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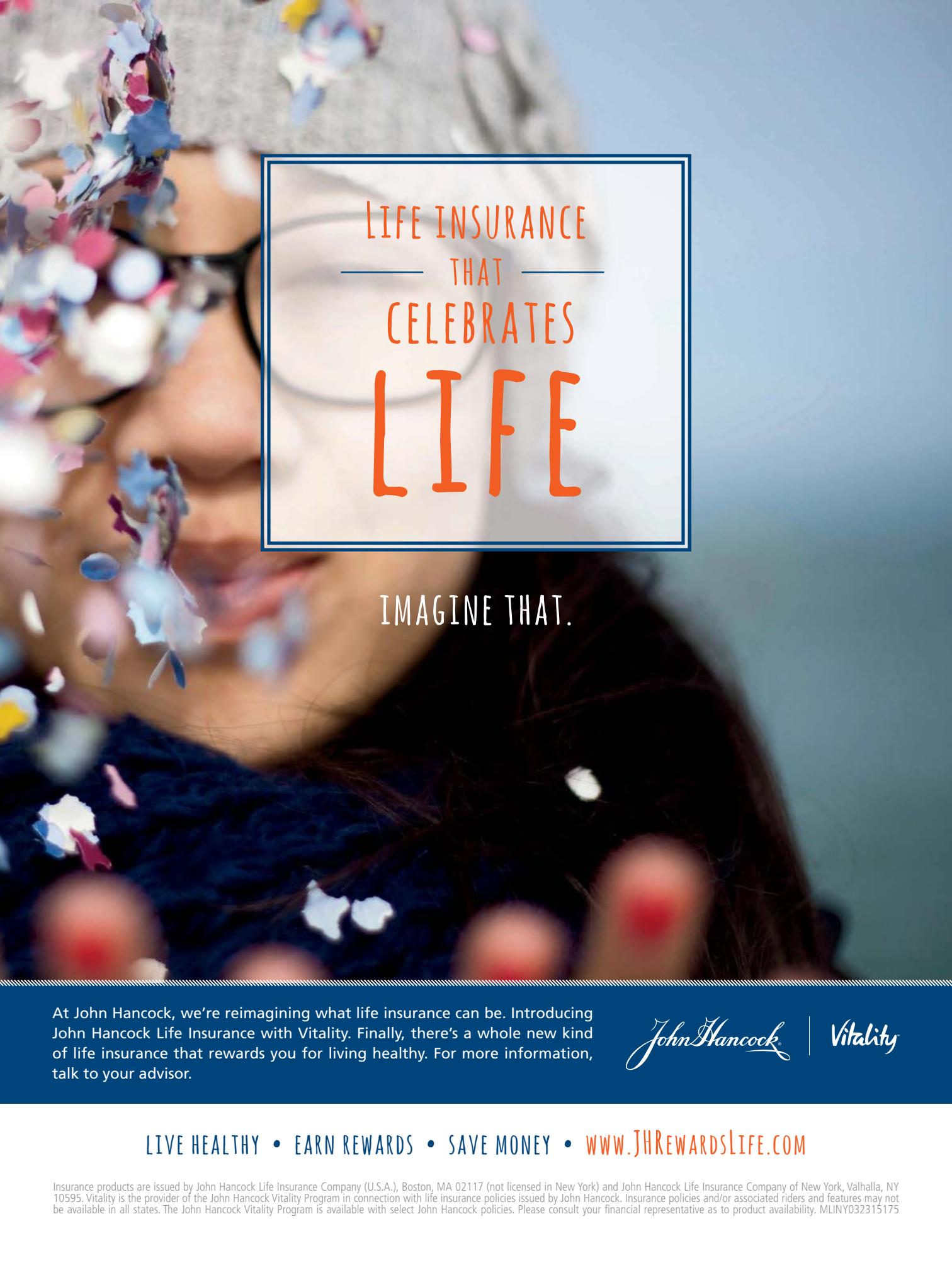
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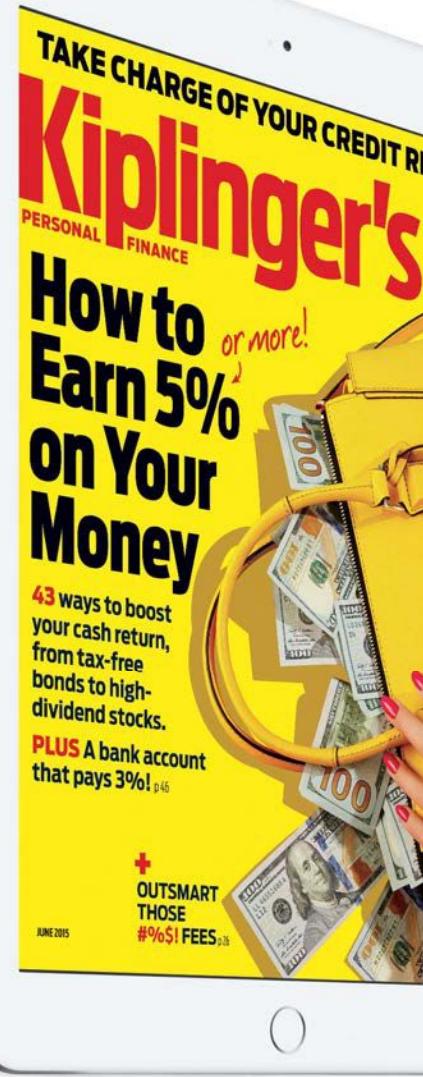
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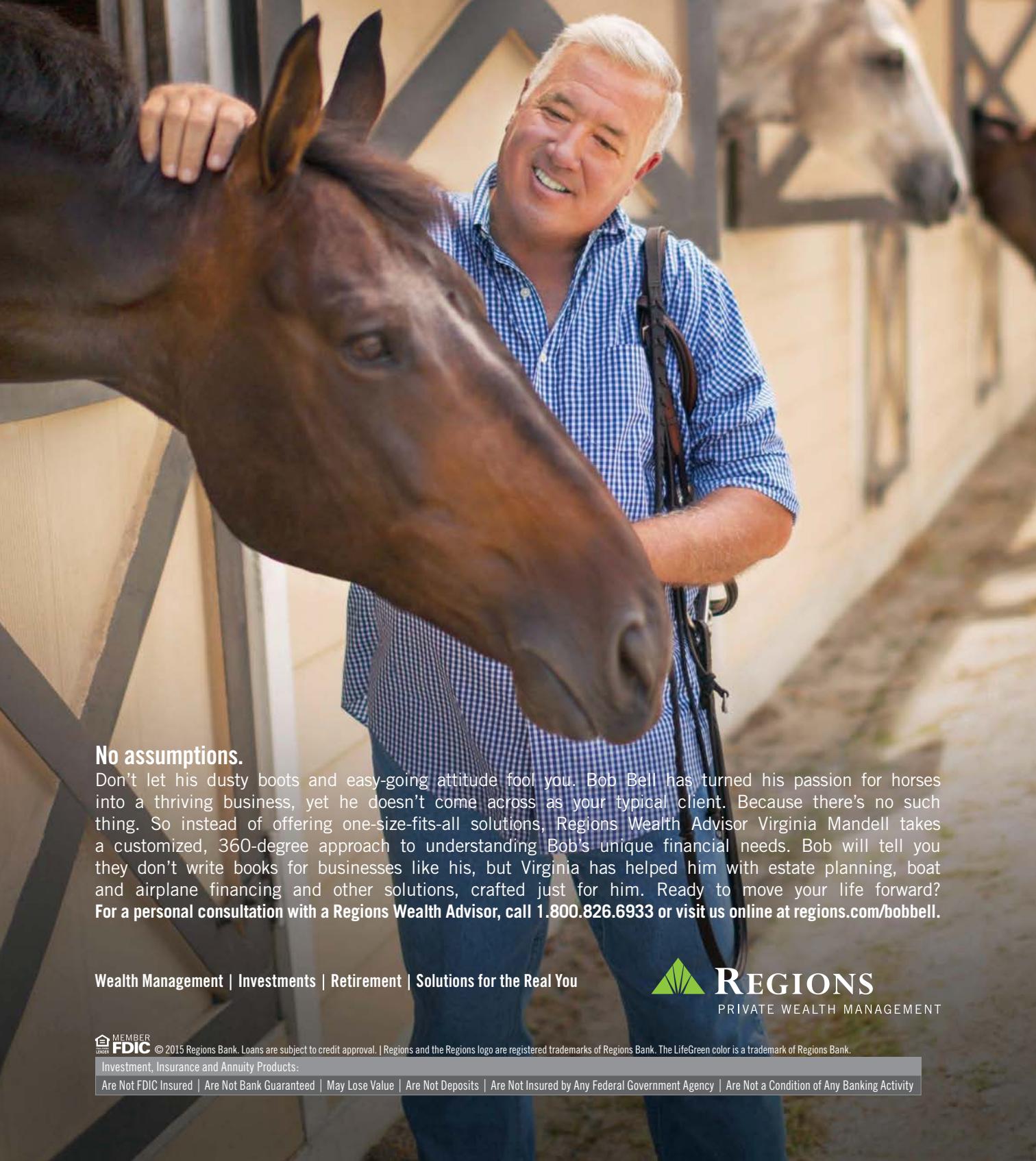
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# Janet Bodnar

FROM THE EDITOR

## A License to Spoil

recently became a grandparent for the first time. My family and friends have offered me warm congratulations, as well as the nearly unanimous advice to, as one of my coworkers put it, "Go forth and spoil." I'm happy to spoil my grandchildren, but as the editor of a personal finance magazine, I'm supposed to encourage fiscal restraint. And that responsibility weighs even more heavily because I've also devoted much of my career to teaching kids the value of money. I've written several books on the subject, and my "Money-Smart Kids" column appears regularly on Kiplinger.com.

Laura Vault, a lovely woman in my exercise class who confesses that she still sends her college-age grandson care packages, offered me this advice: She makes her grandchildren save 10% of all the money gifts she gives them. And in this issue, we include a story on how grandparents can help grandchildren pay for college (see page 38).

That's a good start. But as a rookie, I'd still like to know how grandparents can indulge their grandkids without going overboard (a topic that I'm sure will come up in future "Money-Smart Kids" columns). For guidance, I went straight to trusted, expert sources: my own three (now adult) children, who have counseled me over the years as I've practiced on them. I asked them what their most vivid memories were of their own grandparents (financial or otherwise) and what they learned from them about managing money. And the big one: Were they spoiled?

"I think we were all pretty spoiled,"

says my daughter, Claire. "But it wasn't with lots of gifts and toys and stuff. Grandma B would always have those jelly cookies we liked, and Grandma L would always bake blondies or lemon bars."

When they got gifts of money, it was a special occasion: "At Christmas, Grandma B gave us mad money that we could spend on whatever we wanted," Claire recalls. And every summer at the beach, Grandma L had a special gift for each of the six cousins; one year it was 10 silver dollars. "I remember she made a bit of a ceremony of it," says Claire. "And even though it was only \$10, it felt really special." When the kids went off to college, recalls son John, she took them off to the side to give them money for books—and a little talk about bringing honor to the family name.

Despite such occasions, "I never associated our grandparents with money," says son Peter. "I don't think I ever found it appropriate to try to get them to buy stuff for us."

**Lifetime lessons.** The kids picked up other lessons that didn't kick in until they grew up. "I remember Pop-Pop B always said that if you're going on vacation, you're going to spend money," says Claire, who's now married. "I think about that when we go away, and it makes me feel better about spending money."

Now she understands what her grandparents meant when they talked about the good investment they had made in ExxonMobil. And all the kids



### "How can we indulge our grandkids without going overboard?"

agree that both sets of grandparents set a good example of the benefits of saving for retirement. "It's not as if they lived extravagantly, but they always seemed to be happy and comfortable and were able to do what they wanted."

Perhaps not surprisingly, my kids' most vivid memories have nothing to do with money. As Claire put it, "All our grandparents had a presence in our lives. We spent holidays and vacations together, played cards and read books. Both sides of our family are still very close, and I think it probably has a lot to do with their example."

Which is probably the best way to spoil your grandkids.

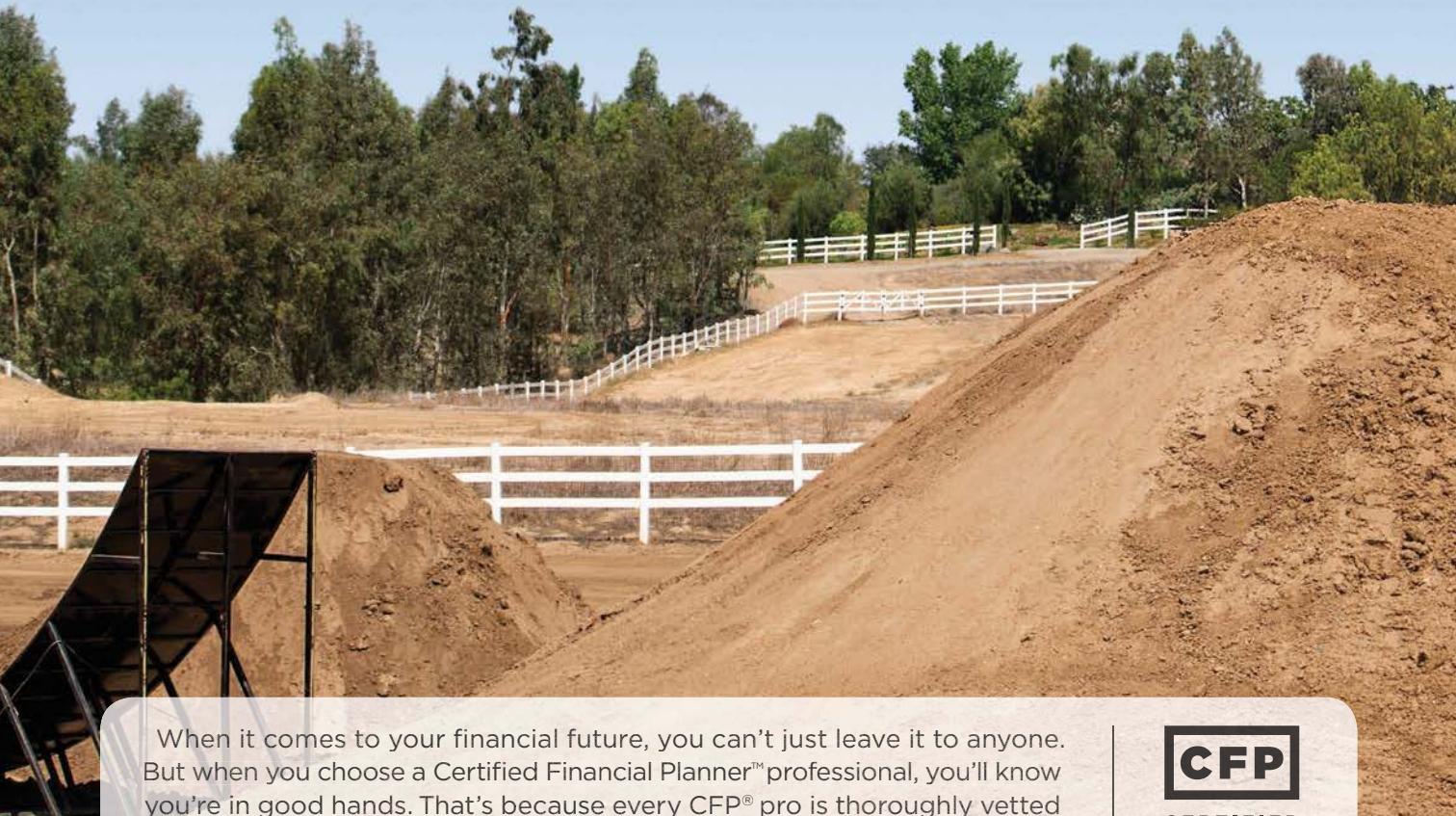
P.S. If you have advice for a new grandparent, I'd love to share it. ■

*Janet Bodnar*

JANET BODNAR, EDITOR  
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**Kiplinger's** PERSONAL FINANCE MONEY SMART LIVING

# Cash In on the Future

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APRIL 2015

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## Are Senior Perks Fair?

Yes, as a senior, I get a discounted transit fare ("Money & Ethics," April). But unlike a young couple who may ride the transit system twice each day, five days a week, I ride it only once or twice a week. My taxes support highways that I seldom drive more than once a week. My property taxes include a hefty charge for school funding, but my family is long past the point of using our school system. So although some senior discounts may seem unfair, my take is that they offset some of the areas in which I am paying far more than my use would dictate.

CHARLES A. NEKVASIL  
CHICAGO

**KNIGHT KIPLINGER REPLIES:**  
A number of readers questioned the

**Q READER POLL**

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Response	Percentage
Yes, and the company waived it.	22%
Yes, but I struck out.	4%
No	75%

Try it. You might have better luck than you think (see page 26).

key premise of my column: that older Americans are no longer less well-off than their fellow citizens. This is true, if you count both income and household net worth. According to the 2013 Census, the median income of households led by folks 65 and older was 39% less than those younger than 65. For the "younger old" (65-to-74-year-olds), the difference narrows to 24%. But older Americans have dramatically higher median wealth—net worth in home equity, retirement savings, etc.—than Americans in every other age bracket: more than twice that of 45-to-54-year-olds, almost five times that of 35-to-44-year-olds and a stunning 25 times that of households whose members are younger than 35. The percentage of older Americans living below the poverty line, which was 29% 50 years ago, has fallen to just 9% today, much lower than the 13% rate for the general population.

**The long view.** James Glassman's April column reminds me of my days in London, when I used to listen daily to an American financial commentator named Bob Beckman ("Opening Shot," April). Beckman contended that then-sky-high interest rates were due for a long-term slide over the next 35 to 40 years, and that 30-year U.S. Treasuries were the place to look for capital gains. The graph in Glassman's article vividly shows how correct Beckman's call was! It is now 34 years since I heard his prediction. If Beckman's thesis is correct, then interest rates are poised for a long-term upward swing over the next 35 years. I will watch with interest (pun intended) whether 30-year Treasury rates drop below 2% over

the next few years, as Glassman predicts.

RAJ NATARAJ  
SPRING, TEX.

**Future trends.** Anne Kates Smith captured the essence of trends to watch and provided a good starting point for average investors ("Cash In on These Megatrends," April). I would add that the giant in the arena of electronic medical records may prove to be Epic, out of Minnesota (unfortunately, the company is not publicly traded).

LESLIE MONTAGNE  
SPARTANBURG, S.C.

**Let it go now.** As a person responsible for helping several older folks downsize, I strongly recommend doing it throughout your lifetime ("Let It Go," April). It's heartbreaking to see the items they kept, thinking they would be worth something.

HOLLY WOLF  
FLEETWOOD, PA.

**• CORRECTION**  
The IRS form to report non-cash donations that exceed \$500 is Form 8283 ("Let It Go," April).

## LETTERS TO THE EDITOR

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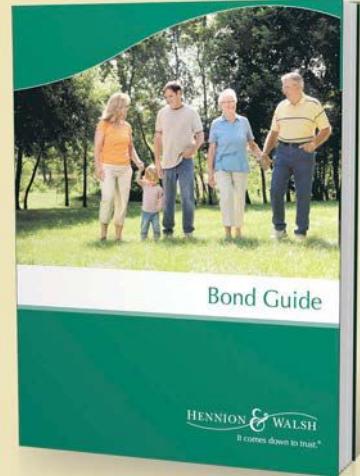


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*R. Hennion W. Walsh*

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Here's just some of what you'll learn . . .

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

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

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

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

Strategies for smart bond investing. (Page 4)

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

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## TOPIC A

## HOW TO GET A JOB IN TODAY'S MARKET

Polish your social media profile and your interviewing skills. **BY CAROLYN BIGDA**

**A ROBUST JOB MARKET MEANS** more opportunities for graduating college students, the unemployed and workers with a seven-year itch. But the days of submitting a résumé and sitting for an interview are long gone. Many companies, overwhelmed by the number of applicants, are taking new steps to find candidates, and technology plays an ever-larger role. “The amount of human in-

teraction has probably never been lower,” says Dan Ryan, an executive search consultant and member of the Tennessee Society for Human Resource Management State Council. Once you do meet with a hiring manager, you might be asked to put your skills into action by doing temp work. All of which means that if you’re looking for a job today, you need to fine-tune your approach.

**Social media.** LinkedIn, Twitter and Facebook are becoming popular avenues for employers to advertise jobs and find new hires—even candidates who are not actively looking. Earlier this year, Monster, the online jobs board, rolled out a tool that allows employers to send ads directly to Twitter members whose background (gleaned from other social media sources) might make them a good fit for an opening. LinkedIn introduced an app last year that, among other things, lets you receive tailored job recommendations based on saved searches and your profile. Online shoe store Zappos.com has built its own social network that it taps for can-

didates. Your strategy should be to expand your search to include major social media channels, as well as industry or company-specific networks. And make sure your online profiles are up to date, comprehensive and professional. “If you’re not on LinkedIn, you’re missing out on one of the best opportunities to be found by a recruiter,” Ryan says.

**Internet applications.** Many employers now require an online application. “Job seekers hate them, and with good reason,” says Alison Green, author of the blog Ask a Manager. One U.S. airline asks prospective hires to slog through 55

Web pages of questions, says Jon Picoult, founder of Watermark Consulting. An automated system scans the applications. If you answer a question incorrectly, omit information or fail to use specific language, you could be out of the running.

To improve your odds, review the questions thoroughly. If you're not comfortable sharing some information, such as your Social Security number, call the human resources department to see if there's a workaround. Use keywords from the job description in your answers. And if you know any current employees, it pays to enlist their aid. "Referrals are still the best way to get an interview," Picoult says.

**Interviews, tests and trial hires.** Some organizations send interview questions to job seekers to answer via webcam. You may have to complete a skills assessment, and some firms, especially small businesses, are turning to trial hires—temporary work that could last a week or more to see if candidates can do the job and will fit in with the corporate culture.

If you've never done an interview via webcam, practice in advance, paying attention to how you sound and appear (including the background). Accept project work only after an employer expresses significant interest in hiring you, and make sure that you're paid for projects that take more than a few hours. Use the experience to both prove your talent and get a sneak peek at the job.

■ **INTERVIEW**

# ELITE COLLEGES DON'T GUARANTEE SUCCESS

**If you have aspiration and drive, you will do well no matter where you go.**

New York Times columnist Frank Bruni is the author of *Where You Go Is Not Who You'll Be* (Grand Central Publishing, 2015).

**In your book, you argue that the Ivy League isn't the gateway to career achievement that people think it is.** We've constructed a mythology that suggests it's a guarantor of success or an insurance policy against failure. That grossly exaggerates its importance. We have as many or more examples of people who've gotten far in life based on how well they use the college they went to, and not on the name of the college. There are many paths to where you want to go.

**But don't elite schools give their alumni an edge, including a lifelong network?** Certain schools do confer an advantage. But it's not a make-or-break advantage, and it doesn't last your whole life. A number of schools have amazing networks, some tied to a particular profession. But by the time people reach the age of 28, 29, 30—and certainly

35—no one's asking where they went to school. Their work history is much more consequential.

**If not the prestige of the school, what are the predictors of later success?** There's a fascinating study that at first blush seems to show that people who went to elite colleges earn an average of 7% more over their lifetime than people who didn't. But when you look at people who went to less-exclusive institutions but had also

applied to more-elite schools, the earnings differential evaporates. If you have the aspiration and drive to apply to an exclusive school, it turns out not to matter much whether you flex your muscles at Harvard or at Penn State.

**Beyond college rankings, what other criteria should prospective students investigate?**

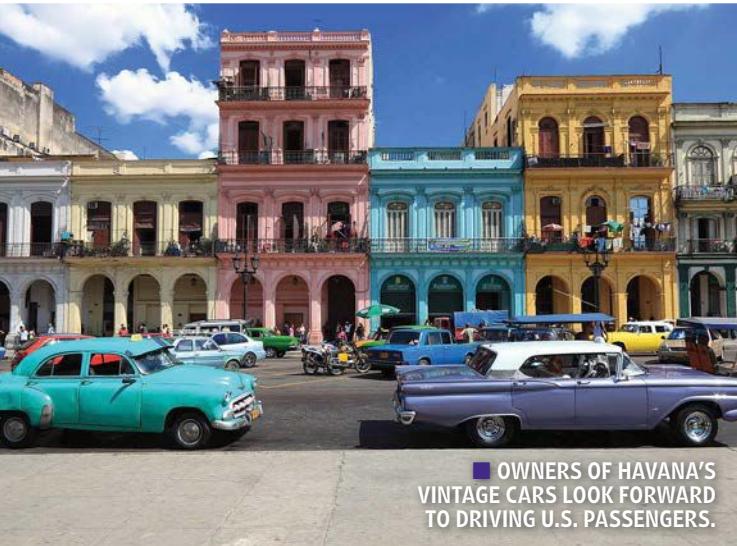
Two things that I would want a kid to look at are the percentage of students with enough intellectual curiosity to study abroad and the socioeconomic diversity of the school. Ideally, you want to go to a school that makes an attempt to capture the diversity of our society, because your comfort with that is going to have a lot to do with your future success.

**By now, prospective freshmen know where they're going. Any advice for kids who didn't get into their first-choice school?**

If you're embarking on a college education, you're already in a privileged situation that you should not shortchange with qualms about whether it's exactly where you want to be. If you spend more than a few nanoseconds feeling disappointed about the campus you are about to stride across, then you are doing yourself a great disservice.

**ANNE KATES SMITH**





■ OWNERS OF HAVANA'S VINTAGE CARS LOOK FORWARD TO DRIVING U.S. PASSENGERS.

Once you get there, you'll no longer be bound by the \$179-per-day spending limit for Americans. And you may now bring back up to \$400 in Cuban goods, including up to \$100 worth of rum and cigars. U.S. credit card companies are getting in on the action; MasterCard began allowing transactions in Cuba in March. But it remains to be seen how efficiently Cuban businesses will be able to process credit card transactions.

For now, conventional tourism is still prohibited. The broadest category is so-called people-to-people educational trips, which are open to all U.S. citizens and are typically organized through travel companies. Even so, you'll have to keep records of your trip for at least five years to prove that you weren't relaxing on the beach all day. It's unclear, however, how closely the U.S. Treasury Department will monitor American visitors' movements.

Opening the island to American tourism will be a gradual process, as airlines work out agreements with aviation authorities and hotel capacity expands. A decade from now, though, vacationing in Cuba could be as no-fuss as a trip to Miami Beach. **RYAN ERMEY**

## ■ TRAVEL

# CUBA: OPENING SLOWLY TO TRAVEL

There are still restrictions, but once you get there you can load up on cigars.

### NEW U.S.—CUBA TRAVEL

regulations have made it easier for Americans to visit Cuba and spend money there than it has been for more than a half-century. But you'll still have to jump through a few hoops.

As in the past, Americans must travel to Cuba for one of 12 authorized purposes, including family visits, journalistic activities and humanitarian work. Under

the new law, however, travelers no longer have to apply for a specialized license from Uncle Sam. Rather, indicating the purpose of your trip is as easy as signing an affidavit. "It's essentially self-policing," says Christopher P. Baker, a Cuba travel expert and author of the guidebook *Moon Cuba*. "If you believe you fall into one of those categories, you can check a box and go."

## THE BUZZ

# THE FINE PRINT ON REWARDS CARDS

**It sounds foolproof:** Use a rewards card to nab up to 6% cash back when you spend in various categories. But a surprising number of items are excluded.

**Groceries.** Warehouse clubs, such as Costco and Sam's Club, and big-box retailers, such as Target and Walmart, rarely rack up grocery points despite their extensive food selections.

**Dining.** You can collect on anything from sit-down restaurants to Starbucks. But if the eatery is housed in another venue—say, a hotel or stadium—your purchase may not count.

**Travel.** Rewards might not include campgrounds, taxis, tolls or tourist attractions.

**On the other hand,** you may score gasoline points for picking up a snack at the station's convenience store.

**Movies** are also a pleasant surprise. Most points are earned in brick-and-mortar theaters, but Discover counts Redbox and Netflix as well.

**If you earn bonus points for shopping at supermarkets or office supply stores, consider buying gift cards there for other retailers that don't qualify. Or consider a card that returns a flat 2% on all spending, such as Citi Double Cash.**

**MIRIAM CROSS**

EXCERPT FROM  
*The Kiplinger Letter*

## CROWDFUND YOUR MORTGAGE

Crowdfunding is shaking up residential mortgage lending. A growing number of sites link investors seeking above-average returns on as little as \$1,000 with borrowers with variable incomes who might not qualify for a traditional mortgage under today's tight lending rules. California crowdfunder Privlo helps entrepreneurs and self-employed folks in 10 states cobble together funds to buy a home. Other platforms include Realty Mogul and RealCrowd. ([www.kiplingerbiz.com/ahead/crowd](http://www.kiplingerbiz.com/ahead/crowd))



# LEARN FROM YOUR 2014 TAX RETURN

These valuable lessons can set you up for a more profitable 2015.

**WHETHER YOU DID YOUR OWN** taxes or paid a pro, you're probably happy to have that chore behind you for another year. Before you stash your 2014 tax return in a drawer, review it for ideas

about how to improve your personal finances in 2015.

Start by going over your taxable investments. Did capital gains distributions from your mutual funds inflate your tax bill? Don't

dump the funds; doing so could trigger an even bigger tax bill in 2015 (unless you have losses to offset your gains). But consider directing future investments to more tax-efficient options, such as index funds or exchange-traded funds.

Now look at how much you reported in interest from your savings accounts. If the amount wouldn't buy a gallon of milk, consider switching your savings to an online bank account; some are yielding 1% or more (see page 44).

Finally, a review of your return will show how contributions to your 401(k) reduced your taxable income. That could motivate you to boost contributions in 2015. If you have a high-deductible health insurance plan, shelter even more from the tax man by setting up a health savings account. In 2015, you can contribute up to \$3,350 for an individual or \$6,650 for a family, plus an extra \$1,000 if you're 55 or older. **SANDRA BLOCK**

**MONEY & ETHICS // KNIGHT KIPLINGER**

## Is it ethical to go without auto insurance?

**Q** I have a friend who lives in Virginia, one of the very few states that don't require drivers to carry insurance on their cars. Instead, they may pay \$500 a year into the state's uninsured-motorist fund. My friend says she can't afford car insurance (I disagree) and that she is a safe driver and isn't likely to cause injury to someone else. What do you think about her position, ethically and financially?

**A** Not much. First of all, let it be noted that the vast majority of drivers in Virginia (and a few states that allow a bond or large cash deposit in lieu of insurance) choose to carry car insurance because it's both smart and responsible.

In Virginia, payment of the \$500 fee does not provide your friend with any insurance coverage. If she causes an accident, she will be personally liable for damage and injury, and she will likely be sued by the injured party (or his or her insurer). If your friend has few assets to cover this, she is essentially choosing to stick someone else with the cost of her driving error. That's not ethical.

Despite the fact that auto insurance is mandatory in almost all states, an estimated one in seven U.S. drivers don't carry it. Many get it just for the purpose of registering their car but then stop paying the premiums. Most uninsured motorists have low incomes and

few assets, so suing them for injury they caused—as required by the uninsured-motorist clause in most policies—is often a futile (and expensive) exercise.

States are now cracking down on these scofflaws in a variety of ways, most effectively by matching lists of lapsed policies (reported by the insurance companies) against vehicle registration records. Driver's licenses can be suspended, tags revoked and reregistration denied without proof of current coverage. In about 10 states, uninsured drivers involved in an accident—even if it is caused by the other, insured driver—are denied the right to sue the other driver's insurance company for certain damages, such as pain and suffering and lost earnings.

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## CALENDAR

### 06/2015



#### ▲ MONDAY, JUNE 1

Get your popcorn ready. Regal Cinemas and Cinemark will offer \$1 tickets for showings of popular G- and PG-rated movies from now through mid August. Titles include *Turbo*, *Muppets Most Wanted* and *The Lego Movie*.

#### FRIDAY, JUNE 5

Krispy Kreme will offer one free doughnut of any variety to all customers on National Doughnut Day.



#### SATURDAY, JUNE 13

Consider renting out your home while you vacation this summer. If you rent it for less than 15 days, the resulting income is tax-free. Put the extra money toward your mortgage payments.

#### THURSDAY, JUNE 18

Today is National Splurge Day, but

we don't recommend that you indulge. If you're in the market for a big-ticket item, wait till it goes on sale. See our guide at [kiplinger.com/links/bigticket](http://kiplinger.com/links/bigticket).

#### SUNDAY, JUNE 21

Wedding bells are ringing. If you recently tied the knot, check out "Merging Your Money," on page 43. **RYAN ERMET**



#### ✳ DEAL OF THE MONTH

Father's Day sales offer deals for every dad. Expect discounts of up to 50% on hand, automotive and cordless power tools. Look for 20% markdowns on lawn mowers and grills.



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JAMES K. GLASSMAN &gt; Opening Shot

## Why I Love Cult Retailers

**G**if you like the store, chances are you'll love the stock," wrote Fidelity's Peter Lynch, probably the greatest mutual fund manager of all time. Lynch urged his acolytes (me among them) to buy what they know, especially retailers. Every mall and shopping district is dotted with opportunity.

However, retailing today is in disarray. Department stores are in a state of long-term decline, with sales down by about one-third since 2001. E-commerce sales are rising at a rate of about 16% a year, but few retailers have figured out how to make big money online. Even Amazon.com (symbol AMZN) has lost money in two of the past three calendar years.

Specialty retailers are taking up much of the slack. It is just those specialists, particularly the ones that sell clothing, that I like—mainly because the best of them can develop extremely loyal followings, and those dedicated customers are willing to pay premium prices. Take Anthropologie, a boutique that sells hip women's clothing and accessories, plus a bit of bedding and furniture, with an updated pre-Raphaelite look that extends to the stores and its Web site. I like just walking around in Anthropologie, which has become the flagship brand for **URBAN OUTFITTERS (URBN, \$46)** as the eponymous chain itself has grown a bit tired. The fastest-growing part of the company is Free People, a 102-store chain that sells bohemian attire and has a strong online presence, including a Chinese-language site. Urban Outfitters' revenues rose 18% in the fiscal year that ended January 31, even though the number of stores stayed the same. (Share prices are as of March 31.)

The best retailers create brands strong enough to develop a moat, which provides protection against competition. Anthropologie's moat is its distinctive culture—or, rather, cult. Urban Outfitters' stock isn't cheap. It recently hit an all-time high of \$47, and it boasts a price-earnings ratio

of 22, based on the average of analysts' profit estimates for the year that ends next January. But I am not worried. With all the disruption in the retail business, it's not hard to imagine sales rising sharply for companies that succeed at selling online, provide great experiences in their stores, and build powerful, unique brands.

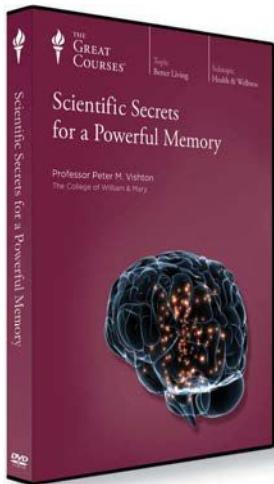
**Great brand.** That brings me to **RALPH LAUREN (RL, \$132)**, whose 470 clubby stores are quite simply the best shopping environments in the world and whose brand constitutes a wide moat. The stock lost about 25% of its value in the first two months of 2015 after the company reported disappointing revenues and profits. It was the first time in five years that the company failed to make its earnings projections. A big reason for that pessimistic story, however, was the strong dollar, which knocked a few percentage points off sales growth. Over the long term, I expect revenues will keep growing. Meanwhile, Lauren's Web site has room for improvement, which I consider another plus. The company has minimal debt, a lot of cash and, despite a 6% decline in earnings in the quarter that ended last December 27, it announced a dividend increase in February.

If you're worried about Ralph Lauren not bouncing back, take a lesson from **LULULEMON ATHLETICA (LULU, \$64)**, a maker of expensive workout clothes with a cult following. Its shares dropped by more than half between June 2013 and June 2014 after it accidentally manufactured see-through yoga pants. Founder Chip Wilson replaced the CEO with the president of another of my favorites, Tom's Shoes (alas, owned by a private equity firm, so you can't invest in it). The stock has rebounded from \$37 to \$64, but it's still \$17 below its record high. Lululemon's P/E—33, based on estimated year-ahead earnings—is well above Lauren's P/E of 18, but Lululemon may have the widest moat I've seen. Stop by a store. Its

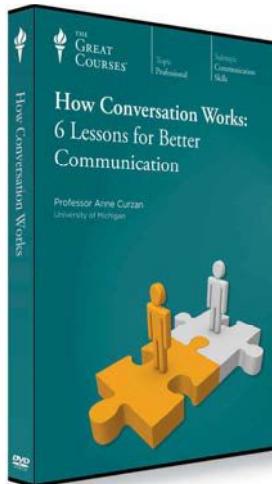
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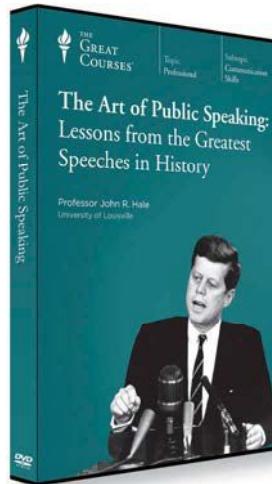
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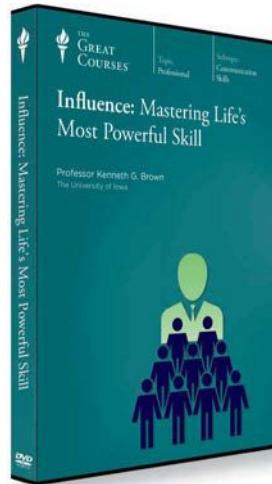
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# “Stop by a Lululemon store. Its customers are passionate, and Lulu uses scarcity—the best of all economic ploys—to keep its prices up.”

customers are passionate, and Lulu uses scarcity—the best of all economic ploys—to keep its prices up.

**LVMH MOËT HENNESSY-LOUIS VUITTON (LVMUY, \$35)**, whose name includes that of a champagne vintner and a leather goods purveyor, is the ultimate cult retailer—and wholesaler as well. The Paris-based company comprises a portfolio of more than 70 brands assembled by Frenchman Bernard Arnault. Among them: high-fashion designers Marc Jacobs, Thomas Pink, Donna Karan and Céline; cosmetics chain Sephora; DFS duty-free shops; Bulgari and Fred jewelry stores; French department store La Samaritaine; and its most recent acquisition, Loro Piana, maker of clothes from gorgeous Italian fabrics. LVMH had sales last year of about \$35 billion (four times the level of Ralph Lauren), with Asia as its single largest market. It's highly profitable, and, in a sector with highly volatile stock prices, LVMH's shares have an eerie steadiness. Since 2011, LVMH's American depository receipts have bounced merely between a low of about \$27 and a high of about \$40.

A smaller French firm with a penchant for collecting luxury brands is **COMPAGNIE FINANCIÈRE RICHEMONT (CFRUY)**. Its brands include Van Cleef & Arpels jewelry, Piaget and Cartier watches, Lancel leather goods, and Shanghai Tang clothing. Richemont, launched in 1988, is a conservatively managed company with about one-third the

sales of LVMH. Revenues have doubled since 2010, and profits have tripled.

An American version of LVMH and Richemont, **G-III APPAREL GROUP (GIII, \$113)**, owns several cult brands that are sold in more than 400 retail stores: Vilebrequin, expensive bathing suits in classy, understated stores; G.H. Bass, maker of Weejuns; and Andrew Marc, trendy eyeglasses. It's a particularly well-run company. Profits rose 43% in the year that ended in January. Again, the stock is not cheap, with a P/E of 22 based on projected earnings.

No funds focus on cult retailers. The best you can do is **FIDELITY SELECT RETAILING (FSRPX)**, whose eclectic holdings include G-III; Lululemon; women's clothing designer, manufacturer and retailer **MICHAEL KORS HOLDINGS (KORS, \$66)**, which I've recommended in the past; and jeweler **TIFFANY & CO. (TIF, \$88)**, with 295 stores around the world. But the fund also owns retailers that few would say have cult followings. Among them: Home Depot (HD, \$114), which represents 18% of assets, and TJX Cos. (TJX, \$70), owner of the T.J. Maxx and Marshalls chains, at 6%. Still, I am a fan of well-chosen retailers in general, and, although Select Retailing's current manager has been at the helm for less than a year, the fund itself has a long tradition of being run by excellent stock pickers, including Will Danoff, who now heads Fidelity Contrafund.

Select Retailing has delivered sparkling results, returning an annualized 20% over the past five years through March 31. But those gains highlight a possible problem with specialty retailers: Their stocks have done very well lately, benefiting from the upturn in the economy. Clearly, a better time to buy the cults would have been when they were flat on their backs. Urban Outfitters, for example, has tripled since the beginning of 2009. But no one can time the market, and “no regrets” is a good investing philosophy. The best strategy is to buy these companies now, with a view toward buying more if their prices drop, and then holding on for the long term. But, then, that's a good strategy for *all* your stock investing. ■



BOTH TIFFANY AND LULULEMON HAVE LEGIONS OF ARDENT FANS.

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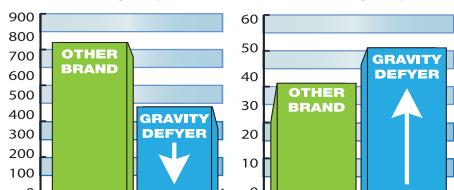
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ANNE KATES SMITH > Your Mind and Your Money

## Stay Sane in a Crazy Market

**V**olatility is back, posing perhaps the biggest challenge stock investors have faced in this six-year bull run: How do you stay sane in a crazy market? In March alone, the Dow Jones industrial average seesawed wildly, closing up or (more often) down more than 100 points on 16 of 22 trading days. The jumpiness is all the more jarring because of the remarkably smooth uptrend we enjoyed previously. Standard & Poor's 500-stock index has gone 41 months without a decline of 10% or more (the classic threshold for a market correction). Since World War II, corrections have come every 18 months, on average, according to S&P Capital IQ.

So what's the harm in a little volatility now? Nothing, inherently. As Jay Mooreland, a financial planner who writes The Emotional Investor blog, puts it: "Volatility doesn't cause losses. It's investors' reaction to volatility that causes losses." And those reactions are deeply rooted in the biases and behavioral traps that are part of human nature. William Martin, a financial psychologist at Aequus Wealth Management Resources, in Chicago, highlights some biases that often surface during times of market volatility:

■ **Confirmation bias.** When we're uncomfortable, we seek support, often from information that affirms our point of view. If you're convinced the market is going to you-know-where in the proverbial handbasket, you'll seek out like-minded opinions, turning a blind eye to other scenarios.

■ **Herd mentality.** If we're unsure of ourselves, we'll follow the crowd. That's unfortunately why investors buy high and sell low—loading up on shares when everyone else is buying and dumping holdings when most people are selling.

■ **Fear of regret.** No one wants to feel bad because of a poor choice, whether it's buying

the wrong investment, holding it too long or selling it too early. This regret avoidance can be exacerbated, says Martin, by the *endowment effect*, which can cause us to put a higher value on investments than they're worth.

■ **Loss aversion.** Booking a loss is never easy, but holding on to hope that you'll eventually get even can cause some investors to ride losing propositions down to zero.

Buffeted by such biases, investors tend to fall into two camps during periods of market volatility, says Michael Liersch, director of the behavioral finance unit at Merrill Lynch Wealth Management. "Some put their heads in the sand and ignore everything. Others overreact." Liersch recommends that investors try to strike a balance between the two.

One way to do so is to stop focusing on a benchmark. (Turn off the TV, and don't obsess over your account statements!) Instead, be mindful of what the money you're investing is meant for and how it's invested to meet those personally meaningful goals. Are you investing for retirement income? Educational funds? A down payment on a house? Different goals dictate different strategies. Crafting an investment policy statement—and an exit strategy—before the going gets rough helps take the emotion out of buying, selling and rebalancing decisions.

Similarly, casting a wide net when seeking information and investment advice can help make sure you're not unduly influenced, including by your own opinion. While you're at it, make an effort to seek out someone who you know will present the contrarian point of view. That, along with the rest of these strategies, can keep you from diving off the cliff with the herd. ■

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

“

**Crafting an investment policy statement before the going gets rough helps take the emotion out of buying and selling.”**

# Are Annuities Right for Your Retirement?

## What You Might Not Know About Annuities Could Come Back To Haunt You

Before you put your hard-earned money into an annuity, or if you already own one, please call 1-800-695-5929 for a special report, *Annuity Insights: Nine Questions Every Annuity Investor Should Ask*. Written with *Kiplinger* readers in mind, it could help save you hundreds of thousands of dollars and untold financial heartache.

The vast majority of annuities are really complicated insurance policies that make it very difficult to fully understand the implications and unintended consequences. And once you buy into an annuity, it can be a very difficult and potentially very costly investment decision to reverse. That's why it is vital you "look before you leap" and ensure that you have "your eyes wide open" before you purchase an annuity. And if you already own an annuity, this free report is just as valuable as it can help you sort out the good, the bad and the ugly aspects of annuities.

## What You'll Learn From This Free Report

- The different types of annuities and the advantages and disadvantages of each
- Why annuities can be complex to understand
- What you need to ask an annuity salesman when evaluating his product
- The inflation risk, tax implications, estate planning considerations and typical annuity fees

## Don't Be Lulled By The Soothing Sound Of Guaranteed Income

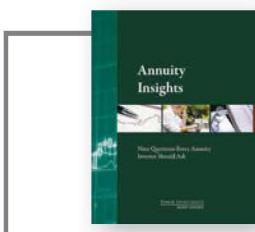
Sure, guaranteed income, free from market volatility, has a lot of appeal, especially for people approaching or in retirement. But that guarantee can cost you big in commissions, fees, surrender charges, taxes and other costs. Plus, locking in a guaranteed income stream that doesn't take into account inflation can seriously erode the value of your cash flow. In our report, we'll show you how buying or staying in the wrong annuity could literally cost you hundreds of thousands of dollars in fees and lost opportunities.

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See [www.AnnuityAssist.com/Terms-and-Conditions](http://www.AnnuityAssist.com/Terms-and-Conditions) for further information.

\*\*As of 12/31/2014.



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This free report could save you from making one of the biggest investment mistakes of your life. And for owners of annuities, the free analysis could be a life saver.

*Ken Fisher*

Ken Fisher

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

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# Building a New Career With Big Boxes

He recycles shipping containers into pop-up retail shops and other structures.

### PROFILE

**WHO:** David Campbell, 42

**WHERE:** Charlotte, N.C.

**WHAT:** Founder and CEO of Boxman Studios

**You were a commercial real estate developer?** Yes. In 2004, I started my own company focused on developing retail and office space. When the recession hit, I realized that financing or building anything with sticks and bricks wouldn't happen for the foreseeable future. I had to choose whether to live on what I had earned or make a change and take advantage of the capital that I had accumulated.

### What was your epiphany?

One morning in late 2008, after I'd been crying in my Wheaties, I opened up my Internet browser and saw images of shipping containers that had been modified for nonstandard uses, such as a coffee shop and even a house. I was intrigued by the possibilities and started talking with contractors and architects. I ultimately decided to build a hospitality suite that would take the place of the traditional 20-by-25-foot tent.

### How did you get started?

A friend gave me a shipping container,

and a contractor friend helped me figure out how to transform it. A container is an engineering marvel, and it requires a lot to take it apart and maintain its structural integrity. In five weeks, we produced a prototype. Then we had to market to a clientele that didn't know they needed us. It was tough, but I wasn't afraid to say, Let's keep going. In October 2009, we made our big debut with a hospitality suite in the infield at the Charlotte Motor Speedway.

**How has the company grown?** We employ about 40 people, including

designers, architects and engineers, to design and fabricate custom venues [www.boxmanstudios.com]. We've created trade-show exhibits, pop-up retail shops, tailgating venues and even a warming house for an ice rink. Our clients have included Adidas, Fiat, Ford, GE, Google, Nike and Porsche.

### Is it easy to get containers?

Decommissioned containers are readily available. We get them through ports and third-party brokers. They're a small fraction of our costs.

**How did you finance your start-up?** I had built up a substantial net worth. I didn't take a salary for about three years. There were tight times, but with the great blessing and support of my wife, we made it through.

**How's business?** We turned a profit in 2010 and have grown by reinvesting profits into the business. In 2014, we nearly doubled our booked revenue, and we anticipate doubling our sales in 2015.

### Your biggest challenge?

**Personnel.** When a company grows as quickly as we have, sometimes you leap beyond what your people are able or willing to do, or they slow down the process because it's uncomfortable for them. My biggest regret is that I couldn't lead and coach people and, ultimately, I had to let some of them go.

**Your greatest satisfaction?** I love being on the front end of things. I have the opportunity to talk with some pretty amazing people. I get to draw ideas from them, bounce my ideas off them and bring those ideas to fruition.

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<sup>2</sup> IRAs cannot be opened online. Synchrony Bank does not provide tax advice. Please consult your tax advisor for actual advantages and any potential tax implications before establishing or making contributions to an IRA.

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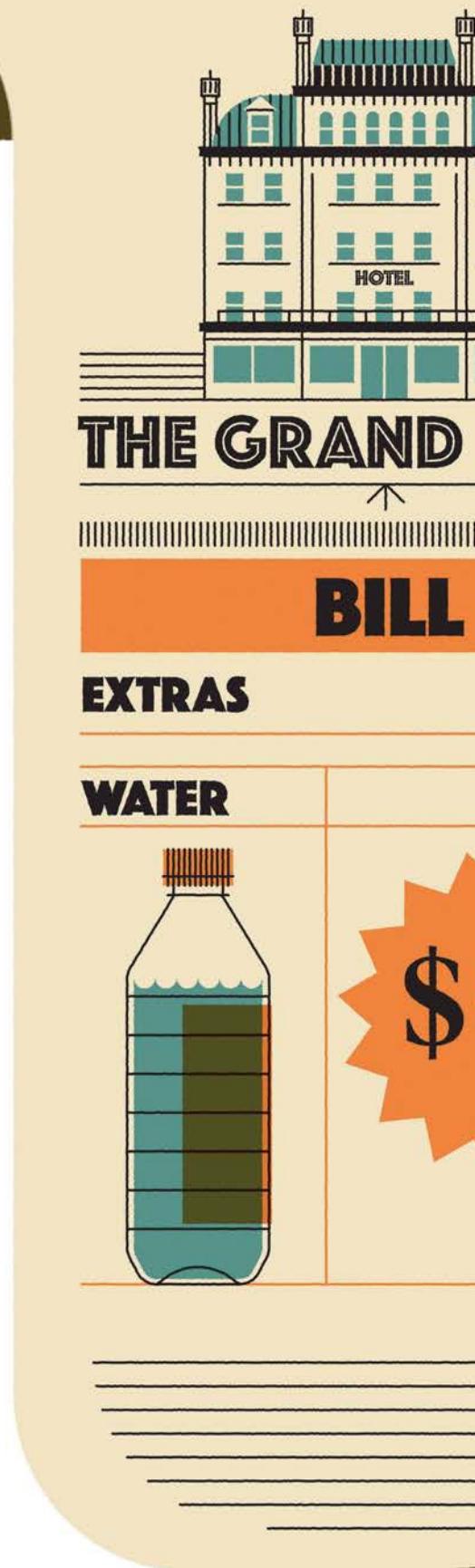
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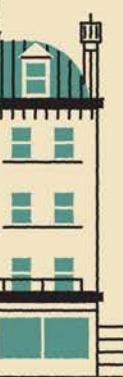
# THOSE #%\$! FEES

**They drive you nuts, but you can dodge most of them if you know how.** BY LISA GERSTNER

#### **EVERYONE HAS A STORY ABOUT AN OUTRAGEOUS FEE**

triggered by an otherwise ordinary transaction. Perhaps you arrived at the airport only to learn that your carry-on bag was too big—and were forced to pay \$100 to check it. Or you inadvertently overdrew your checking account by a few dollars and got dinged \$35 by your bank. Or maybe you were on a beach vacation and your hotel tacked on a “resort fee” of up to \$50 per night to cover “amenities.” // You can’t avoid all such fees, but you can sidestep plenty of them with some foresight. Use these tips to keep hundreds—or even thousands—of dollars in your pocket.





HOTEL

7

### WI-FI

\$20



### GYM



\$25

### TOTAL

\$419

# TRAVEL

## HOTELS

You could be socked with a **CANCELLATION FEE** if you change your plans at the last minute. Hilton and Marriott impose a penalty equal to one night's stay if you cancel on the day you planned to arrive, and some hotels require more than 24 hours' notice. Certain hotels (especially high-end ones) still levy fees of up to \$20 a day for **WI-FI ACCESS** or charge extra if you'd like faster speeds. **EARLY CHECK-IN** or **LATE CHECKOUT** could run \$20 or more, and if you leave your bags with the concierge, you may be hit with a fee for **LUGGAGE STORAGE** of a buck or two per bag. Too smart to pay inflated **MINIBAR** prices? If you rearrange the contents of the fridge to hold your own drinks, sensors may be tripped. That could cost from a few dollars to \$30 or more for each item you move. And don't assume the **BOTTLE OF WATER** sitting on the desk is free. Drinking it could add \$5 or more to your bill.

◆ **How to avoid them:** You may be able to bypass some fees by joining a hotel's loyalty program or booking directly on its Web site. If you don't have complimentary in-room Wi-Fi, see whether it's offered free in the lobby or business center. Ask the front desk to remove charges that seem out of line—especially ones for minibar items you never consumed. If you have a solid reason to check in or out of the hotel outside of normal hours or to cancel your reservation—say, because of a flight delay—request that the fee be waived. ◆ **When to suck it up:** Mandatory resort fees, which cover such staples as concierge services and the fitness room, can hit \$50 a night, says Anne Banas, executive editor of SmarterTravel.com. The fees, commonly found at hotels in Las Vegas and at beach

destinations, usually don't show up in advertised rates. You may not have much luck negotiating them away, but you can visit [www.resortfeechecker.com](http://www.resortfeechecker.com) to look up fees at the hotels you're considering. Another fee you're stuck with: If you're packing more than two adults in a room and the hotel knows about it, you'll probably pay up to \$50 per **EXTRA PERSON** per night.

## AIR TRAVEL

Air travelers are by now all too familiar with the \$25 fee each way to **CHECK A BAG** when flying domestically. Fees for additional bags range from \$35 or so for a second up to \$200 for a fourth. An **OVERWEIGHT BAG** could run you another \$50 to \$200 or more. Taking the bag fee to extremes, Allegiant, Frontier and Spirit airlines charge from \$10

to \$100 to bring a **CARRY-ON BAG**, depending on how and when you pay the fee. And if a security or gate agent deems that you have an **OVERSIZED CARRY-ON**, you may have to pay a hefty fee to check it at the gate (Spirit charges \$100). Or you may be sent back to the ticket counter to check the bag and risk missing your flight.

Airlines are also pushing the envelope with a variety of other fees: Passengers who pay the basic fare on Air Canada, Allegiant, Frontier and Spirit are charged anywhere from a dollar to \$80 each way to **SELECT A SEAT** (any seat); on other airlines, you have a limited selection of no-extra-fee seats. If you aren't Web-savvy, get ready to pay a **BOOKING FEE**; most airlines charge from \$10 up to \$45 to book tickets on the phone, at the airport or at a ticket center.

You could be penalized for **PRINTING YOUR BOARDING PASS** at the airport; Allegiant charges \$5, and Spirit charges \$10. A few airlines, including US Airways and Virgin America, charge \$3 to \$10 for a **PILLOW AND BLANKET**.

You may be able to cover the price of a ticket with frequent-flier miles, but you'll still pay government fees and



taxes. Plus, some major airlines charge \$75 if you **BOOK A REWARDS TICKET** within three weeks of departure. And if you change your reservation, you may pay from \$30 to \$200 to **REDEPOSIT THE MILES**.

◆ **How to avoid them:** Review an airline's policies on luggage, reservations and other potential fees on its Web site, and prepare for your trip by, say, printing boarding passes at home and bringing a pillow. It may be best to pay baggage fees when you book or check in online instead of when you reach the airport. In some cases, checking a bag is less costly than bringing it as a carry-on. Southwest lets you check two bags free. JetBlue has traditionally allowed one free checked bag, but new pricing tiers eliminate the free checked bag on cheaper tickets.

Frequent fliers may benefit from using an airline rewards credit card that includes free checked luggage in exchange for an annual fee. (Those with elite status may also escape other fees, such as for booking over the phone.)

If a single bag is overweight, it may be cheaper to pack and pay for a second bag. Or compare the cost of shipping items or luggage, rather than taking them on a plane. You can use calculators on the Web sites of the U.S. Postal Service, UPS and FedEx to get an estimate of what you'd pay. Ground shipping a 60-pound bag with UPS from Miami to Chicago may run about \$70, compared with fees of more than \$100 to check an overweight bag on some airlines.

◆ **When to suck it up:** If you have to **CHANGE OR CANCEL A NONREFUNDABLE TICKET**, many airlines will charge as much as \$200 for a domestic flight, or more than \$400 for an international flight. Outside of dire circumstances, such as hospitalization or a death in your immediate family, you're going to end up paying it. But Southwest Airlines charges no ticket-change fees.

Is your **KID TRAVELING SOLO** to visit Grandma? If he's age 12 to 15 or younger, you'll pay a fee of \$25 to \$150 each way, depending on the airline. Bringing a furry companion will result

in a **PET FEE** of \$25 to \$200 or so. It's generally cheaper if Fluffy travels in the cabin instead of the cargo hold.

## CAR RENTALS

The **COLLISION DAMAGE WAIVER**, or CDW, which covers damage to a rental car, often runs \$20 to \$30 a day, possibly doubling the bargain rate you worked so hard to find. Worse, you are likely to get the hard sell to buy it.

Car rentals come with a host of other fees, too. **RENTING A GPS** may be about \$13 a day. A **TRANSPONDER** to pay tolls electronically may run more than \$60 a week. A **CAR SEAT** for a child is about \$11 a day. And it's best not to light up; you could be smacked with a fee of \$250 for **SMOKING** if the cleaning crew smells smoke on the upholstery.

◆ **How to avoid them:** Most people can skip the CDW. Your personal auto-insurance policy covers rental-car damage and liability up to the same limits as for your own vehicle. Plus, most credit cards will reimburse for damage to rental cars not covered by your personal auto policy as long as the rental was both reserved and paid for with the card. Also, use as many of your own devices as possible, such as a GPS device or navigation app on your smartphone. If you have your own transponder, such as E-ZPass, bring that, too (check whether you need to register the rental car with the transponder provider).

◆ **When to suck it up:** If you don't have your own car insurance, you should probably buy at least supplemental liability insurance at the counter (it may run about \$13 a day) because your credit card alone won't cover personal injury or property damage you cause. If you'd rather keep a claim for a potential accident off of your personal insurance records, buying the CDW at the rental counter is a better idea. If you skip the CDW and are involved in an accident, you may be charged **ADMINISTRATIVE AND LOSS-OF-USE FEES** (money the rental company loses when the car is in the shop) if your own auto insurance and credit card don't cover them.

If you pick up the car at the airport, you may have to hand over an additional 10% or more in **AIRPORT CONCESSION CHARGES**. It may cost a whole extra day's rental fee if you **RETURN THE CAR LATE**. Unless there has been a death in your immediate family, you're probably stuck with the fee.

### KipTip

## Throw Your Weight Around

**EXCESSIVE FEES ARE ESPECIALLY irksome if you've had an extended relationship with a company. But you can leverage your loyalty to get a better deal. Sometimes, a quick phone call is all it takes to remove a fee. Make a firm, direct request for a break, and keep your cool. Shouting and cursing won't earn you any favors.**

**If you've stuck with the business because it usually treats you well, say so. Customers who are being penalized for an uncharacteristic slip-up should point out that they've been otherwise well behaved. Remind the representative that you could take your business elsewhere if you leave the conversation unhappy. Still won't budge? Ask to speak with a supervisor.**

**With Twitter, you can broadcast your dissatisfaction publicly, giving a company added incentive to appease you. Some cable companies and airlines are known to be responsive on Twitter. Direct your tweets to the company's general account or, if it has one, to a designated customer-care account, such as @DeltaAssist for Delta Air Lines. Embed the account name within your tweet, or if you put it at the beginning of a tweet, enter a period in front of it (for example, "@DeltaAssist") so that the message is visible to all of your followers. Be specific about the offending fee, state your loyalty to the company and keep a civil tone. If you get what you want, tweet your satisfaction to create some amity. It could pay off the next time.**

# CREDIT CARDS

## ANNUAL FEES

A credit card's annual fee may be \$50 to \$100 (and even more for high-end cards). Paying the fee can be worthwhile if you earn enough in card benefits. The American Express Blue Cash Preferred card, for example, charges \$75 a year but offers cash-back rewards that include 6% on up to \$6,000 in supermarket purchases per year. The American Express Gold Delta Skymiles card (\$95 annual fee; waived the first year) provides two miles for every dollar you spend on Delta Air Lines purchases, and it gets you a free checked bag on every flight for up to nine passengers on your reservation.

◆ **How to avoid them:** Plenty of great credit cards come without a fee. The Citi Double Cash card, for one, pays 1% when you make a purchase and an additional 1% when you pay the bill. If you have a card with an annual fee that's no longer benefiting you, ask the issuer whether it can migrate your account to a new, no-fee card while maintaining the original account opening date for the old card, suggests Nick Clements, cofounder of personal finance site MagnifyMoney. Your average account age—a component of your credit score—will stay intact.

## LATE-PAYMENT PENALTIES

Card issuers can charge up to \$25 the first time you pay late and \$35 if you do it again within six billing

cycles (plus, your annual percentage rate may spike).

◆ **How to avoid them:** Ask the issuer to waive the fee. If you've been a good customer, it will likely oblige. The Discover It card charges no fee the first time you pay late, and the Citi Simplicity card never charges a late fee.

## FOREIGN-TRANSACTION FEES

Some cards charge an extra 3% or so on every transaction you make outside the U.S.

◆ **How to avoid them:** When you travel abroad, pack a card without the fee. Capital One charges no foreign-transaction fees on its cards, and the Barclaycard Arrival Plus and Chase Sapphire Preferred cards also skip the fee.

## BALANCE-TRANSFER FEES

If you want to move debt from a card with a high interest rate to one with a lower rate, you'll often pay a fee of 3% of the balance.

◆ **How to avoid them:** The Chase Slate card charges no balance-transfer fee as long as you move the money within 60 days of opening the account, and the APR is 0% for 15 months. Or try bargaining for a lower fee on a card you prefer.

## PREPAID DEBIT CARD FEES

Prepaid cards are notorious for nickel-and-diming customers. You could pay as much as \$10 to activate the card, \$2 or more every time you visit an ATM, and up to \$10 in monthly fees.



◆ **How to avoid them:** The Bluebird From American Express and Walmart and the American Express Serve cards have minimal fees. Some cards waive the monthly fee if you meet certain requirements, such as arranging for direct deposit.

## CASH-ADVANCE FEES

The fee for getting cash with your credit card averages 4%—a spike of 40% since 2010, according to credit card research site CardHub.com. Interest accrues immediately, usually with a rate of at least 20%. Cash-advance fees are often tied to withdrawing cash at the ATM or with a bank teller, but sending cash from your credit card to your checking account could trigger them, too.

◆ **How to avoid them:** Use an alternative source of funds if you really need the cash.

◆ **When to suck it up:** If your credit card bills are chronically overdue, the issuer probably isn't going to waive late-payment penalties. And you may have to fork over a bit extra to use a credit card for certain types of payments. **PAYPAL** charges 30 cents plus 2.9% of the total if you use a credit card to send money to family or friends (you pick whether you or the recipient pays the fee). **PAYING THE IRS** for a tax bill with a credit card may cost you 2% to 4% of the amount due.

# BANK ACCOUNTS

## MONTHLY MAINTENANCE FEES

The average monthly maintenance fee for a checking account reached a record high of nearly \$13 in 2014, according to Money Rates.com, which tracks bank accounts. Only 26% of checking accounts charge no monthly fee.

◆ **How to avoid them:** With most accounts, you can avoid the fee by maintaining a minimum balance or setting up direct deposit. Better yet, use a free, no-strings account. Many credit unions, community banks and online banks offer them (see "Best of the Online Banks," April).

## ATM SURCHARGES

The average fee to visit an out-of-network ATM is more than \$4, when you combine what banks charge their own customers to withdraw cash from out-of-network ATMs with fees that ATM owners charge nonmembers, says MoneyRates.com.

◆ **How to avoid them:** Check your bank's Web site or mobile app for a directory of nearby in-network ATMs. If you are a large depositor or have several accounts, the bank may waive or reimburse some ATM fees. The Ally Bank Interest Checking and Bank of Internet USA Rewards Checking accounts are fee-free and reimburse all out-of-network surcharges with no minimum-deposit requirements.

## OVERDRAFT FEES

If you've agreed to have the bank cover overdrafts for you, fees often surpass \$30 per transaction when you overdraw your account. And you could get nailed with similar penalties for bounced checks or automatic recurring payments that exceed your balance. Leaving your balance negative for a few days can trigger another fee of more than \$30.

◆ **How to avoid them:** Tie your checking account to a savings account from which the bank can pull money in case you dip below your checking balance. Many big banks charge \$10 to \$13 to transfer the money, but some institutions do it free. The bank may also waive fees if you ask.

## INACTIVITY FEES

If you haven't made deposits into or withdrawals from a savings or money market deposit account for a while—say, six months to a year—the bank may charge a monthly fee of \$5 to \$10.

◆ **How to avoid them:** Set up regular transfers into or out of the account; \$1 a month may be all it takes (but make sure the banks involved don't charge transfer fees). Sometimes, calling customer service to inquire about the account qualifies as activity.

◆ **When to suck it up:** Especially if you prefer banking with a large institution but keep a small profile (a low balance and only one or two accounts), you'll have to put up with standard service fees.

**REPLACING A LOST DEBIT CARD** may cost you \$5 and **GETTING A CASHIER'S CHECK** could be \$8 to \$10. **USING YOUR DEBIT CARD ABROAD** may result in a fee of 1% to 3% of the transaction amount, plus an increased charge to use out-of-network ATMs.



# CABLE, INTERNET AND PHONE

## INSTALLATION AND SERVICE FEES

Cable companies often add a fee of anywhere from \$20 to \$150 to have a technician set up cable or Internet service in your home.

◆ **How to avoid them:** You can try to negotiate away the fee as a condition of signing up for service. Or, if all you have to do is connect a modem or cable box, tell the company that you'd rather do the job yourself. If a technician has to come to your home for a service call and you're charged for it, ask to have the fee removed—especially if the problem is the provider's fault.

## ACTIVATION FEES

These charges may appear on cable, Internet or wireless bills to start new service, and they could run \$40 or so.

◆ **How to avoid them:** Try asking the provider to waive the fee. And look for promotions from wireless carriers that exclude the charge.

## EARLY-TERMINATION FEES

A cable company may lure you with a promotional offer that includes

low rates for six to 12 months but increased rates after that. If you signed a contract, you're stuck paying the higher rate or canceling service and forking over a contract-termination fee of more than \$300. Wireless phone providers also charge such fees. Typically, cable and wireless companies

company to forgo the fee. It may, for example, waive the fee if you're moving to an area where it doesn't have service. Most phone and cable service operators offer plans that don't lock you into a contract, but cable pay-as-you-go plans may cost more per month.



prorate the fee so that the longer you've held the contract, the smaller the charge.

◆ **How to avoid them:** Sprint and T-Mobile recently ran promotions that promise to reimburse customers of competing carriers for early-termination fees if they switch (but they have to meet requirements such as buying a full-price phone with the new carrier). Or you can try asking a phone or cable

## DATA OVERAGE CHARGES

If you have a Verizon Wireless More Everything plan that includes 1GB of data, for example, Verizon charges \$15 for each extra gigabyte of data you use. For many smartphone users, about 2GB a month is enough. But if you stream a lot of video or music, you may want to have a plan that provides unlimited data.

◆ **How to avoid them:** Find a phone plan that fits your data-usage patterns. Conserve data by connecting your phone to Wi-Fi at home, work and other trusted locations.

◆ **When to suck it up:** Federal, state and local **GOVERNMENT TAXES** together make up an average of 17% of a cell-phone bill, according to the Tax Foundation. Cable and Internet plans can also come with significant taxes and fees. Comcast adds a \$1.50 "BROADCAST TV FEE" on top of regular rates in some markets.

# ENTERTAINMENT

When you buy a ticket for a concert, show or sporting event through a third party, such as Ticketmaster, you may have to pay **SERVICE AND CONVENIENCE CHARGES** that inflate the total amount by a considerable portion of the ticket's face value. Recently, a \$27 ticket

for a concert by Kelly Clarkson in St. Paul, Minn., in August cost a total of nearly \$40 on Ticketmaster with taxes and fees included.

◆ **How to avoid them:** If you buy tickets at the box office rather than online, you may not have to pay fees. (But tickets

for popular concerts may sell out online before you can get to the venue.) When you buy online, you usually don't have to pay delivery fees if you pick up tickets at the box office. Printing tickets at home or flashing them on your mobile phone may be less expensive than having them mailed to you.

◆ **When to suck it up:** Some fees, such as service or convenience charges, are unavoidable if you want to buy a ticket online. But more online ticket sellers are disclosing fees up front. ■

# Lower Your Electricity Bill

I OFTEN GET OFFERS IN THE MAIL about switching electricity providers. How do I assess whether these companies offer a better deal than my local utility?

**J.L., SILVER SPRING, MD.**

Many states passed legislation in the late 1990s and the 2000s deregulating energy companies, opening the door to competition among electricity and natural gas suppliers. In about one-third of the states, you can shop suppliers to get the best deal. Your local utility still delivers the energy to your home, sends you the bill and handles power outages. On average, consumers in states that let you choose among suppliers save the equivalent of one month's bill in the first year after switching, says Phil Croskey, CEO of PointClickSwitch.com, which compares suppliers in seven states.

Most state public utility commissions make it easy to compare rates ([www.naruc.org/commissions](http://www.naruc.org/commissions)). Texas, Ohio and Maryland, for example, have tools that show the price per kilowatt-hour from the suppliers in your area and specify whether the rate is fixed or variable, the duration of the term, any cancellation fee, incentives (such as a small sign-up bonus), and the estimated monthly charge based on your energy usage (look at your old bills for the number of kilowatt-hours you use). Most states also show the number of complaints lodged against suppliers.

Be mindful that variable rates can change daily or monthly based on market conditions and can spike during a frigid winter or a hot summer; you're probably better off sticking with a fixed rate, says Terry Hadley, of the Texas public utility commission. Croskey recommends comparing your current rate with those of other suppliers at the beginning of every season. You can switch at any time, although you might incur a fee. The new supplier can make the change.

**Management fee.** *I may turn my IRA over to a money manager who charges a 1% annual fee. Can that money come directly from the IRA without triggering taxes or a penalty? I am younger than 59½.*

**J.S., PORTLAND, ORE.**

Yes, the management fee can be deducted from the IRA, and it's treated as an expense of the IRA rather than a distribution, so it isn't taxable or subject to the penalty.

But it's often best to pay the management fee out of pocket, assuming the company allows you to, says Jeff Levine, technical consultant with Ed Slott and Co., which provides IRA information for financial advisers. "If the fee is deducted directly from the account, you're reducing the amount of money that is growing tax-deferred for retirement—or tax-free in a Roth IRA," he says.

**Stable value funds.** *What is a stable value fund, and how would it fit in my portfolio?*

**T.W., VIA E-MAIL**

A stable value fund is a type of fixed-income investment. Stable value funds are less volatile than intermediate-maturity bond funds but recently have paid a lot more than money market funds. They are available only in employer-sponsored retirement plans (not IRAs); about half of 401(k)s and about two-thirds of 403(b) and 457 plans offer them.

Over the past year through February 28, the Hueler stable value pooled index, which measures the total return of stable value funds, returned 1.7%, while money market funds earned nothing. "A stable value fund can add ballast to your portfolio and is a great vehicle for parking the money you might be withdrawing soon in retirement," says Judith Ward, a certified financial planner with T. Rowe Price. ■



**On average, consumers in states that let you choose among suppliers save the equivalent of one month's bill in the first year after switching."**

**GOT A QUESTION? E-MAIL [ASKKIM@KIPLINGER.COM](mailto:ASKKIM@KIPLINGER.COM). KIMBERLY LANKFORD ANSWERS MORE QUESTIONS EACH WEEK ON KIPLINGER.COM.**

# Take Charge of Your Credit

New rules phased in over the next three years will make it easier to correct mistakes on your credit report. Until then, it helps to be persistent. **BY MIRIAM CROSS**

## YOUR CREDIT HISTORY CAN HELP

you buy a home or car, get a low-rate credit card, reduce your insurance premiums or impress an employer. It can also hurt your chances for all of the above, depending on what's inside the file. That's why it's important to check your reports from the major credit bureaus regularly, in case negative information has slipped in by mistake. Plus, credit scores are based on facts in your reports, and glitches that start there could lower your score.

Errors creep in more often than you might think. According to a 2012 study by the Federal Trade Commission, one in five consumers had an error on at least one of their credit reports from Equifax, Experian or TransUnion, and 5% had errors so significant that they could have had to pay more for loans and insurance. When the FTC followed up in 2014, nearly 70% of those who were challenging suspected errors at the time of the 2012 study maintained that some information was still inaccurate.

Lenders don't necessarily report to all three credit bureaus, so a mistake might appear on one, two or all three of your reports, and you must dispute each one separately. But when you try to correct errors, you may hit a wall.

Federal law requires credit bureaus (and the lenders that supply your data) to thoroughly investigate consumer complaints and make any corrections. Yet, as it stands now, "the real work of examining documents, calling the consumer, making a judgment call—none of that happens," says Chi Chi

Wu, staff attorney at the National Consumer Law Center, a nonprofit advocacy group. Rather, the agencies usually hand off the dispute to the lender to review. The lender may do only a cursory check of its computer records before bouncing back a reply. "The automated system encourages the lender to hit a button that says the information is verified," says Wu. The bureaus usually accept this response as the final word.

Over the next six months to three years, that should change. The three agencies reached an agreement with New York State to improve the way they handle disputes, among other things, and many of these changes will take effect nationwide. The agencies will have to train employees to make thorough investigations, using whatever documentation a consumer submits—even if the lender automatically shoots down a dispute. "Consumers are often frustrated with the dispute process, and hopefully this will interject some additional review," says Gerri Detweiler, director of consumer education at Credit.com.

Don't assume if you have a high credit score that there are no errors in your reports or that errors won't creep in later. Each of the three major credit bureaus tracks more than 1.3 billion pieces of information on millions of consumers each month. Your details could be mixed up with those of someone who has a similar name or Social Security number, or your report could include outdated or misattributed public records, such as civil court

judgments. Or the creditor could make a typo when it transmits information in the first place.

## ● ● SCRUTINIZE YOUR REPORTS

Start with the basics: Order a free copy of your credit report from each of the three major bureaus once a year through AnnualCreditReport.com. Pore over each section of each one. Variations of your name, an unfamiliar



address, accounts you never opened and delinquencies you don't recognize are all signs that your information might be mixed up with someone else's—or, worse, that an identity thief is at work. If a black mark is accurate, make sure it still falls within the window of time when it can appear on your report (typically seven years).

You'll also see two separate lists of businesses that have peeked into your file. It's safe to ignore "soft" inquiries, which are grouped under a disclaimer that they are merely for your review or don't impact your credit score. "Hard" inquiries from names you don't recognize are more worrisome because it means someone has pulled your credit to follow up on an application, says John Ulzheimer, president of consumer education at CreditSesame.com. A hard inquiry by an unfamiliar bank, for instance, could mean someone is trying to open an account in your name.

Dig deeper if a nugget looks suspicious even if you're not sure whether it's a mistake. For example, if your report shows a credit card balance that's higher than you expected, consider whether any interest charges are added in. Or if a collection account you paid off appears on your report, double-check that it has been less than seven years since the account slipped into delinquency (if so, it can still be included in your credit history). "Many of the things that get consumers frustrated about the credit-reporting process aren't necessarily mistakes," says Detweiler. "You forget about a bill, and it winds up as a late payment on your report. Your ex doesn't pay bills he promised to pay in the divorce, and your credit suffers as a result."

Small typos involving your name, age and address won't directly affect your ability to get credit, and you may decide that chasing down a fix is more

trouble than it's worth. But the more inconsistencies that crop up in your credit history over time—say, a slightly misspelled name—the more potential for you to be mixed up with someone who has a similar name.

### ● ● DISPUTE THE ERRORS

You have a few options for disputing a mistake, and you have recourse if your first attempt doesn't succeed.

Start by simultaneously filing disputes with the lender and the bureau or bureaus that are reporting the error. Convincing the source that it made a mistake is the surest way to get a blemish removed because the lender must send an update to each bureau that published the flawed information. But filing a dispute with the bureau compels it to investigate. That's a must if the dispute process drags on and you want to pursue legal action under the Fair Credit Reporting Act.

Before you contact the credit bureau, have the most recent version of your credit report on hand. Bureaus give you the option of contesting errors online, by mail or by phone, and you can upload or send documents to support your claim. They have 30 to 45 days from the time they receive your dispute to investigate.

It's a good idea to create a paper trail, so dispute the error by mail. Start by compiling your evidence, including a copy of the report in question (highlight the parts you're challenging) and copies of documents that bolster your argument, such as billing statements or correspondence with your creditor. Then write a letter identifying which item (or items) you're disputing and why. For example, if your report shows an erroneous collection account, pinpoint exactly what's wrong—the balance is inaccurate, you already paid it or the account doesn't belong to you at all. Clearly and succinctly explain the correction you're looking for.

Leave out elaborate backstories, but be sure your case is airtight; bureaus can reject a complaint they deem superficial or unspecific. Similarly, bureaus



may claim you didn't supply enough identifying information, so consider including your Social Security number and date of birth along with your name and address. Finally, send your materials by certified mail, return receipt requested, so you have evidence that your dispute has been filed.

When it comes to the creditor, get in touch via the contact information (usually a phone number and address) supplied in your credit report. Explain to the lender which item it reported is wrong, and be clear that you're challenging something it sent to a credit reporting agency (and specify which one). With luck, you'll get a helpful customer service rep who can easily trace the error for you. If not, brace yourself for a painstaking process.

When Candace Wilkins of San Luis Obispo, Calif., ran into trouble refinancing her mortgage in 2012 because of faulty information on her credit reports, it took her eight months to remove the blemish. The reports her mortgage lender pulled showed a long-forgotten account, paid off and closed more than seven years before, that was suddenly in dispute. Wilkins managed to remove the incorrect information on her TransUnion report by calling TransUnion several times a week for three weeks until she found a supervisor who agreed to delete the information. For the other reports, she had to penetrate layers of customer service at her lender until she could find someone to research her claim and correct the error with the bureaus.

In both cases, persistence paid off. When she spoke with customer service agents, she acknowledged that they had limited authority to investigate on her behalf but emphasized the gravity of her problem (a higher refinance rate that would cause strain) to implore them to seek help from their superiors. "I played every card I could to get someone to help me," she says.

If, like Wilkins, you're struggling to get answers, watch the calendar. Bureaus are required to forward your complaint to the creditor within five

days of receiving it. If the creditor doesn't respond within 30 (or in some cases 45) days, the bureau must delete the contested item. But don't bank on that quick fix.

#### ● ● **IF AT FIRST YOU DON'T SUCCEED**

If you're successful on your first try, the hard part is over. You can ask the bureaus to notify anyone who received the report within six months (or two years for employment purposes) of the corrections. Regardless of whether

you decide to do that, pull your reports a few months down the line to make sure the lender hasn't resubmitted the flawed data. Another change that's coming over the next six months to three years: The agency must send you a free report after it has made a correction (this is already required in some states).

What if your initial dispute fails? You can't file a second dispute unless you have new information to back up your claim. But you can lodge a complaint with the Consumer Financial Protection Bureau ([www.consumerfinance.gov/complaint](http://www.consumerfinance.gov/complaint)). It will forward your complaint and supporting evidence and demand a response.

If you're still unsatisfied after involving the CFPB, pause before turning to a lawyer. Assess how much damage the error is causing. If your report is populated by legitimate delinquencies, getting one error removed is not going to pump up your score. But if you have one glitch in an otherwise sterling report that is preventing you from getting credit—say, a bankruptcy that never occurred or a collection for a debt you never incurred—fixing the problem could be worth the cost of a lawyer. You can find consumer lawyers specializing in these cases at the National Association of Consumer Advocates Web site ([www.consumeradvocates.org](http://www.consumeradvocates.org)). Be wary of paying a credit-repair agency to write in on your behalf because it can't make your case more convincingly than you can.

If you can't resolve the dispute to your satisfaction and have to live with the black mark, bear in mind that it will take seven years for most negative information and 10 years for bankruptcies to disappear from your file; criminal convictions and some other details may never be removed. You can ask the bureaus to include a short message expressing your disagreement on future reports, if you like. But it won't carry much weight, says Ulzheimer. "In many cases, the consumer statement isn't seen by anybody, and it's not considered by scoring models." ■

#### Specialty Bureaus

## Beyond the Big Three

**THE THREE MAJOR CREDIT BUREAUS** aren't the only ones taking stock of your financial and personal history. Hundreds of specialty agencies home in on specific aspects of your life, such as your employment background or check-writing record, and sell this information to creditors and other businesses. National specialty agencies must provide you with a free report every 12 months if you ask for it, and all must provide a report for a reasonable fee. You are also entitled to a free copy if you're denied credit or charged higher rates because of a particular report.

**It's fruitless to try to keep on top of every niche file. But it wouldn't hurt to pull your records from tenant-screening databases before you apply for a lease, or to check your CLUE reports before shopping for auto or home insurance. Be especially vigilant if a member of your family is going through financial problems (your names could get mixed up) or if you have been a victim of fraud. If you spot any outdated or inaccurate information, take it up with the agency.**

**You can find a list of common specialty agencies and their contact information at [http://files.consumerfinance.gov/f/201501\\_cfpb\\_list\\_consumer-reporting-agencies.pdf](http://files.consumerfinance.gov/f/201501_cfpb_list_consumer-reporting-agencies.pdf).**

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# Help the Grandkids Pay for College

Covering educational expenses is one of the best gifts you can give, if you go about it the right way. Here are six strategies. **BY SANDRA BLOCK**

**ANYONE WHO IS OLD ENOUGH TO HAVE** grandchildren remembers when it was possible to earn enough money from summer and part-time jobs to cover college tuition. Now, unless your grandchildren create the next Snapchat or Facebook, that's probably not going to be an option for them.

Over the past 40 years, tuition has increased at more than twice the inflation rate, straining family finances and forcing millions of young adults to take on student debt. Grandparents are eager to help. A 2014 survey by Fidelity Investments shows that more than half are contributing to a grandchild's college education or plan to do so in the future.

But helping your grandchildren obtain a college degree is more complicated than mailing them a check on their 18th birthday. Any gifts you give may have tax implications for you (for better or for worse). And if the kids apply for financial aid, your generosity could backfire. Here's how to help the grandkids in the most effective way.

## 1. INVEST IN A 529 SAVINGS PLAN

Harriet Sukaskas, a middle-school teacher in Johnston, R.I., says her three grown children had to borrow to cover their years in college. To avoid that burden for her two

granddaughters, Avery, 4, and Abby, 2, Sukaskas invested in Rhode Island's 529 plan, CollegeBoundfund, shortly after they were born.

Sukaskas contributes through payroll deduction and adds extra payments to the accounts on holidays and other special occasions. "If they get a toy, they play with it an hour or so, and that's about it," she says. "I'd rather have something waiting for them when the time comes for them to attend college."

Sponsored by 48 states and the District of Columbia, 529 savings plans provide a tax-efficient way for grandparents to help with college costs. Earnings on investments grow tax-free, and withdrawals aren't taxed as long as the money is used for qualified expenses, including tuition, fees, and room and board. If you withdraw money for nonqualified expenses, such as a medical emergency, you'll owe income taxes and a 10% penalty on the earnings.

In addition to tax-free growth on your investment, you could get a tax break on your contributions. Thirty-three states and the District of Columbia offer deductions or other tax benefits for contributions to a 529 plan. For example, New York residents can deduct up to \$5,000 in contributions

to their state's 529 plan from their state income taxes each year (up to \$10,000 for married couples). Rhode Island residents can deduct up to \$500 in contributions annually, or \$1,000 if they're married. Most states require you to invest in-state to claim the deduction, but six states—Arizona, Kansas, Maine, Missouri, Montana and Pennsylvania—will give you a tax deduction for investing in any state's 529 plan. You can invest in most state plans regardless of whether you're a state resident, but if your state offers a tax break, you're generally better off going with that plan (see "The Best College-Savings Plans," Oct. 2014).

Unlike other education savings vehicles, 529 plans have high contribution limits: Most plans allow you to invest \$300,000 or more per beneficiary. And you can contribute to the plans no matter how high your income. But you're limited to the investments offered by the plan, and you can only change investments once a year.

Another option under the 529 umbrella is a prepaid plan. These plans let you prepay all or a portion of the cost of an in-state public college. If your grandchild decides to go to a private or out-of-state school, you can get a refund or transfer the money, though it won't necessarily cover all of the



■ HARRIET SUKASKAS SET UP 529 SAVINGS ACCOUNTS FOR GRANDDAUGHTERS AVERY (LEFT) AND ABBY.



costs. Tax benefits and penalties are the same as for 529 savings plans. Only 12 states offer prepaid plans; the Private College 529 Plan offers a comparable program for private schools ([www.privatecollege529.com](http://www.privatecollege529.com)).

**Estate planning.** Contributions to a 529 plan will reduce the size of your estate, a benefit you shouldn't ignore. While up to \$5.43 million of assets is exempt from federal estate taxes, 13 states and the District of Columbia have lower thresholds. In New Jersey, estates worth more than \$675,000 are subject to estate taxes.

You can contribute up to \$14,000 a year, or \$28,000 if you're married, to a 529 plan without filing a gift tax return. Better yet, you can stash up to five years' worth of annual gift tax exclusions, or up to \$140,000 for a married couple, in one year, says Jim Parks, a certified financial planner in Ridgewood, N.J. The money will no longer be included in your estate, but

you'll maintain control over the account, he says. If your grandchild doesn't go to college, you can switch beneficiaries, or use the money yourself and pay the penalty and taxes on the earnings.

**Impact on financial aid.** Money held in a grandparent's 529 plan isn't counted as an asset on the Free Application for Federal Student Aid (FAFSA), which is used to determine a student's eligibility for financial aid. However, when you take withdrawals to pay for your grandchild's college expenses, those distributions are treated as the child's income on the following year's FAFSA. The income will reduce financial aid on a dollar-for-dollar basis, says Deborah Fox, founder of Fox College Funding, in San Diego.

To get around this problem, you could wait to withdraw money from the 529 plan until your grandchild is a college junior and has filed the FAFSA for the last time, in which case it won't

affect her eligibility for financial aid in her senior year. Or, if your grandchild needs the money earlier, consider switching ownership to the child's parents. Only up to 5.64% of a parent-owned 529 plan's value is counted as an asset in the FAFSA formula, says Joseph Hurley, founder of [Savingforcollege.com](http://Savingforcollege.com). Distributions from the parent-owned account won't be counted as income, Hurley says. Not every plan allows you to transfer accounts; check your state's rules for transferring accounts at [www.savingforcollege.com](http://www.savingforcollege.com).

Another option is to make contributions to the parent's 529 plan. The downside is that you give up control of the account, but some states will still allow you to deduct your contributions, Hurley says.

## 2. CONTRIBUTE TO A COVERDELL

Like money invested in 529 plans, funds invested in a Coverdell education savings account grow tax-deferred. Withdrawals aren't taxed as long as the money is used for qualified educational expenses. You can set one up at a bank or brokerage firm, giving you more investment choices than you have with a 529 plan. The maximum you can contribute, though, is \$2,000 a year. To contribute, you must have a modified adjusted gross income of less than \$110,000 if you're single or \$220,000 if you're married and file jointly.

You don't maintain the same control over a Coverdell account as you do with a 529 plan. Most Coverdell account agreements require that the parent or guardian be named as the individual responsible for the account. That means you wouldn't be able to transfer the money to another beneficiary or use it for yourself.

You can contribute to an existing Coverdell as long as the total contributions per beneficiary don't exceed \$2,000 a year. If the account is owned by the parent, the impact on financial aid is minimal. If it's owned by the grandparent, distributions are treated

### KipTip

## Give a Long-Term Gift With a Roth

**HELPING YOUR GRANDCHILDREN AVOID STUDENT DEBT IS A WORTHWHILE endeavor, but it's not the only way you can safeguard their financial future.**

**As long as your grandchild has earned income, he or she is eligible to own a Roth individual retirement account. She doesn't have to fund the account with her own money, however. You can match her earnings dollar for dollar, up to a maximum of \$5,500 in 2015.**

**Your grandchild won't get a tax deduction for Roth contributions, but most young people don't make enough money to benefit from a deductible IRA, says Charles Bennett Sachs, a certified financial planner with Private Wealth Counsel, in Miami. As long as your grandchild waits until age 59½ to withdraw money, all of the earnings will be tax-free.**

**And thanks to the powerful effect of compounding, those tax-free earnings could be substantial by the time your grandchild retires. Suppose you contribute \$5,500 to your 16-year-old grandson's Roth IRA and make annual contributions for another 10 years. By the time your grandchild is 26, he'll have nearly \$85,000 (this assumes a 7% average annual return and that the maximum contribution is adjusted for inflation). If he continues to make annual contributions on his own after the 10 years, he'll have nearly \$3.2 million in savings when he turns 65. By comparison, if your grandchild waits until age 30 to open a Roth, he'll have about \$1.49 million in the account when he turns 65. "You can never replace those early years," Sachs says.**

as the child's income, potentially reducing financial aid.

### 3. PAY THE BILL YOURSELF

Another way to avoid estate taxes is to pay your grandchild's tuition directly. Tuition payments aren't considered taxable gifts, so you don't have to file a gift tax return, even if the amount exceeds the annual limit. You must make the payment directly to the college (not the parents or grandchild), and the exemption only covers tuition. Payments for other costs, such as room and board, are subject to gift tax limits.

Direct gifts will reduce or eliminate your grandchild's eligibility for need-based financial aid. For that reason, consider this option only if you're sure your grandchild won't qualify for aid, or wait until the last FAFSA has been filed to make the payment.

### 4. SET UP A CUSTODIAL ACCOUNT

With these accounts, known as UGMAs (for the Uniform Gifts to Minors Act) and UTMAs (for the Uniform Transfers to Minors Act), you put money or other assets in trust for a minor child. As trustee, you manage the account until the child reaches the age of majority (usually 18 or 21, depending on the state). The downside is that once your grandchild reaches majority, he or she can use the money for any purpose.

In addition, the account is considered the child's asset, which will significantly reduce eligibility for financial aid. Full-time students younger than age 24 pay no tax on the first \$1,000 of unearned income, and they pay the child's tax rate on the next \$1,000. Earnings above \$2,000 are taxed at the trustee's marginal rate.

### 5. PAY OFF STUDENT LOANS

Cosigning a private student loan will help your grandchild get a lower interest rate, but you're responsible for the debt if your grandchild defaults or falls behind. Debt collectors could sue you to collect the amount due, jeopar-



**SUKASKAS HOPES TO HELP THE GIRLS AVOID STUDENT DEBT.**

dizing your retirement savings.

A better option is to encourage your grandchild to stick with federal loans, which are easy to get and have more-flexible repayment terms than private loans, then help repay the loans after graduation. This strategy won't affect the family's eligibility for financial aid. Loan payments on behalf of someone else are considered taxable gifts, so limit your repayments to \$14,000 a year (or \$28,000 for a married couple).

### 6. KICK IN FROM YOUR ROTH IRA

Tapping your Roth is an option if you've already funded your retirement. As long as you're at least 59½ and have owned the Roth for at least five years, you can withdraw the earnings without paying taxes or penalties (you can withdraw contributions tax- and penalty-free at any time). If you give the money directly to the grandchild's parents after they've filed the

FAFSA, it will have no impact on financial aid, as long as they use the money to pay the tuition bill before filing the FAFSA for the following year. (This strategy would work with any gift you provide, not just withdrawals from a Roth.)

You can't save as much in a Roth as you can in a 529 plan. In 2015, the maximum amount you can invest in a Roth is \$6,500 if you're 50 or older. There are also income limits: You can't contribute to a Roth if your 2015 adjusted gross income is \$131,000 or greater, or \$193,000 or greater if you're married. But as a college savings vehicle, a Roth offers flexibility. You won't be penalized for using the money for things other than qualified educational expenses if you end up needing it yourself. You also have an unlimited range of investment options (see the box on the previous page on opening a Roth for your grandchild). ■



# “Should I invest some of my retirement savings in an immediate annuity?”

## IN A WORLD OF COMPLEX

financial products, immediate annuities are refreshingly straightforward. You hand over a lump sum to an insurance company and you get a monthly check, usually for the rest of your life.

The drawback? Once you've purchased an annuity, you can't get that money back, so you should never hand over all your savings. One strategy is to add up regular expenses, such as utilities and property taxes, subtract Social Security and other guaranteed sources of income, and buy an immediate annuity to fill the gap. Keep the rest of your savings in an investment portfolio that you can tap when you need the money for other, less-predictable costs, says John Scherer, a certified financial planner in Middleton, Wis.

Choosing an immediate annuity isn't as simple as identifying the one with the highest monthly payout. Do you want a single life annuity, from which payments will end at your death? Or a joint-and-survivor annuity, which guarantees lifetime income for you and your spouse but also costs more? For example, at [Immediateannuities.com](http://Immediateannuities.com), a 70-year-old man can buy a single life immediate annuity that pays \$2,000 a month for



about \$314,000. If he buys a joint-and-survivor annuity that continues to pay \$2,000 as long as he or his wife is alive, it will cost about \$395,000.

Another option is an annuity that guarantees payments to you or your heirs for a specified period. For example, with a *single life with 10-year period certain* contract, if you die within 10 years after you start receiving your monthly payments, your heirs will continue to receive payments for the remainder of the 10-year period. In the case of the 70-year-old man who wants income of \$2,000 a month, the guarantee would add about \$22,200 to the cost of the single life annuity.

Some insurance companies will let you add a cost-of-living rider to your annuity, either at a set annual rate (typically 3% a year) or one pegged to the consumer price index. The downside is that your monthly payments during the first few years will be smaller than those from an annuity without an inflation rider.

**Dealing with low rates.** The biggest drawback to immediate annuities is something you can't do much about: low interest rates. If you can afford to wait for higher rates, you should get a better deal. And delaying will pay off because the older you are when you buy an annuity, the higher your

monthly payment.

The second option is to purchase a ladder of immediate annuities. Say you have \$300,000 to invest in an immediate annuity. You would invest \$100,000 this year, another \$100,000 in two years and the remaining \$100,000 the year after that. By spreading out your purchases, you'd potentially benefit from higher rates.

Invest with an insurance company that will survive at least as long as you do. Only six insurers licensed to sell annuities and life insurance have entered receivership since 2008, and most were small, regional companies. Even so, protect your investment by narrowing your search to insurers rated A- or better at [www.ambest.com](http://www.ambest.com). Find out how much of your investment is covered by your state's insurance guaranty association, recommends Artie Green, a CFP in Palo Alto, Calif. Most state guaranty associations cover \$250,000 or more in annuity benefits per insurer. (You can check your state's guaranty limit at the National Organization of Life and Health Insurance Guaranty Associations, at [www.nolga.com](http://www.nolga.com).) If you plan to invest more than your state's limit, divide your money among several companies. **SANDRA BLOCK**

# Merging Your Money

For newlyweds, it makes sense to have a mix of accounts—his, hers and ours. **BY RYAN ERMEY**

**IF YOU'RE A NEWLYWED, YOU** and your spouse probably know by now what you like to do as a couple and what you like to do separately. Brunches and birthday parties? See you there. Poker nights and pedicures? See you later. But when it comes to combining your personal finances, the lines between yours, mine and ours may not be so clear.

**Spending.** Before you merge your credit cards, check your individual credit scores. The most common way to piggyback on a spouse's credit card is to sign on as an authorized user. But once you're authorized, the card's previous history will appear on your credit report; if the account has blemishes, your credit score will get dinged. You could also open a joint credit card. In that case, however, both spouses are responsible for the full balance of the account, so one person behaving badly will negatively affect both credit scores.

Gerri Detweiler,  
director of con-

sumer education at Credit.com, says a common strategy is to authorize your spouse to use a card that offers favorable terms, attractive rewards and has a positive credit history, and for both spouses to maintain separate credit accounts as well. That way, she says, you can pool household purchases and work jointly toward earning airline miles or rewards points.

Many couples approach bank accounts similarly. The hybrid approach, with a joint account for shared expenses and individual ac-

counts for personal spending, is a good way to go for many couples. However you choose to handle it, communication is essential. "Have these financial discussions early," says Detweiler, "while they're still money talks and not money fights."

**Insurance.** Assuming you've recently registered for your wedding, it should be easy to create a detailed home inventory, complete with estimated values for all of your possessions (see "3 Simple Steps," Dec. 2014). Knowing the value of your things will help you determine how much renters or homeowners coverage to buy, says Jeanne Salvatore, of the Insurance Information Institute. A typical renters policy costs \$16 per month and provides

\$25,000 in property coverage and \$300,000 to \$500,000 in liability coverage. Homeowners policies usually cover per-

sonal possessions at a rate of 50% to 70% of the coverage on your home.

Getting married also gives newlyweds more choices when it comes to health insurance. If both of you have coverage at work, do a cost-benefit analysis. One spouse's employer may offer better coverage than the other's, but many employers now charge dependents a larger percentage of the cost than they impose on employees, and some businesses add a surcharge for spouses who could get coverage elsewhere.

You may be able to skip life insurance until you have kids—unless you're buying a house together and need two incomes to pay the mortgage.

**Saving and investing.** Make sure you have enough money socked away in an FDIC-insured bank account (see the tables on page 44) to cover at least six months of living expenses.

If both of you have retirement accounts through your employer, contribute enough to earn the maximum company match. After that, shift more money to the plan with better investment options and lower fees, regardless of whose plan it is. "You want to focus on what's going to give you the most bang for your buck," says Danielle Seurkamp, a certified financial planner in Cincinnati. ■



## CREDIT &gt;

# Relief From Painful Medical Debt

**YOU CAN EASILY RACK UP TENS** of thousands of dollars in hospital and doctor bills during a major illness. And even if you're insured, you may be overwhelmed by the barrage of explanations of benefits from providers. But soon, consumers across the country may breathe a little easier.

As part of a settlement with the New York attorney general, the three major credit reporting agencies—

patient is liable for the bill.)

Unlike other types of debt, such as unpaid credit card bills, overdue medical bills are often one-offs that mar otherwise clean credit records. And, according to a Consumer Financial Protection Bureau study, they appear to be less predictive of creditworthiness. Bills may go unpaid because of disputed claims or because patients are unaware that they have debts in collection.

The reporting changes will be phased in gradually, with all rules in effect by June 8, 2018, says credit expert John Ulzheimer, of Credit Sesame. And it may be some time before credit scores that many lenders use to judge creditworthiness reflect a fairer evaluation of medical debts. FICO Score 9, the newest version of the most widely used credit score among lenders, ignores all collection accounts that have been paid and puts less weight on medical debts in default. But most lenders haven't updated to FICO Score 9 yet, says Ulzheimer.

**LISA GERSTNER**

● ● **Kiplinger.com**

## RATE UPDATES

For the latest savings yields and loan rates, visit [kiplinger.com/finances/yields](http://kiplinger.com/finances/yields).

Equifax, Experian and TransUnion—have agreed to wait 180 days after an unpaid medical bill goes into collection before including it on a credit report. (Often, bills aren't considered to be in default until they've gone unpaid for at least 60 days.) If an insurer later pays the bill, the debt will be cleared from the report. (The debt may stay on the report if the

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
<b>U.S. Series EE savings bonds*</b>	0.10%	0.10%	0.10%
<b>U.S. Series I savings bonds</b>	1.48	1.48	1.38
<b>Six-month Treasury bills</b>	0.10	0.08	0.06
<b>Five-year Treasury notes</b>	1.32	1.70	1.68
<b>Ten-year Treasury notes</b>	1.88	2.24	2.71

As of April 7, 2015. \*EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.

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

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

## TOP-YIELDING MONEY MARKET ACCOUNTS

Taxable Funds	30-day yield as of March 31	Min. investment	Web site (www.)
<b>Meeder Money Market Retail (FFMXX)*</b>	0.06%	\$2,500	<a href="http://meederfinancial.com">meederfinancial.com</a>
<b>Davis Govt. MMF A (RPGXX)*</b>	0.05	1,000	<a href="http://davisfunds.com">davisfunds.com</a>
<b>Delaware Cash Reserves A (DCRXX)*</b>	0.05	1,000	<a href="http://delawareinvestments.com">delawareinvestments.com</a>
<b>HSBC Prime MMF A (REAXX)*\$</b>	0.03	1,000	<a href="http://us.hsbc.com">us.hsbc.com</a>
<b>NATIONAL AVERAGE</b>	<b>0.02%</b>		
Tax-Free Funds	30-day yield as of March 30	Tax. eq. yield 25%/39.6% bracket	Min. investment
<b>PNC Tax-Ex MMF A (PXXAX)*</b>	0.02%	0.03%/0.03%	\$1,000
<b>Alpine Muni MMF (AMUXX)*‡</b>	0.01	0.01/0.02	2,500
<b>American Cent T-F Inv (BNTXX)*‡</b>	0.01	0.01/0.02	2,500
<b>BMO Tax-Free MMF Y (MTFXX)*‡</b>	0.01	0.01/0.02	1,000
<b>NATIONAL AVERAGE</b>	<b>0.01%</b>	<b>0.01%/0.02%</b>	
Deposit Accounts#	Annual yield as of April 7	Min. amount	Web site (www.)
<b>GE Capital Bank (III,)*†</b>	1.05%	none	<a href="http://gecapitalbank.com">gecapitalbank.com</a>
<b>My Savings Direct (N.Y.)*†</b>	1.05	\$1	<a href="http://mysavingsdirect.com">mysavingsdirect.com</a>
<b>EverBank (Fla.)*†</b>	1.01	1,500	<a href="http://everbank.com">everbank.com</a>
<b>ableBanking (Maine)*&amp;</b>	1.00	250	<a href="http://ablebanking.com">ablebanking.com</a>
<b>NATIONAL AVERAGE</b>	<b>0.09%</b>		

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

## TOP-YIELDING CERTIFICATES OF DEPOSIT

	Annual yield as of April 7	Min. amount	Web site (www.)
<b>1-Year</b>			
<b>Chartway Fed Credit Union (Va.)*</b>	1.31%	\$25,000	<a href="http://chartway.com">chartway.com</a>
<b>Connexus Credit Union (Wis.)*</b>	1.30	5,000	<a href="http://connexuscu.org">connexuscu.org</a>
<b>Lone Star Bank (Tex.)</b>	1.25	1,000	<a href="http://lsbtexas.com">lsbtexas.com</a>
<b>Synchrony Bank (N.J.)*†</b>	1.23	2,000	<a href="http://myoptimizerplus.com">myoptimizerplus.com</a>
<b>NATIONAL AVERAGE</b>	<b>0.27%</b>		
	Annual yield as of April 7	Min. amount	Web site (www.)
<b>5-Year</b>			
<b>Barclays Bank (Del.)*†</b>	2.25%	none	<a href="http://banking.barclaysus.com">banking.barclaysus.com</a>
<b>GE Capital Bank (III,)*†</b>	2.25	\$500	<a href="http://gecapitalbank.com">gecapitalbank.com</a>
<b>Synchrony Bank (N.J.)*†</b>	2.25	25,000	<a href="http://myoptimizerplus.com">myoptimizerplus.com</a>
<b>Home Savings Bank (Utah)</b>	2.15	10,000	<a href="http://hsbutah.com">hsbutah.com</a>
<b>NATIONAL AVERAGE</b>	<b>0.87%</b>		

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

## LOW-RATE CREDIT CARDS

Issuer	Rate as of April 3*	Annual fee	late fee	Web site (www.)
<b>First Command Bank (P)</b>	6.25%	none	\$25†	<a href="http://firstcommandbank.com">firstcommandbank.com</a>
<b>Lake Michigan Credit Union (P)</b>	6.25	none#	25†	<a href="http://lmcu.org">lmcu.org</a>
<b>Simmons First Bank Visa (P)</b>	7.25	none	25†	<a href="http://simmonsfirst.com">simmonsfirst.com</a>

## AIR-MILES CARDS

Issuer	Rate as of April 7*	Annual fee	Miles need for ticket	Web site (www.)
<b>US Bank FlexPerks Travel Rwrds</b>	13.99%	\$49‡	20,000§	<a href="http://usbank.com">usbank.com</a>
<b>Barclaycard Arrival Plus</b>	14.99	89‡	40,000§	<a href="http://barclaycardarrival.com">barclaycardarrival.com</a>
<b>Chase Sapphire Preferred</b>	15.99	95‡	40,000&	<a href="http://chase.com">chase.com</a>

Rates are adjustable. \*If you do not qualify for this rate, issuer will offer a higher-rate card. (P) Platinum. †\$35 if late more than once in six months. #Must be a credit union member.

‡Waived the first year. §Value up to \$400. &Value of \$500 if you book through Chase Ultimate Rewards. SOURCE: Bankrate.com. Banks may offer lower introductory rates.

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



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# PUT MORE CASH IN YOUR WALLET

**From safe, high-paying bank accounts to risky mortgage securities, we offer 43 ideas for boosting income.**

BY CAROLYN BIGDA  
and KATHY KRISTOF





**IT USED TO BE EASY TO EARN GENEROUS INCOME** safely from your investments: Buy Treasury bonds or certificates of deposit and watch the cash roll in. But with yields on low-risk investments scraping rock-bottom and higher interest rates nowhere in sight, retirees and other income-oriented investors must grapple with an unsettling question: Should you play it safe and accept microscopic yields or take calculated risks to get more? “In this environment you have to take on more risk to get any given amount of yield,” says Jay Wong, comanager of Payden Equity Income Fund. // In other words, land mines abound. If rates start to rise quickly, some income investments will get pummeled. If they don’t rise at all—possibly a sign of

a weak economy—other investments could suffer. Plus, little is cheap today. Says Andy McCormick, head of T. Rowe Price's taxable U.S. bond team: "You go through cycles when it's appropriate to play offense. Other times, you play defense. This is a moment when you have to play both sides of the ball."

This treacherous environment demands that you understand your alternatives and know what could go wrong. Here are some of the best options for income seekers, listed roughly in order of yield and risk. Prices and yields are as of March 31.

## 2-5% Bank Accounts

**BANKS PAY ALMOST NOTHING** today, but a few offer generous returns if you follow certain rules.

**What could go wrong:** Higher-yielding accounts require that you either leave your money alone for a set period or make specific transactions regularly, such as debit card purchases or direct deposits. Fail to meet those terms and the yield shrinks.

**How to play them:** The highest-yielding CDs require that you commit

your money for five years and typically charge a six- to 12-month interest penalty if you cash out early. But Allan Roth, a financial planner in Colorado Springs, Colo., says a five-year CD can make sense even if you stay put for just a year. **BARCLAYS**, for example, recently offered a five-year CD that yielded 2.25%, with a six-month early-withdrawal penalty. If you cash out after one year, your effective annual yield is still 1.13%. After two years, the payout climbs to 1.69% and continues to rise each of the remaining three years.

"Just think of it as a one-year CD that gives you a bonus if rates don't rise," Roth says.

High-yield checking accounts are another option. These products, available at regional banks and credit unions, pay as much as 5%. One good deal relative to its requirements is **MAX CHECKING AT LAKE MICHIGAN CREDIT UNION**. It yields 3% on balances of up to \$15,000. To qualify, each month you must make at least one direct deposit and 10 debit-card purchases, and you must log in to online banking four times. Plus, you must receive statements electronically.

To find local deals, go to [DepositAccounts.com](http://DepositAccounts.com).

## 2-3%

# Municipal Bonds

**DON'T BE PUT OFF BY THESE SEEMINGLY** low yields. Interest from muni bonds is exempt from federal taxes. And if you buy munis issued by your home state, they're also likely to be free of state taxes (and possibly local income taxes, too). With the top federal tax bracket at 39.6% and investment income for high earners subject to a 3.8% excise tax under the Affordable Care Act, even a modest yield on a tax-free investment looks pretty good, says Marilyn Cohen, CEO of Envision Capital Management, in El Segundo, Calif.

Consider a high-quality muni bond maturing in 10 years and yielding 3%. For top earners, that's the equivalent of 5.3% from a taxable bond, and it's way above the 1.9% yield of a 10-year Treasury bond. But avoid munis if you're in a lower tax bracket or investing through tax-favored retirement plans. Retirees should also know that although the interest earned on munis is not taxed by Uncle Sam, it's added in when you calculate your modified adjusted gross income, which the IRS uses to determine how

much of your Social Security income is taxable. Thus, muni interest could subject more of your Social Security benefits to taxes.

**What could go wrong:** Defaults are rare, but the finances of some states and municipalities are wobbly. Some cities could even file for bankruptcy. Rising interest rates would also cause the value of existing bonds to fall. That's not a problem if you own individual bonds and hold to maturity. For those investors, the biggest risk is inflation, which eats into the value of your principal and the fixed stream of interest payments.

**How to play them:** Avoid sketchy issuers, and keep bond maturities relatively short to dampen the impact of rising rates. For those living in high-tax states, such as California, New York and New Jersey, it makes sense to stick with bonds issued by your state of residence or state-specific bond funds. California residents should consider **T. ROWE PRICE CALIFORNIA TAX-FREE BOND (SYMBOL PRXCX)**,

which yields 2.0%. That's the equivalent of a taxable 4.0% for the highest-income Californian. The fund's average maturity—17 years—is on the high side. But its average duration, a measure of interest-rate sensitivity, is a tolerable 5.0 years (the figure suggests that if rates were to rise by one percentage point, the fund's share price would drop by 5.0%). If state taxes aren't a big issue, you may do better by buying a multistate muni fund. For example, **VANGUARD LONG-TERM TAX-EXEMPT INVESTOR (VWLTX)**, with an average duration of 6.0 years, yields 2.2%. That's the equivalent of 3.9% for someone in the highest tax bracket and a respectable 3.1% even for someone with a marginal tax rate of 28%. Prefer individual bonds? Recently, a **CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS** bond, rated double-A, yielded 2.9% to maturity in 2025. And a **NEW YORK CITY HOUSING DEVELOPMENT CORP.** bond, rated double-A-plus, yielded 2.6% to maturity in 2024.

# 2-3% Investment-Grade Corporate Bonds

**INVESTMENT-GRADE CORPORATE BONDS** yield more than Treasuries of comparable maturity but carry only slightly more risk. And because of their higher interest payments, corporates hold their value better than Treasuries when interest rates rise.

**What could go wrong:** Although the default rate on high-quality corporate bonds is low, companies can—and do—go bankrupt. Moreover, if rates rise sharply, prices of corporate debt will fall.

**How to play them:** To get decent yield without taking on too much interest-rate risk, look for intermediate-

term bond funds and individual corporates with maturities of three to 10 years.

Consider, for example, two bonds with triple-B-minus ratings, the lowest investment-grade ranking. One, from private-label credit card issuer **SYNCHRONY FINANCIAL**, yields 2.5% to maturity in February 2020. Synchrony, which is being spun off from General Electric this year, has a strong business. The other bond, from **EXPEDIA**, the popular online travel site, yields 3.4% to maturity in August

2020. Expedia is growing through acquisitions, most recently with its announced purchase of competitors Orbitz and Travelocity.

A good place for fund investors to start is **VANGUARD INTERMEDIATE-TERM INVESTMENT-GRADE INVESTOR** (**VFICX**). The fund, which yields 2.4%, has about three-fourths of its assets in corporate bonds, with the rest in Treasuries and asset-backed securities. Manager Gregory Nassour emphasizes quality. More than 75% of assets are in debt rated single-A or higher, com-

pared with 45% for the average corporate bond fund. The fund's average duration is 5.4 years, and expenses are a modest 0.20% of assets annually.

**FIDELITY TOTAL BOND** (**FTBFX**), a member of the Kiplinger 25, is a bit more aggressive. It owns mostly Treasuries and highly rated corporate bonds, but it also has a smattering of junk corporate bonds and emerging-markets debt. The fund yields 2.4% and has an average duration of 5.1 years. Annual expenses are 0.45%.



3-4%

## Floating-Rate Loans

### INTEREST RATES

on these IOUs, which banks make to borrowers with below-investment-grade ratings, are tied to a short-term benchmark and reset every 30 to 90 days. That makes these loans a good place to be if interest rates rise. You earn a decent yield because of the lower quality of the borrowers. But the loans tend to be less volatile than junk bonds because banks have priority over other lenders should the borrower default and because the frequent interest-rate resets protect the lender from a rise in rates.

**What could go wrong:** The bank loan market is relatively small, so if investors get spooked, bank loans can suffer. In 2008, the average floating-rate bond fund dropped 30%. Looking ahead, bank loan returns will likely be anemic if the Federal Reserve continues to put off raising short-term rates. And most bank loans have a

rate “floor,” or a minimum interest rate. So even if short-term rates rise, it could take a few rate hikes by the Fed before floating-rate loans see the benefit, says Anthony Valeri, a strategist at LPL Financial, a brokerage.

**How to play them:** This category is best left to professionals. Uncertainty about the Fed may lead investors to pull money out of bank loans, so stick with loans of high quality. Our favorite bank-loan fund is **FIDELITY FLOATING RATE HIGH INCOME (FFRHX)**. The fund mostly holds loans rated double-B or single-B, the two highest tiers of junk bond territory. It charges 0.69% annually and yields 4.0%.



## 2-8% Dividend Stars

**THE U.S. MARKET MAY NOT BE** a bargain, but a lot of stocks sport dividend yields that beat the pants off Treasury bonds. The economy is growing nicely, and many companies are loaded with cash, so it's not hard to find firms that pay well today and are likely to boost their dividends in the future.

**What could go wrong:** Well,

we're talking about stocks, so risks abound. A company's results could fall short of estimates; an entire industry (think coal) may go out of favor; or the economy could sour, dragging down most stocks. And, of course, dividend payments are not guaranteed.

**How to play them:** You can find plenty of good funds

# 5-7% Preferred Stocks



**PREFERRED STOCKS STRADDLE the gap between stocks and bonds. They trade like stocks, usually near their issue price (generally \$25 a share). But they pay fixed dividends and can be "called"—redeemed by the issuer—at set intervals. Payments from many preferreds are considered "qualified dividends" and receive favorable tax treatment; most people pay just 15% to Uncle Sam on their preferred payouts. Unlike bonds, which mature on specified dates, most preferreds have no set repayment date.**

**What could go wrong:** If an issuer gets into trouble, it could suspend preferred dividends. Moreover, as with bonds, prices of preferreds move in the opposite direction of interest rates. And because preferreds have distant maturity dates, if they mature at all, they are especially vulnerable to higher rates. For now, don't expect the Fed to hike short-term rates more than once or twice this year. And low oil prices and a strong dollar are likely to keep a lid on long-term rates.

**How to play them:** You can buy a diversified basket of preferred shares through low-cost

exchange-traded funds, such as **ISHARES U.S. PREFERRED STOCK ETF (PFF, YIELD 5.5%)** and **POWER-SHARES PREFERRED PORTFOLIO (PGX, YIELD 5.9%)**. If you prefer to own individual issues, stick with strong firms and avoid paying much more than a stock's "par" value of \$25. For example, **WELLS FARGO SERIES N (WFC-PN)** trades for just under \$25 and yields 5.3%. The bank may redeem the issue at \$25 starting in 2017. This preferred's payouts do not qualify for favorable tax treatment. One whose dividends do qualify is **METLIFE'S 6.50% NON-CUMULATIVE PREFERRED STOCK SERIES B (MET-PB)**. At a bit less than \$26, the stock yields 6.3%. But MetLife can redeem the issue at any time for \$25 (a right the company has had since 2010).

that focus on dividends. Start with **VANGUARD DIVIDEND GROWTH (VDIGX)**, a member of the Kiplinger 25. As its name suggests, the fund focuses on companies that manager Don Kilbride believes will continue to boost their payouts. Biggest holdings at last report were United Parcel Service, UnitedHealth Group and insurer ACE Ltd. The fund yields 2.0%. For more income, consider **SCHWAB U.S. DIVIDEND EQUITY ETF (SCHD)**, which yields 2.9%. Although the ETF owns dividend growers, its main emphasis is on stocks with steady records of paying dividends; its biggest holdings are Chevron, Home Depot and Intel.

But Josh Peters, editor of the *Morningstar Dividend-*

*Investor* newsletter, says it's not hard for investors to identify solid individual dividend payers themselves. "You don't necessarily need to be a pro to own Johnson & Johnson or General Electric," he says. In fact, **GENERAL ELECTRIC (GE, \$25, YIELD 3.7%)** is a favorite of his. The company has been restructuring to return to its industrial roots, and the stock, which fetched more than \$60 in 2000, is cheap, Peters says.

Also appealing are stocks in two widely dissimilar industries: **AMERICAN ELECTRIC POWER (AEP, \$56, 3.8%)**, a Columbus, Ohio-based utility that delivers electricity in 11 states, and **FORD MOTOR (F, \$16, 3.7%)**, which is benefiting from surging auto sales.

Another fertile area for

dividends is property-owning real estate investment trusts. REITs don't have to pay income taxes on their profits as long as they pass at least 90% of them on to shareholders each year. Not only do REITs deliver above-average yields, they help diversify a portfolio because they often move out of sync with the rest of the stock market. Envision's Cohen recommends **GOVERNMENT PROPERTIES INCOME TRUST (GOV, \$23, 7.5%)**, which buys buildings and leases them out to federal and state governments. She also likes **BIOMED REALTY TRUST (BMR, \$23, 4.6%)**, because it mainly leases space for labs and

other scientific work to the drug and biotech industry. The spaces are so specialized that tenants rarely move, she says.

Finally, if you think oil prices have stopped falling, you'll earn a decent current return—and probably some capital gains—by investing in an energy giant. And even if oil prices go lower, none of these companies is going away: **CHEVRON (CVX, \$105, 4.1%)**, **CONOCOPHILLIPS (COP, \$62, 4.7%)**, **EXXONMOBIL (XOM, \$85, 3.2%)** and **Occidental Petroleum (OXY, \$73, 3.9%)**.

# 4-8% Energy MLPs

THOUGH MASTER LIMITED partnerships trade like stocks, these securities have unique tax benefits that allow them to “pass through” all their income to investors, without paying corporate taxes. That generally results in solid yields.

**What could go wrong:** Special tax treatment for MLPs is specif-

ically designed to help foster energy infrastructure in the U.S., so most partnerships are tied to the oil-and-gas industry. Not surprisingly, MLP share prices fell sharply as oil prices crashed over the past year. From its peak last August 29 through its January 13 low, the Alerian MLP index surrendered 21%. Hardest hit were MLPs that generate their income from exploration for and production of oil and gas. Keep in mind, too, that if you invest

in an MLP, you’ll have to contend with a K-1 partnership form come tax time.

**How to play them:** Carefully. For starters, avoid funds that focus on MLPs. They lose the pass-through benefits that individual MLPs enjoy. As for individual firms, *Kiplinger’s* columnist Jeffrey Kosnett focuses on safety, so he prefers MLPs that “move, process and store all the oil and gas that drivers and everyone else will continue to consume.” (see “Income Investing,” March). His favorites: **ENTERPRISE PRODUCTS PARTNERS** (EPD, \$33, 4.5%),

**MAGELLAN MIDSTREAM PARTNERS** (MMP, \$77, 3.6%) and **PLAINS ALL AMERICAN PIPELINE** (PAA, \$49, 5.5%).

Tim Plaehn, analyst for income investing at Investors Alley, a research service, likes Plains, too. He also favors so-called logistics MLPs, which provide services that facilitate the movement of crude oil and refined products. His recommendations: **DELEK LOGISTICS** (DKL, \$44, 4.7%), **PBF LOGISTICS** (PBFX, \$23, 5.8%) and **WESTERN REFINING LOGISTICS** (WNRL, \$29, 4.6%). For a mega-yield, Plaehn suggests **ONEOK PARTNERS** (OKS, \$41, 7.7%), which gathers, processes, stores and transports natural gas.

## 7-12% Closed-End Funds

LIKE ETFs, **CLOSED-END FUNDS** invest in a package of securities and then trade like stocks. Unlike ETFs, closed-ends don’t have mechanisms designed to ensure that their share prices closely track the value of the funds’ assets, or net asset value (NAV). So it’s not uncommon for a closed-end’s share price to trade for a significant premium to (or discount from) its NAV. Clever investors try to take advantage of these pricing anomalies by buying closed-ends when they trade at big discounts and selling when the discount narrows or turns into a premium.

**What could go wrong:** Quite a bit. The securities the fund owns may head south. You may buy a fund at a discount to NAV, then see the discount get wider. Or you may be willing to buy what

you think is an exceptional closed-end at a premium to NAV, only to see the price swing to a discount. Moreover, closed-ends, especially those that own bonds, often borrow money to improve their results. But leverage works both ways and can decimate returns if the market turns against you. With closed-ends, “the highs are higher and the lows are lower,” says Morningstar analyst Cara Esser.

**How to play them:** Bill Gross may have left Pimco, but the firm still offers plenty of superb closed-end funds, says Esser. “Pimco’s fixed-income team remains very solid,” she says. The problem is that many of Pimco’s closed-ends are so popular that they trade at premiums to NAV. Look carefully, though, and you can find a few selling at dis-

counts to NAV. **PIMCO DYNAMIC INCOME FUND** (PDI, \$29, 8.0%), which employs leverage and invests in bonds from all over the world, including non-agency-backed mortgage securities, trades at a 5% discount to NAV. **PIMCO DYNAMIC CREDIT INCOME FUND** (PCI, \$20, 9.2%) sells for 10% below its NAV. Also leveraged, the fund has big slugs in non-agency mortgage securities, junk bonds and emerging-markets bonds.

High earners can choose from nearly 200 municipal closed-end funds, many with similar names. Pimco, for example, runs three national tax-free funds with “Municipal Income” in their names. We suggest **PIMCO MUNICIPAL INCOME II** (PML, \$12, 6.3%), which trades right around its

NAV. About half of the fund’s assets are in muni bonds with maturities of five to 10 years; thanks to leverage, the fund’s average duration is a fairly high 11 years. But for a taxable-equivalent yield of 11.1% for investors in the highest bracket, the fund may be worth the risk. Nuveen is also known for its muni funds. One of its tamer offerings is **NUVEEN MUNICIPAL INCOME** (NMI, \$12, 4.3%). The fund employs just a small amount of leverage and thus has an average duration of just 7.6 years. It trades at a 4% premium to NAV. The taxable-equivalent yield is 7.6% for the highest-bracket taxpayer.

# 7-14% Mortgage REITs

**MOST REITS INVEST IN OFFICE** buildings, shopping malls and other kinds of commercial properties. However, a relatively small but extremely high-yielding segment of the REIT world specializes in lending money to owners of property or buying mortgages or mortgage-backed securities. Mortgage REITs typically borrow money at short-term interest rates and lend it at long-term rates.

**What could go wrong:** The big risk, as with any kind of income-oriented investment, is rising interest rates. Mortgage REITs accentuate the risk of rising rates because they use leverage—that is, borrowed money—to amplify their returns. If rates start to rise rapidly, or if there is even a hint that rates will rise, mortgage REITs can get slammed, as they did in the spring and summer of 2013, after the Fed suggested it might soon begin tapering its

bond-buying program (which has since ended).

**How to play them:** Look for REITs that either lend at variable interest rates or are good at hedging their interest-rate risk. Plaehn likes **BLACKSTONE MORTGAGE TRUST** (BXMT, \$28, 7.3%) and **STARWOOD PROPERTY TRUST** (STWD, \$24, 7.9%), both of which make commercial loans at variable interest rates. Among mortgage REITs that are hedging against the threat of rising rates, analyst Merrill Ross, of Wunderlich Securities, favors **AMERICAN CAPITAL AGENCY CORP.** (AGNC, \$21, 12.4%) and **AG MORTGAGE INVESTMENT TRUST** (MITT, \$19, 12.7%). Ross thinks that their share prices could climb once investors realize that worries about rising interest rates are overblown. Or take the worries out of picking individual mortgage REITs by investing in one of the two ETFs that buy a diversified package of them. **MARKET VECTORS MORTGAGE REIT**

**INCOME ETF (MORT, 10.5%)** gets a slight edge over **ISHARES MORTGAGE REAL ESTATE CAPPED (REM, 10.1%)** because of its slightly higher yield and slightly lower expenses. ■



# Good Buys for an Aging Bull Market

All six picks are big companies with solid finances and reasonable share prices. **BY TOM PETRUNO**

**AS ANY BULL MARKET HANGS ON,** it gets harder to find bargains. So if you're looking to put money to work, it's a good time to be cautious: You want stocks that have a decent shot at moving higher in the near term but that can also avoid a severe drop when the market inevitably suffers a correction (a decline of 10% to 20%) or worse. And, of course, you want to invest in businesses that are financially sound and have healthy long-term prospects.

We picked six big companies that we believe are reasonably priced relative to their profits. Five carry price-earnings ratios (based on estimated year-ahead profits) that are at or below the P/E of Standard & Poor's 500-stock index, currently 17. Just as important, all six are leaders in their industries, and all are strongly committed to returning capital to shareholders by paying dividends, buying back shares or both.

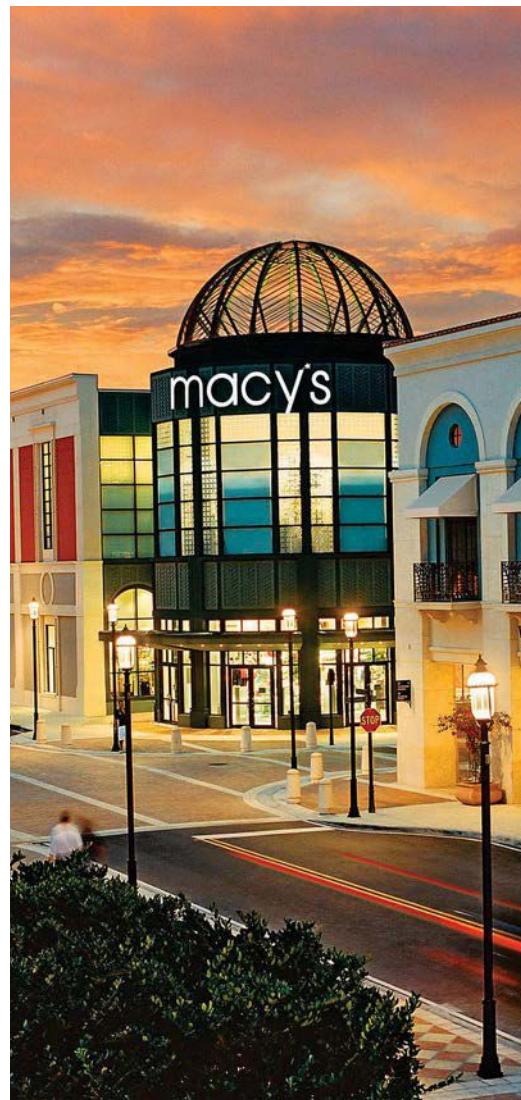
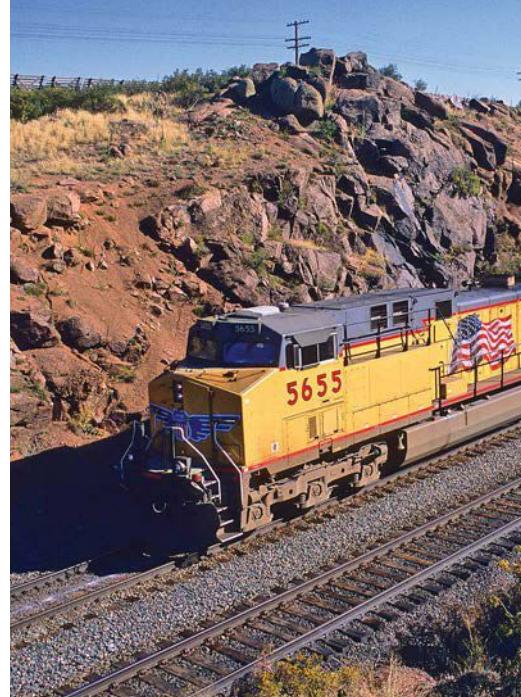
Our picks are listed in order of their market capitalization. Prices and related figures are as of March 31; for more data, see the table on page 56.

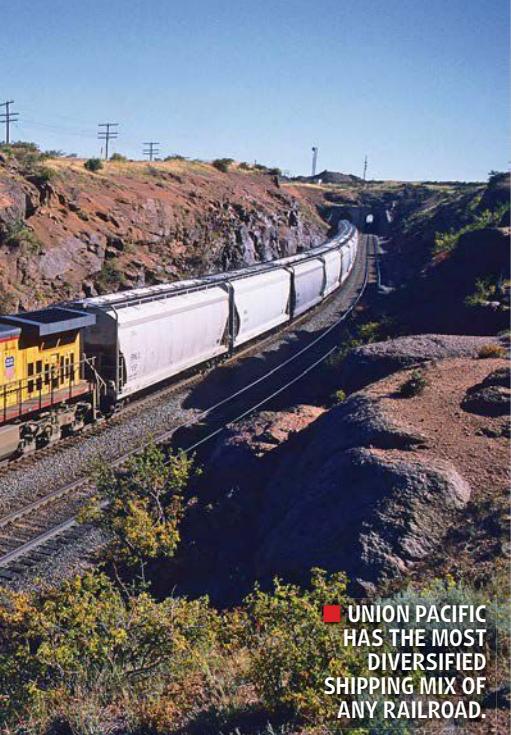
## Wells Fargo (symbol WFC)

It may sound counterintuitive, but a big part of Wells Fargo's appeal now lies in expectations that the Federal Reserve will begin raising short-term interest rates soon. Rising rates typically help banks because they're

quicker to boost interest rates on the loans they make than on what they pay depositors. And Wells has historically gotten away with paying below-average rates on its massive base of deposits, which now exceeds \$1 trillion, says Morningstar analyst Jim Sinegal. Wells's depositors just tend to stay put. Their money has helped Wells become the largest U.S. mortgage lender, as well as the biggest bank by stock market value, worth \$280 billion.

If the Fed starts to raise rates because the economy keeps improving, and if that improvement results in higher loan demand, so much the better for Wells, which has a long history of putting capital to work more profitably than most other big banks. A key risk, however, is that higher regulatory costs in the post-financial-crisis era will crimp Wells's earnings power more than anticipated. As it is, Wall Street isn't expecting much growth this year; analysts on average peg 2015 earnings at \$4.17 per share, up slightly from the \$4.10 per share that Wells reported in 2014. But profit is expected to reach \$4.55 per share in 2016. And with the blessing of regulators, big banks have been freed to return more money to shareholders. Wells was expected to announce a 7% dividend hike shortly after we went to press, and there's more to come.





■ UNION PACIFIC HAS THE MOST DIVERSIFIED SHIPPING MIX OF ANY RAILROAD.



■ MACY'S IS PROVING THAT DEPARTMENT STORES ARE NOT DEAD.

### Oracle (ORCL)

Many investors look to the technology sector for excitement. But value-oriented fund managers see mature tech companies, such as software giant Oracle, more as portfolio bedrock: solid businesses that are growing slowly but can still generate huge amounts of cash that can be funneled to investors.

Oracle is the dominant supplier of complex database programs and other software that is critical for major corporations. Sales were a record \$38.3 billion in the fiscal year that ended in May 2014. But the total was up just 3% from the previous year. Oracle's business of licensing software to users at a hefty up-front cost is being challenged by so-called cloud computing, which delivers software over the Internet on a pay-as-you-go basis.

Oracle isn't blind to the threat, and is offering its own cloud-based software solutions. In the meantime, it benefits from the wide product line it has built up over the years. That means many clients find it expensive and risky to dump Oracle, and that helps keep them aboard while the company adapts to cloud computing. Surprisingly, sales in the quarter that ended February 28 rose 6% from the year-earlier period, excluding the depressant effect of currency shifts.

Oracle was confident enough to boost its dividend 25% in March. That, and stock buybacks, have enticed the value-oriented investors at the Yacktman and FPA funds, both of which count Oracle as a top holding. With the stock at a reasonable 15 times estimated year-ahead earnings, Wells Fargo Securities expects the share price to keep "grinding higher."

### Union Pacific (UNP)

Start-up businesses are disrupting all sorts of established industries today. But no start-up has figured out how to magically move a ton of grain, steel or coal a thousand miles. For that, we still depend on railroads. What may surprise many investors is just how lucrative the railroad industry has been

in this new millennium. Union Pacific, the largest U.S. rail line, saw sales rise from \$13.6 billion in 2005 to \$24 billion in 2014, while earnings rocketed from \$1 billion to \$5.2 billion. The stock has soared 783% since 2005, nearly seven times the gain of the S&P 500. Simply put, the railroad infrastructure is highly efficient at moving goods and is impossible to replicate. The stock market gets it.

Even so, the business is subject to cyclical swings. With the crash in oil prices, shipments from the midwestern shale-oil belt are expected to decline in the near term. Likewise, winter labor strife at West Coast ports caused shipping delays. Fears of weakening traffic have slammed rail stocks recently, driving Union Pacific from a high of \$125 to \$108.

But the drop is a gift to investors who can hold on for the next 10 years. The shares are now priced at 17 times estimated 2015 earnings and sport a dividend yield of 2.0%, the same as the overall market. BB&T Capital Markets says that Union Pacific has the most diversified shipping mix of any railroad. What's more, the company boasts a long string of years with double-digit-percentage annual profit growth, interrupted only briefly by the 2007-09 recession. And even then, earnings fell a relatively modest 17% in 2009 before quickly rebounding.

### Express Scripts (ESRX)

Pharmacy-benefit manager Express Scripts is a work in progress, which helps explain why the market has been somewhat standoffish about the stock. The company mushroomed in size when it bought rival Medco in 2012. It's now the biggest U.S. drug-benefit manager, filling 1.3 billion prescriptions in 2014 and racking up gargantuan sales of \$101 billion. But the merged firm is still integrating operations, which has caused service disruptions and has driven some corporate clients to drop Express Scripts. The ongoing integration problems have also led the company

to get investors to focus on financial results that exclude temporary merger costs. By that measure, the firm earned \$4.88 per share in 2014, up 13% from 2013. In 2015, the company expects a profit of at least \$5.35 per share. With the stock at \$87, the P/E is 16.

The stock's fans say the market isn't paying enough, given Express Scripts' potential. An aging population means rising consumption of drugs. The biggest drug-benefit manager should have an advantage in ensuring its own profitability, as well as working to keep drug costs down for consumers. Express Scripts showed its clout in December, when it forced two makers of costly hepatitis C treatments into a price war.

Brokerage Raymond James thinks the stock is undervalued in part because of expected U.S. approval of "biosimilar" drugs in the next few years. Biosimilars are essentially cheaper versions of drugs now used to fight many cancers and other serious diseases. Their arrival should allow many more patients to get treatment for deadly illnesses.

### Accenture (ACN)

"Never give advice. Sell it!" goes the old vaudeville line. That strategy has built Accenture into a global leader in consulting, delivering advice to com-

panies and governments on management, technology and other issues. The firm is also a big provider of outsourcing services, such as call centers. But as a sluggish world economy and rising competition have held back growth in some of Accenture's traditional lines, the company has pushed hard into digital services, such as advising businesses on social media. The move is paying off: Growth in digital services was a key reason revenues rose a brisk 12% in the quarter that ended February 28, before adjusting for the strong dollar. Accenture also raised its revenue growth forecast for the full fiscal year, which ends in August, to 8%–10% (before currency-swing adjustments), from 5%–8%.

Accenture's digital-services revenues rose 20% in the first half of the fiscal year and now account for 20% of total revenues, says analyst Lou Masicosia, of investment firm CLSA Americas. "We are still in the early innings of digital," he says. More companies will seek help with digital strategies, "driving considerable growth for Accenture," he adds. But as has been the case at many multinational firms, the strong dollar is vexing Accenture. Although the company is based in Ireland, it operates worldwide and reports results in dollars. Its 12% revenue gain in local currencies

last quarter became a modest 5% increase in greenbacks.

The strong buck is also holding back earnings. Wall Street sees a profit of \$4.78 per share in the current calendar year, up just 5% from the previous year. Based on this year's estimate, the P/E is 20. But knowing that currency turmoil is transient, investors are willing to pay up for the prospect of better future growth and the likelihood that Accenture will keep boosting its dividend, Masicosia says.

### Macy's (M)

The conventional wisdom is that department stores are on the road to extinction. But Macy's seems to have taken a bypass. Sales have continued to edge higher since the 2007–09 recession, even as the retailer has closed underperforming stores. More important, Macy's has boosted earnings every year since 2009 and driven up its net profit margin (net profits as a percentage of revenues) to levels that now exceed those of rivals Kohl's and Nordstrom. Macy's has also focused on channeling cash to shareholders via stock buybacks and by raising its dividend more than fivefold since 2010. All in all, Morgan Stanley calls Macy's "the best-positioned department store."

Still, the trend toward online shopping isn't about to reverse. In 2014, Macy's joined the growing ranks of retailers that allow shoppers to buy online and pick up their items in stores. After lifting profit margins over the past five years, the retailer's goal now is to maintain those margins while driving faster sales growth in its 825 Macy's and Bloomingdale's stores and online, says brokerage Stifel Nicolaus. One new step in that direction: Macy's is buying cosmetics and spa chain Bluemercury and plans to open locations in select stores. Macy's shares have soared from \$8 to \$65 over the past six years, but at 14 times estimated earnings for the fiscal year that ends in January 2016 and yielding 1.9%, the stock is a solid bet in a growing economy, says Stifel. ■

### Strong and Stable

## GREAT STOCKS FOR PLAYING DEFENSE

Our picks aren't bargains, but neither are they wildly overpriced. The shares of these high-quality firms should hold up well the next time the stock market experiences a downturn.

Company	Symbol	Recent price	Market value (billions)	Revenue (billions)*	Est. earnings per share†	Price-earnings ratio†	Yield
Wells Fargo	WFC	\$54	<b>\$280.3</b>	\$84.3	\$4.17	13	2.6%
Oracle	ORCL	43	<b>188.4</b>	38.8	2.88	15	1.4
Union Pacific	UNP	108	<b>95.5</b>	24.0	6.55	17	2.0
Express Scripts	ESRX	87	<b>63.1</b>	100.9	5.43	16	0
Accenture	ACN	94	<b>58.9</b>	32.4	4.78	20	2.2
Macy's	M	65	<b>22.1</b>	27.9	4.78	14	1.9

As of March 31. Ranked by market value. \*Based on revenue for the past 12 months. †Based on estimated earnings for the 2015 calendar year. SOURCES: Thomson Reuters, Yahoo.

# Riding India's Hot Stock Market

This high-risk exchange-traded fund lets you buy into a fast-growing emerging nation.

**INDIA IS HOT. OVER THE PAST YEAR,** the MSCI India index returned 21.2%, way ahead of the 0.8% gain in the MSCI Emerging Markets index.

To what does India owe its strong results? Actually, it's to *whom*, says Jeremy Schwartz, director of research at WisdomTree, which runs exchange-traded funds. Last year, the new prime minister, Narendra Modi, ushered in business-friendly reforms, such as corporate tax cuts, that have boosted investor confidence in the country. India, a big oil importer, has also benefited from falling crude prices. *Kiplinger's* projects that India's economy will expand by nearly 7% in 2015.

If you are intrigued but worry that it may be too late to invest, you may want to consider **WISDOMTREE INDIA EARNINGS**. The ETF tracks an index that weights stocks by earnings over the past 12 months rather than by market value (which is more typical of index funds), and it rebalances once a year. Schwartz says the approach reduces exposure to pricey stocks. India Earnings trades at 15 times profits over the past year, compared with a price-earnings ratio of 20 for the average India stock ETF.

Holding 233 stocks, this ETF offers exposure to a broad swath of India's market. But like any single-country fund, India Earnings is not for the faint of heart. Over the past five years, the fund has been 51% more volatile than the MSCI Emerging Markets index. In calendar 2011, it posted a ghastly 40.4% loss. **RYAN ERMEY**

## WisdomTree India Earnings

### Key Facts

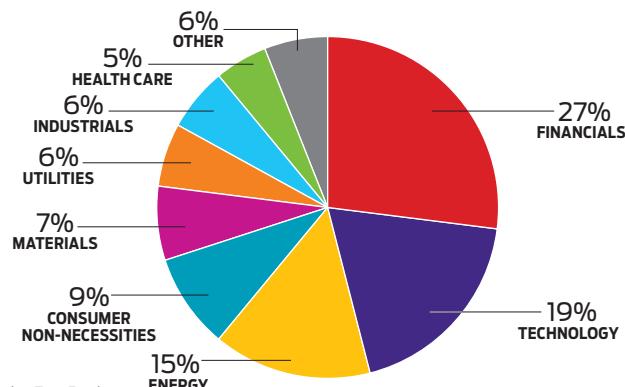
**SYMBOL:** EPI  
**CLOSING PRICE:** \$23  
**ASSETS:** \$2.4 billion  
**START DATE:** February 22, 2008  
**FUND HOLDINGS:** 232  
**AVG. PRICE-EARNINGS RATIO:** 13\*  
**AVG. MARKET VALUE:** \$12.5 billion

\*Based on estimated earnings.

### Performance



### Sector Breakdown: The fund cashes in on financial stocks



### India Stock ETFs Ranked by five-year return

Rank/Fund	Symbol	Total return*			2011 market correction†	Exp. ratio
		1 yr.	3 yrs.	5 yrs.		
1. iShares India 50	INDY	22.5%	10.4%	3.8%	-25.6%	0.94%
2. iPath MSCI India ETN#	INP	22.3	9.5	2.1	-26.1	0.89
3. PowerShares India	PIN	21.6	7.2	0.6	-24.4	0.85
4. WisdomTree India Earnings	EPI	21.1	6.8	0.4	-27.1	0.83
5. iShares MSCI India Small-Cap	SMIN	51.4	13.8	—	—	0.74
AVERAGE INDIA STOCK ETF		29.1%	8.8%	1.7%	-27.6%	

### Diversified International Stock ETFs Ranked by assets

Rank/Fund	Symbol	Assets (billions)	Total return*			2011 market correction†	Expense ratio
			1 yr.	3 yrs.	5 yrs.		
1. iShares MSCI EAFE	EFA	\$57.6	-1.2%	8.8%	6.0%	-25.3%	0.33%
2. Vanguard FTSE Emerging Markets	VWO	46.3	3.4	0.6	1.8	-30.4	0.15
3. iShares MSCI Emerging Markets	EEM	29.6	0.0	-0.2	1.0	-30.6	0.68
4. Vanguard FTSE Developed Markets	VEA	25.5	-0.8	8.9	6.1	-25.9	0.09
5. WisdomTree Europe Hedged Equity	HEDJ	17.3	23.6	17.7	10.3	-19.2	0.58

MSCI EAFE INDEX -0.5% 9.5% 6.6% -23.9%

Through March 31. \*Assumes reinvestment of all dividends and capital gains; three- and five-year returns are annualized. †Market correction is from April 29 through October 3, 2011. #Exchange-traded note. —Not available; fund not in existence for the entire period. **Expense ratio** is the percentage of assets claimed annually for operating a fund. SOURCE: © 2015 Morningstar Inc.



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**New ways of producing goods and services may be causing the bean counters to underestimate productivity.”**

**JEREMY J. SIEGEL > Going Long**

## Is Productivity Plunging?

**E**conomists argue endlessly about the importance to the economy of the money supply, interest rates and deficits. But virtually all agree that the most important variable affecting real wages and our standard of living is *labor productivity*: the amount of output produced by an hour's worth of work.

From 1947 through 2005, the average growth of labor productivity in the U.S. was 2.4% per year. But since 2005, average annual productivity growth has slowed to 1.4%. Last year it fell to zero, despite the fact that productivity growth usually accelerates during economic expansions. And the trend is worsening despite the collapse in energy prices, which would be expected to boost productivity rather than hamper it.

In fact, productivity growth in the fourth quarter of 2014 fell by 2.2%. If early forecasts for the first quarter of 2015 prove accurate, productivity growth will once again be negative. If that's the case, it will be the first time since 1993 that the economy has experienced two consecutive quarters of falling productivity.

Lagging productivity is a major reason that growth in gross domestic product since the Great Recession ended in 2009 has been a full percentage point below the average since the end of World War II. While the Federal Reserve has been fixated on the unemployment rate's rapid decline and strong growth in payrolls, it has largely ignored flagging GDP. In fact, since the end of the financial crisis, the Fed has consistently underestimated the decline in the unemployment rate and consistently overestimated the growth in GDP. More jobs are being created, but the data show that workers' productivity and wages are stagnating.

Some economists, such as Robert Gordon, of Northwestern University, believe that the drop in productivity is a result of a permanent decline in the number of life-transforming inventions, which were the hallmark of the 20th century. Indeed, capital spending on technology has lagged in recent years as

firms have found fewer capital investments that improve the bottom line.

Some attribute the decline in productivity to increased regulation, such as the provisions in the Dodd-Frank law that require businesses to hire more compliance and administrative personnel. Others point to the fall in educational standards or the shortage of trained workers for jobs that have opened up thanks to the Internet and computer technology.

**Proceed with caution.** But there may be a simpler explanation for the drop in productivity: New ways of producing goods and services may be causing the bean counters who measure GDP to underestimate both output and productivity. For example, the development of GPS devices was a huge leap forward, and a decade ago sales of GPS devices were booming. But today most motorists use free GPS services on their mobile phones—and by definition, goods that are free are not counted in GDP. The same may be said of point-and-shoot cameras, whose sales have plunged since smartphones have taken over quick picture-taking.

The Internet has also vastly expanded the options for very-low-cost or even free entertainment. For example, I can now play tournament-level bridge on the Web for a fraction of the cost of congregating with other participants in one location.

To the extent that the Commerce Department omits these items from GDP, we are either understating productivity and GDP growth or overstating the price we are paying. That implies that inflation may actually be lower than the official government data. In either case, the Fed should proceed with caution until it better understands the source of plunging productivity. Tightening monetary policy prematurely might send the economy even further below the Fed's inflation target. ■

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

# Why the Super Buck Scares Investors

The strong dollar, up 24% against major currencies since May 2014, is putting pressure on earnings of U.S. exporters and multinationals. **BY ANNE KATES SMITH**

**Why has the dollar been so strong?** A number of reasons. Our economy has been strengthening, especially relative to the economies of Europe and Japan—and even compared with the economy of China, where the rate of growth outpaces ours but is slowing. Our trade balance has improved, thanks to a boom in energy production, which has drastically cut oil imports. At the same time, the U.S. budget deficit is shrinking. That all helps to attract investment in the U.S. But a huge impetus for the surging dollar is the gap between interest rates here and abroad. The 1.9% yield on the 10-year Treasury bond may seem paltry, but it beats 0.2% on Germany's 10-year note and 0.4% on Japan's. That situation is unlikely to change soon. The Federal Reserve is the only major central bank expected to raise rates this year; many others have cut rates or are providing monetary stimulus in other ways.

**How does a strong dollar affect the world's economies?** A stronger dollar has been a lifeline for struggling economies in Europe and Japan, boosting exports, relieving deflationary pressures and lifting global growth in general. But a beefier greenback is bad news for financially stressed countries with high debt burdens denominated in dollars. In that camp put South Africa, Turkey and Venezuela. Because oil and other commodities are priced in dollars, the currency's strength hurts commodity exporters (such as Brazil and Russia) while helping heavy commodity users (China). In the U.S., the economic impact of a stronger dollar will likely be modest; figure that every 20% rise in

the dollar might shave a half-point from growth in gross domestic product. The brawny buck detracts from growth because it hurts sales of U.S. exporters, whose products become more expensive overseas. By the same token, imports get cheaper, and that helps boost consumers' purchasing power—and their spending accounts for 68% of U.S. GDP.

**What does the super buck mean for U.S. investors?** Over the long haul, not much. The direction of the dollar isn't a reliable predictor of stock prices in itself. For example, stock prices and the

value of the dollar rose simultaneously between 1980 and 1985, but moved in opposite directions from 1985 to 1987. From 1995 to 2001, both were on the upswing, but from 2001 to 2008, the dollar sank and stocks rose. Since 2011, the dollar and stocks have risen in tandem. At the sector level, though, a rising dollar seems to favor stocks of companies that depend on consumer spending on non-necessities (think retailers and restaurants) and financial firms, while energy companies thrive when the currency is weak.

**Then why has dollar news been roiling the U.S. stock market?** Investors worry about the hit to the earnings of U.S. exporters and multinationals. A strong greenback hurts firms with foreign operations because sales and profits generated abroad translate into fewer dollars. Overall, firms in Standard & Poor's 500-stock index derive 46% of sales overseas; for energy and materials companies, it's a bit more than that. Technology firms depend on foreign sales for 56% of revenues. In January, analysts expected that earnings for tech companies would rise more than 10% in 2015; forecasts now call for growth of just 6%. Firms warning that the stronger dollar will hurt 2015 results range from DuPont to PepsiCo.



**Yen for Dollars**

## A LOT MORE BANG FOR THE BUCK

**The table shows how much of three major currencies the greenback buys now compared with a year ago.**

Currency	May 6, 2014	March 31, 2015
Yen	101.70	119.88
British pound	0.59	0.68
Euro	0.72	0.93

SOURCE: XE.com

## How much more can the dollar appreciate?

Most of the move has been made. In fact, some analysts think the dollar has already peaked. For the dollar and euro to be at parity—that is, one dollar equals one euro—the buck would have to increase 8%. To expect that to happen seems a stretch, at least for now. ■



JEFFREY R. KOSNETT > Income Investing

## Why Fear Doesn't Pay

**W**ould you trust a steakhouse with a vegan grillmeister? Well, some managers of bond mutual funds find bonds so unappetizing that they have positioned their funds so that they boast a negative duration—meaning that these funds should make money when interest rates rise. That's something most bond funds would be hard-pressed to do because bond prices move in the opposite direction of rates. I'm not talking about funds that are programmed to deliver, say, two times the inverse of the return of Treasury bonds. Those are automatons designed for investors (I use the word loosely) who are making a short-term call on interest rates.

An actively managed bond fund with a negative duration is another matter. For such funds to achieve their objectives, the managers must juggle piles of derivatives, such as interest-rate swaps and bond futures. Such funds typically yield little, nail you with high fees and turn over their portfolios rapidly, which can cause tax troubles if you're investing in a regular account.

But my main objection is that these funds aren't just cautious, or bearish in a thoughtful sense. They are flat-out fearful. And far more often than not, a fund fueled by fear takes you and your money down a dark path to nowhere.

I found 15 actively managed bond funds with average durations below zero. Most label themselves as “flexible” or “unconstrained,” which essentially means that they can invest in any kind of bond the managers fancy and, of course, that they can bet on rates rising by going negative with their duration.

Being unconstrained doesn't necessarily mean a fund has a negative duration, however. For example, **METROPOLITAN WEST UNCONSTRAINED BOND (SYMBOL MWCRX)**, a member of the Kiplinger 25, has an average duration of one year and yields 1.6%. The fund has generated positive total returns in 13 of 14 quarters since its launch in 2011 and earned

2.5% over the past year through March 31. Its expense ratio of 0.99% is a bit higher than we'd like, but it's not egregious.

But the records of unconstrained bond funds with negative durations have been pitiful—no surprise, given that rates have confounded many forecasters and continued to fall. Federated Unconstrained Bond A (FUNAX) is typical. With an average duration of negative 3.8 years and 1.18% in expenses, it lost money in 2013 and 2014 and dropped 3.4% in the first quarter of 2015. Scout Unconstrained Bond (SUBFX) has a decent expense ratio of 0.78% annually, and it got off to a fast start, returning 22.8% in 2012. But with a duration of minus 3.1 years, it has lost money for five straight quarters.

**Surprising results.** Moreover, it turns out that even if rates rise, a fund with a negative duration may not fare well. Bond specialists at Columbia Threadneedle Investments (formerly Columbia Funds) have studied the negative-duration math in detail, and they've found that rates would have to explode by much more than they had fallen previously to compensate you for the forgone income and high costs. “The only thing certain about employing negative duration for a long time is that you can expect a negative total return for a long time,” says Gene Tannuzzo, a senior portfolio manager at Columbia.

Tannuzzo expects rates to rise over the next year, but plenty of other bond gurus see rates holding steady or even falling more. My fellow *Kiplinger's* columnist Jim Glassman recently opined that the 10-year Treasury could drop to 1%, from 1.9% (see “Opening Shot,” April). In sum, negative-duration funds smell like another fund-industry concoction whose time has not and never will come. Like the cauliflower chop. Or the Tofurky T-bone. ■

“

**Far more often than not, a fund fueled by fear takes you and your money down a dark path to nowhere.”**

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

● ● THE KIPLINGER 25 UPDATE

# How One Overseas Fund Got a Lift

**TAKE A LOOK AT THE MSCI EAFE** index, a prominent gauge of foreign-stock performance, and you might conclude that overseas markets have had a rough go of it lately. That's because the index lost 0.5% over the past 12 months. And yet, by another measure, a diversified bundle of foreign stocks gained 18.3% over the past year.

What gives? It's all about the strong dollar. When the greenback appreciates—as it has over the past year, by more than 20% against a package of major currencies—the value of investments denominated in yen, euros, pounds and the like translates into fewer bucks. One way to fight a rising dollar when you invest in foreign stocks, then, is to invest in a fund that hedges against currency moves.

Enter **FMI INTERNATIONAL**, which we recently added to the Kiplinger 25. It earned 10.9% over the past year, beating 99% of all funds that focus on stocks of large foreign companies. But it lagged the version of the EAFE index that hedges

against currency swings by 7.4 percentage points. (It's worth noting that not one fund, even among those that hedge, beat the local-currency-based index.)

When FMI International launched in 2010, the nine managers decided to protect all of their foreign holdings from the effects of currency swings. "We didn't want to pick great stocks only to have them wiped out by a currency move," says co-manager Pat English. Currency moves, after all, are tough to predict. "It's a coin flip," says English.

As for stock picking, the managers focus on high-quality, growing companies that trade at attractive prices. Some of their best performers over the past year include Japanese industrial equipment maker Secom and Italian tire manufac-

turer Pirelli (they rose 37% and 39%, respectively).

As you weigh whether to invest in FMI, it's important to understand that currency hedging can work the other way, too. "We will do worse than we would otherwise when the dollar is weak," says English. That doesn't necessarily mean the fund will lose money. It just means it won't profit from the dollar's depreciation. Over the first four months of 2011, for example, the dollar slid 10% against a basket of currencies. During that period, the average diversified foreign stock fund earned 8.6%, and the unhedged EAFE index soared 10.4%. But FMI International gained only 5.0%.

**NELLIE S. HUANG**

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

U.S. Stock Funds		Symbol	Total return*				Added to Kip 25
			1yr.	3 yrs.	5 yrs.	10 yrs.	
<b>Akre Focus</b>	AKREX	12.0%	17.8%	18.2%	—	—	Dec. 2009
<b>Davenport Equity Opps</b>	DEOPX	16.7	19.0	—	—	—	May 2014
<b>Dodge &amp; Cox Stock</b>	DODGX	6.5	18.2	13.8	7.0%	May 2008	
<b>Fidelity New Millennium</b>	FMILX	4.0	15.0	14.2	10.4	May 2014	
<b>Homestead Small Co Stock</b>	HSCSX	11.3	18.2	17.7	11.9	May 2012	
<b>Mairs &amp; Power Growth</b>	MPGFX	7.6	16.2	14.6	8.7	Jan. 2013	
<b>Parnassus Mid Cap</b>	PARMX	13.2	15.3	14.8	—	Aug. 2014	
<b>T. Rowe Price Divers Sm-Cap Gro</b>	PRDSX	15.6	19.0	19.0	11.4	May 2015	
<b>T. Rowe Price Sm-Cap Value</b>	PRSVX	0.3	12.7	12.8	8.8	May 2009	
<b>T. Rowe Price Value</b>	TRVLX	10.4	18.6	15.0	8.6	May 2015	
<b>Vanguard Dividend Growth</b>	VDIGX	10.7	15.0	14.1	9.3	May 2010	
<b>Vanguard Selected Value</b>	VASVX	5.5	16.9	14.5	9.0	May 2005	
International Stock Funds		Symbol	Total return*				Added to Kip 25
			1yr.	3 yrs.	5 yrs.	10 yrs.	
<b>Artisan International</b>	ARTIX	5.2%	12.0%	10.3%	7.6%	May 2015	
<b>FMI International</b>	FMIJX	10.9	14.9	—	—	April 2015	
<b>Harding Loevner Emrg Mkts</b>	HLEMX	-1.0	3.2	4.2	9.2	May 2013	
<b>Matthews Asian Gro &amp; Inc</b>	MACSX	0.9	6.7	6.6	9.1	Aug. 2013	
Specialized/Go-Anywhere Funds		Symbol	Total return*				Added to Kip 25
			1yr.	3 yrs.	5 yrs.	10 yrs.	
<b>FPA Crescent</b>	FPACX	4.7%	10.4%	9.7%	8.2%	Oct. 2008	
<b>Merger</b>	MERFX	2.3	3.0	2.7	3.6	June 2007	
Bond Funds		Symbol	Total return*				Added to Kip 25
			1yr.	3 yrs.	5 yrs.	10 yrs.	
<b>DoubleLine Total Return N</b>	DLTNX	5.8%	4.5%	—	—	—	May 2011
<b>Fidelity Intermed Muni Inc</b>	FLTMX	5.1	3.2	4.1%	4.2%	May 2004	
<b>Fidelity New Markets Income</b>	FNMX	1.4	3.7	6.2	8.3	May 2012	
<b>Fidelity Total Bond</b>	FTBFX	5.3	3.9	5.2	5.4	May 2014	
<b>Met West Unconstrained Bd M</b>	MWCRX	2.5	5.0	—	—	—	May 2013
<b>Osterweis Strategic Income</b>	OSTIX	1.1	5.0	5.9	6.6	May 2013	
<b>Vanguard Sh-Tm Inv-Grade</b>	VFSTX	2.0	2.2	2.7	3.7	May 2010	
Indexes			Total return*				
			1yr.	3 yrs.	5 yrs.	10 yrs.	
			<b>S&amp;P 500-STOCK INDEX</b>	<b>12.7%</b>	<b>16.1%</b>	<b>14.5%</b>	<b>8.0%</b>
			<b>RUSSELL 2000 INDEX<sup>†</sup></b>	<b>8.2</b>	<b>16.3</b>	<b>14.6</b>	<b>8.8</b>
			<b>MSCI EAFE INDEX<sup>#</sup></b>	<b>-0.5</b>	<b>9.5</b>	<b>6.6</b>	<b>5.4</b>
			<b>MSCI EMERGING MARKETS INDEX</b>	<b>0.8</b>	<b>0.7</b>	<b>2.1</b>	<b>8.8</b>
			<b>BARCLAYS AGGREGATE BOND INDEX<sup>‡</sup></b>	<b>5.7</b>	<b>3.1</b>	<b>4.4</b>	<b>4.9</b>

Through March 31. \*Three-, five- and 10-year returns are annualized. —Not available; fund not in existence for the entire period. <sup>†</sup>Small-company U.S. stocks. <sup>#</sup>Foreign stocks. <sup>‡</sup>Tracks high-grade U.S. bonds.



KATHY KRISTOF &gt; Practical Investing

# My Tech Stock Pays Dividends

**T**here's something a little magical about the impact of dividends—particularly reinvested dividends—on the value of a portfolio. Dividends can keep the value of your investments rising even when market performance sours.

The dividend effect provides me comfort as I look over an investment landscape that has changed dramatically since I started the Practical Investing portfolio three and a half years ago. At the time, nearly every stock I examined seemed cheap. Now, it's much harder to find a bargain. That doesn't mean stocks won't keep rising. But the market's long, almost uninterrupted advance increasingly makes me appreciate the one nearly sure thing in an otherwise uncertain environment: the power of dividends.

In 2014, my portfolio received \$10,069 in dividends and other dividend-like payouts. That works out to a 3.3% yield on the year-end balance of \$304,210. But my yield is really higher. That's because, while I have been reinvesting dividends, I haven't added a dollar to the account since I bought nearly \$190,000 worth of stocks in 2011 and 2012. If I based the calculation of the yield on my original stake, it's a far more generous 5.3%.

The greater the dividend yield, the less I need to rely on stock price appreciation to deliver a reasonable return. Of course, when stock prices rise, dividend yields normally fall. But some of the cash-rich companies I hold have hiked their dividends at such a brisk pace that, despite rapid appreciation in share prices, yields have actually risen.

Consider **SEAGATE TECHNOLOGY (SYMBOL STX)**. I bought 435 shares in June 2012 for \$23.11 a share. Because I've been reinvesting dividends (which Seagate has hiked four times since I bought the stock), I now own 482 shares. With the stock at \$52 as of March 31, my stake is worth \$25,078—a return of 149% on my initial investment. At the current price, the stock yields a healthy 4.2%. But the yield based on my initial purchase price is 9.3%. That will keep me comfort-

able with the stock even if it just treads water for a few years.

However, I expect shares of Seagate, which makes data-storage devices for personal computers, to do more than that. One reason is that the stock is one of the market's great remaining bargains. It has been sliding since hitting \$69 in December, partly because of perceptions that PC sales are weakening. International Data Corp., a technology-research firm, reinforced those views when it reported in January that PC sales fell 2% in 2014 and later predicted that sales would drop nearly 5% this year. Seagate shares now sell for a mere 11 times projected earnings over the next four quarters.

**Opportunity knocks.** To be sure, analysts expect Seagate's profits to slip in the current fiscal year, which ends in June. But I think this is a temporary blip and see the decline in the price as an opportunity to buy more shares. And that's what I did. I snapped up 118 shares at \$52.94 on March 27, bringing my total holding to an even 600 shares.

Why am I so confident? For starters, management is focusing on expanding Seagate's fast-growing cloud storage business. On top of that, the company has plenty of cash on hand to pay its 54-cent-per-share quarterly dividend and even keep raising it.

Finally, I think a major cause of the PC slump is the nightmare known as Windows 8. Those of us who made the mistake of upgrading our PCs after Microsoft (MSFT) launched the operating system in 2012 have been suffering from its counterintuitive design and other shortcomings. The 8.1 update did little to ease our pain. Thus, I (and, I suspect, many others) have been waiting for Microsoft to unveil its next operating system before buying a new PC. My guess is that PC sales will experience a mini-surge once Microsoft gets its act together, and that will help fire up Seagate's sales and profits. ■

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**Seagate has plenty of cash on hand to pay its 54-cent-per-share quarterly dividend and even keep raising it.”**

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

# A Small Real Estate Fund Steps Up

The managers buy property companies that should do well even in a declining market.

## INVESTING IN REAL ESTATE CAN BE

rewarding, and you don't need to own a shopping mall or an office complex to reap the benefits. Property-owning entities called real estate investment trusts—which trade like stocks and pay steady dividends—crushed the broad stock market over the past 12 months, and the average real estate mutual fund returned 22.5% over the period.

**PHOCAS REAL ESTATE**, a fund that invests in REITs, did even better, earning 28.0%. Phocas focuses on attractively valued, high-quality REITs that its managers believe will produce steadily growing cash flow and prove resilient even in a declining real estate market. A disciplined executive team is important, as are the locations of properties that a REIT owns: New York City offices, for example, will always be in demand, compared with, say, offices in the suburbs. “We’re very risk-averse,” says comanager James Murray, who likens his approach to hitting singles and doubles instead of swinging hard and risking a strikeout. “If I don’t get any home runs, I’m okay with that.”

Phocas is tiny, with just \$12 million in assets. Among its 29 holdings are REITs that focus on offices, apartments and hotels. So far, the fund’s strategy has generally produced solid results. In its first nine years of existence (including so far in 2015), Phocas has landed in the top third of the real estate fund category six times. One caveat: Annual expenses run a steep 1.50%. **MIRIAM CROSS**

## REAL ESTATE FUNDS

Ranked by one-year returns

Rank/Name	Symbol	Total return through March 31*			Max. sales charge	Exp. ratio	Toll-free number
		1 yr.	3 yrs.	5 yrs.			
1. Pimco Real Estate Real Ret Strat D <sup>†</sup>	PETDX	29.4%	13.6%	20.7%	none	1.14%	888-877-4626
2. Phocas Real Estate	PHREX	28.0	16.5	16.0	none	1.50	866-746-2271
3. Cohen & Steers Real Estate Securities A <sup>†</sup>	CSEIX	27.4	15.6	15.8	4.50%	1.21	800-437-9912
4. Principal Real Estate Securities A <sup>†</sup>	PRRAX	26.1	14.9	15.7	5.50	1.30	800-222-5852
5. West Loop Realty A <sup>†</sup>	REIAX	26.1	—	—	5.75	1.50	800-207-7108
6. Oppenheimer Real Estate A <sup>†</sup>	OREAX	26.0	14.2	15.5	5.75	1.39	800-225-5677
7. Eaton Vance Real Estate A <sup>†</sup>	EAREX	25.9	13.3	—	5.75	1.25	800-262-1122
8. Alpine Realty Income & Growth A <sup>†</sup>	AIAGX	25.7	14.3	—	5.50	1.65	888-785-5578
9. Stratton Real Estate	STMDX	25.5	14.3	14.7	none	0.96	800-472-4266
10. AMG Managers Real Estate Securities	MRESX	25.5	13.9	16.0	none	1.19	800-835-3879
CATEGORY AVERAGE		22.5%	13.1%	15.1%			

## 20 LARGEST STOCK MUTUAL FUNDS

Ranked by size

Rank/Name	Symbol	Assets <sup>†</sup> (in billions)	Total return through March 31*			Max. sales charge	Toll-free number
			1 yr.	3 yrs.	5 yrs.		
1. Vanguard Total Stock Market Iidx Inv <sup>†</sup>	VTSMX	\$349.4	12.2%	16.2%	14.6%	none	800-635-1511
2. Vanguard 500 Index Inv <sup>†</sup>	VFINX	176.1	12.6	15.9	14.3	none	800-635-1511
3. American Growth Fund of America A <sup>†</sup>	AGTHX	146.2	11.9	16.7	13.3	5.75%	800-421-0180
4. Vanguard Total Intl Stock Iidx Inv <sup>†</sup>	VGTSX	144.0	-1.1	6.5	4.8	none	800-635-1511
5. American EuroPacific Growth A <sup>†</sup>	AEPGX	128.6	2.5	9.6	6.7	5.75	800-421-0180
6. Fidelity Contrafund <sup>†</sup>	FCNIX	111.8	13.5	15.6	14.9	none	800-343-3548
7. American Income Fund of America A <sup>†</sup>	AMECX	97.8	6.6	11.2	10.7	5.75	800-421-0180
8. American Capital Income Builder A <sup>†</sup>	CAIBX	97.6	5.2	9.4	8.8	5.75	800-421-0180
9. Franklin Income A <sup>†</sup>	FKINX	94.7	0.8	8.9	8.9	4.25	800-632-2301
10. Vanguard Wellington <sup>†**</sup>	VWELX	90.7	8.2	11.5	10.6	none	800-635-1511
11. American Capital World Gro & Inc A <sup>†</sup>	CWGIX	88.2	5.1	12.6	9.6	5.75	800-421-0180
12. Fidelity Spartan 500 Index Inv <sup>†</sup>	FUSEX	88.0	12.6	16.0	14.4	none	800-343-3548
13. American Balanced A <sup>†</sup>	ABALX	81.4	8.1	11.9	11.4	5.75	800-421-0180
14. American Washington Mutual A <sup>†</sup>	AWSHX	77.5	9.4	15.4	14.1	5.75	800-421-0180
15. American Invstmt Co of America A <sup>†</sup>	AIVSX	75.8	10.2	15.8	12.7	5.75	800-421-0180
16. American Fundamental Inv A <sup>†</sup>	ANCFX	72.5	10.3	15.2	12.8	5.75	800-421-0180
17. Dodge & Cox International Stock <sup>**</sup>	DODFX	68.7	1.5	12.2	8.0	none	800-621-3979
18. Dodge & Cox Stock	DODGX	60.7	6.5	18.2	13.8	none	800-621-3979
19. American New Perspective A <sup>†</sup>	ANWPX	59.1	7.8	13.3	11.0	5.75	800-421-0180
20. BlackRock Global Allocation A <sup>†</sup>	MDLOX	54.7	4.0	6.8	6.5	5.25	800-441-7762
S&P 500-STOCK INDEX			12.7%	16.1%	14.5%		
MSCI EAFE INDEX			-0.5%	9.5%	6.6%		

\*Annualized for three and five years. <sup>†</sup>Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. <sup>\*\*</sup>Closed to new investors. <sup>††</sup>For all share classes combined. 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](http://kiplinger.com/tools/fundfinder).

## EXPLANATION OF TERMS

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

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

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

# GO DIGITAL

Your cherished photos, home movies and music aren't just taking up space, they are deteriorating. You can convert them yourself or hire a pro. **BY KAITLIN PITSKER**

If you're like many Americans, you have countless boxes taking up space in closets, the basement or a storage unit that are filled with irreplaceable photos and videos. Even if you've never been much of a shutterbug, you've likely collected thousands of snapshots, slides and negatives. Click-happy photographers and self-appointed family historians could easily have





accumulated more than 10,000 non-digital images.

The biggest problem with analog technology is that the images (and video and sound) deteriorate over time, dooming those Kodak moments as surely as the fortunes of the once-dominant film company. As photographs age, dyes in the ink fade and discolor, and the paper often yellows or becomes brittle. Tape used for video recordings decays as the magnetic particles lose their charge and the protective layer of film absorbs moisture. Even if it has been years since you last thumbed through your photos or loaded your videos for a nostalgic viewing, they have been degraded by air, light, temperature changes and humidity.

Curtis Bisel, 42, digitized his own photos and later tackled his parents' collection—including slides from a trip to the 1964 New York World's Fair. "I'd never seen my family's whole life play out in order, and there were so many parts of the story that I couldn't recall," says Bisel, who has digitized almost 6,600 photos and advises others about digitizing their pictures at [www.scanyourentirelife.com](http://www.scanyourentirelife.com).

Digitizing your collection is a huge

project, but don't be discouraged. You have several options to help bring your old-school images into the modern era.

### ●● PRINTS AND SLIDES

When choosing a photo-digitizing service, pay attention to the resolution the scanning process will deliver. To capture the details of an image and be able to crop or enlarge it without sacrificing quality, you'll generally want digital images that are 600 dots per inch for prints and at least 3,000 dpi for slides and negatives.

Images that are saved in JPEG format will be good enough to share on Facebook or to remember Aunt Agnes's face. But if you plan to heavily edit the photos or use them to print professional-quality photo books, you'll want the images in uncompressed TIFF files to maintain their integrity. Scanning services may charge extra for these files, which include all of the image data captured during scanning. Note, though, that TIFF files take up more space on your hard drive or in the cloud. (For more information on storing and organizing your files, see the box on page 68.)

Before you decide on a method, weed out duplicates and fuzzy shots.

You may also want to cull, say, scenic landscape pictures from the same trip or other photos that don't help tell a story, says Cathi Nelson, founder of the Association of Personal Photo Organizers. As you're sifting through your stack, organize loose photos in broad categories, such as "The Eighties," "Travel" or "Holidays," to give you a better sense of the themes in your collection.

**Mail-away services.** If you have a lot of images you want to convert, a digitizing service such as FotoBridge ([www.fotobridge.com](http://www.fotobridge.com)) or ScanCafe ([www.scancafe.com](http://www.scancafe.com)) can do the job for a reasonable price. You mail a box of your photos to the company's scanning center, where it will scan the images and make small fixes, such as removing red-eye or correcting the color on images that have faded or shifted. (Many of these services also convert videos; see page 68.) The company will return the originals and digital files, usually on DVD or CD, several weeks later, typically with door-to-door tracking along the way.

To convert prints to 600-dpi files in JPEG format, expect to pay 20 cents to 35 cents each. To convert slides or negatives to 3,000-dpi files saved as JPEGs, you'll pay 20 cents to 50 cents each. At ScanCafe, you'll pay an extra 24 cents for each image you want to have as an uncompressed TIFF file. For an additional charge, many of these services also offer options to create galleries you can view online, store images in the cloud, and scan both sides of an image to capture notes written on the back.

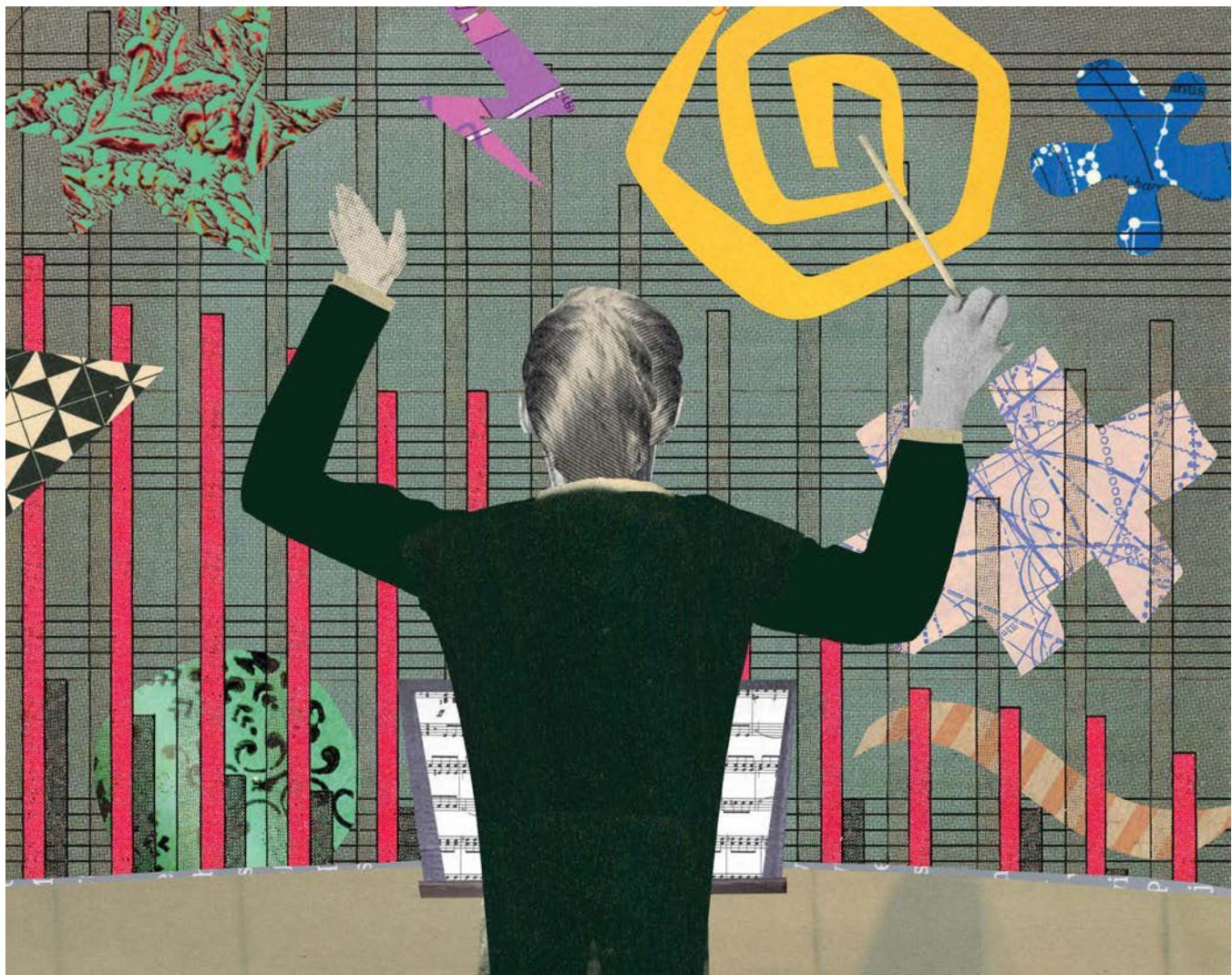
**Local options.** If you're leery of mailing your photos, you may be able to have the work done at a photo or camera shop in your community. Check on the quality of the scans the store will create, and ask to see samples. It's pretty easy to set up shop as a digital-conversion service, so check with the Better Business Bureau ([www.bbb.org](http://www.bbb.org)) to see whether any complaints

### ★ Your Music

## Vinyl Is Cool, but Digital Rocks

**URBAN OUTFITTERS, THE RETAILER THAT HAS LONG BEEN KNOWN FOR ITS CRED** among the younger generation, is a major seller of vinyl records. That means teens and millennials have discovered the warmer sound and fuller dynamic range of records. But for some people, it's a chore to remove an LP from its sleeve, wipe off the dust and, 20 minutes later, flip it to hear side B. If you have albums that date to the '60s and '70s that you'd rather listen to through earbuds connected to your smartphone, you can convert them to digital without a lot of hassle.

If you have a working turntable with audio output jacks, you can use the same adapter and software to convert analog music into digital files that you use to convert videos (see the accompanying article). For better sound quality, use a dedicated turntable with a digital output feature, such as the Audio-Technica AT-LP120-USB (\$249 at B&H Photo Video). This type of turntable connects directly to your computer and includes software to capture the music. Too much work? You'll probably find most of the songs on iTunes for \$1.29 or less each.



have been lodged against the company.

Or locate a certified personal photo organizer in your area through the Association of Personal Photo Organizers ([www.appo.org](http://www.appo.org)). Many personal photo organizers work from home. They will draft a plan and offer a price quote for your project. Prices vary around the U.S., but digitizing and organizing about 5,000 photos typically costs between \$750 and \$1,000, says Nelson.

For your most cherished prints or ones that are torn, stained or faded, you may want to use a professional photo conservator. You'll pay \$125 to \$250 an hour for skilled repair and restoration. To find a photo conservator, visit [www.conservation-us.org](http://www.conservation-us.org).

**Do-it-yourself.** If you're reasonably tech-savvy, you can scan your prints, slides and negatives yourself. A flatbed home photo scanner, such as the Epson Perfection V600 (about \$230), can capture more image detail than an office scanner. If you have slides and negatives, you'll need a scanner that includes a transparency unit (a second light source in the lid) and adapters for slides and negatives. Or you can rent a professional-quality scanning system from E-Z Photo Scan (<http://ezphotoscan.com>) for three days for \$295.

Most photo scanners include home computer software for basic retouching, such as cropping, adjusting color brightness and removing red-eye. As you scan, or after you get your files

back from the scanning service, name the files and include identifying information about each image so it will be easier to find, then back up the digital versions (see the box on page 68).

#### ● ● HOME MOVIES

Digitizing your home videos is trickier than converting prints and slides because you're capturing both sound and images. Older tapes or films may be fragile, and you may have a tough time finding working machines to play them. As with your prints, start by reviewing your collection to see what tapes or reels you want to convert and what format they're in. Your collection could include anything from VHS and BetaMax tapes to

8 mm, Super 8, and 16 mm film.

Compared with the high-definition video of today, 30-year-old tapes, even when preserved well, may seem grainy or poorly focused. For sharp images and clean audio, the digitizing service should use high-definition scanning or 2K data scanning, and it should pro-

ning of silent 8 mm and 16 mm film costs 50 cents to \$1.75 per foot.

Many organizers who belong to the Association of Personal Photo Organizers convert home movies; they generally charge between \$18 and \$25 per VHS tape. A local camera shop or videographer may also offer digitization services.



cess the image frame by frame (rather than interlacing the images). For the highest-quality videos, ask about raw or uncompressed video files.

**Mail-away services.** The same services that digitize photos and slides often handle home movies, too. Most charge a flat rate of \$20 to \$30 to clean, digitize and do some basic editing on a standard two-hour VHS tape, or about 30 cents per foot for 8 mm and 16 mm film. Generally, they include color correction, cutting of blank scenes and image stabilization.

For home movies, which contain more detail and are recorded in a higher quality than VHS tapes, consider a specialist. Film services such as Color Lab ([www.colorlab.com](http://www.colorlab.com)) and Pro8mm ([www.pro8mm.com](http://www.pro8mm.com)) cost more but have more experience working with older, fragile film. At Pro8mm, frame-by-frame, high-definition scan-

working tape player, digitizing the movies at home is fairly easy.

To convert old videocassette tapes, you'll need a working VCR that has been cleaned recently and has audio-video output ports. You'll also need an adapter, such as the Diamond VC500 One Touch Video Capture (about \$33 on Amazon), to connect the VCR, camcorder or other device to your computer, which should have plenty of hard-disk space. Adapters such as the Diamond VC500 come with a basic editing program that allows you to cut, create chapters within the video, and save the file you've created.

Your home movies will take as long to convert as they do to watch, so you may want to pop some popcorn, sit back and enjoy the show. ■

#### ★ KipTip

## Protect Your Digital Archive

**WHEN YOUR PHOTOS, SLIDES AND VIDEOS HAVE BEEN CONVERTED TO DIGITAL** files, your next task is to organize and store them so they're backed up and safe from hackers, a virus or a technical mishap. This is also a good time to corral the digital photos scattered among various computers, phones and e-mail accounts.

**Organize.** Start by collecting the digital images in a photo-organization program, such as Picasa or iPhoto, that will allow you to organize, label and edit your images. Both Picasa and iPhoto are *nondestructive* programs, meaning they don't compress the files and lose data each time an item is saved. Name each file to help you find it later. The Association of Personal Photo Organizers recommends a year-month-day-event format to make searching easier. You can also add the names of people, where the photo was taken or other keywords by using the "info" feature in iPhoto or adding captions and tags in Picasa.

**Back up.** To protect your collection for posterity, redundancy is key. You can keep files on your computer for easy access, but to prevent losing them to natural and technological disasters, back them up both offline and in the cloud. You can back up files on an external hard drive (disconnect it from your computer after each backup) or burn the files to archival-quality, "gold" CDs or DVDs. These discs resist oxidation, corrosion and scratches and last longer than traditional discs. A cloud service such as Dropbox (\$10 a month for 1 terabyte of storage) adds another layer of safety.

**Store.** You may want to keep the original photos, or at least some of them. In addition to the emotional reasons for not tossing the originals, some people keep them indefinitely in case new technology improves scanning abilities, says Curtis Bisel, founder of Scanyourentirelife.com. Keep the originals in acid- and lignin-free boxes or envelopes. You can find protective storage options at Gaylord Archival ([www.gaylord.com](http://www.gaylord.com)), Hollinger ([www.hollingermetaledge.com](http://www.hollingermetaledge.com)) and University Products ([www.universityproducts.com](http://www.universityproducts.com)).

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TECH»

# Buying In to the Next Big Thing

Crowdfunding gives a boost to developers with cutting-edge designs. **BY JEFF BERTOLUCCI**

**TECH ENTREPRENEURS ARE** increasingly bypassing banks and venture capital for financial backing, and reaching out to the general public via sites such as Kickstarter and Indiegogo. These five high-profile campaigns raised millions, and most of the new gear will soon be in stores or online.

**Skully AR-1.** Skully, which develops vehicle systems technology for the transportation industry, has developed what it calls

the “world’s smartest motorcycle helmet.” Its Indiegogo effort raised more than \$2.4 million from 1,940 people. What got backers so revved up? The AR-1 is brimming with cool techie innovations, including a transparent, head-up display that shows a rearview camera feed. Perhaps more important was Skully’s pulse-pounding, two-minute promotional video. Plus, Skully offered backers who contributed \$1,399 first dibs on an AR-1 helmet by May—

\$100 off the \$1,499 list price. Retail preorders are now scheduled for July.

**Oculus.** In August 2012, Oculus VR launched a Kickstarter campaign to raise \$250,000 for development of the Oculus Rift, a head-mounted display that immerses the wearer (think gamers) in a 3D virtual world. By the time the campaign ended, more than 9,500 backers had pledged more than \$2.4 million. (Facebook bought Oculus last year for about \$2 billion.) The Rift is still very much a work in progress, but a prerelease version is available to developers who want to create content for the headset, and the consumer edition (\$200 to \$400) is expected to debut late this year.

**Pebble.** Smart watch startup Pebble passed the hat earlier this year on Kickstarter and raised more than \$20.3 million from more than 78,000 backers. Pebble used the cash to bring its Pebble Time (\$200) to market. Available this spring, the smart watch, pictured at right, sports a color e-paper display that’s easy to read in sunlight, and it works with Android and iOS phones. The big question is how well Pebble Time will compete against the Apple Watch (starting at \$350). Price and battery life may be Pebble’s biggest competitive advantages.

**Axent Wear Cat Ear Headphones.** The brainchild of University of California-

Berkeley alumni Wenqing Yan and Victoria Hu, the Axent Wear headphones come with colorful LED accent lights, over-ear cushioning for comfort, and whimsical “cat ear” speakers for sharing music with friends. Nearly 21,000 Indiegogo backers were so impressed that they pledged almost \$3.4 million last year to move the project along. Priced at \$135 (plus \$35 for shipping), the Axent Wear headphones are available for preorder, with shipping to begin in early fall. Who’ll buy them? Preteens, hipsters and maybe even Hello Kitty fans.

**PonoPlayer.** Legendary rocker Neil Young has never been shy about his contempt for most digital audio formats. His solution: Found a startup, called PonoMusic, which raised more than \$6.2 million from 18,220 Kickstarter backers. The result: the \$400 PonoPlayer, a triangular iPod alternative that plays better-than-CD-quality tracks. The verdict? Too soon to call (it went on sale in January), but early reviews criticized the PonoPlayer’s high price, odd shape and short battery life. ■



COURTESY SKULLY INC.; PEBBLE

# What You Need to Know About Online Pricing

Many sites manipulate what they charge you. We tell you how to beat the system.

BY LISA GERSTNER

**1. Your online profile could boost the price.** Online retailers know all kinds of things about you from the electronic bread crumbs you drop, such as your IP address, and they capitalize on it using *price discrimination* or *differential pricing*. For example, a site may charge higher

that you're using a MacBook Air or an iPad, say, rather than a Windows desktop, it may show you a pricier selection of hotel rooms.

**2. Everybody's doing it.** A recent study by Northeastern University found that sev-

for about 5% of hotels. Expedia and Hotels.com steered a segment of customers toward their more-expensive hotels. Searches of Travelocity's and Home Depot's Web sites using certain mobile devices yielded different results and pricing. And Priceline changed search results based on a user's history of clicks and purchases.

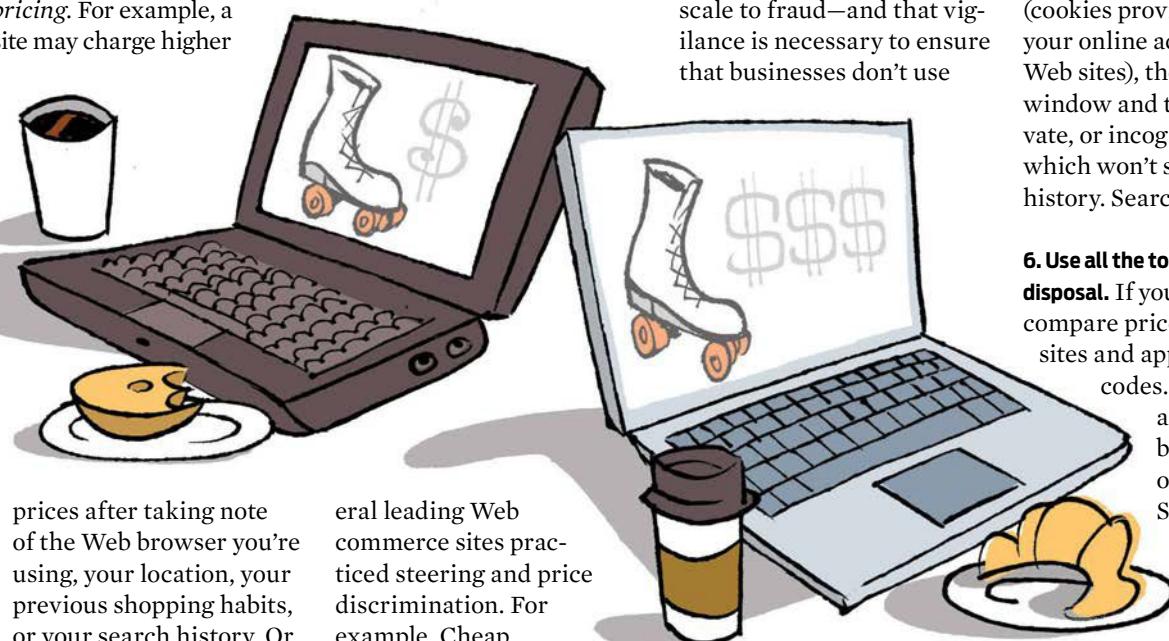
**3. It's legal.** Although it may seem unfair, retailers aren't breaking laws when they employ differential pricing. A recent White House report notes that the idea is "to set prices based on demand, or what customers are willing to pay, rather than costs." But the report cautions that luring customers with false promises or burying significant details in the fine print can tip the scale to fraud—and that vigilance is necessary to ensure that businesses don't use

**4. And sometimes it works to your benefit.** When a movie chain offers discounts to students, seniors and members of the military, that's price discrimination. Lower prices for members of loyalty programs fall under the same heading.

**5. You can beat Web retailers at their own game.** Check how a site is filtering search results, and choose the option to sort from lowest to highest price. But don't stop there. If a site offers the option to log in, check prices before you log in and again after entering your user-name and password. Look up prices on your personal computer as well as your smartphone and tablet. View prices on different Web browsers—say, Safari and Chrome. Run a search with "cookies" enabled (cookies provide data about your online activities to Web sites), then open a new window and turn on private, or incognito, browsing, which won't save browser history. Search again.

**6. Use all the tools at your disposal.** If you have a choice, compare prices on several sites and apply coupon codes. Tools such as the Honey browser add-on, Coupon Sherpa.com and Retail MeNot .com will help you find coupons.

PriceGrabber.com and the InvisibleHand browser add-on can help you compare prices across sites. ■



prices after taking note of the Web browser you're using, your location, your previous shopping habits, or your search history. Or the merchant may *steer* your search—arranging the results to guide you toward more-expensive items. If a travel site sees

eral leading Web commerce sites practiced steering and price discrimination. For example, Cheap Tickets and Orbitz quoted lower prices for users who logged in than for those who didn't log in—an average of \$12 a night less

data they collect online to put consumers at a disadvantage based on race, gender or religion.

# 3 SIMPLE STEPS

# Give Your Home Curb Appeal

## STEP 1

**Spruce up the exterior.** The quickest and most efficient way to make your home sparkle is to pressure wash it. A pro will charge between \$1,000 and \$2,000 to pressure wash 2,500 square feet, according to [www.homewyse.com](http://www.homewyse.com). Or you can rent a pressure washer from Home Depot or Lowe's for less than \$80 per day. Before you do it yourself, watch how-to videos on YouTube. Pressure washing is also good preparation for a paint job, which may be needed if the old paint is peeling, fading or chalky.

## STEP 2

**Tame the landscaping.** An unkempt yard irritates the neighbors and scares off potential buyers. Rake last fall's detritus out of flower beds and re-edge them. Add mulch, which will look good, help control weeds and retain moisture. Trim shrubs, and remove any dead wood. Reseed or resod thin or bare spots in the lawn, and keep it mowed. If you're not up for the job, you could hire a professional landscaper for a seasonal cleanup, which could run several hundred dollars or more, depending on the size of your yard. Or you could go cheaper with a neighborhood kid.

## STEP 3

**Add color.** Paint the front door and trim in an accent color that complements your home's overall look. Try out colors using online tools, such as Benjamin Moore's Personal Color Viewer, that let you upload and "paint" a photo of your home. Plant annual flowers in the landscape beds, window boxes or containers on the porch. Add a seasonal wreath or decorative flag, a new doormat, or pillows or a patio rug designed for outdoor use.



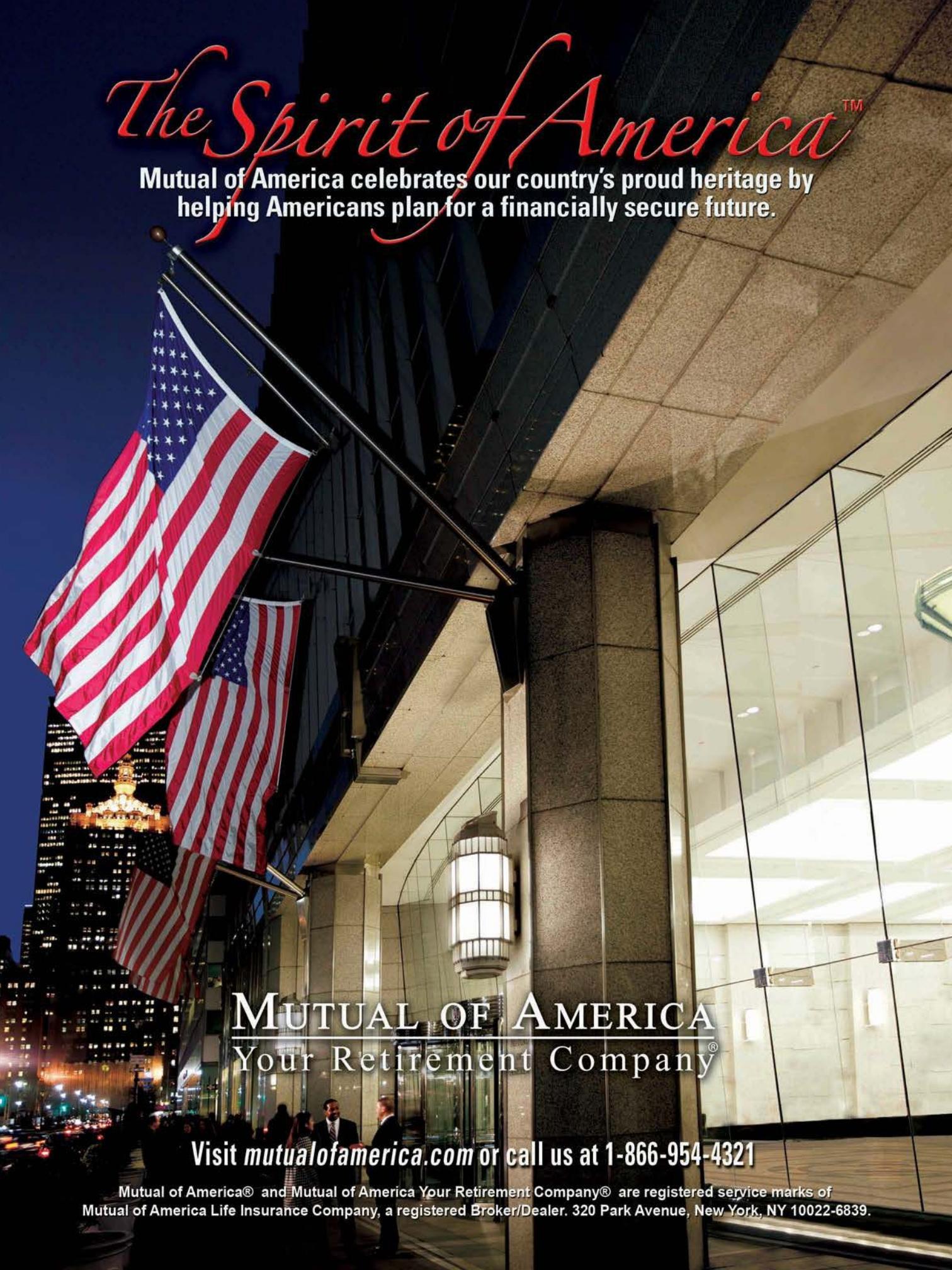
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