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Kiplinger's

PERSONAL FINANCE

**MONEY
SMART
LIVING**

PLUS

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rewards
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trust online
reviews?** p 62

"We're in a buffalo market. It's not a bear, not technically a bull—but it's in the bull family. It's heavy, rather hairy and unattractive at times."

Christopher Hyzy, of
Bank of America, p 48

Where to Put Your Money Now

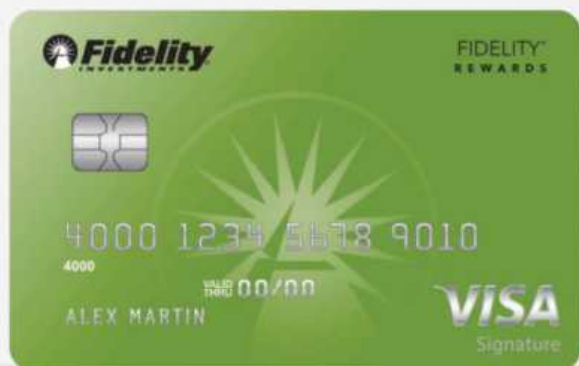
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PRINTED IN USA



KIPLINGER'S PERSONAL FINANCE (ISSN 1528-9729) is published monthly by THE KIPLINGER WASHINGTON EDITORS INC. Editorial & Executive Offices: 1100 13th St., N.W., Suite 750, Washington, DC 20005 (202-887-6400). Subscription Center/Customer Service: Visit us online at kiplinger.com/customerservice, call 800-544-0155, or e-mail PersonalFinance@customersvc.com. POSTMASTER: Send change of address to: Kiplinger's Personal Finance, P.O. Box 62300, Tampa, FL 33662. GST# 123395253. Volume 70, Issue 7. Copyright © 2016 by the Kiplinger Washington Editors Inc. Periodical postage paid at Washington, DC, and at additional mailing offices. Subscription prices: In U.S. and possessions \$23.95 for one year, \$39.95 for two years, \$54.95 for three years. Additional international postage: \$17.00 per year. Single-copy price: \$4.99.



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Janet Bodnar

FROM THE EDITOR

Protect Your Investments

The Department of Labor's new fiduciary rule runs to 1,000 pages and more, and the file I'm keeping on it seems almost as hefty. At first glance, the rule seems straightforward enough: Brokers and other financial professionals who offer investors advice on retirement accounts—401(k)s, IRAs and rollover IRAs—are being required to act as fiduciaries, putting clients' best interests ahead of their own financial gain, a stricter requirement than the current suitability standard for brokers.

But in the real world, the devil is in the details, and this rule seems particularly devilish. As Elizabeth Leary writes in her story on page 55, "financial firms are still trying to determine their responsibilities in light of the new rule." The Investment Company Institute, the mutual fund industry's trade group, denies the Labor Department's assertion that assets invested with brokers underperform their benchmarks. And the ICI says that IRA investors pay about half the average annual expenses charged overall for stock mutual funds: 0.71% of assets versus 1.33%. The ICI has asked Congress to reject the rule and pass a bipartisan bill to adopt a "best interest" legal standard instead.

Although the rule doesn't take effect until April 2017, our story can help you prepare by explaining how you might be affected and what you can do on your own to protect your retirement investments, rule or no rule. For example, Elizabeth points out that although the rule is far-reaching, it

is particularly aimed at high-fee investments in rollover IRAs, such as variable annuities and nontraded real estate investment trusts. Fees aside, those investments are often risky and illiquid, and you should always approach them with caution, whether they're inside or outside retirement accounts (see our story on variable annuities, "Income Guarantees, With a Catch," May).

What you should know. Assuming the rule stands, it could change the way your money is managed. Stockbrokers and money managers would have an incentive to switch from charging commissions to using asset-management accounts that levy a flat fee—say, 1% a year. That might save frequent traders money on commissions but increase costs for buy-and-hold investors. Brokers would be able to continue charging commissions, but you'd have to sign a separate contract that imposes more regulatory requirements. So you need to know which type of financial arrangement with your adviser suits you best: an annual fee, commissions or perhaps an hourly fee for a particular service, such as retirement planning.

Because of the rule's complexity, there's speculation that some brokers and advisers could drop small accounts or shy away from accepting 401(k) rollovers, meaning that more money would stay with employer plans, assuming employers permit it. Keeping money in your employer's plan can give you the advantage of lower costs on larger



Nobody has a bigger stake in your money than you do.

institutional accounts, but the investment options may be poor or more limited than you'd like (see "Game Plan," Nov. 2015).

No guarantees. And be aware of what a fiduciary standard doesn't do: It doesn't guarantee that the advice you get will be any better or that you won't lose money. In the end, nobody has a bigger stake in your money than you do. That means you should understand and feel comfortable with what you're investing in, know how much you're being charged and match your investments with your appetite for risk. As always, we're here to help you—and we'll do it in less than 1,000 pages. ■

JANET BODNAR, EDITOR
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Why Revamp the Kip 25?

The latest changes to the Kiplinger 25 and the rationale behind them bother me (“The Kip 25 Funds Take a Punch,” May). Yes, last year was a difficult market, but seven changes all at once? What happened to your “funds for all seasons” approach? Does this mean wholesale changes every time there is a major bump in the road? I thought the main investment thrust of your magazine was “buy and hold,” not “zig and zag.”

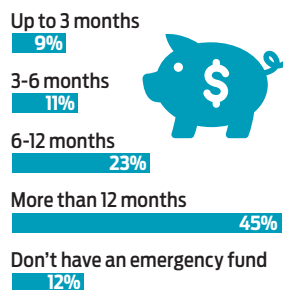
PAUL BANFORD
VALLEJO, CALIF.

EDITOR'S NOTE: We don't think a turnover rate of 28% is excessive; it only seems that way because we've

typically replaced only three or four Kip 25 funds a year. More to the point, markets have changed in ways that suggest a strategy of

Q READER POLL

How long would your emergency fund last?



For more on this subject, see page 20.

buying and holding can undermine performance. We think a better approach now is to buy and adjust, which is what we did.

Making a million. I agree with Kiplinger's on the benefits of homeownership for building a seven-figure nest egg (“10 Ways to Make \$1 Million,” May). My wife and I bought an owner-occupied home with rental income more than 20 years ago. The value of the three-family home has increased 10-fold since then. The rental income we receive monthly on the two apartments covers our mortgage and property taxes, allowing us to earmark a greater portion of our salaries to retirement accounts. Because we live in one of the three apartments, we can deduct one-third of our mortgage. With the rentals potentially serving as steady retirement income, we can postpone taking Social Security.

DAVID SCHOEN
BROOKLYN, N.Y.

EDITOR'S NOTE: See “Make Money as a Landlord,” June.

Scamming the scammers. I've received multiple calls from “tech support” scammers, and I like to take these guys on a little road trip (“Tech,” May). First I tell them that my machine is slow. After a few minutes, I tell them that I got the blue screen of death (BSOD) and the machine is restarting. All the while I'm either driving in my car or sitting in my La-Z-Boy, with no computer near me. We take this journey for about 15 minutes before I start laughing and

ONLINE CHATTER

Jane Clark's column on the hidden costs of downsizing drew these comments (“Re-thinking Retirement,” May):

“You don't have to pay to have your leftover furniture hauled away. Plenty of charities will pick it up free, and you can take a tax write-off. If your kids want the furniture, let them pay to ship it.”

“My cheap brother-in-law had a broken screen door for at least a decade that would always catch the back of my ankle. He finally fixed it when he sold his house.”

inform them of what's going on. I either get a hang-up or they start cursing at me.

PETER CRAIG
CROZET, VA.

● CORRECTION

A dollar invested in large-capitalization stocks in 1926 would have grown to \$5,115 by February 2016, and \$1 invested in small caps would have grown to \$24,906 (“Opening Shot,” June).

> LETTERS TO THE EDITOR

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99 Tips to Make Your Retirement More Comfortable

While it's easy to imagine retirement as a time of relaxation, enjoyment and fun, the fact of the matter is that a successful retirement doesn't just happen. It takes thought, planning and action. To help *Kiplinger's* readers get ready for retirement or make your retirement even better, Fisher Investments has assembled 99 retirement tips.

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How not to run out of money. (Tip #10)

Longevity realities. (Tip #12)

The fallacy of most asset-allocation advice. (Tip #13)

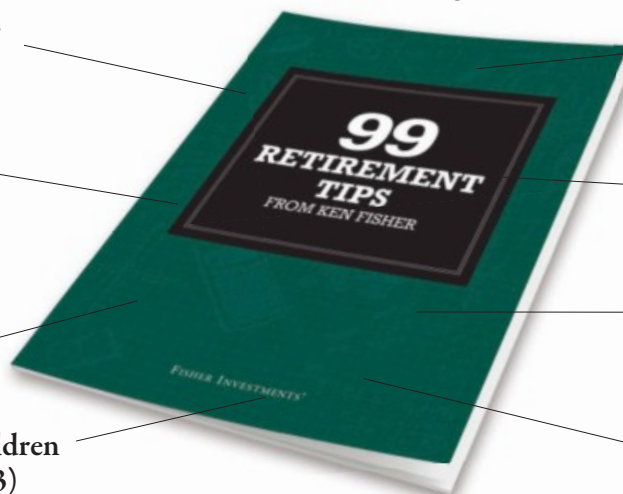
Talking with adult children about money. (Tip #23)

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TOPIC A

SOME BIG IDEAS FOR TAX REFORM

These proposals will outlast election-year rhetoric. **BY SANDRA BLOCK**

AMERICANS DON'T AGREE

on much, but on one issue there's broad consensus: The tax system is a mess. Nearly 60% believe the tax code is so flawed that Congress should overhaul it, according to the Pew Research Center. This discontent hasn't gone unnoticed by the presidential candidates. Amid the name-calling and rancor are some

ambitious ideas to reform the tax code that could resonate long after Election Day, even though their advocates are no longer in the running. Among them:

A consumption tax. Proponents say taxing goods and services would allow the government to reduce or eliminate taxes on capital gains and dividends, which

would encourage savings and investment. In Europe and Canada, consumption taxes take the form of a value-added tax, or VAT, which is imposed at each stage of production and distribution of a product or service. Although the tax may not be as visible as a tax on income, it's reflected in the retail price consumers pay. A big proponent is Texas senator and former Republican candidate Ted Cruz, who proposed a single 10% income tax rate and a 16% "business flat tax" on all business profits, rents and royalties.

A carbon tax. Advocated by Vermont senator and Demo-

cratic candidate Bernie Sanders, a carbon tax would be paid by businesses that burn fossil fuels and, like a consumption tax, ultimately passed on to consumers. Lawmakers and economists from both ends of the political spectrum have supported a carbon tax, or a cap-and-trade variant that would set a maximum level of allowable pollution but give companies flexibility to buy and sell pollution allowances. The object is three-fold: to lower emissions, eliminate regulations and replace subsidies for alternative energy, says Howard Gleckman, senior fellow at the Urban-Brookings Tax Policy Center.

Corporate tax reform. The current federal corporate rate is among the highest in the world, and experts agree that reform is almost certain, no matter who wins the election. The candidates have offered different proposals to make American companies more globally competitive and to discourage them from moving overseas to avoid U.S. taxes. Republican candidate Donald Trump would lower the rate—currently up to 35%—to 15% and phase out some business tax deductions. Democratic candidate Hillary Clinton has said she would provide tax relief for small businesses.

Fewer tax loopholes. Many economists believe that the tax code shouldn't be used to reward certain behaviors, but they find it hard to agree on which deductions or credits to reduce or eliminate. Some are sacred: No one has proposed eliminating deductions for mortgage interest and charitable contributions. Trump would phase out all other deductions for high-income taxpayers, including deductions for state and local taxes and the tax break for employer-provided health insurance.

Sanders and Clinton would retain all itemized deductions but cap them—Sanders at 30.2%, Clinton at 28%—for high-income taxpayers. For example, a taxpayer in the 33% bracket who donates \$10,000 to charity now gets a \$3,300 tax break; under Clinton's proposed cap, the tax savings would drop to \$2,800.

INTERVIEW

AMERICA'S PERILOUS NATIONAL DEBT

At \$19 trillion and climbing, it's like "termites in the basement."

Maya MacGuineas is president of the Committee for a Responsible Federal Budget and head of the Campaign to Fix the Debt.

How serious is our debt problem? As a share of the economy, the \$19 trillion national debt is the highest it has been since just after World War II and twice the historical average, and it's expected to grow indefinitely. President Obama used the State of the Union address to brag about massive improvement in the deficit [the amount by which spending exceeds revenues in a given year]. The short-term deficit was never our problem. We should be looking at tax and entitlement reform.

What is Obama's record? Very mixed. He created one of the best commissions that has ever worked on this issue, and then he failed to embrace it. He engaged in some very productive negotia-

tions with former House Speaker John Boehner, and then they couldn't get to yes.



We've lost a huge window of opportunity for reforming programs such as Social Security, Medicare and Medicaid that are squeezing out the rest of the budget.

What about the presidential candidates? Their policies range from denial to drastic fiscal irresponsibility. Hillary Clinton's plans overall are manageable in size and are paid for, but they would do nothing to take us off the current trajectory. Bernie Sanders and Donald Trump have policy platforms that would make our debt situation dramatically worse.

Why aren't people more alarmed? It's very difficult for families to understand that fiscal issues eat away at the foundation of our economy. We'll muddle along being harmed by high debt levels in terms of lower growth, slower job creation and a lower standard of living and not realize it. It's a case of termites in the basement.

What's the solution? Presidential leadership. I have seen an incredible willingness among members of Congress to work together on this issue, but what they hear is, "I want you to do this spending program" or "I want you to cut my taxes." Unless the President takes the lead it's virtually impossible for them to move forward. I think the next president needs to commit to a budget that would at least have the debt coming down as a share of the economy. **JANET BODNAR**



SOME PURDUE STUDENTS MAY PAY FOR THEIR EDUCATION WITH FUTURE INCOME.

COLLEGE

AN ALTERNATIVE TO STUDENT LOANS

Income-share agreements swap debt for a portion of future salary.

AS THE COST OF COLLEGE climbs along with the average student debt burden, students and their families can be left in the lurch. Many take out private loans, often at high interest rates, to cover college costs. Now, a small but growing group of students are paying for part of their college education with a portion of their future earnings, using income-share agreements.

Participating students receive funding for their education by agreeing to

pay a percentage of their income for a period of time after leaving school. Typical arrangements are 5% to 10% of income for 10 to 15 years, or 10% to 15% of income for five to seven years. Unlike a loan, an income-share agreement has no interest charges and no balance to be repaid.

For now, most income-share agreements are through private companies, but schools are wading into the market. Purdue University in Indiana recently be-

gan offering ISAs to juniors and seniors. "Purdue's program tests whether we'll see more schools and even some statewide systems offer ISAs directly to students as an alternative to private loans," says Andrew Kelly, director of the Center on Higher Education Reform at the American Enterprise Institute.

Depending on how much you earn after college, you may pay back more or less than the amount of funding you received. The arrangement could save some people thousands of dollars compared with a private or federal PLUS loan, but it could cost those who land high-paying jobs far more. Some plans cap the amount that a student may ultimately repay, for example, at two or three times the value of the original contract.

KAITLIN PITSKER

EXCERPT FROM
The Kiplinger Letter

ACROSS THE POND FOR LESS

Cheaper transatlantic flights are in the wings. Look for approval of Norwegian Air International's bid for no-frills, low-cost flights across the Atlantic this summer. Norwegian flights from Boston to Cork, Ireland, could begin in August. By 2017, flights from New York to Cork will take off, followed by a rapid expansion of nonstops between Europe and the U.S. Low-cost carriers, such as Ryanair, will enter the fray after Norwegian sees success. (www.kiplingerbiz.com/ahead/flights)

THE BUZZ

BEWARE THE LATEST SCAMS

Suspect ATMs. If you need cash for a visit to a ballpark, concert or festival this summer, you may want to swing by your bank first rather than withdraw money from an unattended ATM at the event. If you do use one, look for skimming devices on the card-insertion slot. Skimming fraud, in which crooks grab your debit card information by installing stealth devices on ATMs, has reached an all-time high, rising 546% from 2014 to 2015, according to FICO Card Alert Service. Most vulnerable are nonbank ATMs, which accounted for 60% of compromises. **LISA GERSTNER**

Disappearing down payments. Some consumers are showing up to close on a home purchase only to discover that their down payment is lost in the ether, warn the Federal Trade Commission and the National Association of Realtors. Scammers hack into the e-mail accounts of real estate and title agents and send buyers instructions to wire funds to an alternate account. Before you respond to a credible-looking e-mail with wiring instructions, call your contact at a verifiable phone number to confirm. **PATRICIA MERTZ ESSWEIN**



TRAVEL

BID ON AN UPGRADE TO FIRST CLASS

Airlines are holding auctions that let you strike a deal to fly up front.

YOU NO LONGER NEED DEEP pockets or a vast arsenal of frequent-flier miles to travel in style. On more than 50 airlines, you may be able to buy a seat in the front of the plane for less than half the

usual price of a first- or business-class ticket.

Here's how it works: Select customers receive an e-mail inviting them to bid on an upgrade, or customers submit a bid on the airline's

website. Airlines set a minimum, so don't expect to fly first class for \$1, says Ken Harris, chief executive of Plusgrade, which manages most of the auction programs. You're not charged unless your bid is accepted.

Most of the participating airlines, which include Lufthansa, Qantas and Aer Lingus, are international carriers. But Virgin America offers the program, and Hawaiian Airlines says it will add it soon, as will several other North American carriers, says Harris. Find

the complete list at www.plusgrade.com.

Before bidding, go to ExpertFlyer.com to find out how many premium seats are available, says Richard Kerr, a frequent flier and contributor to The Points Guy blog. Even if there are plenty of open seats, bid \$30 to \$50 above the threshold. Most customers bid the minimum, Kerr says, so a slightly higher offer will give you a leg up.

SANDRA BLOCK

MONEY & ETHICS // KNIGHT KIPLINGER

Should restaurants raise prices and eliminate tips?

Q A restaurant I have long patronized has just abolished tipping—apparently by raising prices 25% or so. I've always liked being able to tip my server more or less according to the service I receive. What do you think?



A I used to feel as you do, typically tipping 15% but often adding another 5% or more for special service. And I've always tipped a much higher percentage of a small check, on the grounds that it took the server as much effort to serve me a simple meal as a fancy one.

That said, the no-tipping concept is growing on me. It addresses several problems. For one, tipped servers usually earn much more than kitchen staff, who work just as hard and whose talent is the soul of the restaurant. Tips are often capricious, largely unrelated to the quality of service. If a server is randomly assigned to wait on a curmudgeon who always tips too little, that server will be unfairly penalized. That's why pooling of tips among all waiters—and perhaps kitchen staff, too—is a good idea.

Because the amount of the tip is based on the size of the bill,

diners have sometimes wondered if the server has an ulterior motive in encouraging you to add a few pricey side dishes and desserts, or in recommending an expensive wine. This pressure (or suspicion of it) goes away in a no-tip environment.

So does the IRS's suspicion of widespread underreporting of tip income by waiters and other service employees. In a no-tip environment, employers must pay every employee a competitive wage (and, I hope, competitive benefits) and would withhold income taxes. Servers would earn Social Security credit on all their earnings, and their income would be more predictable in a busy or slow season. And, yes, you should assume that the real cost of labor, in the dining room and kitchen, will be built into the menu pricing.

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

CALENDAR 07/2016



FRIDAY, JULY 1

To comply with a Vermont law that takes effect today, a number of large brands, such as ConAgra and Kellogg's, are labeling foods nationwide that include genetically modified organisms. If GMO talk has you thinking organic during your weekend grocery trip, check out Kiplinger's money-smart organic shopping guide at kiplinger.com/links/organic.



SATURDAY, JULY 9 ▲

Look for deals on grills and grill accessories following the July 4 rush. Markdowns approach 40% to 50%, plus you still have time to flip some burgers before the cold weather comes.

MONDAY, JULY 18

The Republican National Convention kicks off in Cleveland. In the 17 presidential election years since 1948, the S&P 500 has risen over the course of 11 GOP conventions.

SATURDAY, JULY 23

If the heat is getting to you, upgrade your air conditioner to cool down and save money. Energy Star central air units are, on average, 14% more efficient than standard models.



FRIDAY, JULY 29

Last day for a free upgrade to Microsoft Windows 10. After this, switching to the new operating system will run you \$119. **RYAN ERMEY**

❖ DEAL OF THE MONTH

Look for summer food promos. Carvel will offer buy-one-get-one-free soft serve cups on July 17 for National Ice Cream Day. And quarter-pound franks are \$1 at 7-Eleven on July 23, National Hot Dog Day.



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Higher risk usually means higher reward, but that hasn't been the case with international stocks.

JAMES K. GLASSMAN > Opening Shot

Foreign Stocks? Don't Bother

It's practically an article of faith that, just as investors need to have both large- and small-company stocks in their portfolios, they must own both domestic *and* foreign shares. A widely cited paper by economists Haim Levy and Marshall Sarnat made the case for overseas diversification 46 years ago by looking at the performance of markets from 1951 through 1967. But Europe and Japan were growing rapidly then as they recovered from World War II. Today, is it really necessary—or wise—for investors to stray from the U.S.?

Look at the recent past. Over the past five years through April 29, the Dow Jones Global ex-U.S. Total Stock Market index returned an average of 0.9% per year. That index is composed of 9,000 stocks from 75 countries, excluding the U.S. Meanwhile, the Dow Jones U.S. Total Stock Market index, which tracks the entire domestic market, returned 10.5% annualized.

Go back further. Vanguard Total International Stock (symbol VGTIX) is an index mutual fund with holdings in about 5,000 foreign stocks, allocated among Europe (49%), Asia (41%) and the Americas (10%). If you had invested \$10,000 in the fund 10 years ago, you would have a mere \$11,716 today, compared with \$19,279 if you had invested in Vanguard 500 Index (VFINX), which tracks Standard & Poor's 500-stock index. Since its inception 20 years ago, Total International has registered a piddling annualized return of 4.2%. Vanguard 500 has returned an average of 7.8% per year.

Higher risk usually means higher reward, but that hasn't been the case with foreign stocks. Their paltry profits have been produced with what Vanguard's own measures conclude is the highest "risk potential." Morningstar ranks Total International's volatility over the past 10 years as "above average." Despite the low-return, high-risk profile, the fund is enormously popular, with some \$200 billion in assets. Apparently, commentators (including me!)

have persuaded investors that they must own foreign stocks.

Perhaps the past two decades (not to mention the past five years) have been an anomaly. I'm a contrarian kind of guy—maybe foreign stocks will bounce back in the decades ahead. But the numbers have been so awful that ignoring them would simply be foolish.

Home-field advantages. What the poor returns of foreign stocks indicate is that overseas companies themselves simply don't perform as well as U.S. concerns. The U.S. accounts for just 5% of the world's population and 16% of the world's total economic output (based on purchasing-power parity, or what a currency can actually buy). But when it comes to profitability, size and management skill, American companies rule the world.

For example, in technology, the most dynamic global sector, eight of the world's nine largest companies—based on a Forbes index that factors in revenues, profits, assets and market value—are headquartered in the United States. (The exception is Samsung, of South Korea.) The U.S. is home to 14 of the 30 largest consumer-goods companies and five of the eight largest energy companies—in both cases, far more than any other country.

Candidates seeking their parties' presidential nominations have stressed the supposed decline of American manufacturing. Yes, China, with four times our population, replaced the U.S. as the world's largest producer of goods in 2010. But the U.S. manufactures as much as the next three countries—Japan, Germany and South Korea—combined. More important to investors, U.S. manufacturers are becoming more efficient than their Asian rivals. In an article last December, *IndustryWeek* magazine projected that in 2020 the U.S. would be the "most competitive nation in the world" for manufacturing because of our "investment

YOU DESERVE BETTER

Not just a better bathroom, but also a better home loan experience. Rocket Mortgage's completely online process gives you a custom mortgage solution, so you can refinance and start saving money to finally update that yuck-colored bathroom.



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If you want your shares to reflect the entire planet, you can build a powerful 10-stock portfolio with just U.S.-based companies.

in research, technology, and innovation.”

There are also a couple of potential catalysts that could drive up domestic stocks. The U.S. has the highest corporate tax rates in the developed world, plus a system that taxes profits outside the country. My guess is that corporate tax reform will be on the agenda no matter who wins the presidential election, and U.S. businesses, which are already highly competitive because of substantial capital investment and good management, will do even better. Another possible change for the better: U.S. companies have thrived over the past five years despite a rising dollar for most of that period, which makes our goods more expensive to foreigners. The dollar has been falling steadily since November. Imagine if that trend continues for an extended period.

Meanwhile, European and Japanese companies are especially burdened by a deeply entrenched regulatory culture, and the Chinese haven’t fully liberated their firms from the Communist Party’s grip. The Chinese government’s goal of more employment and output is often at odds with the improvements in corporate productivity that investors seek.

The main risk to U.S. stocks’ edge over foreign stocks is that we will reject new trade deals. Killing the Trans-Pacific

Partnership agreement, for example, would almost certainly harm large U.S. firms and allow Asian businesses to hunker down and sell to their own regional markets, which have an abundance of young consumers.

Overrated benefit. One reason advocates say to invest in foreign stocks is their lack of correlation to U.S. stocks. Stocks that are uncorrelated tend to move up and down independently of one another. By building a portfolio of uncorrelated assets, you get a smoother ride. For instance, if U.S. stocks take a big dive one year, foreign stocks may mitigate the damage by not losing as much, or even gaining. But the correlation between U.S. and foreign stocks is actually pretty tight compared with the correlation between U.S. stocks and other assets, such as commodities and Treasury bonds. Foreign stocks fared just as poorly as U.S. stocks during the sharp 2008 downturn.

Another reason to choose foreign stocks is that U.S.-based companies don’t reflect the entire global economy, and by investing internationally your portfolio tracks the world. But many U.S. companies already derive most of their revenues abroad. In fact, if you want your shares to reflect the entire planet, you can build a powerful 10-stock global portfolio with just U.S.-based companies. Try these: **AMAZON.COM**, **BOEING**, **CATERPILLAR**, **DOW CHEMICAL**, **EXXONMOBIL**, **GENERAL ELECTRIC**, **JOHNSON & JOHNSON**, **JPMORGAN CHASE**, **MICROSOFT** and **QUALCOMM**.

A study two years ago by the Vanguard Group found that although foreign stocks accounted for more than half of global market capitalization (that is, stock price times shares outstanding), U.S. investors put only about one-fourth of their total stock allocation in foreign companies. Vanguard’s point is that many Americans are overinvested in U.S. stocks, a phenomenon that economists call “home bias,” denoting an almost irrational leaning toward the homeland.

I’m not sure this prejudice is so bad. In light of actual results over the past few decades and the prospects for the years ahead, maintaining a bias in your portfolio toward U.S. stocks looks like an excellent strategy. ■

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

Global Exposure

10 U.S. COMPANIES WITH BIG SALES ABROAD

Every company on this list generates at least one-fourth of its business overseas. And with the exception of Amazon, all deliver above-average dividend yields.

Company	Symbol	Recent price	Market value (billions)	Price-earnings ratio*	Yield	Percent of foreign sales in 2015
Amazon.com	AMZN	\$660	\$311.1	101	0%	34%
Boeing	BA	135	85.9	15	3.2	59
Caterpillar	CAT	78	45.4	21	4.0	59
Dow Chemical	DOW	53	58.9	15	3.5	65
ExxonMobil	XOM	88	366.7	28	3.4	70
General Electric	GE	31	285.7	19	3.0	56
Johnson & Johnson	JNJ	112	309.3	17	2.9	49
JPMorgan Chase	JPM	63	231.3	11	2.8	24
Microsoft	MSFT	50	392.0	18	2.9	54
Qualcomm	QCOM	51	74.3	11	4.2	99

Through April 29. *Based on estimated earnings for the next four quarters. SOURCES: JPMorgan Chase, S&P Dow Jones Indices, Thomson Reuters, Yahoo.



SUCCESS STORY

All Fired Up Over Pizza on the Grill

This duo figured out how to turn a charcoal grill into a wood-fired pizza oven.

PROFILE

WHO: George Peters, 59 (interviewed), and Al Contarino, 46

WHERE: Groveland, Mass.

WHAT: Cofounders and owners, KettlePizza

You've always been an inventor?

I worked full-time as a property director for local YMCAs, but I spent evenings and weekends developing my ideas and going to trade shows to sell them.

How did you and Al meet? Al is an engineer, and he was running his family's manufacturing business and trying to develop a different type of gas grill when I read about him in a local newspaper in 2008. I called him up, and we met. We sat for two hours, drinking coffee, talking and drawing ideas. It felt like two minutes. My wife was thrilled I had found someone else to sell my ideas to.

Why KettlePizza? For good pizza, it's important to cook the top and bottom at the same time. You can't cook pizza evenly on a grill because when you open the lid, you get an overcooked bottom and an undercooked top. We didn't think people wanted to spend thousands for a wood-fired pizza oven. So Al looked at charcoal grills and learned that Weber's popular kettle grill offered a ready market for a portable and affordable solution. We created a sleeve

that installs between the grill top and bottom and creates a consistently hot cooking chamber.

You built your own prototype?

Yes, nights and weekends in Al's workshop, where he had a slip roller [used to form sheet metal]. We settled on a high-grade stainless steel that's corrosion-resistant and has that "Wow!" factor. It doesn't hurt to have some skills for making things and a willingness to keep at it until you have in your hands what you see in your head. The patent is pending.

Now you outsource production?

We found a small company in New Hampshire that could laser-cut the steel in small batches of 50 or 100 units. Initially, we rolled the steel, cut the wood handles and assembled the basic kit ourselves. We started selling the kits in mid 2010. When we got bigger and busier, we couldn't do it all ourselves, so the factory forms the steel and assembles

the kits. A company in Ohio makes the handles.

How did you finance your launch?

We spent about \$250,000 of our own money, and then we worked from cash flow.

How did you market your products?

We sold the first few on eBay and then sold from our website [www.KettlePizza.com]. We went to a lot of hardware shows. Now, we're on Amazon.com and in Crate & Barrel, Target and Walmart. We'll be online soon at the Home Shopping Network.

had gross annual sales of about \$150,000. In 2015, we had \$1.5 million in sales, and in 2016 we expect close to \$3 million. Al and I work full-time and take salaries. We have three full-time employees and two part-time employees.

As partners, who does what?

Al grew up in business, and he works on our road map. I grew up in the projects, so I figure out how to get in the door to get an answer from someone. Al points to the door, and I go kick it down. **PATRICIA MERTZ ESSWEIN**

What do the pizza

sleeves cost? We have six kits that range from \$140 to \$430, depending on accessories.

Has the business grown?

In 2011, we



■ **GEORGE PETERS, LEFT, AND AL CONTARINO**



Most people approaching retirement have a number of resources to tap if they need money.

JANE BENNETT CLARK > Rethinking Retirement

Do I Need an Emergency Fund?

In January, I started contributing the maximum to my retirement accounts, to the tune of \$24,000 a year to my 401(k), including the catch-up contribution for people 50 and older, and \$6,500 to my Roth IRA, including the catch-up. With only so much money to go around, I've had to skimp on putting money into my emergency fund, which is in a savings account earning squat anyway. But lately, I've wondered: Why do I need an emergency fund at all?

The standard advice is that you should have enough cash—preferably in a safe, easy-to-access savings account or money fund—to cover three to six months' worth of living expenses, plus maybe an extra amount to cover major expenses, such as a new roof.

I don't have nearly that much in my savings account. What I do have is a hefty sum in my traditional IRA. I'm older than 59½, so if I needed to make a withdrawal I wouldn't pay a penalty. And because I have to pay taxes on the money whenever I withdraw it, I don't see why I shouldn't keep contributing to my 401(k) and let my IRA serve as a backup emergency fund.

Not so fast. I ran this idea by members of the National Association of Personal Financial Advisors, and most of the respondents disagreed. Not only would I pay taxes, they pointed out, but the withdrawal could also bump me into a higher tax bracket. Plus, I might have to sell investments in my IRA in a down market. And because of the annual limit on traditional IRA contributions (\$6,500 if you're 50 or older), I might never get back to where I was or want to be.

Okay, what about my Roth? You can always withdraw contributions without taxes or penalty, and if you're 59½ or older and have held the account for at least five years, you can also withdraw the earnings tax- and penalty-free. No dice, said the planners. Tapping a Roth undermines one of its biggest advantages: You don't have to

take distributions starting at 70½, as you do with traditional IRAs (see "Happy Half Birthday, Baby Boomers," on page 36). Better to leave a Roth account intact so you can deploy after-tax money strategically in retirement or let it grow, says Rob Siegmann, of Total Wealth Planning, in Cincinnati.

Other sources. Borrowing from your 401(k), however, can make sense in an emergency, says Jean Fullerton, a certified financial planner in Bedford, N.H., because you won't take a tax hit on the loan and you're paying the interest to yourself. Generally, you can borrow as much as half of the amount in your account, up to \$50,000. On the downside, you must repay the debt all at once if you lose or leave your job.

Many people my age have one other source of wealth: home equity. A home-equity line of credit (HELOC) from a bank or mortgage lender can be a good option for emergency cash, says Fullerton. If you go the equity-line route, resist the temptation to expand your definition of emergency, she says, and be sure to set up a HELOC before lightning strikes. A reverse mortgage is another way to tap your equity (see "Reverse Mortgages Get a Makeover," April). You can take the cash as a line of credit and use it as needed, and you don't have to pay it off until you or your heirs sell the house (you have to be at least 62 to qualify).

My take? Most people approaching retirement have a number of resources to tap if they need money. For my part, I have a savings account for garden-variety crises, such as a major car repair, and a home-equity line of credit in case of a disaster, such as losing my job. If the latter were to happen, I'd use the HELOC to fix up my house to sell it, pay off the loan with the proceeds, and buy a cheaper place.

But that's just me. What's your plan? ■

JANE BENNETT CLARK IS A SENIOR EDITOR AT Kiplinger's Personal Finance.



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The Best Rewards Credit Cards

Forget 1% rebates. You can earn up to 6% if you play your cards right. BY LISA GERSTNER

If you've been carrying the same rewards credit card in your wallet for several years, there's a good chance you could get a better deal. Card issuers are competing hard for your business by promising rebates on everyday purchases, with the potential to earn as much as 5% or 6% on staples such as groceries and gas, and up to 2% on everything else you buy. Many issuers are also dangling heaps of extra points or cash back—worth \$500 or more, in some cases—if you spend a few thousand dollars in the first three months after opening the account. If your rewards card is earning just 1% on all purchases, “it’s time to shop around,” says Curtis Arnold, founder of [CardRatings.com](#) and [BestPrepaidDebitCards.com](#).



The best card for you depends on your habits and preferences. Our picks run the gamut from cards that pay 2% on everything you buy to ones that pay varying rebates on rotating categories (and require you to activate the latest lucrative rebate). Willing to juggle multiple cards? You can maximize earnings by choosing a card with a superior payback in each of the categories in which you spend the most. “If you want to invest the time, it’ll pay dividends,” says Danielle Brown, vice president of marketing for Points,

a digital wallet for managing rewards.

Using a rewards card usually makes sense only if you pay off your balance monthly; otherwise, interest payments will eat into earnings. (For the best low-rate cards, see the box at left.) Cards with annual fees can provide the most bountiful rewards, but you’ll have to do the math to decide whether your spending patterns will make the fee worth paying. To qualify for many of these cards, you must have good or excellent credit, with a minimum credit score of about 700 to 750.

We’ve highlighted top deals among cards in a range of categories. To calculate the typical annual rebate, we used average spending figures from the Bureau of Labor Statistics’ Consumer Expenditure Survey and assumed \$22,000 a year in charges on the card (rebates don’t reflect annual fees waived the first year or sign-up bonuses). Except where noted, rewards earnings don’t have caps or expiration dates. And none of the travel-focused cards charge foreign-transaction fees.

✦ Cost-Cutters

Best of the Low-Fee Cards

DO YOU CARRY A BALANCE ON YOUR credit card? Trim interest and other charges with these options. None levies an annual fee.

Balance transfer. **CHASE SLATE** charges no balance-transfer fee and has a 0% rate the first 15 months (then 13.24% to 23.24%).

0% introductory period. **CITI SIMPLICITY** offers a 0% rate on purchases and balance transfers for the first 21 months (then 13.24% to 23.24%). The balance-transfer fee is the greater of \$5 or 3% of the balance.

Low interest. **THE LAKE MICHIGAN CREDIT UNION PRIME PLATINUM** card recently charged a rate as low as 6.5%, depending on creditworthiness. Make a onetime \$5 donation to the ALS Association to become a member.

Fee-free. **PENFED PROMISE** (10.24% to 17.99%) has no fees for foreign transactions, balance transfers, cash advances, late payments or balances in excess of the credit limit. (See the rules of membership for Pentagon Federal Credit Union in the “Payback at the Pump” section.)

FLAT-RATE CASH BACK

CITI DOUBLE CASH

www.citi.com

Interest rate: 13.24% to 23.24%

Annual fee: None

Typical annual rebate: \$440

Citi Double Cash pays an industry-leading 2% on all purchases, and it keeps the gimmick factor pretty low: You get 1% back when you make a purchase and an additional 1% when you pay the bill. After you collect at least \$25 in cash back, you can redeem it as a check, statement credit or gift card, or you can deposit it into a Citi bank account (or any checking account from which you’ve paid your credit card bill at least twice). Your rewards balance will expire if you don’t make purchases or payments for 12 months.

HONORABLE MENTIONS: A host of other straightforward cash-back cards are worth a look, too. The **FIDELITY REWARDS VISA SIGNATURE** card (14.24% interest

rate) pays back 2% if you funnel the rewards into a Fidelity brokerage, retirement, college savings or checking account. You can even deposit the cash into someone else’s account—say, a grandchild’s. **CAPITAL ONE QUICKSILVER** (0% until January 2017, then 13.24% to 23.24%) offers 1.5% back on all purchases and levies no foreign-transaction fee, making it a fine choice for travelers who want a basic cash-back card. **CHASE FREEDOM UNLIMITED** (0% for 15 months, then 14.24% to 23.24%) also pays 1.5% on all purchases.

CASH BACK IN ROTATING CATEGORIES

CHASE FREEDOM

www.chase.com

Interest rate: 0% for 15 months, then 14.24% to 23.24%

Annual fee: None

Sign-up bonus: In the first three months, spend \$500 and get \$150 back, plus make one purchase and add an authorized user for an additional \$25 back

Typical annual rebate: \$342

Each quarter, get 5% back on up to \$1,500 of spending in a new category. For 2016, gas station purchases earned 5% in the first quarter, groceries took over in the second quarter, restaurants get a turn in the third quarter, and holiday shopping rounds out the year. All other purchases earn an unlimited 1%. You must activate the 5% rebate each quarter through the Chase Freedom mobile app, at Chase.com, at Chase bank branches and ATMs, or by calling customer service; it’s a good idea to make sure you’re signed up for text-message or e-mail reminders from Chase. Rewards are tracked as points: Once you accrue 2,000 points (\$20 value), you can choose a statement credit or make a deposit into your bank account. Or use points for gift cards, travel, Amazon.com purchases and other redemptions.

HONORABLE MENTION: The **DISCOVER IT** card (0% for 12 months, then 11.24% to 23.24%) also pays 5% cash back on up to \$1,500 of spending each quarter

in specified categories, including purchases at gas stations, restaurants and Amazon.com in 2016 (and 1% on everything else). After your first year of account membership, Discover will match the rewards you've earned, doubling your cash back for that year.

LUCRATIVE TRAVEL REBATES

BARCLAYCARD ARRIVAL PLUS

www.barclaycardus.com

Interest rate: 16.24% or 20.24%

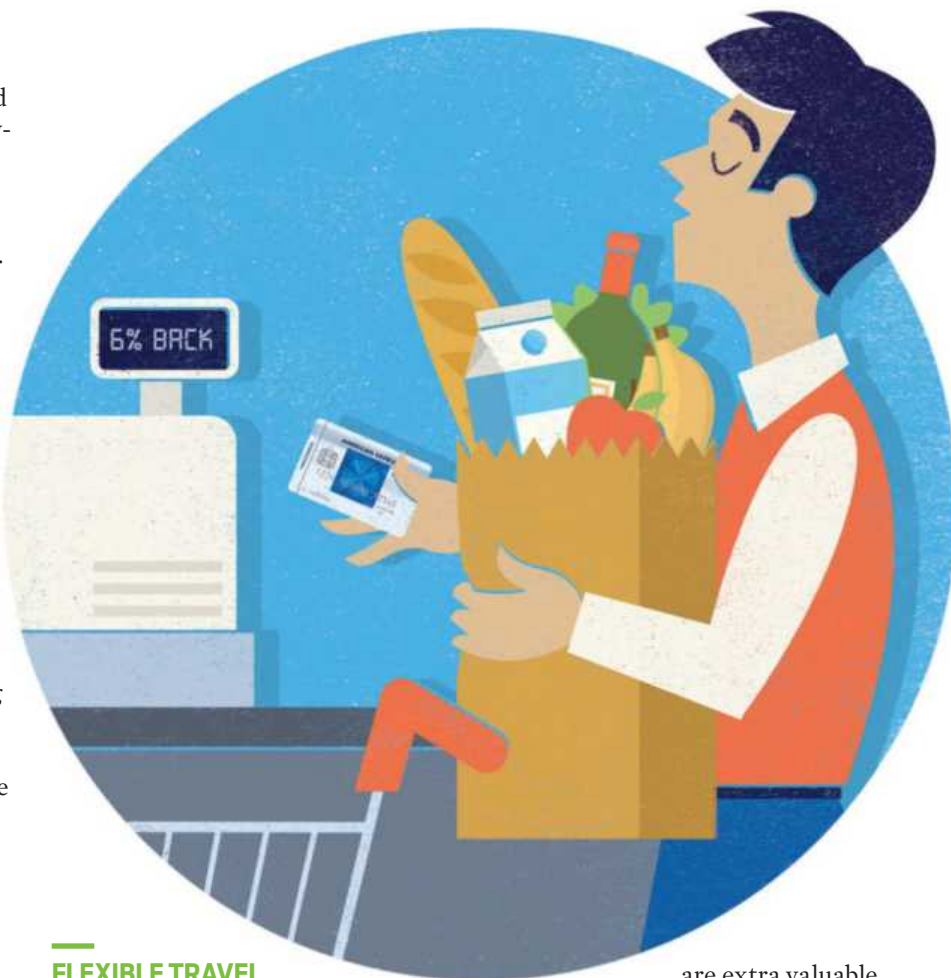
Annual fee: \$89, waived the first year

Sign-up bonus: 40,000 miles if you spend \$3,000 in the first 90 days

Typical annual rebate: 46,200 miles, or \$462 in statement credits for travel purchases

This card keeps it simple: Everything you buy earns a healthy two miles per dollar. You can exchange miles for statement credits on a broad range of travel purchases, including plane tickets, stays at hotels and campgrounds, car rentals, and fares for buses, trains and taxis (most Uber transactions qualify). Each time you redeem miles for travel, you'll get a 5% bonus on the miles spent. Turn in 20,000 miles, for example, and you'll earn 1,000 extra miles toward your next redemption. That's half the 10% bonus that Barclaycard offered in the past, but it's still a standout perk. You have to rack up a minimum of 10,000 miles (\$100 value) to redeem them for travel. When you've earned 5,000 miles, you can claim statement credits on nontravel purchases or receive gift cards, but miles that you use for those perks have only half the value.

HONORABLE MENTION: The **CAPITAL ONE VENTURE** card (13.24% to 23.24%; \$59 annual fee, waived the first year) pays two miles per dollar spent—redeemable at a rate of 100 points per dollar for statement credits on travel purchases or 100 points for 50 cents in credits toward other purchases—and offers an initial bonus of 40,000 miles if you spend \$3,000 in the first three months.



FLEXIBLE TRAVEL REDEMPTIONS

CHASE SAPPHIRE PREFERRED

www.chase.com

Interest rate: 16.24% to 23.24%

Annual fee: \$95, waived the first year

Sign-up bonus: 50,000 points if you spend \$4,000 in the first three months; add an authorized user and make a purchase in the first three months for an extra 5,000 points

Typical annual rebate: 28,904 points, or \$361 in travel purchases through Chase Ultimate Rewards

You'll capture two points per dollar on dining and travel purchases and one point on everything else. Frequent travelers will appreciate the ability to transfer points at a 1:1 ratio to several partner loyalty programs, including Southwest Airlines Rapid Rewards, United MileagePlus and Marriott Rewards (Amtrak Guest Rewards was recently dropped from the list). Points

are extra valuable when you book travel through the Chase Ultimate Rewards shopping portal: Each 100 points is worth \$1.25, with no minimum point balance required to make purchases. You can even pool points you earned with other eligible Chase cards—including Freedom and Freedom Unlimited—and get the discounted rate on travel bookings. Otherwise, 100 points are worth \$1 for cash back, gift cards and shopping at Amazon.com, among other options.

HONORABLE MENTION: If you visit Starwood hotels regularly, the **STARWOOD PREFERRED GUEST FROM AMERICAN EXPRESS** card (15.49% to 19.49%; \$95 annual fee, waived the first year) is appealing. You earn up to five Starpoints per dollar spent at participating Starwood hotels—including the Sheraton, St. Regis and Westin brands—and one point on everything else. Redeem points for hotel stays or transfer them



to a long list of partner loyalty programs, including frequent-flier programs from major airlines as well as Amtrak Guest Rewards. Each transfer of 20,000 points to frequent-flier miles earns you a 5,000-point bonus. Points expire if your SPG account is inactive for a year.

NO-FEE TRAVEL REWARDS

BANKAMERICARD TRAVEL REWARDS

www.bankofamerica.com

Interest rate: 0% for 12 months, then 15.24% to 23.24%

Annual fee: None

Sign-up bonus: 20,000 points if you spend \$1,000 in the first 90 days

Typical annual rebate: 34,500 points, worth \$345 in statement credits for travel purchases

Not sure that you'll spend enough to warrant an annual fee? The BankAmericard Travel Rewards card is

a safe bet.

You'll earn 1.5

points per dollar on

most purchases and three points per dollar when you book travel through the Bank of America Travel Center shopping portal. Plus, get a 10% bonus on points if you have a Bank of America checking or savings account (the bonus increases to 25% to 75% for the bank's Preferred Rewards clients). You'll get \$1 in statement credits on travel purchases for every 100 points (you can redeem credits starting at 2,500 points) or 60 cents per 100 points in cash back; the redemption value for gift cards varies.

HONORABLE MENTION: The **DISCOVER IT MILES** card (0% for 12 months, then 11.24% to 23.24%) pays out 1.5 miles per dollar spent, and you can redeem them at a value of 100 miles per dollar for travel statement credits or cash.

Discover will match the miles you've earned after the first year of account membership, doubling your rewards for that year.

GROCERY REBATES

AMERICAN EXPRESS BLUE CASH PREFERRED

www.americanexpress.com

Interest rate: 0% for 12 months, then 13.24% to 23.24%

Annual fee: \$75

Sign-up bonus: Spend \$1,000 in the first three months and get \$150 back

Typical annual rebate: \$402 (after the annual fee)

This card is a perennial champion, thanks to an appetizing 6% cash back on up to \$6,000 in grocery purchases per year (except at superstores that sell groceries, such as Target and Walmart), 3% on gas and select department store purchases, and 1% on everything else. You redeem cash back as statement credits in \$25 increments.

HONORABLE MENTION: The **CONSUMERS CREDIT UNION (ILLINOIS) VISA SIGNATURE CASH REBATE** card (12.24% to 23.24%) offers

3% cash back on up to \$6,000 spent annually on grocery purchases, 2% on gas and 1% on all other purchases, with no annual fee. (To join the credit union, you must pay a onetime \$5 fee to the Consumers Cooperative Association.) Unlike Amex Blue Cash Preferred, CCU doesn't bar cardholders from earning the maximum rebate on groceries at superstores. But whether purchases qualify for 3% rewards varies from store to store, depending on how the merchant codes the transactions. The maximum you can earn in cash back is \$6,000 a year, and rewards expire after five years.

RETAIL REWARDS

AMAZON.COM REWARDS VISA

www.amazon.com/rewards

Interest rate: 14.49% to 22.49%

Annual fee: None

Sign-up bonus: \$50 Amazon gift card upon account approval

Typical annual rebate: \$308

Shoppers earn three points per dollar spent at Amazon.com, plus two points at gas stations, restaurants, drugstores and office-supply stores, and one point on all other purchases. Use your points at Amazon.com (no minimum required; 100 points are worth \$1), or exchange at least 2,000 points for cash back or gift cards. Subscribers to Amazon Prime (\$99 a year), which provides free two-day shipping and other benefits, are eligible for the Amazon Prime Store Card (26.29%); it's usable at Amazon.com and other online merchants that use the Pay With Amazon transaction service, and you get 5% back.

HONORABLE MENTIONS: Some wholesale clubs have attractive credit cards that members can use to earn cash back on a variety of purchases anywhere. The **SAM'S CLUB MASTERCARD** (15.15% to 23.15%) pays back 5% on up to \$6,000 annually in gas purchases, 3% on dining and travel, and 1% on everything else. (Rewards earnings from the Sam's Club card can't exceed \$5,000 per year.) The new **COSTCO ANYWHERE VISA CARD BY CITI** (interest rate unavailable) pays 4% on up to \$7,000 annually in gas purchases, 3% on dining and travel, 2% at Costco and Costco.com, and 1% on everything else. Both cards provide the previous year's rewards as a check each February, redeemable for purchases at the club; Costco's rewards expire the following December, and Sam's Club rewards expire 180 days from the check issue date.

PAYBACK AT THE PUMP

FORT KNOX FEDERAL CREDIT UNION

PLATINUM VISA

www.fortknoxfcu.org

Interest rate: 9.5% to 18%

Annual fee: None

Typical annual rebate: \$311

This under-the-radar card provides an impressive 5% cash back on gas purchases; you'll earn 1% back on everything else. Cash-back rewards show up as a credit on your monthly statement. Bonus: Under a recent promotion, you

could transfer your balance from another credit card and take advantage of a 0% rate for 12 months, with no balance-transfer fee. You can join the credit union by paying a onetime \$15 fee (or \$5 yearly) to become a member of the American Consumer Council.

HONORABLE MENTION: The **PENFED PLATINUM CASH REWARDS PLUS** card (10.24% to 17.99%) also offers 5% cash back on gas purchases—but you won't get rewards

for anything else you buy, so this card is best used only at the pump. To be eligible for the Plus card, which has no annual fee, you must have a qualifying account with Pentagon Federal Credit Union, such as a checking account, money market account or mortgage. To become a PenFed member, make a onetime donation of \$14 to Voices for America's Troops or \$15 to the National Military Family Association. ■

Premium Plastic

Cards for the Jet Set

FOR MOST PEOPLE, CREDIT CARDS WITH ANNUAL FEES THAT STRETCH INTO THE hundreds of dollars fall short in the cost-benefit equation. For one thing, the rebates on purchases aren't spectacular. The Platinum Card from American Express (\$450 annual fee), for example, pays a mediocre one point per dollar on all spending (two points when you make eligible purchases through the Amex Travel portal). Citi Prestige (\$450) offers a more palatable three points on airfare and hotels, two points on dining and entertainment, and one point on everything else.

But jet-setters may be able to squeeze enough value from other card benefits to justify the fee. "The real perk is free access to airport lounges," says Jill Gonzalez, an analyst for personal finance site WalletHub.com. Often, a single visit to an airport lounge costs about \$50 to \$60, and annual lounge passes may run a few hundred dollars or more.

Amex Platinum cardholders get free entry to Delta Sky Club, AirSpace and Centurion lounges; Citi Prestige holders enjoy complimentary access to American Airlines Admirals Club lounges; and holders of both cards can visit Priority Pass Select lounges without charge. Premium airline-specific credit cards such as United MileagePlus Club (\$450), Citi/AAdvantage Executive (\$450) and Delta Reserve (\$450) provide free lounge entry, too.

Plus, elite cards may reimburse or waive airline-related expenses. Citi Prestige pays up to \$250 annually in airfare and other fees on any airline you use throughout the year, and Amex Platinum reimburses up to \$200 a year for incidental airline fees, such as for checked baggage (but not plane tickets), with one airline of choice. Both cards tout hotel benefits, too, including a free fourth night at any hotel when you book four consecutive nights through Citi Prestige's concierge service. Citi/AAdvantage Executive, Citi Prestige and Amex Platinum all reimburse the \$100 fee charged if you sign up for Global Entry, a government program that allows for expedited clearance on international travel.

The most suitable card for you may depend on which airlines and hotels you use often and lounge availability at the airports where you frequently spend time. But for its overall package of perks and rebates on everyday spending—plus a 50,000-point bonus if you spend \$3,000 in the first three months after opening the account—Citi Prestige is the best overall deal.

INSURANCE>>

Trade-Offs to Pay for Long-Term Care

Buffeted by huge rate hikes, most policyholders are choosing to trim their coverage. **BY KIMBERLY LANKFORD**

KEN WITTY, A RETIRED

television news producer in New York City, thought he had done everything right. After spending a career in financial news, Witty, 75, understood how the unpredictable costs of long-term care could devastate his retirement plan, so he bought a long-term-care insurance policy from Genworth when he was 65. For coverage that would provide a \$250 daily benefit for three years and grow by 5% per year, he paid about \$3,600 a year.

But earlier this year, he received a letter from Genworth notifying him that his premiums would jump to more than \$5,800 annually—more than 60% higher—unless he made major changes to his coverage. Witty says he could understand a modest increase, “but not this sort of rate hike.” He chose to reduce future adjustments from 5% to 3.5%, which cut his rate hike in half. For the time being, at least, he’ll pay \$4,780 per year.

Many long-term-care

policyholders are facing the same tough decision: Pay a steep rate increase, cut back on coverage or let the policy lapse and lose the benefits they were counting on.

Almost all long-term-care insurance companies have raised customers’ premiums years after they bought their policies, with average increases of 50% to 60% over the past decade, says Kevin McCarty, the former commissioner of the Florida Office of Insurance Regulation. More rate hikes are on the way in several states when the policies renew. “When people bought this product, they bought it on the assumption that the price would be stable,” says McCarty. “But the assumptions the companies made turned out to be wrong.”

■ SHIFTING THE BURDEN

Insurers underestimated the number and length of claims, and they assumed that more people would drop their policies before they’d have to pay out. But people are now living longer with chronic diseases such

as Alzheimer’s. “Advances in medicine are changing the insurance companies’ experience, and they have to constantly incorporate that into pricing,” says Jan Graeber, chief life and health insurance actuary for the Texas Department of Insurance. Plus, insurers did not anticipate low interest rates that would stunt their own investment returns, which they depend on to pay future claims.

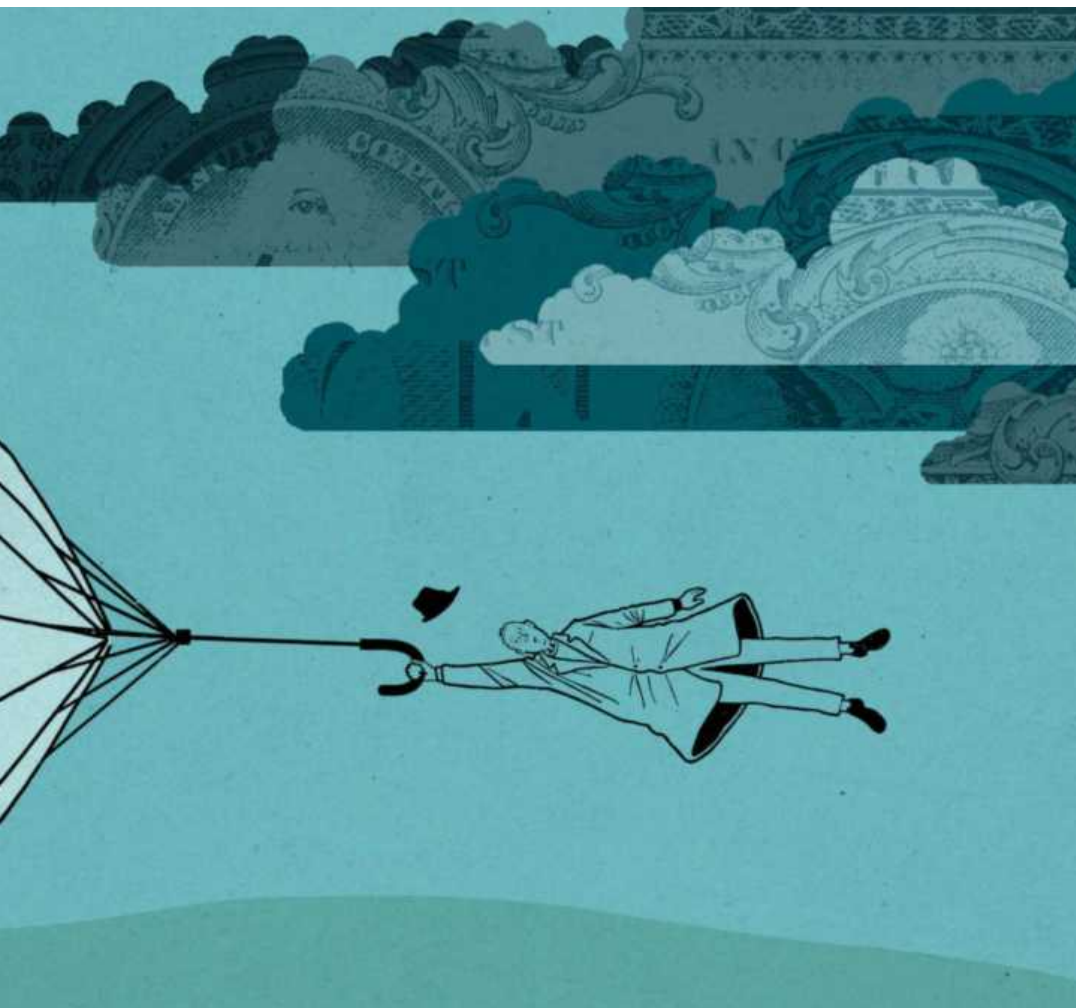
Policyholders usually end up on the hook. Premium increases vary by company, age, policy version, coverage specifics and the state where you bought the policy. Policies with lifetime benefits and 5% compound inflation adjustment, which have ended up being extraordinarily expensive for insurers, tend to have the biggest rate hikes.

State insurance regulators must approve the rate increases, and they have to weigh consumer protection against each company’s financial stability. “Most of the time, the rate increase as asked for isn’t approved,”

says McCarty. “But if a company is insolvent, it can’t pay claims.” Regulators may deny insurers’ requests to raise rates altogether, or require them to spread out the increase over several years, or approve a smaller amount than requested. And you can usually choose among several options to lessen an increase (see the box on page 30 for advice on choosing the best alternative).

Policyholders feel trapped because they don’t want to lose the coverage they’ve been paying for over many years—especially as they get closer to the age at which





they may need care. And it doesn't make sense to drop the coverage and buy a new policy; because you're older and may have health issues, you'll pay more. Plus, new policies are a lot more expensive these days, even for younger, healthy buyers.

Mike Ashley, president of an independent insurance agency, Senior Benefits Consultants, in Prairie Village, Kan., bought a Genworth policy 17 years ago, when he was 52. He paid \$879 per year for a \$70 daily benefit, 50-day waiting period, 5% compound inflation protection and lifetime benefits. He has received two

rate increases since then of 38% each, boosting his premiums to \$1,547 per year. But today, a 52-year-old man would pay \$2,944 per year for a comparable policy with only a five-year benefit period (insurers have stopped selling new policies with lifetime benefits).

■ FILLING THE GAPS

The median cost of a private room in a nursing home is \$253 per day (more than \$92,000 per year), according to the 2016 Genworth Cost of Care study, but you could pay \$350 a day or more in high-cost areas. Assisted living, which has become an

increasingly popular option, has a median cost of \$3,628 per month (more than \$43,500 per year). And you could pay more than \$40,000 per year for a home health aide to come to your house for eight hours per day. (You can find costs in your area at www.genworth.com/costofcare.)

For most people, the answer is not to cover the entire cost with long-term-care insurance, but rather to calculate how much of the cost they could handle with retirement income and savings, then look for ways to fill any gap. Chris Draughon, a certified finan-

cial planner in St. Augustine, Fla., helps his clients walk through the calculations, looking at the cost of care in their area and figuring out how much they could afford. "We talk about how much risk they want to shoulder themselves and how much they want to transfer to an insurance company," says Draughon.

Sheryl and John Maguire, of Kansas City, Kan., retired last year, when they were both 62. They worked with their financial planner to figure out how they could pay for care. "It's like a puzzle," says Sheryl. They have enough money from their pensions, Social Security and savings to cover some of the potential costs, but they wanted insurance to help pay for care at home if needed and protect some assets for their children.

They're paying about \$4,050 per year total for policies that pay each of them up to \$3,000 per month for four years, with the benefits increasing by 3% per year. They also have shared benefits (an option that typically increases premiums by about 12%), which lets them share the eight-year benefit period between them.

Because the average long-term-care claim is just less than three years, most people buy policies with a three- or four-year benefit period, 3% compound inflation protection and a 90-day waiting period before benefits kick in. Compare policy nuances, such as how the insurer calculates the waiting period. The best policies start the clock ticking as soon as you need help with

two activities of daily living (such as bathing and dressing) or are certified to have cognitive impairment. But others count only those days on which you receive care. If you need home care just a few days a week, a policy that counts only “service days” can take several more months to pay out.

The Maguires chose a policy from LifeSecure primarily because of its generous home-care benefits. Their policy lets them use

up to 50% of the home-care benefit to pay for care by family members or neighbors, whereas some insurers require 100% of home care to be provided by licensed providers who are hired through an agency. “That gave us a lot of freedom to hire whoever we want,” Sheryl says.

Premiums can vary significantly by insurer, and each insurer has its own sweet spots. MassMutual, for example, tends to have

competitive rates for single women in several states, says Dian Haider, a long-term-care specialist for Ryan Insurance Strategy Consultants, in Greenwood Village, Colo. Otherwise, most companies charge 50% more for single women than for single men.

Insurers can also charge very different rates based on your health. A few now charge more if someone in your family had cognitive impairment before age 70. Some reject applicants with diabetes, but others may issue a policy at a standard rate (not the lowest-cost preferred rate) if you’ve had diabetes for fewer than 20 years and control it with certain levels of insulin.

Coverage for cancer survivors can vary widely, too. “It depends on the stage, the type of cancer, the type of treatment and how long ago it took place,” says Haider. She asks a lot of medical questions before identifying which insurers are likely to offer the best rates. (You can find a long-term-care specialist at www.aaltci.org.)

■ OTHER OPTIONS

Some advisers have turned their back on traditional long-term-care insurance. Draughon prefers policies that combine long-term-care and life insurance. These policies pay out whether or not you need care, and the premiums stay the same. They also tend to offer a better deal for single women.

For example, Lincoln Financial offers a combo policy called MoneyGuard, which allows you to spread payments over as long as

10 years and lets you file a claim even if you are still making payments. A 55-year-old man who pays \$10,000 per year for 10 years could get a monthly long-term-care benefit of \$5,500 for up to six years, growing at 3% compounded per year. If he didn’t need long-term care, his heirs would receive a \$130,000 death benefit, or he could cash in the policy and get back 80% of his premiums. A woman would get \$5,100 per month for long-term care or a \$122,000 death benefit.

If your primary need is life insurance, you can add a chronic-care rider to a permanent policy when you buy it, which lets you use up to 2% of the death benefit per month for long-term care, with a \$340 daily maximum. This rider tends to add 10% to 12% to the premiums, says Byron Udell, CEO of AccuQuote.com.

You can also cover care costs by buying a deferred-income annuity in your fifties or sixties that starts to pay out in your eighties, when you’re more likely to need care (although you can use the money for anything). For example, a 60-year-old man who invests \$125,000 in a New York Life deferred-income annuity will receive \$72,279 a year for life starting at age 85 (or \$54,712 if he gets a version that pays his heirs the \$125,000 minus any payouts he received). You can invest up to 25% of your IRA or 401(k) balance, up to \$125,000, in a deferred-income annuity called a QLAC, or qualified longevity annuity contract. ■

KipTip

How to Lower Premiums

IF YOU CAN AFFORD A PREMIUM INCREASE, PAYING IT IS OFTEN your best option. If you don’t want to or can’t pay the higher premiums, insurers usually give you ways to reduce them.

Cut inflation protection. Cutting back from 5% protection to about 3% can reduce your premiums significantly and is often a good choice, depending on your age and how much the coverage has increased. See how much your policy has grown; if you bought a policy with a \$150 daily benefit 10 years ago, the daily benefit would now be about \$244. Compare that with the current cost of care in your area and the portion of the costs you’re able to cover. The older you are now, the better this option will be. Someone in his or her seventies, for example, may have already built up a big enough daily benefit at 5% inflation protection so that reducing the rate to 3% or lower will be enough in the future. But make sure you’ve locked in the inflation adjustment you’ve already earned.

Reduce the coverage term. Reducing the coverage term is an easy way to reduce premiums. If you have lifetime benefits, you can usually reduce coverage to three or five years, which would encompass the average claim period. But you are giving up some coverage you’ve been paying for over many years, and the reduced term may fall short of what you need if you develop Alzheimer’s or another chronic disease.

Take the paid-up option. Regulators in some states require insurers to offer this option to policyholders who drop their insurance. Instead of losing all the coverage you paid for, you’d get a benefit equal to the premiums paid to that point (the calculation varies by state).

CREDIT»

How to Refinance Student Debt

Consolidating student loans can reduce paperwork and lower your monthly bill. **BY KAITLIN PITSKER**

YOU'VE GRADUATED FROM COLLEGE, launched a career, and maybe gotten married or purchased a home. But one part of your past continues to give you headaches: your student loans.

The rate of increase in the average amount students borrow has slowed in recent years, but borrowers are still racking up debt—about \$25,000 to \$30,000, on average, on the way to graduation, according to the College Board. Worse, when it comes to repaying that debt, many people juggle half a dozen loans or more with different repayment terms, interest rates and loan servicers.

Refinancing into a single, consolidated loan can be the solution to this maddening process. Not only does it reduce your monthly payments and the number of loan servicers you have to deal with, but it can also help lower your overall interest rate, saving you money over the life of your loans.

●● ASSESS THE MIX AND THE GOAL

Whether to refinance—and how—depends on the types of loans you have and what you're trying to accomplish. Start by identifying which of your loans are federally sponsored and which, if any, are private. You can use the National Student Loan Data System website (www.nslds.ed.gov) to retrieve information about your federal loans. Direct loans, once called Staffords, are the most common of the federal loans for undergraduates,

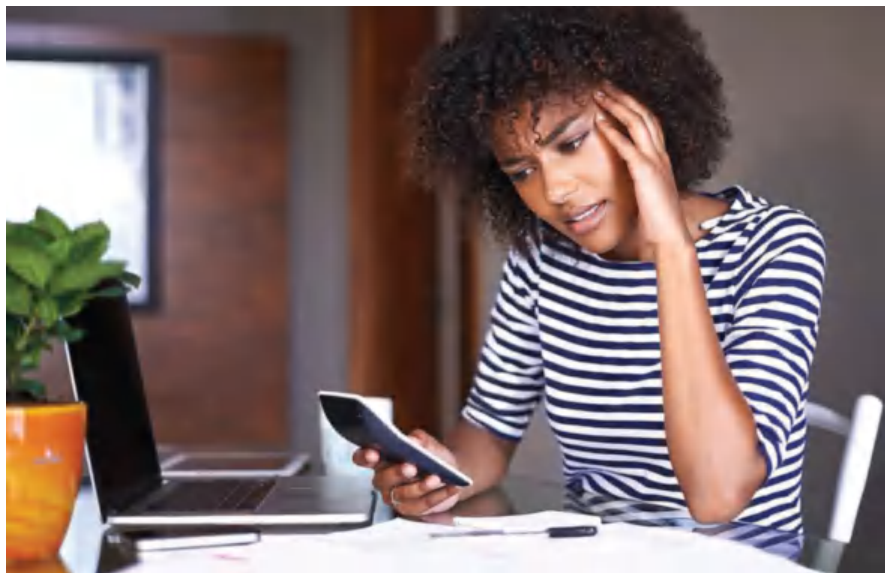
followed by Perkins loans.

Review the interest rate on each loan, along with your monthly payment amounts, and see how they fit into your overall budget. Then consider whether you're looking mostly for convenience, a more flexible repayment plan or a lower interest rate. If you can afford to accelerate payment on some of your loans, you may want to handpick the loans to combine, keeping one or more aside and funneling extra cash toward early repayment. Keep in mind that provisions for federal and private loans differ. You could lose valuable benefits by taking federal loans to a private lender.

The Department of Education's Direct Consolidation Loan program

allows you to combine multiple federal student loans into a single, fee-free loan, with one interest rate and one monthly bill. Most federal loans, including direct loans, Stafford loans and Perkins loans, can be consolidated. You can even move a single federal direct or privately sponsored Stafford loan into the consolidation program to take advantage of other repayment options. The fixed interest rate on your new loan will be the weighted average of the interest rates on the loans that you combined, rounded up to the nearest one-eighth percentage point. (In the 2015–16 academic year, federal direct subsidized and unsubsidized loans carried a fixed rate of 4.29% for undergraduates; the rate changes annually. Perkins loans carry a fixed rate of 5%.) Use the loan-consolidation calculator at www.findaid.org/calculators to see the new interest rate depending on which federal loans you consolidate.

Grad PLUS loans, the federally sponsored loans for graduate students, as well as Parent PLUS loans, can be consolidated with the feds, too. (In 2015–16, these loans both carried a fixed rate of 6.84%.) Parent PLUS loans are not eligible for income-based repayment or forgiveness, as Grad PLUS loans are, nor can they be consolidated with any federal



loans that your child is paying off.

Federal loan consolidation won't help you snag a lower interest rate, but it may give you access to repayment options for which you didn't previously qualify, such as certain income-based plans. The most straightforward and cost-efficient option, however, is the standard 10-year repayment plan—you pay the same amount each month until your loan is repaid.

If loan payments are sinking your budget, consider a plan that stretches the loan over a longer period or that gradually increases the amount you pay each month. Or, if you qualify, you could select an income-based plan that lets you put 10% to 20% of your discretionary income toward your loans for 20 to 25 years, after which any remaining amount is forgiven. To find a repayment plan that works best for your budget, go to www.studentloans.gov and click on "Repayment Estimator" under "Managing Repayment." The longer the repayment period, the more you will ultimately pay, so pick the plan with the highest monthly payment you can afford.

●● REFINANCING PRIVATE LOANS

If you have good credit, a stable job and steady income, you'll generally benefit from refinancing your private loans. The federal consolidation program does not accept private loans, so for those loans, you'll have to work with a private lender. You'll likely score a lower interest rate than you received during your college years, assuming you have established a good credit history, and you will also be able to release any cosigner from the loans—welcome news to whoever would otherwise be left on the hook if you were to default.

The higher your credit score and the stronger your overall profile, the lower the interest rate you'll receive on a private consolidation. With most private lenders, you'll have a choice between a fixed or variable interest rate. Fixed interest rates generally range from about 6% to 12%, and variable rates currently

run between about 2% and 8%. Some lenders charge an origination fee, typically up to 2% of the amount of the loan; others roll those costs into the quoted interest rate.

With interest rates near historical lows, opting for a variable rate can be a smart strategy. Rates will likely creep up as the Federal Reserve aims for higher short-term rates, but variable-rate loans can still pay off if you'll be able to pay down much of the debt before the rate climbs significantly, says Joe DePaulo, cofounder of College Ave Student Loans, a private lender.

Repayment choices. You'll probably be offered repayment terms in five-year increments from five to 25 years, but some lenders will allow you to select your repayment term—say, three years or nine years. And some will sweeten the deal by reducing your interest rate if you agree to a shorter repayment

period. Private student loans don't generally have flexible repayment options.

Refinancing your private loans can save you serious bucks. Say you have \$30,000 in private loans with interest rates averaging out to 10% and a 10-year repayment period. If you qualified for a 6% fixed-rate loan paid over 10 years, you would pay about \$60 less each month and save \$7,606 over the life of your loan. To see how much you could save, visit www.studentloanhero.com/calculators/student-loan-refinancing-calculator.

Many lenders will refinance both federal and private loans, but consolidating federal loans with a private lender means you'll lose federal benefits (see the box), and you might not even save money. That's because only borrowers with the best credit qualify for private rates that fall below current federal rates, with the exception of PLUS loans. Before taking any of your federal loans to a private lender, consider whether the rate you might get is worth the benefits you'd be giving up, says Anita Thomas, senior vice president at Edvisors.com.

To refinance with a private lender, start by contacting your current loan servicer and bank, as well as a few other lenders, such as College Ave Student Loans, Citizens Bank, Darien Rowayton Bank and Wells Fargo. Get several quotes so you can compare interest rates and terms. A number of nontraditional lenders have popped up in recent years. Such lenders often use different standards than traditional banks do when qualifying applicants, or they cater to a certain demographic. Borrowers who work in high-income fields or have strong credit may want to consider such companies, including CommonBond and SoFi. You can find additional lenders at Credible.com, Studentloansherpa.com and Studentloanconsolidator.com.

Scams that target people struggling with student debt have been on the rise. To weed out scammers, check companies' profiles with the Better Business Bureau. ■

✱ KIPTIP

Keep Federal Loan Benefits

Generally, sticking with the feds allows you to keep federal loan benefits, including deferment, forbearance and loan forgiveness. (Perkins loans carry generous forgiveness provisions that disappear in a consolidation, giving you reason to keep those loans out of the mix.) Deferment and forbearance allow borrowers to postpone or reduce payments during unemployment or other economic hardship. And about one-fourth of U.S. workers, including teachers, social workers, nurses, police officers and those who work at nonprofit organizations, are in public-service jobs that may qualify them to have the remaining balance of their federal loans forgiven after 10 years under an income-based repayment plan.

For more information or to apply for a direct consolidation loan, visit www.loanconsolidation.ed.gov.

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Female Sample Monthly Rates				
Age	\$250,000	\$500,000	\$1,000,000	\$2,000,000
25	\$9	\$12	\$19	\$33
30	\$9	\$12	\$19	\$33
35	\$9	\$13	\$20	\$35
40	\$11	\$17	\$26	\$46
45	\$15	\$25	\$43	\$80
50	\$20	\$36	\$63	\$122
55	\$29	\$53	\$96	\$186
60	\$42	\$76	\$140	\$280
65	\$67	\$124	\$230	\$461

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“My employer has given me company stock as a bonus. How do I handle the taxes?”

WHEN YOUR EMPLOYER

awards you a bonus in the form of restricted stock units, or RSUs, it promises to give you a set number of shares of company stock after a specified vesting period—as long as you stay with the company. For example, suppose your company gives you 2,000 RSUs that vest in four years. If on the vesting date the stock is trading at \$22, you'll own shares valued at \$44,000. That's before taxes, which can be considerable.

For several years, companies have been shifting from awarding stock options to granting RSUs. The trend accelerated after the 2008 stock market collapse wiped out a lot of employee stock options, says Loren Rodgers, executive director of the National Center for Employee Ownership. Stock options give employees the right to buy shares at a set price within a limited period of time; those options may become worthless if the stock declines in value. RSUs will always be worth something unless your company becomes insolvent.

Companies aren't limiting grants of RSUs only to senior executives. Apple recently announced plans to give RSUs to all of its workers, including its retail store employees. Microsoft has



been giving its rank-and-file employees RSUs since 2003. Starbucks launched a program in 2010 that awards RSUs to more than 125,000 nonexecutive employees, including baristas.

The downside to RSUs is that you don't own them until they've vested. You have no voting rights and will receive no dividends until the shares are transferred to you on the vesting date. If you leave your job before that date, you get nothing. That's why employers like RSUs: They encourage workers to stick around until their shares have vested. Some companies use a graded schedule in which a certain percentage of shares vests every year; in other

cases, 100% of RSUs vest after a set number of years.

Figuring Uncle Sam's cut.

Restricted stock units are treated as compensation, so you'll pay taxes at your ordinary income rate on the value of your shares on the day they vest. You'll also pay Social Security and Medicare taxes, plus state and local taxes. Depending on the value of your RSUs, vesting could push you into a higher tax bracket.

Most employers will sell the appropriate number of shares and use the proceeds for tax withholding, says Bruce Brumberg, editor in chief of MyStockOptions.com. If your employer doesn't withhold shares,

you may have to pay estimated taxes to avoid an underpayment penalty.

Once you've received the shares, they'll be treated the same as shares purchased on the open market for tax purposes. If you sell them for more than their vesting-date value, you'll owe capital-gains taxes. (On the other hand, if the value falls, you'll lock in a loss when you sell.) If you hold the stock for one year or less, you'll pay ordinary income taxes on your gains. Hold your shares for more than a year and any gains will be taxed at long-term capital-gains rates, which for most investors is 15%.

Counting on a big payoff is risky. You could leave your job before vesting, or the company's stock could take a nosedive. Rodgers recommends earmarking funds from your RSUs for discretionary expenses, such as a vacation, rather than essential expenditures. You could also use your RSUs to supplement your retirement savings. If you hold on to vested shares and the stock performs well, you could end up with a comfortable nest egg by the time you stop working. Just don't let dreams of a windfall prevent you from making regular contributions to your 401(k) plan. **SANDRA BLOCK**

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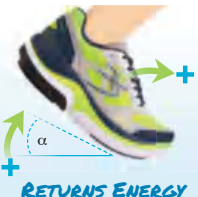
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TAXES»

Happy Half Birthday, Baby Boomers

The first boomers turn 70½ in July. Don't give the IRS too much reason to celebrate. **BY KIMBERLY LANKFORD**

YOU PROBABLY HAVEN'T

marked your half birthday since preschool, but Uncle Sam is gleefully rubbing his hands together as the leading edge of baby boomers starts turning 70½ in July. Why? The IRS doesn't want you to delay paying taxes on your retirement savings forever. At 70½, you must get serious about your strategy for taking required minimum distributions from

your tax-deferred retirement savings and paying taxes on the proceeds.

Learn the rules for your first

RMD. You are required to start taking RMDs from your traditional IRAs (but not Roth IRAs) and other retirement accounts after you reach age 70½. If you were born between January 1 and June 30, 1946, you must decide whether to

take your first RMD this year or take advantage of a one-time-only option to delay your first withdrawal until April 1 of next year. From then on, you must take withdrawals by December 31 every year, including taking your second withdrawal at age 71 by the end of 2017. If you were born between July 1 and December 31, 1946, you can wait until next year to take

your first RMD (or postpone it into 2018).

Note that taking two RMDs in one year could boost some of your income into a higher tax bracket. That could affect the amount of your Social Security benefits that is taxable or trigger higher Medicare premiums.

Calculate your RMDs. Your minimum payout is based on the balance in each account at the end of the previous year and a life-expectancy factor determined by the IRS. You must calculate the amount separately for each traditional IRA, as well as for any Simplified Employee Pension accounts (SEP-IRAs) and Simple IRAs. For 2016, use the account balance on December 31, 2015, then divide it by the life-expectancy number for age 70 in IRS Publication 590-B (or use the RMD calculator at Kiplinger.com). Most people use Table III, with a life expectancy of 27.4 for age 70, but you'll use a different table if your sole beneficiary is a spouse who is more than 10 years younger than you.

Add up the required minimums for each of your IRAs. You can take all of the money from one or more of your traditional IRAs, SEPs or Simple IRAs. If you don't take the required withdrawal by the deadline, you face a penalty of 50% of the amount you should have withdrawn.

IRA sponsors usually withhold 10% of your payout as taxes to be sent to the IRS. But if you want to block withholding or have more

than 10% withheld, tell your IRA sponsor when you request the distribution.

Don't forget your 401(k)s. If you're still working at age 70½, you don't have to take RMDs from your current employer's 401(k) plan until you leave the job (unless you own 5% or more of the company). Also, you must calculate your RMD for each 401(k) you have and take the required amount separately from each account; you can't aggregate withdrawals as you can with IRAs.

You don't have to take RMDs from Roth IRAs, but you do need to take them from Roth 401(k)s. The withdrawals are not taxable, but you still must

spread them over your life expectancy. You can avoid these RMDs by rolling Roth 401(k) money into a Roth IRA before the year you turn 70½.

Reduce taxes by giving your RMD to charity. Once you're subject to RMDs at 70½, you can also give as much as \$100,000 from your IRA to a charity tax-free each year. The amount counts as your RMD without boosting your adjusted gross income. That can be a boon if you don't itemize and can't deduct charitable contributions. Plus, keeping the money out of your adjusted gross income could help you avoid the Medicare high-income surcharge or make less of

your Social Security benefits taxable. Ask the charity and your IRA administrator for the procedures.

Reduce your RMDs with a QLAC. You can invest up to 25% of your IRA or 401(k) balance (up to \$125,000) in a special annuity called a qualified longevity annuity contract (QLAC). Money in a QLAC is ignored for RMD purposes. A QLAC is a deferred-income annuity that begins payouts many years after your investment. For example, a 70-year-old man who invests \$125,000 in a New York Life QLAC will get about \$23,558 per year starting at age 80, or \$46,111 per year if payouts start at age 85 (payouts are smaller

if your heirs receive a death benefit). That will reduce his RMD at age 71 by more than \$4,700.

Stop contributing to your traditional IRA. The law bars traditional IRA contributions starting in the year you reach 70½. If your 70th birthday falls before July 1, you can't contribute for 2016; if it's in the latter half of the year, this is your last chance. But you may be able to contribute to a Roth IRA, which has no age cutoff. To qualify, you or your spouse must have earned income from a job, and your income in 2016 must be less than \$132,000 if you're single or \$194,000 if married filing taxes jointly. ■

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KIMBERLY LANKFORD > Ask Kim

When You Can Toss Tax Records

I'M PLANNING TO CLEAN OUT MY financial files. What tax records can I toss, and what do I need to keep?

C.W., ATLANTA

The IRS generally has three years after the tax-filing deadline to initiate an audit, but some states may look back further. (Wisconsin and Michigan, for example, have up to four years to initiate an audit; Minnesota has three and a half.) Trish Evenstad, an enrolled agent in Westby, Wis., who is authorized to represent taxpayers in front of the IRS, says to hang on to supporting documents for at least five years, including records showing your income and the deductions and credits you took. Business owners should keep records longer. The IRS has up to six years to audit anyone who neglects to report more than 25% of his or her income.

Also, with the other supporting documents, keep records of expenses for withdrawals from health savings accounts and 529 college-savings plans; Form 1095, for verifying that you had eligible health insurance coverage; and records of IRA and other retirement contributions. Keep original or digital copies of your tax returns forever.

Hang on to records establishing the basis of certain property for as long as you own it, plus the three-year audit period. Those include records of a home purchase and home improvements, which can reduce any tax bill on the gain. Keep records showing the purchase date and cost of stocks, mutual funds and other investments in taxable accounts (and reinvested dividends). Also keep Form 8606, which tallies nondeductible IRA contributions, so you won't be taxed on them again at distribution.

Roth IRAs for minors. *My son is 16 and working as a camp counselor this summer. Can he contribute to a Roth IRA even though he's a minor?*

A.L., PHILADELPHIA

Children of any age can contribute to a Roth IRA if they earn income from a job. Your son can contribute up to his total earnings in 2016, to a maximum of \$5,500. You may even give him the money for those contributions. TD Ameritrade and Fidelity have no investing minimums or annual fees for custodial Roth IRAs; Charles Schwab requires \$100 to open one but charges no annual fees.

Car warranties. *I'd like to go to my local repair shop for maintenance not covered under my car's warranty. Will that void my warranty?*

H.T., BROOKLINE, MASS.

You can usually take your car to an independent shop for routine maintenance if you can show that you followed the manufacturer's recommended schedule, but check your owner's manual. You may be required to keep records of the service date, mileage at the time of service, and a description of the service and any parts installed.

Donor-advised funds. *Do I have to donate cash to a donor-advised fund, or can I give stock, too? Which gives the bigger tax benefit?*

M.P., TALLAHASSEE, FLA.

You can give cash, stock and a variety of other investments to a donor-advised fund. Donating appreciated assets held for more than a year gives you an extra tax break: You'll get a charitable deduction for the current value as well as avoid taxes on the capital gains. Plus, with these funds, you can donate stock when it reaches a certain price but wait to choose the charities to support. You can also give assets that are less common. Fidelity's donor-advised fund, for instance, accepts gifts of real estate, oil and gas interests, and privately held stock, which many charities won't accept directly. ■

GOT A QUESTION? ASK KIM AT KIPLINGER.COM/ASKKIM. KIMBERLY LANKFORD ANSWERS MORE QUESTIONS EACH WEEK ON KIPLINGER.COM.

Hang on to supporting documents for at least five years. But keep copies of your returns forever.



VACATION HOMES»

Time-Shares On Sale

You can skip the developer's seductive pitch and get a juicy discount if you buy from a current owner. **PATRICIA MERTZ ESSWEIN**

THE HIGH-PRESSURE SALES pitches of time-share resorts promise all the fun of a vacation home without the cost and hassle of second-home ownership. But there are plenty of downsides, too. You must choose your destination and annual week carefully because you may be locked in. The opportunity to exchange your week depends on its desirability—an off-season week in Podunkville won't get you Christmas in Maui. If the time-share you buy offers a choice of weeks or the chance to stay at another resort, it's on a first-come, first-served basis. Plus, a time-share is guaranteed to depreciate. It could be hard to sell someday, and until you do, you're on the hook for the annual maintenance fee and special assessments.

If you can get past all

that, you can buy a resale time-share from a current owner for one-third to one-half off the retail price; time-shares currently range from \$25,000 to as much as \$350,000, depending on the location, week and degree of luxury, says Judi Kozlowski, a time-share broker in Orlando, Fla. The discount may be even deeper if the resort has fallen on hard times or the sellers are older, original owners. You'll miss out on such developer incentives as early booking when you have a choice of weeks or the ability to use points to stay at a developer's hotels.

You'll find listings and advice at Redweek.com, the largest online time-share marketplace. High-season offerings recently included a week at Marriott's Maui Ocean Club, in Lahaina,

Hawaii, for \$12,500 with an annual maintenance fee of \$1,917, as well as a week at the Hyatt Main Street Station in Breckenridge, Colo. (\$9,900 with a fee of \$607), and at Disney's Saratoga Springs Resort and Spa, in Lake Buena Vista, Fla. (\$13,600 with a fee of \$870).

The Redweek listings are free, but to contact owners and access resort reviews, you must pay an annual membership fee of \$15. Also check out www.tug2.net (\$15), www.tstoday.com (\$29) and www.myresortnetwork.com (free). Or contact a member of the Licensed Timeshare Resale Broker Association (use the directory at www.ltrba.org) who specializes in the area and resort brands that interest you. Craigslist and eBay are rife with scammers and bait-and-switch

offers, so buyer beware.

If you can, visit the resort. If you agree to sit through a sales presentation, you may be able to stay free or at a reduced rate.

Protect yourself. After you've negotiated and agreed to terms with the seller, you'll need to hire an escrow or title-insurance company to close the sale. The company will manage the paperwork, collect your down payment (typically \$500 to \$1,000) and place it in an escrow account. You'll pay about \$800, which includes state taxes and a recording fee. Resorts often charge a transfer-of-ownership fee, typically about \$300 but sometimes much higher.

Ask the seller to provide you with the homeowners association documents and to disclose whether the resort has the right of first refusal, which could derail your deal. You or the closing agent must also obtain an estoppel letter from the resort. It will verify the time-share the sellers own and that they're entitled to sell it. The letter will also reveal any unpaid fees or liens, the status of the week or points, and any rules or restrictions on your use of the time-share. For example, the resort could restrict your participation in an exchange program or your access to certain amenities, says Jeff Weir, of Redweek.com.

If you suffer buyer's remorse, you'll have the right to cancel the purchase contract within five to 10 days of signing it, depending on the state where you're buying the time-share. ■

CREDIT»

Keep Using Credit After You Retire

MOST PEOPLE TRY TO BE debt-free by the time they retire. As you start to draw down your savings, you may find you're no longer using credit at all. Almost half of baby boomers say that they believe their credit score will be less important after age 70, according to a recent survey from credit reporting agency TransUnion.

But even if you don't expect to borrow money, you

Assisted-living facilities and nursing homes may consider your credit report and score to determine your eligibility to become a resident. Plus, healthy credit will maintain your ability to qualify for top credit cards (see "The Best Rewards Credit Cards," on page 22).

"One of the simplest ways to keep your credit alive and well is to have some cards and use them sparingly," says Adam Levin, chairman and cofounder of Credit .com and Identity Theft 911. You could charge, say, groceries and gas to ensure that your cards remain active and pay off the balances monthly to avoid interest.

If you'd like to trim a large collection of cards, close those with annual fees or the lowest credit limits, and hang on to those with the highest limits, says Ken Chaplin, senior vice president for TransUnion. That will help keep the balance on your cards relative to their limits (called credit utilization) low. And keep the cards you've had the longest to show lenders a history of responsible spending. **LISA GERSTNER**

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RATE UPDATES

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

have good reasons to maintain a strong credit profile. For example, you may want to help your children or grandchildren fund college or purchase a first home by co-signing a loan (just be aware that you're on the hook if the primary borrower defaults). If you decide to downsize, good credit will help you snag a low mortgage interest rate or pass muster for a rental.

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds*	0.10%	0.10%	0.30%
U.S. Series I savings bonds	0.26	1.64	0.00
Six-month Treasury bills	0.36	0.34	0.08
Five-year Treasury notes	1.21	1.16	1.50
Ten-year Treasury notes	1.76	1.72	2.16

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

As of May 9, 2016.
*EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.

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

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

TOP-YIELDING DEPOSIT ACCOUNTS

No-Minimum Checking Accounts	Annual yield as of May 9	Website (www.)	
Alliant Credit Union (Ill.) ^{*,}	0.65%	alliantcreditunion.org	
FNBO Direct (Neb.) [†]	0.65	fnbdirect.com	
MyCBB (Calif.) [†]	0.61	mycbb.com	
Incredible Bank (Wis.) [†]	0.59	incrediblebank.com	
NATIONAL AVERAGE	0.12%		
Rewards Checking Accounts	Annual yield as of May 9	For balances up to: [#]	Website (www.)
America's Credit Union (Wash.) ^{*,}	5.00%	\$1,000	youracu.org
Northpointe Bank (Mich.)	5.00	5,000	northpointe.com
Consumers Credit Union (Ill.) ^{*,}	4.59	20,000	myconsumers.org
Great Lakes Credit Union (Ill.) ^{*,†,‡}	3.00	10,000	glcu.org
NATIONAL AVERAGE	1.67%		
Savings Accounts	Annual yield as of May 9	Min. deposit	Website (www.)
UFB Direct (Calif.) [†]	1.20%	\$25,000	ufbdirect.com
Incredible Bank (Wis.) [†]	1.17	none	incrediblebank.com
Silvergate Bank (Calif.)	1.11	10,000	silvergatebank.com
Palladian PrivateBank (N.Y.) [†] &	1.10	10,000	palladianprivatebank.com
NATIONAL AVERAGE	0.16%		

*Must be a member, see website. †Internet only. #Portion of the balance higher than the maximum earns a lower rate or no interest. To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. &Lake Michigan Credit Union offers a similar yield. &Salem Five Direct offers a similar yield. SOURCE: Depositaccounts.com.

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of May 9	Min. amount	Website (www.)
Colorado Federal Savings Bank (Colo.)	1.35%	\$5,000	coloradofederalbank.com
Connexus Credit Union (Wis.)*	1.33	5,000	connexuscu.org
AlloStar Bank of Commerce (Ala.)†	1.27	1,000	alostarbank.com
E-Loan (N.Y.)†#	1.26	10,000	eloan.com
NATIONAL AVERAGE	0.28%		
5-Year	Annual yield as of May 9	Min. amount	Website (www.)
E-Loan (N.Y.)†	2.10%	\$10,000	eloan.com
SallieMae Bank (Pa.)†	2.10	2,500	salliemae.com
First Internet Bank of Indiana (Ind.)†	2.07	1,000	firsttib.com
Barclays Bank (Del.)†	2.05	none	banking.barclaysus.com
NATIONAL AVERAGE	0.83%		

*Must be a member, see website. †Internet only. #BAC Florida Bank offers a similar yield. SOURCE: © 2016 Bankrate.com, a publication of Bankrate Inc., 11760 US Highway 1, N. Palm Beach, Fla. 33408 (800-327-7717, ext. 11410; www.bankrate.com/kip).

LOW-RATE CREDIT CARDS

Issuer	Rate as of May 9*	Annual fee	Late fee	Web site (www.)
Amalgamated Bank of Chicago (G)	7.50%	\$45	\$27†	aboc.com
Simmons Bank Visa (P)	7.50	none	27†	simmonsfirst.com
Lake Mich Credit Union Prime (P)§	6.50	none	27†	lmcu.org

RETAIL REBATE CARDS

Issuer	Rate as of May 9*	Annual fee	Rebate earned Store/Other	Web site (www.)
Amazon Rewards Visa	14.49%	none	3%/1%#	amazon.com/rewards
Costco Anywhere Visa	‡	none§	2/1^	citi.com/welcomecostco
Sam's Club MasterCard	15.15	none§	1/1^	samsclub.com

Rates are adjustable. *If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (G) Gold. (P) Platinum. ‡\$37 if late more than once in 6 months. #2% at gas stations, restaurants, office supply stores and drugstores; 1% on all other purchases. §New card; rate not yet available. §Must be a member. ^4% on gas; 3% on travel and dining; 2% on Costco purchases; 1% on all other purchases. §5% on gas; 3% on travel and dining; 1% on all other purchases. SOURCE: Bankrate.com. Banks may offer lower introductory rates.



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The Main Advantages of Municipal Bonds

Investors are attracted to municipal bonds for three reasons, safety of principal, regular predictable income and the tax-free benefits. Together, these three elements can make a compelling case for including tax-free municipal bonds in your portfolio.

Potential Safety of Principal

Many investors, particularly those nearing retirement or in retirement, are concerned about protecting their principal. In March of 2012, Moody's published research that showed that rated investment grade municipal bonds had an average cumulative default rate of just 0.08% between 1970 and 2011.* That means while there is some risk of principal loss, investing in rated investment-grade municipal bonds can be a cornerstone for safety of your principal.

Potential Regular Predictable Income

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

Potential Triple Tax-Free Income

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

About Hennion & Walsh

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

Our FREE Gift To You

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

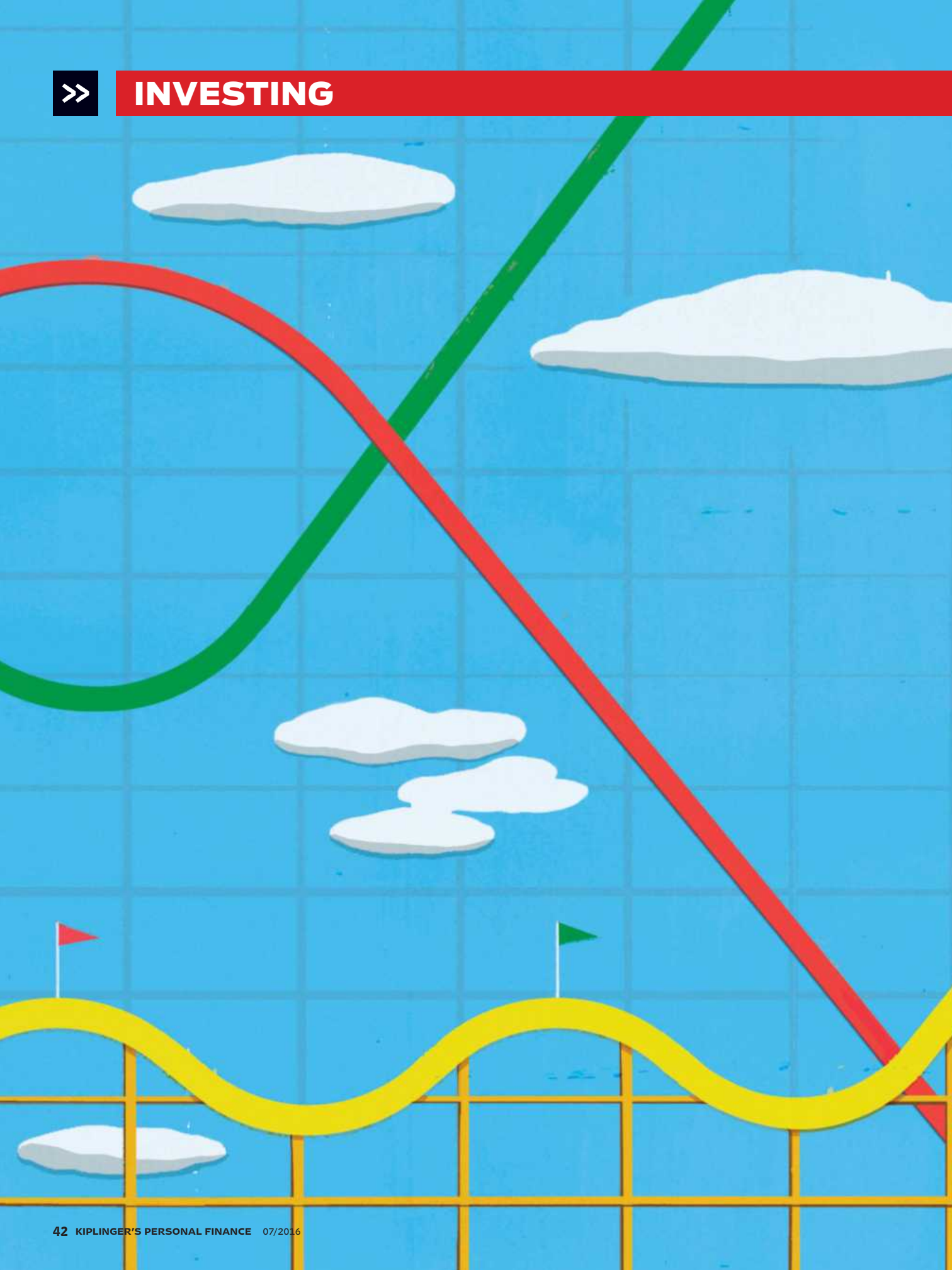
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INVESTING

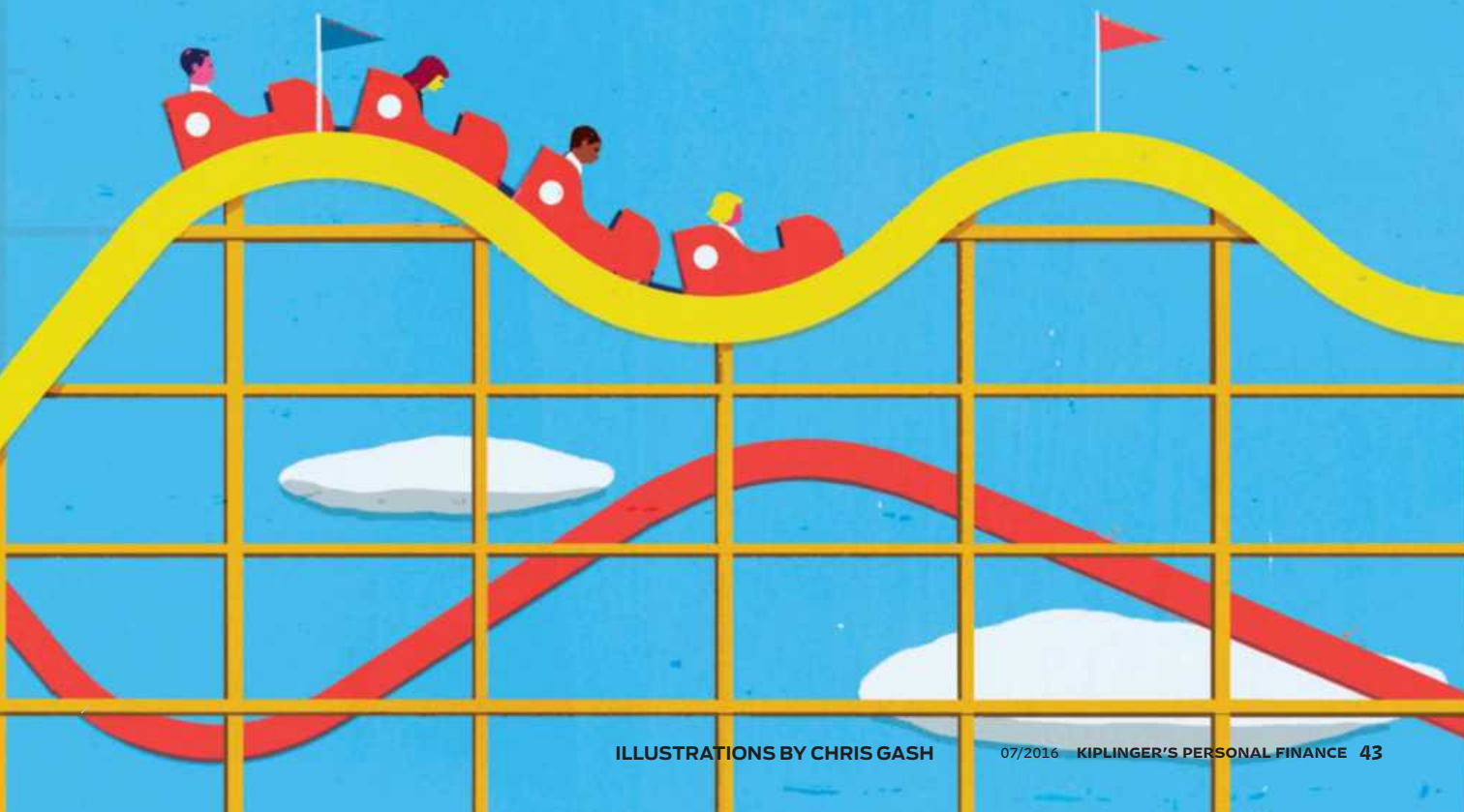


INVESTING IN AN Up-and-Down Market

Stocks should end the year with modest gains. We show you how to boost your returns by focusing on value stocks and companies that raise their dividends.

BY ANNE KATES SMITH

FINANCIER J.P. MORGAN GOT IT RIGHT when he was once asked what the stock market would do. “It will fluctuate,” he quipped. The market’s performance so far in 2016 underscores the wisdom of his humor. The major indexes started the year with sharp declines, then followed with strong



rebounds. As midyear approached, investors found themselves essentially where they were at the start of 2016.

We think the market could eke out more gains this year, as the economy muddles along, corporate profits begin to rise again and the Federal Reserve Board exercises restraint on the interest-rate front. But don't expect the bull to sprint too far past Standard & Poor's 500-stock index's record closing high of 2,131, set in May 2015. "The bull is old, wrinkled and walks with a cane," says Robert Doll, chief stock strategist at Nuveen Asset Management. "But it's not dead."

Our January forecast calling for the S&P 500 to generate a total return of roughly 8% still seems doable, if optimistic. (As of May 10, the index had returned 3% year-to-date.) Look for the S&P to end the year at about 2,150, which would suggest a return, including two percentage points' worth of dividends, of about 7%. An equivalent target for the Dow Jones industrial average would be about 18,300. (Prices, returns and yields are as of May 10.)

Don't be fooled by what might look like a lack of progress in stock market indexes. There will be plenty of thrills and spills, even in a mostly range-bound market, and investors should be prepared to take advantage of them. "Investors need to be more tactical," says Burt White, chief investment officer at LPL Financial. "When you get rallies, trim a little bit. In a pullback, buy a little."

Brian Belski, chief strategist at BMO Capital Markets, has found 14 periods since 1990 when the S&P 500 was roughly flat for six months or more. During those periods, share prices of one-third of S&P stocks advanced

by double-digit percentages, with average annualized jumps of nearly 30%. What's more, the gainers came from all of the market's sectors. So whether you call today's stock market a crab (skittering sideways), a bunny (because it hops around) or a buffalo (part bull, part bear—see the interview on page 48), here's what you need to know to make money the rest of the year.

The Case for Value

FROM 2007 through 2015, shares of fast-growing companies blew past value stocks—those that trade at low prices in relation to profits, revenues and other key measures. The pattern



started to change early this year, with some big-name tech stocks stumbling and some of the more economically sensitive sectors, such as automakers and energy, performing better. So far this year, value stocks in the S&P 500 have gained 4%, while S&P 500 growth stocks have edged up 1%.

Value stocks tend to perform best in the aftermath of a market correction (one ended in February) and when the economy and earnings growth are improving. Despite the recent gains in bargain stocks, "value assets have further to run—that's the right place to focus," says Richard Turnill, chief

investment strategist at money management giant BlackRock.

Finding value in an aging bull market is tricky. U.S. stocks trade at nearly 17 times estimated year-ahead earnings, compared with an average price-earnings ratio of 15 since 1986. But you can find bargains outside such traditional value sectors as financials, industrials and energy. For example, average P/Es for health care stocks, which are normally 13% greater than the P/E of the S&P 500, today are 12% less than the market's P/E, says Bank of America Merrill Lynch.

Opportunities vary within sectors, too, so selection is key. "We look at things name by name," says Mark

Finn, manager of **T. ROWE PRICE VALUE (SYMBOL TRVLX)**, a member of the Kiplinger 25. One stock he finds attractive is **ROYAL DUTCH SHELL (RDS-B, \$51)**, a global energy giant well positioned for the long term. He also likes **METLIFE (MET, \$44)**, an insurer that sells for 8 times estimated year-ahead earnings and sports a dividend yield of 3.6%. Exchange-traded-fund investors who want a diversified portfolio of value stocks can explore **ISHARES MSCI USA VALUE FACTOR (VLUE, \$61)**, which targets the cheapest stocks in each sector. Or check out **POWER-**

SHARES DYNAMIC LARGE CAP VALUE ETF (PWV, \$30), newly added to the Kiplinger ETF 20 (see page 59).

The Economy Limp Along

HEALTHY consumer spending will offset lackluster growth in energy, manufacturing and multinational businesses as those sectors work off the effects of the 2014–15 plunge in oil prices and surge in the dollar. Businesses remain skittish about spending on expansion and equipment upgrades—a drag on potential growth. Kiplinger expects gross domestic

product to rise by just 2% in 2016, with most of the growth coming in the second half. Worldwide economic growth will come in at 2.7%, with China expanding at a 6.4% rate; India, 7.4%; and the eurozone and Japan, 1.5% and 0.5%, respectively.

That's the kind of modest growth that's likely to keep the Fed from raising short-term interest rates aggressively, which could spook the stock market. Late last year, Fed watchers expected the central bank to hike rates as many as four times in 2016, but experts now think it will act only once or twice this year. In the meantime, the yield on the benchmark 10-year Treasury bond, which has fallen from 2.3% to 1.8% since the Fed boosted short-term rates in December, is likely to drift up the rest of the year, finishing 2016 at 2% or a touch higher.

Despite tepid growth forecasts, investors could be reintroduced this year to an economic concept that's been all but forgotten: inflation. Given recent pressure on wages, rising commodity prices and a weaker dollar (which makes imports more expensive), inflation for 2016 could clock in at 2.4%, following a scant 0.7% rise last year. If the economy were to stall, the combination of stagnant growth plus inflation could be toxic, says LPL's White. "Stagflation is the market's biggest risk," he says.

Assuming modest expansion, though, stock investors should focus on companies that perform well when the economy is improving. Brad Sorensen, head of market and sector analysis for the Schwab Center for Financial Research, recommends a tilt toward technology and financial companies. Tech will benefit from a weaker dollar because many of the players do outsize business overseas. And wage hikes could lead employers to look to technology to boost productivity, perhaps by replacing increasingly costly workers. As for financials, most banks benefit when interest rates rise because they can charge borrowers more. And other financial firms,

such as insurers, can earn more on their own investments. With consumers having paid off a big chunk of debt since the financial crisis, lenders also face less risk of defaults and foreclosures. David Joy, Ameriprise Financial's chief market strategist, likes software maker **ORACLE (ORCL, \$40)** in technology and **JPMORGAN CHASE (JPM, \$62)** in financials.

Companies that make nonessential consumer goods also fit the cyclical theme. "The consumer sector is the strongest single component of the economy—and that's great because it's also the largest," says Joy. Within the broad category, however, not all stocks are equally attractive. Homebuilders and automakers remain in an ongoing recovery, but department store sales are weak, reflecting long-term changes as shoppers gravitate to online merchants. Stocks worth exploring, says Joy, include **HOME DEPOT (HD, \$138)** and **WALT DISNEY (DIS, \$107)**.

Earnings Recover

THE PROFIT picture couldn't have been bleaker at the start of 2016. First-quarter earnings dropped from the same period in 2015, marking the third quarterly decline in a row. But the stock market tends to look ahead, and better days are coming.

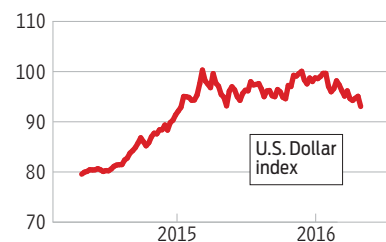
By the fourth quarter, analysts predict, earnings will be expanding by double-digit percentages compared with the year-earlier period. For 2016 overall, expect S&P 500 companies to log earnings growth of 4% to 5%. Were it not for the struggling energy sector,

S&P 500 earnings growth would be closer to 9%. For 2017, market strategists see earnings growth of 7%.

The outlook is improving in the oil patch. As energy producers have cut back in response to low prices, the growth in supply has declined and demand has held steady, says market strategist Paul Christopher, of Wells Fargo Investment Institute, the research arm of the financial-services giant. After skidding 76% from June 2014 through February, the price of oil rebounded 76%, to \$45 per barrel, in early May.

The other key to earnings improvement is the dollar. The greenback has reversed a nearly 30% surge against a basket of foreign currencies since mid

Dollar vs. Foreign Currencies

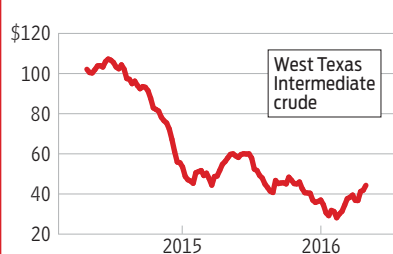


SOURCE: Investing.com

2014 and is down about 6% since November. A weaker dollar helps exporters and multinational companies by making their goods more competitive overseas and by translating sales generated overseas into more dollars here. "The dollar's weakening has mostly played out," says Christopher. That's okay, he adds, especially if the global economy picks up steam. "The value of the dollar will become less important as growth around the world improves."

Think of an earnings recovery as the engine that could kick the stock market into gear in the second half of the year. Just don't count on more than low- to mid-single-digit earnings growth, driving low- to mid-single-digit stock market gains. "Earnings growth is a driver, but we're still in this low-return world," says BlackRock's Turnill.

Price of Oil Per Barrel



SOURCE: U.S. Energy Information Agency

Cash Is King

INVESTORS HAVE to do some sleuthing to find stocks that can break out of the market's sideways trend. Companies that generate healthy free cash flow—the amount of cash profit left after capital expenditures—are a great place to start. Executives at big free-cash generators have a lot of options: They can invest in their businesses, buy back stock, acquire other companies, pay dividends or engage in some combination of all four.

Income-seeking investors should focus on dividend growth rather than on the highest-yielding stocks. Companies with the wherewithal to increase dividends have done well in range-bound markets, according to an analysis by BMO strategist Belski.

Of 14 flat-market periods since 1990, shares of companies with increasing dividends on average lost ground in only three and saw share prices climb 10% or more in five—and that's not including the return from the dividends themselves. Moreover, a focus on dividend growth, as opposed to high yield, will lead you to companies that have stronger balance sheets and better earnings growth potential. And the shares of dividend growers are cheaper to boot. For instance, a recent examination by BofA Merrill Lynch found that the 50 highest-yielding stocks in the S&P 500, with a median yield of 4.5%, saw earnings per share fall 9% in the past four quarters, while the top 50 dividend growers, yielding an average of 1.5%, saw nearly 15% earnings growth. But the dividend growers

trade at just 14 times estimated year-ahead earnings, on average, and the high-yielders trade at 16 times.

Dividends aren't just popular with investors; they're increasingly attractive to corporate America. Since 2007, S&P 500 companies have boosted cash payouts by nearly 60% while spending 3% less on share buybacks. And there's plenty of room for dividends to grow. The payout ratio for S&P 500 companies—the percentage of earnings paid out as dividends—has risen from 26% in 2011 to 37% in 2016, still well below the historical average of 53%.

You'll find plenty of companies with superior cash flow and attractive dividends in tech and health care. Two stocks recommended by BMO that fit the theme: biotech giant **AMGEN (AMGN, \$157)** and networking leader **CISCO SYSTEMS (CSCO, \$27)**. Our favorite dividend investment fund is **VANGUARD DIVIDEND GROWTH (VDIGX)**, a member of the Kiplinger 25. Manager Donald Kilbride looks for companies that have increased dividends over time and that are trading at reasonable prices.

Emerging Markets Beckon

INVESTORS WITH a long-term view will benefit from looking beyond U.S. borders, in particular to emerging markets. A sharp rally early in the year, followed by a more recent pullback, makes it clear how volatile these markets can be. The best way to invest is gradually, says James Syme, co-manager of **JOHCM GLOBAL EMERGING MARKETS OPPORTUNITIES (JOEIX)**. "Don't try to time a single investment, but buy some today, more in three months and more in six months," he says. (For a different take on investing overseas, see "Opening Shot," on page 16.)

The direction of the dollar is key. A surging greenback pressures emerging nations because many have to repay debt denominated in dollars. And many developing countries rely on the export of commodities that are priced in dollars and tend to fall in price when the greenback appreciates. "Weakness

Good Values

5 Stocks to Buy Now


■ **AMERIPRISE (SYMBOL AMP, \$95)** The firm is transitioning from a life insurer to an investment powerhouse, with \$750 billion in assets under management. Worries about the impact of the Department of Labor's new fiduciary rule for advisers (see "What the New Broker Rule Means to You," on page 55) have weighed on the stock, but any additional regulatory hurdles won't impair the business significantly, says Mark Finn, manager of the T. Rowe Price Value fund. The shares sell for 9 times estimated earnings and yield a healthy 3.2%. (Prices are as of May 10.)

■ **APPLE (AAPL, \$93)** You can debate whether the iPhone 7, expected to launch this fall, will be a blockbuster or a dud, but Apple's stock, down 17% since mid April, is trading as though the company's legendary smartphones are facing a long-term decline. Sales of iPhones may not be growing as rapidly as they once did, but demand is more resilient than the stock implies, says Morningstar analyst Brian Colello. Meanwhile, Apple generates tons of cash, which it shares via stock buybacks and a rapidly growing dividend. The stock yields 2.5%.

■ **CAPITAL ONE FINANCIAL (COF, \$71)** Credit cards still supply the bulk of Capital One's profits, but the company is evolving into a diversified commercial and consumer lender. Loan growth has room to run before credit losses start to accelerate. We're in the bottom of the third inning when it comes to the credit cycle, says Morgan Stanley. Yet the stock trades at just 9 times estimated year-ahead earnings and yields 2.3%.

■ **FORD MOTOR (F, \$13)** A pickup in gasoline prices hasn't kept buyers away from Ford's vehicles—April's U.S. sales were the best in a decade. The country's second-largest carmaker is keeping a lid on costs, improving economies of scale by building more models on common platforms and pruning the product mix to focus on its Ford and Lincoln brands. The stock yields 4.5%, and S&P Capital IQ sees the annual payout rate of 60 cents a share heading higher.

■ **MICROSOFT (MSFT, \$51)** Shares of the desktop-software giant took a one-day hit of 7% in April after the company reported disappointing quarterly results. But a shift in focus from a weakening personal-computer market to the company's rapidly growing cloud business holds promise. "The cloud is a huge opportunity," says T. Rowe Price's Finn.



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in the dollar won't persist, but it should be soft enough that emerging markets will do well in the second half of the year," says Ameriprise strategist Joy.

The fortunes of a large share of emerging nations depend on China, where economic growth is slowing, although it is still expanding at a 6%-plus annual clip. "For every data point that's negative, I can find another one that's positive," says Richard Schmidt, comanager of **HARDING LOEVNER EMERGING MARKETS (HLEMX)**. The risk, he says, is that the massive debt taken on by state-owned enterprises will become a black hole that obliterates economic growth. "That's not my operating assumption, but it's a risk," he says.

The Harding Loevner fund, a member of the Kiplinger 25, is our favorite fund for investing in these dicey markets. Schmidt and his colleagues are focusing on countries where reformist governments have adopted pro-growth economic policies, including India and Mexico, and on smaller nations, such as Indonesia and Colombia. He's also positive on Brazil, a country roiled in recent months by political upheaval. Syme favors India and China, as well as countries that export to the U.S., specifically South Korea (which some analysts classify as a developed market) and Taiwan.

More of the Same for Bonds

BONDS WILL have a tougher slog than stocks throughout the rest of 2016. The global economy still supports a "lower for longer" point of view when it comes to bond yields (see "Income Investing," on page 50), which means investors needn't fear bond market Armageddon, even as the Fed hikes rates once or twice this year. But it's also true that even modest rate creep, along with reawakening inflation, presents challenges. (Bond prices fall when interest rates rise, and inflation eats away at bonds' value.) "There's a disconnect between current low yields and the reality of the economic and inflation picture," says Nuveen's Doll.

The trick is to find the parts of the bond market that will deliver more than a minuscule yield while limiting the risk of default, as well as do at least okay when rates rise in earnest. For now, the sweet spot is in medium-maturity, high-quality corporate bonds, says Wells Fargo's Christopher. "Investors are getting paid to take risk in investment-grade corporates."

VANGUARD INTERMEDIATE-TERM INVESTMENT GRADE (VFICX), yielding 2.4%, is a good

choice. Christopher also recommends Treasury Inflation-Protected Securities, or TIPS. "People hate TIPS now, but inflation expectations will rebound," he says. Buy TIPS directly from your broker or from Uncle Sam at TreasuryDirect.gov. TIPS maturing in 10 years provide an after-inflation yield of 0.15%.

Investors who can ignore the scary headlines about struggles in Puerto Rico, Chicago and elsewhere can find

Q&A WITH CHRISTOPHER HYZY

Focus on High-Quality Stocks

Christopher Hyzy is the chief investment officer for the Global Wealth and Investment Management division of Bank of America.

KIPLINGER'S: So far this year, the bulls and bears appear to be in a stalemate. How will the second half of 2016 play out?

HYZY: We're still in a grind. All bull markets climb a wall of worry, but this one has a bit of grease on it. At the end of last year, two of the main worries were the downdraft in oil prices—a big reason for the recession in corporate profits—and the strength in the dollar, which hurt U.S. manufacturing companies and led investors to believe a recession was around the corner. A third worry was that negative interest rates were coming to the U.S. The final worry was that China's economy was weaker than the government there was saying. Now the stock market has traded up due to stabilizing oil, a weaker dollar, stimulus in China to support growth, and a perception that the Federal Reserve Board will not implement negative rates here and will be very, very patient about raising them. The U.S. stock market is now fairly valued. Between now and the end of the year, Standard & Poor's 500-stock index will move between 2,025 and 2,150. Potential surprises would be further weaken-

ing of the dollar or the price of a barrel of oil rising to the mid \$50s. That could add \$3 to \$5 to the S&P's earnings per share, and that could push the index to 2,200.

Both the bull market, assuming we're still in one, and the economic expansion are among the longest on record. How much life is left? When economic growth is slow and there's little upward pressure on inflation, you lengthen the cycle by default. There's less boom and bust; it feels more as though you're walking in mud. We're in a buffalo market. It's not a bear, not technically a bull—but it's in the bull family. It's heavy, rather hairy and unattractive at times. It can roam for long periods but then get nervous out of the blue and run the other way. This sort of sideways market will continue into 2017, but volatility can spike at any time. We'll close out the year on a high note, but we're talking about mid-single-digit stock returns—in the range of 7% to 8%, including dividends.

What themes do you see taking shape?

We see a movement from high-growth areas that did so well over the past few years into economy-sensitive, bargain-priced assets—what we call cyclical value—that significantly underperformed. Lately,

opportunities in municipal bonds, says James Dearborn, head of muni bonds at money management firm Columbia Threadneedle. He reminds investors that the muni market includes more than 50,000 issuers, and that state and local revenues have now eclipsed the peaks reached prior to the financial crisis. **FIDELITY TAX-FREE BOND (FTABX)** yields 1.8%, which is the equivalent of a taxable yield of 3.2% for investors who pay the top federal rate of 43.4%.

Gold's Restored Luster

THE DAZZLING 19% rise in the price of bullion so far this year—and the remarkable 78% surge in gold stocks—is raising hopes that the bear market in gold that began in 2011 is over. Given the history of gold-market cycles, however, it seems too soon to project a new bull market in the precious metal.

Still, investors should devote a sliver of their portfolio to gold or

mining stocks as a hedge against some of today's key risks, says strategist Christopher Hyzy, of Bank of America. Among them: a potentially weaker dollar (the price of gold usually moves in the opposite direction), a pickup in inflation and the threat of geopolitical crises. Would-be gold bugs can explore **ISHARES GOLD TRUST (IAU, \$12)**, which tracks the price of bullion, and **MARKET VECTORS GOLD MINING (GDX, \$24)**, which tracks the more-volatile mining stocks. ■

■ **HYZY SAYS THE STOCK MARKET IS FAIRLY VALUED, BUT HE EXPECTS IT TO CLOSE OUT THE YEAR ON A HIGH NOTE.**



Where would you invest outside the U.S.?

Our preference is for the U.S.—it's the engine of growth in the developed world. But Europe and Japan offer good value compared with the U.S. More economic restructuring is needed for emerging markets to be sustainable investments long term, but if you have been underweight in those markets, you should now be closer to a neutral weighting.

What should investors make of the recent strength in small-company stocks? That's a classic example of money flowing into areas that have lagged. We're neutral to slightly positive on small caps. In the end, our preference is for high-quality large caps with dividend yields of 2.5% to 4.5%. We look for companies that we think will raise their dividend, don't need to take on a lot of debt and have a level of earnings growth above that of the S&P. Most of them will be found in tech, health care and industrials.

How should investors position themselves for the presidential election? Making a bet on one or two sectors is not recommended. If there is more pressure on health care firms because of drug-pricing controversies, any weakness could be a buying opportunity for the better-quality companies. If there are worries over borders, protectionism and trade, the dollar could get stronger, and domestically focused companies will do better. Both parties favor spending on aerospace and defense.

energy, financial, materials and industrial companies have been going through a mini melt-up. Emerging markets are coming back to life. We expect the shift from growth to cyclical value to continue into 2017.

Where are the best opportunities? The most important thing is to choose

high-quality names in a mix of sectors. Overweight energy, financials, tech and health care. We also like companies that provide consumer non-necessities, but not big-box retailers. People are spending on experiences, less so on goods. Travel, leisure and entertainment are areas that should do well.



Negative interest rates in Europe and Japan make U.S. bond yields look sky-high by comparison, boosting demand for Treasuries.

JEFFREY R. KOSNETT > Income Investing

Why Rates Will Stay Low

The title of my column in the October 2014 issue of this magazine was “Ignore the Doomsayers.” At the risk of plagiarizing myself, what I said nearly two years ago is worth repeating: The benefit of keeping your money at work in high-quality stocks and bonds far outweighs any possible reward from reacting (or, more likely, overreacting) to every market disturbance. If you’ve doubled your money since the financial crisis ended in 2009, don’t get spooked because you didn’t cash out at some fleeting peak and now find your account balances are 10% lighter.

The motivation for reaffirming my original thesis is a parade of headlines and on-line rants that suggest that you and I are fools for hanging on to our investments because we’re about to get crushed. And I’m not talking about fringe outfits that sell conspiracy theories. I’m referring to commentators at mainstream investment firms and respected publications and websites.

A typical comment about the stock market is that the rally since February is “all smoke and mirrors.” The suggestion is that nothing justifies the advance and that stocks are ready to melt down, just as they did in 1973, 2002 and 2008. Yes, the indexes will experience occasional setbacks, dropping 5% to 10%, maybe a little more, in brief spurts, as they did in the summer of 2015 and early in 2016. But I cannot grasp why more experts don’t get that, given an environment of modest economic growth and low inflation and interest rates, stocks are in a gently rising range that could last for years (see “Investing in an Up-and-Down Market,” on page 42).

The same holds in the fixed-income arena. I recently saw this headline in the *Wall Street Journal*: “Bond Move Is Eyed Warily.” The story quotes some fearful bond strategists who tried gamely but unconvincingly to argue that the yield on the benchmark 10-year Treasury bond has no business hanging at or below 2% (the 10-year T-bond yielded 1.8% as of May 6). Of course, an increase in yields would mean

lower prices for most bonds and bond funds.

But I don’t see interest rates surging anytime soon. I reread a few analyst commentaries from two or three years ago that made the case that rates would stay “lower for longer” than most expected. Little has changed since to suggest that rates are artificially low only because the world’s governments and central bankers, led by the Federal Reserve, want to keep them that way. Rather, rates are low for perfectly sensible reasons. Credit is in ample supply. The U.S. economy is expanding at about 2% annually, a growth rate that is unlikely to fuel inflation, and Europe and Japan are barely growing at all. Yes, inflation might tick a bit higher with the end of dirt-cheap gasoline, but it won’t zoom.

A banner year. The most meaningful new wrinkle since my 2014 column is the emergence of negative interest rates in Europe and Japan. Those make U.S. bond yields look sky-high by comparison, boosting demand for Treasuries and other kinds of dollar-denominated debt. All of this explains why as of May 6, total returns for all 63 bond benchmarks listed on WSJ.com were in the plus column year-to-date.

Bottom line: Instead of settling for puny bank rates, continue to slide some savings into solid, low-cost mutual funds, such as **PIMCO INCOME (SYMBOL PONDIX, 3.7% YIELD)**, a member of the Kiplinger 25, and **VANGUARD INTERMEDIATE-TERM INVESTMENT GRADE (VFICX, 2.4%)**.

I am not blind to the risks. It doesn’t take much for hedge funds or tantrum-throwing traders to precipitate a correction. I expect stocks and bonds, including utilities and REITs, to have some bad weeks later this year; August and October are often treacherous. But in the end, the more such brush fires erupt and then burn out with no lasting damage, the less inclined I am to listen to alarms or sound any myself. ■

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



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STRATEGY»

The Right Retirement Mix

We show you how to allocate your investments among stocks, bonds and cash as you approach, enter and live in retirement. **BY KATHY KRISTOF**

BEFORE TIM O'BRIEN RETIRED IN 2014 after a 30-year military career, he took a hard look at his investment portfolio and decided it was too aggressive. So O'Brien started trimming his allotment to stocks. When he was done, he had just 60% of his retirement savings in stocks, compared with 80% before the shift. Though he figured he'd earn less on his investments over the long term, it was a small price to pay for a more stable portfolio when he expected to be tapping his savings.

But O'Brien, 54, found retirement dull and has already returned to work, as a project manager for a health care firm. Although he's in no rush, he expects to boost his stock allocation over the next year to reflect his changed circumstances. He says that after he and his wife, Fern, 56, retire in six or seven years (presumably for good this time), they'll go through the process once more. After all, your investments ought to suit your life, so major changes suggest significant shifts in strategy. After the portfolio revamping, "Fern was concerned that our investments weren't earning as much," says Tim. "I told her that's okay—we're not risking as much, either."

Taking a page from O'Brien's playbook and reviewing—and possibly revising—your portfolio before, at and during retirement is a wise move. "This is where the rubber meets the road," says Judith Ward, senior financial planner with mutual fund giant T. Rowe Price. "As you get into your fifties, you need to start looking at where you are and start ramping up your

retirement and investing planning."

Few questions are as vexing as how best to allocate your assets when you're in or near retirement—particularly in light of today's excruciatingly low interest rates. Theoretically, you would

want to start ratcheting down risk as much as 10 years before your anticipated retirement date and keep cutting risk as you age to reflect a shorter time horizon, which gives you less time to recover from investment losses.



But cutting exposure to stocks too aggressively could hinder the growth of your nest egg, potentially leaving you with less than you need. “The few years before you retire is when you need the growth the most, but it’s also when you have the most to lose if there’s a bear market,” says Michael Kitces, partner at Pinnacle Advisory Group, a money management firm in Columbia, Md. “A low-rate environment makes this particularly tough.”

To complicate matters, every investor is likely to have a different capacity and tolerance for risk. What’s the difference between risk capacity and risk tolerance? *Risk capacity* is a practical measure, dictated by assets, sources of retirement income and spending.



■ TIM AND FERN O'BRIEN ARE TINKERING WITH THEIR PORTFOLIO AS RETIREMENT APPROACHES.

If there’s little or no gap between what you expect to spend and the amount you expect to receive from pensions and Social Security, for instance, your risk capacity is high. If the gap is wide, your capacity to withstand investment losses—and thus your ability to take investment risk—is low. *Risk tolerance* is psychological, reflecting your emotional ability to handle losses without flinching or selling in a panic. When allocating retirement assets, investors need to keep an eye on both.

Both O’Briens have defined-benefit pensions. Fern is a teacher, covered by the California State Teachers Retirement System. Tim, a former Air Force colonel, has a military pension. Tim expects the pensions to cover 80% of their regular spending in retirement. That gives them plenty of risk capacity. But because they still have a daughter in college and are unsure whether they’ll need to kick in more for college bills than they planned, their risk tolerance is comparatively low. The moderate allocation to stocks that they chose on the eve of Tim’s early retirement reflects this push-pull. Investors with both the capacity and tolerance for risk might invest more aggressively; those who could be shattered by market losses might choose a more conservative approach.

Reasonable guidelines. In other words, no single formula is perfect for everyone who is near or in retirement, but there are certainly sensible allocation ranges. Target-date retirement funds provide a glimpse at how some savvy investors shift their allocations over time. Vanguard Target Retirement 2025 Fund (symbol VTTVX), which is designed for investors who are about 10 years from retirement, recently had 66% of its assets in domestic and foreign stocks. Meanwhile, Target Retirement 2020 (VTWNX), geared for customers five years from retirement, had 58% in stocks. And Target Retirement 2015 (VTXVX), aimed at those who retired recently or will be retiring soon, had 48% in stocks. The rest of

✦ A Contrarian View

Less in Stocks Now, More Later

THE CUSTOMARY APPROACH TO ASSET allocation is to start with a relatively high allotment to stocks when you retire—say, 60%—and to pare back as you get older. But Michael Kitces, of Pinnacle Advisory Group, a money management firm in Columbia, Md., says you may be better off turning that advice on its head if you retire when the stock market is richly valued, as many experts believe it is today.

Kitces suggests having just 40% of your assets in stocks at retirement and building the allocation to 60% as you age. The rest of your money should be in super-safe investments, such as money market funds and short-term bonds.

He bases this counterintuitive advice on research he conducted in 2014 with Wade Pfau, professor of retirement income at the American College of Financial Services. Their study found that having a stock-heavy portfolio on the eve of retirement can increase your risk of running out of money too soon. That’s because the ability of your investments to recover is lost forever if you must pull money from savings during a bear market. So Kitces suggests that you stockpile safe assets that won’t decline in value before you retire and spend them down as you age, increasing your stock allocation by default.

With interest rates scraping bottom, following this strategy means that you’ll earn almost nothing on the bulk of your savings, Kitces acknowledges. And that can also hurt your long-term finances. Today’s retirees have drawn a tough hand, which may mean they’ll have less to spend no matter whose advice they follow, Kitces says. Still, he adds, if on the eve of retirement “your choices are low bond yields or stocks that could drop 40% in value, your better choice is low yields.”

the funds' assets are in bonds. T. Rowe Price takes a more aggressive approach. At last report, T. Rowe Price Retirement 2025 Fund (TRRHX) had 70% of its assets in stocks, while Price Retirement 2015 (TRRGX) had 52% in stocks.

Assuming you have a 401(k) plan at work, a good way to start making this shift is to change your investment elections. If you had been directing most of your contributions into stock funds, funnel new money into bond funds. Every six or 12 months, total up all of your long-term investments—in your 401(k), IRAs and taxable accounts—and see how much you have in stocks, bonds and cash-type investments. If you plan to retire at age 66 or 67, reduce the stock portion of your overall portfolio to 50% to 60% of assets by your last day of work. If you retire early, as the O'Briens did, your stock allocation might be a little higher; if you retire later, a bit lower.

After you retire, you should gradu-

ally make your portfolio more conservative to reflect the fact that you have less time to wait out downturns and are likely to be using a greater percentage of your investments to meet expenses. (After all, if you earn less on your investments than you spend, each passing year of spending eats up a slightly larger percentage of the total account.) Ten years into retirement, Morningstar recommends that conservative investors have just 35% of their money in stocks and the rest in bonds. Note that Vanguard Target Retirement Income Fund (VTINX), aimed at those who are 10 years into retirement, has just 31% of its assets in stocks, but T. Rowe Price Retirement 2005 (TRPFX), for those who retired in 2005, has 37% of its assets in stocks.

Of course, a good investment mix should be widely diversified among big and small companies and between U.S. and foreign firms. Your bond holdings should be diversified, too. If you want

your investments to generate generous cash income, you'll have to look far beyond money market funds and CDs (see "Earn Up to 11%," June). And as retirement looms, you will want to build up your cash holdings so that you won't have to sell investments to finance spending when the stock market is down.


Below, we present sample portfolios for people approaching, at or in retirement. All three mostly use mutual funds recommended in the Kiplinger 25, and all are geared toward investors who have a moderate tolerance for risk. If you can assume more risk, boost each portfolio's allocation to stocks by five to 10 percentage points—or even more if you have plenty of assets and a stomach for volatility. Risk-averse investors should trim each package's allotment to stocks by five to 10 points. For a look at a different allocation strategy when approaching retirement, see the box on page 53. ■

❖ Portfolios

Divvying Up Your Assets at Three Stages

These packages consist, with one exception, of funds in the Kiplinger 25 (see page 60 for the full list). The exception is Vanguard REIT Index (symbol VGSIX), which holds real estate investment trusts, to generate income and to provide additional diversification (REITs do not always move in sync with the overall stock market). If you have a high income and are investing in a taxable account, consider replacing some or all of the bond funds with Kip 25 member Fidelity Intermediate Municipal Income and the tax-free bond funds mentioned in "Earn Up to 11%" (June).

10 Years Before Retirement		At Retirement		10 Years After Retirement	
CURRENT YIELD	2.5%	CURRENT YIELD	2.5%	CURRENT YIELD	2.7%
STOCKS	70%	STOCKS	55%	STOCKS	35%
American Century Equity Income	15%	American Century Equity Income	15%	American Century Equity Income	15%
Fidelity International Growth	15	Vanguard Dividend Growth	15	Vanguard Dividend Growth	15
Vanguard Dividend Growth	15	Dodge & Cox Stock	10	Vanguard REIT Index	5
Akre Focus	10	Fidelity International Growth	10		
Vanguard REIT Index	10	Vanguard REIT Index	5		
Harding Loevner Emerging Markets	5				
BONDS	30%	BONDS	40%	BONDS	55%
DoubleLine Total Return	10%	DoubleLine Total Return	15%	DoubleLine Total Return	15%
Fidelity New Markets	10	Pimco Income	15	Pimco Income	15
Pimco Income	10	Vanguard High-Yield Corporate	5	Met West Total Return Bond	10
		Vanguard Short-Term Inv Grade	5	Vanguard High-Yield Corporate	10
				Vanguard Short-Term Inv Grade	5
CASH	0%	CASH	5%	CASH	10%



■ THE NEW
RULE WON'T
NECESSARILY
MEAN BETTER
RETURNS.

FIDUCIARY STANDARD»

What the New Broker Rule Means to You

Uncle Sam is raising the bar for advice that brokers give to retirement savers. **BY ELIZABETH LEARY**

A controversial new rule issued by the U.S. Department of Labor aims to improve the quality of advice that investors receive regarding their retirement accounts. The rule requires that financial professionals who give advice on retirement accounts act as fiduciaries for their clients, meaning that they must put their clients' best interests ahead of their own financial gain, disclosing their forms of compensation and any conflicts of interest. Here's what you can expect.

What's behind this new rule? Today, brokers are generally not required to put their clients' interests first when recommending investments. Rather, they merely need to suggest products that are "suitable" for their clients based on

the clients' goals, age, risk tolerance and so forth. By contrast, registered investment advisers, another class of financial professionals, are always required to put clients' interests first, even though these advisers provide exactly the same services as brokers (whether someone is a broker or an adviser depends on how they are licensed and regulated). Because of that, it can be difficult for the average investor to glean whether a financial professional is offering objective advice with no financial interest or is acting more like a salesperson.

What does the new rule do? Essentially anyone who provides investment advice for a retirement account in

exchange for compensation—including brokers, advisers and insurance agents—must act as a fiduciary. In other words, financial professionals who have acted as salespeople must now consider what's best for your finances, rather than what's best for their own.

Although the rule will have repercussions across all sorts of retirement accounts and products, it primarily targets (and will have the greatest impact on) high-commission products sold for rollover IRAs. Rollover IRAs have become hot spots for high-fee, poor-performing investments, such as variable annuities and nontraded real estate investment trusts. The rule doesn't bar an adviser from recommending any of those products, but it does limit them to charging "reasonable" fees, and it requires firms that charge commissions to jump through some cumbersome hoops. As a result, such products may disappear from IRAs altogether.

How does the rule affect me if I invest through a discount broker, as opposed to using a full-service broker? It's unlikely that anything will change for you if you manage your own IRA with a discount broker and no one gives you investment advice. Because financial firms are still trying to determine their responsibilities in light of the new rule, it's less clear what will happen if you work with a full-service broker. One possibility is that brokers who currently rely on commissions generated through transactions (the purchase and sale of stocks, for example) will gravitate toward charging clients a percentage of the assets they manage. Some financial-industry observers predict that the rule might force full-service firms to jettison customers with smaller accounts. Registered investment advisers who charge commissions will face similar pressures.

Will I see new paperwork? If you work with a broker, adviser or insurance agent who plans to continue charging commissions or receiving other

compensation that could create a conflict of interest, your contract with that person will change to reflect additional requirements of the new rule. (If you are an existing customer, this will likely show up in your mailbox as a proposed amendment to your current contract; if you are a new client, it will likely be rolled into your other account-opening paperwork.) In particular, your adviser, broker or agent's firm will have to commit to providing advice that's in your best interest and to charging "reasonable" fees. Plus, firms will have to adopt policies and procedures to minimize the effects of potential conflicts of interest (the rule doesn't specify exactly what these policies and procedures should entail).

What does this mean for my 401(k)? If any financial professional gives you individual investment advice about your 401(k), that person must, under the new rule, act in your best interest. Otherwise, the rule's impact on your 401(k) will probably be fairly subtle. The main change is that some financial professionals who previously didn't have fiduciary obligations when working with your plan sponsor (that is, your employer) will now have such responsibilities. For example, a broker who recommends a specific menu of investment options to your employer might not have had fiduciary duties in the past but will be obligated to act in the best interest of the plan under the new rule.

Does this mean I'll earn more on my retirement investments? The rule will make a big difference in the returns of those people who might otherwise, because of bad advice, have purchased high-fee products such as variable annuities or nontraded REITs in their IRAs.

For everyone else, the rule's effect on returns will likely be more modest. The rule reduces the chances that anyone will advise you to do a rollover. Keeping money in a 401(k) instead of rolling it into an IRA can boost your returns slightly because 401(k) mutual

funds typically charge lower fees than funds available in an IRA. If you work with a full-service broker or adviser who currently charges commissions, it's possible that the fee structure on your account or the mix of investments in your IRA could change. Whether that hurts or helps your returns will depend on your individual situation. If you already work with an adviser who charges fees instead of commissions and who recommends low-cost products, the rule likely won't affect your returns at all.

❖ **KipTip**

What's Not Covered

Taxable accounts. The new rule covers only advice pertaining to retirement accounts.

Educational materials. Furnishing objective information on certain topics, as long as an adviser or broker isn't making an investment recommendation, doesn't trigger a fiduciary relationship. Such communications could include information on hypothetical asset allocations and worksheets to estimate your retirement-savings needs.

Advice that predates the rule. Advice provided before April 10, 2017, isn't covered by the new rule, and your adviser or broker can continue to receive compensation after that date for recommendations made before that date. However, any advice given after that date regarding your old investments would be held to the new rule's standards.

A "hire me" recommendation. Professionals can urge you to invest your retirement accounts with them or with their firms even if doing so is not actually in your best interest.

So does my adviser have to recommend the lowest-cost products now? Not necessarily. The rule effectively establishes a loophole for firms that sell only proprietary products—investments that are managed in-house or by affiliated entities (for example, Wells Fargo funds are proprietary to Wells Fargo Advisors). Under the rule, brokers and others who sell only proprietary products aren't required to recommend or even mention competitors' products, even if they carry lower fees.

But the rule could save investors money by reducing the use of mutual funds that levy charges known as 12b-1 fees on top of management fees and other costs of doing business. These fees, which run as high as 1% of assets annually, are used to compensate brokerage firms and advisers. Consumer advocates have long decried 12b-1 fees because, they say, the charges are difficult to understand.

In any case, financial professionals won't be required to recommend the lowest-cost options. "There's no obligation for fiduciaries to automatically recommend the lowest-cost products, but if they're recommending pricier products they have to have legitimate reasons for doing so," says Andrew Stoltmann, a Chicago lawyer who represents investors in arbitration disputes with their brokers. Legitimate reasons might include, for example, recommending a fund that provides exposure to emerging markets or another asset class that offers extra diversification but typically charges above-average fees. We don't think the new rule will bar brokers from recommending actively managed funds with reasonable fees, even if those charges are well above those of comparable index funds.

When does the rule take effect? Its main provisions, including imposing a fiduciary status on advice providers, take effect on April 10, 2017. The extra requirements for financial professionals who accept commissions don't fully kick in until January 1, 2018. ■

The Perils of Concentration

Sequoia Fund's misguided bet on Valeant Pharmaceuticals shows the risk of holding a large stake in a single stock. **BY NELLIE S. HUANG**

SEQUOIA FUND (SYMBOL SEQUX) HOLDS 39 stocks, but only one of them is now infamous: Valeant Pharmaceuticals (VRX), which a year ago accounted for 29% of the fund's assets. When shares of the scandal-ridden drug firm plunged from a high of \$263 last August to a low of \$26 in April, Sequoia shareholders felt the pain. The fund lost 31% between early August 2015 and mid March of this year.

The lesson: Concentrated, or focused, funds are riskier than more-diversified funds. Sequoia is an example of a fund with heavy exposure to a single stock. But funds can be concentrated if they hold a small number of stocks or if they tilt strongly toward one industry or sector. Fairholme Fund (FAIRX), for instance, held 17 stocks at last word; Biondo Focus (BFONX) owned just 15. Then there's Aegis Value (AVALX), which held 52, but more than half of its assets were in energy, metals and other basic-materials stocks.

In any case, extreme concentration almost guarantees a rocky ride—both up and down. When big bets pay off, a focused fund rocks. When they miss, a fund can suffer big losses or trail its benchmark by a huge margin. Fold in typical investor behavior—the tendency to buy a fund as it climbs the performance charts and to sell after it starts to slide—and you have the makings of a potential disaster.

CGM Focus (CGMFX), which holds 20 stocks, is arguably the poster child for both the perils and potential of concentration. In 2007, Focus gained 80%, walloping Standard & Poor's

500-stock index by an astounding 75 percentage points, thanks to big stakes in industrial and energy stocks. But in 2011, the fund lost 26% and trailed the index by 28 percentage points. And in three other years—2008, 2009 and 2014—Focus also trailed the S&P 500 by double-digit percentage points. The result: poor long-term returns. Over the past 10 years, Focus earned 1.6% annualized, lagging the S&P by an average of 5.3 percentage points per year.

This isn't to suggest that you should avoid all focused funds. Just make sure they don't represent a disproportionate part of your portfolio. Allocate 5% of your portfolio to a concentrated fund, instead of, say, 25%. "Understanding the difference between a core

holding in your portfolio and a niche holding that's a supporting player is important," says Russel Kinnel, a mutual fund analyst at Morningstar.

Note, too, that some funds have been able to keep volatility down, despite owning relatively few stocks. Morningstar has a favorable rating on **JENSEN QUALITY GROWTH (JENSX)**, which holds 25 relatively steady stocks, such as 3M and PepsiCo. The fund beat the S&P 500 over the past 10 years and had less volatility than the index. **AKRE FOCUS (AKREX)**, the stock fund in the Kiplinger 25 with the fewest holdings (24), has done similarly well. From its inception in August 2009 through April 29, Akre earned 14.9% annualized, beating the S&P 500 by an average of 1.4 percentage points per year. ■

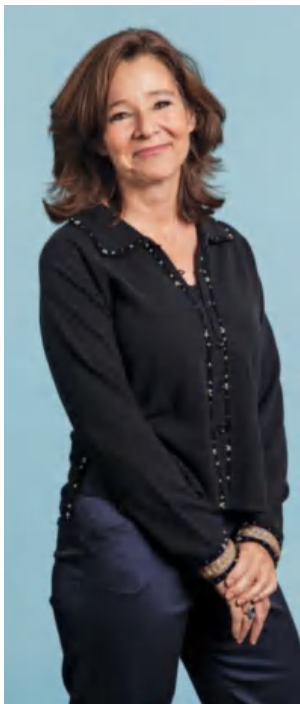
✦ Fund Redemptions

When You Don't Get Paid in Cash

WHEN YOU SELL SHARES IN A MUTUAL FUND, YOU EXPECT TO RECEIVE CASH IN return. Imagine the shock that some Sequoia Fund shareholders must have felt recently when, instead of the green stuff, they received shares of stock that had been in the fund.

These sorts of "in-kind redemptions" are legit. A 1971 Securities and Exchange Commission rule allows funds to give a customer securities it holds instead of cash if the investor sells more than \$250,000 worth of fund shares over a 90-day period. Sequoia lays out the possibility for in-kind redemptions in its prospectus.

The rule helps funds that face a wave of redemptions to avoid selling large quantities of their holdings, which can put downward pressure on their prices, says Mercer Bullard, a law professor at the University of Mississippi. But in-kind redemptions are rare because it's uncommon for investors to try to withdraw so much money in such a brief period. "Few retail shareholders need to get \$250,000 out of a fund in short order," says Bullard. "And if they do, it probably means they shouldn't have been in that fund in the first place."



AV Homes' first-quarter results were impressive, with big gains in number of dwellings sold and other key measures.

KATHY KRISTOF > Practical Investing

A Biotech Giant Goes on Sale

With the market near a record high, it takes extra effort for a value investor like me to find promising stocks. So when I was recently assigned to write a piece for Kiplinger's website about attractive stocks selling for single-digit prices, I was determined to search broadly. I ended up looking at about 75 companies and eliminated all but eight. You can read about them at kiplinger.com/links/under10.

Sorry prospects or high valuations quickly nixed most of the candidates. But a small homebuilder got cut for a different reason. In the weeks that it took to put together my story, the share price of **AV HOMES (SYMBOL AVHI)** soared above \$10 and made the stock ineligible. After conducting some research, I bought 1,000 shares at \$11.90 apiece for my Practical Investing portfolio.

AV Homes was a bit of a jack-of-all-trades in the early 2000s. It sold title insurance, offered cable-TV services and operated a small water utility. But its main business was real estate. The company developed communities for the 55-and-over set as well as industrial and commercial properties, primarily in Florida and Arizona, where it is based. The firm generated stellar revenue and profit growth from 2002 through 2006. But the Great Recession hit the Sunbelt hard, and AV lost money every year from 2008 through 2014.

The stock, which peaked just shy of \$85 in 2007, slid below \$6 in 2011, when AV reorganized to focus on residential development. When I discovered AV in February, it traded for a hair under \$10, but the stock popped some 20% in the weeks after the firm issued fourth-quarter results, which featured a doubling in revenues and a nine-fold increase in earnings from the same period in 2014. Plus, AV reported its first yearly profit since 2007. First-quarter results were equally impressive, with big gains in every important measure, from the number of dwellings sold to average selling prices and, of course, profits and revenues.

To learn more, I tapped my Arizona contacts to find people who had bought AV homes. Linda Baldwin, a physician's assistant who bought into AV's Encore development in Mesa, Ariz., last December, is still waiting for some fixes to the home, but she has no regrets about the purchase. "On Tuesday, I play dominoes. Wednesday is bocce ball. Saturday, they had a concert," she says. "I love the people. We have a travel club and a book club and an arts and crafts center. I'm having a blast."

Big-tech stumbles. Analysts expect AV's earnings to double in 2016 and jump another 50% in 2017. That said, it's wise to be skeptical of earnings estimates, particularly in the late stages of an economic expansion. Disappointing results in April from **APPLE (AAPL)**, which I hold in the Practical Investing portfolio, and Microsoft (**MSFT**), which I just sold, underscore the point. In both cases, earnings for the January–March quarter came in well below analysts' forecasts, and the stocks tanked.

Short-term price drops rarely rattle me, but I worry about stocks that have reached lofty valuations thanks to what appear to be rosy projections. That's the main reason I sold my Microsoft shares. Even after the decline, the stock, at \$50, sells for 19 times projected year-ahead earnings, which seems too high for a company with only moderate growth and leaves the stock vulnerable to another spill if there's more disappointing news.

Apple and AV both trade for about 10 times estimated earnings. That, in my view, creates a margin of safety that should allow the stocks to shrug off a few quarters of subpar results. I don't know when the bull market might end, but when it does, I expect stocks selling for modest price-earnings ratios to provide some shelter from the bear market that follows. ■

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

●● THE KIPLINGER ETF 20 UPDATE

A Value ETF Joins the List

EXCHANGE-TRADED FUNDS THAT FEATURE high-flying growth stocks can fire up your portfolio. But ETFs with a value tilt can be a solid bet, too. These funds hold stocks that are cheap based on such measures as price-earnings ratios. Value stocks also tend to offer above-average dividend yields.

Historically, a strategy of focusing on the market's cheaper stocks has resulted in above-average returns. But since the bull market began in 2009, growth stocks, fueled by big tech companies such as Facebook and Alphabet, have led the way most of the time. Although some tech darlings have faltered lately, growth may still trump value, especially if the economy weakens. That's because big chunks of the value universe, such as energy and financial stocks, are closely tied to the overall health of the economy. "I would stick with growth if you think the economy is slowing," says Doug Ramsey, chief investment officer of the Leuthold Group, a research firm.

Some fund managers now see parts of the value world as too cheap to pass up. Energy and financials are so inexpensive they should serve up solid gains from here, says Conor Muldoon, comanager of the Causeway Global Value Fund. Energy stocks are likely to bounce back as oil prices continue to recover, he says. And large global banks trade at deeply depressed levels, despite having healthy balance sheets and much stronger capital positions than before the financial crisis.

If you want a traditional ETF that weights stocks by market value, go for Vanguard Value ETF (symbol VTV). Annual fees are a razor-thin 0.09%.

A fund we like a bit more is **POWER-SHARES DYNAMIC LARGE CAP VALUE ETF (PWV)**, which we're adding to the Kip ETF 20. Yielding 2.5%, the ETF tracks an en-

hanced index of undervalued stocks. Stocks in the ETF rank strongly on measures such as earnings momentum, balance-sheet strength and a history of raising dividends. The high-scoring stocks get the most weight. The result is a collection of 50 stocks that looks somewhat different from the fund's bogey, the Russell 1000 Value index. The ETF's top 10 holdings include Chevron, Oracle and Gilead Sciences, none of which crack the Rus-

sell index's top 10. PowerShares rejiggers the holdings every three months to reflect changes in scores.

Although the ETF's stock-picking methodology is a bit of a black box, it has paid off so far. The fund returned an annualized 8.0% over the past decade through April 29, beating the Russell 1000 Value index by an average of 2.3 percentage points a year. One downside: Annual fees are a relatively steep 0.57%.

To make room for the PowerShares ETF, we're removing Vanguard FTSE Developed Markets ETF (VEA). We still think the fund is a solid choice, but you can get similar exposure to foreign stocks with Vanguard Total International Stock. **DAREN FONDA**

Returns/Fees/Free Trades

KIPLINGER ETF 20: VITAL STATISTICS

Fund	Symbol	Recent price	Annualized total returns			Yield	Exp. ratio	Commission-free trades
			1yr.	3 yrs.	5 yrs.			
CORE STOCK MARKET FUNDS								
iShares Core S&P 500	IVV	\$209	0.9%	11.5%	11.2%	2.1%	0.07%	F, FT, TD
iShares Core S&P Mid-Cap	IJH	147	-1.0	10.2	9.4	1.6	0.12	F, FT, TD
iShares Core S&P Small-Cap	IJR	115	0.5	11.5	10.4	1.4	0.12	F, TD
PowerShrs Dynamic Lg Cap Val	PWV	30	-2.2	8.3	10.5	2.5	0.57	
Vanguard FTSE Emerg Mkts	VWO	35	-18.7	-4.6	-4.7	NA	0.15	FT, TD, V
Vanguard Total Intl Stock	VXUS	46	-10.8	0.6	0.1	NA	0.13	V
Vanguard Total Stock Market	VTI	106	-0.4	11.0	10.7	2.0	0.05	TD, V
DIVIDEND STOCK FUNDS								
iShares US Preferred Stock	PFF	\$39	3.8%	4.8%	5.8%	5.6%	0.47%	F
Schwab US Dividend Equity	SCHD	40	3.6	10.1	—	3.1	0.07	S
Vanguard High Dividend Yield	VYM	70	3.4	10.9	12.1	3.2	0.09	TD, V
WisdomTree Intl LgCap Div	DOL	44	-11.8	0.6	0.9	3.0	0.48	E
CORE BOND FUND								
iShares iBonds Mar 2020 Corp	IBDC	\$105	1.4%	—	—	2.0%	0.11%	
OPPORTUNISTIC STOCK FUNDS								
Financial Select Sector SPDR	XLF	\$24	-1.3%	10.0%	9.5%	1.9%	0.14%	
Guggen S&P 500 Eq Wt Health	RYH	149	-2.9	18.3	16.2	NA	0.40	S
Vanguard Information Tech	VGIT	105	-2.2	14.0	11.1	1.4	0.10	V
WisdomTree Euro Hedged Eq	HEDJ	53	-11.7	7.0	6.1	1.4	0.58	E
OPPORTUNISTIC BOND FUNDS								
iShares J.P. Morgan USD EM Bd	EMB	\$111	3.1%	1.5%	5.3%	4.9%	0.40%	F
Pimco Total Return Active	BOND	106	1.2	2.0	—	2.8	0.55	
PowerShares Senior Loan Port	BKLN	23	-0.6	1.2	2.6	6.2	0.65	S
Market Vectors Fallen Angel HY	ANGL	27	3.1	4.6	—	6.0	0.40	
INDEXES								
S&P 500-STOCK INDEX (large U.S. stocks)			1.2%	11.3%	11.0%	2.2%		
MSCI EAFE INDEX (foreign stocks)			-8.9%	1.9%	2.2%	3.4%		
BARCLAYS US AGGREGATE BOND INDEX			2.7%	2.3%	3.6%	2.2%		

Key: E=E*Trade F=Fidelity FT=Firsttrade S=Schwab TD=TD Ameritrade V=Vanguard

Through April 29. NA Not available. —Fund not in existence for the entire period. SOURCES: Barclays, Morningstar, MSCI.

●● THE KIPLINGER 25 UPDATE

A Less Volatile Way to Invest in Asia

WHAT'S NOT IN A MUTUAL fund's portfolio can matter almost as much as what is. **MATTHEWS ASIAN GROWTH AND INCOME**, for example, hasn't owned Indian stocks lately and has been light on Chinese firms. Those were good moves: Most Asian markets posted double-digit declines over the past 12 months, and China and India were among the region's worst performers. So although Matthews lost money over the period, it outpaced 95% of funds that focus on Asian stocks.

Despite making what look like market calls on two of Asia's biggest emerging nations, managers Robert Horrocks and Kenneth Lowe insist that they build their portfolio one company at a time. They continue to shun India (even after visiting the country recently to check out potential investments) because they say stocks there are too pricey. And they worry that China's transition from an economy built in part around exports and infrastructure spending to an economy driven by

consumers could lead to market instability.

Horrocks, who has been manager since 2009, and Lowe, who became co-manager in 2011, can invest in companies of any size based anywhere in Asia. At last word, they had 7% of the fund's assets in Japanese stocks; shares in Japan Tobacco, the fund's fifth-biggest holding at last word, climbed 10.4% over the past 12 months. Food and consumer stocks in other countries also buoyed performance. Vietnam Dairy Products soared 64%, and SkyCity Entertainment, a New Zealand casino and hotel company, rose 21.5%.

Matthews aims to provide a relatively stable way to participate in Asia's growth. The managers favor high-quality firms that trade at value prices. To further

reduce volatility, they invest in dividend-paying common stocks, preferred stocks and convertible bonds. "We want to build wealth in a way that will protect capital and mitigate volatility," says Lowe. Over the past five years, Matthews bested the typical Asia stock fund by an average of 3.1 percentage points per year.

Clarification. Several readers have asked us why we added a fund that is closed to new investors to the Kiplinger 25. The fund in question, **VANGUARD WELLINGTON**, is not closed. But you must buy shares the old-fashioned way: directly from Vanguard. You cannot buy Wellington through your broker. **NELLIE S. HUANG**

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

U.S. Stock Funds	Symbol	Annualized total return				Added to Kip 25
		1yr.	3 yrs.	5 yrs.	10 yrs.	
Akre Focus	AKREX	1.6%	12.1%	14.7%	—	Dec. 2009
American Century Eqty Inc Inv	TWEIX	7.3	9.5	9.6	7.0%	May 2016
Dodge & Cox Stock	DODGX	-5.4	9.5	9.8	5.0	May 2008
Fidelity New Millennium	FMILX	-3.8	9.3	9.4	7.2	May 2014
Homestead Small Co Stock	HSCSX	-4.8	9.7	8.7	8.5	May 2012
Mairs & Power Growth	MPGFX	5.4	11.4	11.9	7.9	Jan. 2013
Parnassus Mid Cap	PARMX	1.1	10.4	9.4	8.5	Aug. 2014
T. Rowe Price Blue Chip Growth	TRBCX	-2.1	14.2	12.5	8.4	May 2016
T. Rowe Price QM US Sm-Cp Gro	PRDSX	-6.4	11.3	9.5	8.3	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	-1.2	6.5	7.2	5.9	May 2009
T. Rowe Price Value	TRVLX	-3.8	10.2	10.4	6.8	May 2015
Vanguard Dividend Growth	VDIGX	4.1	11.0	11.6	8.6	May 2010
International Stock Funds	Symbol	Annualized total return				Added to Kip 25
Fidelity International Growth	FIGFX	-6.2%	3.7%	4.1%	—	Feb. 2016
FMI International	FMIJX	-4.1	7.2	8.8	—	April 2015
Harding Loevner Emrg Mkts	HLEMX	-13.4	-1.7	-1.1	3.1%	May 2013
Matthews Asian Gro & Inc	MACSX	-8.7	-1.2	2.6	6.0	Aug. 2013

Specialized/Go-Anywhere Funds	Symbol	Annualized total return				Added to Kip 25
Vanguard Health Care	VGHCX	-4.6%	17.9%	17.1%	11.4%	May 2016
Vanguard Wellington [‡]	VWELX	0.8	7.5	8.2	7.1	May 2016
Bond Funds	Symbol	Annualized total return				Added to Kip 25
DoubleLine Total Return N	DLTNX	2.5%	2.6%	4.9%	—	May 2011
Fidelity Intermed Muni	FLTMX	3.6	2.6	4.0	4.2%	May 2004
Fidelity New Markets Income	FNMIX	3.1	1.7	5.9	7.4	May 2012
Met West Total Return Bond M	MWTRX	1.7	2.2	4.5	6.4	May 2016
Pimco Income D	PONDY	2.4	4.0	7.6	—	May 2016
Vanguard High-Yield Corporate	VVHEX	0.5	3.1	5.7	6.3	May 2016
Vanguard Sh-Tm Inv-Grade	VFSTX	2.0	1.8	2.2	3.6	May 2010
Indexes		Annualized total return				
		1yr.	3 yrs.	5 yrs.	10 yrs.	
S&P 500-STOCK INDEX		1.2%	11.3%	11.0%	6.9%	
RUSSELL 2000 INDEX*		-5.9	7.5	7.0	5.4	
MSCI EAFE INDEX†		-8.9	1.9	2.2	2.1	
MSCI EMERGING MARKETS INDEX		-17.6	-4.2	-4.3	2.7	
BARCLAYS AGGREGATE BOND INDEX#		2.7	2.3	3.6	5.0	

Through April 29. [‡]Open to new investors if purchased directly through Vanguard. ^{*}Small-company U.S. stocks. [†]Foreign stocks. [#]High-grade U.S. bonds. SOURCE: © 2016 Morningstar Inc.

How Target Funds Reach a Final Mix

Firms have varying timetables for moving clients' assets into retirement-income funds.

WHEN YOU SELECT A TARGET-DATE RETIREMENT

fund, you first find one with a name that contains the year closest to the year you plan to retire. The fund will invest your money in a mix of stocks and bonds that becomes more conservative as the target year nears. Eventually, your money is rolled into a retirement-income fund, which holds the final asset mix.

But fund families differ in when they move your money to the income fund. At American Century, assets are moved into the **ONE CHOICE IN RETIREMENT PORTFOLIO** the year the fund hits its target date, a day that portfolio manager Rich Weiss calls "the riskiest in an investor's life." The American Century income fund holds 45% of its assets in stocks, compared with 31% for its average peer. The relatively high stock allotment explains One Choice's category-leading five-year return.

By contrast, Vanguard and Fidelity customers remain in their target-date funds for years after reaching the target date. At Vanguard, clients shift to **TARGET RETIREMENT INCOME** seven years after the target date. Fidelity waits 15 to 20 years before moving its customers to Freedom Index Income, which invests in index funds, or Fidelity Freedom Income, which holds actively managed funds. The Fidelity and Vanguard funds are more conservative than the American Century fund. Vanguard Income holds just 30% of its assets in stocks, and each of the two Fidelity funds holds 24% in stocks. **RYAN ERMEY**

RETIREMENT INCOME FUNDS Ranked by five-year returns

Rank/Name	Symbol	Annualized total return through April 29			Max. sales charge	Exp. ratio	Toll-free number
		1 yr.	3 yrs.	5 yrs.			
1. Am Cent One Choice in Retirement Inv [@]	ARTOX	-0.8%	4.0%	5.1%	none	0.79%	800-345-2021
2. TIAA-CREF Lifecycle Retire Inc Retail [@]	TLRRX	-0.6	3.8	4.9	none	0.61	877-518-9161
3. Vanguard Target Retirement Income Inv	VTINX	0.4	3.4	4.6	none	0.14	800-635-1511
4. BMO In-Retirement Y [@]	BTRYX	-1.8	3.2	4.4	none	0.85	800-236-3863
5. JPMorgan SmartRetirement Income A [@]	JSRAX	-1.3	3.0	3.9	4.50%	0.76	800-480-4111
6. MFS Lifetime Income A [@]	MLLAX	0.6	2.7	3.9	5.75	0.84	800-225-2606
7. BlackRock LifePath Retirement Inv A [@]	LPRAX	-1.2	2.7	3.8	5.25	0.92	800-441-7762
8. Harbor Target Retirement Income Inv [@]	HARCX	-1.0	1.8	3.6	none	0.99	800-422-1050
9. Principal LifeTime Strategic Inc A [@]	PALT ^x	-1.0	2.3	3.6	3.75	0.96	800-222-5852
10. USAA Target Retirement Income	URINX	-1.0	2.3	2.6	none	0.71	800-531-8722
CATEGORY AVERAGE		-0.9%	2.3%	3.3%			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets [†] (billions)	Annualized total return through April 29			Max. sales charge	Toll-free number
			1 yr.	3 yrs.	5 yrs.		
1. Vanguard Total Stock Market Idx Inv [@]	VTSMX	\$363.4	-0.4%	10.6%	10.4%	none	800-635-1511
2. Vanguard Total Intl Stock Idx Inv [@]	VGTSX	198.9	-10.7	0.3	0.0	none	800-635-1511
3. Vanguard 500 Index Inv [@]	VF ^{INX}	184.9	1.1	11.1	10.9	none	800-635-1511
4. American Growth Fund of America A [@]	AGTHX	140.5	-0.6	11.4	10.1	5.75%	800-421-0180
5. American EuroPacific Growth A [@]	AEPGX	123.1	-9.9	2.6	1.7	5.75	800-421-0180
6. Fidelity Contrafund [@]	FCNTX	106.5	1.8	11.6	10.7	none	800-343-3548
7. American Capital Income Builder A [@]	CAIBX	99.2	-1.6	4.4	6.0	5.75	800-421-0180
8. American Income Fund of America A [@]	AMECX	97.1	-0.1	6.1	7.5	5.75	800-421-0180
9. Fidelity Spartan 500 Index Inv [@]	FUSEX	94.5	1.1	11.2	10.9	none	800-343-3548
10. American Balanced A [@]	ABALX	90.4	2.9	8.3	9.0	5.75	800-421-0180
11. Vanguard Wellington [@]	VWELX	89.2	1.5	7.5	8.2	none	800-635-1511
12. American Capital World Gro & Inc A [@]	CWGIX	82.2	-5.2	5.4	5.4	5.75	800-421-0180
13. American Washington Mutual A [@]	AWSHX	78.4	1.6	10.1	10.6	5.75	800-421-0180
14. Franklin Income A [@]	FKINX	77.7	-6.1	2.3	4.6	4.25	800-632-2301
15. American Invstmt Co of America A [@]	AIVSX	75.1	1.1	11.0	10.3	5.75	800-421-0180
16. American Fundamental Inv A [@]	ANCFX	74.3	1.7	10.7	9.6	5.75	800-421-0180
17. American New Perspective A [@]	ANWPX	58.7	-3.2	7.6	7.0	5.75	800-421-0180
18. Dodge & Cox International Stock ^{**}	DODFX	55.2	-17.9	1.2	0.9	none	800-621-3979
19. Dodge & Cox Stock	DODGX	54.6	-4.8	9.6	9.8	none	800-621-3979
20. Vanguard Mid Cap Index Inv [@]	VIMSX	54.0	-3.5	10.2	9.4	none	800-635-1511
S&P 500 STOCK INDEX			1.2%	11.3%	11.0%		
MSCI EAFE INDEX			-8.9%	1.9%	2.2%		

[@]Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. [†]For all share classes combined. ^{*}Open to new investors if purchased directly through Vanguard. ^{**}Closed to new investors. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

●● Kiplinger.com

RETURNS FOR THOUSANDS OF FUNDS ONLINE

Use our Mutual Fund Finder to get the latest data and see the top performers over one-, three- and five-year periods. Research a specific fund, or compare multiple funds based on style, performance and cost. And view details including volatility rank and turnover rate. To use this tool, go to kiplinger.com/tools/fundfinder.

EXPLANATION OF TERMS

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

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

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



LIVING

■ MANDANA YOUSEFI HAS WRITTEN MORE THAN 320 REVIEWS ON YELP, EARNING INVITATIONS TO PARTIES YELP SPONSORS WITH LOCAL BUSINESSES.





CAN YOU

You can learn a lot by studying the star ratings.
Just don't believe everything you read.

BY DAREN FONDA

TRUST

ONLINE REVIEWS?

PHOTOGRAPH BY POON WATCHARA-AMPHAIWAN

FOR MANDANA YOUSEFI, THE ROAD TO BECOMING AN ONLINE CRITIC started with chicken fried rice. Yousefi had ordered takeout from a Chinese restaurant in Washington, D.C., and was about to dig in when she noticed four long strands of hair in her food. She called to complain and demand a refund, but the restaurant insisted that she order something else—and tried to charge her \$1 more for the food she selected. As a “creepy side note,” Yousefi says, she was asked to return the fried rice.

Outraged, she headed to review site Yelp.com and slapped the place with one star out of five. “They had gotten away with being bad, and I wanted to give other people a heads-up,” says Yousefi, 29, an analyst for the U.S. Department of Agriculture. Since then, she has written more than 320 reviews on Yelp, covering everything from a local jewelry store (“I adore this business”) to a nightclub in Santa Rosa, Calif. (“rudest door staff and incredibly grimy crowd”).

Before a Purchase



Overall, **54%** of Internet shoppers don't pull out their wallets without first checking consumer reviews.

Whether you're looking for a place to eat or a handyman to fix a faucet, the business has probably been picked apart by a citizen critic like Yousefi. That promise of honest, trustworthy opinions, democratized by the Web, is what lures millions of visitors to Yelp, as well as sites such as Amazon, Angie's List and TripAdvisor. Yet with ratings now popping up just about everywhere online, you might wonder how much faith you should place in the wisdom of the masses.

Although ratings can be helpful, they are sometimes manipulated to make businesses look better. Plus, all sorts of biases (both human and statistical) can creep into online rankings.

●● INSIDE THE RATINGS GAME

No one cares much about ratings for a \$3 tube of toothpaste. But consumers pay a lot of attention to reviews when it comes to home services, restaurants, hotels and pricey items such as flat-screen TVs and cars. Overall, 54% of Internet shoppers don't pull out their wallets without first checking consumer reviews, reports Bazaarvoice, a digital marketing firm.

Because ratings are so influential, however, businesses have incentives to inflate their scores. Companies may pepper sites with positive reviews, for instance. They may try to get negative reviews removed, or they may try to bury them so they don't appear on the site's first page of comments (which is all many people check). And companies can post negative reviews about competitors.

Sites with lenient review policies seem susceptible to shenanigans. TripAdvisor, for example, allows people to write reviews without proving that they are legitimate paying customers. Expedia, by contrast, allows reviews only by users who booked travel through the site (see the box on page 66). A 2014 *American Economic Review* study found that TripAdvisor included more negative reviews of hotels that had a competitor next door, indicating that hotel owners are more likely to bad-mouth the competition.

Entire businesses have sprung up to help companies scrub their online blemishes. “We dispute bad reviews on behalf of our clients,” says Curtis Boyd, head of one such firm, Future Solutions. If a customer leaves a negative comment that a business wants removed, Boyd may try to get it scrapped for violating a site's content guidelines, which tend to have some wiggle room. Other strategies include “reasoning” with a customer to remove or upgrade a review, possibly in return for a refund or complimentary service. If all else fails, a company can threaten to sue, claiming a review is defamatory (though it's a tough case to win unless the write-up is blatantly false).

Before a Trip



43% of travelers read reviews from other travelers.

Review sites, for their part, try to dislodge phony write-ups, which they see as a threat to their credibility (and Web traffic). Yelp deploys algorithms to sift through reviews, filtering write-ups that look overtly promotional, mention a rival business or exhibit other red flags. About 22% of all reviews don't pass the filters, relegating them to secondary pages.

Angie's List, a subscription-based review site, goes much further than others, requiring commentators to provide their real names and affirm that their feedback reflects firsthand experiences. The firm also puts itself through an external audit each year to make sure that advertisers aren't receiving preferential treatment on the site or that ratings aren't being manipulated.

Amazon, which has been dogged by complaints of promotional reviews, is also trying to crack down on fakes. The company has filed lawsuits against sites that offer sellers a way to buy four- and five-star reviews. It's also suing more than 1,000 people who allegedly wrote reviews for payments of as little as \$5.

●● ARE THE REVIEWS REAL?

Still, what's fake and what's real isn't always clear. In 2012, Britain's Advertising Standards Authority rebuked TripAdvisor for misleading consumers into believing that *all* of its reviews were genuine. The ASA told TripAdvisor to stop implying that its reviews

were written by “real travelers, or were honest, real or trusted.” (Trip-Advisor agreed to stop making such claims on its British site.)

Legally, a consumer review in return for cash or a freebie is considered a paid endorsement, according to the Federal Trade Commission, which requires such disclosures. Yet many companies still provide free or deeply discounted products, such as kitchenware and cosmetics, in return for an “honest” review. Sites such as Honest few.com broker these types of deals. Moreover, “trusted reviewers” in Amazon’s Vine program can rack up free products in exchange for online feedback. (Amazon labels them as Vine reviews and says they have lower star ratings than other reviews.)

None of this is illegal. But “the law is at best an awkward fit” for such programs, says Eric Robinson, codirector of the Press Law and Democracy Project at Louisiana State University. Indeed, under federal law, sites aren’t liable for blog posts or other claims made by users, giving sites a legal shield against shady review practices.

Furthermore, many sites’ policing software scans primarily for fakes or comments that violate their content guidelines. That leaves room for reviews that may be influenced by a sweetheart deal on a product. If you see reviews of the same product on different sites, you’re not necessarily viewing a wider range of opinions,

either. The reviews may be duplicates spread by syndication firms, such as Bazaarvoice, which rounds up consumer comments and sprinkles them around the Web.

On Yelp, a small but vibrant community of consumers who are highly active on the site contribute an outsize number of reviews. Yelp’s “elite squad” writes about half of its restaurant reviews, according to a study by Michael Luca, an assistant professor at Harvard Business School. Although Yelp has amassed more than 100 million reviews, its most influential and “recommended” write-ups are those by elites—on whom Yelp bestows special status, treating them like VIPs.

Being an elite Yelper is like joining an exclusive, invitation-only club. Elites can attend what Yelp calls its “epic parties,” which the firm sponsors with local businesses such as breweries and restaurants. In some cases, elites have received tickets to Broadway-style shows, courtesy of Yelp. “We don’t get financial compensation, but it’s a great perk,” says Eric Rosenberg, 31, an elite Yelper from Portland, Ore., who scored orchestra seats to musicals such as *Catch Me If You Can* and *Jekyll & Hyde*.

Elites often rave about Yelp events online and then go back to review the businesses that put them on. Free food and drink may build up positive vibes and prime reviewers to view the providers more favorably when they return and pay out of their own pocket. But for their part, elites generally deny that the parties and freebies influence their opinions. “Businesses can’t suck up to us,” says Yousefi, who is now an elite Yelper and has attended events at, among other places, an organic nail salon, an artisanal pizza place and a Cuban restaurant. “We’re critical people, and you can’t buy our reviews.”

Mike Maslanka, 59, an elite critic in Houston, agrees. After he attended an event for the opening of a Smash-burger restaurant, he went back a week later on his own dime, giving it a thumbs-up. “I wrote a good review

✦ Critical Reviews

Questions About Yelp

YELP HAS LONG BEEN ACCUSED OF

acting like the Tony Soprano of online reviews. Companies claim that Yelp favors advertisers by emphasizing their search results and reviews. Some businesses say Yelp has tried to persuade them to buy ads by offering to make negative reviews disappear—or tried to strong-arm them by threatening to delete positive comments. A few companies banded together in 2010 to sue the firm over such practices. And some Yelp shareholders have sued, too, claiming the company inflated its revenues by coercing businesses to advertise. More than 2,000 complaints about Yelp have also piled up at the Federal Trade Commission, which has scrutinized Yelp’s ad-sales tactics and “recommendation” software, used to highlight reviews deemed the most useful to consumers.

So far, Yelp has batted down all these claims. A federal judge dismissed the shareholder lawsuit last year, finding scant signs of “allegedly extortionate practices.” Judges also tossed the local-business lawsuit in 2014, writing that Yelp’s threats of “economic harm” were, “at most, hard bargaining.” The FTC decided last year to close its inquiry without taking any action. For its part, Yelp says it takes “many steps to prevent gaming of our system and to protect consumers and business owners alike.”

Yelp’s successes haven’t stymied its critics, though. On sites such as Yelp-sucks.com, business owners and consumers continue to rant about the firm. An upcoming documentary, *Billion Dollar Bully*, takes aim at Yelp’s tactics. On TV, Yelp’s hefty influence in the ratings world has made it the target of biting satire. On an episode of the animated series *South Park* last year, elite (and insufferable) Yelpers try to extract special treatment from restaurants, which exact some unsavory revenge.

After a Trip



46% of travelers post hotel reviews.

40% post restaurant reviews.



On Yelp



44% of all ratings are five-star.

24% are four-star.



11% are three-star.

because I liked it,” he says. “It had nothing to do with the fact that the restaurant comped me the week before.”

●● HOW RATINGS GET DISTORTED

Yet even if most people post comments that reflect their experiences, biases inevitably slip in. Many studies have found that online ratings tend to cluster on the positive side. On Amazon and other sites, ratings clump in the upper tiers, according to studies by Paul Pavlou, a data sciences professor at Temple University’s Fox School of Business, and other researchers. That’s also true of Yelp (see the graphic above).

A likely explanation is that reviewers tend to visit places they’re predisposed to enjoy and then write favorably about them. Plus, praise for a business or product can be self-reinforcing. Positive reviews hold considerable sway in influencing opinions, according to research by Lev Muchnik, a senior lecturer at the Hebrew University of Jerusalem’s School of Business Administration, and MIT professor Sinan Aral. Negative comments don’t have as much impact in dragging down consumers’ views. And a few, well-placed positive reviews can influence the opinions of subsequent critics, creating misplaced trust, says Aral.

Another issue is that you’re seeing the ratings of a small number of people with strong opinions. If you don’t care about a product, you probably won’t write a review. But you may be inclined to review something you *really* love or hate. Due to humans’ natural

“herd” instincts, positive reviews tend to be more pervasive, contributing to ratings bubbles, says Pavlou.

Finally, there’s the impact of social media. Bombarded with information online, we tend to rely on social media cues—such as article “shares” or “likes”—to form our own judgments, says Muchnik. These signals can trigger herding around a product, and people often amplify the effect by contributing their own likes and shares. What’s more, sites such as Facebook and Twitter use algorithms that interpret social signals and our own online behavior to curate the information that reaches us. It then becomes harder to determine if we’re evaluating a product based on our independent thinking or on signals bopping around in our social media bubble.

●● WHEN TO LOOK AT THE STARS

Ultimately, experts say reviews and ratings are useful. If you’re shopping for a costly product, seeing what other

people say can help you make a more informed decision. Tips from other consumers about a hotel or restaurant can be invaluable if you’re on the road. Ratings are also critical if you use “sharing economy” businesses, such as Airbnb and Uber, which feature testimonials from other travelers. Whatever the product, home in on things that matter to you (say, bang for the buck). And don’t gloss over negative comments, which can be more insightful than heaps of praise.

Sure, biases are inevitable. And professional critics aren’t immune to influence, either—they, too, are showered with freebies, from swag at tech conferences and Hollywood junkets to lavish meals and trips. At least with online reviews, you can see the gamut of opinions. And if you’re persistent and click through many comments, you’ll find a diverse array of views. In the end, says Muchnik, “ratings *do* represent the underlying quality of a product.” ■

✦ KipTip

Rating the Review Sites

Some sites go to great lengths to verify the authenticity of reviews. Others, not so much.

★★★★★ **Angie’s List** Anonymous reviews aren’t allowed on this site, which has stiff verification policies. Critics must submit their name, address, phone number and e-mail with a review, and they must sign a form affirming that their comments reflect firsthand experience.

★★★★★ **Expedia** Only travelers who booked a room through the site can post a review of that hotel. Expedia says it takes “multiple steps” to verify that its write-ups are only from paying guests.

★★★★★ **Amazon** Anyone who has used an Amazon account to buy something can submit a review of any item without proving he or she bought it. To help crack down on fake reviews, Amazon slaps a Verified Purchase badge on write-ups by people who actually bought the product (instead of receiving it as a freebie or at a deep discount).

★★★★★ **Yelp** Filters try to weed out phony reviews, but anyone can leave a comment about a business without proving that he or she is a paying customer.

★ **TripAdvisor** The travel site’s open-door policy allows anyone to post a hotel review without a proof of stay. “We do not fact-check reviews,” the site says. Limiting comments to verified customers, it adds, would mean that travelers might “miss out on a wealth of other useful feedback.”



■ YOUR SMARTPHONE CAN SNIFF OUT LOST ITEMS TAGGED WITH TRACKR'S BLUETOOTH DISC.

TECH»

Never Lose Your Keys

New devices and apps let you track down misplaced items before the trail goes cold. **BY KAITLIN PITSKER**

NO MATTER HOW ORGANIZED you are, there are days you'd lose your head if it weren't attached. But a growing number of helpful devices can save you the trouble of retracing your steps to locate your misplaced keys or wallet. And unlike friends and family who aid in the search, these solutions won't laugh if the keys were in your pocket all along.

Tag, you're it. To pin down items that seem to wander away, including keys, glasses, a purse, and even a laptop or tablet, you can tag them with a Bluetooth tracker, such as Tile (\$25 per tag) or TrackR Bravo (\$30 per tag), that pairs with a smartphone app—assuming you

can find your phone (read on for more information on that). Tile's 1.5-inch plastic square and TrackR's 1.2-inch round plastic disc can easily attach to or slip inside items that you want to track.

When a tagged item proves elusive, launch the app on your phone to see how far you are from the item or its last known location on a map. If you're within 100 feet, you can make the tracking device ring so you can follow the sound. If you lose your phone, both Tile and TrackR work in reverse, allowing you to press a button on the device to make your phone ring—as long as your phone is nearby. To help you avoid leaving items

behind, TrackR can be set to sound an alarm when there's too much distance between your phone and the device.

Both devices' batteries last about a year. TrackR's watch battery is available online and at most grocery and hardware stores for about \$3. Tile's battery cannot be swapped out; you have to buy a new tile for \$12 through the company's replacement program.

For objects that may stray hundreds or even thousands of miles, such as luggage, you might want a more robust tracking device to slip into your bag. TrakDot (\$80, including unlimited tracking for one year) and LugLoc (\$70, plus \$7 per year for

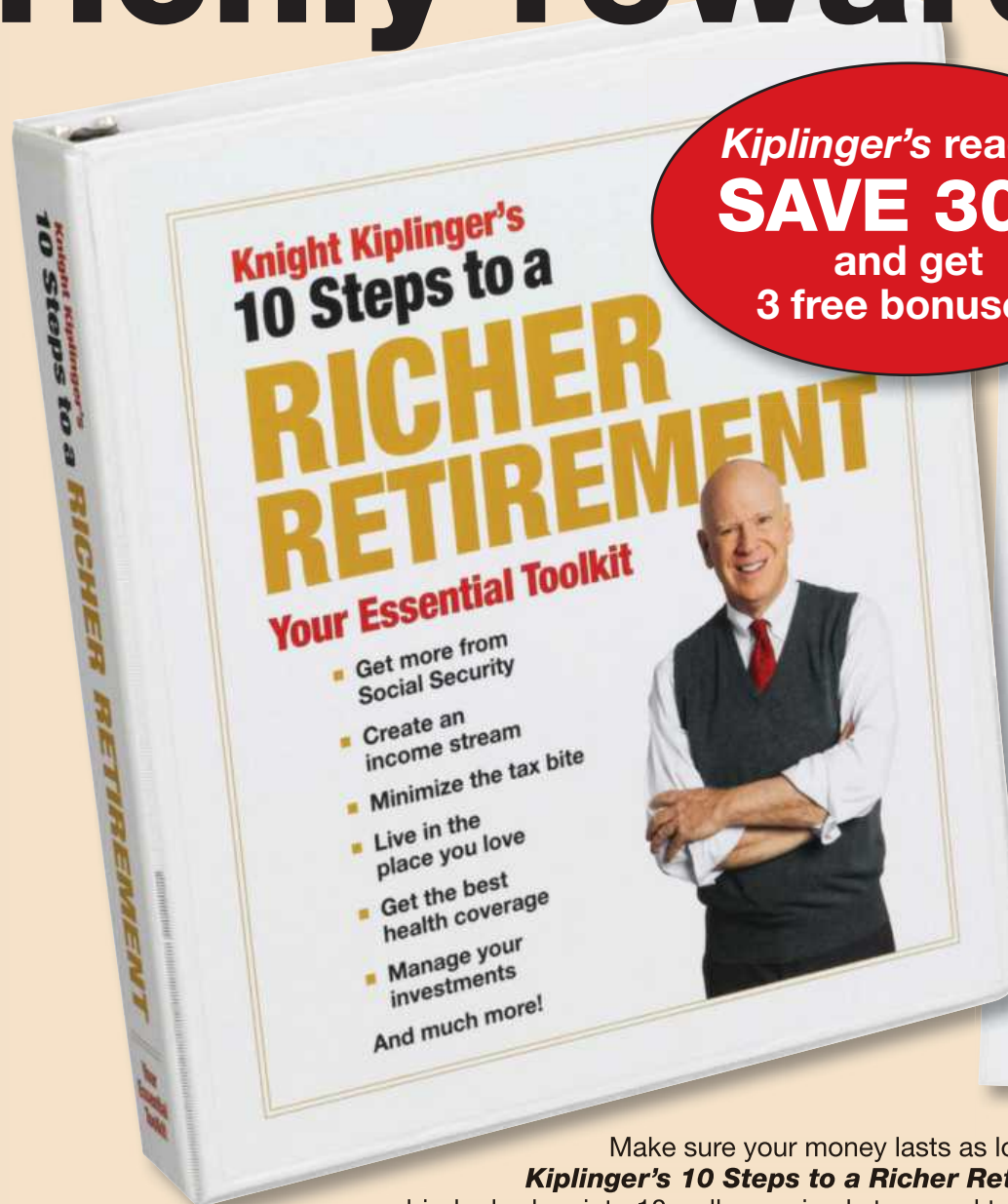
five traces) are both palm-size tracking devices that use cellular technology, rather than GPS (GPS may not work well in airport terminals and baggage loading areas). But if your luggage gets stranded in an electronic dead zone, you will have to rely on lower-tech methods to find it. So don't forget to label your bags with your name and contact information, and double-check to be sure the check-in agent tags your bags with the correct information for your final destination.

Find your phone. You don't need a tracking device to keep tabs on your smartphone. If you enabled location access services on your phone, you can sign in to your phone's account from any Web browser to pinpoint the phone's location. (Apple users who have the Find My iPhone app on the missing device can sign into their account at www.icloud.com; Android users can go to www.android.com/devicemanager; and Windows users can visit <http://account.microsoft.com/devices>.)

You can make your phone ring loudly (even if it's set to silent) and, if it's within earshot, you can follow the sound to its hiding place. If it is farther away and it's still on, you'll be able to see where it is on a map. Apple users can set a message that will appear on the lock screen with instructions on how to contact you. If you suspect the phone is stolen or could fall into the wrong hands, you can erase your data remotely. ■

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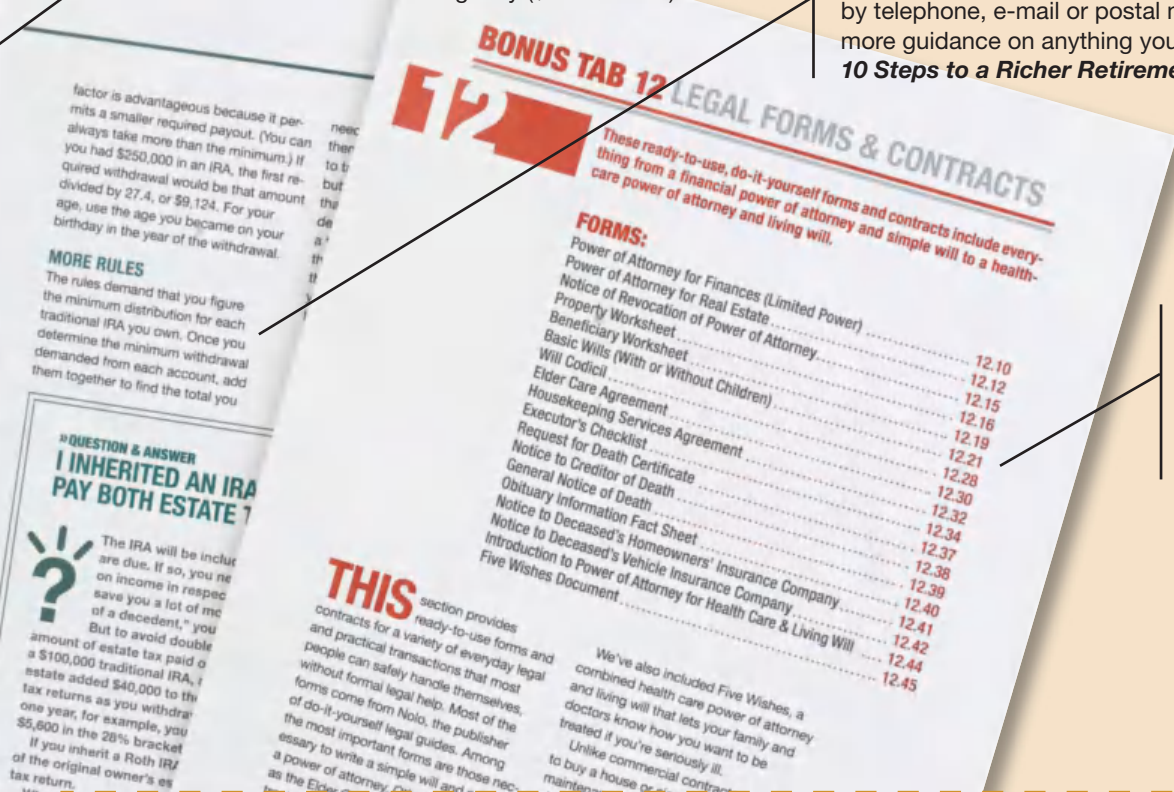
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Best Bets for Booking Online

Should you use an online travel agency or book direct? Each has its merits.

IT'S HARD TO BEAT THE

convenience of online travel agencies, such as Expedia and Priceline, when shopping for the cheapest airfare or choosing a hotel. OTAs not only aggregate flights, accommodations, rental cars and vacation packages but also let you compare options by price, user rating and other criteria. Sometimes they offer discounts and attractive package deals, too. But it doesn't always make sense to book with an OTA.

When direct is better. For domestic travel, prices are similar when you book directly or through a third-party site, says Douglas Quinby, vice president of research at Phocuswright, a travel-industry research firm. But going to the source has benefits: It's easier to compare fare options and bundled fees on an airline's website, for example. Plus, third-party sites are not currently bound by the federal rule requiring U.S. airlines to give travelers 24 hours to hold or cancel a ticket. Many sites mention a similar window for canceling, but the policies are not always spelled out.

Hotel chains such as Hilton, Hyatt and Marriott offer small discounts to their loyalty members for reserving directly, and you usually



have to book directly to earn rewards points. Plus, "there is a good amount of anecdotal evidence that hotels treat people better when they book directly," says Pauline Frommer, editorial director of travel publisher Frommer's.

Travel forums and consumer review sites detail a slew of instances in which OTAs bungle customer service when things go wrong. Plus, changing or canceling your flight or itinerary can cost extra, and some smaller sites charge a service fee for booking. For example,

Priceline adds \$30 on top of the airline's change fee if you need to modify your itinerary; CheapOair, Vayama and others slap on \$100 or more. If you need to cancel a nonrefundable fare, credit may or may not be available through the airline. Southwest, Allegiant and many international budget airlines aren't searchable on OTAs, so you need to look up their fares separately.

To cover your bases, use a meta-search engine, such as Kayak, to compare OTA rates with prices from the airlines, hotels and car

rental companies, then weigh how much the savings mean to you.

When OTAs get the nod.

If you're planning an international trip, an online travel agency is a good way to simplify the booking process and find low rates. "The hotel market is more fragmented, and airfares are more competitive, so you will see a lot more variation in price," says Quinby. OTAs often cobble together complex itineraries using multiple airlines in a way that would be difficult—and time-consuming—to replicate yourself.

If you're not loyal to a certain brand, you may benefit from an OTA's rewards program, such as the Hotels.com "free night" reward after you stay at eligible properties for 10 nights. You can also find good value using an OTA to bundle flights with hotels or cars, especially for popular destinations. Before you decide to buy, price each component separately to be sure you're getting a good deal, and check for inflexible cancellation and change policies, such as nonrefundable rates. For an expensive, special vacation, you may feel more comfortable piecing the trip together yourself—or letting a traditional travel agent plan it. **MIRIAM CROSS**

What You Need to Know About Home Cooling Bills

Some simple steps can help you hold down the cost of beating the heat. **BY MIRIAM CROSS**

1. Costs remain high. Despite lower overall fuel costs, the U.S. Energy Information Administration forecasts that the average residential electricity bill this summer will be \$400 or more. Air-conditioning is the biggest culprit. Take some of the load off your AC with light-filtering window treatments, and replace incandescent lightbulbs with cool LEDs (about \$12 to \$20 for a six-pack). Using a ceiling fan instead of, or along with, your air conditioner can keep you comfortable while allowing you to raise the thermostat. Just turn the fan off when you leave the room. Fans are designed to cool people, not spaces.

2. Care for your compressor. Dirt and debris can plug up your unit. Check for a buildup of grass or leaves, and change indoor fan filters in the spring and again in midsummer, says John Jones, national technical director at the Building Performance Institute. And instead of waiting until your AC fails in

100-degree weather, call in a professional to service your unit. At minimum, a technician should check refrigerant levels and inspect and clean all components. Go to www.acca.org/homes for advice on finding a reputable contractor.

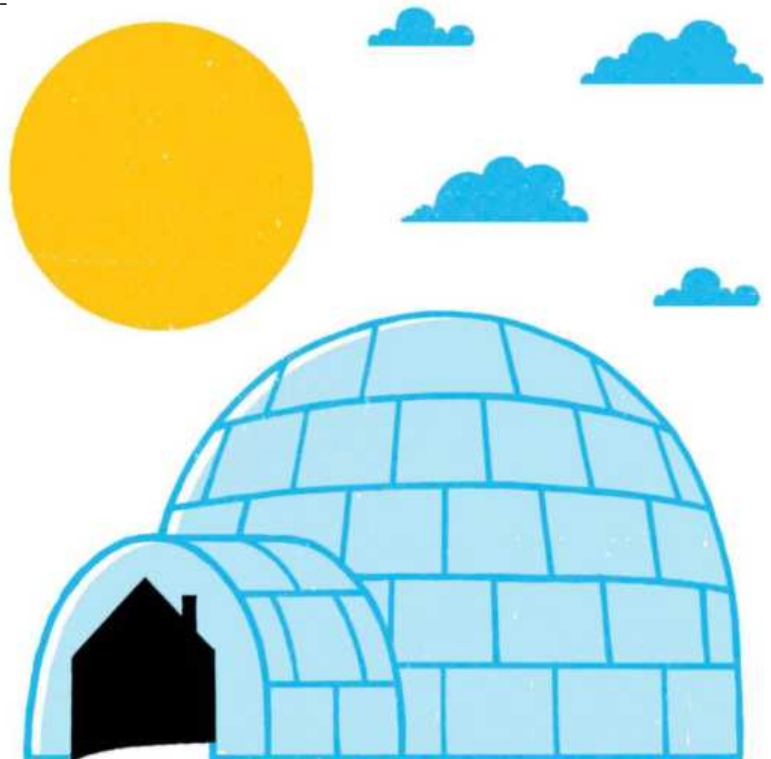
3. Turn up the temp. “By maintaining the highest comfortable setting, people can save up to 30% of their summer cooling costs,” says Tim Pettit, spokesman for Duke Energy, which provides gas and electricity in the Southeast and Midwest. Try to ease into a comfort range of 76 to 78 degrees F. A programmable thermostat (\$35 to \$50; smart thermostats, such as Nest, run about \$200), which can turn on your AC before you come home and turn up the thermostat overnight, can save you up to 10% on heating and cooling costs a year, according to the Department of Energy.

4. Get a thank-you from your local utility. See if your electric company offers a summer pricing plan. For example, Pepco, which provides power in the Mid Atlantic region, offers participants in its peak-demand program \$40 to \$80 in bill credits, prorated over the five months of the cooling season, for allowing it to cycle their AC on and off. Or you may earn a rebate for an energy-efficient upgrade to your home, such as tuning up your heating and cooling.

5. Apply for a tax break. If your air conditioner has reached the end of its life (typically about 15 years), you may qualify for a federal tax credit of up to \$300 in 2016 for replacing it with an Energy Star-rated unit that meets certain criteria. For

more information, go to www.energystar.gov.

6. If all else fails... Still not seeing a significant difference in your bill? Consider calling in a home energy auditor (\$200 to \$1,000, depending on where you live and the size of your house). You may, for example, need to seal ducts in your attic or crawl spaces, or your insulation may need an upgrade. “An auditor is not just looking for things that hit your bottom line, but potential health and safety problems related to indoor air quality,” says Jones. Your utility may offer such a service, or look for a professional certified by Energy Star, the Building Performance Institute (www.bpihomeowner.org) or the Residential Energy Services Network (www.resnet.us). ■



THEN AND NOW

Paolo and Lediya Beltran, with children Lucas, Leila and Lara, bided their time to purchase their California home.



September 2006

The Beltrans Buy Their Dream House

THEN: Caught in the overheated Southern California housing market of 2006, Paolo and Lediya Beltran sought guidance from the Portfolio Doctor (a *Kiplinger's* feature at the time) on how to buy their first home. Should they take the plunge, even if it meant assuming a staggering mortgage, or save their money and bide their time? They followed the doc's advice and stayed in a rental, where they took on maintenance tasks in exchange for a break on the rent.

NOW: While many of their friends stretched to buy, Paolo and Lediya, who are both 39, stood firm and socked away every dollar they could in safe bank accounts and money market funds, reckoning that the housing market had to break. It did. After the birth of their son, Lucas, 9, they began house hunting. And this time they were in command, with rock-bottom interest rates

and fewer competing buyers.

In 2011, the Beltrans closed on a freshly improved detached home in Seal Beach, Calif., in a choice neighborhood that's near the beach and has top-rated schools. They made a low offer to an owner who was motivated to sell, paying \$665,000 for the three-level, four-bedroom house. They came up with a hefty down payment and got a 3.375% fixed-rate mortgage for \$525,000.

It's just a 20-minute drive to city hall in Lakewood, where Paolo is a municipal administrator, and a five-minute hop to Lediya's office at a nonprofit domestic-violence agency serving Orange County. Because their mortgage is manageable by California standards, Paolo is grateful that he wasn't forced to make a career change just to make the payments. "This is a story of luck and great timing," he says.

The Beltrans are now a family of five,

with daughters Leila, 6, and Lara, 2. A disciple of Vanguard founder John Bogle, Paolo remains a cautious spender and a saver who socks away what he can in retirement and education accounts. Lediya's mother lives with the family and helps with day care, and there's enough money to pay for the kids' sports and occasional vacations to national parks, Florida or the Caribbean.

With the California housing market on the upswing, Paolo figures he and Lediya have at least \$200,000 of equity in their home, though he doesn't watch sales prices because he can't imagine another move. And what made it all possible was patience and planning, both of which were clearly in short supply during the late, unlamented California housing bubble. If more people had followed their example, there would have been fewer books—and no movie—about the financial crisis. **JEFFREY R. KOSNETT**



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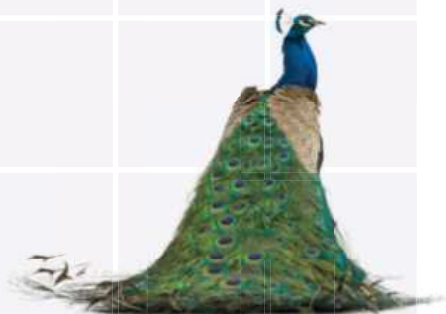
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