OUR MIDYEAR INVESTING FORECAST

Kiplinger's

PERSONAL FINANCE

MONEY SMART LIVING

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JULY 2015

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PROTECT YOURSELF FROM SUMMER STORMS
Don't let disaster strike your home and finances. Kim Lankford offers seven simple steps to prepare for volatile weather.

kiplinger.com/links/storm

KIMBERLY LANKFORD
askkim@kiplinger.com

MONEY LESSONS FROM MY DAD
Starting Out columnist Stacy Rapacon celebrates the enduring financial advice of her recently retired father.

kiplinger.com/links/father

STACY RAPACON
@srapacon

FROM TOP: ISTOCKPHOTO.COM(3); LISE METZGER (2)

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Janet Bodnar

FROM THE EDITOR

Timely Advice for Investors

Each July, we stick our necks out to come up with our best estimate of where the stock market is headed for the rest of the year. Talk about fraught with peril. Economic uncertainty has made the market particularly volatile lately. And there's no way to account for unpredictable market shocks, such as international incidents and flash crashes.

The job of writing our midyear forecast falls to senior editor Anne Kates Smith. Anne, our resident futurist, is the editor of our "Ahead" section. She's also an experienced reporter who has been covering the stock market for decades. This time around, she found herself reporting our cover story (see page 44) during an earnings season that started out "godawful"—with gloomy expectations thanks to the one-two punch of a strong dollar and the collapse in oil prices—but ended up not being so bad. Then there's the fact that at six years and counting, the bull market is getting long in the tooth. "What are we dealing with here?" Anne writes. "A super bull? Or one on its last legs?"

Looming over it all is the specter of the Federal Reserve. As Anne reports, no one expects anything but the tiniest increase in interest rates this year, if that. Nevertheless, she says, "this is the most interest-rate-sensitive market ever."

And no wonder. In his usual colorful language, economist Ed Yardeni observes that the world's central banks "have continued to pour intoxicating liquidity into their monetary punch bowls" to try to stimulate their economies, with limited success. But "there's no doubt that their efforts have propelled asset prices into outer space." Historically low interest rates have cost U.S. bank depositors $749 billion in purchasing power over the past six years, according to a study by MoneyRates.com, forcing savers to turn to stocks and other higher-risk investments in search of yield.

A slowing bull. To make sense of all this, Anne's strategy is to not get caught up in daily market moves. When she takes a long view, she sees market fundamentals that appear strong enough to support further gains, though not the double-digit annual increases we've gotten used to. Her conclusion: For 2015, Standard & Poor's 500-stock index will deliver a total return of up to 9%, including the market's 2% dividend yield.

But with the bull market aging, you might want to pull in your horns. For example, you could cut back on the percentage of your assets devoted to stocks (for suggestions on what to do with your money, see page 49). Or you could spread your risk by going abroad (see Anne's interview with BlackRock investment chief Russ Koesterich on page 46). And on page 53, senior associate editor Nellie Huang suggests nine mutual funds that can help cut the risk in your portfolio.

Our goal is to give you a heads-up about the market's danger points and opportunities so you can apply them to your individual circumstances. Says Anne, "That's more important than where the Dow will end up."

"With the bull market aging, you might want to pull in your horns."

A new feature. One reason *Kiplinger's* is so useful to readers is that so many real people are willing to make the numbers come alive by telling us about their own personal finances. We often wonder what's happened to the people we've interviewed over the years. Did they pay off their debt? Was their business a success? Did their investments pan out? This month we begin a new back-page feature, called "Then and Now," in which we revisit people to see how they've fared and what we can learn from their experiences.

P.S. See our picks for the best rewards credit cards on page 24. ■

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

LISE METZGER

Married couple, daydreaming about what they'd do if they won the lottery. **OR** Successful attorney and his wife, enjoying the rewards of their hard work.

No assumptions.

Down-to-earth, busy with six kids, very much in love – Patrick and Ana Cordero are living proof that wealth clients don't fit any particular mold, and their financial needs are never one-size-fits-all. Which is exactly why this self-made, successful Miami couple turned to Regions in the first place. From boat financing to owner occupied real estate loans, the Corderos' Regions Wealth Advisor, Susan Tramont, leading a team of subject-matter experts, created a comprehensive, customized plan that addressed the couple's specific financial picture. Instead of assumptions, the Corderos got unique wealth solutions crafted just for them. Ready to move your life forward? **For a personal consultation with a Regions Wealth Advisor, call 1.800.826.6933 or visit us online at regions.com/corderofamily.**

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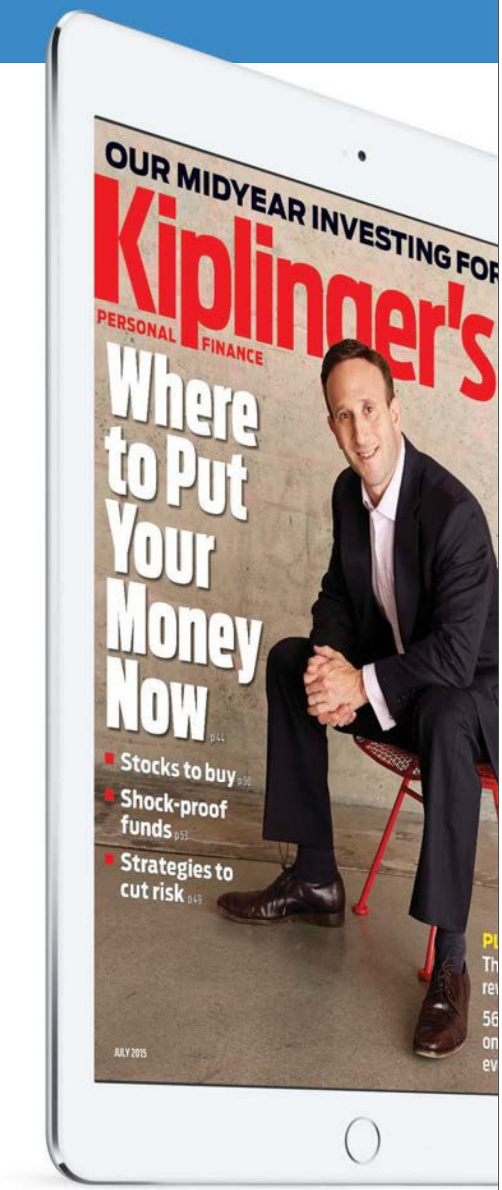

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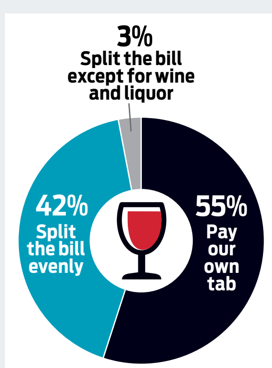
Extended Warranty Tips

Extending a car manufacturer's warranty can make sound economic sense, especially for folks who keep their cars for a long time and do the resale themselves to remove dealers—and their insultingly low trade-in offers—from the picture ("Drive Time," May). Some dealers will not address the cost of the extended warranty until after you've reached a price on the car. But you will have more leverage if you negotiate the cost as part of the total purchase price. Remember, the dealer is anxious to get the repair work. If your contract is transferable (there may be a nominal transfer fee), it could help you get top dollar for your car if you sell the car yourself; a warranty with a zero deductible on covered repairs is a significant negotiating point in the secondary market. Another common feature is the ability to cancel the contract after the initial 30 days and receive a prorated refund. Finally, if you do not purchase a warranty when you buy the car, check the cost to purchase it before the car hits the 20,000- or 30,000-mile mark. You may be able to get the warranty for less than if you wait until the original warranty expires.

C.C.
ALBANY, N.Y.

Q READER POLL

How do you pay for dinner with friends?



To learn more about proper money manners, turn to page 39.

SOURCE: POLL SURVEYED 219 *KIPLINGER'S* READERS.

Not-so-free tuition. I work for a state agency that exercises oversight for higher education, and seldom do I hear discussion about reining in college costs ("Ahead," May). Former governor Rick Perry started an initiative to develop a "$10,000 degree," which I think would be a step in the right direction. But the President's free community college proposal is just another government program taxpayers will have to pay for. Better still would be a reduction in the current cost of higher education, which has outpaced simple inflation for many years now.

CHARLES BUSBEY
DRIPPING SPRINGS, TEX.

It's all good. Index funds have a place in intelligent investing and managing money for the long term ("How to Beat Index Funds," May). And, yes, actively managed funds have a place, too. My concern is that the article set up an "either-or" tension, when "both-and" thinking would help a person make intelligent decisions—or, maybe better yet, ask the right questions based on her or his knowledge, skills and time horizon.

BILL EVANS
HUGHESVILLE, MD.

ONLINE CHATTER

MARKET STRATEGIST
Jim Stack's thoughts on the chances of a market downturn drew these comments ("Insider Interview," May):

"I am just now starting to invest some non-retirement funds in the market. I should wait for the bear market to do its thing, but I am impatient."

"Mr. Stack still has 76% of his investments in stocks. That's a pretty strong statement. If you're in or near retirement, you should have a cash cushion to ride out a bear market."

"The market may drop, but it also may not. What people need to do is pick low-cost funds and stay in them."

LETTERS TO THE EDITOR

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

SCOTTY REIFSNYDER

TOPIC A

PAYCHECKS ARE GETTING BIGGER

But raises aren't widespread yet. Neither is inflation. BY CAROLYN BIGDA

THE RECENT FLURRY OF minimum-wage increases among companies, cities and states is welcome news for many workers. In April, for example, Wal-Mart hiked starting wages to $9 per hour (the federal minimum wage is $7.25 per hour), and McDonald's announced that it would raise the minimum pay at restaurants it operates to an average of $9.90 per hour. Meanwhile, by the end of this year, 23 states, plus the District of Columbia, will have enacted minimum-wage increases for 2015 (some of which are inflation adjustments), and cities such as Chicago, San Francisco and Seattle have voted to lift the minimum wage to as much as $15 per hour starting in the next few years.

Changes to the minimum wage have a ripple effect, but the ripple goes only so far. "As a rule of thumb, you might see workers who earn $1 or $2 above the new minimum wage also get raises," says Jeannette Wicks-Lim, an assistant research professor at the University of Massachusetts–Amherst. For everyone else, the impact is minimal.

Still, the fact that minimum wages are rising is a positive first step. Other measures are also improving. An index of new-hire compensation by the Society for Human Resource Management has been trending up since July 2014. In addition, new college graduates are snagging bigger paychecks. More than one-third of employers plan to increase starting salaries for 2015 graduates by as much as 5%, according to Michigan State University's College Employment Research Institute. "New wages respond faster to market conditions," says Jen Schramm, who is manager of workforce trends at SHRM.

It may take a while before there's a lift in wages across the board. Since late 2009, average hourly earnings for private-sector jobs have grown about 2% annually, below the 3% rate that was typical before the Great Recession, according to the Bureau of Labor Statistics.

The improving job market could help move the needle. But even though the unemployment rate has fallen to 5.4%, down from a peak of 10% shortly after the recession officially ended, millions of job seekers who dropped out of the workforce during the downturn remain on the sidelines. Include them and the unemployment rate is really 7.3%, estimates the Economic Policy Institute. "There's just too much slack in the labor market to have meaningful wage increases," says David Cooper, a senior economic analyst at the EPI.

To get a significant bump in pay, you might have to switch jobs—or prove to your boss that you're indispensable. A study last year by Mercer, a human resources consulting firm, found that retention was the most common factor that employers considered when making pay decisions for 2015. Workers with the highest job performance ratings were projected to get an average raise of 4.8%.

Meanwhile, if you are concerned that potential wage hikes will lead to a sudden spike in the prices of goods and services—wages are a major component of inflation, after all—there's no reason to worry yet. Economists figure that right now employers can increase pay by as much as 2.5% without having to pass on price increases to consumers. Says Chad Stone, chief economist at the Center on Budget and Policy Priorities: "The threat of inflation is not so serious that we don't want to see wage increases."

INTERVIEW

THE DROUGHT WON'T HIKE PRODUCE PRICES

California farmers get creative to channel water to key crops.

Daniel Sumner is a professor in the Department of Agricultural and Resource Economics at the University of California–Davis.

California is in its fourth year of drought. Why haven't we seen big price increases on produce from California farms? Start with the geography. Many crops for which California is the major supplier—lettuce, strawberries, avocados—grow along the coast, which hasn't been as severely affected by the drought.

What about prices for crops grown in the hard-hit Central Valley? Most of the acreage cuts are in field crops, such as cotton and alfalfa, which have a limited effect on food prices. Some produce crops are affected; cantaloupes could get cut back a bit, so there may be a period this summer when they're more expensive. But farmers are doing everything they can to move water. Groundwater is scarce, but farmers have enough stored in aquifers so that, when they're hit with these severe droughts, they can usually pump a little deeper. Water is incredibly valuable for crops that are crucial to U.S. produce supplies (think carrots, tree fruits, grapes), so a farmer will idle a thousand acres of cotton, cut back on alfalfa or grow only 60% of his usual rice crop. Given a very complicated set of rules and regulations, farmers are being really innovative about ways to transfer water.

Is that sustainable long-term? We can't go on pumping water forever like we have over the past few years. If this drought continues, we'll gradually have to cut back water even for more-valuable crops.

The U.S. Department of Agriculture says that fresh fruit and vegetable prices will increase between 2% and 3% this year. What do you think? I'd agree. Competition from other countries, such as Mexico, and even other states, such as Arizona and Texas, will keep prices from rising more. But there's a lot of weather yet to happen before the year is over.

What about California wine? Will we have to pay more for cabernet sauvignon? Farmers aren't cutting back too much on the vineyards. But the drought could affect lower-priced wines, which tend to be made from grapes from the Central Valley. You might eventually pay more for those wines but probably not this year. The weather in the spring seems favorable for high yields and quality. And the strong dollar means that some wines from Chile, Australia, France or Italy will be a little cheaper, and that puts pressure on wine prices here. **SANDRA BLOCK**

POON WATCHARA-AMPHAIWAN

THE GOAL FOR VIVIAN ROBINSON IS 10,000 STEPS EVERY DAY.

INSURANCE

TAKE STEPS TO GET RATE DISCOUNTS

Using a fitness band to monitor your activity could save you money.

EARNING A DISCOUNT ON your health or life insurance premiums may soon be as easy as putting one foot in front of the other. Some employers are handing out or subsidizing the cost of fitness bands and rewarding employees who meet goals for activity—such as averaging 10,000 steps a day—with insurance discounts, gift cards and other prizes.

The programs promise to benefit everyone. Employees walk their way to better health. Employers get active, more productive workers and may see lower health care costs. Insurers get healthier policyholders who make fewer claims.

"Incentives line up so nicely for employees, employers and insurance companies that I can't see this trend slowing down," says Dan Ledger, a consultant with Endeavour Partners.

Details vary, but most programs encourage participants to average a certain number of steps per day and usually require them to requalify each year. At Houston Methodist hospital, employees earn entries for prize drawings and are eligible to receive up to $520 off their 2016 health insurance premiums. "This program has helped motivate me," says Vivian Robinson, who coordinates grants for the hospital and aims to take 10,000 steps a day.

Insurers are also getting in on the act. John Hancock has begun a program that rewards eligible policyholders with up to 15% off their life insurance premiums based on the number of steps they take and other healthy behaviors, such as getting an annual flu shot.

Many fitness bands also collect data such as your heart rate and sleep patterns. Before enrolling in a program, ask what type of data is collected and if you're able to, say, report your step count but not your sleep habits. **KAITLIN PITSKER**

EXCERPT FROM *The Kiplinger Letter*

TAX CROOKS GET A PASS

Continuing budget cuts at the Internal Revenue Service are curbing its criminal investigations. Most of the agency's investigative priorities are affected, including identity theft, international operations and money-laundering schemes, plus suspicious refunds and problem preparers. In fiscal 2014, the agency began 20% fewer criminal actions than in the previous year. That number is expected to fall again this year. (www.kiplingerbiz.com/ahead/IRS)

THE BUZZ

AN EASY WAY TO GIVE TO CHARITY

Even the best of our philanthropic intentions are often sidetracked by the business of everyday living. These tools make charitable giving as simple as checking your Facebook page.

Pledgeling (www.pledgeling.com) recently launched a free mobile app that lets you make donations with just three clicks. Users may give as little as $5 and keep track of all of their charitable contributions in one place (you can print a PDF for tax purposes at year-end). Donors who don't want to be bombarded with e-mails and phone calls from charitable groups may give anonymously. The app is available only for iPhones; donors may also contribute through the Web site.

Good St. (www.goodst.org) is a subscription program that allows you to give as little as 25 cents a day. Subscribers receive a daily e-mail recommending two charities that are addressing the "cause of the day." (Among the recent causes were autism research and rainforest conservation.) Donations are charged to your credit card monthly; if you don't like the day's choices, you can roll over your contributions to another day. **SANDRA BLOCK**

BANKING

DEBIT REWARDS ON THE REBOUND

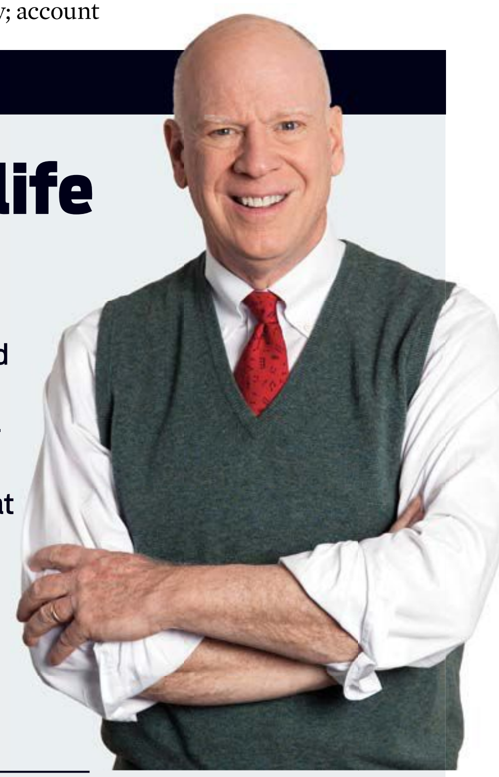
You can earn cash by making purchases from participating merchants.

A FEW YEARS AGO, DEBIT CARD rewards were dwindling, victims of the Great Recession and a 2011 regulation that caps the "swipe fee" large banks may charge merchants when customers use their debit cards. But debit rewards are making a comeback: The number of issuers offering rewards jumped from 32% in 2012 to 47% in 2013, with further growth expected when the 2014 numbers come in, according to bank consultant Mercator Advisory Group.

Rising in popularity are programs that provide cash back for purchases from participating merchants. That's less costly for banks than awarding points for spending that you can trade for cash or merchandise.

When choosing a bank, don't give the debit rewards program top priority; account fees and interest rates have a greater impact on your wallet. But consider taking advantage of the free rewards your bank offers. With Bank of America's BankAmeriDeals, PNC Bank's Purchase Payback, Regions Bank's Cashback Rewards and Santander Bank's Cash Rewards, customers get cash back to their accounts for using their cards at certain merchants. **LISA GERSTNER**

MONEY & ETHICS // KNIGHT KIPLINGER



Why weren't Mom's end-of-life preferences honored?

Q My elderly mother died recently of a cancer that was very advanced when discovered and is almost always fatal. She had often told us that she did not want aggressive hospital treatment for any terminal illness, to spare herself the pain and isolation and to spare her family (and society) the financial burden. But it didn't work out that way. The quality of her life during the last few months was dismal, and the cost was huge. I accompanied her to every doctor's appointment and took careful notes, and I am sure that the physician never clearly told us, in the first appointment after diagnosis, that her cancer was incurable and that she likely had just a short time to live. I know he didn't mention home hospice care until near the end. How could this have happened?

A Your mother's experience is sadly common. Numerous medical studies have shown that most oncologists, despite improved training in end-of-life counseling, still don't do it well with terminally ill patients. Many doctors don't ask patients about preferred scenarios and don't listen carefully to the responses, and they rarely talk about the palliative-care option in the first meeting.

Cynics suggest that doctors and hospitals have a financial interest in recommending aggressive therapies, or—in a more charitable explanation—they want to try out the latest cancer treatments to advance medical knowledge.

But it's not so simple. Physicians report that, even when they are clear about the prognosis, some patients don't absorb what they are being told and remain in denial. And some patients and their families demand heroic treatment even when they are advised that the odds are poor.

In an ideal world, patients would state their wishes in writing long before their illness. And doctors would be very candid about the prognosis, ask the patient to repeat what he or she had heard, and follow up with a written summary of the talk. And the choice of hospice care—at home or in a caring, well-run facility—would be discussed from the beginning.

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

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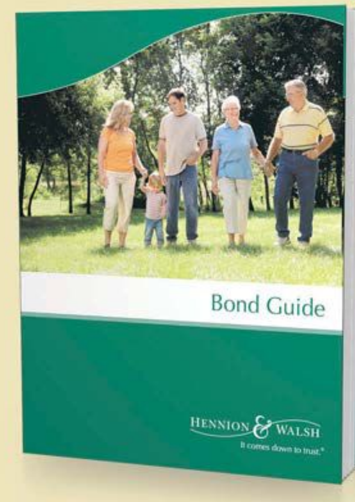

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Why municipal bonds may deserve a place in your portfolio. (Page 1)

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

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

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

Strategies for smart bond investing. (Page 4)

Municipal bond facts every investor should know. (Page 4)

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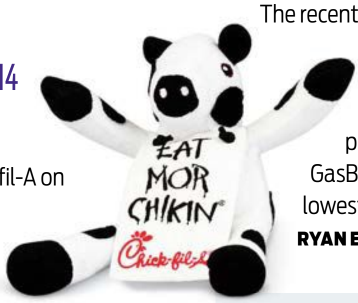
CALENDAR
07/2015

▲ SUNDAY, JULY 5
The Women's World Cup soccer final kicks off in Vancouver. If the U.S. team makes the final, cheer on the Stars and Stripes in person. (Go to "Dynamite Deals and Fabulous Freebies," on page 62, for ways to save on flights, lodging, tickets for sporting events and more.)

TUESDAY, JULY 14
Customers who wear a full cow costume to Chick-fil-A on Cow Appreciation Day will receive a free meal. Partial bovine attire, such as a cow-print hat, will get you a free entrée.



FRIDAY, JULY 17
Check your credit card's Web site to see if you might be eligible for discounts or other perks on summer fun. For example, Discover cardholders who sign up can get cash-back rewards, exclusive ride times and even a separate entrance at Six Flags theme parks.

SUNDAY, JULY 19
Beat the heat and take in the arts at the same time. Head to MuseumFreeDays.com to find free or discounted museum admissions in a city near you.

FRIDAY, JULY 31
The recent uptick in oil prices may be giving you flashbacks of paying a bundle at the gas pump. Download the GasBuddy app to see the lowest nearby fuel prices.

RYAN ERMEY

DEAL OF THE MONTH
Spruce up your deck in July. Look for discounts of up to 70% on outdoor and patio furniture as home-improvement stores clear out summer inventory.

ISTOCKPHOTO.COM (3)

“There is little difference in prospective returns between an index fund and a *low-cost, low-turnover* actively managed fund.”

JAMES K. GLASSMAN > Opening Shot

Don’t Give Up on Active Funds

Index funds, of both the mutual and exchange-traded variety, are hot—and that’s a good reason for a contrarian like me to cast a skeptical eye on them. From the start of 2007 through February of this year (the latest figures reported by the Investment Company Institute), domestic stock index mutual funds and ETFs received $1.4 trillion in net new cash; at the same time, actively managed funds suffered net *outflows* of $670 billion. In other words, investors have been moving in droves from funds that are managed by human beings to those that are run by computers and designed to mimic a particular market or sector.

The rush to index funds has been a long time coming. The first index fund was launched 39 years ago, the creation of Vanguard Group founder John Bogle, who complained in his 1951 senior thesis at Princeton that most actively managed funds couldn’t beat the market averages, so why not simply own the averages themselves? Born as First Index Investment Trust, the fund that is now called **VANGUARD 500 INDEX (SYMBOL VFINX)** follows Standard & Poor’s 500-stock index, a large-capitalization benchmark that comprises 500 mostly large U.S.-based companies, weighted by their stock market value. Currently, Apple (AAPL) is the fund’s number-one holding, followed by ExxonMobil (XOM) and Microsoft (MSFT). Apple alone carries more weight in the index than the 105 smallest companies combined.

The dozens of public funds (plus private investments) that mimic the S&P 500 have a total of $1.9 trillion in assets. As a result, the tail threatens to wag the dog. If investors were to suddenly decide to dump their index funds without regard to the component stocks themselves, the prices of the components would plummet. Moreover, simply being admitted to the S&P 500 gives a stock a bump in price. When the committee that manages the S&P 500 announced in 2013 that General Motors (GM) would rejoin the index, the stock rose 2% on a day the overall market declined.

Measured by assets, Vanguard 500 Index is the second-largest mutual fund of any kind in the world. The only larger fund is a later Vanguard creation, **TOTAL STOCK MARKET INDEX (VTSMX)**, which, by owning about 4,000 stocks, apes the entire universe of companies listed on U.S. exchanges. Index funds, including ETFs, today represent about one-fifth of total stock-fund assets, up from less than one-eighth in 2007.

You can buy an index fund to reflect practically any kind of investment you want, from junk bonds to California munis, or from small-cap stocks to Indonesian shares. But when people use the phrase “index fund,” they’re most often referring to a portfolio linked to the S&P 500.

Behind the boom. Index funds have become so successful for four reasons. The first, and one of their biggest advantages, is that they don’t need people to pick securities and so don’t have to charge high management fees. The investor share class for both of the large Vanguard funds requires a minimum initial investment of just $3,000 and carries an annual expense ratio of 0.17%. The funds’ Admiral versions (**VFIAX** for 500 and **VTSAX** for Total Market) require $10,000 to start and charge just 0.05%. **FIDELITY SPARTAN 500 INDEX (FUSEX)** has a minimum of $2,500 and charges 0.10% annually (the Advantage version of the Spartan fund, **FUSVX**, with a minimum of $10,000, matches Vanguard’s 0.05% fee). An excellent choice for investors with limited resources is **SCHWAB S&P 500 INDEX (SWPPX)**; it requires just $100 to start and charges 0.09% a year.

The average no-load mutual fund that apes a diversified domestic stock index charges 0.38% in expenses, but the average no-load, diversified, actively managed mutual fund charges 0.90%. However, not every index fund is a bargain. For example, MainStay

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"With no humans to pick securities, index funds don't have to charge high management fees."

S&P 500 (MSXAX) charges 0.60% annually for expenses, plus a 3% up-front sales charge.

Expenses count! Imagine you invest $100,000 in an index fund with an expense ratio of 0.10% for 10 years and earn 10% annually before fees. Your total expenses will be $2,582, according to an online expense calculator offered by the Securities and Exchange Commission (www.sec.gov/investor/tools/mfcc/holding-period.htm). Now see what happens if the fund subtracts 1.00% a year for expenses. Cost over 10 years: $24,800.

The second benefit of index funds is low turnover. Only a few dozen of the stocks that make up the S&P 500 change each year, so the average turnover of the Vanguard 500 fund is a mere 3%, compared with about 40% for a typical actively managed stock fund. Funds with higher turnover usually make higher capital-gains distributions to investors than do low-turnover funds, and that usually means higher tax bills for investors, unless they hold their funds in retirement accounts.

Third, index funds simplify your life. You don't have to spend hours analyzing the performance of active fund managers with an eye toward guessing who will do well in the future. As Warren Buffett put it, "By periodically investing in an index fund, the know-nothing investors can actually outperform most investment professionals."

Yes, outperform. And that's the fourth advantage. According to Morningstar, Vanguard 500's investor share class has beaten a majority of actively managed, diversified domestic large-company mutual funds in four of the past five calendar years. That sparkling record accounts for part of the recent popularity of index funds, as investors love to chase past returns.

But look closer. Over the past 10 years through May 1, Vanguard 500 returned 8.3% annualized; the typical actively managed large-cap mutual fund returned an average of 7.8%. The index fund beat its actively managed rivals by an average of just 0.5 percentage point per year. But the average diversified U.S. stock mutual fund charges 0.77 percentage point more per year than the average index fund. So the performance gap is more than explained by the expense gap. A well-diversified portfolio of three or four dozen stocks performs roughly the same as the market as a whole. The issue is what you get charged for the assembly and management of the portfolio.

In my view, there is little difference in prospective returns between an index fund and a *low-cost, low-turnover* actively managed fund. And although the index fund will, by definition, *never* beat the market, the actively managed fund at least has a shot at doing so.

Superb low-cost large-cap alternatives to index funds include **DODGE & COX STOCK (DODGX)**, with an expense ratio of 0.52%; **HARBOR CAPITAL APPRECIATION (HACAX)**, which charges 0.65% a year; and **PRIMECAP ODYSSEY GROWTH (POGRX)**, with expenses of 0.63%. (Dodge & Cox is a member of the Kiplinger 25; for more on Primecap, see "The Best Stock Pickers You've Never Seen," Jan. 2015). Over the past decade, the Dodge & Cox fund fell short of Vanguard 500's return by an average of 0.7 percentage point per year. The other two beat the index fund.

As Buffett says, "know-nothing investors" who can't be bothered making fund selections should be thrilled that Bogle invented the index fund. But the rest of us, who enjoy the chase—the intellectual excitement of doing research and taking the plunge—should revel in the choices that real live fund managers offer. ■

JAMES K. GLASSMAN IS A VISITING FELLOW AT THE AMERICAN ENTERPRISE INSTITUTE AND A MEMBER OF THE SECURITIES AND EXCHANGE COMMISSION'S INVESTOR ADVISORY BOARD. HE OWNS NONE OF THE STOCKS MENTIONED.

Competing Strategies

5 GREAT FUNDS FOR BIG-CAP STOCKS

Columnist Jim Glassman likes index funds, but he believes investors can also do well with low-cost, actively managed stock funds, such as the three listed below.

	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	15 yrs.	Expense ratio
INDEX FUNDS						
Vanguard 500	VFINX	14.1%	14.4%	8.3%	4.3%	0.17%
Vanguard Total Stock Market	VTSMX	13.7	14.5	8.9	5.0	0.17
ACTIVELY MANAGED FUNDS						
Dodge & Cox Stock	DODGX	10.8%	14.3%	7.6%	8.8%	0.52%
Harbor Capital Appreciation*	HACAX	20.6	15.4	10.2	3.1	0.65
Primecap Odyssey Growth	POGRX	17.5	14.7	11.0	—	0.63

As of May 1. *$50,000 initial minimum investment; other share classes with lower minimums and higher fees available. —Not available; fund not in existence for the entire period. SOURCE: © 2015 Morningstar Inc.

Baking Miss Daisy's Cakes

How one woman turned family recipes into a tasty profit.

PROFILE

WHO: Kim Adams Nelson, 53
WHERE: Pauline, S.C.
WHAT: Founder of Daisy Cakes

What inspired your business? Over the years, I had catered, started a restaurant and taught cooking classes. In 2009, I was working for someone with whom I prepared and sold homemade cake mixes at Junior League fund-raising shows. I realized that people really wanted ready-made cakes, but "from scratch."

How did you begin? The recipes came from my grandmothers and my Great-Aunt Daisy. But you can't just multiply each ingredient by 10 to make 10 cakes, so my mother and I had to experiment. It took about 25 batches to get the carrot cake right, and probably 15 for the devil's food. In the fall of 2009, we sold about 1,000 cakes at three Junior League shows and made $27,000 after expenses.

How did you finance the start-up? We worked in a building my dad had built for my cooking classes, where we had four stoves and four KitchenAid mixers. But we needed computers, a Web site with a shopping cart, business telephones, commercial mixers, and 150 cake pans. My parents helped with an investment of $93,000.

You appeared on the TV show *Shark Tank*? On Halloween 2010, I made my pitch while the sharks ate big hunks of cake. I asked for $50,000 and offered 25% ownership in the company. Shark Barbara Corcoran noticed that while the others turned me down, they kept eating and talking with their mouths full. She signed up for my offer but asked me to pay her $1 a cake until she got back the $50,000. I agreed. That episode aired on April 22, 2011, right before Mother's Day. The response crashed our Web site and blew up our phone lines.

We took more than 2,000 orders in 48 hours and spent all of May working 24 hours a day, five days a week, to fill them.

So you outsourced production? We grew too big, too fast. To meet demand, I tried three large-production bakeries in Georgia, New York and Tennessee. But the quality suffered. Our customers demanded their money back; I sent them a new cake, too. We brought production back home, maxed out our credit cards to pay our bills and worked as many hours as we could to recover.

How's business now? We grossed $3.15 million between 2011 and 2014. I finished paying back Barbara by the end of 2013. Last year, we sold 16,399 cakes in five varieties—red velvet, chocolate, lemon, coconut and carrot—plus a flavor of the month, at $49.95 per cake plus shipping [at www.ilovedaisycakes.com]. I'm working on a couple of gluten-free recipes now, too. The cake is frozen, wrapped and nested inside a cake tin, a Styrofoam cooler box with dry ice, and a corrugated box. We ship to all 50 states.

Do you make a living? I didn't take any pay for the first 40 months—my husband has a real job—but now I make $400 a week.

It's a family affair? I have eight full-time employees, who are like family and have stuck with us. They earn $10 to $14 an hour. My mama [Geraldine Adams] is here nearly every day, doing whatever needs to be done and running circles around people half her age. My son Adam, 23, works in the office, and my son Sam, 20, does the shipping.

Do you eat your cake? In moderation. I prefer ice cream. I *love* ice cream!

PATRICIA MERTZ ESSWEIN

PHOTOGRAPH BY POON WATCHARA-AMPHAIWAN

JANE BENNETT CLARK > Rethinking Retirement

Learn to Plan Like a Pro

I've always been a horrible decision maker. My approach is to over-research, change my mind a few times and, if possible, kick the can down the road. This tendency to dither makes retirement planning a challenge. Should I count on working longer or retiring on a particular date? Downsize or stay put? Save like crazy or splurge while I can still enjoy it?

Now an actuary has suggested a way to put some method into this decision-making madness. In his recent book, *What's Your Future Worth?*, Peter Neuwirth describes how to translate the actuarial concept of *present value* into retirement decisions.

Present value assigns a current value to possible future outcomes. Actuaries use the concept to calculate the worth of future payouts, such as pensions. But people who wouldn't know a calculator from a remote control can use it, too, says Neuwirth. "Every time you're faced with the decision to save or spend or invest or withdraw money, you need to look at the future consequences of that decision and understand what's important to you now and in the future."

Actuaries use present value to calculate the worth of future payouts. But people who wouldn't know a calculator from a remote control can use it, too."

Putting it into play. As Neuwirth explains, the process boils down to five steps:

1. Define your choices.
2. Imagine as many outcomes as you can for each choice.
3. Evaluate the likelihood of each outcome.
4. Weigh the value to you of a result that happens in the near future (say, covering your kid's college bill) with those in the more distant future (for instance, having enough money to fund your retirement).
5. Apply a discount to the value of events further out to account for their uncertainty, including the impact of inflation, and because you have to wait to use the resource.

Let's apply the process to a real-world decision: when to claim Social Security. Say you define your choices as taking benefits at 62 (with a 25% reduction) or at 66 (for the full amount). Consider the possible outcomes: You'll quit working and claim at 62 and then lose all of your savings in a stock market crash. You'll claim at 66 and die the next year, leaving money on the table. You'll live to 100 and beat the system. Or Social Security will fold before you get your share.

The beauty of this exercise is that it encourages you to consider *all* the outcomes, not just the ones you naturally gravitate to, says Steve Vernon, an actuary who is a consulting research scholar at the Stanford Center on Longevity. "A lot of people focus on one possibility and let it drive their behavior. They either ignore good potential outcomes or focus on bad potential outcomes."

Once you've looked at every scenario, consider the likelihood of each one. Stock market crash? It's possible, but you wouldn't lose every nickel. Die sooner or later? If you're healthy and your parents both lived into their nineties, later is more likely. Social Security folding? Not gonna happen, you conclude. Throw out the unlikely scenarios, and decide how much each of the others is worth to you, remembering to apply a discount (how much is up to you) to events in the distant future.

Some decisions, such as whether to use a chunk of money to pay off your mortgage or keep it invested, become clearer once you do the math, factoring in interest rates, potential investment earnings and inflation. Even then, evaluating your priorities is key, says Neuwirth. If you place a premium on owning your home outright, for instance, you might assign a greater present value to the money you will save in mortgage payments than to what you could earn if you invested the money, even if that dollar amount is higher. Or you might decide you'd rather keep the mortgage and let that money grow.

There's no right answer, says Neuwirth. "At the end of the day, you have to go with your gut. If you take the time to think the decision through, you'll have a smarter gut." ■

JANE BENNETT CLARK IS A SENIOR EDITOR AT *KIPLINGER'S PERSONAL FINANCE.*

LISE METZGER

MONEY

THE BEST REWARDS CREDIT CARDS

We picked plastic that pays you back no matter how you tend to spend. BY LISA GERSTNER

If you're a smart spender with excellent credit and you're not reaping credit card rewards, you're missing out. Card issuers continue to one-up one another on the payback for everyday purchases. Plus, they are luring customers with attractive awards of bonus points or cash back for spending a certain amount in the first few months of membership. // A rewards card can be worth thousands of dollars to you over time—especially if you pick one that takes advantage of your

PHOTO-ILLUSTRATIONS BY C.J. BURTON

spending patterns. Curt Kindschuh of Brownsville, Wis., estimates that over the past 15 years, he has earned about $28,000 worth of rewards with credit cards—without forking over any annual fees or interest payments. As someone who spends a lot of time outdoors, he prefers to use cards from retailers Cabela's and REI to get cash back and merchandise, and he uses a General Motors rewards card to earn rebates he uses for car purchases. To pump up benefits, he uses the cards for both business and personal spending.

Because the selection of great rewards cards is so ripe, choosing the right one for you can be tricky. Do you spend a lot on groceries? Gas? Do you eat out frequently or regularly fly across the country or overseas? You can find cards that reward those patterns. Also consider how much work you want to put into tracking your earnings. Would you like to play the game by, say, signing up for 5% rewards on rotating categories each quarter and carefully planning purchases? Or would you rather avoid the hassle and settle for a flat 2% back on everything? If you carry a balance, you probably shouldn't use a rewards card at all: They tend to charge higher interest rates, and your earnings will likely be outweighed by interest charges (see the box on page 28).

We've sorted through the cards and picked the ones that offer stellar deals in a variety of categories. To give you an idea of how much you might earn, we used average spending patterns from the Bureau of Labor Statistics Consumer Expenditure Survey to calculate a typical annual rebate, based on $22,000 in annual purchases (estimated rebates don't include sign-up bonuses, and they don't reflect the annual fee if it is waived the first year). For many of the best offers, you'll need a credit score of about 750 or higher.

FLAT-RATE CASH REWARDS

Citi Double Cash
www.citi.com
Interest rate: 0% for 15 months, then 12.99% to 22.99%
Annual fee: None
Typical annual rebate: $440

▶ This newcomer is the best offer yet for cash-back rewards that are easy to earn and redeem on all your spending: 1% when you make a purchase, plus another 1% when you pay the bill, for a total of 2% on every purchase. Once you have at least $25 in cash back, you can get a check, statement credit, gift card or credit to your Citibank bank account. Your cash-back balance expires if you don't make any purchases for a year. Even if you prefer to use cards with higher earnings in certain categories, consider keeping this one in your pocket for all your other spending.

CASH BACK IN ROTATING CATEGORIES

Chase Freedom
www.chase.com
Interest rate: 0% for 15 months, then 13.99% to 22.99%
Annual fee: None
Sign-up bonus: Spend $500 in the first three months and get $100 back; add an authorized user and make a purchase in the first three months for an additional $25
Typical annual rebate: $330

▶ Each quarter, you can activate 5% cash back on up to $1,500 spent in a designated category. For 2015, the offerings line up nicely with seasonal spending. In July through September, for example, gas purchases earn 5%; during the holiday shopping season, Amazon.com spending gets top rewards. And all year, purchases outside the 5% category earn 1%. Get your cash back as a statement credit or bank deposit, or redeem it for gift cards, travel and other rewards.

EASY TRAVEL REBATES

Barclaycard Arrival Plus World Elite MasterCard
www.barclaycardus.com
Interest rate: 15.99% or 19.99%
Annual fee: $89 (waived the first year)
Sign-up bonus: 40,000 miles if you spend $3,000 in the first 90 days
Typical annual rebate: 48,400 miles, or $484 in statement credits for travel purchases

▶ For travelers who want straightforward rewards—earning miles you can redeem for a fixed value on any kind of travel purchase—this card is a winner. You get two miles per dollar on all spending, and you can trade in miles at a rate of 1 cent per mile for statement credits on travel purchases, including airline tickets, hotel stays, cruises, car rentals, trains and taxis. Plus, you get a 10% bonus on miles you redeem for travel statement credits, making the effective rewards rate about 2.2% as long as you stick to travel rebates. (You can get nontravel rebates as well, including cash back in the form of a statement credit or gift cards, but miles are worth only a half-penny apiece.) The card has no foreign-transaction fee, and unlike many other U.S. cards that have microchip technology, you can verify transactions with a PIN (as required for some purchases abroad) instead of a signature.

FREQUENT-TRAVELER FRIENDLY

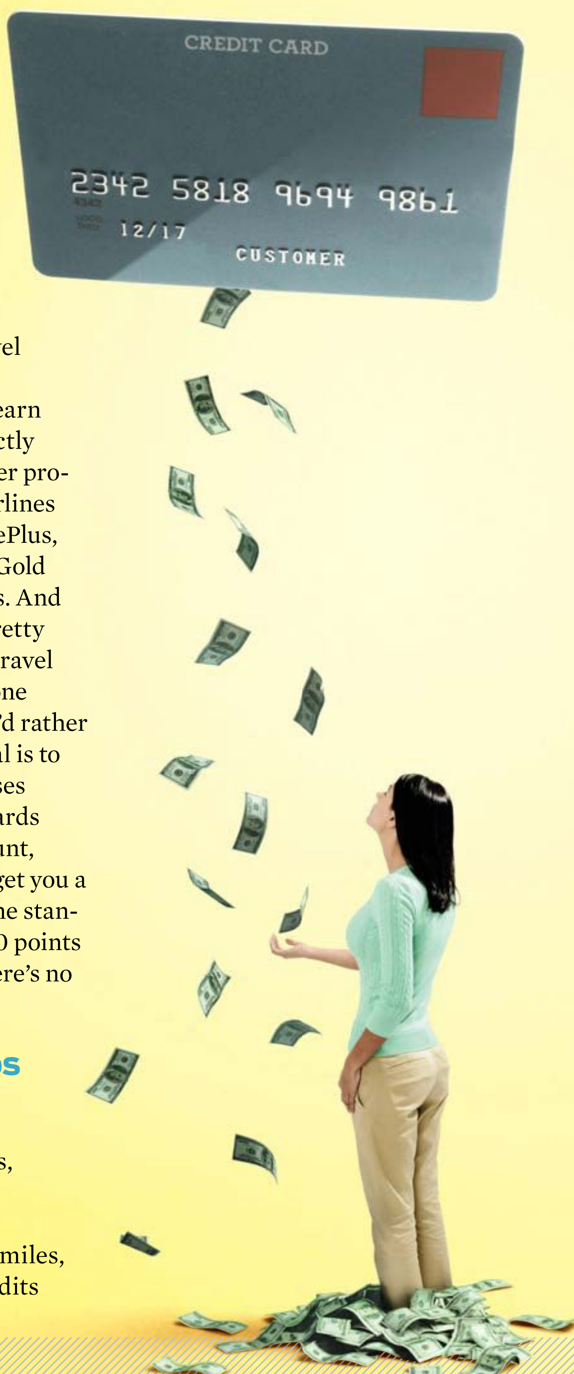
Chase Sapphire Preferred
www.chase.com
Interest rate: 15.99%
Annual fee: $95 (waived the first year)
Sign-up bonus: 40,000 points if you spend $4,000 in the first three months; 5,000 additional points if you add an authorized user and make a purchase within three months
Typical annual rebate: 29,661 points, or $371 in value for travel bookings

▶ You can transfer points you earn with this card at a 1:1 ratio directly to participating frequent traveler programs, including Southwest Airlines Rapid Rewards, United MileagePlus, Amtrak Guest Rewards, Hyatt Gold Passport and Marriott Rewards. And your prospects for points are pretty good: two points per dollar on travel and restaurant purchases and one point on everything else. If you'd rather not transfer points, the best deal is to redeem them for travel purchases through Chase's Ultimate Rewards shopping portal at a 20% discount, meaning 40,000 points would get you a $500 plane ticket rather than the standard $400 value. Or redeem 100 points per dollar in value for cash. There's no foreign-transaction fee.

NO-FEE TRAVEL REWARDS

Discover It Miles
www.discover.com
Interest rate: 0% for 12 months, then 10.99% to 22.99%
Annual fee: None
Typical annual rebate: 33,000 miles, or $330 in travel statement credits

▶ Travelers who would rather skip the annual fee have an appealing alternative in Discover's new card. Earn 1.5 miles per dollar on spending. At the end of the first year, Discover will double the miles you've earned—meaning the effective rate of rewards earned in year one is three miles per dollar. And if you don't spend as much as expected on travel, no worries: You can trade in miles in any amount for cash back to your bank account or for statement credits on travel purchases, all with a value of a penny per mile. You'll get up to $30 refunded yearly for in-flight Wi-Fi purchases that you make with the card. Plus, cardholders have the ability to freeze and unfreeze the account online or through a mobile app anytime—say, because of a lost card. There's no foreign-transaction fee, and you can request a card with a microchip.



SAVING AND INVESTING

Fidelity Investment Rewards American Express
www.fidelity.com
Interest rate: 13.99%
Annual fee: None
Typical annual rebate: $440

▶ Savers can send 2% of every purchase directly to a Fidelity brokerage, retirement or 529 college-savings account or to a Cash Management checking account. Every $2,500 you spend on the card equals a $50 cash-back deposit; put all the rewards in one account or divvy them up among up to five accounts. You can trade points for travel, gift certificates and cash, but the redemption value varies. Points expire after five years.

GROCERY PURCHASES

American Express Blue Cash Preferred
www.americanexpress.com
Interest rate: 0% for 15 months, then 12.99% to 21.99%
Annual fee: $75
Sign-up bonus: Spend $1,000 in the first three months and get $150 back
Typical annual rebate: $413

▶ The big attraction of this card is a 6% payback on supermarket purchases of up to $6,000 a year (1% thereafter). But its 3% cash back on gas and department store spending and 1% on all other spending make this card a solid all-around pick. (Note that grocery purchases from warehouse clubs and superstores, such as Walmart and Target, don't count for top rewards, nor do gas purchases from superstores, supermarkets or warehouse

clubs.) You can redeem earnings in $25 increments as statement credits.

PAYBACK AT THE PUMP

PenFed Platinum Rewards Visa Signature
www.penfed.org
Interest rate: 9.99% to 17.99%
Annual fee: None
Typical annual rebate: 40,290 points, or $341 in prepaid debit card value

▶ This card became a little less rewarding when PenFed diluted the value of points. You can still exchange points for a Visa prepaid debit card, but now it takes 118 points instead of 100 for every dollar of value. Nonetheless, the potential payback on gas purchases, with earnings of five points per dollar, is strong. Plus, supermarket purchases earn three points, and all other purchases earn one point. (Points expire after five years.) You can also redeem points for merchandise, travel and gift cards. You must belong to Pentagon Federal Credit Union to use the card; anyone can join by becoming a member of Voices for America's Troops (one-time dues of $14) or the National Military Family Association (one-time dues of $15). There's no foreign-transaction fee. The card also has microchip technology, and you can verify transactions with a PIN instead of a signature.

If you have a qualifying account with PenFed—including a checking account with at least a $250 monthly direct deposit, money market savings account, certificate of deposit, or certain types of loans—you're eligible to earn 5% cash back on gas purchases with no annual fee on the PenFed Platinum Cash Rewards Visa Plus (interest rate: 9.99% to 17.99%), a better value than you get with the Visa Signature's return on points. But other purchases earn no rewards.

GO-ANYWHERE RETAIL CARD

Amazon.com Rewards Visa From Chase
www.amazon.com/rewards
Interest rate: 14.24% to 22.24%
Annual fee: None
Sign-up bonus: Amazon gift card worth up to $50
Typical annual rebate: 30,832 points, or $308 in Amazon.com purchases

▶ Retail cards that are cobranded with a logo from a major network, such as Visa or MasterCard, may be used just like any other credit card. The Amazon credit card earns a respectable three points on Amazon purchases; two points at gas stations, restaurants, drugstores and office supply stores; and one point on everything else. Points are worth a penny each when you redeem them for Amazon purchases, or you can trade points at the same value for cash back. The value of points for travel, gift cards, merchandise and other rewards varies. ■

LOW-FEE OPTIONS

When Rewards Cards Don't Pay

THESE CARDS DON'T PAY REWARDS, BUT THEY COULD SAVE YOU A BUNDLE IF YOU carry a balance or are prone to incurring fees.

Low interest. The interest rate on the Lake Michigan Credit Union Prime Platinum card was recently as low as 6.25% for cardholders with the strongest credit profiles, and there's no annual fee. You can join LMCU by donating at least $5 to the ALS Association.

Balance transfers. As long as you make the transfer within 60 days of opening the account, the Chase Slate card (no annual fee) charges no balance-transfer fee. Plus, you'll pay no interest on the balance or on new purchases for 15 months. After that, the rate is 12.99% to 22.99%, depending on your credit profile.

Minimal fees. The PenFed Promise Visa card (7.99% to 16.99%; no annual fee) is as no-fuss (and forgiving) as they come: no fees for foreign transactions, balance transfers, cash advances, late payments or surpassing your credit limit, and no interest-rate penalty if you make a late payment. You must be a member of Pentagon Federal Credit Union to use the card (see the rules for joining under "Payback at the Pump").

FAMILY FINANCES »

Living With an Uneven Income

When your cash flow is unpredictable but your bills arrive like clockwork, you need an ironclad plan. BY SANDRA BLOCK

SARAH AND RYAN PARKER of Richmond, Va., didn't plan to work for themselves when they got married 13 years ago. Sarah, 35, intended to be a nurse anesthetist. Ryan, 38, was committed to a career in the banking industry. But while Sarah was pursuing her nursing degree, she found herself spending most of her free time making hand-stamped silverware and other custom-made housewares. In 2011, she decided to sell her creations on Etsy, an online marketplace for handmade goods. The business, Milk & Honey Luxuries, was so successful that, in 2012, Sarah decided to pursue it full-time. A year later, Ryan left his job at Bank of America to help her expand the business.

With 2014 revenues of about $450,000, the Parkers are earning enough to provide a comfortable lifestyle for themselves and their two children, Nate, 10, and Lillian, 7. Still, adjusting to life without a regular paycheck has been a challenge. Last September, Etsy restructured its online and mobile platforms, leading to a sharp drop in the company's sales—and the family's income. Sales on Etsy have since recovered, but the experience led the Parkers to amp up their own Web site, www.milkandhoneyluxuries.com, which now offers more than 400 products. Their products are also sold in Nordstrom stores across the country, at Martha Stewart's American Made Market and at about three dozen boutiques.

Taxes have been a challenge, too. After years of receiving a refund, the Parkers received a large and unexpected bill for tax year 2013. Sales had spiked, and because they hadn't been making quarterly payments, they had to pay underpayment penalties. They paid most of the bill when it was due and retired the balance through an IRS installment agreement—at 3% interest. They now make quarterly tax payments.

One-third of the U.S. workforce—some 53 million Americans—work for them-

PHOTOGRAPH BY POON WATCHARA-AMPHAIWAN

SARAH AND RYAN PARKER HAVE A SUCCESSFUL HOME BUSINESS SELLING CUSTOM-MADE HOUSEWARES, BUT THEY'VE FACED CHALLENGES ADJUSTING TO LIFE WITHOUT A REGULAR PAYCHECK.

selves at least part-time, as independent contractors, moonlighters, small-business owners or temporary workers, according to a 2014 survey by Freelancers Union and Elance-oDesk (now known as Upwork). Some, like the Parkers, do it by choice; others do it because they can't find a salaried job; many work freelance in addition to their nine-to-five jobs. But all share common challenges: preparing for the inevitable lean times, putting aside money for retirement and staying on the right side of the IRS.

BUDGETING: WANTS VS. NEEDS

Financial planners often talk about the importance of prioritizing spending by distinguishing between wants and needs. Most of us aren't very good at it. But if you're not sure when your next paycheck will arrive, you need to have a firm understanding of how much you need to get by versus what you need to live comfortably. Although your income may be irregular, bills for your mortgage, utilities, car payments and other essentials will continue to arrive on schedule. Before you go out on your own, you have to know what it really costs you to live because "it may be slim pickings the first couple of years," says Amy Jo Lauber, a certified financial planner in West Seneca, N.Y.

Delena Stout of Kansas City, Mo., learned how to make sacrifices after she was downsized out of her job in business development. In 2003, she started Brookside Barkery & Bath, a dog-grooming and pet-supply store. She now owns two pet supply stores in the Kansas City area that generated revenues of $2.7 million last year. While she has no regrets, forgoing a steady paycheck "was a big lifestyle change." When you're starting out, she says, "you don't go out to dinner. You don't travel. You don't have disposable income."

Tools such as Mint.com offer a good way to track your spending and separate essential costs from everything else. Another option is to record all of your expenses on a spreadsheet. The key is to understand how much you need each month to manage your household.

Once you've figured out how much it costs to keep the lights on, you can decide how much you should stash in an emergency savings account. While someone with a stable job and regular income may be able to get by with three to six months of living expenses in an emergency account, people with erratic incomes need a larger financial cushion. Reid Hartsfield, a certified financial planner in Jacksonville, Fla., recommends keeping six months' to a year's worth of expenses in the account. If your spouse has a job with a regular paycheck, you might be able to get by with less than that (see "How Much to Save for an Emergency," on page 42).

TAXES: PAY AS YOU GO

If you work for yourself, you are responsible for complying with the tax law's pay-as-you-go rules. (After all, there's no employer to dip into each paycheck for Uncle Sam's take.) Failing to pay during the year could trigger underpayment penalties, even if you square up with the IRS on April 15.

For most self-employed taxpayers, that means paying taxes in quarterly installments with Form 1040-ES. For 2015, the first installment was due April 15; the remaining deadlines are June 15, September 15, and January 15, 2016. You don't need to make estimated payments if you expect to owe less than $1,000 for the year beyond what's withheld from paychecks if you're also an employee.

In addition to income taxes, you're responsible for paying Social Security and Medicare taxes. When you're working for someone else, you split the tax with your employer; when you work for yourself, you must pay the entire amount. In 2015, that's 15.3% on the first $118,500 of your net earnings from self-employment; if you earn more than that, you'll still owe the 2.9% Medicare tax. (If you also have a job as an employee, your earnings from that gig count against the $118,500 cap, even though you pay just 50% of the tax on your salary.) The good news is that you can deduct half of the amount you pay on your self-employment earnings when calculating your adjusted gross income on your 1040 tax form.

One strategy for paying estimated taxes is to look at how much you paid in taxes last year, divide it by four and use that figure for your quarterly payments. As long as you pay at least 90% of what you end up owing for the year or 100% of the amount you owed last year (110% if last year's adjusted gross income was more than $150,000), the IRS won't ding you for underpayment penalties. Unless you live in one of the nine states with no income tax, you'll probably need to make quarterly payments to your state too (check with your state's tax agency for details).

If you experience a long dry spell, you can recalculate the amount of your quarterly payments. Use the worksheet on the 1040-ES form to figure the appropriate payments.

It's worth enlisting help from an enrolled agent or certified public accountant, particularly when you're starting out. An experienced tax preparer can also explain how to use the annualized income installment method, which is useful for workers with seasonal income. But hiring a tax pro won't relieve you of the responsibility to put aside enough money from your earnings to cover taxes. Skip this step and underpayment penalties will be the least of your worries. Come April 15, you could end up with a tax bill you can't pay, triggering interest and late-payment penalties on the balance.

Even if your income soars this year, you are protected from the underpayment penalty as long as you have paid 100% (110% for high earners) of last year's bill in estimated payments. Just make sure you're squirrel-

Mortgage Roadblocks

Borrowing Can Be a Hassle

STANDARDS HAVE LOOSENED A BIT IN RECENT years, but mortgage lenders are still reluctant to lend to people who don't have regular income. "As long as banks are focused on steady income, regardless of assets, it will be tougher for self-employed people to get credit," says Lisa Kirchenbauer, a certified financial planner in Arlington, Va. That includes people who work in the real estate industry, says Robin Polder, president of the Des Moines Area Association of Realtors. "One of the anomalies in this business," Polder says, "is that real estate agents have a tough time getting a mortgage loan to buy a home for themselves."

If you're planning to leave your regular job and strike out on your own, apply for a mortgage before you quit, advises Gerri Detweiler, director of consumer education for Credit.com. If you already own a home, apply for a home-equity line of credit before you decide to go solo, even if you don't need the money. With interest rates still low, a HELOC can be a source of low-cost funds in an emergency (see "Get Cash From Your Home," on page 34).

Already self-employed? When you apply for a mortgage, be prepared to provide voluminous documentation, Detweiler says. Make sure your taxes are up-to-date, and keep copies of your bank statements. Download your monthly statements if they're online. And be prepared to answer a lot of questions from lenders. Says Detweiler, "You want to be very clear about what's going in and out of your checking and savings accounts."

ISTOCKPHOTO.COM

ing away enough cash to pay the piper come April 15. Stefanie O'Connell, 28, a New York City actress and writer who blogs about personal finance at www.thebrokeandbeautifullife.com, says she saves 26% of every paycheck she receives to cover taxes. O'Connell, whose acting roles have ranged from Cinderella to a Who in *How the Grinch Stole Christmas,* says she has experienced some lean times but has always had enough money to pay the tax bill.

Some people with irregular income may need to set aside more than that. Jeffrey Schneider, an enrolled agent in Port Saint Lucie, Fla., advises his clients, many of whom are real estate agents, to put aside 40% of their gross income. If that results in a refund when you file your tax return, he recommends applying the money to the first-quarter installment payment due April 15. That gives you until June to come up with the next payment, he says.

Self-employed workers are eligible for a raft of business-related tax breaks for everything from the cost of a home office to health insurance premiums. It's critical, though, to keep scrupulous records of all of your deductible expenses, along with your income. Tax returns that include a Schedule C, which is where sole proprietors report profits or losses from a business, are prime candidates to be scrutinized by IRS agents on the lookout for excessive deductions or for under-reported income.

RETIREMENT: KEEP ON SAVING

When you're living on rice and beans until the next payday, saving for retirement may be the farthest thing from your mind. But unless you want to work forever, you should divert some of your income to a retirement plan. Depending on the type of plan you use, you may be allowed to sock away more money in a tax-advantaged plan than your salaried friends. And a retirement savings plan could take a big bite out of your tax bill. You have several options.

> "Some solo 401(k) plans allow you to borrow up to 50% of the balance."

Roth IRA. Contributions to a Roth are after-tax, so putting money in a Roth won't lower your tax bill. However, Roths offer an important benefit for people with unreliable income. If you find yourself short on money to pay essential bills, you can withdraw the amount of your contributions at any time without paying taxes or penalties. Once you're 59½ and have owned a Roth for at least five years, all withdrawals are tax- and penalty-free.

Another advantage of the Roth is that you can wait until the April 15 tax deadline to make a contribution for the previous year. That gives you more time to come up with the money. In 2015, you can contribute up to $5,500 ($6,500 if you're 50 or older) to a Roth if your modified adjusted gross income is less than $131,000 if you're single or less than $193,000 if you're married and file jointly.

SEP IRA. This plan lets you set aside up to 20% of your self-employment income, up to $53,000 in 2015, and all of that money will be sheltered from the tax man (although you'll be taxed on withdrawals when you take it out). Most brokerage firms, banks and mutual fund companies offer SEPs, and you can usually invest in the same mutual funds, bonds and other investments available to the firm's IRA investors.

You have until the April 15 tax deadline to set up and contribute to a SEP for the previous year, or October 15 if you file for an extension.

Solo 401(k). This plan is restricted to self-employed people or small-business owners who have no employees other than their spouse. It's more complicated than a SEP IRA, but if you're earning enough to set aside a significant amount of money for retirement, it offers a lot of benefits, Hartsfield says. You can contribute as both an employer and an employee, for a maximum 2015 contribution (depending on the level of your self-employment income) of $53,000, or $59,000 for participants age 50 or older. The deadline to set up a plan is December 31; however, you have until the following April 15 to make your annual contribution, or October 15 if you file for an extension.

If your plan provider allows it, you can borrow from your solo 401(k), an option that's not available with a SEP IRA. In most cases, you can borrow up to 50% of the balance. In addition, you can invest some or all of the employee portion of your contributions—up to $18,000 plus catch-up contributions of up to $6,000—in a solo Roth 401(k), if your provider offers that option. As is the case with a regular Roth IRA, contributions to a solo Roth are after-tax, but once you retire, withdrawals will be tax-free. And unlike with regular Roths, there are no income restrictions on contributions to a Roth 401(k).

In the past, solo 401(k)s were more expensive to set up than SEP IRAs. That's no longer the case. Financial firms such as Fidelity Investments and Vanguard Group offer solo 401(k) plans with low (or no) setup and administrative fees. ■

CREDIT»

Get Cash From Your Home

It's easier now to tap the equity in your house, and rates are still attractive. But you'll need a top credit score. BY PATRICIA MERTZ ESSWEIN

WITH HOME PRICES RISING STEADILY OVER the past several years, home-equity borrowing is making a comeback. Loans and lines of credit secured by home equity are more attractive than credit cards and unsecured personal loans because you get a more generous credit limit at a lower cost. The interest you pay is usually tax-deductible, which also trims your cost. The downside: The loan is secured by your home.

The average fixed rate nationally for a home-equity loan was 6.2% as of late April, and the average variable rate for a line of credit was 5.2%, according to HSH.com, which regularly surveys home-equity lenders. But the better your credit score and the more equity you have, the lower the rate you can get. Wells Fargo recently offered a line of credit with a 2.615% fixed rate for the first year and a variable rate as low as prime plus 0% after that. (The prime rate was recently 3.25%.) On the East Coast, TD Bank offered a line of credit at 2.75% (prime minus 0.5 percentage point), with a minimum credit line of $200,000, or a five-year fixed-rate loan at 4.39% for a balance of $50,000 to $99,999.

Most lenders require a minimum FICO credit score of 720 (out of 850) to get the best rates, and impose a maximum combined loan-to-value ratio (LTV) of 80%. That means the balance of your first mortgage plus home-equity debt divided by the current market value of your home can't exceed 0.8, or 80%. (The limit may be lower—70%—for condos and investment properties.) Before the housing bust, many home-equity lenders went as high as a 100% LTV, and a few lenders still offer generous terms. Many homeowners still can't jump the equity hurdle, especially those who bought at the top of the market with little or no money down, then saw the value of their home fall dramatically.

HOW THEY WORK

There are two varieties of home-equity lending. A *home-equity loan* provides a lump-sum payout that may work well for a one-time expense, such as a car purchase or a specific home project. It offers the predictability of a fixed rate of interest and repayment in equal monthly payments over a term of five to 20 years.

A *home-equity line of credit* (HELOC) is a revolving line of credit that you can tap whenever you like by using a check, a credit or debit card connected to the account, or an electronic transfer. You could use it to pay for ongoing or variable expenses, such as college, medical bills or completed phases of a home-renovation project. You'll pay a variable rate of interest on any outstanding balance.

HELOCs provide an initial withdrawal period, usually 10 years, during which you can borrow up to your limit. During the draw period, you may choose whether to repay principal

ILLUSTRATION BY JOHN PATRICK THOMAS

and interest or interest only. You could get hit with a substantially larger payment when the repayment period begins (see the box on page 36).

Because your home secures the debt, the lender could initiate foreclosure if you fail to repay it. However, the holder of your first mortgage must agree, and that's unlikely as long as you continue to make your first-mortgage payments.

SHOPPING SMART

"You're borrowing your own money—your own equity—so you want to shop around for the best terms available," says Keith Gumbinger, vice president of HSH.com. Start with the holder of your first mortgage and the bank where you have your savings and checking accounts. Gumbinger says that smaller lenders, such as savings and loan associations, savings banks, and credit unions, may offer slightly lower rates. Rates from credit unions for loans and lines of credit recently averaged about 0.25 percentage point less than those offered by banks, according to Informa Research Services, which tracks consumer lending.

Wherever you go, you may qualify for a discount of 0.25 or 0.5 percentage point if you open a checking or savings account or arrange for automatic payments. You can check rates online at www.bankrate.com, www.lendingtree.com or www.mybanktracker.com.

Whether you're seeking a loan or a line of credit, a high credit score will help you snag a lower rate (your rate will also depend on the LTV, the term of repayment and the size of the loan or line of credit). Review your credit reports several months before you shop (you can get a free copy of your credit report from each of the three major bureaus once a year from www.annualcreditreport.com) and correct any errors (see "Take Charge of Your Credit," June). Check your credit score, too; you can get a free score from CreditKarma.com.

The interest rate on home-equity loans recently ranged from 3.89% to 9.84%, according to a survey from HSH. Rates on HELOCs ranged from 3.24% to 7.5%. Michele Livingston, director of lending at Umpqua Bank, based in Portland, Ore., cautions that an advertised rate that's unusually low may be available only to borrowers who have the best credit scores and qualify to borrow larger amounts. Rates are so low now that most lenders don't need to offer an introductory, "teaser" rate. But if you are offered one, Livingston recommends that you find out how long it lasts and what the rate will be after it expires.

Closing costs for a home-equity loan can run about 2% of the payout ($600 on a $30,000 loan, for example), which includes transfer taxes, fees for origination, appraisal, recording the loan documents, and a title search, and insurance to protect the lender. Lenders generally charge a flat fee for a HELOC, which can range from a few hundred dollars to $1,000, including the cost of an appraisal. Lenders commonly eat all of the costs except for the appraisal, but they'll impose an early-termination fee equal to the lender's actual closing costs or up to 2% of the outstanding balance if you close the line within two to three years.

Some lenders offer a "loan within a line" type of HELOC. You can convert all or part of your outstanding balance from a variable to a fixed rate and repay that portion over, say, up to 20 years. This option could prove valuable if rates begin to rise.

CROSSING THE FINISH LINE

Taking out a home-equity loan or line of credit is less of a hassle than closing a first mortgage, and you can generally close on the loan within four to six weeks. After you submit an application, the lender will pull your credit report and ask you to document your income with your most recent pay stub and W-2 forms from the past two years. If you're self-employed or want to use interest, dividend or bonus income to qualify, you can expect to turn over tax returns from the past two or three years. The lender may also ask you for proof of hazard and flood insurance for your home.

The lender will also verify the market value of your home. For example, Pentagon Federal will review your property-tax assessment and make an automated valuation based on recent comparable sales or conduct an appraisal. If the no-cost tax assessment supports the amount you want to borrow, PenFed will use it. However, an appraisal (at a cost of $350 to $525) usually produces the highest valuation, and PenFed often requires it when the total amount of the first and second loans exceeds $250,000.

The lender will also conduct a title search to ensure that if you default, it gets reimbursed second, after your first-mortgage lender. Because the title work is more limited than for first mortgages and the loan amount is smaller, the costs of the title work and lender's policy are lower.

As part of the qualification process, lenders calculate your monthly debt-to-income ratio (total monthly debt repayment divided by gross monthly income) to ensure that you can handle the payment. They may set the upper limit at 43%, and if you can't afford the payment based on that limit, they may just reduce the loan amount, says Livingston. Under federal law, you have three business days (including Saturday) after you close to cancel a signed credit agreement without penalty. On the fourth day, you'll receive access to the money.

MANAGING YOUR LOAN

You can probably deduct the interest you pay on up to $100,000 of home-equity debt. That's what the law calls debt secured by your principal residence or a second home that is not used to buy or improve the property. Keep track of how you spend the money you get by tapping your equity because you might qualify to deduct interest on more than $100,000. If you use a HELOC to pay for renovations on your home, for example, that doesn't count against your $100,000 limit. (Instead, it counts against the separate $1 million limit for funds borrowed to buy or improve your home.)

The $100,000 cap applies to borrowing for things such as buying a car, covering the cost of a vacation or paying off credit cards. Trading $10,000 of nondeductible credit card debt at 18% for $10,000 of deductible debt at 4.5% would slice the after-tax carrying costs from $1,800 to $338 a year for a taxpayer in the 25% bracket. (Caveat: Interest on home-equity debt not used for improvements is not deductible if you're subject to the alternative minimum tax.) Be sure to document how you spend the money on home improvements so that you avoid eating away at the home-equity allowance.

If you must sell your home or close a line of credit and incur your lender's prepayment penalty, that amount is deductible as mortgage interest, too. For more information, see IRS Publication 936, *Home Mortgage Interest Deduction,* at www.irs.gov.

Many lenders routinely charge HELOC borrowers an annual fee (typically $50, but as much as $100) after the first year, or they may charge it if you don't meet certain minimums for use (a percentage of the line, average daily balance or number of transactions). They may also charge a transaction fee each time you borrow. ■

KipTip

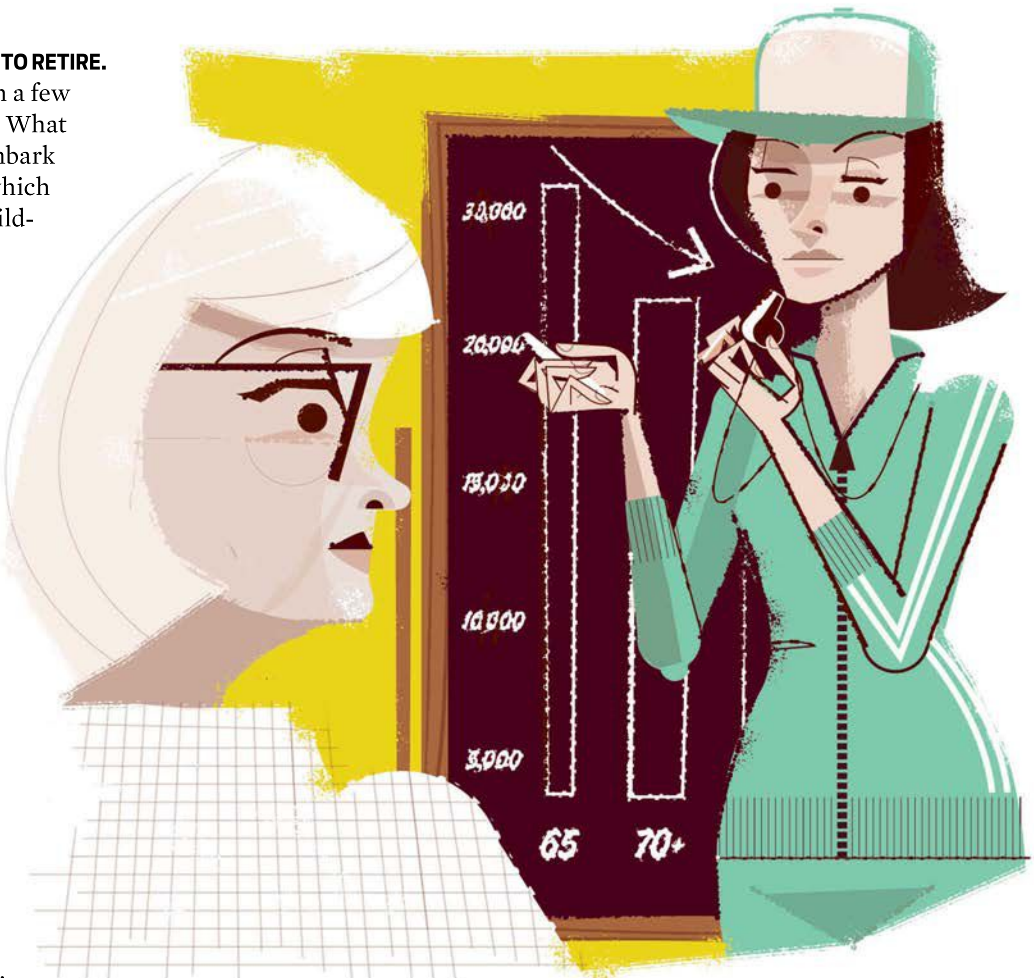
What to Do When the HELOC Is Due

MORE THAN THREE MILLION HOMEOWNERS WHO TOOK HOME-EQUITY LINES of credit between 2005 and 2008 will soon reach the end of their withdrawal period and enter the repayment period, according to RealtyTrac, a supplier of U.S. real estate data. That means they must pay principal and interest, instead of interest only, on any outstanding balance. RealtyTrac figures that the average increase in monthly payments will be $140 in 2015. And more than half of those homeowners are still seriously underwater (they owe more on their homes than they could sell them for), with LTVs of 125% or more, putting them at higher risk of default.

Some lenders reach out to HELOC borrowers in advance of their "reset." But if you haven't heard from yours, consult your loan documents or call your lender to find out what will happen to your payment and when. If you don't think you can handle the new payment, ask your lender if you can refinance into a new home-equity line of credit (with a new draw period) or a loan with a term that gives you a payment you can afford. If you can't qualify for a new loan, your lender may be willing to extend the repayment period of your current loan from, say, 10 years to 15 or 20 years. Because lenders typically hold HELOCs on their own books, they may have the latitude to modify your loan terms, says Keith Gumbinger, of HSH.com.

Put Me In, Coach

A retirement coach can help you create a post-career game plan. **BY JANE BENNETT CLARK**



I DON'T KNOW WHEN I'M GOING TO RETIRE. At my age (63), it could be in a few years or maybe further out. What I do know is that I won't embark on the next phase of life—which could be longer than my childhood, longer than the time it took to raise my family, and longer than my 21-year freelance career—without a game plan.

That's why I had the idea of signing up for a few sessions with a retirement coach. Retirement coaches, who may have a background in psychotherapy, executive training or financial planning, help clients identify their interests and priorities, align their finances with their retirement goals, and give shape to the vast expanse of time that represents life after a career.

After researching coaches in my area (for details on how to find a coach, see the box on page 38), I set up a series of four sessions with Dee Cascio, a certified retirement coach and licensed therapist in Sterling, Va. The cost: $120 for each session, with an optional fifth session thrown in free. Like many coaches, Cascio sees couples as well as individuals and counsels them in person or by phone. I chose phone sessions for convenience.

Assessing readiness. Before our first phone session, Cascio had me fill out the Retirement Success Profile, an online questionnaire that gauges retirement readiness. If anyone could flunk (which the instructions assured me is not possible), I certainly did. How so? The analysis revealed that working is essential to my well-being. Not only does it deliver a paycheck, it also gives me satisfaction, a sense of worth, the opportunity to socialize and built-in time management. Plus, I hate change, my attitude toward leisure is "anemic" (read: I don't have a lot of hobbies) and I'm leery of life transitions. People like me "have anxiety regarding their retirement," the report concludes. "They usually prefer their present situation to the unknown future."

You'd think the solution to all this angst would be to stay on the job as long as possible, or at least continue to write during retirement. Having spent my entire career working with words, however, I'm looking to try

SCOTTY REIFSNYDER

something new. To get a sense of what that might be, I'm tasked by Cascio with outlining my values (maintaining relationships with family and friends tops the list); my interests (cooking, travel and mastering new subjects); and challenges (having enough savings for retirement). She also asks me to imagine a typical day in retirement. I find it surprisingly difficult to populate even one day.

Filling a social gap. One reason my hypothetical day seems so empty, I soon realize, is that it lacks a key ingredient: people. I hope to maintain work friendships once I retire and to spend more time with family, but replacing the day-to-day camaraderie of the office is a worry. That's a typical concern, says Cascio. "It's the first thing people say—'I'll be leaving my friends.'" Further, because I'm single, I can't count on having a built-in companion in my future. (On the bright side, I won't have a stir-crazy spouse underfoot, either.)

Cascio's solution covers both sides of the equation: Set up a routine for seeing friends in retirement—say, by scheduling a weekly lunch, a regular movie night, a daily walk or a weekend expedition to the farmer's market. "You have to think about how to build relationships and expand connections," she says. In my case, she also suggests that I join a group of freelance writers, despite my intention to try something new. "That's something that keeps you in the game," she says.

Exploring the possibilities. Cascio has addressed one worry, but I'm still concerned about having enough activities to fill the day; after all, my interests have been deemed "anemic." In the next session, we discuss options based on the list I provided earlier. Travel? I'd like to, but can't afford regular major trips. She suggests writing about travel or lecturing on a cruise ship about retirement planning to defray costs. I mention going to cooking school. Her response: How about using that as a basis for writing a food blog or getting freelance gigs for a food magazine?

Me: I could take classes at a nearby community college.

Cascio: Why not also teach writing or tutor students?

Sheesh. I thought I was retiring to a life of leisure, but Cascio keeps returning to the idea of working or volunteering or otherwise using my skills. What gives? "We think about work as what we do. Earning money, raising kids, that's work," she says. "Leisure is the break you take from what you're doing, to refresh you." Spending 25 or 30 years of retirement strictly on leisure, be it playing golf or creating pastry swans, isn't satisfying for most people, she says. Better to find a meaningful focus for your days and then build in time to play and relax.

Making a plan. After that pep talk, I consider the skills I could bring to this new form of career. One of them is expertise in college financing, a topic I once covered. Helping prospective college students identify affordable schools and apply for financial aid would be as rewarding for me as it would be useful to them. I also remember that I have two book manuscripts in a drawer, one a children's novel I wrote decades ago and the other a book of cooking advice I wrote for my kids a few years back. I've always meant to revise the manuscripts with the aim of getting them published or publishing them myself. In retirement, I'll have the time.

That's what coaching is all about, says Cascio, "digging around, eliciting your purpose, and appealing to your heart and intellect. At the end of the process, you want to say, 'This is my vision going forward.'"

What I learned from my coaching experience is that the job I have now offers the ideal opportunity to meet people, learn new things, travel to new places and add to savings—the very goals I have for retirement. Rather than walk away completely, I'll keep my hand in, one way or another. ■

KipTip

Find the Right Match

RETIREMENT COACHES CAN ALSO BE LIFE COACHES, FINANCIAL PLANNERS, corporate trainers or psychotherapists. If you're mainly looking for financial planning, go with a certified financial planner who has carved out a niche in retirement coaching. If your goal is to retrain for a new career, look for a coach with expertise as a corporate trainer. Therapists can elicit your hopes and concerns and help formulate strategies, but coaching and therapy are not the same, says Dee Cascio of Sterling, Va., who is certified to do both. "Coaching is more forward-looking than therapy," she says. "It helps you focus."

Coaching sessions range from $75 to $300 or more; figure you'll need at least four to six sessions to get the most out of the process. To search for a coach, go to Retirement Options (www.retirementoptions.com), which provides certification specific to retirement, or the International Coach Federation (www.coachfederation.org), where you can plug in your criteria for a list of candidates who fit the bill. Ask what training their credentials represent, and find out how long they've been practicing in this niche, says Kim Mills, at Retirement Options. "How comfortable would you be working with someone who'd been a retirement coach for only a year?"

Ideally, you should start the coaching process three to five years ahead of retirement, says Cascio, the better to have a plan in place when you leave the workforce. But if you find yourself disappointed or at loose ends in retirement, it's not too late to benefit from a coach's help.

MONEY MANNERS

Who picks up the tab at the restaurant? **BY MIRIAM CROSS**

DINING OUT SHOULD BE AN OPPORTUNITY to relax with friends, impress a client or bond with someone special, not fret over the protocol for paying and tipping. Here's how to handle three awkward situations.

When I try to pay the check, I get an argument. If you have formally invited someone to join you for a meal (for example, "I want to take you out to celebrate"), you're the host—be prepared to pay. But if your guest insists on splitting the tab, accept the offer rather than argue.

When you're determined to treat someone for a special occasion, do some advance planning: Choose a restaurant you know well, arrive early and slip the waiter your credit card with instructions to charge the meal and gratuity to the card.

As the invitee, it doesn't hurt to offer (sincerely) to share the bill; most hosts appreciate the gesture, even if they plan to pay. If you get no for an answer, simply thank your host and say the meal is on you next time. Don't spoil a pleasant occasion by bickering over the bill.

For occasions such as a large birthday dinner at a restaurant that you're not planning to host, let guests know ahead of time that you're putting together a pay-your-own-way type of event, says Daniel Post Senning, spokesman for the Emily Post Institute. Keep your tone casual when spreading the word.

The group wants to split the bill evenly, but my meal costs less. Light eaters or sparing drinkers may resent having to subsidize their tablemates' lobster entrees or bottles of wine. If you're out with a regular group of friends and suspect you'll end up feeling stiffed, request a separate check from your server—but do so when he or she is taking your order, says etiquette expert Diane Gottsman. (Volunteer an explanation to your friends if you like, such as "I'm just having a salad tonight" or "I'm sticking with water this time.") Once everyone is throwing their credit cards down for the waiter to charge equally, you've missed the chance to bow out gracefully.

In other situations—especially business contexts—avoid the nickel-and-diming. "You run the risk of looking cheap," says Gottsman. Instead, be prepared to fork over your equal share and enjoy the group experience.

I noticed my host left a terrible tip. Much as you might like to add to the tip yourself, "that's making a comment on the generosity of your host," says Post Senning. He advises dropping the issue altogether. If your conscience won't let you short-change the waiter by proxy, however, walk out with your host and say good-bye, then discreetly return to make up the difference, advises Gottsman. ■

PATRICK GEORGE

Inside Scoop
THE APPLE STORE

IT IS A POINT OF PRIDE WITH APPLE that its products usually command full retail price. And if you drop your iPhone or if your MacBook fizzles, the financial fallout can be considerable. Take heart. We talked to employees and scoured Apple's forums for money-saving tips on purchases and repairs.

Apple will match prices. You'll get a discount of up to 10% if you show that one of its products is less at another brick-and-mortar store (Amazon and eBay don't count). This is especially useful for accessories, which often go on sale at rival retailers.

Get discounts year-round. The student discount on new computers continues after Apple's back-to-school promotion ends. You can also get a discount if you're an educator, government employee or member of the military. That could save you from $50 to more than $200.

AppleCare+ is worth a look. Especially for an iPhone. You'll pay $99 for iPhone coverage, which extends the one-year warranty to two years and covers two incidents of damage, no questions asked (although each repair not covered under warranty will set you back $79 for a service charge). If you're not covered and an Apple genius tells you that you need a new phone, you'll pay, say, $299 to replace an iPhone 6.

Third-party repairs may cost you in the long run. Repairs not done by Apple or its authorized service providers invalidate your warranty. **RYAN ERMEY**

KIMBERLY LANKFORD > Ask Kim

Snowbirds: Don't Get Clipped

"Some states, such as New York, may challenge part-year residents who claim they live in a lower-tax state such as Florida."

I'M CONSIDERING MOVING TO another state when I retire and spending part of the year where I live now. How do I establish that I live in the lower-tax state?

M.S., NEW YORK CITY

Snowbirds need to keep records proving their state of residency. Some states, such as New York, may challenge part-year residents who claim they live in a lower-tax state such as Florida. You must be able to prove that you spent the majority of the year in the lower-tax state. "Keep a diary that shows where you were every day," says Michael Goodman, a CPA in New York City. It also helps to get a driver's license, register your car, register to vote and do your primary banking in the lower-tax state. List that state on all legal documents and submit a "Declaration of Domicile" form there, says Terry Seaton, a CPA in St. Augustine, Fla. Your new state may not require all of these actions for the purpose of establishing residency, but they help prove to your old state that you've made an effort to become a resident of the new one.

Roth 401(k). *My wife just started a new job that offers a Roth 401(k). Neither of us has worked for a company that offered this option before, and we earn too much to contribute to Roth IRAs. Should she contribute to the Roth 401(k) or stick with the traditional 401(k)?*

J.B., PHILADELPHIA

She should definitely consider making Roth 401(k) contributions if most of your combined retirement savings is tax-deferred in 401(k)s or traditional IRAs. Contributing some money to a Roth 401(k) helps diversify your tax situation. She won't get a tax break for her contributions now, but she can withdraw the money tax-free in retirement.

You can each contribute up to $18,000 (or $24,000 if you are 50 or older) to any kind of 401(k) in 2015—a Roth 401(k), a traditional 401(k) or a combination of the two. If you expect your tax rate to drop 10 percentage points or more in retirement and you're older than age 50, then the traditional 401(k) could provide more spendable income, says Stuart Ritter, a certified financial planner with T. Rowe Price. But you still may want to contribute to the Roth 401(k) because of the flexibility and tax diversification, he says. Roth withdrawals are not included in your adjusted gross income, which can give you more control over your tax bracket in retirement and may also keep you below the income trigger for the Medicare high-income surcharge.

Education tax breaks. *Do online college courses qualify for the American Opportunity and Lifetime Learning tax credits, or do only classes taken in person at a brick-and-mortar college qualify?*

N.F., BELTSVILLE, MD.

Whether you take a class online or in person doesn't matter; what matters is which institution is offering it. "The school must be accredited and eligible for federal financial aid," says Mark Kantrowitz, publisher of Edvisors.com. Check eligibility at www.fafsa.ed.gov.

To qualify for the American Opportunity Credit, you must also be enrolled at least half-time in a program leading to a degree or other credential and be in the first four years of postsecondary education. And your income cannot exceed certain limits: in 2015, a modified adjusted gross income of less than $90,000 if you're single or $180,000 if you're married filing jointly. For the Lifetime Learning Credit, there's no requirement that you attend school half-time, but your MAGI must be less than $65,000 if you're single or $130,000 if you're married filing jointly. ■

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

LISE METZGER

PESKYMONKEY/GETTY IMAGES

TRAVEL »

Best Ways to Pay Overseas

Don't let fees and unfavorable exchange rates drive up the cost of your vacation. BY SANDRA BLOCK

ALTHOUGH THE STRONG DOLLAR is encouraging Americans to venture abroad in search of bargains, stealthy fees and bad deals on exchange rates could still drive up the cost of swapping dollars for foreign currency.

Credit cards. Use plastic whenever possible; you will get a better exchange rate than at an ATM or exchange bureau. Recently, for example, the exchange rate through Visa was 0.903 euros for one dollar, compared with 0.798 from Travelex, one of the largest currency-exchange bureaus. On $1,000, that's a difference of 105 euros.

A lot of credit cards still charge a foreign-transaction fee, typically 3% of your purchase. But the number of no-fee cards has risen in recent years. Four major issuers—Capital One, Discover, HSBC and Pentagon Federal Credit Union—don't apply foreign-transaction fees to any of their cards. Most other major issuers offer a mix of fee and no-fee cards. You can search for no-fee cards at CreditCards.com and NerdWallet.com (see "Those #%$! Fees," June).

It's also useful to have a credit card that has a smart chip (a built-in microprocessor that provides an extra level of security) and that uses a personal identification number instead of a signature to verify your purchase. These cards are more widely used in Europe than those with just a magnetic stripe. Chip cards are expected to become widely available in the U.S. by next year. In the meantime, some credit unions, such as PenFed, offer chip-and-PIN cards with no annual fee. The **BARCLAYCARD ARRIVAL PLUS WORLD ELITE MASTERCARD** offers a chip and PIN as well as generous rewards (the $89 annual fee is waived the first year).

Most major retailers and hotels abroad will accept your magnetic-stripe card or one that has a chip but only requires your signature. But the card may not work at some self-service gas stations and automated ticket kiosks, says Matt Schulz, senior industry analyst at CreditCards.com.

When you make credit card purchases, some retailers may ask if you want to pay in dollars instead of the local currency. That's never a good deal, says Ed Perkins, a contributing editor at SmarterTravel.com. Retailers can't get the wholesale exchange rate available to credit card issuers, and they may mark up the rate to pad their pockets.

Cash. When you need pocket money, use your debit card at a bank ATM. You'll get a much more favorable exchange rate than those offered by foreign-exchange bureaus. You may be able to avoid out-of-network fees by using ATMs owned by your bank or its overseas partners. Some accounts, such as Schwab Bank High-Yield Investor Checking, refund all ATM fees.

Beware, though, of exchange bureaus that masquerade as ATMs. Increasingly, ATMs at major European airports are run by retail foreign-exchange outlets, such as Travelex, Perkins says. The signs on the ATMs promote free withdrawals, but you'll pay a much higher exchange rate than you'd get from a bank ATM, he says.

Before you leave home, check your bank's ATM locator. Visa's and MasterCard's ATM locators can tell you whether there are other bank ATMs at the airport. Just in case, bring along enough local currency to pay for cab fare to your hotel, where you should be able to find a friendly ATM. ■

CREDIT »

How Much to Save for an Emergency

A SOUND FINANCIAL PLAN begins with stashing a pile of cash that you can tap in case of an emergency. Experts differ on how much you need to set aside, from as little as three months' worth to as much as a year's worth of living expenses. How much *you* need may depend on your personal profile.

Now, HelloWallet, a developer of personal finance software, has created a tool that can help you nail down the amount that's right for you. At www.hellowallet.com/emergencysavings, you'll enter information including your take-home pay, regular monthly expenses, whether you rent or own your home, and your health insurance policy's annual deductible and out-of-pocket maximum. The tool then estimates the amount of easily accessible savings you should have in the event of a minor emergency, a major emergency or a layoff from work. Starting from the ground up? You can use each figure as an incremental goal toward building your emergency fund. To track your regular monthly expenses, use a budgeting site such as Mint.com so you can link your bank, credit card and other financial accounts.

The best place to keep your emergency fund is in a savings or money market deposit account with a high yield and no monthly fee or minimum-balance requirement. (Watch out for fees for leaving the account inactive.) GE Capital Bank, My Savings Direct and Synchrony Bank offer accounts that yield 1.05% without minimum-balance requirements or fees (Synchrony will charge you $5 a month if your balance drops below $30). The trick to successful saving is to pay yourself first; schedule automatic transfers into savings from your checking account after each paycheck arrives.

LISA GERSTNER

Kiplinger.com

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%	0.10%	0.10%
U.S. Series I savings bonds	0.00	1.48	1.84
Six-month Treasury bills	0.08	0.10	0.05
Five-year Treasury notes	1.54	1.31	1.68
Ten-year Treasury notes	2.19	1.92	2.63

As of May 5, 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.

SOURCE FOR TREASURIES: U.S. Treasury.

TOP-YIELDING MONEY MARKET ACCOUNTS

Taxable Funds	30-day yield as of April 28	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 April 27	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 May 5	Min. deposit	Web site (www.)
GE Capital Bank (Ill.)†	1.05%	none	gecapitalbank.com
My Savings Direct (N.Y.)†	1.05	$1	mysavingsdirect.com
Synchrony Bank (N.J.)†	1.05	30	myoptimizerplus.com
EverBank (Fla.)†	1.01	1,500	everbank.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. †Internet only. #Deposit accounts include money market deposit accounts and high-yield savings accounts. 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 May 5	Min. amount	Web site (www.)
Colorado Federal Savings Bank (Colo.)	1.35%	$5,000	coloradofederalbank.com
Chartway Fed Credit Union (Va.)*	1.31	2,500	chartway.com
Pentagon Federal Credit Union (Va.)*	1.25	1,000	penfed.org
Synchrony Bank (N.J.)†	1.23	2,000	myoptimizerplus.com
NATIONAL AVERAGE	**0.27%**		

5-Year	Annual yield as of May 5	Min. amount	Web site (www.)
Barclays Bank (Del.)†	2.25%	none	banking.barclaysus.com
Synchrony Bank (N.J.)†	2.25	$25,000	myoptimizerplus.com
Home Savings Bank (Utah)	2.15	10,000	hsbutah.com
First Internet Bank of Indiana (Ind.)†	2.12	1,000	firstib.com
NATIONAL AVERAGE	**0.88%**		

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

LOW-RATE CREDIT CARDS

Issuer	Rate as of May 5*	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

RETAIL REBATE CARDS

Issuer	Rate as of May 5*	Annual fee	Rebate earned store/other	Web site (www.)
Barnes & Noble MasterCard	13.99%	none	5%/1%	barnesandnoble.com
Amazon.com Rewards Visa	14.24	none	3/1‡	amazon.com/rewards
Costco True Earnings Card	15.24	none§	1/1&	americanexpress.com

Rates are adjustable. *If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (P) Platinum. †$35 if late more than once in 6 months. #Must be a member of the credit union; to become a member, see Web site. ‡2% at gas stations, restaurants, office supply stores and drugstores; 1% on all other purchases. §Must be a Costco member. &3% on gas (up to $4,000 annually; 1% thereafter); 2% on restaurants and travel; 1% on all other purchases. SOURCE: Bankrate.com. Banks may offer lower introductory rates.

Where to Put Your Money Now

The higher the stock market climbs, the harder it is to score big gains. You may find better opportunities abroad.

BY ANNE KATES SMITH

AS THIS BULL MARKET HEADS DEEPER into its seventh year—a remarkable feat accomplished only three other times in the past 85 years—investors have every right to reevaluate their strategy. Is it time to defend your portfolio against the long list of challenges that could finally best an aging bull? Or should we continue to bet on the resilience of a stock market that has time and again punished non-believers? In other words, what are we dealing with here? A super bull? Or one on its last legs? // We're not ducking the question when we say it's a little of both. We're basically sticking with our forecast that Standard & Poor's 500-stock index

ILLUSTRATIONS BY DAN PAGE

will finish 2015 at about 2200 (equivalent to roughly 19,000 for the Dow Jones industrial average), though what seemed conservative in January may appear a touch optimistic today. Taking into consideration the stock market's average dividend yield of 2%, that implies that investors could see a total return of 9% for the year. (The S&P 500 and the Dow closed at 2108 and 18,024, respectively, on May 1; all prices and yields are as of that day.)

That's a more modest advance than we've become accustomed to; the market has returned nearly 23% a year on average since the bull market began in March 2009. And gains might not come easily. "We envision a grind-it-out year," says Chris Hyzy, chief investment officer of U.S. Trust. "The light is green—not yellow or red, but not an all-systems-go green, either."

Investors will do best in this market by being tactical. That means picking up bargains on down days or using rallies to pare back your stock holdings (see the box on page 49.). In general, we favor stocks over bonds and see increasing opportunities overseas. By no means should you abandon U.S. stocks, but being more defensive—favoring large-capitalization stocks over smaller-cap fare, for example—might be in order. You may also want to focus on companies that will benefit from a stronger economy. (For more strategy, see the interview at right.)

Having a plan helps when the going gets rough. The stock market was relatively placid in 2013 and for most of 2014, but increasing volatility has unnerved many investors. "Stocks are priced for perfection, with a margin of error that continues to narrow," says Terry Sandven, chief stock strategist at U.S. Bank. "That explains the volatility." He predicts that stocks will be buffeted by the economic statistic du jour, giving investors plenty of opportunities to buy on dips. Stocks have not seen a correction (generally defined as a decline of 10% to 20%) since 2011, although they usually occur an average of every two years. "Any weakness is a pause that refreshes and resets—not the start of a prolonged bear market," Sandven says.

A key issue for stocks is whether corporate earnings can get back on track. Last fall, analysts were estimating double-digit-percentage profit growth for 2015. But following a collapse in oil prices and a surge in the dollar, they slashed their forecasts. Strategists at Bank of America Merrill Lynch, for example, expect profits for companies in the S&P 500 to decline by 1% this year, primarily because of the 45% drop in oil prices and the 20% increase in the value of the dollar since June 2014. If they're right, the S&P 500 will log its first annual earnings decline since 2008. Excluding those two factors, BofA estimates that profits would be up 10% this year. (The table on page 48 shows how profit growth has tracked stock market returns over the past 10 years.)

Analysts, who are often accused of wearing rose-colored glasses, may

Q&A WITH RUSS KOESTERICH

Modest Gains, More Volatility

THAYER ALLYSON GOWDY

Russ Koesterich is global chief investment strategist at BlackRock, an investment firm with $4.8 trillion under management.

How much life is left in this bull market? Stocks can go higher, but that is likely to happen with more volatility. I think the bull market will celebrate its seventh anniversary next March, and the next bear market can be pushed out to later in 2016 or 2017. But the risk will go up as the Federal Reserve Board continues to normalize monetary policy and investors lose that pillar of easy money propping up financial assets.

When do you expect the Fed to raise rates? The Fed will start to nudge rates higher in the fall. It won't be the end of the world; the Fed will move at a slow and measured pace, and it's starting from a very low rate. But the odds of a correction go up the closer we get to liftoff.

Are stocks overpriced? Valuations are stretched—not obscenely so, but a bit above average. U.S. stocks are also expensive compared with those in markets outside the U.S. Whether you call stocks fully valued or just think prices are stretched, you've got to have more modest expectations for annual returns over the next five years—probably in the mid-single-digit percentages, including dividends.

Should investors take some money off the table? In this environment, it's reasonable to hold more cash. The problem is that this has become a semi-permanent position for many people who never came back after the trauma of the last bear market. Holding a lot of cash yielding zero is a hard way to save for retirement.

Where do you see opportunity? Prices in Japan are reasonable. Gains there have been driven by earnings growth, not by investors paying more for those earnings, as has been occurring here and in Europe. We still see opportunities in Europe, but you should look for a fund that hedges out all or most of the currency risk. People got frightened away from emerging markets, but there have been some promising reforms, and those parts of the world will grow quickly. People should exercise caution with emerging markets, not practice abstinence.

have overdone the gloom and doom this time. As of early May, 68% of S&P 500 companies that had reported first-quarter earnings beat analysts' lowered expectations; 63% do so in a typical quarter. Plus, the dollar and oil prices have stabilized recently, and we believe the biggest moves are behind us. With companies having adjusted for the price swings already, earnings comparisons with year-ago periods will start looking up, and investors will begin to anticipate better earnings growth in 2016. "Underlying revenue and earnings growth that's pretty darn good is being temporarily obscured by the dollar," says Matt Berler, CEO of Osterweis Capital Management. As for oil, he adds, if the first consequence of lower prices is a drop in energy profits, the second and more important effect is the boost that cheaper energy gives the global economy. "In the U.S., a quick hit to economic growth and earnings will translate into a positive as the consumer spends that energy dividend," he says.

For now, though, stock market bulls must look past lackluster economic growth early in 2015. After generating 2.2% growth in the fourth quarter of 2014, the economy stalled in the first quarter of this year, performing far worse than expected.

Blame much of the drag on dollar-induced trade woes and spending cuts in the oil patch. Making matters worse, labor strikes at West Coast ports worsened the trade deficit, and

THE BULL MARKET WILL CELEBRATE ITS SEVENTH BIRTHDAY NEXT MARCH, SAYS RUSS KOESTERICH.

What looks good in the U.S.? Look for companies that will benefit from a stronger economic environment. We like technology firms. A lot of what I call old tech—hardware, semiconductor and software makers—is reasonably valued, given how profitable many of these companies are. We like some of the beaten-up energy companies, particularly large, integrated companies that offer a decent dividend yield. Lastly, we like some of the large, global investment banks. There's a dichotomy between those companies and traditional lenders, who are struggling; it's hard to make money when rates are this low. On the flip side, we have seen a surge in mergers and acquisitions and currency trading; companies with those operations have benefited.

Do you have any advice for fixed-income investors? Investors looking for yield should cast a wide net. You don't want to take more risk by buying long-maturity Treasury bonds. Go further afield, with dividend-paying stocks—although in the U.S. they're expensive, so I'd suggest a global or international fund that focuses on dividends. Tax-exempt municipal bonds are attractive relative to taxable alternatives; aggressive investors can consider high-yield bonds. More-esoteric bond substitutes include preferred stocks and master limited partnerships.

What's the biggest risk facing investors? The U.S. economy is not at risk of recession, but it may disappoint by not growing as much as people expect it to. It may be that the economy trudges along at a 2% growth rate and the earnings growth that investors expect doesn't materialize. It's a prosaic risk but one we should all be aware of. **ANNE KATES SMITH**

a brutal winter sent shoppers into hibernation. A build-up in inventories that contributed to growth in the first quarter will have to be worked down in future quarters, pressuring GDP.

The economy should bounce back in the second half of the year, buoyed by a strengthening housing market and improving consumer spending. But the poor early showing will curtail U.S. growth for the full year. Kiplinger now expects real GDP growth of 2.6% in 2015, though the economy may surprise us with its vigor.

●● THE FED GUESSING GAME

The recent economic uncertainty has Federal Reserve watchers wondering about the timing of a long-awaited hike in short-term interest rates. Kiplinger expects the central bank to raise the federal funds rate—the rate that banks charge each other for overnight loans—by a quarter of a percentage point in September at the earliest. The rate is currently near zero. Look for the yield on the benchmark 10-year Treasury, which is set by investors in the bond market, to end the year at 2.4%, up from 2.1% today.

As long as rates stay low, yield-seeking investors will have to hunt for income. With nearly half of S&P 500 companies sporting yields greater than that of the 10-year Treasury, investing in dividend-paying stocks is a no-brainer. You'll find dependable dividend growers in Kiplinger 25 member **VANGUARD DIVIDEND GROWTH (SYMBOL VIDGX)**, which has a defensive tilt that stands up well to volatile markets. (For more ideas, see "9 Funds for a Rainy Day," on page 53.) Or, says Osterweis's Berler, go off the beaten track with **CONE MIDSTREAM (CNNX, $18)**, a master limited partnership that builds and operates natural gas pipelines as well as compression and processing facilities in the Marcellus Shale region of Pennsylvania and West Virginia. Cone yields 4.7%. (Note: Familiarize yourself with MLP tax rules before you invest.)

Despite Treasury bonds' reputation for safety, ultralow yields make them risky now. At the first whiff of inflation, yields will almost surely rise and the prices of long-term bonds plummet, says money manager Martin Sass, of MD Sass Investments. "Buying government bonds now is like picking up nickels in front of a steam roller," says Sass. (For more on the bond market, see "Income Investing," on page 59.)

So far, inflation remains not only under control but also well under the Fed's target growth rate. We think that the core rate of inflation, which excludes food and energy prices, will rise by about 1.7% in 2015, barely higher than last year's 1.6% rate. The unemployment rate is likely to finish the year at 5.1%, down from 5.4% recently, ratcheting wage growth in 2015 to 2.5%, from 2% last year—not enough to spark inflation worries (see "Ahead," on page 11).

For stock investors looking ahead to the Fed's first rate hike since 2006, timing is less important than whether the central bank moves gradually and with a lot of warning. If that's the case (and that is what most economists expect), investors will have plenty of time before the market peaks, says Burt White, chief investment officer at LPL Financial, a brokerage firm. "We're in the second half of the bull market, but people think we're closer to the end than we are," says White. Looking at the past nine initial Fed rate hikes, he notes that, on average, bull markets generate nearly 40% of their gains after the first increase.

It goes without saying that this market is anything but average, considering the unprecedented expansion of the supply of money around the globe. Will investors one day pay for super-easy policies that have kept interest rates near zero and flooded the world with money, courtesy of massive bond purchases by central banks in the U.S., Europe and Japan? "Our long-term view is that the extraordinary amount of global monetary stimulus has led to an asset bubble in both stocks and bonds," says Tony Roth, chief investment officer of Wilmington Trust. "We're living off one stimulus announcement to the next. There could be a huge correction at some point when there's no more juice in this lemon to squeeze."

Even Fed chairman Janet Yellen has expressed concern about stock prices, which she recently deemed "quite high." But by many measures, the market has room to run. True, stocks in the S&P 500 are trading at 18 times estimated earnings for the coming four quarters, above the historical average of 15. But they're not dramatically overpriced based on other yardsticks, such as price to book value (see the table on page 50). The S&P is up 34% from its peak before the devastating 2007–09 bear market, well below average peak-to-peak gains going back to 1957, says BofA. Since its pre-recession peak, the economy has grown by less than 9%; with one exception, peak-to-peak growth going back to 1957 has

Earnings Slowdown

PROFITS VS. RETURNS

Stock prices and earnings don't always move in lock step, but they are tracking each other closely so far in 2015. Stocks should improve later this year as investors begin to anticipate better profits in 2016.

S&P 500 INDEX		
Year	% change in operating earnings from the previous year	Total return
2006	14.7%	15.8%
2007	–5.9	5.5
2008	–40.0	–37.0
2009	14.8	26.5
2010	47.3	15.1
2011	15.1	2.1
2012	0.4	16.0
2013	10.8	32.4
2014	5.3	13.7
2015	5.3*	3.0†
2016	12.7*	—

*Based on analysts' estimates. †As of May 1. SOURCES: Morningstar, S&P Dow Jones Indices, Thomson Reuters.

ranged from 11% to 50%. Nor have the number of mergers, acquisitions and initial public offerings reached their past highs. And perhaps most important, "compared with other alternatives, stocks still look attractive," says Edward Jones strategist Kate Warne.

But you need to be choosy. This year, investors have flocked to small-company stocks, because they are more likely than big firms to derive most of their sales domestically, and that makes them less susceptible to the risks of a strong dollar. But large-cap stocks have advantages in a market in which economic growth is uncertain and global concerns are elevated—such as the continuing worries about whether Greece will default on its debt and leave the euro zone. Blue chips are easily traded, their earnings prospects are easier to predict, and they usually offer the cushion of a dividend yield.

Red Flags

Three Ways to Protect Your Stock Gains

MOST INVESTORS HAVE LEARNED (sometimes the hard way) that what goes way up can also go way down. Although the preconditions for a bear market don't seem to be in place, stocks, especially U.S. stocks, are not cheap. So it is a good time to start thinking about how to protect the gains you've made since the bull market began in 2009.

One tactic to use sparingly is the stop-loss order, which triggers the sale of a stock (or an exchange-traded fund) once the security drops to a price you designate beforehand. In volatile markets, stop-loss orders can be dangerous because a temporary drop can trigger the sale of a stock you want to keep. Here are three other ideas for mitigating risk that seem more appealing.

1 Trim your stock holdings. The simplest tack is to cut the percentage of your portfolio that's devoted to stocks. We're not suggesting that you sell everything in anticipation of a bear market. That's market timing, and few people can do it consistently well enough to make it worthwhile. But if, say, you have 80% of your portfolio in stocks, you may want to consider trimming the allocation to 70% or 60%. Let your time horizon and tolerance for risk and potential losses dictate the amount of the reduction.

Don't forget that selling can have tax consequences. One simple rule of thumb: Realize capital gains in tax-deferred accounts, and take losses in taxable accounts. You may want to consult your tax adviser before acting.

2 Diversify your stocks widely. Because U.S. stocks have left nearly all other investments in the dust over the past few years, they may have come to dominate your portfolio. So make sure you have adequate exposure to foreign stocks, which as a group are cheaper than U.S. stocks and have perked up this year. "Everybody wants to own the S&P 500," says San Francisco money manager Steve Janachowski. "But the U.S. market is arguably the most overvalued market in the world. If you don't diversify, you're taking a big risk."

Although markets are more closely linked than they once were, the case for diversification remains strong. Most of the time, different kinds of stocks—including growth stocks, small-company stocks, foreign stocks, real estate investment trusts and other big dividend payers—perform differently enough to justify holding a little bit of all of them. That way, your holdings won't retreat at the same rate and the same time when a bear market strikes. True, if we have a repeat of the financial crisis, during which almost every stock category imploded, diversification won't help much. But chances are good that the 2007–09 bear market was a once-in-a-generation or maybe even once-in-a-lifetime event.

3 Hedge your bets. If you're nervous about stocks, but tax or legal issues (such as having assets tied up in a divorce) make it impractical to sell, buying a "put" option on a market index is a reasonable strategy. A put gives you the right, but not the obligation, to sell an investment at a fixed price by a certain date. You pay a price for that protection akin to an insurance premium, and if the market doesn't fall, you can lose all the money you invested in the put.

A way to hedge without having to worry about a time limitation is to buy an exchange-traded fund that performs inversely with the stock market. For example, ProShares Short S&P 500 (symbol SH) seeks to move in the opposite direction of the S&P 500. Although the ETF has performed miserably during the bull market, it shined in 2008, soaring 38.9%, while the S&P 500 plummeted 37.0%. **KATHY KRISTOF**

Consider holding more foreign stocks—particularly those in developed markets—than you'd normally own. "We still have an overwhelming bias toward the U.S., but we're at the highest weighting for Europe and Japan in seven years," says U.S. Trust's Hyzy. Economies in Europe and Japan are benefiting from extensive monetary stimulus from their respective central banks, lower oil prices (both are big importers) and lower currency values relative to the dollar, which boosts exports.

A broad-based international fund is a good way to branch out overseas. **ARTISAN INTERNATIONAL (ARTIX)**, a member of the Kiplinger 25, had 44% of its assets in Europe's developed economies at last report and 12% in Japan. Manager Mark Yockey says European companies, exemplified by **NESTLÉ (NSRGY, $78)**, the Swiss food giant, know how to build brands. Nestlé owns more than 20 brands that each generate at least $1 billion in annual sales, Yockey says. In Japan, he likes **TOYOTA MOTOR (TM, $140)**. (Both stocks trade in the U.S. as American depositary receipts.)

Any further rise in the dollar is likely to be modest and gradual. If you don't want to worry about a rising dollar eroding investment profits, consider **FMI INTERNATIONAL (FMIJX)**, another Kip 25 fund. This fund, which hedges against currency swings, has 28% of its assets in developed Europe and 10% in Japan. Or try **DEUTSCHE X-TRACKERS MSCI EAFE HEDGED EQUITY (DBEF)**, an exchange-traded fund broadly diversified across developed foreign markets (see "ETF Spotlight," Feb.).

In the U.S., focus on defensive sectors, such as health care, and those that could prosper as the economy rebounds in the second half of 2015. **VANGUARD HEALTH CARE (VGHCX)** has delivered impressive returns at low cost and with a relatively smooth ride considering its focus on a single sector. Technology companies such as **INTEL (INTC, $33)** and **MICROSOFT (MSFT, $49)** should get a boost from a stronger labor market, as companies upgrade their systems to accommodate new employees. Retailers, restaurants and other firms that offer nonessential consumer goods or services will benefit from a long-awaited loosening of purse strings. **DICK'S SPORTING GOODS (DKS, $55)** sells an attractive mix of high-performance gear and sports apparel. Cash in on housing gains with **SPDR S&P HOMEBUILDERS ETF (XHB)**, which provides exposure not only to builders but also to makers of appliances and building products, as well as home-furnishing and home-improvement retailers. ■

Four Measures

IS THE STOCK MARKET REALLY OVERVALUED?

Only on the basis of the Shiller price-earnings ratio, which is based on average inflation-adjusted earnings over the previous 10 years, does the U.S. market look wildly overvalued.

Metric	Valuation				% above average
	Current	Average	Minimum	Maximum	
Price to trailing earnings*	18.7	16.0	6.7	30.5	17%
Price to estimated earnings†	17.7	15.1	9.7	25.1	17
Shiller price-earnings ratio#	27.1	16.6	4.8	44.2	63
Price to book value†	2.9	2.9	1.6	5.9	0

As of May 1. *Data from 1960 on. †Data from 1986 on. #Data from 1881 on. SOURCES: Bank of America Merrill Lynch, Standard & Poor's Dow Jones Indices, Thomson Reuters, Yahoo.

Good Values

Five Timely Stock Picks

■ **Affiliated Managers Group (symbol AMG, $226).** AMG delivers consistent earnings growth by acquiring majority stakes in investment managers that advise mutual funds, institutions and wealthy individuals. Through its affiliates, including Yacktman Asset Management and Tweedy, Browne Co., AMG has nearly $640 billion under management. Analysts on average see profits surging 20% this year and 14% in 2016.

■ **Google (GOOGL, $551).** Shares of the dominant Internet search company have been sluggish the past year, partially because of antitrust hurdles in Europe and concerns about moderating growth. But a new chief financial officer is expected to plump profit margins and return the company to a 15%-per-year earnings-growth trajectory. Google may be "the most undervalued name in the stock market today," says Matt Berler, of Osterweis Capital Management.

■ **McDonald's (MCD, $98).** Hurt by strong competition, changing consumer tastes and, more recently, a strong dollar, McDonald's earnings have been under pressure the past few years, and the stock is 4% below where it traded in early 2012. But hamburgers haven't gone out of style, says Joseph Zock, of Tocqueville Asset Management, and McDonald's remains a dominant player run by a new CEO with a comeback plan. Plus, the stock yields 3.5%.

■ **TRI Pointe Homes (TPH, $14).** TRI Pointe is the minnow that swallowed the whale. Backed by Starwood Capital, TRI Pointe went public in 2013 and merged last year with the homebuilding unit of forest products giant Weyerhaeuser. TRI Pointe, which operates in eight states, should benefit from a stronger housing market. Analysts see earnings doubling this year.

■ **VF Corp. (VFC, $72).** The apparel giant has grown by acquiring leading apparel and footwear brands, including The North Face and Timberland. VF's functional lifestyle clothing appeals to trail hikers and urban walkers alike, says Mark Dawson, chief investment officer of Rainier Investment Management. International expansion and highly profitable Internet sales are growth areas. VF has raised its dividend at an annual rate of 17% over the past decade.

ANDREW FEINBERG > Promised Land

A Value Guru Bets on Biotech

> “Klarman was prescient in recognizing that the genomics revolution would supercharge the biotech industry.”

Seth Klarman, who has managed the Baupost Group hedge fund since its founding 33 years ago, is a legendary value investor. A sign of the esteem in which he is held is that *Margin of Safety,* which he wrote in 1991, has become a cult classic. Warren Buffett is rumored to keep a copy near his desk; if you want your own copy, the book, which is out of print, will set you back $1,940 on Amazon. So it has come as something of a shock to Klarman's bargain-hunting devotees that their hero has emerged in recent years as a wildly successful investor in biotechnology stocks. Biotech? Buffett never touches the stuff. What does Klarman see that the master doesn't?

Klarman, whose hedge fund today manages $29 billion, wouldn't respond to questions. But a comment in a letter he sent to his shareholders last year suggests that he has changed with the times. When he sent the letter, he had just quintupled his money in Idenix, a maker of hepatitis C drugs, after it was acquired by Merck, and the biotech portion of his stock portfolio had swollen to 37%. Wrote Klarman: “I am ... pleased that this old dog (your Portfolio Manager) is still open (I'm always cautious but open) to learning a few new tricks.”

Klarman was prescient in recognizing that the genomics revolution would supercharge the biotech industry, radically improving the odds of creating successful new drugs. As young biotech firms developed exciting new compounds, larger companies would fight over them, eventually offering billions of dollars for companies that did not yet even have drugs on the market.

That insight paid off big for Klarman and other biotech investors. Over the past five years, iShares Nasdaq Biotechnology (symbol IBB), an exchange-traded fund that tracks the sector, returned a whopping 30.7% annualized, more than twice the gain of Standard & Poor's 500-stock index.

At the end of 2014, Baupost Group owned seven biotech stocks: **ATARA BIOTHERAPEUTICS (ATRA, $40), FORWARD PHARMA (FWP, $30),** Keryx Biopharmaceuticals (KERX, $11), Kindred Biosciences (KIN, $7), Paratek Pharmaceuticals (PRTK, $26), Theravance (THRX, $17) and Theravance Biopharma (TBPH, $17). (My fund owns Atara, Forward and Paratek; share prices are as of May 1.)

Klarman often reduces risk by picking stocks that give him several ways to win. Consider Forward Pharma. The Danish firm says it patented its version of dimethyl fumarate (DMF), a drug for treating multiple sclerosis, before rival Biogen did. But only Biogen is selling the drug, called Tecfidera; annual sales are running at a rate of more than $3.2 billion a year. Forward, which is challenging Biogen, was told that it would get a patent in Europe in late May and has received a favorable initial patent-interference ruling from U.S. authorities. Plus, a company official tells me, Forward's version of DMF releases the drug more slowly than Biogen's, resulting in fewer side effects.

Quadruple threat. Forward, whose shares have rocketed 72% since going public last October, could win in four ways. It could receive royalties on sales of Tecfidera. Biogen could buy it. Forward's timed-release drug could turn out to be a hit. A large company could buy a big stake in Forward.

Atara has been another huge winner for Klarman. He bought in when the South San Francisco company was still private, and the stock has nearly quadrupled since Atara went public at $11 last October. Moreover, Baupost nearly doubled its stake in late March. Why the enthusiasm? Atara is working on drugs to treat different kinds of cancers and drugs to stem muscle loss.

So has Klarman really found the secret for making biotech investing safe? The answer is a qualified yes. Just own a portfolio of companies with proven technology and multiple ways to win. ■

COLUMNIST ANDREW FEINBERG MANAGES A NEW YORK CITY–BASED HEDGE FUND CALLED CJA PARTNERS.

LISE METZGER

9 Funds for a Rainy Day

Worried about the stock market but don't want to bail out? Our picks will help you cut your risk. BY NELLIE S. HUANG

MARK HOOPER/GETTY IMAGES

IT'S ONE OF THE GOLDEN rules of investing: Make a plan and stick with it. But when share prices head south (the risk of which increases as the bull market continues to age), many investors find it difficult to follow the prime directive. They panic and chuck their stocks at precisely the wrong time, when prices are down. One excellent defense against such boneheaded behavior: Cushion your portfolio against shocks with funds that keep you on track but offer a steadier ride.

BALANCED FUNDS

One of the easiest ways to cut risk is to trim your portfolio's allocation to stocks. Most investors should have been doing that in recent years when they rebalanced their portfolios; in most years, that meant selling stocks, which performed well, and moving the proceeds into bonds, which did okay but not as well as stocks. But rebalancing isn't always as simple as it seems to be. "Not only does it take time, but it also takes strong conviction to sell stocks when prices are rising, as they are today," says Fran Kinniry, a principal in Vanguard's Investment Strategy Group. That's one reason he likes balanced funds, which typically hold 60% to 70% of their assets in stocks and the rest in bonds and do the rebalancing for you.

VANGUARD BALANCED INDEX (SYMBOL VBINX) has a consistent record of above-average returns with below-average volatility. The fund keeps its mix steady: 60% in stocks and 40% in bonds. It does not invest in other Vanguard index funds. Rather, it directly holds stocks (3,354, at last report) and bonds (6,012) in an attempt to capture the performance of indexes that track the entire U.S. stock and bond markets. Over the past five years, the fund has been 14% less volatile than the typical balanced fund and 40% less jittery than Standard & Poor's 500-stock index (see the table on page 54 for more results).

FIDELITY BALANCED (FBALX), which is actively managed, has been slightly more volatile than Vanguard Balanced and has delivered slightly greater gains. Not surprisingly, the Fidelity fund holds more in stocks—nearly 70% of assets at last report. Robert Stansky, who leads the stock side of the portfolio, favors big companies but recently had nearly one-fourth of the fund's stock assets in midsize firms. Pramod Alturi, Fidelity's former chief economist, runs the bond portfolio. At last word, Balanced devoted 92% of its bond assets to high-grade debt, compared with 81% for the typical balanced fund.

FUNDS FOR LIMITING THE UPS AND DOWNS

What if you could own stocks but suffer fewer of the market's bumps? That's the idea behind low-volatility exchange-traded funds, which typically home in on the steadiest stocks within a particular index. You give up some return—but, it turns out, not a lot.

Take **POWERSHARES S&P 500 LOW VOLATILITY (SPLV)**. Since it launched in May 2011, the ETF has been 24% less volatile than the S&P 500 itself. But its 14.0% annualized return since inception is just an average of 0.5 percentage point per year shy of the gain of the S&P 500. The ETF tracks an index containing the S&P 500's 100 least-volatile stocks over the previous 12 months. Stocks with the lowest volatility get the heaviest weighting in the index, which is revised once a quarter.

A low-volatility strategy has worked even better overseas in recent years. For example, **ISHARES MSCI EAFE MINIMUM VOLATILITY (EFAV)** and **ISHARES MSCI EMERGING MARKETS MINIMUM VOLATILITY (EEMV)** track subsets of indexes for developed foreign markets and emerging markets, respectively. Over the past three years, each fund has been 21% less volatile than the affiliated conventional index, but each has beaten its benchmark. The EAFE low-volatility fund edged the MSCI EAFE index by an average of 0.3 percentage point a year, and the emerging-markets ETF beat the MSCI Emerging Markets index by 2.0 points per year.

ALTERNATIVES FUNDS

If you expect turbulent markets, you want "to own things that will not look or act or feel like stuff you already own," says Katherine Nixon, Northern Trust's chief investment officer for wealth management. That's where funds that use alternative strategies (merger arbitrage, for example) or invest in alternative asset classes (currencies and commodities) come in. Funds that hold many kinds of assets—foreign and U.S. stocks and bonds, currencies, commodities, and real estate investment trusts—work well in volatile markets, says Kristina Hooper, a U.S. investment strategist for Allianz Global Investors, because their managers can shift in and out of groups depending on what looks most attractive. But many of these funds are pricey. The typical multi-alternative fund charges 1.69% in annual expenses.

WILLIAM BLAIR MACRO ALLOCATION (WMCNX) is a better deal than most. The fund, which can invest in different kinds of assets all over the globe, charges 1.35% a year. The managers, Thomas Clarke and Brian Singer, start with a big-picture assessment of the world; themes might include currency trends and political events and the way they will affect different asset classes. Then Clarke and Singer use ETFs to bet on or against a particular market or investment category. For example, last year they shorted the euro (that is, bet on its value falling), in part because of concerns about the possible exit of Greece from the euro zone. Over the past three years, the fund earned 9.6% annualized, which is modest compared with the S&P 500's return of nearly 17% a year. But the fund has been 23% less volatile over the period and ranked in the top 4% of multi-alternative funds.

You won't get those kinds of returns with **MERGER FUND (MERFX)**, but neither will you experience anything close to typical stock market volatility. In 2008, when the S&P 500 lost 37%, Merger lost just 2.3%. The fund, a member of the Kiplinger 25, invests in stocks of takeover targets after a deal has been announced. The goal is to capture the final bit of appreciation between the post-announcement price and the price at which the deal is consummated. Success depends little on the overall stock market and instead on investing in deals that actually go through.

In truth, Merger's results have been underwhelming of late. Over the past five years, it returned 2.8% annualized. But it did so with 80% less volatility than the S&P 500. And performance should improve when interest rates rise. That's because a typical deal is structured to return between two and five percentage points more than the yield on the 10-year Treasury bond, says comanager Roy Behren.

If you prefer an indexed approach to deal investing, consider **IQ MERGER ARBITRAGE ETF (MNA)**. It tracks an index that currently holds 41 stocks targeted in mergers and buyouts. Over the past five years, it has experienced about 60% less volatility than the S&P 500. And with an annual expense ratio of 0.76%, it's about a half-percentage point cheaper than Merger Fund. Over the past five years, IQ trailed Merger Fund slightly, but its 6.1% return over the past year tops Merger's gain by 4.2 percentage points.

Have you had a hankering to invest in hedge funds but been turned off by exorbitant fees and the occasional blowup? The next best thing may be **IQ HEDGE MULTI-STRATEGY TRACKER ETF (QAI)**, which seeks to track popular hedge-fund strategies by buying and selling short other ETFs. The 0.91% expense ratio is high for an ETF, but it's a lot less than the typical hedge-fund charge of 2% of assets annually and 20% of the profits. Over the past five years, IQ gained 3.4% annualized, but it did so with only 60% of the S&P 500's volatility. ■

By the Numbers

SLEEP BETTER WITH OUR PICKS

It's not surprising that these funds can't keep up with the S&P 500 in a bull market. They'll prove their mettle in a downturn.

Fund	Type	Annualized total return 1 yr.	3 yrs.	5 yrs.	Exp. ratio
MUTUAL FUNDS					
Fidelity Balanced	Bal	11.4%	12.4%	11.1%	0.56%
Merger Fund Inv	Alt	1.9	2.9	2.8	1.23
Vanguard Balanced Index	Bal	9.7	10.9	10.4	0.23
William Blair Macro Alloc	Alt	7.0	9.6	—	1.35
EXCHANGE-TRADED FUNDS					
IQ Hedge Multi-Strat Tracker	Alt	3.9%	4.1%	3.4%	0.91%
IQ Merger Arbitrage	Alt	6.1	4.3	2.4	0.76
iShares MSCI EAFE Min Vol	Low-Vol	9.5	12.0	—	0.20
iShares MSCI EM Min Vol	Low-Vol	9.9	5.3	—	0.25
PowerShares S&P 500 Low Vol	Low-Vol	10.9	14.4	—	0.25
S&P 500-STOCK INDEX		**14.2%**	**16.9%**	**14.6%**	
MSCI EAFE INDEX		**1.5%**	**11.7%**	**7.8%**	

As of May 1. —Not available; fund not in existence for the entire period. Alt = Alternatives, Bal = Balanced, Low-Vol = Low volatility. SOURCES: Morningstar, Thomson Reuters, Yahoo.

ETF SPOTLIGHT

Heavenly Gains From Fallen Angels

This ETF has topped most junk funds by owning bonds that were once high-grade.

JUNK BONDS APPEAL TO INVESTORS who are willing to accept more risk in exchange for superior yields. But a subset of the high-yield universe—bonds that were issued with investment-grade ratings but have since descended to junk status—has delivered blissful results of late. Over the past five years, an index of these "fallen angel" bonds has returned an annualized 10.6%, crushing the broad U.S. bond market by an average of 6.5 percentage points per year and traditional junk bonds by 3.6 points per year.

A way to play formerly high-grade IOUs is **MARKET VECTORS FALLEN ANGEL HIGH YIELD BOND ETF**. The exchange-traded fund holds debt from 162 issuers. Nearly three-fourths of its assets are in bonds that occupy the highest rung of the junk ladder (those rated double-B), more than twice that of the typical high-yield bond ETF. "Weak balance sheets, poor management, a loss of market share or other troubles brought these fallen angels into the index," says manager Fran Rodilosso. "But the companies still tend to have valuable assets."

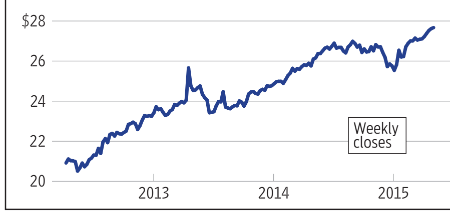
Thanks to the collapse of oil prices, several energy companies earned their wings as fallen angels this year. As a result, the fund's stake in bonds issued by energy firms, such as Transocean and DCP Midstream Partners, has increased in recent months. Other top holdings include bonds of loan servicer Sallie Mae and aluminum maker Alcoa. **KAITLIN PITSKER**

Market Vectors Fallen Angel High Yield Bond

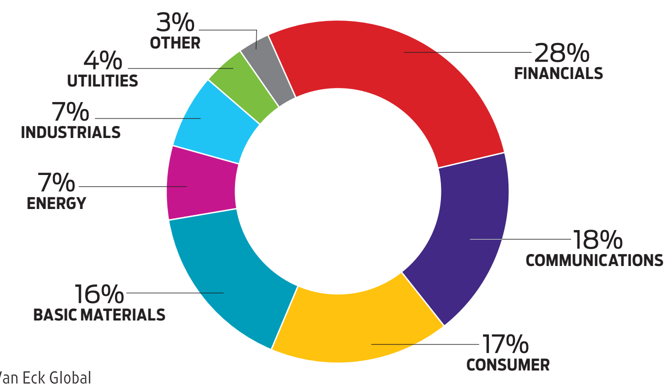
Key Facts

SYMBOL: ANGL
CLOSING PRICE: $28
ASSETS: $26.2 million
START DATE: April 10, 2012
FUND HOLDINGS: 162
AVERAGE DURATION: 5.8 years
30-DAY SEC YIELD: 4.6%

Performance



Sector Breakdown: Financial sector gives ANGL its wings



SOURCE: Van Eck Global

High-Yield Bond ETFs Ranked by one-year return

Rank/Fund	Symbol	Annualized total return* 1 yr.	3 yrs.	5 yrs.	30-day yield	Exp. ratio
1. Market Vectors Fallen Angel HY Bond	ANGL	5.8%	9.6%	—	4.6%	0.40%
2. iShares Baa - Ba Rated Corp Bond	QLTB	3.7	5.0	—	3.4	0.30
3. PowerShares Fundamental HY Corp Bd	PHB	2.4	5.3	6.6%	4.0	0.50
4. iShares iBoxx $ High Yield Corp Bond	HYG	2.0	6.1	7.3	5.0	0.50
5. Guggenheim BulletShrs 2020 HY Corp Bd	BSJK	1.6	—	—	5.3	0.43
AVERAGE HIGH-YIELD BOND ETF		0.2%	5.6%	7.0%		

DIVERSIFIED BOND ETFs Ranked by assets

Rank/Fund	Symbol	Assets (billions)	Annualized total return* 1 yr.	3 yrs.	5 yrs.	30-day yield	Expense ratio
1. Vanguard Total Bond Market	BND	$27.1	3.8%	2.4%	4.0%	1.9%	0.07%
2. iShares Core US Aggregate Bond	AGG	24.2	4.1	2.5	4.0	1.8	0.08
3. iShares iBoxx $ Invest Grade Corp Bd	LQD	22.1	4.0	4.6	6.3	3.0	0.15
4. iShares iBoxx $ High Yield Corp Bond	HYG	16.4	2.0	6.1	7.3	5.0	0.50
5. Vanguard Short-Term Bond	BSV	15.9	1.5	1.2	1.9	1.9	0.10
BARCLAYS US AGGREGATE BOND INDEX			3.9%	2.5%	4.1%		

Through May 1. *Assumes reinvestment of all dividends and capital gains. —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.

“I’ll save a little more in taxes than I ‘lost’ on my tax-inspired trades, but I’m not sure that the savings were worth all the angst.”

KATHY KRISTOF > Practical Investing

When Being Clever Isn’t Smart

I’ve made a few transactions in the Practical Investing portfolio over the past few months, and I thought it was time for an update of the good, bad and indifferent results.

First, the good. As I mentioned in my June column (“My Tech Stock Pays Dividends”), I bought additional shares of **SEAGATE TECHNOLOGY (SYMBOL STX)** at the end of March because I thought that the stock, then selling at 11 times projected earnings and boasting a generous dividend yield of 4.2%, was undervalued. Shares of Seagate, which makes data-storage devices, had been beaten up because of concerns about soft personal computer sales. I bought 118 shares at $52.94 per share on March 27, bringing my total Seagate stake to an even 600 shares.

A few weeks later, Seagate announced earnings that beat analysts’ estimates. The stock popped and, as of May 1, it was selling for $60. In barely more than a month, I had a 13% gain on my latest Seagate purchase. I remain optimistic about the company’s prospects and continue to hold the stock.

Next, the indifferent. In my May column (“Pruning My Pricey Stocks”), I reported that after reviewing my portfolio, I concluded that Johnson & Johnson (JNJ) was overpriced. I sold the bulk of my JNJ stock at about $103 (keeping just one share to make it easier to follow my former holding). JNJ shares, now at $100, have essentially been in a holding pattern. Though it saved me a few bucks per share to get out when I did, the difference is unremarkable.

Finally, the bad. In my April column (“Make Your Losers Pay Off”), I described what I thought would be a clever strategy for making lemonade out of an energy-stock lemon whose share price had plunged along with the price of oil. The stock in question was **STONE ENERGY (SGY)**, an oil-and-gas producer that had sunk from $50 in April 2014 to as little as $12 in January. Because I was in the midst of preparing my 2014 tax returns, I began to eye the tax benefit I would reap if I sold my Stone shares at a $4,800 loss.

The problem with my idea was Uncle Sam’s “wash sale” rule, which prevents you from claiming a loss if you repurchase a stock within 30 days of its sale. That means that if you want to sell for the tax benefit, you run the risk that the stock could surge while you’re out of it. One way of dealing with that risk is to replace the stock with a similar company. But that idea also has shortcomings because even companies in the same industry can perform differently.

I thought I’d found a brilliant solution. I would sell Stone and use the proceeds to buy SPDR S&P Oil & Gas Exploration & Production ETF (XOP), an exchange-traded fund that tracks—you guessed it—energy-exploration stocks. I figured that if oil prices began to recover, the ETF’s holdings would benefit to roughly the same degree as Stone.

There were just two problems with my plan: The index isn’t perfect, and neither am I. When Stone started shooting up in late March, I lost my cool and reversed the trade, selling the ETF and buying back the stock. The trade had effectively cost me $642—the additional amount I would have had in my portfolio had I simply held on to Stone. I had waited the necessary 31 days, so I’ll get to use that $4,800 loss when I figure my 2015 taxes; it will likely cut my combined federal and California income tax bill by about $1,100. So, yes, I’ll save a little more in taxes than I “lost” on my supposedly clever trades, but I’m not sure that the relatively modest savings were worth all the angst and effort.

On the bright side, my column is all about teaching by example. This, dear readers, was an example of me doing something silly so that you won’t have to. You’re welcome. ■

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

LISE METZGER

More Lift for Airlines

No longer a financial black hole, the industry is generating huge profits. We pick three winners. BY KAITLIN PITSKER

THE AIRLINE INDUSTRY, ONCE a basket case, is a high-flying profit machine these days. Its well-documented turnaround came as carriers consolidated, enabling them to boost fares; imposed numerous nuisance fees; and focused on more-lucrative business and first-class seats. More recently, the plunge in oil prices has helped fuel strong earnings gains.

The numbers are stunning. From 1979, just after the industry was deregulated, through 2009, U.S. airlines lost money in as many years as they made it. From 2001 through 2009, a particularly trying period, they spilled $58 billion of red ink. But over the next five years, the industry posted profits of $26 billion. The stocks have soared as carriers have used their profits to upgrade fleets, cut debt, repurchase shares and raise dividends. Since October 2011, an index of U.S. airline stocks has nearly quadrupled, about twice the advance of Standard & Poor's 500-stock index.

No one expects the stocks to keep ascending at that pace, but the group should continue to deliver market-beating returns over the coming year. For the most part, airline investors and analysts don't fret as much as they once did about upstart entrants and higher labor and fuel costs. Instead, according to a recent Morgan Stanley survey, their biggest worry is the overall health of the U.S. economy.

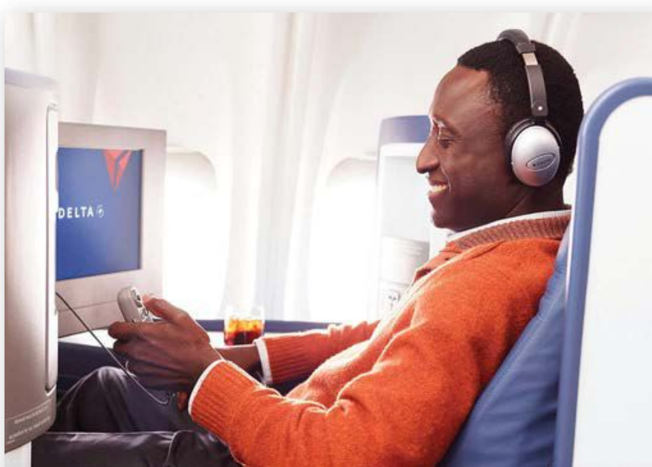
On that score, the outlook is bright. Despite economic weakness in the first quarter, Kiplinger expects gross domestic product to expand by at least 2.6% in 2015. A stronger economy paired with savvy fleet management will keep seats filled.

One company that stands out for its decade-long record of profitability is **SOUTHWEST AIRLINES (SYMBOL LUV, $43)**. The carrier, which has the largest share of the domestic market, hasn't jumped on the fee bandwagon as much as its rivals (it lets passengers check up to two bags free, for example). But it holds down costs by flying only Boeing 737s (simplifying maintenance and staff training) and using less-congested airports. Southwest has one of the strongest balance sheets in the industry, says S&P Capital IQ analyst Jim Corridore. He sees the stock hitting $53 within 12 months (current prices are as of May 1).

If you haven't spent much time on the West Coast, it might be easy to overlook **ALASKA AIR GROUP (ALK, $65)**. But the Seattle-based carrier, which historically has mainly served states bordering the Pacific Ocean, Canada and Mexico, has been adding cross-country routes to places such as New York City and Raleigh–Durham, N.C.

Like Southwest, Alaska Air benefits by flying only Boeing 737s. And on average, the age of Alaska Air's planes is younger than most major airlines, further reducing the time and money spent on repairs. Over the next few years, analysts expect Alaska Air's earnings to grow about twice as fast as the overall industry's.

The strong dollar has put pressure on **DELTA AIR LINES (DAL, $46)**, which gets nearly one-third of its revenues from abroad. To ease some of the impact of the super buck, Delta plans to reduce service later this year to some overseas destinations, including Brazil and Japan. A mostly non-union workforce gives Delta flexibility to adjust to changes in demand, says UBS analyst Darryl Genovesi, who predicts that its earnings will soar by more than 50% this year. Delta has slashed debt since it emerged from bankruptcy in 2007; it began paying dividends in 2013, and last year it raised the payout by 50%. ■



COURTESY DELTA

Highfliers

3 STOCKS THAT ARE GOING PLACES

The stocks don't yield a lot, but all three companies have been raising their dividends rapidly. Alaska recently raised its by 60%.

Company (Symbol)	Recent price	Market value (billions)	Revenue (billions)*	Price-earnings ratio†	Yield
Alaska Air Group (ALK)	$65	$8.5	$5.4	11	1.2%
Delta Air Lines (DAL)	46	37.2	40.8	10	0.8
Southwest Airlines (LUV)	43	28.5	18.9	12	0.6

As of May 1. *Based on revenue for the past year. †Based on estimated 2015 earnings. SOURCES: Thomson Reuters, Yahoo.

INCOME»

Move Your Cash to Earn More Cash

Banks and brokers are paying bonuses to attract new customers. BY KATHY KRISTOF

IF YOU WANT A GREAT YIELD, FORGET about the interest rate and look for banks and brokers that offer cash bonuses. In an effort to poach customers at a time when yields are microscopic, financial firms are giving away cash. Although these payments won't make you rich, they offer a guaranteed return in an environment in which a risk-free yield is otherwise elusive.

Among those getting into the act is **FIDELITY INVESTMENTS (WWW.FIDELITY.COM)**, which recently launched an Individual Retirement Account matching program. If you transfer assets held in a traditional, Roth or rollover IRA at another company, Fidelity will match a portion of your subsequent contributions for three consecutive years.

How much you get depends on how much you deposit and add to the account. Fidelity's match is only on new contributions after the initial transfer, and it ranges from 1% to 10% of what you contribute, depending on the amount of your initial deposit. If you transfer the minimum of $10,000, your match is 1%. To get the top, 10% match, you must transfer at least $500,000 to Fidelity. The government limits annual IRA contributions to $5,500 ($6,500 for those over age 50), so Fidelity's bonus could be up to $650 a year.

TD AMERITRADE (WWW.TDAMERITRADE.COM) and **E*TRADE (WWW.ETRADE.COM)** are offering deals based on the amount of money you shift into new accounts. If you move $250,000 or more, both will give you $600 and hundreds of commission-free trades.

MOTIF INVESTING (WWW.MOTIFINVESTING.COM), an online brokerage, is offering a similar deal. Those who transfer at least $5,000 to a Motif IRA before the end of 2015 can get a one-time bonus of $150. However, neither Motif nor Fidelity pays cash if you transfer assets from an employer-sponsored retirement plan. (TD Ameritrade and E*Trade make no such distinction.)

Don't need another IRA? You can get a bonus just for moving a checking account. **CHASE BANK (WWW.CHASE.COM)** has been offering promotions in select regions that promise as much as $300 to people who open checking accounts funded with direct deposits from an employer, Social Security or another external account. You don't have to maintain a minimum balance to get the bonus, but if you want free checking, you need either to make a direct deposit of at least $500 a month or keep a daily minimum balance of $1,500. Assuming you leave just $1,500 in the account, the $300 bonus is the equivalent of a 20% return on your money. The bad news? To take advantage of the deal, you have to get a coupon in the mail and take it to a Chase office.

Chase's deal is far from unique. Open an "extra20" checking account at **SANTANDER BANK** and follow the program rules and you'll get $20 a month indefinitely (for more details, see www.santanderbank.com/us/personal/banking/checking/extra20-checking).

What are all the bonuses about? They're a way for financial firms to get you to open accounts and then try to win more of your business, says Mark Schwanhausser, an analyst at Javelin Strategy & Research, a consulting firm in Pleasanton, Calif. "It's not a bet on an immediate profit," he says. "It's a bet on a long-term relationship."

Lauren Brouhard, senior vice president of retirement at Fidelity, says that what's good for her company is also great for the customer. "Our program gives people a reason to come to Fidelity," she says. "It rewards them for doing so but also rewards them for doing what is good for them." ■

CRISTIAN BAITG/GETTY IMAGES

JEFFREY R. KOSNETT > Income Investing

Why Yields Won't Take Off

A year ago I went out on a limb to suggest that the epic bond market rally was not over. My call turned out to be on the mark. Over the past year, the yield on benchmark 10-year Treasuries dipped about half of a percentage point, leading to modest gains in most segments of the bond market. I don't expect the rest of 2015 to be as generous as the past year, but neither do I foresee disaster.

Bond yields and prices should move within a narrow range. So figure on earning a small total return in the second half with Treasuries and high-quality corporate and municipal bonds. You'll do okay with junk bonds, but default risk is building in the energy and telecommunications sectors, so focus on high-yield bond funds that concentrate on better-quality junk bonds. One solid choice: **VANGUARD HIGH-YIELD CORPORATE (SYMBOL VWEHX)**, recently yielding 4.7%. Also worth a look is **FIDELITY FLOATING RATE HIGH INCOME (FFRHX)**, which buys bank loans that are generally made to non-investment-grade borrowers. It yields 3.7%.

If you'd rather not dabble in the high-yield arena, you'll find the best trade-off between risk and yield in medium-maturity bond funds. Two fine choices: Kiplinger 25 member **FIDELITY TOTAL BOND (FTBFX)**, yielding 2.6%, and **VANGUARD INTERMEDIATE-TERM BOND INDEX (VBILX)**, paying 2.2%.

I don't see the recent uptick in Treasury yields (from 1.8% in March to 2.1% in early May) as presaging a return of expensive credit. Domestic economic growth and inflation are stalled. The dollar is rich, commodities are cheap, and bond yields in Europe and Japan are puny. And the Federal Reserve, which controls short-term rates, dares not scare the financial markets by tightening money in the absence of rising inflation, strong growth or excessive speculation. All of this prevents U.S. rates from surging and undergirds bond prices (which move in the opposite direction of rates).

In the months ahead, I expect to see further evidence that rates will hold at or near current levels for a few more years. And I'm hardly alone. Jay Schwister, a senior portfolio manager for the Baird funds, says that before year-end, the Fed will tack on 0.25 to 0.50 percentage point to short-term rates, which are currently close to zero. But that won't be the opening shot in a fusillade of rate hikes. Schwister says the Fed only wants to reclaim minimal capacity to intervene if the economy tanks. And if markets swoon or economic prospects sink in reaction to such small boosts, he is confident that the Fed's approach will be one-and-done or two-and-through.

Traders to the rescue. Krishna Memani, the chief investment officer at Oppenheimer Funds, says rates can climb enough to sting only if people, businesses and institutions "leverage up"—that is, go on borrowing binges. But that won't happen without booming economic growth. Bond issuance seems high, but much of this is for refinancing, not creating more debt. Ashish Shah, a bond analyst for AllianceBernstein, says that whenever yields swing wildly in either direction, mobs of traders stabilize matters by realizing profits or fishing for bargains. To Shah, the bond scene is "a lot of chopping around in a narrow range."

Yes, there are dissenters. Kevin Mahn, chief investment officer for Hennion & Walsh, a brokerage that specializes in bonds, predicts that the Fed will engineer eight quarter-of-a-percentage-point rate hikes by December 2016. As a precedent, Mahn cites the 2004–06 period, during which the Fed raised rates 17 times.

Mahn may turn out to be right, but I think the odds are against him. If you own bonds, sit tight. You'll collect your interest, and the value of your principal should remain stable for the foreseeable future. ■

"The Federal Reserve dares not scare the markets by tightening money in the absence of rising inflation, strong growth or excessive speculation."

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

LISE METZGER

THE KIPLINGER 25 UPDATE

Emerging Markets Stage a Comeback

AT FIRST GLANCE, IT SEEMS AS if stocks in emerging markets have done well over the past year, with the MSCI Emerging Markets index advancing 8%. But it has been a bumpy ride; most of the index's gain was recorded in one month, April. **HARDING LOEVNER EMERGING MARKETS** hasn't kept up, lagging its benchmark by nearly five percentage points over the past year.

The main reason: China. Chinese stocks, led by those in the financial sector, surged in early spring. China represents 23% of the Emerging Markets index, and Chinese banks alone account for about one-third of China's representation, or 7% of the index, so the China rally played a big role in pushing up the index. The Harding Loevner fund holds some Chinese stocks, including Internet conglomerate Tencent Holdings. But it doesn't own any Chinese banks, partly because the government owns majorities in those firms. "You have the government telling the banks what to do, and that carries risks," says Craig Shaw, the fund's co-lead manager.

Shaw, co-lead manager G. Rusty Johnson and three other managers focus on individual companies, without trying to match the geographical or sector profile of their fund's benchmark. They favor high-quality, growing firms that boast high and sustainable profit margins and returns on equity (a measure of profitability), carry little debt, and exhibit consistent growth, as measured by rising sales, profits or dividends. When they buy, they tend to hold longer than the typical emerging-markets stock fund manager. The Harding Loevner fund has a turnover ratio of 28%, which implies an average holding period of 3.6 years. The typical emerging-markets fund has a turnover ratio of nearly 70%, suggesting an average holding period of 1.4 years.

When the managers do move, they often act decisively. In the first quarter of 2015, they sold all of their shares in some stocks that had performed well, including two financial-services firms: Russia's Moscow Exchange and Samsung Fire & Marine, of South Korea. At other times, they move more gradually. As oil prices fell over the past year, they slowly increased their stake in energy stocks they already owned, including CNOOC, the majority-state-owned Chinese energy producer, and Dragon Oil, based in the United Arab Emirates. **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	13.6%	17.4%	17.7%	—	Dec. 2009
Davenport Equity Opps	DEOPX	17.2	19.2	—	—	May 2014
Dodge & Cox Stock	DODGX	10.8	19.8	14.3	7.6%	May 2008
Fidelity New Millennium	FMILX	8.3	16.0	14.1	11.5	May 2014
Homestead Small Co Stock	HSCSX	9.5	16.9	15.4	12.0	May 2012
Mairs & Power Growth	MPGFX	7.4	16.2	13.6	8.9	Jan. 2013
Parnassus Mid Cap	PARMX	10.9	15.1	14.3	9.5	Aug. 2014
T. Rowe Price Divers Sm-Cap Gro	PRDSX	17.5	18.7	17.6	11.8	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	1.4	12.1	11.1	9.2	May 2009
T. Rowe Price Value	TRVLX	11.8	19.7	14.6	9.0	May 2015
Vanguard Dividend Growth	VDIGX	11.4	15.2	14.0	9.5	May 2010
Vanguard Selected Value	VASVX	8.4	18.2	14.4	9.5	May 2005

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Artisan International	ARTIX	6.2%	12.6%	11.2%	8.0%	May 2015
FMI International	FMIJX	11.3	14.9	—	—	April 2015
Harding Loevner Emrg Mkts	HLEMX	3.1	5.3	5.0	9.9	May 2013
Matthews Asian Gro & Inc	MACSX	5.7	8.6	7.9	9.7	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	6.6%	11.1%	10.1%	8.7%	Oct. 2008
Merger	MERFX	1.9	2.9	2.8	3.7	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	4.5%	4.2%	7.5%	—	May 2011
Fidelity Intermed Muni Inc	FLTMX	3.3	2.6	3.7	4.0%	May 2004
Fidelity New Markets Income	FNMIX	3.3	4.4	6.8	8.6	May 2012
Fidelity Total Bond	FTBFX	3.9	3.4	4.9	5.3	May 2014
Met West Unconstrained Bd M	MWCRX	2.2	5.0	—	—	May 2013
Osterweis Strategic Income	OSTIX	1.9	5.2	5.9	6.8	May 2013
Vanguard Sh-Tm Inv-Grade	VFSTX	1.7	2.1	2.5	3.7	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	14.2%	16.9%	14.6%	8.4%
RUSSELL 2000 INDEX*	10.5	16.2	12.9	9.3
MSCI EAFE INDEX†	1.5	11.7	7.8	6.1
MSCI EMERGING MARKETS INDEX	7.9	3.6	3.3	9.9
BARCLAYS AGGREGATE BOND INDEX#	3.9	2.5	4.1	4.7

Through May 1. —Not available; fund not in existence for the entire period. *Small-company U.S. stocks. †Foreign stocks. #Tracks high-grade U.S. bonds.

SOURCE: © 2015 Morningstar Inc.

FUND SPOTLIGHT

Aiming for 9% Returns Overseas

This value fund's goal is to beat foreign stocks by two percentage points a year.

LIKE MOST FUNDS THAT DON'T HEDGE against currency swings, **PEAR TREE POLARIS FOREIGN VALUE** has delivered mediocre results lately. But its long-term record rocks. Over the past 15 years, it earned 8.6% annualized, more than double the gain of the foreign-stock MSCI EAFE index and, surprisingly, nearly twice the return of U.S. stocks.

Manager Bernie Horn and his team scour the globe in search of cheap foreign stocks. Starting with a universe of 39,000 names, they screen for firms that generate robust cash flow—money that can ultimately be used to pay dividends and invest for growth. They then narrow the field to stocks that they think will return at least 9% annualized over three to five years, or an average of two percentage points per year more than the EAFE index.

Only about 10% of the stocks that pass the screen make the final cut. Horn prefers firms that consistently cut their costs and provide goods and services that save customers money. These are the marks, he says, of efficiency, a trait necessary for succeeding in a competitive global economy.

Two negatives: With annual fees of 1.54%, Polaris is pricey. And results can be erratic, as Polaris tends to beat its benchmark in strong markets and lag it in weak ones. For example, when the EAFE plunged 43.4% in 2008, Polaris lost 52.4%. Among the fund's big holdings at last report were Deutsche Telekom and Israel's Teva Pharmaceutical. **RYAN ERMEY**

FOREIGN LARGE VALUE FUNDS Ranked by five-year returns

Rank/Name	Symbol	Annualized total return through May 1* 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Exp. ratio	Toll-free number
1. MainStay International Opportunities Inv@	MYINX	2.7%	15.1%	10.4%	5.50%	1.67%	800-624-6782
2. Pear Tree Polaris Foreign Value Ord@	QFVOX	–0.1	13.6	9.9	none	1.54	800-326-2151
3. Tweedy, Browne Global Value	TBGVX	3.8	11.7	9.6	2.00r	1.37	800-432-4789
4. Domini International Social Equity Inv@	DOMIX	5.4	14.7	9.5	2.00r	1.60	800-582-6757
5. Henderson Global Income A@	HFQAX	2.0	10.8	9.3	5.75	1.13	866-343-6337
6. Dreyfus International Equity A@	DIEAX	1.1	13.0	9.0	5.75	1.12	800-373-9387
7. Tweedy, Browne Gl Val II Currency Unhdg**	TBCUX	–2.6	9.3	8.7	2.00r	1.37	800-432-4789
8. American Century Intl Core Equity Inv@	ACIMX	0.2	12.3	8.6	2.00r	1.15	800-345-2021
9. American Century International Val Inv@	ACEVX	–1.4	11.6	7.8	2.00r	1.30	800-345-2021
10. Franklin Mutual International A@	FMIAX	9.1	10.6	7.8	5.75	1.46	800-632-2301
CATEGORY AVERAGE		**–0.4%**	**10.0%**	**6.3%**			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets† (in billions)	Annualized total return through May 1* 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Toll-free number
1. Vanguard Total Stock Market Idx Inv@	VTSMX	$350.7	13.7%	16.9%	14.5%	none	800-635-1511
2. Vanguard 500 Index Inv@	VFINX	178.1	14.1	16.8	14.4	none	800-635-1511
3. Vanguard Total Intl Stock Idx Inv@	VGTSX	158.0	2.7	9.0	6.3	none	800-635-1511
4. American Growth Fund of America A@	AGTHX	149.2	15.6	17.6	13.8	5.75%	800-421-0180
5. American EuroPacific Growth A@	AEPGX	133.5	5.7	10.9	7.8	5.75	800-421-0180
6. Fidelity Contrafund@	FCNTX	110.7	15.5	15.7	14.6	none	800-343-3548
7. American Capital Income Builder A@	CAIBX	100.7	6.1	10.1	9.5	5.75	800-421-0180
8. American Income Fund of America A@	AMECX	99.7	6.8	11.7	10.9	5.75	800-421-0180
9. Franklin Income A@	FKINX	92.4	1.3	9.6	8.9	4.25	800-632-2301
10. American Capital World Gro & Inc A@	CWGIX	90.9	6.7	13.9	10.3	5.75	800-421-0180
11. Vanguard Wellington**@	VWELX	90.8	8.6	12.0	10.8	none	800-635-1511
12. Fidelity Spartan 500 Index Inv@	FUSEX	90.1	14.1	16.8	14.5	none	800-343-3548
13. American Balanced A@	ABALX	82.9	9.2	12.3	11.5	5.75	800-421-0180
14. American Washington Mutual A@	AWSHX	79.2	10.2	15.5	14.1	5.75	800-421-0180
15. American Invstmt Co of America A@	AIVSX	78.0	12.6	16.9	13.2	5.75	800-421-0180
16. American Fundamental Inv A@	ANCFX	74.5	13.3	16.3	13.4	5.75	800-421-0180
17. Dodge & Cox International Stock**	DODFX	69.1	3.2	14.3	8.9	none	800-621-3979
18. American New Perspective A@	ANWPX	61.2	11.5	14.6	11.8	5.75	800-421-0180
19. Dodge & Cox Stock	DODGX	59.4	10.8	19.8	14.3	none	800-621-3979
20. BlackRock Global Allocation A@	MDLOX	55.3	5.9	8.0	6.9	5.25	800-441-7762
S&P 500-STOCK INDEX			**14.2%**	**16.9%**	**14.6%**		
MSCI EAFE INDEX			**1.5%**	**11.7%**	**7.8%**		

@Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. **Closed to new investors. †For all share classes combined. rMaximum redemption fee. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

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.

DYNAMITE DEALS

Everyone loves a bargain. *But sometimes you simply don't have the time to scout out the best deals. That's where we come in. Use our tips and strategies to save thousands of dollars on everything from stocks and funds to travel, tech, cable TV, cars and college tuition. Bonus: We've rounded up great products and services that are absolutely free.*

ILLUSTRATION BY ANGELA SOUTHERN


TABLETS
MUSIC
COLLEGE
HOTELS
Fabulous
Freebies


CELEBRATE AMERICA'S BIRTHDAY WATCHING AMERICA'S PASTIME.

JULY 4TH DISCOUNTS

TAKE ME OUT TO THE BALLGAME

Eleven Major League Baseball clubs (the Oakland A's, Atlanta Braves, St. Louis Cardinals, Arizona Diamondbacks, Los Angeles Dodgers, Washington Nationals, Texas Rangers, Cincinnati Reds, Kansas City Royals, Detroit Tigers and Chicago White Sox) will celebrate America's birthday and the home team with ball games and fireworks shows over the Fourth of July weekend. To score deals on tickets, go to **SEATGEEK.COM**. The site aggregates ticket prices from around the Web and shows you the biggest discounts.

A family of four could recently find seats along the left-field line for the Nationals game on July 3 for $149, a savings of $123 compared with the cost on the team's Web site. Four seats to see the Cardinals in Busch Stadium's right-field bleachers on July 3 cost $116 on SeatGeek ($198 on the Cardinals' site). Four infield reserve seats for the Dodgers' July 4 game cost $106 on SeatGeek (versus $226 from the team's site). Peanuts and Cracker Jack not included.

TOUGH DECISIONS

Deal or No Deal?

- **A 15% discount for opening a store credit card: NO DEAL.** Applying for a new card dings your credit score. What's more, retail credit cards tend to carry high interest rates. Go for it only if you're fastidious about paying off your balance each billing cycle, or before a teaser rate ends.
- **Balance transfers: DEAL.** That's if you can pay off your balance within the specified time period (often 12 months or more). Just watch out for the fee: 3% is typical, but you may be able to do better (see "The Best Rewards Credit Cards," on page 24).
- **Travel insurance...to protect against a brewing tropical storm: NO DEAL.** A tracked storm doesn't qualify as an "unforeseen event," so unless you add a rider that lets you cancel for any reason, your policy won't pay out. **...to protect against a sudden illness: DEAL.** Your U.S. health insurance typically isn't accepted abroad, so medical and medevac coverage is a good idea.
- **Restaurant week: NO DEAL.** You're limited to a prix fixe menu that doesn't include tax or tip or (usually) drinks. To find the real deals, compare the special menu with the à la carte offerings—or choose an upscale restaurant with pricey entrées you're dying to try.

SALES-TAX HOLIDAYS

Save on Back-to-School Stuff

Making purchases free of sales tax is a money-saving opportunity you don't want to pass up. At least 15 states have sales-tax holidays in July or August that let shoppers make noncommercial purchases of back-to-school items, such as clothes, computers and school supplies, tax-free. Five states exempt purchases of Energy Star products on certain days of the year. And three coastal states have sales-tax holidays for hurricane-preparedness items. See a complete list of sales-tax holidays from the Federation of Tax Administrators (www.taxadmin.org).

Fabulous Freebies

FREE CREDIT SCORES. It's getting easier to get your free FICO score. Barclaycard, Citibank, Discover, Pentagon Federal Credit Union and Sallie Mae already offer free FICO scores to many of their customers; Bank of America and Ally Financial plan to later this year. Sites such as Mint.com, Credit.com, CreditKarma.com and CreditSesame.com also offer free scores. They aren't FICO scores, but they are still useful indicators of your credit health.

ASSOCIATED PRESS

Dynamite Deals

STREAMING TV

GOOD NEWS FOR CORD CUTTERS

Tired of paying for cable? You have more options than ever. For $20 a month, new service **SLING TV** streams 22 cable channels—including ESPN, AMC, CNN, HGTV and Food Network—live over the Internet. You can tack on HBO for an extra $15 a month, and additional channel packages (such as for sports or movies) are each $5 a month. In exchange for signing up for three months of service, Sling recently offered outstanding deals on devices to stream its programming to your TV: $50 off an **AMAZON FIRE TV BOX** (regularly $99), 50% off a **ROKU 3 BOX** (regularly $100), or a free **AMAZON FIRE** or **ROKU STICK** (regularly $39 and $50, respectively).

The Roku and Amazon streaming sticks provide many of the same options as their counterpart boxes—including the ability to stream Sling TV, Netflix, Hulu Plus and Amazon Instant Video—making them a good deal even at standard prices. Plus, when it comes to ditching cable TV, don't forget about standbys such as setting up an antenna to pick up local broadcast stations and using Hulu.com's free service to watch network TV shows.

MUST-HAVE TECH

Hot Deals on Gadgets

Louis Ramirez, of DealNews.com, shares his advice for scoring deals on gadgets this summer.

Laptops. Look for back-to-school bargains in late July and August. You should be able to find 15-inch laptops from Asus, Lenovo and Toshiba carrying Intel's Haswell processor for $360 to $400. Recently, for example, the 15.6-inch **LENOVO G50-80 SIGNATURE EDITION LAPTOP**, with 6 gigabytes of memory and a 500GB hard drive, sold for $399 at MicrosoftStore.com. Laptops with the current-generation Broadwell processor, which boasts a longer battery life, run about $100 more.

Tablets. Don't pay full price for the **IPAD AIR 2** ($499 for the 16GB Wi-Fi model). You can often find it for $100 off through retailers such as Best Buy and Micro Center. Or shop eBay; seller Blutek recently sold the 16GB Wi-Fi model for $400 with free shipping.

COURTESY MOTO

And watch for 24-hour sales from Amazon on its tablets. The **AMAZON FIRE HD 7 8GB WI-FI TABLET** in black was recently $79 (normally $139).

TVs. You'll find the best deals on TVs at the end of the year. But if you want to buy now, look for a 42-inch or 55-inch set. You should be able to find a 42-inch model from a brand-name manufacturer such as Sharp or LG for about $300. The **SHARP LC-42LB261U LED HDTV** has dropped to $300 (regularly $400) at least once a month since November, says Ramirez. Prices on LG, Sharp and Samsung 55-inch TVs sometimes dip to $500. The **LG LB5900 LED HDTV** recently sold for $500 (regularly $680) at Micro Center.

Smart watches. Don't expect deals on the Apple Watch until at least November. But competitors may cut prices in the meantime. Recently, Motorola slashed the starting price on the **MOTO 360** from $250 to $180. Watch the Google Store for more price cuts.

Fabulous Freebies

FREE LODGING. Worldwide Opportunities on Organic Farms (WWOOF) lets travelers stay and eat free on an organic farm in the U.S. or overseas in exchange for a few hours' help each day. In the U.S. alone, there are 2,068 host farms and gardens (volunteers must pay a yearly subscription fee of $40; fees vary depending on the country in which you volunteer). Or try a house sit or exchange (kiplinger.com/links/houseswap) to stay in homes all over the world for just the cost of a membership and sometimes providing a small service.

BARGAIN STOCKS

TOP RATINGS, GOOD VALUE

With the help of the *Value Line Investment Survey,* we've identified three bargains with timeliness ratings of 1, meaning that *Value Line* believes they are primed to outpace the market over the next year. (Prices are as of May 1.)

Biotech giant **GILEAD SCIENCES (SYMBOL GILD, $105)** trades for just 10 times projected earnings, about 45% less than the price-earnings ratio of the overall market and 60% less than the P/E of Gilead's biggest rivals. Wall Street is down on Gilead because it has been cutting the price of its blockbuster hepatitis C drugs, Sovaldi and Harvoni, and signing profit-sharing deals with generic-drug companies. The moves will pare Gilead's profit margins, but they make the drugs more attractive to the insurers and government agencies that pay the tab. Gilead just began paying a dividend.

Shares of semiconductor maker **MICRON TECHNOLOGY (MU, $29)** have sunk by more than 17% since December because of slumping personal computer sales. But Micron has new contracts with suppliers and partners that will pare expenses and possibly boost sales in 2016, says *Value Line*. The stock sells for only 9 times estimated 2015 profits. *Value Line* sees earnings surging this year and in 2016.

Shares of **CHICAGO BRIDGE & IRON (CBI, $50)**, which builds infrastructure for energy companies, have tumbled 37% since April 2014, a victim of the drop in oil prices. The Netherlands-based company recently trimmed its outlook for 2015, but it has plenty of projects in its backlog and expects earnings to rise this year. CBI is flush with cash, which it plans to use to repurchase as much as 10% of its shares. The stock sells for 9 times estimated profits, giving it above-average long-term potential, says *Value Line.*

Fabulous Freebies

FREE PRESCRIPTIONS. Several grocery store pharmacies, including Meijer, Price Chopper, Publix and Schnucks, fill prescriptions for some antibiotics free. Meijer, Price Chopper, Publix and ShopRite also offer free diabetes medications and supplies.

NEW CARS

MODELS WITH THE DEEPEST DISCOUNTS

Lower gas prices have triggered price cuts for gas-electric hybrids. The midsize **HYUNDAI SONATA HYBRID** recently sold for nearly 20% off its $26,825 sticker price, on average, according to TrueCar.com. The compact **PRIUS C ONE** was selling for 16% off its sticker price of $20,365. In the market for a large SUV? The **MAZDA CX-9** ($30,865) had an average transaction price 17% below sticker. Among family sedans, the **CHEVROLET MALIBU LS** ($23,290) was averaging 13% below sticker.

GET A HYUNDAI SONATA HYBRID FOR 20% OFF.

ENERGY INCENTIVES

Get Paid to Go Green

Uncle Sam and your local gas and electric utilities offer financial incentives to save energy. The federal government offers a tax credit equal to 30% of the cost to install geothermal heat pumps, small wind turbines and solar energy systems that are put in use by December 31, 2016 (visit www.energystar.gov and click on "tax credits").

Gas and electric utilities and state energy agencies in all 50 states offer a variety of rebates and other incentives to homeowners. For example, customers of Puget Sound Energy, in Washington, can earn up to $1,900 in rebates for insulating and weather-stripping their homes. Xcel Energy customers in Minnesota can earn up to $475 when they install a highly efficient air conditioner or furnace. In Maryland, Pepco provides in-store discounts on Energy Star–qualified compact fluorescent and LED bulbs at participating retailers.

To find rebates and incentives where you live, use the Database of State Incentives for Renewables and Efficiency at www.dsireusa.org and search by zip code.

COURTESY HYUNDAI

DYNAMITE DEALS


■ BASED ON ITS NET COST, YALE IS A BARGAIN.

COURTESY YALE UNIVERSITY

COLLEGE VALUES

Top Schools Under $20,000

The average cost of tuition, fees, room and board at a four-year private college or university is more than $42,000 a year, but thanks to generous aid packages, many students pay far less. For example, **YALE UNIVERSITY**'s published price is $60,850, but its net cost—the average amount paid by the 52% of students who qualify for financial aid—is just $16,582. At **HARVARD**, where more than 60% of students receive need-based aid, the net cost is $17,632. Some schools with less-rigorous admission standards also keep net cost below 20 grand. At **POMONA**, students who qualify for need-based aid pay an average net cost of $17,946, and at **WASHINGTON AND LEE**, net cost after need-based aid averages $18,212.

ETF PORTFOLIO

ROCK-BOTTOM FEES

Exchange-traded funds make it easy to build a diversified portfolio. ETFs, which track an index or basket of assets and trade like stocks, offer exposure to almost any kind of asset and, in many cases, charge a pittance. Use the four ETFs described below to put together a low-cost portfolio. You can buy the Vanguard funds commission-free at the firm's brokerage or through TD Ameritrade, and you can get the iShares ETF without a sales charge through Fidelity's brokerage.

Start by putting 40% in **VANGUARD TOTAL STOCK MARKET (VTI)**, which holds nearly 3,800 stocks (almost all of the publicly traded firms in the U.S.) and charges just 0.05% in annual fees. To invest abroad, place 20% of your assets in **VANGUARD FTSE DEVELOPED MARKETS (VEA)**. For 0.09% a year in fees, it tracks stocks of large and midsize firms in developed foreign countries. For exposure to faster-growing developing nations, put 5% in **ISHARES CORE MSCI EMERGING MARKETS (IEMG)**. With annual expenses of 0.18%, it isn't the cheapest emerging-markets ETF, but it tracks the best-known developing-markets index.

Place the rest of your assets in bonds. With interest rates so low and headed higher (eventually), bond investing is tricky. Bond values and rates move in opposite directions, and the longer a bond's maturity, the greater its price volatility. We suggest **VANGUARD INTERMEDIATE-TERM BOND (BIV)**, which holds government and corporate debt with an average maturity of seven years. The fund charges expenses of 0.10% a year and yields 2.2%.

CAR INSURANCE

Discounts for Disgruntled Customers

Just looking like a smart shopper can get you a better deal on auto insurance. Many insurers use a practice called "price optimization," which analyzes personal consumer data to measure how much of a price increase you'd be willing to accept. If you shop around regularly, switch insurers or even complain about your rate, you might get a lower rate than nonshoppers. Regulators in Maryland, Ohio and California have prohibited this practice because it bases rates on something other than your risk of a claim, but it can still have a big impact on your premium in other states.

No matter where you live, it's a good idea to shop around at least once a year. You can get price quotes from several insurers at www.insurance.com or hear from insurers or agents at www.insurancequotes.com. You can also get quotes directly from some insurers' Web sites or find an independent agent at www.trustedchoice.com. Before switching insurers, see if your company will match a competitor's lower rate.

Fabulous Freebies

FREE TUITION. Forget about student loans. **BEREA COLLEGE**, in Berea, Ky., provides its students a four-year tuition scholarship worth nearly $100,000. **COLLEGE OF THE OZARKS**, in Missouri, requires students to participate in a work program rather than pay tuition.

Fabulous Freebies

FREE MUSIC AND BOOKS. Get your groove on with free music streaming services, such as **PANDORA.COM** and **SPOTIFY.COM**. You can access them online, or install their handy apps to take the tunes anywhere. **PROJECT GUTENBERG** (www.gutenberg.org) has more than 46,000 free e-books available for download to Kindle, Android and Apple products. Amazon, Barnes & Noble and BookBub.com also offer free e-books. And don't forget your public library. Most offer books, magazines, audiobooks, e-books, video games, CDs and DVDs free (as long as you return them on time, of course).

EBATES PAYS YOU TO SHOP ONLINE AT 1,800 RETAILERS.

APPS AND TOOLS

SAVE WHILE YOU SHOP

Some retail and grocery chains have programs, such as **CARTWHEEL BY TARGET** and **WALMART SAVINGS CATCHER**, that provide exclusive savings in the store. Other tools provide savings at a wide range of retailers. **RETAILMENOT** and **COUPON SHERPA** compile coupons for both in-store and online purchases; you can search for coupons on their Web sites and mobile apps. In addition to sharing coupons, **EBATES** pays cash back on most purchases when you shop online with more than 1,800 affiliated retailers, including Amazon, Kohl's, Macy's, Target and Walmart. Create an account at Ebates.com (or through the mobile app) and choose a retailer; Ebates links you to the store's site and provides a specified percentage of cash back on purchases (you'll get a quarterly check in the mail). For example, Ebates recently provided 8% back for Macy's shoppers.

STUDENT DEBT

Low Rates on Private Loans

For the majority of college-bound borrowers, the best option is a federal student loan. But if you still come up short after maxing out on federal loans, you may be able to find some good deals on private student loans. If you have good credit, several lenders offer low-cost alternatives to federal PLUS loans for parents, which for 2014 and early 2015 had a fixed rate of 7.21% (the rate for new borrowers will be reset on July 1). Variable rates for **WELLS FARGO**'s Student Loan for Parents start at 3.5%; fixed-rate loan rates are as low as 6.49%. **CITIZENS BANK** offers a parent loan with a 10-year fixed rate of 6.7% for qualified borrowers. **SOFI**, a peer-to-peer lender, recently launched a parent loan with variable rates as low as 2.93% and fixed rates starting at 4.5%.

DEAL OR NO DEAL?

Amazon Prime Delivers

Is Amazon Prime, the service that promises free two-day delivery, worth $99 a year? When you add the other features—video streaming, e-book downloads to Kindle readers, more than a million songs fine-tuned to your taste and unlimited photo storage—the answer for many people is yes.

To be sure, most of these features are available elsewhere, at a lower cost or free. For instance, ShopRunner offers free unlimited two-day shipping from 124 online retailers for a $79 annual membership fee. You can get movies and TV shows at no cost on Hulu or Crackle. (And if you already subscribe to Netflix for $96 a year, Amazon Prime's video offerings aren't worth the extra cost.) Want music tailored to your taste? Pandora charges nothing for its basic service.

Where Amazon Prime really shines, however, is with its two-day free shipping, says Matthew Ong, a retail analyst at Nerd Wallet.com. "Amazon figured out a long time ago that shipping is the biggest consumer pain point in online shopping."

Even when you consider that nonmembers who spend $35 at Amazon may get free (albeit slower) shipping? Yep, he says. "Amazon Prime is all about convenience. It's designed for those who have the disposable income to be shopping online but not the disposable time to be shopping at different stores and sorting out poor or slow shipping deliveries."

ANNA ZIELINSKA/GETTY IMAGES

DYNAMITE DEALS

GRAB BAG

Good Buys for Those Who Wait

Not shopping for anything in particular? Sit back and let the deals come to you. **MEH.COM** posts a new 24-hour sale on a single item every night at midnight. The price is always well below list, but sometimes the item, such as a $20 tea kettle, is, well, *meh*. But the sale item could be something you could use, such as a set of kitchen knives at nearly 50% off.

For a little more variety, check out **WOOT!**, which posts daily deals on brand-name products, from home goods to electronics to wine. Discounts on refurbished electronics are especially deep and come with full manufacturers' warranties.

Being flexible when it comes to travel can also net you big savings as airlines and cruise ships look to fill slots at the last minute. Enter a desired destination and trip duration into **GOOGLE'S FLIGHT EXPLORER TOOL** (www.google.com/flights/explore) and the site will show you the lowest airfares arranged by departure date. Booking a week out, you could recently get a $598 round-trip flight from New York to Venice, Italy. If you're not picky about the location of your cabin, use **CRUISECRITIC.COM'S PRICE DROP TOOL** to book a last-minute cruise. A suite on a five-night Royal Caribbean cruise to Bermuda was recently discounted 78%.

TRAVEL

Vacation in an Upscale Home

If you like the idea of staying in someone's lavish, beautifully appointed home rather than in an impersonal hotel, book a vacation rental home through **ONEFINESTAY** (www.onefinestay.com). This London-based broker matches homeowners who want to rent out their place with vacationers who are looking to stay in upscale residential digs.

The site, which has been operating since 2010, offers to hook you up with residences in Paris, New York, London and Los Angeles. You can browse the properties online (be prepared to drool) and get the skinny on each home's features and flaws. The company vets homes to be sure they're safe and in popular locations, and it guarantees that homes will be clean and ready for guests, with fresh, high-end linens and toiletries.

These places aren't cheap: A two-bedroom, two-bath home in the Mayfair area of London runs $876 a night for a three-day stay (rates are typically lower if you stay longer than three nights). Or consider a one-bedroom flat in Paris that once belonged to Salvador Dalí, for $432 a night. The home sleeps four and includes an office and a roof terrace.

AT ONEFINESTAY, YOU CAN BOOK THIS PIED-À-TERRE IN PARIS.

Fabulous Freebies

FREE CAR MAINTENANCE Auto service chain **PEP BOYS** offers five free services, including alignment check and brake inspection—no purchase necessary. If you're buying a new car, consider the value of free maintenance programs offered by various automakers. Free maintenance on a luxury brand, such as BMW, Cadillac or Volvo, can save you a lot because service costs are much higher than they are for nonluxury brands.

COURTESY ONEFINESTAY

DAVID MUHLBAUM > Drive Time

Take Home a Rental Car?

"Buying from Hertz, Avis and Budget is so low-hassle and transparent that you may not mind getting a car that dozens have already had their mitts on."

What if we told you that you could buy a meticulously maintained, late-model used car that may cost you less than if you bought it at a dealership? And what if we said you could take it home for a few days and, if you didn't like it, return it? And that you would pay a no-haggle price, so you didn't have to play the dealer's games?

Here's the catch: You'll be buying a vehicle that has spent its previous life as a rental car. Some see that as a deal-breaker. Who knows how many people drove it? And how they drove it? Not to mention how many Slurpees were spilled on the upholstery? But if you can get past the stigma, buying a used vehicle from a rental fleet could translate into savings.

The three-day test-drive. Rental car companies have been selling off vehicles retired from their fleets for decades now, but two of the big players in the field are making the process so low-hassle and transparent that you may not mind buying a car that dozens of drivers have already had their mitts on.

Rent2Buy at Hertz and the Ultimate Test Drive at Avis/Budget let you browse the fleet online, pick the model that you want, and take it for an extended test-drive (up to three days) from many of their rental locations. During the car's tryout, you can have a mechanic look at it, if you like.

They're not all plain-vanilla sedans, either. Both companies offer a variety of luxury models, as well as less-pricey cars with a dollop of personality, such as Minis and Fiats. Enterprise Car Sales, which has outlets in more than 35 states, does not offer a several-day test-drive, but it will buy the car back within seven days if you don't like it.

Rental vendors seek to counter worries of auto abuse by noting the frequent inspections and regular service they give their fleets, and that the vehicles they sell to retail customers are the pick of the litter (others go to auction, among other fates). Plus, all of the companies provide a report from a third party (such as Carfax) on the vehicle's history. Philip Reed, of Edmunds .com, also reassures potential buyers that serving time in a fleet is no curse on a car, even if it gets an occasional lead-footed driver. "Cars are so well engineered these days that it really doesn't matter," he says.

What you'll pay. We compared prices for that automotive commodity, the Toyota Camry, at Hertz, Avis/Budget and Enterprise. As a benchmark, we used the Kelley Blue Book Fair Purchase Price—what you might expect to pay a dealer—for a good-condition 2014 LE model with about 25,000 miles on it, which in late April was $17,716.

The lowest price was at Hertz, where our Camry went for $16,000. It was $17,600 at Avis/Budget and $17,999 at Enterprise. Prices for some other vehicles we checked, including the Hyundai Elantra, Mercedes C250 Sport sedan, Nissan Rogue and Ford Expedition, in a variety of trim levels, also showed savings—sometimes slim, sometimes huge. The Elantra at Hertz had 35,000 miles and was 15% below the KBB Fair Purchase Price.

Hertz and Enterprise call their offerings "certified," but the term *certified* on a used car is a bit loose, like *natural* on foods. You don't get factory-trained inspectors or an extension of the manufacturer's warranty, as you would with a manufacturer's certified program.

Avis/Budget's cars are a year or two old, so what's left of the factory warranty is all you get. Hertz's and Enterprise's for-sale fleets include older cars as well. For those, if factory coverage has expired, a 12-month, 12,000-mile powertrain warranty helps. Both Hertz and Enterprise throw in roadside assistance, too.

Our advice: Shop all the rental fleets as well as sites such as Autotrader.com. Stop by the CarMax site, too. ■

YOU CAN FOLLOW DAVID MUHLBAUM'S AUTOMOTIVE MUSINGS ON TWITTER AT WWW.TWITTER.COM/DAVEYDOG.

LISE METZGER

What You Need to Know About Low-Water Lawns

How to cut your water bill and still enjoy an attractive yard. BY PATRICIA MERTZ ESSWEIN

1. Turn off the spigot. U.S. homeowners saturate their yards with about one-third of the water they buy from their water utility—an average of 29,000 gallons a year—and in some areas, it's half or more. Even in drought-stricken California, grass doesn't need daily watering to survive and thrive, and it might do well enough with none, says Dr. Jim Baird, a turf-grass specialist with the University of California at Riverside. Ask a local expert how often and how much you should water the type of grass in your yard, and turn off the sprinkler entirely during your region's wet season. One simple test: If you step on your grass and it springs back, it doesn't need watering.

2. Let your lawn water itself. Use a mulching mower blade so the clippings help the soil retain moisture and nourish your lawn. Set the blade for the highest cut appropriate to your type of grass; longer blades shade each other and reduce evaporation. A judicious application of fertilizer will help your grass endure the dry season. If you use a lawn service, ask it to follow these guidelines.

3. Tune up your sprinkler system. Nozzles can get clogged, pipes can break and leak, and automatic controllers often aren't set for current conditions. Signs your system needs help? You're irrigating when it's raining; puddles are forming in the yard; water is soaking the sidewalk and driveway and running into the street. It may be time to call in an irrigation specialist certified by the Irrigation Association (go to www.irrigation.org to find a member company) to audit your system and redesign, reschedule, repair and maintain it as needed. An in-depth audit costs from $400 to $700, but your water utility may provide it free.

4. Bluegrass is for playing, not planting. "Cool season" grasses that can survive northern winters (such as Kentucky bluegrass, rye grass or tall fescue) don't belong in hot, dry places. If you live where winters are warm, be ruthless: Tear out or kill off the grass and replace it with a "warm season" grass that is drought-tolerant, such as Bermuda, zoysia or buffalo grass, says Baird. True, your lawn will turn brown in winter, but it will need at least 20% less water. (If you must, spray-paint it green!)

5. Ask about incentives. You may get paid to expand mulched beds and plant native or well-adapted trees, shrubs, ornamentals and ground covers (a practice called xeriscaping). The Southern Nevada Water Authority says it reimburses its customers up to $1.50 per square foot to convert to a "water smart" landscape. Other utilities in the Southwest also offer "cash for grass" programs that pay up to $2 per square foot of turf you remove. Many pay to improve irrigation-system components, and the San Antonio Water System will pay customers up to $3,500 if they retire their systems permanently. Some utilities offer rebates if you purchase rain barrels (to collect and reuse rainwater), as well as mulch, compost, pool covers and efficient pool filters. Check your water utility's Web site to see what's available and how to qualify.

6. AstroTurf is not the answer. Synthetic turf may be a tempting alternative. New products are realistic-looking, evergreen and never need mowing. But artificial grass is much hotter than natural turf and will still need water to cool it for play on hot days and to clean it, especially if you have pets. ■

SCOTTY REIFSNYDER

Stretching a Small Income Paid Off Big

THEN: Our April 2006 cover couple, Tina Huang and Mickey Pentecost, were newlyweds in their mid twenties who were just starting their careers. Mickey was a PhD student in microbiology at Stanford University, and Tina was establishing herself as an actress. They discussed their strategies for stretching a limited income in the San Francisco Bay Area—including sharing a used 2001 Honda Civic.

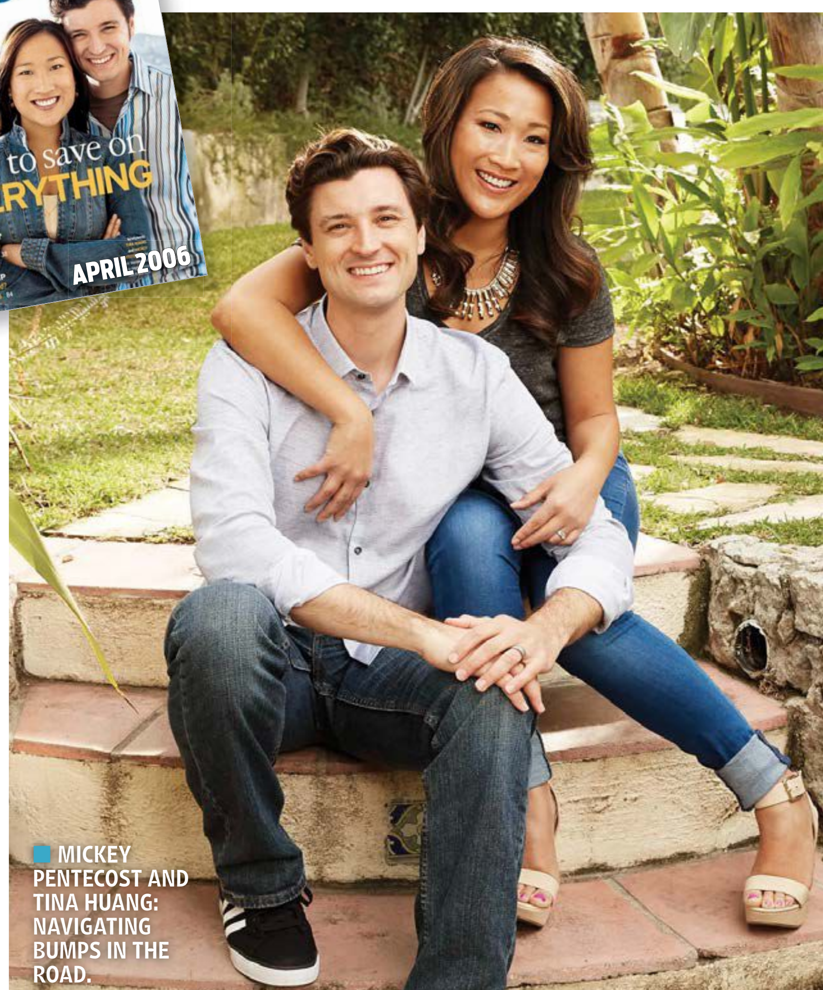
NOW: Tina, 33, and Mickey, 34, who live in West Hollywood, recently celebrated their 10th wedding anniversary. Mickey just finished a post-doctoral program at UCLA, and Tina is in her fifth season with TNT's *Rizzoli and Isles* TV show. And they're on firmer financial footing.

Tina qualified for membership in the Screen Actors Guild, which gave her access to group health insurance and a retirement plan. When she moved to Los Angeles for more acting opportunities, she and Mickey lived apart for more than a year and saved money by bunking with roommates and family members.

Tina began breaking into TV and movie roles, and in 2008 Mickey joined her in Los Angeles and began writing his PhD thesis. With help from Tina's mother, a successful businesswoman in New York, they started house-hunting in a buyer's market. After about a year, they settled on a condo in West Hollywood. "It had to feel like home but also be a good investment," says Tina.

Their irregular income made it difficult to qualify for a mortgage, so they paid off their only debt (Tina's student loans) to make their finances more attractive to lenders, and they used savings and help from family members to come up with a competitive down payment. They timed their purchase to take advantage of both federal and state tax credits for first-time home buyers, and so far they've shaved five years off their mortgage by paying ahead on the principal. Since buying the condo in 2010, they figure the value has increased from $430,000 to about $560,000.

The couple hit a major bump in the road when Tina's mother was diagnosed with an aggressive form of Parkinson's disease. She moved from New York to Los Angeles, first to an assisted-living facility that cost $10,000 a month. "We were slowly liquidating her assets," says Tina. Then her mother purchased a one-bedroom condo in Hollywood, and Tina took charge of hiring caregivers to provide 24-hour care until her mother passed away last December. The fact that her mother had options for her care impressed on Tina and Mickey the value of saving. "We did a lot of maturing over the past three years," says Tina. But that 2001 Honda is still their only car. **KIMBERLY LANKFORD**



MICKEY PENTECOST AND TINA HUANG: NAVIGATING BUMPS IN THE ROAD.

HAIR & MAKE-UP: JESSICA ANDERSON CROCKER

PHOTOGRAPH BY AMANDA FRIEDMAN