, says manager Christina Chung. "And these companies can grow at similar or better growth rates than large-cap companies."

That said, three-fourths of the fund's assets are in big outfits, says Morningstar. Among the fund's well-known holdings at last report were China Mobile and Bank of China.

The fund's Class D shares don't levy sales charges. And though yearly fees of 1.77% are high, they're average for China mutual funds. If China Equity intrigues you, use it to spice up your portfolio; it shouldn't represent more than 5% or so of your stock investments. **MIRIAM CROSS**

CHINA REGIONAL FUNDS Ranked by one-year returns

Rank/Name	Symbol	Annualized total return through June 5			Max. sales charge	Expense ratio	Toll-free number
		1 yr.	3 yrs.	5 yrs.			
1. Neuberger Berman Greater China Eq A@	NCEAX	50.7%	—	—	5.75%	1.86%	877-628-2583
2. AllianzGI China Equity D@	ALQDX	38.2	19.8%	—	none	1.77	800-498-5413
3. Matthews China Dividend Inv@	MCDFX	36.3	22.6	15.4%	none	1.19	800-789-2742
4. RS China A@	RSCHX	35.1	21.0	—	4.75	1.75	800-766-3863
5. Fidelity China Region@	FHKCX	35.0	25.7	15.3	1.50[r]	1.01	800-343-3548
6. Columbia Greater China A@	NGCAX	30.5	19.9	10.6	5.75	1.57	800-345-6611
7. Clough China A@	CHNAX	28.9	19.2	10.9	5.50[s]	1.95	866-759-5679
8. Matthews China Inv@	MCHFX	28.6	13.4	7.3	none	1.11	800-789-2742
9. AC One China Inv@	ACOCX	27.9	—	—	5.50[s]	1.95	888-964-0788
10. Invesco China A@	AACFX	24.6	15.7	7.4	5.50	1.85	800-959-4246
CATEGORY AVERAGE		25.4%	17.4%	9.5%			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets† (in billions)	Annualized total return through June 5			Max. sales charge	Toll-free number
			1 yr.	3 yrs.	5 yrs.		
1. Vanguard Total Stock Market Idx Inv@	VTSMX	$353.8	10.1%	20.4%	16.9%	none	800-635-1511
2. Vanguard 500 Index Inv@	VFINX	180.5	9.9	20.0	16.7	none	800-635-1511
3. Vanguard Total Intl Stock Idx Inv@	VGTSX	162.0	–2.6	12.9	8.7	none	800-635-1511
4. American Growth Fund of America A@	AGTHX	148.9	11.1	21.5	16.2	5.75%	800-421-0180
5. American EuroPacific Growth A@	AEPGX	132.1	1.0	15.0	10.1	5.75	800-421-0180
6. Fidelity Contrafund@	FCNTX	112.5	12.2	19.1	16.6	none	800-343-3548
7. American Capital Income Builder A@	CAIBX	98.7	1.6	11.2	10.7	5.75	800-421-0180
8. American Income Fund of America A@	AMECX	98.0	3.3	13.0	12.2	5.75	800-421-0180
9. Franklin Income A@	FKINX	94.3	–2.0	10.7	9.9	4.25	800-632-2301
10. Fidelity Spartan 500 Index Inv@	FUSEX	91.4	10.0	20.1	16.8	none	800-343-3548
11. Vanguard Wellington**@	VWELX	90.9	5.6	13.7	12.1	none	800-635-1511
12. American Capital World Gro & Inc A@	CWGIX	89.7	2.3	17.2	12.9	5.75	800-421-0180
13. American Balanced A@	ABALX	82.2	5.6	14.2	12.8	5.75	800-421-0180
14. American Washington Mutual A@	AWSHX	78.2	6.2	18.3	16.3	5.75	800-421-0180
15. American Invstmt Co of America A@	AIVSX	76.8	6.9	19.8	15.4	5.75	800-421-0180
16. American Fundamental Inv A@	ANCFX	74.0	8.8	19.9	15.8	5.75	800-421-0180
17. Dodge & Cox International Stock**	DODFX	71.6	–1.8	19.0	11.7	none	800-621-3979
18. Dodge & Cox Stock	DODGX	60.6	8.5	24.1	17.3	none	800-621-3979
19. American New Perspective A@	ANWPX	60.4	7.3	18.1	14.1	5.75	800-421-0180
20. BlackRock Global Allocation A@	MDLOX	54.8	3.2	10.2	8.1	5.25	800-441-7762
S&P 500-STOCK INDEX			10.1%	20.2%	16.9%		
MSCI EAFE INDEX			–2.1%	16.0%	10.3%		

@Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. †For all share classes combined. **Closed to new investors. [r]Maximum redemption fee. [s]Front-end load; redemption fee may apply. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

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RETURNS FOR THOUSANDS OF FUNDS ONLINE

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EXPLANATION OF TERMS

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

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

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

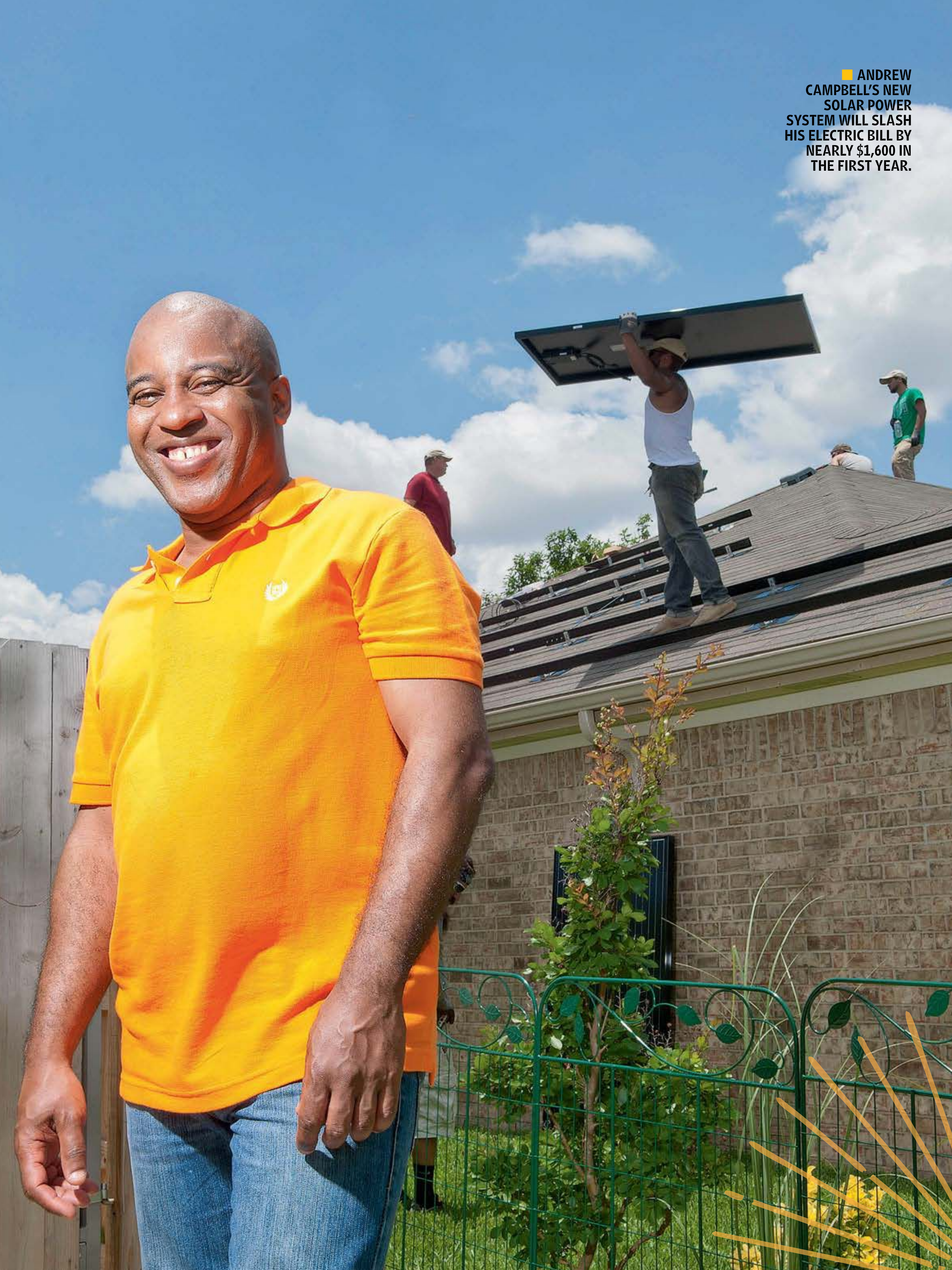
>> LIVING

SOLAR HEATS UP

Falling prices, flexible financing and a generous federal tax break are creating a sweet spot for solar power. **BY PATRICIA MERTZ ESSWEIN**

Andrew and Sonia Campbell of Killeen, Texas, have been talking about putting in a solar power system for years. In June, the installers finally arrived—just as the near-biblical rainfall in their part of the state was finally letting up. The Campbells' new system will supply nearly all the electricity they need and, besides slashing their electric bill, satisfy Andrew's goal to reduce their dependence on fossil fuels. "In everything I do, I try to go green if I have the choice," he says. // The system is connected to the grid for backup power

PHOTOGRAPH BY MATTHEW MAHON/REDUX



ANDREW CAMPBELL'S NEW SOLAR POWER SYSTEM WILL SLASH HIS ELECTRIC BILL BY NEARLY $1,600 IN THE FIRST YEAR.

at night, or whenever it isn't generating enough electricity. When it makes more power than the Campbells use, the system will feed the excess to the grid and they will earn credit in the form of a "true up" payment at year-end, says Scot Arey, owner of Solar CenTex, which installed their system.

Their 8.25-kilowatt system cost about $20,300, but the federal renewable-energy tax credit, which is equal to 30% of the system cost, trimmed the tab by nearly $6,100. With projected savings of $1,580 in the first year and even more in subsequent years as utility rates rise, the system is projected to pay for itself in 7.6 years.

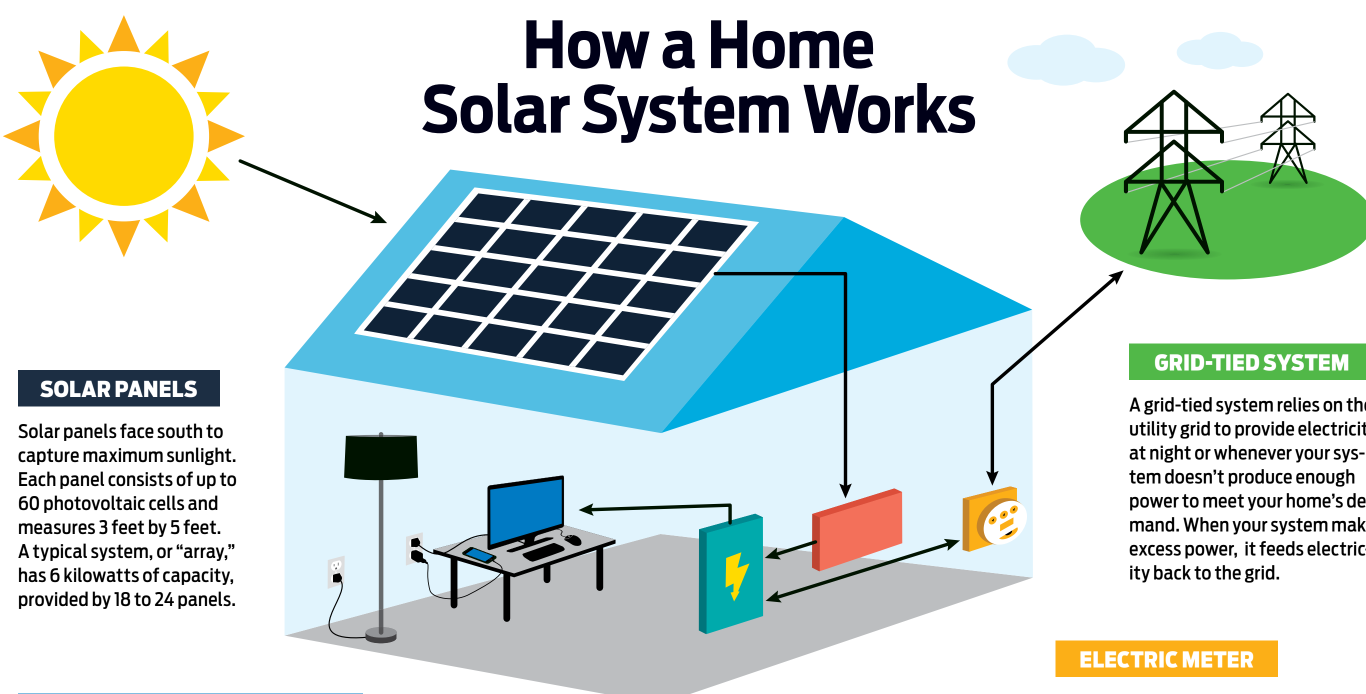
Homeowners installed more than 186,000 residential systems in 2014, the third consecutive year the residential market grew by more than 50%, according to the Solar Energy Industry Association (SEIA). Falling prices for solar panels (especially those made in China) and flexible financing and leasing options have helped bring solar power systems into the mainstream. Homeowners are also keeping an eye on the renewable-energy tax credit, which expires at the end of 2016 (see the box at right). The cost of residential solar has fallen by nearly half since 2010, to an average of $3.57 per watt of capacity, says Ken Johnson, of the SEIA. The typical home system has 6 kilowatts of capacity, so that translates to about $21,400. But the federal tax credit trims the cost to about $15,000, and state and local incentives bring the cost down even more.

But you don't have to come up with the cash for a solar system. A decade or so ago, the up-front cost of installing solar at home was prohibitively expensive for all but the most well-heeled early adopters. When SolarCity, the largest residential installer in the U.S., introduced leasing in 2008, it made solar affordable. More than half of homeowners who have a solar electric system lease. Under the leasing model, solar firms supply the system and collect all subsidies. You pay the leasing company for your electricity at rates that save you between 10% and 50% compared with what the utility would charge, according to EnergySage.com, which provides information about solar electric systems.

DOES IT MAKE SENSE?

The higher the electric rate you pay, the sunnier your location and the greater the financial incentives, the more compelling the case for solar. A rough guide: If you have a roof that faces south, southeast or southwest and you pay at least 12 to 13 cents per kilowatt-hour (kWh) for electricity, solar is probably a good option, says Jonathan Bass, of SolarCity. If your roof is more than 20% shaded, you

How a Home Solar System Works



SOLAR PANELS

Solar panels face south to capture maximum sunlight. Each panel consists of up to 60 photovoltaic cells and measures 3 feet by 5 feet. A typical system, or "array," has 6 kilowatts of capacity, provided by 18 to 24 panels.

GRID-TIED SYSTEM

A grid-tied system relies on the utility grid to provide electricity at night or whenever your system doesn't produce enough power to meet your home's demand. When your system makes excess power, it feeds electricity back to the grid.

PERFORMANCE MONITORING

Performance monitoring via computer or smartphone allows you and your solar company to track how much electricity your system produces and spot problems.

ELECTRIC PANEL

The electric service panel receives electricity from the inverter and feeds it to your home's circuits.

INVERTER

An inverter converts direct current produced by the panels into alternating current used by your home.

ELECTRIC METER

The electric meter tracks electricity you use or produce. When you generate more than you use, the meter spins backward.

may need a ground-mounted system.

Installers can give you an estimate of the system size you'll need by looking at a satellite view of your home. When they visit your home, they'll verify the calculations, check your roof, and assess how a solar system will interconnect with your home's electrical system and the grid. (Get your own estimates at www.solar-estimate.org.) Older homes may require a new electrical panel, subpanel or meter box, which could cost about $500.

What if you live in New England or the Pacific Northwest, where cloudy days outnumber sunny ones? Because solar power systems use sunlight scattered by clouds or humidity as well as direct sunlight, you'll have adequate sunshine almost anywhere you live in the U.S. Plus, the colder the temperature, the more efficiently solar panels work, says Joshua Pearce, of the Michigan Tech Open Sustainability Technology Lab, in Houghton, Mich.

Homeowners in cold climates can use solar to heat their homes with an air-source heat pump that, with new technology, will work efficiently down to temperatures as low as –6 degrees Fahrenheit. Snow may block the panels and reduce output, but panels can be installed with more tilt, wind exposure and clearance at the bottom so snow will slide off faster—or you can clear the panels from the ground with a long-handled squeegee.

This past winter's unending snowfall in the Boston area cut production from Bob Lehmann's rooftop system in Concord, but he still didn't receive an electric bill. Between production and net metering (selling power back to the grid), Lehmann saves $1,200 a year on electricity and the utility's fixed charges. An unexpected bonus: His home's second story is a lot cooler and requires less air-conditioning in the summer because the sun beats down on the panels instead of the roof.

Incentives

Get 'Em While They're Hot

FINANCIAL INCENTIVES FOR SOLAR electric systems won't last forever. They're designed to jump-start adoption. Many have limited funding and are available on a first-come, first-served basis.

For example, the renewable-energy tax credit, which covers solar electric systems, equals 30% of the cost of a residential system that is in service by December 31, 2016, when the credit is scheduled to expire. Kiplinger thinks the credit will probably die, but if Congress extends it, it will likely be smaller.

If you buy a system for your primary residence or second home, the credit will reduce your federal income tax dollar for dollar. If the credit is worth more than your tax bill in 2015, you can roll over the balance of the credit to 2016.

To find other incentives offered by your state, city or utility, search by zip code at the Database of State Incentives for Renewables & Efficiency (www.dsireusa.org). To see what incentives are currently available in the 10 largest U.S. cities, visit kiplinger.com/links/solarincentives.

LEASE OR BUY?

If you choose not to buy, you have two main options: a solar lease or a power purchase agreement (PPA). With a lease, you pay a fixed monthly amount for the use of the system and a guaranteed amount of electricity. With a PPA, you pay the solar company each month for the actual amount of electricity your system produced, and that amount may vary seasonally. With either contract type, look for a production guarantee so that if there's a shortfall in production, the solar company will reimburse you for the amount of electricity that you had to buy from your utility. If your consumption increases, you're on your own buying more power from the utility. Either way, you should see monthly savings from the get-go, although you'll almost certainly continue to pay your utility a small fixed fee each month for connection and infrastructure.

With a lease or PPA, you usually don't have to make a down payment. However, if you're willing to make one, you may nab a lower lease payment or PPA rate, or a shorter term. The solar company will take responsibility for the operation and maintenance of the system. At the end of the term, assuming you still own the house, you may be able to renew the contract, or the solar company will remove the system at no cost.

A lease or PPA should include provisions for terminating it and outline what is required if you sell your home. Bass, of SolarCity, says the vast majority of customers transfer their system to the new homeowner, who must be financially qualified to assume the lease payments.

Leasing a solar system will lower your electric bill, but buying it will maximize the financial benefit. Vikram Aggarwal, chief executive of EnergySage.com, which offers an apples-to-apples comparison of proposals from local installers, uses this rule of thumb: If you lease, you'll see 20% to 30% savings in your utility bill. But if you pay for a system with cash, you'll enjoy 100% of the savings—after you recoup the cost of the system. If you finance a system with a loan, it will take longer to recoup your investment.

Aggarwal provides this example of a homeowner in Great Neck, N.Y. To make enough power each month to cover a $100 utility bill, the homeowner needs a 4.5 kW system, which costs $16,000, or $6,800 after the federal and New York State tax credits and other state incentives. If he pays cash, he recoups his cost in six years and saves $30,000 over 20 years.

With a 20-year solar loan (with an interest rate of 5.0%), he saves an average of $83 a month and $19,800 overall. (Monthly savings of $55 in the first year will increase annually as utility prices increase.) With a 20-year lease, he saves an average of $24 a month and $5,700 overall. (The average annual increase in electric rates has historically been more than 3%, according to the U.S. Energy Information Administration.) If you buy or finance, you're responsible for system maintenance, but experience has shown that solar systems are highly durable, with few maintenance issues.

If you want a loan, one option is to tap your home equity (see "Get Cash From Your Home," July). The Campbells used a home-improvement loan with a 20-year term and a fixed interest rate of 2.88% from the Texas Veterans Land Board. (Vets can get home-improvement loans backed by the U.S. Department of Veterans Affairs.) The interest on a loan secured by your home will be tax-deductible.

Solar and renewable-energy loans (secured and unsecured) are becoming more readily available from a variety of sources, including Admirals Bank (nationwide), Sungage Financial (www.sungagefinancial.com), numerous credit unions, city and county programs, utilities, and manufacturers (such as SunPower). Even SolarCity, the leasing company, introduced a MyPower loan last fall. See www.dsireusa.org and www.energysage.com/solar/financing/loan-providers, and check with installers to find loan programs. Interest rates start at 4.3%. The rate you get depends on the term, your credit history, and whether the loan is secured by your home.

SMART SHOPPING

Before you shop for an installer, check your current electric bill so you can answer questions about your consumption in the past year. Also think about how your usage might change in the near future (say, because your kid leaves home or you buy an electric car).

Ask for referrals for installers from people you know who have gone solar, and attend home-and-garden shows or energy fairs. Or contact your local chapter of the American Solar Energy Society (see www.ases.org) or the Community Power Network (www.communitypowernetwork.com), whose chapters may refer you to a vetted installer or sponsor a bulk purchasing event with a discounted price.

The best installers are certified as photovoltaic installation professionals by the North American Board of Certified Energy Practitioners (www.nabcep.org, click on "Certified Locator"). Check installers' Web sites for examples of their work and to see what kind of financing they offer (lease or loan, or both) and crunch the numbers. Then call three prospects for proposals. Ask them how long they've been in business, how many systems they've installed and why they support particular brands of components. Installer David Schieren, of EmPower Solar, in Island Park, N.Y, says that he can provide a performance ratio of projected production of electricity versus actual output based on results from his 1,000 installations. Check references.

If you haven't yet decided how you want to pay for a system, installers should be willing to help you compare the options, including an equivalent cost per kWh of electricity produced, a payback period and a cash-flow analysis for each strategy over time.

Most solar-panel manufacturers offer a product warranty of 10 years (SunPower's warranty is 25 years), as well as a production warranty that guarantees the panels will produce electricity at 80% to 90% of their rated power output at the end of 25 years (like a laptop or cell-phone battery, a solar panel's performance degrades over time). Inverters are typically warrantied for 10 years. The best warranties are insured by a third party; they will be effective even if the manufacturer goes under. Installers should warranty their work for at least a year, but some cover up to 10 years.

Once you've signed a contract, the installer should obtain permits and arrange for inspections and interconnection agreements with your electric utility. A good one will also file any incentive applications and help you select the utility provider whose rate plan will help you maximize your savings.

After the system is installed, if your electric meter allows, you may get to experience the thrill of watching it run backward as your system produces a surplus of power. ■

KIPTIP

What Else You Need to Know

Your roof. Installers will drill holes through your roof to bolt the solar power system to the roof trusses, then seal the holes. If you'll need to replace your roof within a couple of years, consider doing it first to avoid the expense of removing and reinstalling the system later.

Hazard insurance. If you're leasing a system, find out who covers the system (the company or you), and for what. Always notify your insurer of the type and number of panels that will be installed, their location, and the name of the installation contractor, recommends Loretta Worters, of the Insurance Information Institute. Typically, you'll add the cost of a rooftop system to your dwelling (Part A) coverage. The premium for a $25,000 system will run you just a few dollars a month, depending on your location and credit score. Some states now exempt the value of solar systems from property-tax assessments. If yours doesn't, your property-tax bill could rise.

Selling your home. If you own your system, it will probably increase your home's market value. Home buyers paid an average premium of $15,000 for an average-size solar system between 2002 and 2013, according to a study by the Lawrence Berkeley National Laboratory. Mortgage guarantors Fannie Mae and FHA require that solar panels owned by the homeowner be included in the appraised value of a property.

TECH »

Clearing the Cloud Cover

We explain the mysteries of storing files in the cloud, your virtual hard drive in the sky. BY JEFF BERTOLUCCI

USING AN INTERNET-BASED service to save, sync or back up files is convenient. The Big Four—Apple iCloud Drive, Dropbox, Google Drive and Microsoft OneDrive—are all free, if you don't warehouse a lot of data. The very best thing about cloud storage? When your computer implodes (as mine did recently), your personal files are secure. Life in the cloud can seem a bit hazy to newcomers, so we've compiled answers to some common questions.

How do I install the cloud on my Mac or PC?
The first step is to download the cloud provider's app, which integrates the service with your computer's filing system. If you're a Windows user loading Dropbox, for example, a folder will automatically appear in File Manager. You can then move or copy files from your hard drive to your cloud account by dragging them from the PC folder to the cloud folder.

Can I save files directly to my cloud account?
Yes. Say you're writing a letter in Microsoft Word. By saving the file to the cloud folder, you'll have a copy of the letter on your PC and in the cloud. This is particularly handy if you work on multiple devices. Back up your files to another source, too, be it a removable drive, USB stick or memory card. Why? Because redundancy is the best way to protect yourself from the Four Horsemen of the Datapocalypse: fire, theft, hardware crashes and malware.

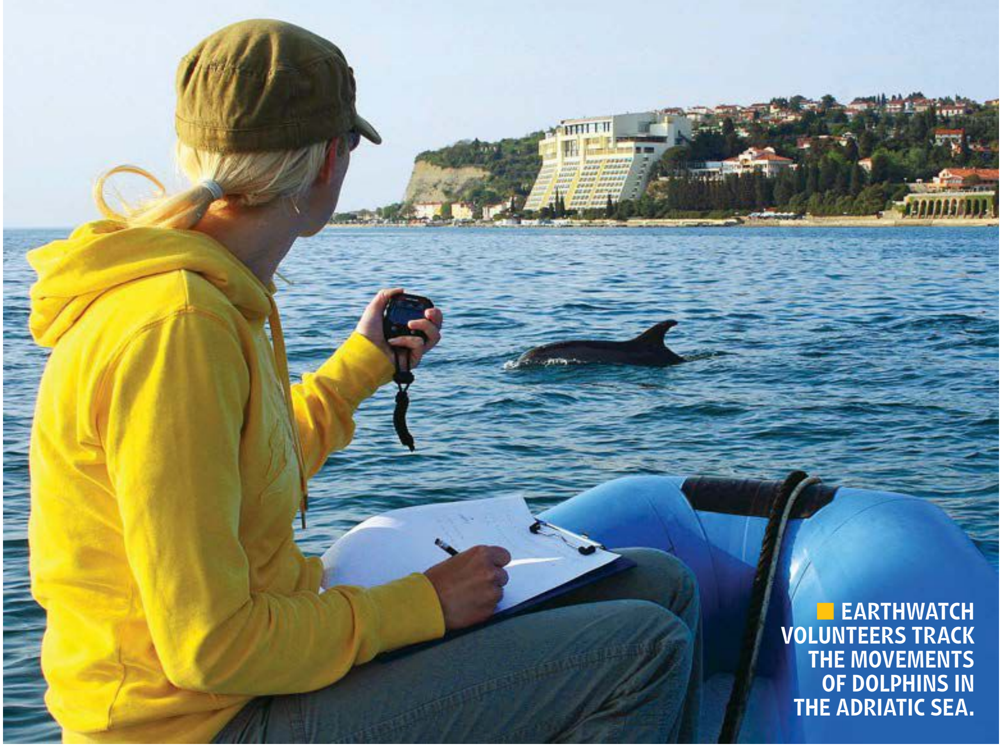
I'm a little unclear about what "syncing" means.
When you sync a file, a copy goes to your cloud account and you can access it from other devices. Apple iCloud and Microsoft OneDrive transfer files well within their own ecosystems, and the iCloud for Windows app lets you back up PC files. But Dropbox is the only cloud storage that works across all platforms. To retrieve a file, browse the cloud folder or open it from inside a program.

I use more than one service to avoid paying for storage. Can I manage them all from one screen?
There's an app for that. Otixo (www.otixo.com) is a file manager that lets you search for files across your cloud folders, and copy or move files between folders without first downloading them to your computer. You can also make cloud files available to other Otixo users. The free version allows for five file transfers at a time between clouds, and one workspace for collaborating with other users.

Is there a file-size limit for cloud storage?
Yes, and it varies by service. You can upload files that are up to 15 gigabytes to iCloud Drive. With Dropbox, there is no size limit if you upload files via the service's desktop or mobile app, but a 10GB limit via its Web site. OneDrive has a 10GB limit, too. Google Drive is a bit more complicated. Uploaded documents that convert to the Google Docs format can't be larger than 50 megabytes, but files you upload without converting to a Google format can be up to 5 terabytes each! (A terabyte is roughly equal to 1,000GB.)

Which service is the cheapest?
Google Drive and OneDrive offer 15GB at no charge; iCloud users get 5GB free. Users of Dropbox's free Basic service start off with 2GB, but may add an additional 500MB of storage for each new Basic customer they refer—or 1GB for each new paid, Dropbox Pro subscriber—up to 18GB total. For mega users, OneDrive is the price leader at $7 per month for a terabyte of storage. Dropbox and Google Drive charge $10 per month, and iCloud is $20 per month, for 1TB. ■

ANTHONY HARVIE/GETTY IMAGES



■ EARTHWATCH VOLUNTEERS TRACK THE MOVEMENTS OF DOLPHINS IN THE ADRIATIC SEA.

TRAVEL »

Vacations That Give Back

Take a "voluntourism" trip and you'll see the world from a fresh perspective. BY BETH BROPHY

LOOKING FOR A VACATION IDEA that's off the beaten path? Combine your love of travel with your impulse to give to a good cause. The options for "voluntourism" trips range all over the map, from teaching English to Vietnamese orphans to feeding animals at a Costa Rican wildlife refuge. You'll pay for your airfare, food and lodging, but your costs may be tax-deductible.

GLOBAL VOLUNTEERS (www.globalvolunteers.org) sends more than 2,000 volunteers each year to 17 countries (including the U.S.) to do everything from providing child care to building community facilities. You'll pay $1,800 for a two-week stint in India; two weeks in Italy will cost $3,195. The fee covers food, lodging, in-country transportation, and emergency medical and evacuation insurance. Airfare is extra.

You can work side by side with research scientists in the field with the **EARTHWATCH INSTITUTE** (www.earthwatch.org). The group organizes volunteer expeditions in 40 countries. On one popular 12-day trip to Polokwane, South Africa, volunteers gather information to help protect endangered animals. Costs start at $2,775 per person, plus airfare.

UNITED PLANET (www.unitedplanet.org) sends about 300 to 500 volunteers a year to more than 35 countries. Projects include volunteering in orphanages, teaching English and working on reforestation efforts. Volunteers typically live with host families. Fees range from $1,985 for one week to $6,345 for 12 weeks, plus airfare.

Even Carnival, the giant cruise line, is getting into the act. It recently announced a new cruise brand called **FATHOM** that will offer "impact travel" vacations to developing countries such as the Dominican Republic starting in 2016. Prices start at $1,540 per week.

Roughing it (or not). Depending on the sponsoring organization, you may stay in a dormitory, guest house or hotel. Some programs might be outside your comfort zone, so ask questions to make sure a trip is right for you. "Living conditions can be rustic, including shared lodging spaces, basic food and not a lot of hot water for showers," says Elisa Sabatini, of **VIA INTERNATIONAL** (www.viainternational.org), which sends about 800 volunteers a year to Bolivia, Costa Rica, Mexico, Sri Lanka and other countries.

If you'd prefer to combine volunteering with a luxury vacation, for-profit tour companies, such as **HANDS UP HOLIDAYS** (www.handsupholidays.com), will customize vacations for individuals and groups that include opportunities for a few days of service. Typical costs are about $10,000 per person for two weeks, plus airfare. Volunteers stay in luxury hotels that combine high-end amenities with environmentally friendly practices.

Take a tax deduction. Your service-program fees, airfare, visa and related expenses may be tax-deductible if you sign up with a tax-exempt charitable organization. Also, the IRS requires you to work, on average, eight hours per day, five days out of seven, to claim the deduction. If you tack a couple of extra days onto your trip to sightsee, you will not be able to deduct the airfare. However, you will still be able to get a tax break for the program fee, meals and supplies directly related to your time spent volunteering.

When you combine federal and state income tax savings, a typical volunteer who itemizes deductions could save one-third of the cost of the service program. ■

COURTESY EARTHWATCH INSTITUTE

LOWDOWN

What You Need to Know About Class-Action Suits

Settlements may be worth millions, but your share—not so much. BY KAITLIN PITSKER

1. There's strength in numbers. Consumer class-action suits allow a person or small group of people to sue a company on behalf of a larger group with similar claims. The cases, which often allege fraud or product defects, usually end in settlement instead of going to trial. For example, AT&T paid a $45 million settlement in response to consumer complaints that they had received unsolicited automated cell-phone calls. Automakers Hyundai and Kia have agreed to pay $395 million following allegations that they inflated fuel-economy data. Cases involving consumer privacy, such as the 2013 Target data breach, have become even more common.

2. But don't expect a windfall. Settlements in recent years have averaged $56.5 million, according to NERA Economic Consulting. But individual class members rarely see a fat payday. For example, the proposed Target settlement is $10 million (separate lawyers' fees total $6.75 million). If all 40 million people who had a debit or credit card compromised file a claim, each one could receive just 25 cents, assuming none of them can document their financial losses. However, Hyundai owners will receive an average of $353, and Kia owners will receive an average of $667.

3. Get in on the action. Potential class members may be notified directly or by way of an ad or in-store posting after the court approves the case as a class-action lawsuit or after a preliminary settlement is reached. Think you might be a class member in a suit but haven't been contacted? Web sites such as www.consumer-action.org/lawsuits provide snapshots of current cases and settlements. You will probably also find a link to a Web site that has been set up to provide updates and additional details. If the terms are still not clear, or you're concerned that a notice might be fraudulent, contact the consumer protection division of your state attorney general's office.

4. Know your options. In most cases, you will be included automatically in a class unless you opt out. Joining the class means you're eligible for compensation, but you waive the right to file a separate lawsuit. If you think you can prove that you have been harmed more than other consumers, consult a lawyer before excluding yourself from the class.

5. Don't hold your breath. There are several opportunities for people and organizations to object to or appeal a settlement, and the settlement must receive final approval from the court. Assuming there are no further appeals, class members generally receive payment about six to nine months after a settlement agreement is submitted to the court for preliminary approval, says Stuart Rossman, director of litigation at the National Consumer Law Center.

6. Take the money. If you think filing for a minuscule settlement isn't worth your time, or you don't think you suffered sufficient financial harm for a case, take the money anyway and donate it to charity. Otherwise, the money may go to another class member or be donated to a charity chosen by the plaintiffs and the company. The money you receive is usually considered taxable income, but if you donate it and you itemize, you may take a tax deduction. ■

IKER AYESTARAN

THEN AND NOW

After Katrina, a New Life


AUGUST 2006


Carrie Herndon, her husband, Michael, and three of her four children have room to spread out.

THEN: Carrie and Todd Estapa and their four children, ages 3 to 14, appeared in our August 2006 issue (above) after Hurricane Katrina destroyed their house in Waveland, Miss. Living in two trailers provided by the Federal Emergency Management Agency, the Estapas had been fighting with their insurer, State Farm, about whether the damage was caused by wind, which is covered by homeowners insurance, or flooding, which is not. Soon after *Kiplinger's* contacted State Farm about their case, the Estapas received a $25,000 check and the promise of additional money for their damaged home and possessions.

NOW: Carrie, 42, is remarried to Michael Herndon and living in Dallas with her children, who are now ages 12 to 23.

After the check from State Farm arrived, "I walked to the beach and cried," Carrie recalls. "It changed my life." Even after their claim was approved, however, it took nearly a year to rebuild their house. "Except for my daughter's room, everything looked like it had been put through the spin cycle with mud and debris," she says. Rebuilding was delayed everywhere because of the massive scale of devastation. "It was hard to get people in to do work, and there was a shortage of materials."

During construction, the family of six spent 10 months squeezed into the FEMA trailers in their driveway. In addition to the mud all around, says Carrie, there were "bugs, spiders, rats and raccoons. It was always hot, and you always felt dirty. My girls still remember the stench."

Even after they moved back into their house, the community itself was still devastated. Children were going to school in trailers, and many teachers had left. Years later, "we still had no grocery stores," says Carrie. "It was a constant, total change of lifestyle." The couple eventually ended up divorcing.

While visiting friends in Dallas, Carrie was struck by the difference. "Everything was manicured, and there were stores and flowers and normal life," she says. She moved her family there about six years ago. "I loved the Gulf Coast, and a lot of people were doing their best to bring it back, but I couldn't wait it out as a single mom of four," she says. "In Dallas, there were schools and opportunities for the children." She remarried about a year and a half later and now lives in a house with five bedrooms, lots of windows and just under 5,000 square feet. "I thank God for it every day," she says. "We have space, and I feel grateful. Now when we have minor chaos, we know everything is relative. It feels like the Katrina experience was all a movie, and my son, who was 2 at the time, doesn't even remember the struggle."

KIMBERLY LANKFORD

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