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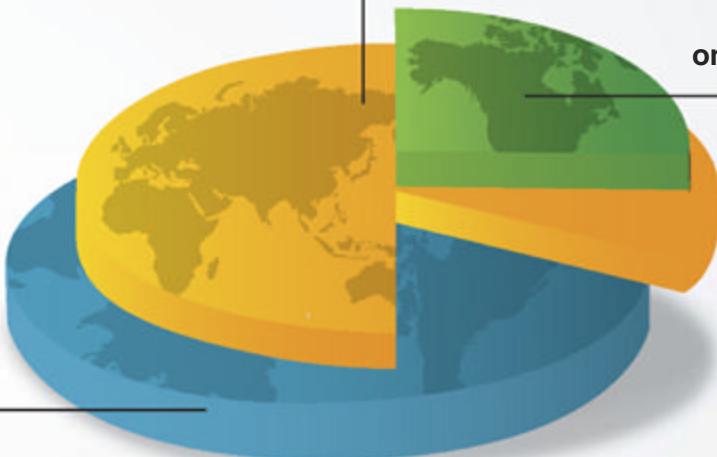
of the time, over the past 30 years, the top-performing equity market has been outside the U.S.¹

80%

of global GDP comes from non-U.S. countries.²

26%

of the world's publicly traded companies are based in the U.S.³



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¹Source: MSCI All Country benchmark returns 1983–2013.

²Source: Gross domestic product based on purchasing-power-parity (PPP) share of world total. IMF, Haver Analytics.

³Source: FactSet as of 11/30/2013. Data presented for the MSCI AC World Index, which represents 44 countries and contains 2,436 stocks. The index is not intended to represent the entire global universe of tradable securities.

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David Payne forecasts the greenback will keep rising throughout 2015—a mixed blessing for businesses and consumers in the U.S.

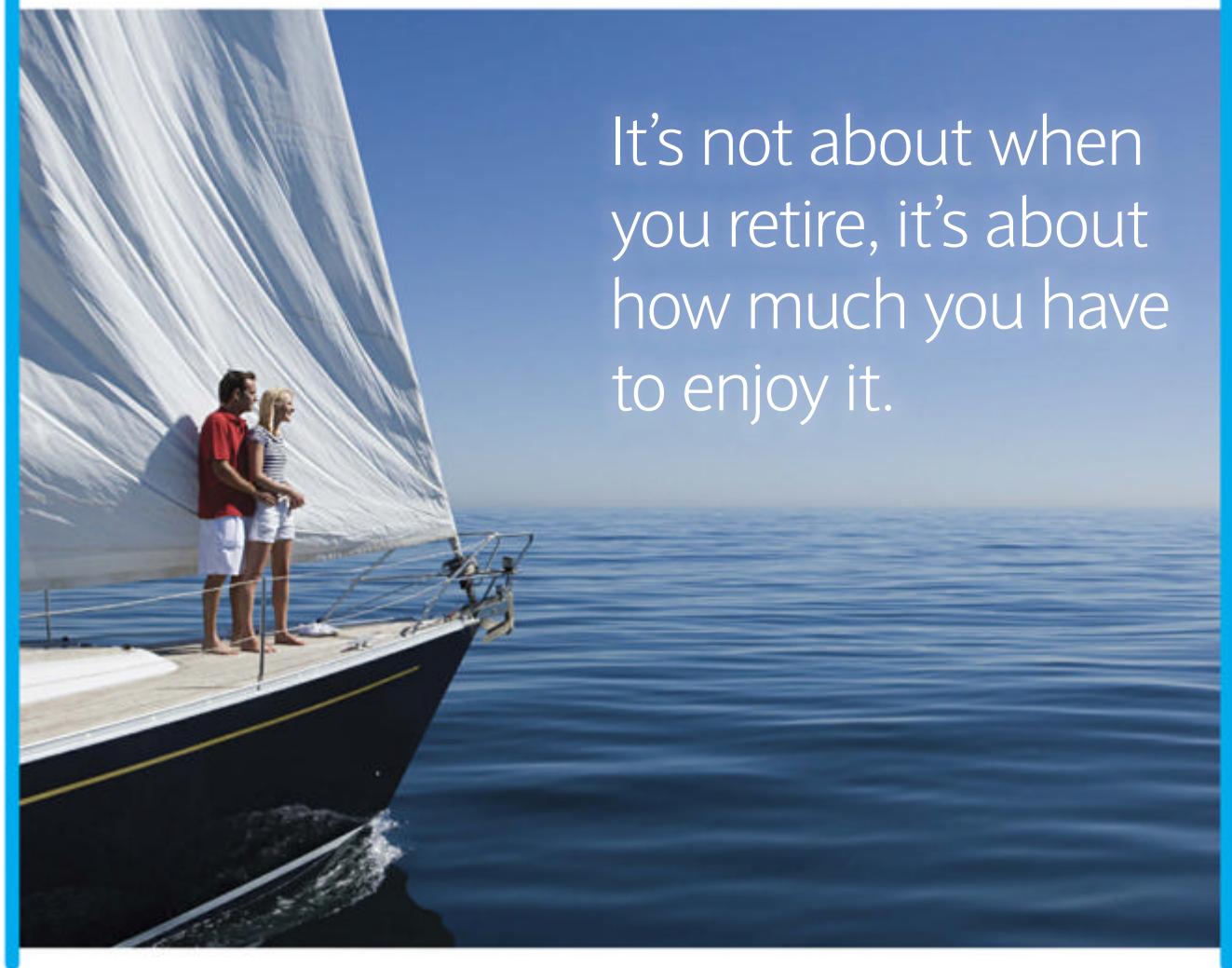
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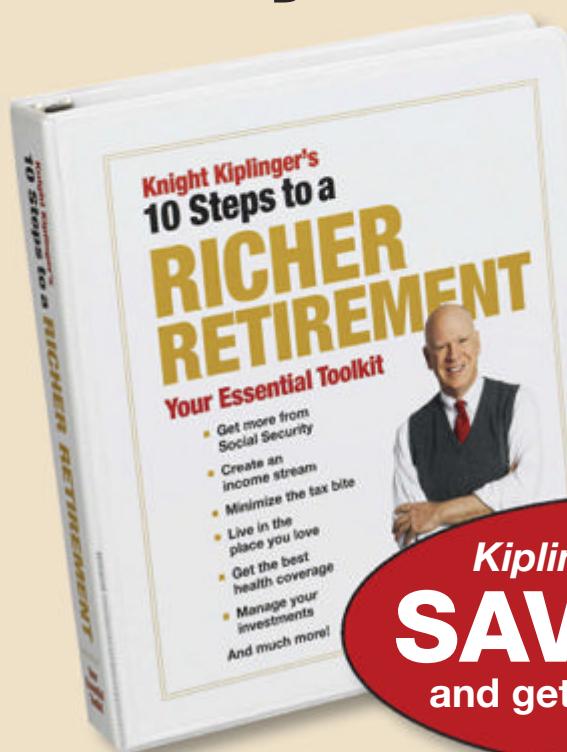
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Janet Bodnar

FROM THE EDITOR

The Right Funds for You

In our January issue, I wrote that my daughter, Claire, had asked me where she and her husband, Zach, could get a higher rate on their savings. Unfortunately, I had to tell them that in this market, earning 1% or so in the bank is about the best that you can do (see "Best of the Online Banks," April). But a longtime reader, Herbert Alleman of Silver Spring, Md., offered a refreshingly positive spin: "If one uses coupons and other incentives to buy needed products, the real savings is the money in your pocket that you don't have to spend," he writes. For example, he figures he can save as much as 19% on groceries by using a supermarket rewards card. "If I save 19%," he says, "then I make 19%. I count my blessings and don't worry about what the bank offers in interest rates."

Mr. Alleman's point of view is a reminder that there's more than one way to boost the return on your savings. Another option, albeit a riskier one, is to invest money in the stock market that you don't need right away. That, in fact, is what Claire and Zach decided to do. They left enough for an emergency cushion in their savings account and divided the rest among four mutual funds, including two index funds and two actively managed funds, one of which is Homestead Small-Company Stock. The Homestead fund is a member of the Kiplinger 25, the list of our favorite mutual funds (see "How to Beat Index Funds," on page 22).

Their strategy of combining index funds with actively managed funds is

spot-on. The index-versus-active debate flared anew last year, when only 10% of actively managed stock funds that focus on big U.S. firms beat Standard & Poor's 500-stock index. In her story on the Kip 25, senior associate editor Nellie Huang reports that active funds suffered last year mainly because large-company stocks beat mid-size, small-company and foreign stocks.

That's not likely to continue. "As the Federal Reserve slowly abandons its ultra-easy monetary policy, investors are likely to focus less on the stock market's attractiveness relative to other asset classes and more on the strengths and weaknesses of individual companies," writes Nellie.

That spells opportunity for active fund managers, and the Kip 25 attempts to spot the funds that can capitalize on it. Among the things we look for, low fees top the list. That's the best way to compete with index funds, whose low costs give them an advantage. For example, all three funds that are new to the Kip 25 this year have expense ratios that are lower than the average among funds in their class. One of those funds, T. Rowe Price Diversified Small-Cap Growth, replaces Baron Small Cap, cut from the list because, in Nellie's view, its expense ratio of 1.30% is too high given its \$5 billion in assets.

How should you combine index and active funds among your investments? Keep the core of your portfolio indexed, advises investing icon Burton Malkiel. That could mean as little as half if you feel financially secure, or as



"The strategy of combining index funds with actively managed funds is spot-on."

much as 90% to 95% "if you're on the edge of not having enough to retire." With the rest, we suggest that you take a look at the Kip 25.

Who's legit? Paying for investment advice is a recurring theme in this month's issue. In "Rethinking Retirement," on page 21, senior editor Jane Bennett Clark tells how to avoid being scammed by "advisers" who pitch fraudulent financial advice to seniors. In "Ahead," on page 11, senior editor Anne Kates Smith delves into the debate about whether brokers who sell retirement products should meet a fiduciary standard. Anne offers her own solid advice on how to avoid high fees and find an adviser you can trust. ■

Janet Bodnar

JANET BODNAR, EDITOR
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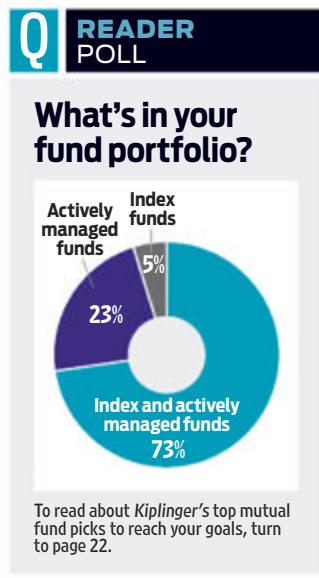
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Medicare Cares

In Knight Kiplinger's "Money & Ethics" column (March), a question was posed about whether providing hospice services to a nonterminally ill patient was legitimate. The Centers for Medicare & Medicaid Services is launching a plan in 2015, called "Medicare Care Choices Model," that will allow some Medicare beneficiaries to receive curative care and palliative care concurrently—but only if the beneficiary has been diagnosed with advanced cancer, chronic obstructive pulmonary disease, congestive heart failure or HIV/AIDS. CMS hopes to study whether access to such ser-

vices will reduce Medicare expenditures while improving the quality of care and



patient and family satisfaction (see <http://innovation.cms.gov/initiatives/Medicare-Care-Choices>).

LYNETTE FOLEY
WEST JORDAN, UTAH

How low will it go? Andrew Feinberg's recommendation to "double down" should be followed by a second column that answers the question, "How do I know when the price has hit bottom?" ("Promised Land," March). I averaged down a \$12 stock when it fell to \$6, but it continued to drop, to \$3. Many stocks drift or drop rapidly without obvious reasons, even after the fact. Fundamental analysis is worthless to determine "value" on a crashed stock, and technical analysis always lags because it takes so many data points to build the charts.

M. SMITH
SAN FRANCISCO

ABLE accounts. As the father of a son with severe autism, I applaud measures, such as the new ABLE accounts, that promote opportunities to save for people with disabilities ("Ahead," March). Families should carefully consider the possible advantages and disadvantages of all the different tools, and use those that best serve their disabled family member's needs.

SETH WEISBORD
LOS ANGELES

A dirty money secret. Thank you for writing about the dangers of economic abuse ("Your Mind and Your Money," Feb.). People need to understand that abuse is often slow and insidious.

ONLINE CHATTER

WE RECEIVED A NUMBER OF responses to our March cover story, "Pick Your Path."

"I found ways to put away a nice nest egg on a \$50K-a-year job: Eat out much less often (this saves \$50 to \$100 per week); buy cheaper life insurance; and make a list when you grocery shop and don't deviate."

"I just read several guest posts on the Retirement and Good Living site by recent retirees. They are sailing, backpacking, starting businesses based on hobbies, RVing across the U.S. and New Zealand. None are sitting on the porch in a rocking chair."

I'm reminded of the analogy of the frog in a pot of water. If you turn the heat up quickly, the frog jumps out. If you turn the heat up slowly or at varying degrees, the frog dies. I was very fortunate to have the abuse so high at one point that I could not help but jump out!

H.V.
BOULDER, COLO.

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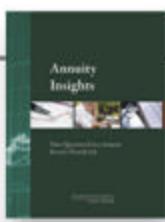
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Ken Fisher

Ken Fisher

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

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TOPIC A

WHOSE ADVICE CAN YOU TRUST?

A proposed rule raises that question and stirs up controversy. **BY ANNE KATES SMITH**

ASKED TO DEFINE FIDUCIARY, many Americans might take a pass, especially as it applies to investment advice. (For the record, investment fiduciaries are legally bound to act in your best interest, even at the cost of their own, when giving advice or recommendations.) News that the Department of Labor might extend a fiduciary standard to everyone who advises investors on retire-

ment accounts sent interested parties on Wall Street and in Washington into a tizzy of overblown rhetoric and accusations.

The heated debate stems from the fact that registered investment advisers are held to a fiduciary standard, but securities brokers adhere to a less-stringent, suitability rule: Investments they recommend must be suitable for you, given your

goals, age, risk tolerance and so forth, but might not be, say, the lowest-cost alternative. Especially when it comes to IRAs, according to the DOL, investors taking advice from nonfiduciaries risk losing money to high fees, inappropriate investments or excessive trading because of inherent conflicts of interest. (Pensions and 401(k) plans always have a fiduciary, usually the employer, tasked with selecting appropriate investment options.)

President Obama's Council of Economic Advisers cited independent research to quantify the risk, and headlines blared: Conflicted advice is costing investors \$17 billion a year! Industry

groups quickly took issue. If brokers push rollovers of 401(k) accounts into IRAs in order to reap higher fees, they're missing the mark, says Investment Company Institute chief economist Brian Reid. He says IRA investors pay well-below-average expenses in their stock mutual funds: 0.74% of assets, compared with an overall average of 1.37%. It's true that 401(k) investors pay even lower expenses, on average, but the increase in what you'd pay in an IRA compared with the cost of a 401(k) is just 0.16%—not the 1.10% claimed by the White House, says Reid.

Financial industry groups warned that if small investors are forced into a fee-

for-service relationship, they could pay more for retirement advice or even lose access to it altogether. "The new regulation could limit investor choice," says Kenneth E. Bentsen Jr., CEO of the Securities Industry and Financial Markets Association, a trade group.

But the new rule would almost certainly accommodate both business models, says Barbara Roper, director of investor protection for the Consumer Federation of America. "No one has a problem with commissions or [mutual fund marketing] fees. No one has a problem with a broker making a living." The rule could force financial products to compete on cost and quality, rather than on bounties paid to brokers, she says.

Any rule is still months away from a formal proposal, and previous efforts have been shot down. Until it all shakes out, investors should make sure they ask the right questions. "How will you make money from this relationship?" Or, "Why are you recommending this product, and what will you be paid if I buy it?" Buy-and-hold investors with little need for ongoing advice may find working with a broker to be the better value, especially if you favor stocks over funds.

Think carefully before rolling over a 401(k). If you can stay in your employer's plan, consider taking advantage of the economies of scale and lower costs that institutional accounts provide—unless investment options are poor or more limited than you'd like.

INTERVIEW

A SHAKE-UP FOR ONLINE TRAVEL SITES

The merger of Expedia and Orbitz won't lead to price hikes.

Douglas Quinby is vice-president of research at Phocuswright, a travel-industry research firm.

Expedia is acquiring Orbitz, leaving the Priceline Group as Expedia's sole major competitor among online travel agencies.

What's the impact on travelers?

The typical concern with consolidation is higher prices and less choice. But with Orbitz, you'll now have more selection. Expedia, which owns Hotels.com, Hotwire, Travelocity and other brands, has a much richer portfolio of hotels, and Expedia will probably integrate the full breadth of its content on Orbitz. Besides, Expedia doesn't have much control over pricing. None of the online travel-book- ing sites do.

Why is that?

Pricing is determined by the competitive dynamics of hotels, airlines and other suppliers. Most of the major hotels and airlines have distribution agreements with the travel sites that

keep prices consistent, so it's tough to find big differences. And the sites check each other regularly. Plus, "metasearch" engines such as Kayak, TripAdvisor and Trivago pull in options and rates from a lot of sites.

So how can travelers scout the best bargains? There are still



a lot of ways to purchase travel. HotelTonight is a great mobile app if you're looking for a last-minute deal on a room. Stayful is an online travel agency for independent boutique hotels. If you want a homelike experience, try Airbnb and HomeAway. For booking activities and tours, I like GetYourGuide, Peek and Viator. With companies that use a car-sharing model, such as FlightCar and RelayRides, you can rent a privately owned vehicle and often get rates below those from big car-rental brands (for more on travel deals, see "World-Class Bargains," on page 62).

Can booking directly with suppliers save you money?

Airlines and hotels are increasingly looking for ways to entice travelers to book with them. Their distribution agreements may not allow them to offer lower prices than those that appear on other sites. But if you book a room on a hotel's site, maybe you'll get free in-room Wi-Fi, say.

Can travel agents dig up good deals? If you're looking for a mass-market type of vacation—say, a quick getaway on the cheap to Miami—it's tough for travel agents to add value. If you're planning something specialized, such as a two-week culinary tour of northern Italy, that's where travel agents can shine. But

be prepared to pay for it. **LISA GERSTNER**



EDUCATION

FREE COMMUNITY COLLEGE FOR ALL?

It would require a lot of money and student mentorship programs.

COMMUNITY COLLEGE HAS long been an affordable alternative to a four-year degree. So when President Obama recently announced a plan to offer two years of community college at no cost to students, Americans' ears perked up. Some states and cities already pick up the tab for select students, and these programs offer clues about what a federal program might look like.

States that help cover

college costs for eligible students include Georgia, New Jersey and Tennessee; cities include Chicago, Pittsburgh and Syracuse, N.Y. The programs vary, but most limit funding based on family income and kick in after federal and state aid is exhausted. Many programs require students to earn good grades—in high school, while enrolled at the community college, or both.

For such programs to

work, they need sufficient financial backing, quality controls and tools to help students perform well, says Thomas Bailey, director of the Community College Research Center at Columbia University. For example, Tennessee's program, which launches this year and is open to all in-state residents, includes a mentorship program to help students graduate.

But funding can be a problem. To save money, New Jersey scaled back its program in 2009 to cover fewer students. A plan on the drawing board in Michigan would cover tuition at the state's participating community colleges and public universities, but it would require students to pay a portion of their future earnings to finance the program.

With a \$60 billion price tag over 10 years and a Republican-led Congress, Obama's plan is unlikely to be approved anytime soon. But students can explore other low-cost options for furthering their education or boosting their careers by earning nondegree credentials—for example, at computer-coding boot camps or by enrolling in certificate programs sponsored by community colleges and companies such as Microsoft. **KAITLIN PITSKER**

EXCERPT FROM
The Kiplinger Letter

FUN AND GAMES AT THE OFFICE

Some employers actually want workers to play computer games on the job. Games reward staffers for boosting sales, soliciting customer feedback and more. Some have leader boards to foster what employers hope will be friendly competition. Others help employees track progress in meeting wellness or fitness goals. Well-designed games lure workers with the fun of online fantasy sports. (www.kiplingerbiz.com/ahead/games)

THE BUZZ

TAKE THE DISCOUNT (OR NOT)

Move over, Sunday coupons: Retailers dangle discounts in other ways these days. But to get the deals, you have to give something in return. Here's our take on when the trade-off is worth it.

Become an e-mail subscriber. Worth it, but wait until you're buying a big-ticket item, says online shopping expert Michelle Madhok. You get a discount of, say, 10% or more, but the coupon is good only once, and only for a limited time.

Connect on social media. Worth it for retailers where you shop frequently. By "liking" stores on Facebook or following them on Twitter, you get early access to sales or special discounts. The same goes for downloading a store's mobile app. For example, Gilt.com, a flash-sale Web site, runs mobile-only sales.

Get a store credit card. Not worth it, especially if you carry a balance. The average interest rate for retail cards is 23%, compared with 15% on general-purpose cards. The interest you pay will quickly wipe out the discount of 15% or more you get when you open the card. Instead, use sites such as GiftCardGranny.com to find discounted store gift cards. The savings can be as much as 20% or more. **CAROLYN BIGDA**



TECHNOLOGY

LOGGING IN? SAY CHEESE

Facial and voice recognition are making passwords passe.

CYBER ATTACKS ARE A FACT of financial life. So banks and other providers are eyeing super-secure biometric recognition technology to beef up account safety. Earlier this year, USAA

became the first U.S. financial institution to introduce biometric log-in technology. Members who use USAA's mobile app on their smartphones can enroll to use facial and voice recognition

to access their accounts. USAA will launch finger-print recognition this year.

Biometric authentication is expected to go mainstream within the next five years. The technology doesn't actually capture an image of your face or finger-print, or literally record your voice. Rather, it measures hundreds of distinct characteristics and runs those values through a proprietary algorithm to create a template. Then, when you log on to a device, or use it to log in to an account, your

current biometric data will be compared with your template to authenticate you.

"We can't rely any longer on traditional modes of security," says Rick Swenson, an assistant vice-president at USAA. Are passwords obsolete? No, but they'll soon be the weakest of multiple levels of authentication that may be used, depending on the riskiness of the transaction and the value of the information. **PATRICIA**

MERTZESSWEIN

MONEY & ETHICS // KNIGHT KIPLINGER

Should rich immigrants be able to "buy" permanent visas?

Q

I hear that thousands of wealthy foreign families, mostly Chinese, are allowed to gain permanent residency in the U.S. each year by investing \$500,000 each in a new American business venture that creates at least 10 new jobs. Do you think this is ethical?



A

I have deep misgivings about the EB-5 visa program you're referring to, and not just because it has attracted fraudulent promoters.

U.S. immigration policy, which is flawed in many ways, should tilt toward admitting people who actually want to work in this country, at jobs with shortages at both the low and high ends of the labor market, ranging from agriculture to high tech. An immigrant's wealth shouldn't by itself confer priority for citizenship.

Supporters of the EB-5 program argue that the foreign capital it attracts—an estimated \$1.8 billion annually in recent years, \$6.8 billion total since 1992—has created 49,000 new jobs in rural and high-unemployment urban communities, which are the intended beneficiaries of the program.

But claims of robust job creation have been disputed by impartial studies, and the dynamic American economy attracts plenty of foreign investors even without the offer of permanent residency.

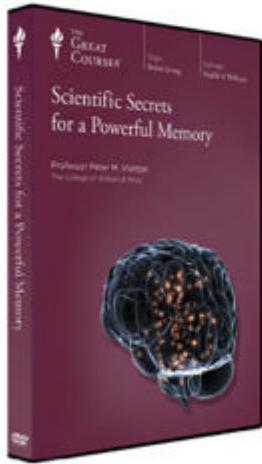
What's more, most of the EB-5 investment has been made in just one business sector: commercial real estate, such as hotels, offices and stores. And loopholes in the definition of an economically distressed place have led to EB-5 certification of ritzy realty projects in affluent areas of Los Angeles, New York City and Washington, D.C., which have no trouble attracting conventional capital. (Investors of \$1 million don't have to meet the depressed-locale requirement that applies to \$500,000 investors.)

Of the 10,000-plus wealthy visa applicants approved in 2014 (including their spouses and unmarried children under 21), about 85% were from China. It appears that these immigrants are much less interested in an investment return—which is often very meager—than in the prospect that their children can legally remain in the U.S., not just for college but forever after.

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



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CALENDAR

05/2015



SATURDAY, MAY 2

Free Comic Book Day. Head to a local store and choose from 50 titles selected for readers of all ages, from newcomers to the genre to seasoned vets. Find participating stores at www.freecomicbookday.com.

▲ WEDNESDAY, MAY 6

If you're moving this summer, schedule a date with the movers to get your preferred time slot. Relocating between Sunday and Thursday could save you 10% or more on moving costs.

MONDAY, MAY 11

Learn more about your favorite local brew during American Craft Beer Week. Many breweries will open their doors for free tours. For a list of events nationwide, go to www.craftbeer.com/acbw.

SUNDAY, MAY 17

New grads: Sign up for automatic debit on your federal student loans. You'll get a 0.25 per-

centage point reduction on your interest rate.

MONDAY, MAY 25

May is National Military Appreciation Month. Visit kiplinger.com/links/militarybenefits for financial perks for military families.

RYAN ERMEY



❖ DEAL OF THE MONTH

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JAMES K. GLASSMAN > Opening Shot

How to Play Cheaper Oil

Does the huge drop in the price of oil provide an opportunity for contrarian investors to cash in? Or are we in for a long period of cheaper oil, which would be great for consumers but poisonous for shareholders of many energy companies? Unfortunately, history doesn't offer a simple answer. Starting last summer, the price of a barrel of oil fell from more than \$100 to less than \$50 in the space of about six months. Oil fell roughly the same amount during the 2007–09 recession, as well as during the downturn of the early 1980s. The previous declines were triggered by significant global slowdowns. In other words, the price dropped because demand—the desire of people and businesses to buy—dropped.

The latest decline is the result of a combination of factors. Demand is sluggish in Europe and Japan (both are barely expected to avoid recessions this year) and in China, where growth in gross domestic product in 2015 is projected to be about three percentage points less than it was a few years ago. But increased production in the U.S., thanks to advances in drilling technology, is also playing a major role by boosting supply. Then there is the desire of Saudi Arabia, the leader of the OPEC cartel, to squash oil-producing companies that can't survive with a low price—and perhaps punish its oil-producing enemies, Iran and Russia. When the Saudis turn on the spigot, the supply rises and the price falls.

But how long will oil stay low? The past is no help. The rebound after the most recent recession was sharp. From a low of about \$34 a barrel in February 2009, West Texas Intermediate crude was back above \$100 two years later. The second half of the 1980s and the 1990s were another matter. Except for a quick spike during the Gulf War, prices bounced between \$10 and \$20 nearly the entire time.

I have written many times that individual investors should avoid direct purchases

of commodities; they are just too volatile and unpredictable. But what about stocks of companies in the oil and gas business? When you buy their shares, aren't you also betting on a commodity's price?

Certainly. But the exposure of those firms to oil and gas prices varies. Especially vulnerable to lower oil prices are energy-services companies, such as Halliburton (symbol HAL), which provide the rigs, analytic equipment, and other implements for extracting crude from the ground. The number of rigs operating in North America (a good measure of the amount of drilling) fell from 2,403 at the peak last year to 1,597 by the end of February. It's no surprise that shares of Halliburton dropped by half between July 23 and January 15. Analysts on average expect the company to earn \$1.78 per share in 2015, down 56% from what it made in 2014. Based on that estimate, Halliburton's price-earnings ratio is 24, which is high but, because earnings are depressed, not especially worrisome. If oil prices rebound, then the stocks will rise sharply.

Ravaged sector. The same is true for battered exploration and production companies—the firms in the risky business of looking for oil and gas and pumping it out of the ground. Noble Energy (NBL), which has operations around the world and 1.4 billion barrels' worth of proven reserves, saw the value of its assets cut in half as oil prices plummeted; its share price fell by the same proportion in just six months. The story is the same for most other E&P companies. An investment in these stocks is pretty much a bet on the price of oil.

Integrated energy companies are different. They make their money from both production (known in industry parlance as the upstream side of the business) and refining, chemical manufacturing and selling to consumers at gasoline stations (downstream operations). When the price of oil falls, these companies, such as **CHEVRON (CVX, \$104)**,

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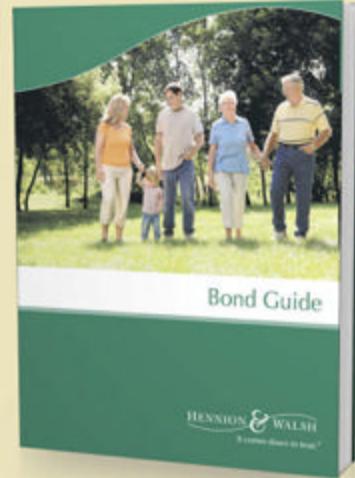


Dear Investor,

We urge you to call and get your free Bond Guide. Having tax-free municipal bonds as part of your portfolio can help get your investments back on track and put you on a path to achieving your investment goals. Getting your no-obligation guide could be the smartest investment decision you'll make.

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)

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“Be careful investing in energy funds. The sector covers a lot of territory, so you need to know what you’re buying.”

EXXONMOBIL (XOM, \$86), Netherlands-based ROYAL DUTCH SHELL (RDS-A, \$61) and France’s TOTAL (TOT, \$51), receive less revenue from selling crude. But because crude is the key input for the production of petrochemicals and gasoline, they earn more in their downstream businesses. (Prices, yields and returns are as of March 6.)

It is this balance that keeps integrated companies on a relatively even keel. Shares of ExxonMobil, for example, peaked last summer at \$104 but never got below \$86 as the price of a barrel fell by half. The stock’s P/E of 23, based on estimated 2015 earnings, looks rich, but Exxon and the other big integrated companies have something else going for them: They’re large enough, and their balance sheets are solid enough, to buy struggling production companies—or even integrated ones—at good prices. Oil prices will go back up; they always do. In the meantime, these companies will pay you a nice dividend. Exxon’s current yield is 3.2%, and Chevron’s is 4.1%. Total, a smaller and dicier proposition, yields 5.4%.

I like these integrated companies, even though they aren’t screaming bargains. If you want to speculate on an excellent E&P company with a strong balance sheet (rated A- for financial strength by the *Value Line Investment Survey*), I would turn to PIONEER NATURAL RESOURCES (PXD, \$156). Its shares are 33% below their peak last June of \$233. The company, based outside Dallas, focuses its operations in Texas and the western U.S.

THE SAFEST WAY TO INVEST IN ENERGY STOCKS IS THROUGH BIG COMPANIES, SUCH AS CHEVRON.



With a market capitalization of \$23 billion, Pioneer could be a takeover candidate.

Be careful investing in energy funds. The sector covers a lot of territory, so you need to know what you’re buying. One of my favorites is ENERGY SELECT SECTOR SPDR ETF (XLE), an exchange-traded fund. It gives you a dose of integrated majors: At last word, 16% of its assets were in Exxon and 13% in Chevron. Schlumberger is 7% of the portfolio, and KINDER MORGAN (KMI, \$40), a pipeline company whose price has been relatively stable and whose yield is an attractive 4.5%, rounds out the top four holdings.

VANGUARD ENERGY (VGENX), a 31-year-old, actively managed mutual fund, lost 16.3% over the past 12 months, but the fund has a stellar long-term record. Over the past 15 years, it returned an annualized 11.6%, beating Standard & Poor’s 500-stock index by an average of 6.9 percentage points per year. The fund is heavily weighted toward the integrated companies, but it is leavened with such stocks as Pioneer, Halliburton and EOG RESOURCES (EOG, \$89), an E&P firm that is heavily invested in the Eagle Ford shale field in Texas and the Bakken formation in North Dakota and Montana.

My view is that lower oil prices could last for a while—maybe three years. Demand will eventually revive, but there is a vast amount of supply that can sop it up. Still, even with a level or slowly rising price, there’s a lot of money to be made in the energy business as companies get smarter about cutting their extraction costs. The history of oil drilling has seen constant improvements in efficiency, and I would expect the trend to continue, allowing companies to make more profits from oil selling for \$50 to \$60 a barrel.

What about alternative energy? Solar and wind are expensive sources of power to begin with, and lower oil and gas prices won’t help them. We’re still living in a world in which we get nearly all of our energy from fossil fuels, and, as an investor, you would be foolish to ignore that fact when building your portfolio. But, please, proceed with caution. Don’t bet the ranch on oil rebounding to \$100 anytime soon. ■

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

Be Wary of “Senior” Experts

Which financial adviser would you pick to give you advice on retirement: a planner with extensive training as a generalist or someone who claims special expertise in retirement issues?

If you said the latter, you could be setting yourself up for a scam—or at least sketchy advice. Planners eager to mine the rich vein of retirement savings are using credentials such as *certified senior investment planner* and *registered senior investment adviser* to get you in the door and sell you products, according to a report by the Consumer Financial Protection Bureau. Among the products they pitch are certain types of annuities that may be risky, overpriced or inappropriate.

Often, the impressive credentials or chain of letters following an adviser’s name represent not much more than attendance at a weekend seminar or a few hours’ study, if that. Ersatz “credentials” may even be used by scammers eager to get your business. “I’ve seen business cards that say ‘HSG,’ for ‘high school graduate,’ ” says Gerri Walsh, president of the Finra Investor Education Foundation, which promotes financial literacy. These self-declared experts typically target older people (mostly men) who are affluent, educated and consider themselves financially savvy. “It’s not the isolated little old lady” who is being drawn in, says Walsh. “Fraudsters go where the money is.”

Real versus faux real. Not every adviser with a specialty aimed at seniors is using lightweight or trumped-up credentials. Some designations demand rigorous training, testing and follow-up. For instance, an *accredited estate planner* must also be a lawyer or similarly qualified professional, take two graduate-level courses, and have five years of estate-planning experience. Compare those credentials with those for an *accredited retirement adviser*, who can

take a 100-question exam without any academic or professional prerequisite.

One easy way to identify an adviser with expertise is to look for the *certified financial planner* designation. The CFP credential indicates that the planner has taken a college-level program in financial planning or the equivalent, passed a tough exam, and clocked at least three years as a full-time personal finance planner.

So rigorous is the training that anyone who earns a CFP is unlikely to tack bogus credentials onto it, says Michael Kitces, a partner (and CFP) at the wealth management firm Pinnacle Advisory Group, based in Columbia, Md. “Why add the junk if you’ve already gotten a high-quality credential?” he asks. Kitces has suggested that regulators set a minimum standard for financial planners, such as the CFP. “If such a rule were put into place, I suspect that almost all the specious designations would vanish,” he says.

As for other credentials, check Finra’s “Understanding Professional Designations” database at www.finra.org. Use the tool to find designations and compare them side by side, vetting their educational requirements, exam type, complaint process and accreditation status. You can also find background information on brokers and advisers, including their qualifications and disciplinary history, at <http://brokercheck.finra.org>.

The Department of Labor has raised a related concern about brokers who offer retirement advice. The current standard requires only that brokers provide their clients with “suitable” advice, be it about rolling over a 401(k) into an IRA or about which products to buy. The DOL would bump up the current standard for brokers to a higher, fiduciary standard, which requires advisers to put their clients’ interest before their own (see “Ahead,” on page 11). ■



Impressive credentials following an adviser’s name may represent not much more than attendance at a weekend seminar.”

>>

INVESTING



How to BEAT INDEX FUNDS

**Don't give up on
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The Kiplinger 25
identifies tomorrow's
rising stars.**

BY NELLIE S. HUANG

ILLUSTRATIONS BY THE HEADS OF STATE

THINKING ABOUT DITCHING AN
actively managed stock fund for an index
fund? You have tons of company. Over the
past year, investors have yanked \$110 billion
out of actively managed U.S. stock funds
and put much of it into index funds. But you
can still win the investing Grand Prix with
humans at the controls, and the funds in the
Kiplinger 25 give you a great shot at doing
just that. // Still, there's no sugarcoating the
fact that actively managed stock funds have
been enduring a miserable run. In 2014, only
10% of active stock funds that focus on big

U.S. firms beat Standard & Poor's 500-stock index, which is geared toward large-capitalization stocks. The performance of the Kip 25, our favorite actively managed no-load funds, was pretty much in line with the rest of the world. Of our five mostly big-cap U.S. stock funds, none beat the S&P 500, although Davenport Equity Opportunities, which invests in companies of all sizes, did prevail. (For a closer look at how our funds fared over the past 12 months, see the box on page 25.)

But what's done is done, and we urge those of you who are thinking about abandoning active management to reconsider. The stock market dynamics that so strongly favored big cap indexes last year are unlikely to persist. Active funds suffered last year

because, essentially, large-cap stocks beat everything else: mid-cap stocks, small-cap stocks and foreign stocks. And even within large caps, shares of the behemoths generally did best.

Stock market returns are likely to be far more democratic over the next few years. That's because, as the Federal Reserve slowly abandons its ultra-easy monetary policy, investors are likely to focus less on the stock market's attractiveness relative to other asset classes and more on the strengths and weaknesses of individual companies. Says Kristina Hooper, the U.S. investment strategist for Allianz Global Investors: "This is when active managers shine."

And this is where the Kip 25 comes in. Despite the past year's sluggish results, our funds boast outstanding

long-term records. Does that mean our picks will continue to excel? No one knows for sure. And, truth be told, we wouldn't begrudge you owning a mix of index funds *and* actively managed funds. That is a defensible strategy.

But over time—*Kiplinger's* has been writing about mutual funds since the 1950s, and we introduced the Kip 25 in 2004—we have learned that certain characteristics lead to success. First, low operating costs are crucial for overcoming the biggest advantage of index funds: their usually microscopic expense ratios. (For more on fees, see "Ahead," on page 11.)

We also favor funds run by managers with strong long-term track records who demonstrate a clearly defined strategy for picking securities. We prefer funds with below-average volatility for their category, and we keep a close eye on a fund's size because a gargantuan asset base makes managing a fund difficult.

We're not afraid to say good-bye to a fund. The easiest call: We remove a fund if it closes to new investors. But we may also eject a fund when its manager changes, when it grows too big or when it lags its peers over an extended period. (For an update on some better-known funds we have booted over the years, see the box on page 26.)

This year, we add three new funds to the Kip 25. At left, we explain why the funds they replace are out. For a rundown of all the funds in the Kip 25, turn to page 28. And for guidance on how to incorporate our favorites into a portfolio to meet a long-term, medium-term or short-term goal, see page 27. Below, a closer look at the new members of the Kip 25.

★ ARTISAN INTERNATIONAL

As manager of Artisan International since its 1995 launch, Mark Yockey has seen a lot of action: the Asian contagion of the late 1990s, the more recent European financial crisis, China's rise as an economic juggernaut, the stagnation of Japan's once-mighty economy and stock market, and the rise

★ 2015 Changes

Why We Kicked Out Three Funds

IF WE HAD A WORKING CRYSTAL BALL, THE JOB OF SHEPHERDING THE KIPLINGER 25 would be a lot easier. But we don't. So we think long and hard before we remove a fund; in truth, we agonize over every change. Sluggish performance isn't the only reason for removing a fund from the Kip 25. Factors such as manager changes, a shift in strategy and too much money (known as asset bloat) come into play, too. Complicating matters is that if we want to remove a fund, we must also have a worthy replacement to fill its slot.

Take T. Rowe Price Small-Cap Value (symbol PRSVX), for instance. We're thinking about replacing it: The fund has \$9 billion in assets, an awful lot for a small-company fund. (Trading large quantities of stocks can adversely affect their prices, and that goes double for small-company stocks.) Moreover, the fund's longtime manager, Preston Athey, retired last June after 23 years at the helm. But we can't find a solid substitute—one that charges no load, has below-average fees and a reasonable initial minimum, truly focuses on small undervalued companies, and is run by a manager with a superior long-term record.

Some searches were fruitful, however. We were able to find a replacement for Baron Small Cap (BSCFX), which we are sidelining because of a growing asset base. With \$5 billion under management, it's getting harder for Small Cap to focus on, well, small caps. According to Morningstar, 54% of the fund's assets are in midsize companies. We replaced Baron with T. Rowe Price Diversified Small-Cap Growth (PRDSX), a smaller, less expensive fund.

We're removing Cambiar International Equity (CAMIX) after one year in the Kip 25, even though the fund beat the key foreign-stock benchmark, the MSCI EAFE index, by breaking even for the year. But when the going gets rough overseas, we feel more comfortable trusting our foreign-stock money with a manager who's seen it all. So we replace Cambiar with Artisan International (ARTIX), run by 20-year veteran Mark Yockey.

In with one Artisan fund, out with another. Since we added Artisan Value (ARTLX) in May 2012, the fund has trailed the S&P 500 and the typical large-company fund. We've had our eye on T. Rowe Price Value (TRVLX) for a while. It has delivered better results than Artisan over the past five years, and it charges less (0.82% versus 0.98%).

and fall of many emerging markets. Through it all, his stock-picking process has remained the same. He invests in “killer companies” that dominate their industries, stand to benefit from long-term global trends and throw off a lot of cash. “We’re looking for companies that will continue to grow for the next five to 10 years,” says Yockey. And they have to be attractively priced relative to their growth rate. Take Baidu, the Chinese search engine firm and the fund’s biggest holding. Yockey says Baidu’s earnings will grow by 34% next year, but the stock’s price-earnings ratio is just 26 (based on estimated earnings). Of course, not every holding is growing at that pace. In fact, says Yockey, “we’re not focused on high growth or low growth. We’re focused on price relative to growth.”

Yockey, 58, and co-managers Andrew Euretig and Charles-Henri Hamker, who joined in 2012, can invest in any size company, but they focus on large outfits in developed markets. The fund at last report had 40% of its assets in European stocks in developed countries, which, Yockey says, look “really cheap.” But it can invest up to 35% of its assets in emerging-markets stocks, and recently the fund had 16% of its money in those kinds of stocks—mostly Chinese Internet and technology companies, including Baidu, Alibaba and Tencent. When the managers buy, they do so with the intent to hold for at least three to five years. One holding, Swiss food giant Nestlé, has been in the fund for 14 years.

Artisan’s long-term record is solid. Since its launch, it has gained an annualized 10.1%, nearly twice the return of the MSCI EAFE index, which tracks stocks of large companies in developed foreign markets (all returns

are through March 6). Annual expenses are 1.17%, compared with 1.26% for the typical large-company foreign fund. Yockey says the fund’s \$18.5 billion in assets is a “drop in the ocean compared to the \$40 trillion in market value available in global markets.”

★ T. ROWE PRICE DIVERSIFIED

SMALL-CAP GROWTH

When smart fund managers see a good opportunity, they seize it. So it’s reassuring that in the late 1990s, Sudhir Nanda, then a professor of finance, realized that his academic expertise in

★ Update

Our Picks Profit, Just Not Enough

FOR BETTER OR WORSE, INVESTMENT PROS, ANALYSTS AND FINANCIAL JOURNALISTS focus on relative performance. So even though the Kiplinger 25 made decent money over the past year, we can’t claim victory because most of our picks didn’t beat their benchmarks.

A quick review of this lopsided year: Standard & Poor’s 500-stock index, a proxy for large-capitalization U.S. stocks, earned 12.6%. But small-company stocks struggled; the Russell

2000 index gained just 2.4%. And the MSCI EAFE index, which tracks large-cap foreign stocks in developed markets, lost 1.8%. Bond investors, meanwhile, sweated out another year waiting for an interest rate rise that never arrived, and the Barclays US Aggregate Bond index returned 4.4%. (All returns are through March 6.)

The 12 U.S. stock funds on our list gained an average of 6.5%. Only one, Davenport Equity Opportunities, beat the S&P 500. Two other U.S. stock funds stand out: Homestead Small-Company Stock beat its bogey, the Russell 2000, with a 6.1% gain. And Parnassus Mid-Cap gained 12.4%, topping the Russell Mid Cap index by 1.5 percentage points.

Hurt by a strong dollar and the mediocre performance of many overseas stock markets, our foreign stock

funds struggled. Dodge & Cox International, which we replaced in January after it closed to new investors, eked out a 0.8% gain. Cambiar International, which we’re replacing with Artisan International, lost 1%. And Matthews Asian Growth & Income, with a 1% gain, badly lagged the 10.7% return of the MSCI All Country Asia ex-Japan index because the fund, unlike the index, doesn’t hold Indian stocks, which rocketed 44% over the past year.

The results of our seven bond funds were respectable, if not scintillating. DoubleLine Total Return Bond and Fidelity Total Bond, medium-maturity funds that compete with the Barclays index, tied the benchmark’s return, on average. DoubleLine beat it by 0.2 percentage point, Fidelity lagged by the same amount. The five other funds topped their peer groups, returning between 1.1% (Osterweis Strategic Income) and 4.3% (Fidelity Intermediate Muni Income).

Diversification—specifically, exposure to foreign and small-company stocks—dampened the results of our three portfolios. The conservative portfolio earned 4.8% over the past 12 months. The moderate portfolio gained 3.9%, and the aggressive portfolio returned 5.2%.



stock market research might be better rewarded if he were a money manager. He left teaching and joined the quantitative analysis team at T. Rowe Price in 2000. Nanda, 55, now runs the firm's group of number crunchers, as well as Diversified Small-Cap Growth. Since he took the reins in October

2006, the fund has returned 12.0% annualized, well ahead of the 7.9% annual return of the Russell 2000, a measure of small-company stocks.

Diversified Small-Cap Growth is the only quant fund in the Kip 25. Nanda relies mostly on numbers—price-earnings ratios, price-to-sales ratios and

return on equity (a measure of profitability), to name just a few—to ferret out small, high-quality firms that trade at discounted prices. But he will examine fundamental business factors when necessary. For instance, in 2008, as many banks teetered on the abyss, he sought help from Price's banking analysts to identify potential failure candidates. These and other sector specialists also occasionally play a role in refining Nanda's screens—informing him, for instance, of which measures might matter most for a specific industry.

In the end, Nanda wants the same thing as many other fund managers who dig into the nitty-gritty: companies with growing profits run by executives who reinvest those earnings wisely, and stocks that trade at bargain prices. That focus helped the fund hold up better than other small-company funds during the downturns of 2008 and 2011. Diversified Small-Cap Growth lost 36.3% in 2008, and it climbed 1.5% in 2011. Compare that with the average fund that focuses on small growing companies, which tumbled 41.6% in 2008 and lost 3.6% in 2011. "If I can avoid heavy losses in the bad markets, I should do better over the long term," says Nanda.

The fund is well-diversified, with about 300 stocks. And Nanda really does buy and hold. The portfolio's 17% turnover rate suggests that he holds a stock about six years, on average. That compares with an average turnover ratio of 85% for the typical small-company growth fund. Assets total a reasonable \$1 billion, and annual expenses clock in at 0.82% per year, far below the average small-company fund fee of 1.22% per year.

★ T. ROWE PRICE VALUE

Manager Mark Finn loves controversy. The hullabaloo can involve a company, an industry or even the entire economy. If it brings down a stock's price, Finn is interested, especially if he's convinced that the company is poised to turn around and, hence, that it has

★ Fallen Stars

We Were Right to Dump These Funds

NOBODY LIKES REJECTION. BUT TAKE IT FROM US, IT'S HARD TO DO THE REJECTING, too. We believe in holding funds for the long haul, so we think of the Kiplinger 25 as fairly static, tweaking the list as little as possible. Since we launched the Kip 25, almost 70 funds have come and gone—about six per year, on average. But the implied annual turnover rate of 24% actually overstates the frequency of removals because we've ousted 20 funds simply because they closed to new investors. We also typically remove a fund when a key manager leaves. But the hardest calls involve dumping a fund for performance-related reasons or because of concerns that it may have grown too large or that the manager may be taking more risks than we bargained for. Were we right to turn those funds loose? To answer that question, we examined how some of the better-known former Kip 25 funds have fared since we ejected them.

We hit the target with some of our calls: Uneven performance led us to drop Ken Heebner's CGM Focus (symbol CGMFX) as well as Selected American Shares (SLASX), managed by Chris Davis. Since we removed CGM in May 2010, it has returned 6.9% annualized, lagging the return of Standard & Poor's 500-stock index by an average of 7.7 percentage points per year. (Returns are through March 6.) Since its ousting in May 2011, Selected American has gained 10.1% annualized, trailing the S&P 500 by 3.9 percentage points a year. The problem with T. Rowe Price Equity Income (PRFDX), managed by Brian Rogers, Price's chairman and chief investment officer, was ho-hum performance. It's still middling: The fund's 14.6% annualized return since we dropped it in May 2012 isn't disgraceful, but it falls short of the S&P's 17.3% average yearly gain.

Unloading Fairholme Fund (FAIRX) was an especially astute call. We did so in May 2011 after manager Bruce Berkowitz placed 75% of the fund's assets in financial stocks. Since then, Fairholme has returned 5.8% annualized, eight percentage points per year behind the S&P 500. Berkowitz currently has 84% of the fund's assets in financial-services stocks, with 41% in just one issue, American International Group. That's too much concentration for our taste.

We would have been better off hanging on to a couple of funds. Bill Miller's Legg Mason Opportunity (LMOPX), which had a strong run for most of the early '00s, lost a staggering 65% in 2008. We pulled the plug in October 2008 amid the carnage of the financial crisis. Since then, the fund has returned 13.3% annualized, beating the S&P 500 by 1.3 points a year. And we dropped Bill Nygren's Oakmark Select (OAKLX) in May 2008 after it got caught holding a big position in Washington Mutual, the Seattle-based bank that later collapsed in September 2008. Since then, Oakmark Select has earned 12.1% annualized, topping the index by 3.7 points a year.

Finally, we think it's too soon to make judgments about last year's decision to cut Harbor Bond (HABDX), Fidelity Contrafund (FCNTX) and Fidelity Low-Priced Stock (FLPSX). That said, we have no need to hang our heads. None of the funds beat their benchmarks over the past year.

been unfairly tarnished. Granted, this kind of contrarian strategy can be treacherous. In late 2014, Finn bought shares of Genworth Financial, an insurance company that reported bigger-than-expected losses for the year. As a result, the stock has dropped 9% so far in 2015. "I'm not afraid to buy as stocks fall," says Finn, 52.

He's not afraid to sell when the market is moving against him, either. Last June, the fund had 11% of its

assets in energy stocks, just as oil prices were about to embark on a treacherous decline of more than 50%. Finn trimmed his position to 4% by the end of 2014 by eliminating several energy holdings, including Royal Dutch Shell, the Netherlands-based integrated giant.

Finn's gutsy calls have worked out well. From his ascension as Value's manager in January 2010, the fund has returned 15.6% annualized, edging the

S&P 500's annualized return of 15.1% and beating the average large-company stock fund. And although Finn didn't beat the S&P 500 in 2014, he came darn close: His 13.4% gain lagged the index by 0.3 percentage point.

The fund's a bargain, too. Its 0.82% expense ratio is far below the average of 1.25% for diversified U.S. stock funds. Value's asset base of \$21 billion is by no means tiny, but Finn believes it is manageable. ■

PUTTING THE KIPLINGER 25 TO WORK

Reach Your Goals With These Plans

THE BEST WAY TO ACHIEVE YOUR INVESTING GOALS IS TO MAKE A plan and stick to it. When things get rough in the market, hang tough. We designed these three portfolios to appeal to investors with different time horizons and goals. Use the fund allocations as a starting

point: You can kick up the allocation to stocks if you're a daredevil, or ratchet it down and invest more in bonds if you're the cautious kind. And don't forget to rebalance regularly—say, every six or 12 months—to bring the portfolio back to the desired mix.



For Retirement

TIME HORIZON: 11 years or more

PLAN: To build a portfolio of mostly stock funds for growth, with one bond fund for ballast.



For College

TIME HORIZON: Six to 10 years

PLAN: With a shorter time frame, create a portfolio that balances risk and return by adding more bond funds.



For Income

TIME HORIZON: Five years or less

PLAN: Put 30% into stock funds to produce growth and the rest in bond funds. This portfolio yields 3.3%.

AGGRESSIVE PORTFOLIO

1 Davenport Equity Opportunities	20%
2 FMI International	15%
3 Fidelity New Millennium	15%
4 T. Rowe Price Div. Small-Cap Gro.	15%
5 T. Rowe Price Value	15%
6 Harding Loev. Emerg. Mkts. Stock	10%
7 Fidelity Total Bond	10%

MODERATE PORTFOLIO

1 Vanguard Dividend Growth	20%
2 Davenport Equity Opportunities	15%
3 DoubleLine Total Return Bond	15%
4 FMI International	15%
5 Homestead Small-Co. Stock	15%
6 Osterweis Strategic Income	15%
7 Harding Loev. Emerg. Mkts. Stock	5%

CONSERVATIVE PORTFOLIO

1 DoubleLine Total Return Bond	25%
2 Vanguard Dividend Growth	25%
3 Fidelity Total Bond	15%
4 Osterweis Strategic Income	15%
5 Fidelity New Markets Income	10%
6 Merger Fund	5%
7 Metropolitan West Uncons. Bond	5%

RETURNS AND MORE: THE KIPLINGER 25 AT A GLANCE

LARGE-COMPANY STOCK FUNDS

Dodge & Cox Stock (DODGX) 800-621-3979	With a low annual fee, Stock has been a reliable performer over the long haul. Nine seasoned bargain-hunting managers like to venture where others fear to tread. Top holdings: Hewlett-Packard, Wells Fargo and Capital One.
Fidelity New Millennium (FMLX) 800-343-3548	Manager John Roth can invest in companies of any size. He buys stocks of older, established companies (for example, Microsoft); younger, fast-growing firms (Tesla Motors); and outfits on the mend (Bank of America).
Mairs & Power Growth (MPGFX) 800-304-7404	A longtime manager retired, but lead manager Mark Henneman remains. He and a new comanager invest in attractively priced growing companies, mostly around the fund's Upper Midwest home base, and hold for years.
T. Rowe Price Value (TRVLX) 800-225-5132	Mark Finn has an eclectic background. He's been an accountant, as well as an analyst of both stocks and bonds. He invests in large companies, preferably when a business seems down-and-out but has a catalyst for a turnaround.
Vanguard Dividend Growth (VDIGX) 800-635-1511	Manager Donald Kilbride has turned in steady returns with below-average volatility by focusing on companies with low debt, high profitability and a consistent history of raising dividends. The fund yields 2.0%.

SMALL- AND MIDSIZE-COMPANY STOCK FUNDS

Akre Focus (AKREX) 877-862-9556	Founder Charles Akre works with two comanagers to deliver above-average returns with below-average risk by investing in companies with strong competitive advantages run by smart executives.
Davenport Equity Opps. (DEOPX) 888-285-1863	From their office in Richmond, Va., managers George Smith and Chris Pearson run a compact portfolio, which recently held just 31 stocks. The managers can invest in any size firm but tilt toward midsize companies.
Homestead Small-Co. Stock (HSCSX) 800-258-3030	Mark Ashton, Prabha Carpenter and newly named comanager Gregory Halter like out-of-favor firms poised to recover. Top holdings include trucker Knight Transportation and BJ's Restaurants.
Parnassus Mid Cap (PARMX) 800-999-3505	This socially screened fund bars tobacco and gambling stocks, among others. Managers Lori Keith and Matthew Gershuny favor midsize firms that dominate their industry and offer a service or product that's in demand.
T. Rowe Price Divers. Sm.-Cap Gro. (PRDSX) 800-225-5132	Sudhir Nanda blends quantitative screens with a sprinkling of fundamental analysis in the quest to identify attractive, growing small companies selling at a reasonable price.
T. Rowe Price Small-Cap Value (PRSVX) 800-225-5132	This fund focuses on unloved, undiscovered and underpriced small companies. Results have been mediocre since David Wagner took over from longtime manager Preston Athey, so we're keeping a close watch.
Vanguard Selected Value (VASVX) 800-635-1511	Managers from two firms separately run slices of this \$10 billion midsize-company fund. One focuses on stocks trading at low price-earnings ratios, the other on stocks that trade at a discount to book value.

INTERNATIONAL STOCK FUNDS

Artisan International (ARTIX) 800-344-1770	Veteran stock picker Mark Yockey heads the team at this large-company foreign stock fund. He and his comanagers seek growing, highly profitable industry leaders that trade at discounted prices.
FMI International (FMIJX) 800-811-5311	This fund has outpaced its peers by looking for bargains among growing, established businesses. Plus, hedging against currency fluctuations helped insulate the fund from the downside of a strong dollar.
Harding Loevner Emerg. Mkts. (HLEMX) 877-435-8105	The fund, which invests in companies based in developing markets, has posted top-notch returns since its 1998 launch. The five managers seek high-quality firms with little debt and steady-to-improving profit margins.
Matthews Asian Growth & Inc. (MACSX) 800-789-2742	Managers Robert Horrocks and Kenneth Lowe dampen the volatility of investing in developing and developed Asian countries by owning attractively priced dividend-paying stocks, preferred stocks and convertible bonds.

SPECIALIZED/GO-ANYWHERE FUNDS

FPA Crescent (FPACX) 800-982-4372	Led by longtime manager Steve Romick, the managers of this go-anywhere fund can't find many bargains in the markets these days. At last report, the fund held 51% of its assets in stocks and 39% in cash and Treasuries.
Merger (MERFX) 800-343-8959	Don't expect outsize returns from this fund, which invests in takeover targets after a buyout is disclosed. It offers super-low volatility and steady returns over time. Higher interest rates should boost returns.

BOND FUNDS

DoubleLine Total Return Bond (DLTNX) 877-354-6311	Fixed-income guru Jeff Gundlach leads this fund with a strategy that balances the risks related to government-backed mortgage debt with those of non-agency mortgage bonds. Yield: 3.5%.
Fidelity Intermed. Muni Inc. (FLTMX) 800-343-3548	Lead manager Mark Sommer takes a cautious approach. Lately, that's meant balancing tax-free long-term and short-term muni bonds and snapping up health care-related issues. Yield: 1.2%.
Fidelity New Markets Inc. (FNMX) 800-343-3548	Manager John Carlson favors U.S.-dollar-denominated government debt in select developing nations. Top three countries: Mexico, Russia and Brazil. At 5.5%, this is the Kip 25's second-biggest yielder.
Fidelity Total Bond (FTBFX) 800-343-3548	Corporate debt, bank loans, mortgage-backed securities and some foreign bonds fill this diversified, medium-maturity portfolio, a solid choice as a core bond fund holding. Yield: 2.5%.
Metro. West Unconstrained Bond (MWCRX) 800-241-4671	Lately, the four managers of this go-anywhere fund have focused on widely traded, high-quality non-agency mortgage securities and commercial mortgage bonds. It's a good choice if interest rates rise. Yield: 1.6%.
Osterweis Strategic Income (OSTIX) 866-236-0050	Yielding 5.7%, this is the biggest payer in the Kip 25. The three managers stick with what they know best: high-yield bonds with maturities of four years or less. Junk bonds should perform well if the economy continues to hum.
Vanguard Short-Term Inv. Grade (VFSTX) 800-635-1511	Investors seeking to beat the return of a bank account can get it here. The fund, which yields 1.6%, holds mostly high-quality corporate and asset-backed debt with maturities of less than three years.

U.S. Stock Funds	Symbol	1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio	Specialized/Go-Anywhere Funds	Symbol	1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio
Akre Focus	AKREX	9.9%	19.2%	18.7%	—	1.35%	FPA Crescent	FPACX	5.7%	11.5%	10.1%	8.1%	1.15%
Davenport Equity Opps	DEOPX	13.1	20.4	—	—	0.97	Merger	MERFX	1.9	3.1	2.7	3.6	1.26
Dodge & Cox Stock	DODGX	7.7	20.7	14.7	6.9%	0.52	Bond Funds	Symbol	1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio
Fidelity New Millennium	FMILX	1.9	16.6	15.1	9.9	0.81	DoubleLine Total Return N	DLTNX	4.6%	4.2%	—	—	0.73%
Homestead Small-Co Stock	HSCSX	6.1	18.3	17.7	11.2	0.89	Fidelity Intermed Muni Inc	FLTMX	4.3	2.9	3.8%	4.0%	0.36
Mars & Power Growth	MPGFX	7.0	18.6	15.1	8.4	0.65	Fidelity New Markets Income	FNMX	2.5	3.6	6.5	7.9	0.84
Parnassus Mid Cap	PARMX	12.4	16.9	15.3	—	1.09	Fidelity Total Bond	FTBFX	4.2	3.3	5.1	5.2	0.45
T. Rowe Price Divers Sm-Cap Gro	PRDSX	8.2	19.7	19.0	10.7	0.85	Met West Unconstrained Bd M	MWCRX	2.5	5.6	—	—	0.99
T. Rowe Price Sm-Cap Value	PRSVX	-3.9	13.4	12.6	8.0	0.81	Osterweis Strategic Income	OSTIX	1.1	5.1	6.1	6.4	0.85
T. Rowe Price Value	TRVLX	10.1	20.2	15.4	8.2	0.82	Vanguard Sh-Tm Inv-Grade	VFSTX	1.5	2.0	2.6	3.6	0.20
Vanguard Dividend Growth	VDIGX	11.4	16.1	14.5	9.0	0.31	Indexes		1 yr.	3 yrs.	5 yrs.	10 yrs.	
Vanguard Selected Value	VASVX	4.7	18.5	15.1	8.8	0.41	S&P 500-STOCK INDEX		12.6%	18.0%	15.1%	7.7%	
International Stock Funds	Symbol	1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio	RUSSELL 2000 INDEX[†]		2.4	17.2	14.3	8.0	
Artisan International Inv	ARTIX	2.1%	13.7%	10.5%	7.2%	1.17%	MSCI EAFE INDEX[#]		-1.8	10.5	7.2	5.0	
FMI International	FMIJX	10.2	15.7	—	—	1.00	MSCI EMERGING MARKETS INDEX		3.0	0.6	2.7	8.1	
Harding Loevner Emrg Mkts	HLEMX	1.9	4.8	5.0	8.5	1.45	BARCLAYS AGGREGATE BOND INDEX[‡]		4.4	2.4	4.1	4.7	
Matthews Asian Gro & Inc Inv	MACSX	1.0	7.4	7.1	8.8	1.08							

Through March 6. *Three-, five- and ten-year returns are annualized. —Not available; fund not in existence for the entire period. [†]Small-company U.S. stocks. [#]Foreign stocks. [‡]Tracks high-grade U.S. bonds.

The Lure of Cult Stocks

These six companies have passionate devotees who have pushed share prices sky-high. We tell you which ones are worth buying now. **BY TOM PETRUNO**

A LONG-STANDING RULE ON WALL

Street is never fall in love with a stock. But with some companies, investors just can't help themselves. Strong belief in a product and the business's long-term success can create a cult-like aura around a stock, driving the price to nosebleed levels. That can lead to phenomenal investment success—or huge losses, if things go wrong.

We found six stocks with some of the fiercest followings and analyzed the arguments for and against them. The companies on our list have products or services that many consumers have embraced, and their businesses have powerful growth prospects. So the question for investors is how much should they pay for shares, given the risks and volatility that come with being so intensely adored.

Because we believe all six companies have investment appeal at some price, we rate each as either a "buy" at its current valuation or a "pass," meaning you'd be better served by waiting for a lower share price. Prices and related data are as of March 6. For more figures, see the table on page 32.

1 Apple (symbol AAPL)

Apple is the cult stock that every cult stock aspires to be. Its early customers were the ultimate tech nerds, who believed Apple had a better way and that its technology would eventually wow the world. They were right, though it took until the new millennium for Apple to launch the products that would captivate consumers and Wall Street. Since 2002, the stock has leaped from a split-adjusted 97 cents to

\$127, as Apple's astounding growth has made it the world's most valuable company, with a market capitalization of \$737 billion.

But what does the premier cult stock do for an encore? Apple owes its success primarily to the iPhone, which in the fiscal year that ended in September 2014 accounted for 56% of the company's \$183 billion in sales and the bulk of its \$39.5 billion in profits. So in the near term, a bet on Apple is a bet that tens of millions of consumers around the world will continue to see the iPhone as indispensable. Accountability Research Corp., an investment advisory firm, sees no slowdown in iPhone momentum and expects strong sales to drive a 33% jump in Apple's earnings in the current fiscal year. But longer term, the company will need more huge hits in products and services, such as Apple Pay, its new payment system, as well as the upcoming Apple Watch and perhaps a widely rumored electric car.

The stock's remarkable run notwithstanding, Apple trades at a relatively low price-earnings ratio: 15 times estimated current-year profits. Investors clearly fear that, given Apple's immensity, few new ideas will be big enough to boost results significantly. CEO Tim Cook rejects that view. Steve Jobs, Apple's late co-founder, "ingrained in us that putting limits on your thinking [is] never good," Cook said at a tech investor meeting in February.

Our call: Buy, if you believe Apple's creative genius hasn't peaked. The company has a \$178 billion hoard of cash

and securities to fund big ideas for a long time to come, as well as provide the resources for rising dividends.

2 Amazon.com (AMZN)

Of all the current A-list cult stocks, perhaps none has more patient shareholders than Amazon. What began as an Internet bookseller 20 years ago has become the dominant online retailer and has branched into smartphones (Fire Phone), entertainment



(Amazon Studios) and more. But while revenues soared from \$8.5 billion in 2005 to \$89 billion in 2014, profits peaked in 2010 at \$1.15 billion, or \$2.53 per share. Amid surging spending on new ventures, Amazon has been in the red two of the past three years.

That made for a rough 2014, as some investors' tolerance wore thin. The stock crested above \$400 early in 2014, then dived as low as \$284 in October. But even as Amazon reported a loss for the full year, its fourth-quarter profit of 45 cents a share far surpassed expectations—and raised fresh hopes for sustained earnings growth. Morgan Stanley says it is "increasingly convinced Amazon is entering a phase of improving profitability." One key is the Amazon Prime service, which for \$99 a year provides two-day shipping on goods, plus streaming movies and other services. Amazon doesn't disclose the number of Prime members,

other than that it's in the "tens of millions" and rose by 53% in 2014. Still, even though Amazon has shown it can make money, the question is whether CEO Jeff Bezos is willing to restrain spending on expansion long enough to keep earnings rising.

Our call: Pass. With the stock up 34% since late October, Amazon has re-acquired its cult status. But the P/E is now an off-the-charts 927 based on estimated 2015 earnings and a still-stratospheric 171 on 2016 estimates.

3 Netflix (NFLX)

This cult nearly disbanded in 2011 and 2012. Netflix's move to split its movie-rental and online streaming businesses into separate entities triggered a bitter backlash, slashed its stock from \$300 to \$50, and fueled predictions that the company was finished. But as the firm's leaders foresaw, the streaming business has

mushroomed. The company today is the biggest U.S. name in video on demand, with 57.4 million members worldwide, 24.1 million of whom joined in the past two years. Financial results hit records in 2014, with revenues of \$5.5 billion and earnings of \$267 million, or \$4.32 a share.

But over the past year, the stock has swung between \$314 and \$484 as investors have again hotly debated Netflix's future. Some analysts see a peak in streaming customers on the horizon and wonder what will happen after that. FBR Capital Markets figures that Netflix's U.S. business will reach saturation at between 60 million and 90 million subscribers. At 39 million now, "Netflix's domestic subscriber growth appears to be slowing as it gets closer to the low end" of its limits, FBR says. Netflix is expanding worldwide and is also committed to producing more original programming, such as *House of Cards*, as it battles rivals Amazon, Hulu and others for viewers' eyeballs. But analysts worry that earnings could flag as the company spends more to expand overseas and produce new programming. Netflix is asking investors to sit tight. "We intend to generate material global profits from 2017 onwards," the company says.

Our call: Pass. The P/E is a rich 133 based on estimated 2015 earnings. A pullback to \$300 would make the stock more intriguing.

4 Tesla Motors (TSLA)

Tesla is the only one of the companies on our list that has yet to turn an annual profit. But that didn't stop Tesla shares from shooting from \$30 at the end of 2012 to a record \$291 last September as the company ramped up production of its first mass-market electric car, the Model S. *Consumer Reports* has ranked it the overall best car for two years straight. Yet the market has lately grown more doubtful about the company's potential, and its shares have slumped. It didn't help that Tesla lost money again in the fourth quarter, when Wall Street



expected a profit. For all of 2014, Tesla lost \$294 million, or \$2.36 per share, on sales of \$3.2 billion.

For investors, it often comes down to Tesla's visionary, 43-year-old co-founder, Elon Musk: Do you believe his hype or not? In his year-end letter to shareholders, Musk blamed the fourth-quarter loss in part on bad weather, which blocked some car shipments. Still, he said, Tesla was on track to deliver some 55,000 Model S sedans and new Model X SUVs in 2015, up 70% from 2014. But even if Musk can deliver as promised in 2015, the longer-term question is whether enough people will spend \$71,070 and up on Tesla cars to make the company a powerhouse, especially as competition heats up. Musk, of course, is confident. He says Tesla's market value could reach \$700 billion in 10 years, up from \$24 billion now.

Our call: Pass at this price, unless your faith in Musk is absolute and you can hold the stock five to 10 years. Morningstar assesses Tesla's "fair value" at \$193 a share but warns that the expectations built into the stock at these levels are "immense."

5 Chipotle Mexican Grill (CMG)

Every cult stock makes enemies. In April 2013, Chipotle Mexican Grill learned that it had one of America's top investors rooting against it. Jeffrey

Gundlach, the bond guru who heads DoubleLine Capital, suggested shorting the restaurant chain's stock—that is, betting that the price would plunge—after its spectacular gains over the previous four years. "Gourmet burrito" is an oxymoron," Gundlach said, implying that Chipotle's consumer appeal was overblown. But the bond maestro got this call dead wrong: The stock has almost doubled since Gundlach's dig.

Chipotle is a star in the restaurant industry's "fast casual" niche, a genre that offers made-to-order meals at relatively low prices. While many fast-food companies struggled, Chipotle saw its sales soar from \$1.1 billion in 2007 to \$4.1 billion in 2014, and its earnings surge from \$71 million to \$445 million, or \$14.13 per share. But Chipotle, which has nearly 1,800 stores and plans to open about 200 more this year, is cautious about 2015. It predicts that sales at stores open at least one year will rise in the low- to mid-single-digit percentages, down sharply from nearly 17% in 2014. Execs could just be setting the bar low. But even if the forecast is accurate, brokerage Sterne Agee says that Chipotle has long-term appeal: "We believe that CMG has created the best restaurant model to date that can be replicated across various food cate-

gories. This creates a multi-decade growth opportunity." Sterne Agee notes that Chipotle is already experimenting with Asian and pizza chains.

Our call: Buy, if you can take the long view and can handle the risk of a stock priced at 38 times 2015 earnings. If fast-casual dining keeps eating fast-food's lunch, Chipotle is the future.

6 Under Armour (UA)

Under Armour has prospered at the intersection of two cultish businesses: fashion and fitness. Its fans believe the athletic apparel maker's potential remains huge. Critics look at the stock's valuation—69 times estimated 2015 earnings—and say one misstep could mean catastrophe for shareholders. Both camps may well be right. For now, the stock continues to hit new highs, buoyed by the 19-year-old company's dramatic growth. Year-over-year sales have risen more than 30% for five straight quarters, as consumers have snapped up the firm's lightweight, moisture-wicking apparel mainly designed to keep athletes cool or warm. The company earned a record \$208 million, or 95 cents a share, in 2014 on sales of \$3.1 billion.

By sales, Under Armour is about one-tenth the size of rival Nike (NKE). For bulls, that underscores Under Armour's enormous growth prospects, especially overseas. Although foreign revenues are just 9% of total sales, the figure doubled last year. The company is now making some major moves to drive long-term growth. Most intriguing is Under Armour's continuing push into online fitness-monitoring services. It agreed in February to pay \$475 million for MyFitnessPal. Wells Fargo Securities says that Under Armour now has a base of 120 million consumers worldwide to monitor—and market to. But the cost of these expansion moves will put pressure on near-term profits.

Our call: Pass. After almost tripling in two years, the stock leaves no room for even slight disappointment. Any stumble, though, could provide a great opportunity to get aboard. ■

Investor Favorites

THE HIGH PRICE OF JOINING A CULT

With the exception of Apple, all of these stocks are expensive. That adds to their risk. But if the anticipated growth materializes, the stocks could still pay off big long term.

Company	Symbol	Recent price	Market value (billions)	Revenue (billions)*	2015 earnings growth†	2016 earnings growth‡	Price-earnings ratio#
Apple‡	AAPL	\$127	\$737.4	\$182.8	33%	7%	15
Amazon.com	AMZN	380	176.5	89.0	NM	NM	NM
Netflix	NFLX	454	27.5	5.5	-21	60	133
Tesla Motors	TSLA	194	24.4	3.2	NM	NM	200
Chipotle Mexican Grill	CMG	659	20.4	4.1	22	20	38
Under Armour	UA	75	16.0	3.1	14	33	69

Figures as of March 6. *Based on revenue for the past year. †Based on estimated change in earnings per share from the previous year. #Based on estimated 2015 earnings. ‡Estimates are for the company's fiscal year. NM Not meaningful. SOURCES: Thomson Reuters, Yahoo.

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“

Activist investors with a persuasive argument have a much greater chance than in the past of having their agenda adopted.”

ANDREW FEINBERG > Promised Land

Invest With the Activists

One way to make money is to mimic Wall Street's activists—investors who, in an effort to unlock a firm's value, buy a big stake and then pressure top execs to take steps to boost the share price. By persuading the bosses, other shareholders or both of the wisdom of their approach, activists can force a company to cut costs, split in two, unload a lagging unit or sell the entire business.

Although the strategy requires patience, I'm a believer in its effectiveness. My portfolio holds major positions in four stocks—**APPLE (SYMBOL AAPL, \$127)**, **DARDEN RESTAURANTS (DRI, \$63)**, **HOWARD HUGHES (HHC, \$145)** and **JUNIPER NETWORKS (JNPR, \$24)**—partly because of activist support. (Prices are as of March 6.)

You may not like activists such as Carl Icahn and Bill Ackman, but, by capitalism's standards, they are the good guys. A 2013 study by Columbia, Duke and Harvard found that companies targeted by an activist actually performed better—as businesses, not just as stocks—five years after the activist's campaign began.

Finding out what the big guys are doing is easy. When a person or a group acquires more than 5% of a publicly traded company, the buyer must file a Form 13D with the Securities and Exchange Commission. After an activist files a 13D, the stock he or she has purchased rallies a quick 6%, on average. But the stock often relinquishes much or all of the gain, and a waiting game begins.

Few know more about 13D filings than Ken Squire. He publishes the *13D Monitor*, an advisory service that tracks the moves of activists, and he manages the 13D Activist Fund (DDDAX), a mutual fund that beat the stock market in each of its first three full years of existence, starting in 2012.

When Squire started his service, activists were often derided as quick-buck artists who cared only about their own wallets. No longer. “The trend is for companies to work with activists,” Squire says, “because advisers tell them activists are getting so much

more support from other shareholders.”

That is good news for me (and for you) because it means activists with a persuasive argument have a much greater chance than in the past of having their agenda adopted. Accordingly, says Squire, you should buy the stock of a targeted company not when an activist's position is disclosed but when he or she wins a seat or two on a company's board of directors. By joining the board, an activist can help boost the stock without setting off any fireworks. Squire notes that shares of **VALEANT PHARMACEUTICALS (VRX)** have climbed 11-fold since Jeff Ubben's ValueAct Capital first got a seat on the board in 2007. (I own Valeant, too.)

I'm hoping for something similar at Darden Restaurants, which owns Olive Garden and other restaurant chains. Jeff Smith, of hedge fund Starboard Value, became Darden's chairman last October and was able to have his entire slate elected to the board. “With Smith on board,” Squire says, “you know that anything done will be value-enhancing to shareholders.”

Not foolproof. Sometimes activists goof, as Pershing Square's Ackman did when he installed a new CEO at J.C. Penney. But activists, unlike entrenched executives, almost never take an action that enriches themselves at the expense of other shareholders.

Squire's three favorite activist situations today are Darden; Juniper Networks, where Elliott Management has helped to elect four independent directors; and Zoetis (ZTS), the animal health care giant where Ackman just won two board seats.

A mimicking strategy doesn't win overnight. Juniper was \$22 when Elliott got involved early in 2014. The stock has since climbed all of two bucks. But patience has always been a core value for value investors, so why should things be any different when hitching a ride with an activist? ■

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



STOCKS >

BUFFETT'S BEST DIVIDEND STOCKS

These Berkshire Hathaway holdings will add cash to your portfolio. **BY CAROLYN BIGDA**

EACH YEAR, THOUSANDS OF BERKSHIRE

Hathaway shareholders gather in Omaha for the firm's annual meeting, which has become known as Woodstock for capitalists. This year's meeting, on May 2, promises to be extra special as Berkshire celebrates its 50th anniversary, and CEO Warren Buffett, who is 84 years old, and vice-chairman Charlie Munger, 91, are likely to address what's ahead for the company.

One question that could come up is whether Berkshire will ever pay a dividend. And Buffett's answer is likely to be, "not while I'm CEO," says David Kass, a finance professor at the University of Maryland who follows Buffett closely. "Buffett likes receiving dividends, not paying them," he says. However, Buffett hinted in his latest letter to shareholders that Berkshire could start paying dividends in 10 to 20 years, when, presumably, he will no longer be calling the shots.

If you're looking for income today, one alternative is to consider buying some of Buffett's favorite dividend-paying stocks. The following four stocks yield nearly 3% or more, and all but one of the firms recently announced a dividend hike. (Prices and related figures are as of March 6.)

Start with **GENERAL ELECTRIC (SYMBOL GE, \$25, YIELD 3.6%)**. CEO Jeffrey Immelt is shrinking GE's financial-services business, which tripped up the company during the financial crisis, and is focusing on core industrial segments, which produce everything from jet engines to gas turbines. Because of plummeting oil prices, sales to energy firms are dragging down results; sales fell 6% in the fourth quarter compared with the same period in 2013. But industrial revenues jumped 9% in the fourth quarter. The stock trades at 15 times estimated 2015 earnings, compared with 17 for Standard & Poor's

500-stock index. GE announced a 5% dividend hike in December.

From bankruptcy to a recall crisis, **GENERAL MOTORS (GM, \$37, 3.3%)** has also faced its share of troubles. But the automaker is on the road to recovery. S&P Capital IQ analyst Efraim Levy says U.S. auto sales should rise by 2.7% in 2015. GM should benefit from fewer recall costs and a growing perception that its cars can hold their own against foreign makes. *Consumer Reports* named the Chevrolet Impala and Buick Regal among its top 10 picks for 2015. Analysts see the automaker's earnings surging 49% in 2015, and GM execs have announced plans to increase the dividend by 20% in coming months. The stock is also cheap, trading at just 8 times estimated 2015 profits.

This past holiday shopping season wasn't a windfall for **UNITED PARCEL SERVICE (UPS, \$101, 2.9%)**. Fourth-quarter profits came in at \$1.25 per share, well below analysts' forecasts. Higher costs were largely to blame as Big Brown boosted staff and invested in technology to make sure packages were delivered on time. Nate Brochmann, an analyst at William Blair & Co., says UPS will learn from the experience and become more efficient. Moreover, the growth of e-commerce in the U.S. and Europe should help drive profits. As if to show that they're not fazed about the recent earnings disappointment, UPS directors raised the dividend by 9% in February.

The biggest yielder in Berkshire's portfolio is **VERIZON COMMUNICATIONS (VZ, \$48, 4.6%)**. Verizon is something of a contrarian play as more consumers choose wireless-service plans with lower monthly fees and, in some cases, no contracts. That in turn has made it tougher for the major wireless providers to hang on to customers. But in that area Verizon has been doing better than rivals AT&T and T-Mobile. Although Verizon is contending with more price-conscious consumers, analysts estimate that its earnings will rise by a robust 9% this year. The stock trades at a modest 13 times earnings. ■



KATHY KRISTOF > Practical Investing

Pruning My Pricey Stocks

I hate to complain about a bull market that just turned six years old and shows no signs of slowing down. But I've begun to wonder whether we're enjoying too much of a good thing. Key indexes are regularly hitting new highs, and one, the Nasdaq Composite, recently crossed 5000 for the first time since 2000. All this exuberance has spurred me to take a closer look at my portfolio to see if any of my holdings are grossly overvalued.

I have a simple check: I want a stock's price-earnings ratio to be near or, even better, below the sum of a company's earnings growth rate and its dividend yield. In other words, if profits are growing 10% a year and a stock yields 2%, I'm happy to pay 12 times earnings. But barring some extenuating circumstance, a P/E well over 12 would signal that the stock has gotten too pricey for my taste. After reviewing all 20 stocks in my Practical Investor portfolio, I found that most remain reasonably priced, and a few are actually cheap. But there are some exceptions.

CHEVRON (SYMBOL CVX, \$104) is one. At 27 times estimated 2015 earnings of \$3.82 per share, the stock appears to be grossly overvalued. The P/E is high because analysts expect profits to drop 62% this year, and that's due almost entirely to the plunge in oil prices. But I can't imagine that the price of oil has anywhere to go but up. Meanwhile, Chevron shares yield a hefty 4.1%, and the energy giant has plenty of cash to keep those dividends coming. So holding the stock seems like a no-brainer. (Prices and related figures are as of March 6.)

DOVER CORP. (DOV, \$71) looks dear, too. It yields 2.3%, and analysts see the conglomerate's profits rising 5% this year and 8% the next. Based on my formula, I should be antsy with a P/E much greater than 10, and Dover trades at 19 times 2015 estimates.

But I see a couple of mitigating factors. First, Dover is a dividend superstar; it has hiked its payout in each of the past

59 years. Moreover, Dover, like Chevron, has been hurt by low oil prices because about one-fourth of its earnings come from energy services, says Stifel Nicolaus analyst Nathan Jones. Dover has been wisely cutting costs to mute the effect of the oil crash and is in the process of selling two divisions in an effort to improve profitability. For now, I'm hanging on to this well-managed company.

Johnson & Johnson (JNJ, \$100) is another story. The iconic health care giant—it makes drugs, devices and consumer products, such as baby oil—is one of only three industrial companies with a triple-A bond rating. J&J is also a dividend aristocrat, having raised its disbursement for 52 consecutive years. The stock yields a decent 2.8%.

Drug problems. But growth has turned tepid. J&J's device business lost ground in 2014, although strong pharmaceutical sales propped up earnings. But the prognosis for the drug segment isn't rosy. European patients for the blockbuster anti-inflammatory drug Remicade, which J&J co-markets with Merck, expired in February, and significantly cheaper "bio-similar" drugs have begun to inundate European markets. Trefis, a research firm, says that Remicade accounts for 25% of J&J's drug sales. Other J&J drugs are also under pressure.

Analysts see J&J's earnings expanding by 4% this year and 5% in 2016, but I worry that even those modest figures may be too optimistic. At any rate, adding the higher figure to a yield of nearly 3% tells me that J&J's shares are worth less than 10 times earnings. But the stock's P/E is 16.

That's too pricey for me. I sold 168 shares of J&J at \$102.88 (holding on to one share to make it easy to track the stupidity or wisdom of the move). Until I find a stock I think is cheap and attractive, I'll hold on to the proceeds of \$17,284. ■

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

“

Analysts see J&J's earnings expanding by 4% this year and 5% in 2016, but I worry that even those modest figures may be too optimistic.”

Is Biotech in a Bubble?

The sector has been on a tear, and many stocks seem overpriced. But one company looks like a bargain. **BY DAVID MILSTEAD**

OVER THE COURSE OF THIS

long bull market, biotech stocks have been very, very good for their owners. Perhaps too good. Investors have shown such rabid enthusiasm for biotechs—especially small, unproven companies that have yet to bring a drug to market—that some observers are using another *b* word to describe the high-flying sector: *bubble*.

Bubble or not, biotech investors have been having a blast. Over the past five years, **ISHARES NASDAQ BIOTECH-NOLOGY ETF (SYMBOL IBB)**, an exchange-traded fund that tracks 150 Nasdaq-listed biotech stocks, earned an annualized 31.2%, more than double the return of Standard & Poor's 500-stock index. In 2012, 2013 and 2014, the ETF earned 32%, 66% and 34%, respectively. It tacked on another 13% in the first nine weeks of 2015.

Short-term returns—and valuations—of individual stocks are stunning. Juno Therapeutics (JUNO), which is developing cancer drugs, went public in December at \$24 per share. It rocketed to \$62 and now trades at \$53, giving the company, which has no sales, a market value of \$4.8 billion. (Share prices and returns are as of March 6.)

There are legitimate rea-

sons for the fervor. Industry insiders say the pace of innovation has never been greater, and the Food and Drug Administration is approving more drugs more quickly than ever.

Finding success stories remains a challenge, however. Share prices of companies that win approval for their drugs or show enough promise to be acquired by one of the industry's big players can double or triple in a flash. Companies, especially young ones, whose drugs flame out during testing often run out of money

and leave their shareholders with massive losses. "To invest in individual names in this field, you need nerves of steel and confidence that you understand the science," says Morningstar analyst Robert Goldsborough.

Investors willing to embrace the risk of smaller biotech companies should look to the iShares biotech ETF, which is weighted by market value. We think it's a better choice than SPDR S&P Biotech ETF (XBI), which gives equal weighting to its 87 holdings and thus offers greater exposure

to the smallest, youngest and most speculative companies. The iShares fund has delivered roughly the same return as the SPDR ETF over the past five years, but it did so with about 25% less volatility.

We should note that in a sector in which so many stocks seem wildly overpriced, one in particular looks extraordinarily cheap. **GILEAD SCIENCES (GILD, \$102)** is the largest biotech company, with a market value of \$150 billion and expected revenues this year of \$28.1 billion. The stock has stalled since October, and it now sells for 11 times analysts' average 2015 earnings estimate of \$9.53 per share, which represents an 18% increase from last year's profit. By contrast, the price-earnings ratio of the S&P 500 is 17.

Gilead's core business is treatments for HIV, but the firm has been branching out, via acquisition, into other fields. Its newest drugs, Harvoni and Sovaldi, have already given Gilead a "dominant" share of the market for treating hepatitis C, says analyst Jeffrey Loo, of S&P Capital IQ. But competition is heating up, which may explain why the stock is so cheap. Gilead told investors in February that it will offer bigger discounts than expected on Sovaldi and Harvoni this year.

Still, Gilead's shares appear to be way too cheap to ignore. Analysts Phil Nadeau and Marc Frahm, of Cowen & Co., have a 12-month price target of \$125. Loo is even more bullish, with a one-year target of \$143. ■



Red-Hot

BIOTECH GOES BONKERS

The lines compare the returns of a popular biotech exchange-traded fund and the S&P 500 index since the start of 2012.



As of March 6. Index returns are based on weekly closes.

SOURCES: BlackRock, Standard & Poor's.

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CLOSED-END FUNDS ARE TRICKY. THESE products, which predate more popular exchange-traded funds by 100 years, hold a portfolio of stocks, bonds or both, and trade on exchanges just like stocks and ETFs do. But unlike ETFs, closed-end funds don't come with a mechanism to keep their share prices near the value of their assets. So a closed-end fund's price can be much different from its net asset value per share.

Savvy investors seek to capitalize on these anomalies. They buy a closed-end when it trades at a discount to its NAV, then sell when the discount shrinks or the price moves to a premium to NAV.

But why bother with the complexities when you can buy an ETF that does the work for you? **POWERSHARES CEF INCOME COMPOSITE PORTFOLIO** tracks an index of income-oriented closed-end funds. The ETF holds closed-ends that own high-quality bonds and ones that own junk bonds; it also holds funds that sell options against their holdings. The index the ETF tracks favors funds that trade at a deep discount to NAV and underemphasizes those that sell at premiums. "Taking advantage of disconnects between premiums and discounts is at the heart of closed-end fund investing," says Scott Eldridge, of Invesco PowerShares.

The result is a product that delivers a terrific 7.4% yield and has traded in a fairly narrow range since its launch five years ago. **MIRIAM CROSS**

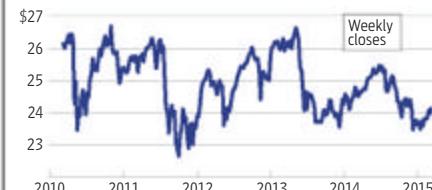
PowerShares CEF Income Composite Portfolio

Key Facts

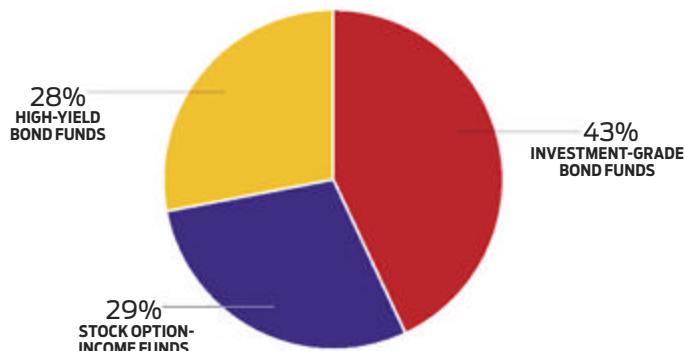
SYMBOL: PCEF
CLOSING PRICE: \$24
ASSETS: \$663 million
START DATE: February 19, 2010
FUND HOLDINGS: 145
AVG. DISCOUNT OF HOLDINGS: 7.5%*

*Represents average discount to net asset value of fund's holdings.

Performance



Sector Breakdown: Investment-grade bond funds dominate



SOURCE: Invesco

Conservative-Allocation ETFs Ranked by one-year return

Rank/Fund	Symbol	Total return*			2011 market correction†	Exp. ratio
		1 yr.	3 yrs.	5 yrs.		
1. iShares Morningstar Multi-Asset Income	IYLD	7.0%	—	—	—	0.60%
2. PowerShares CEF Income Composite	PCEF	5.1	6.5%	6.9%	-11.7%	1.88#
3. iShares Core Moderate Allocation	AOM	4.7	6.8	6.7	-6.8	0.24
4. iShares Core Conservative Allocation	AOK	3.3	5.1	5.7	-2.7	0.25
5. Deutsche X-trackers In Target Date	TDX	-5.4	3.1	2.9	-6.1	0.65
AVERAGE CONSERVATIVE-ALLOCATION ETF		2.9%	5.4%	5.5%	-6.8%	

HIGH-YIELD BOND ETFs Ranked by assets

Rank/Fund	Symbol	Assets (billions)	Total return*			30-day SEC yield	Expense ratio
			1 yr.	3 yrs.	5 yrs.		
1. iShares iBoxx \$ HY Corp Bond	HYG	\$17.3	1.7%	6.3%	7.8%	4.9%	0.50%
2. SPDR Barclays High Yield Bond	JNK	11.4	1.0	6.2	7.9	5.6	0.40
3. SPDR Barclays Short Term HY Bond	SJNK	4.2	-0.2	—	—	5.2	0.40
4. Pimco 0-5 Year HY Corp Bond	HYS	2.7	0.7	5.9	—	4.2	0.55
5. Guggenheim BulletShrs 2015 HY Corp	BSJF	0.9	0.3	4.9	—	4.9	0.44

BANK OF AMERICA ML HY MASTER II INDEX 1.1% 7.6% 8.9%

Through March 5. *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. #Includes expenses of the underlying funds. Expense ratio is the percentage of assets claimed annually for operating a fund. SOURCE: © 2015 Morningstar Inc.



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A Top Strategist Says Trouble Is Looming

A downturn isn't imminent, says Jim Stack, but with the bull market in its seventh year, caution is warranted.

JIM STACK watches Wall Street like a hawk, from a perch 2,200 miles away on the shores of Montana's stunning Whitefish Lake. Stack, publisher of a newsletter called *InvesTech Research* and the president of Stack Financial Management, an investment firm, maintains more than a century's worth of market data that helps him forge a "safety first" strategy. With the bull market having turned 6 on March 9, Stack has turned cautious. In this edited interview, he explains what could make him into a full-fledged bear.

KIPLINGER'S: You've become increasingly nervous about the stock market. Why?

STACK: Every economic recovery and every bull market start out with widespread fears and doubt in the early years. But as the recovery and bull market mature, that doubt dissipates and those fears turn into optimism or even complacency. We're starting to see that today. Remember that, by definition, bull markets peak when optimism is highest.

Is a bear market looming? We don't have those warning flags that appeared back in 2007 before the market top or in the late '90s during the tech bubble. But by historical comparisons, we are most likely in the latter third of this bull market. This is now the fourth-longest bull market in 85 years, and stock prices have tripled from the bottom.

What warning signs are you looking for? Today, you've got a strong dollar and long-term bond yields that were recently near multigenerational lows. Plus, the Federal Reserve has not even announced when it's going to start bringing up short-term interest rates. All three of those factors could change in 2015, providing significant headwinds to this bull market. If we see an unexpected drop in consumer confidence, we will treat it as a warning flag. Finally, we'll be looking for internal technical warning flags from the mar-



ket itself—for example, the breadth of the advance. If fewer and fewer stocks rise, it's a classic warning flag of a deteriorating market.

Are stocks overpriced? It's very difficult to find attractive values, and by some measures, price-earnings multiples are at historical highs. If interest rates are factored into the equation, the market is slightly undervalued. But the dependence on low rates to justify current valuations may make this one of the most interest-rate-sensitive markets ever.

As nervous as you are, you still have a lot of your assets in stocks. We just reduced our allocation to 76%. That's our lowest allocation since the start of the bull market, and down from our peak of 96% in 2009. Why have we reduced our allocation when the economy is hitting on all cylinders? And in the absence of any definitive bear-market warning flags? The answer is simply that you shouldn't have the same investment strategy going into the seventh year of a bull market as you do in the early years.

What's the best strategy now? You can manage risk in two ways: by adjusting your portfolio's allocation to stocks, and by adjusting sector holdings. Technology, health care, industrial and energy stocks typically perform well in the final third of a bull market. Energy is in an unusual situation today, but this isn't the time to abandon the sector.

What do you expect from the next bear market? It won't be like the once-in-a-generation 2007–09 bear market, but it certainly will not be mild. My guess is that losses will be 35% to 40%. As for timing, I would say the likelihood of the bull market extending into 2016 would be perhaps one in three.

So you're bullish, but maybe not for long. That would probably be the best way to call it. I don't try to second-guess the end of a bull market, but at the same time, as a market historian with 40 years in the business, I feel the end is coming. I've just learned to trust that gut feeling. **ANNE KATES SMITH**

A Pimco Stock Fund Makes Good

The firm uses bonds and currency hedges to produce the year's top overseas fund.

IF YOU WERE SEARCHING FOR A GOOD

foreign stock fund, you might not have given much thought to bond powerhouse Pimco. But over the past year, no other fund focusing on big overseas companies did better than **PIMCO INTERNATIONAL STOCKSPLUS AR STRATEGY (U.S. DOLLAR-HEDGED)**, which walloppe its peers by an average of 17.2 percentage points.

If the lengthy name suggests that the fund uses a complex strategy, that's because it does. Like all of Pimco's StocksPLUS portfolios, the fund has a two-pronged approach. Part of the fund tracks a benchmark—in this case, a version of the MSCI EAFE foreign-stock index that hedges against currency fluctuations—by devoting a small portion of its assets to derivatives (instruments whose results depend on the moves of other investments).

Managers Mohsen Fahmi and Sudi Mariappa invest what's left over (the bulk of the fund's assets) in bonds. They mostly adhere to the big-picture strategy set by Pimco's investment committee, but they can make tactical moves within those guidelines. The goal: to use the gains from the bonds to beat the index that the fund tracks.

But the fund's recent success is due almost entirely to the currency hedge. Most unhedged funds weren't so lucky; they saw their returns diminish as the greenback strengthened. The ultimate proof: The unhedged version of the very same Pimco fund (symbol PPUDX) lost 1.8% over the past year. **RYAN ERNEY**

FOREIGN LARGE-BLEND FUNDS Ranked by one-year returns

Rank/Name	Symbol	Total return through March 6*			Max. sales charge	Exp. ratio	Toll-free number
		1 yr.	3 yrs.	5 yrs.			
1. Pimco Intl StksPLUS AR Strat (USD-Hg) D [†]	PIPDX	15.0%	18.7%	12.1%	none	1.15%	888-877-4626
2. FMI International	FMIJX	10.2	15.7	—	none	1.00	800-811-5311
3. Deutsche CROCI International A [†]	SUIAX	8.0	13.0	6.4	5.75% ^s	1.18	800-728-3337
4. Goldman Sachs Enhanced Div Gbl Eq A [†]	GADGX	5.3	10.9	9.7	5.50	1.44	800-526-7384
5. MFS International Value A [†]	MGIAX	5.1	14.7	11.1	5.75	1.08	800-225-2606
6. Pimco Intl LwVol RAFI-PLUS AR D [†]	PLVRX	3.6	—	—	none	1.17	888-877-4626
7. AllianzGI Intl Managed Volatility D [†]	PNIDX	3.5	9.2	5.7	none	0.96	800-498-5413
8. Ivy International Core Equity A [†]	IVIAX	3.4	11.5	8.1	5.75	1.40	800-777-6472
9. Henderson Intl Opportunities A [†]	HFOAX	2.2	12.7	7.8	5.75	1.40	866-343-6337
10. Litman Gregory Masters Intl Inv [†]	MNILX	2.1	10.8	7.7	2.00 ^r	1.28	800-960-0188
CATEGORY AVERAGE		-2.2%	8.9%	6.1%			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets [†] (in billions)	Total return through March 6*			Max. sales charge	Toll-free number
			1 yr.	3 yrs.	5 yrs.		
1. Vanguard Total Stock Market Iidx Inv [†]	VTSVX	\$350.2	11.1%	18.0%	15.1%	none	800-635-1511
2. Vanguard 500 Index Inv [†]	VFINX	177.9	12.4	17.9	14.9	none	800-635-1511
3. American Growth Fund of America A [†]	AGTHX	146.7	9.0	18.6	13.9	5.75%	800-421-0180
4. Vanguard Total Intl Stock Iidx Inv [†]	VGTSX	143.1	-1.9	7.4	5.2	none	800-635-1511
5. American EuroPacific Growth A [†]	AEPGX	127.0	0.3	10.5	7.1	5.75	800-421-0180
6. Fidelity Contrafund [†]	FCONX	112.8	9.2	17.7	15.3	none	800-343-3548
7. American Income Fund of America A [†]	AMECX	97.8	6.7	12.0	11.1	5.75	800-421-0180
8. American Capital Income Builder A [†]	CAIBX	97.4	5.6	10.1	9.1	5.75	800-421-0180
9. Franklin Income A [†]	FKINX	91.4	1.6	9.6	9.3	4.25	800-632-2301
10. Vanguard Wellington** [†]	VWELX	90.7	8.4	12.3	11.0	none	800-635-1511
11. Fidelity Spartan 500 Index Inv [†]	FUSEX	88.9	12.5	17.9	15.0	none	800-343-3548
12. American Capital World Gro & Inc A [†]	CWGX	88.3	4.3	14.0	10.0	5.75	800-421-0180
13. American Balanced A [†]	ABALX	81.3	8.3	13.2	11.8	5.75	800-421-0180
14. American Washington Mutual A [†]	AWSHX	77.3	9.9	16.8	14.7	5.75	800-421-0180
15. American Invstmt Co of America A [†]	AIVSX	76.0	10.4	17.4	13.3	5.75	800-421-0180
16. American Fundamental Inv A [†]	ANCFX	73.2	9.8	17.2	13.5	5.75	800-421-0180
17. Dodge & Cox International Stock**	DODFX	68.7	0.8	13.4	8.5	none	800-621-3979
18. Dodge & Cox Stock	DODGX	60.7	7.8	20.7	14.8	none	800-621-3979
19. American New Perspective A [†]	ANWPX	58.6	4.7	14.8	11.3	5.75	800-421-0180
20. BlackRock Global Allocation A [†]	MDLOX	54.6	2.5	7.3	6.6	5.25	800-441-7762
S&P 500-STOCK INDEX			12.6%	18.0%	15.1%		
MSCI EAFE INDEX			-1.8%	10.5%	7.2%		

*Annualized for three and five years. **Closed to new investors. [†]Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. [‡]For all share classes combined. ^rMaximum redemption fee. ^sFront-end load; redemption fee may apply. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

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EXPLANATION OF TERMS

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.

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Ryan Zagata landed a Small Business Administration loan to finance Brooklyn Bicycle Co., which builds bikes he designed.



Strike It Rich!

These four entrepreneurs took different routes to raise money to build million-dollar businesses.

BY SANDRA BLOCK and LISA GERSTNER

Not everyone has a family lending arm to provide seed money for a business. Motown founder Berry Gordy Jr. had an edge when he decided to start a record label in 1959. His family had established its own lending arm to provide seed money for family enterprises. Gordy borrowed \$800. Today, his personal net worth is estimated at more than \$325 million.// Successful entrepreneurs often turn to friends and family for start-up funds, but these days those friends and family can include millions of people who chip in via

Kickstarter and other crowdfunding sites. Crowdfunding success is also a good way to attract attention from private equity investors, who have their own crowdfunding Web sites and even their own TV show, Shark Tank. Entrepreneurs who want to scale up their businesses also have plenty of options for borrowing, and many boomers looking to work for themselves tap their own home equity or retirement savings. The entrepreneurs profiled here show that anyone who has a great product, persistence and a little bit of luck can build a million-dollar business.

BORROWING

A Better Bike

After moving to Brooklyn in 2008, Ryan Zagata wanted to explore his new neighborhood by bicycle. But Zagata, 40, had trouble finding the kind of bike he wanted—one that “allows you to see and feel things instead of putting your head down.” When he traveled to Vietnam and Japan, he took note of the upright bikes the locals were riding. “That was exactly the style of bicycle I wanted,” he says.

In February 2011, Zagata, who was working in software sales at the time, launched what's now known as the Brooklyn Bicycle Co. and soon had prototypes made of the bike he desired: an attractive, affordable, upright model designed to accommodate a rider wearing anything from Spandex to a suit. He took his bicycles

to several Brooklyn bike shops and asked for feedback. By late summer, using his own money, Zagata had manufactured enough bicycles to place them for sale in some of those shops. He invested in a media campaign that got him noticed by the *Today* show as well as *Vanity Fair*, *Maxim* and *New York* magazines. His company also designed a bike in conjunction with the Museum of Modern Art.

Sales skyrocketed, with a growth trajectory Zagata describes as nearly vertical. The business, which uses

KipTip

Get a Loan

HOW IT WORKS: You borrow from a bank (with the loan possibly backed by the SBA), a peer-to-peer lending site (such as Lending Club or Funding Circle) or another source of small-business loans.

BEST FOR: Businesses that have strong past performance, a solid credit history and collateral to back up the loan.

TYPICAL AMOUNT RAISED: The average size of an SBA-backed bank loan is \$207,000.

BIGGEST ADVANTAGES: You don't have to share equity in the business or justify to investors how you use the funds. Interest is tax-deductible.

BIGGEST DRAWBACKS: Interest payments are an added cost. Many institutions lend only to the most creditworthy businesses—and require a lengthy application process.

manufacturers in China and Taiwan, couldn't afford the up-front costs required to keep up with orders. So in 2012, Zagata sought a loan.

Two large banks declined his applications for a loan backed by the Small Business Administration because, Zagata says, his business was less than two years old and had yet to turn a substantial profit. Then he found the New York Business Development Corp., which works in partnership with banks to provide loans to small businesses that may not qualify for traditional financing. The NYBDC took a more personal approach—asking, among other things, how he would use the money and how the business could grow. Ultimately, he was approved for a \$250,000 SBA-guaranteed loan with a seven-year term and an interest rate of prime plus four percentage points (recently 7.25%). Institutions that participate in the SBA's basic loan program keep the loans on their books, but the loans must meet requirements set by the SBA, which guarantees a portion of the loan against default.

Many fledgling businesses with little to show on the bottom line encounter roadblocks when trying to borrow money. To improve your chances, prepare a detailed business plan, and check your credit score and report. Your FICO score will likely need to be at least 630 to qualify for an SBA-backed loan or 670 to qualify for a conventional loan, says Rohit Arora, CEO and cofounder of Bizz2Credit, a platform that connects busi-

nesses with lenders. Your credit report should be clear of major black marks, such as a bankruptcy.

Start by applying for a conventional loan at your bank or credit union, suggests Ann Marie Mehlum, associate administrator for the SBA's Office of Capital Access. Small institutions are more likely to grant credit than large banks. If that doesn't pan out, look for institutions that are authorized to grant SBA-backed loans, which are designed for business owners who don't qualify for conventional loans.

Alternatively, online lenders are typically more willing to lend to less-established businesses. But many take a percentage of daily sales as repayment, resulting in effective annual interest rates that can be in the neighborhood of 50%. Look for a site that has more straightforward terms. Lending Club, a peer-to-peer lending site (individuals and institutional investors provide the funding for loans), provides small-business loans with rates ranging from 5.9% to 25.9% (plus an origination fee). Fundation, Funding Circle and Dealstruck also offer installment loans with reasonable rates.

Today, the Brooklyn Bicycle Co. has four full-time and two part-time employees, and it contracts with about a dozen sales representatives. Revenues have reached seven figures, and Zagata expects a net profit margin of about 13% of revenues for 2015. The bicycles, priced from \$399 to \$749, are on sale at www.brooklynbicyclegroup.com.



The Haiti earthquake inspired Anna Stork and Andrea Sreshta to design a solar-powered light. Crowdfunding provided start-up money.

bicycleco.com and in 120 stores in the U.S. and Canada. Distributors in Australia, Brazil, Mexico and Russia have purchased them, and Zagata hopes to have bikes in stores in Europe in early 2016. New lines of bikes are in the works. And the company is beginning to explore options to raise private equity funding for the business. One option is CircleUp, a crowdfunding site for investors with deep pockets (see "A Viking Treat," on page 48).

Zagata outlines what his business must do each day, week, month and year to meet its goals—and measures whether the company is on track. "The validation that we're doing something really well is a tremendous feeling," he says.

CROWDFUNDING

A Bright Idea

The 7.0-magnitude earthquake that struck Haiti in January 2010 caused widespread suffering, and power outages compounded the misery. Thousands of people who had lost their homes were plunged into darkness after sunset.

The catastrophe inspired Anna Stork, 29, and Andrea Sreshta, 31, then graduate students at Columbia University's Graduate School of Architecture, to design a solution. Relief organizations were shipping food, water and shelter to earthquake victims, but these groups weren't providing lighting, Stork says. "It was really dangerous at night for

people living in tent cities," where there were numerous reports of looting, sexual assaults and kidnapping, she says.

Stork and Sreshta set out to create a solar-powered emergency light that was inexpensive and waterproof. They also wanted it to be inflatable so that it could be packed flat and shipped in large quantities to disaster areas. The need for a product like theirs was reinforced when the two happened to be in Tokyo on a class trip a year later. That's when a 9.0-magnitude earthquake struck northeastern Japan, triggering the tsunami that killed an estimated 19,000 people.

That experience prompted Sreshta and Stork to found a company, LuminAID, to market their product. They had a prototype but needed money to manufacture additional lights so that they could test them in the field. In October 2011 they launched a fund-raising campaign on crowdfunding site Indiegogo with the goal of raising \$10,000. For \$25, supporters received one LuminAID light and contributed one to a community project. Supporters who gave \$1,000 would receive three lights and contribute 100 lights to an orphanage in India.

They raised nearly \$52,000 in six weeks—and realized that disaster organizations weren't their only potential customers. "People from all over the world bought it for themselves," Sreshta says. "That was the first indicator that there was a commercial market." They launched

their LuminAID Solar Light in 2012. In 2013, they received a \$100,000 prize from the Clean Energy Trust's Clean Energy Challenge, which they used to increase production and hire staff.

Today, LuminAID lights are sold at L.L.Bean, Bass Pro and Brookstone stores, as well as on Amazon.com and the company's Web site, LuminAID.com. Customers buy the lights to use during power outages and take on camping trips. After the light is charged in the sun for seven hours, it can provide up to 16 hours of illumination. The company earned revenue of about \$1 million in 2014. In keeping with the company's

altruistic origins, LuminAID offers a "Give Light, Get Light" package that allows customers to buy one light for themselves and donate one to charity.

A key component of successful crowdfunding campaigns is the video pitch, says Indiegogo chief executive Slava Rubin. Campaigns that include a video raise 115% more funds than those that rely only on a still image, he says. Successful campaigns also use Facebook and Twitter to spread the word. Stork and Sreshta's Indiegogo campaign featured a three-minute video that demonstrated how the product works and where it could be used.

Crowdfunding is also "a great way to get pre-funding for a product and validate your idea," says Ian Sells, who used a Kickstarter campaign last year to test demand for a portable solar charger that automatically restarts after it has been disconnected because of clouds or shade. He raised \$68,000 in 30 days, surpassing his \$10,000 goal.

Stork and Sreshta have also attracted the attention of investors with deep pockets. Last year, they were selected to appear on ABC's *Shark Tank* (the program was broadcast in February 2015). All five of the veteran investors were enthusiastic about the company's prospects. Stork and Sreshta ended up accepting an offer from entrepreneur and Dallas Mavericks owner Mark Cuban, who provided \$200,000 for a 15% stake, with an option to lead another round of financing for \$300,000.

PRIVATE EQUITY

A Viking Treat

If you think the Greeks have won the yogurt wars, you haven't met Smári Ásmundsson, founder of Smári Organics Icelandic yogurt. Ásmundsson, 45, a former advertising photographer, grew up in Iceland, where he ate copious amounts of *skyr*—Icelandic yogurt that has been around since the ninth century, when it fortified the Vikings during long, dark winters.

The rapid growth of Greek-style yogurt inspired Ásmundsson to launch his company in 2011. If Americans liked Greek yogurt, he reasoned, they would love Icelandic yogurt. A 6-ounce serving of plain, nonfat Smári Organic Icelandic yogurt has 20 grams of protein, compared with 17 grams or less for the same serving of many Greek yogurts. It's creamier, too, says Ásmundsson.

Ásmundsson has always been passionate about food: At his home in Petaluma, Calif., he has raised chickens, and he grows vegetables, bakes bread and makes his own cheese. To learn the craft of yogurt making, he apprenticed with a family friend, an 82-year-old *skyr* maker from Iceland. Once he honed the technique for making Icelandic yogurt, he used his background in advertising to come up with a plan to market and brand it. To handle the manufacturing side of the business, he asked Douglas Stewart, a food and wine entrepreneur

★ KipTip

Use Crowd-funding

HOW IT WORKS: You post information about your product on a Web site such as Kickstarter or Indiegogo and ask for contributions.

BEST FOR: Anyone who has an innovative product to exchange for donations.

TYPICAL AMOUNT RAISED: Most projects raise \$10,000 or less, but a handful have raised more than \$1 million.

BIGGEST ADVANTAGES: In addition to seed capital, entrepreneurs can get valuable feedback from donors who try out their products.

BIGGEST DRAWBACKS: Competition is fierce. Fees charged by the sites range from 5% to 9%. On Kickstarter, if you fail to meet your goal, you get nothing.

who founded Organic Rainforest Sorbet & Gelato, to join him as a partner.

The two of them hit up family and friends for initial funding, contracted with a creamery in Wisconsin to make the yogurt with the same equipment used in Iceland, and started selling Smári Organics in early 2013. To raise additional funds, they turned to CircleUp, a company that connects so-called angel investors—deep-pocketed individuals who focus on

start-ups—with promising new ventures. CircleUp focuses on fast-growing consumer-products companies that could someday be acquired by big-name players, such as General Mills, says chief executive Ryan Caldbeck. “If you look at the past 10 years, Nestlé and Coke haven’t started brands,” he says. “They buy brands.”

Smári Organics met its CircleUp fund-raising goal of \$1.5 million by March 2014. Earlier this year, the company launched a second

campaign on CircleUp to raise \$3 million in funds, which will be used to continue its expansion.

Sites such as CircleUp, CrowdFunder and AngelList make it possible for companies to reach out to thousands of potential investors (sites make money by charging a commission or fee). Investors typically receive a 15% to 30% equity share in the company in exchange for their investment.

Equity crowdfunding sites cater to a wealthier crowd than product-oriented crowdfunding sites such as Kickstarter and Indiegogo. Under current Securities and Exchange Commission regulations, only individuals with \$200,000 in annual income (\$300,000 for a married couple) or a net worth of \$1 million, excluding the value of their primary residence, are eligible to invest in privately held companies. That could change once the SEC issues final regulations under the

JOBS Act, which would allow small businesses to use crowdfunding sites to raise up to \$1 million every 12 months from the general public. The rules aren’t expected to take effect until next year.

Before a company is added to the CircleUp lineup, its numbers are vetted by the company’s management team. Fewer than 5% of applicants make the cut, says Rory Eakin, cofounder and chief operating officer. Eakin says Smári Organics was chosen because it has a solid management team, it’s growing

Smári Ásmundsson
parlayed his passion
for food (and Norse
heritage) into a
successful business
selling Icelandic
yogurt.



KipTip

Find an Angel

HOW IT WORKS: Deep-pocketed individuals or companies provide funds in exchange for a stake in the business.

BEST FOR: Fast-growing start-ups with solid financial results.

TYPICAL AMOUNT RAISED:
Varies from \$25,000 to more than \$1.5 million.

BIGGEST ADVANTAGE:
Entrepreneurs can raise significant start-up capital fairly quickly, usually in a lump sum.

BIGGEST DRAWBACKS:
Business owners must relinquish some ownership of their companies. They also face pressure to grow quickly so investors will receive a high rate of return.

rapidly, and it has capitalized on strong demand for products that are organic and high in protein.

Smári Organics’ sales topped \$2 million in 2014. Its yogurt is available in more than 1,000 stores, including Whole Foods and some Costco stores in northern California. Now the company’s main challenge, Ásmundsson says, is to increase production without compromising the product’s quality. In the meantime, he’s doing a lot of product demos. “For us, the key is for people to taste it,” he says. “Once they taste it, they will buy it.”

SELF-FUNDING

A Boomer Business

Barbara Stankowski started AMTIS, her professional services and consulting business, in 2007 with \$20,000. Today the Orlando company pulls in annual revenues of more than \$10 million and employs a staff of more than 100.

AMTIS provides an array of services for state and federal government agencies, including the U.S. departments of Defense, Labor, Homeland Security and Veterans Affairs. For example, the company developed new employee training for the Federal Emergency Management Agency. AMTIS also offers leadership development and coaching for executives. After a 28-year career in the Navy and several more years working in consulting and operations for two small businesses, Stankowski, now 65, felt the urge to create a business that incorporated all the elements she thought were important to a company culture. "I wanted to provide a great place for people to work, hire people who were passionate about what they do, give them the resources they needed, then share the rewards with them," she says.

The company hit some potholes on the road to becoming a flourishing business. In 2009, in the

middle of the Great Recession, Stankowski had to resort to a \$40,000 home-equity line of credit to cover payroll. In 2011, when annual revenues were topping \$1 million, her business partner, who had provided half of the start-up money, decided to leave the company. Stankowski used the proceeds from a house she had recently sold to buy him out. Every year since, she says, AMTIS has doubled its revenues.

Two-thirds of entrepreneurs report using self-



funding to start a business, according to a report from the Ewing Marion Kauffman Foundation, an entrepreneurship advocacy organization. Older entrepreneurs are especially well positioned to launch a business (and keep it afloat) with personal financial resources. Baby boomers "have networks that younger entrepreneurs don't have," says Mary Beth Izard, president of Achieve Consulting and author of *BoomerPreneurs: How Baby Boomers Can Start Their Own Business, Make Money and Enjoy Life*. If their kids are grown, she adds, their savings "aren't earmarked for their college education." The ranks of entrepreneurs older than 50 are growing: 23% of new entrepreneurs were age 55 to 64 in 2013, compared with 14% in 1996, according to a Kauffman report.

Taking advantage of federal government programs for small businesses has aided in AMTIS's growth.

For example, because Stankowski has a disability related to her time in the Navy, AMTIS qualifies as a Service-Disabled Veteran-Owned Small Business.

Through a mentor relationship, AMTIS and a more established company have together submitted several proposals for five-year, \$100 million contracts—a prospect that could double revenues again this year, says Stankowski.

After a 28-year Navy career, Barbara Stankowski used savings to start a professional services and consulting business.

KipTip

Tap Your Assets

HOW IT WORKS: You rely on savings or home equity for start-up funds.

BEST FOR: Individuals with assets they don't have to rely on for retirement.

BIGGEST ADVANTAGES: The quickest and simplest way to fund a business—and you don't have to answer to investors or a bank.

BIGGEST DRAWBACK: Retirement savings, your home or any other assets you tap are on the line.

Patience and persistence have been key in getting AMTIS off the ground, she says. A continuing challenge is scaling the business to meet blossoming demand. For instance, if you hire new employees too soon, you won't be able to afford them—but wait too long, and you'll be understaffed. "It's a great problem to have," says Stankowski. "We just take it one bite at a time."

Stankowski draws a salary and, true to her philosophy of spreading the fruits of the company's success to her staff, has a profit-sharing program for all employees. She takes pride in presiding over a business that is not only woman-owned, but woman-run, with females filling many key positions. And she gives back to the armed services by employing veterans, whose ranks account for one-third of her staff. ■



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Help Your Kids Buy a Home

Whether you hand over cash or make a loan, lenders will expect you to dot your *i*'s and cross your *t*'s. **BY PATRICIA MERTZ ESSWEIN**

AFTER COLLEGE, DAN MAZZARINI MADE a beeline for the Big Apple. After working as an interior designer with Michael Kors and Ralph Lauren, among others, he cofounded a business, BHDM Design, in 2012. The following year, a studio apartment came up for sale in Mazzarini's co-op apartment building in Greenwich Village. Mazzarini, 34, decided to go for it. "That's how it happens in New York. You don't have a lot of time to sit and think about things," he says.

The sellers were asking \$550,000. After adding up the cost of the 20% down payment required for co-ops and estimated closing costs, Mazzarini realized that the \$50,000 he had managed to save wasn't enough. He swallowed his pride, called his parents and asked for help. They told him they would be happy to chip in for what they called a great investment and ponied up \$56,000. "You've never asked us for a thing, and you've earned it," said Mazzarini's mom, Clare.

Because the apartment was a fixer-upper and the sellers wanted to make a quick sale, they dropped the price from \$550,000 to \$499,000. Then Mazzarini negotiated the price down to \$445,000. With his savings and his parents' gift, Mazzarini made an \$89,000 down payment and paid about \$6,000 in closing costs, with the sellers picking up the rest.

He used an additional gift from his aunt for renovation.

Accumulating a down payment and closing costs and qualifying for a mortgage have always been hurdles for first-time home buyers. But lately it's been tougher for many young people to save enough, partly because of the effects of the recession and partly because of student-loan debt (see "Home Price Hikes Take a Breather," Jan.). Among the benefits of owning a home now: With mortgage rates still historically low (the national average fixed rate for a 30-year mortgage was 3.75% in early March, according to Freddie Mac) and a tax deduction for home interest, a monthly mortgage payment may well be less than you'd pay in rent, given that rents in many cities are high and rising.

Families often extend a helping hand. The National Association of Realtors reported in 2014 that 26% of first-time home buyers received a gift of money toward their purchase, and another 6% received a loan from a family member. But it's important to help in a way that works for—not against—your child and yourself. For example, a loan will add to your child's total debt load, which could make him ineligible for a mortgage. You may incur tax consequences with a gift or loan. And if you are a co-borrower, you put your own credit rating on the line.



■ DAN MAZZARINI'S MOM, CLARE, AND DAD, DAN, GAVE HIM MONEY TO HELP HIM BUY HIS GREENWICH VILLAGE CO-OP APARTMENT.

● A GIFT THAT KEEPS ON GIVING

The simplest strategy? Give a gift that your child can use for a down payment, closing costs and reserved savings, if the lender requires them. You can generally provide the entire down payment. But if you give more than \$14,000 in 2015, you'll have to file a gift tax return, and you'll begin to eat into the estate-and-gift-tax credit that protects up to \$5.43 million (in 2015) in lifetime



gifts and bequests from the federal gift and estate tax. (Your spouse can also give up to \$14,000.) Because Mazzarini's transaction bridged two calendar years, his parents gave the maximum amount of \$28,000 per couple in 2013 and in 2014.

Lenders must try to verify that your gift isn't a loan in disguise, which would add to your child's debt load and disqualify him for the mortgage—

and they must document the source of gift funds. You must provide a "gift letter," signed by you and your child, that specifies the amount and transfer date of the gift and states that you don't expect repayment. The lender will also ask your child for two months of bank statements. If they show a large deposit of funds, the lender will ask you to document its source.

It's easy to track money pulled from

a savings or retirement account (see the box on the next page). But cash pulled from, say, a home safe can cause problems, says Chris Bennett, of Allen Tate Mortgage, in Charlotte, N.C. He recommends that you deposit the cash in your savings or other account at least 60 days before your child applies for a mortgage.

As closing nears, the lender must also verify that you have transferred

the money promised to your child's account. It will ask for a copy of your withdrawal slip or canceled check and a copy of your child's deposit slip, or bank statements showing the withdrawal and deposit of funds. With FHA mortgages, as long as you deposit the gift in your kid's bank account at least 60 days before closing, you won't need to document the trans-

Find the Money

Raid Your Retirement Accounts?

You and your spouse can each withdraw up to \$10,000 from a traditional IRA penalty-free to help a child buy or build a first home. (To qualify as a first-time home buyer, he or she cannot have owned a home for the past two years.) You'll owe taxes on the withdrawal.

You can withdraw Roth IRA contributions tax- and penalty-free at any time for any reason. You can also withdraw up to \$10,000 in earnings to help kids or grandkids buy their first home without paying a 10% early-withdrawal penalty. If you've had the account for five years, the earnings will be tax-free, too. For details, see IRS Publication 590, *Individual Retirement Arrangements*.

The rules are different for 401(k) accounts. You can usually borrow as much as half of your balance, up to a maximum of \$50,000, without taxes or penalties. The interest you pay on the loan goes back into your account. Loans from 401(k)s usually must be paid back within five years, but check with your employer to see if it will extend the repayment period to, say, 15 years. However, you will have just 60 or 90 days to repay the loan if you leave or lose your job. If you don't, you'll have to pay taxes on the unpaid balance. If you are under 55, you will also be subject to a 10% penalty.

fer of funds. If you won't provide the funds until the day of settlement, you must use a certified check, cashier's check, wire transfer or some other official check.

THE BANK OF MOM AND DAD

If you would prefer to lend your child the money, the mortgage lender and the IRS will require you to formalize your loan and document it. The loan term can be as short or as long as you like, but the resulting monthly payment plus all other monthly debt repayments (including student loans) can't exceed the lender's maximum debt-to-income ratio (see the box on the facing page).

The lender will consider your loan a second mortgage, which you must "subordinate" to the lender's interest in the property, says Dan Gjeldum, of Guaranteed Rate, a mortgage lender based in Chicago. And you can't do your child a favor by forgoing interest or charging a superlow rate. For starters, the lender may require you to charge interest at a market rate, and you must establish a repayment schedule. The IRS will also require you to charge a minimum interest rate (the current applicable federal rate, or AFR), which in March was 2.17% for loans with terms longer than nine years. You must report the interest as income, and if the IRS catches you charging a rate lower than the AFR, it could add the interest you should have charged to your taxable income and view it as a gift to your kids.

To document the loan, you'll need a promissory note and a deed of trust, which secures the loan with the property. That allows your child to deduct

the mortgage interest he pays you. And it protects you if your child defaults. (You could foreclose, although you'd be second in line for reimbursement after the first-mortgage lender.)

It takes about an hour of a lawyer's time to draw up the paperwork, says Paula E. Meyer, a real estate lawyer in Orange County, Calif. If you don't want to act as the loan servicer, you could use National Family Mortgage (www.nationalfamilymortgage.com) to set up, document and service the loan. It will e-mail payment reminders and monthly statements, collect and credit payments, and issue year-end IRS 1098 and 1099-INT tax forms. Cost: a one-time fee of \$725 and a minimum of \$15 a month for servicing.

Meyer also recommends that you ask the title agent (who may conduct the closing) for a copy of the

property's title report and that you buy a title-insurance policy (about \$100 to \$400 to cover a \$25,000 loan, depending on property location) to protect your interest if an issue arises later—say, an undiscovered lien shows up against the property. If your child refinances the loan later, you must verify payment history for the next lender. And if the house is sold, you must write a payoff letter, says Gjeldum.

Less attractive options. If your child can't qualify for a mortgage on her own, you could apply jointly for it, as a non-occupant co-borrower. (Cosigning is also an option, although in that case you'd have liability for the mortgage but no interest in the property.) With a Fannie- or Freddie-backed mortgage, you and your child combined must put down at least 20%; if you put down less, your child must ante up the first



If you decide to lend money to your kid, the IRS will require you to charge a minimum interest rate, recently 2.17%."

5% from her own funds. Failing that, the property may qualify as an investment property, in which case you will pay a higher interest rate and you'll be required to have more financial reserves. If you can't come up with a total down payment of 20%, your best choice is probably an FHA loan with 3.5% down, which will factor in the income of any co-borrower who is related.

However, says Meyer, co-borrowing is a bad idea because you really aren't in control. If your child fails to pay the mortgage, property taxes or insurance on time, that could ding your credit history or result in a lien against the property. "I try to tell my clients that if the kids can't afford the house and the lender won't lend, that's telling you something," she says. Meyer recommends that you let your kid live at home for a year and save money until she can afford to buy.

KipTip

Know the Basics

First-time home buyers must produce a down payment of at least 3% to 5% to get a conforming loan of up to \$417,000 backed by Fannie Mae or Freddie Mac with a fixed interest rate. To nab an adjustable-rate mortgage or a "conforming jumbo" mortgage of up to \$625,500, the down payment must be at least 10%. But if you can help your child swing 20% down, he can avoid having to pay for private mortgage insurance. An FHA loan requires just 3.5% down, but the cost of FHA insurance (an up-front fee plus an annual fee) could make a Fannie- or Freddie-backed product a better deal.

Fannie and Freddie generally prefer a maximum debt-to-income ratio (total monthly debt repayment divided by monthly pretax income) of 36%. But with compensating factors such as a high down payment, a high credit score or the potential for increased income, they may go as high as 45%. FHA generally sets the limit at 43%. Lenders will factor in your child's student loans, even if they are deferred or in forbearance. In that case, the lender must include the anticipated monthly payment amount or assume a small percentage of the outstanding balance (Freddie Mac requires 2%, Fannie 1%) as the monthly payment. On an FHA loan, if deferment will end and repayment begin within a year of closing, the lender must include the anticipated amount.

The national average cost to close on a \$200,000 mortgage in 2014 was about \$2,540, according to Bankrate.com. (To see what average closing costs are in your child's state, visit www.bankrate.com/finance/mortgages/closing-costs/united-states.aspx.) Depending on the borrower's credit score, debt-to-income ratio and down payment, mortgage lenders may require savings (reserves) equivalent to two months' worth of mortgage payments (see "It's Easier to Get a Mortgage in 2015," at kiplinger.com/links/mortgage2015).

●● PLAN AHEAD

The best time to commit to helping your child and to provide the money is before your child makes a purchase offer, says Dana Hollish Hill, an exclusive buyer's agent in Bethesda, Md. He can add that amount to the financial information sheet he will attach to his purchase offer, which will reassure sellers that he can close the deal. It could help him win the day in a bidding war.

Still, Hollish Hill finds that parents often balk at forking over the money too soon, for a number of reasons. They don't want it sitting around in their child's savings account, or they want to know what he is buying first, or they believe they should be involved in the process in proportion to their contribution. That's why, says Hollish Hill, it's important to have a frank discussion up front to answer such questions as, Whose house is it? Who's

making the purchase decision? Who has veto power?

To avoid dismay late in the game, Hollish Hill suggests that parents visit the property before the preclosing home inspection. Pretend you're on an HGTV show: Look at three houses—the great one, the horrible one and one in-between—to gain perspective on your child's choice, especially if he lives in a high-cost area.

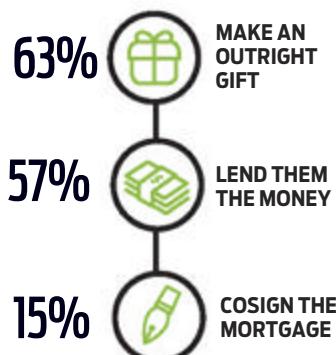
Dan Mazzarini's parents didn't see his place until a year after he bought and renovated it. Fortunately, they loved it, although he says he doesn't think his dad understands how people live in such a tiny space. "I told him, 'Think of it as a really nice hotel room.' ■

Q READER POLL

Would you help a child or grandchild buy a home?



If yes, would you (check any that apply)



SOURCE: POLL SURVEYED 249 KIPLINGER'S READERS.



KIMBERLY LANKFORD > Ask Kim

Skip Small Damage Claims

A PIPE BURST IN MY HOUSE AND caused water damage in my living room. I know that insurance companies sometimes increase premiums after a water-damage claim. What should I do?

S.H., WASHINGTON, D.C.

The answer depends on how big the claim is and where you live. A study by InsuranceQuotes.com found that filing just one homeowners insurance claim boosts annual premiums by a national average of 9%; in Washington, D.C., the average boost is 15.2%. If the claim is small, you could end up paying more in higher premiums than the amount you received, says Derek Ross, an independent agent in Tarzana, Calif.

Before filing a claim, estimate how much your potential settlement would exceed your deductible. Then compare that to the potential rate increase. (See the study at www.insurancequotes.com/home for the average increases by state, which range from 32% in Wyoming to 0% in Texas.) The increase can last as long as seven years, says Laura Adams, senior insurance analyst for InsuranceQuotes.com. You can't escape your record by switching insurers, either. Insurance companies share up to seven years' worth of claims data through a database called the Comprehensive Loss Underwriting Exchange (CLUE).

Reducing RMDs. *I turned 65 this year. I am retired and living on my pension. I will have to take required minimum distributions from my IRA when I turn 70½. How should I reinvest the RMDs from my IRA to reduce the taxes on them in the future?*

J.H., VIA E-MAIL

Rather than searching for low-tax investments once the money is out of the IRA, start converting some money now from the traditional IRA to a Roth. You'll have to pay taxes on the conversion, but the money can grow tax-free in the Roth, and you're not required

to take minimum distributions from it.

When deciding how much to convert, be aware of the income thresholds for the Medicare Part B and Part D surcharge, which boosts premiums if your income tops \$85,000 (for singles) or \$170,000 (for joint filers). A large conversion in one year could also bump some money into the next tax bracket or cause more of your Social Security benefits to be taxed (see "Are Your Social Security Benefits Taxable?" at <http://tinyurl.com/qzg7x9q>).

Health coverage overseas. *My son is in his late twenties and plans to teach in China. What should he do about health insurance?*

G.M., SACRAMENTO, CALIF.

Domestic health insurance provides only limited coverage outside of the U.S. The American Embassy in Beijing says that many Chinese schools provide health insurance to foreign teachers. Your son's teaching program may offer a supplemental health insurance policy through an insurance broker such as iNext, which offers six levels of coverage. And some U.S. insurers offer international health policies for Americans living overseas. For example, Cigna offers international policies, as well as a policy specifically for Americans living in China, which covers a network of Chinese doctors and hospitals.

Policies that Chinese schools provide to foreign teachers can cover up to 80% of medical expenses. Chinese hospitals often demand cash for the remaining costs before providing service. The Chinese medical system in rural areas often does not meet U.S. standards, so the U.S. Embassy encourages Americans to buy international health insurance, which covers medical care and medical evacuation.

For details about each country's health system, see www.travel.state.gov. ■

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



Filing just one homeowners insurance claim boosts annual premiums by a national average of 9%."

Married couple, daydreaming about what they'd do if they won the lottery.

OR

Successful attorney and his wife, enjoying the rewards of their hard work.



No assumptions.

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

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When Your Health Insurer Won't Pay

The solution may be as simple as a phone call or as complicated as an appeal. Either way, you can win this fight. **BY KIMBERLY LANKFORD**

WHEN YOU'RE DEALING WITH a medical condition or disease, you want to find the best treatment without a lot of hassle from your insurer. But insurers may deny coverage for the specialist your doctor recommended or send you a bill for care you thought was covered.

One way to avoid nasty surprises is to choose a policy during open enrollment that covers the care you're likely to need and to vet the list of in-network specialists and participating hospitals. That doesn't mean you'll never run into roadblocks. If you do, these steps can save you thousands of dollars while helping you get the care you need.

● LOCK IN A SPECIALIST

Getting approval for care up front usually means you won't have to fight for coverage later. But winning that sign-off can be tricky if your doctor recommends a specialist who isn't in your insurer's network. Some health plans don't cover out-of-network providers at all. Others may provide limited

coverage for out-of-network care but at a much higher cost, perhaps doubling your deductible and boosting your co-payment or co-insurance significantly.

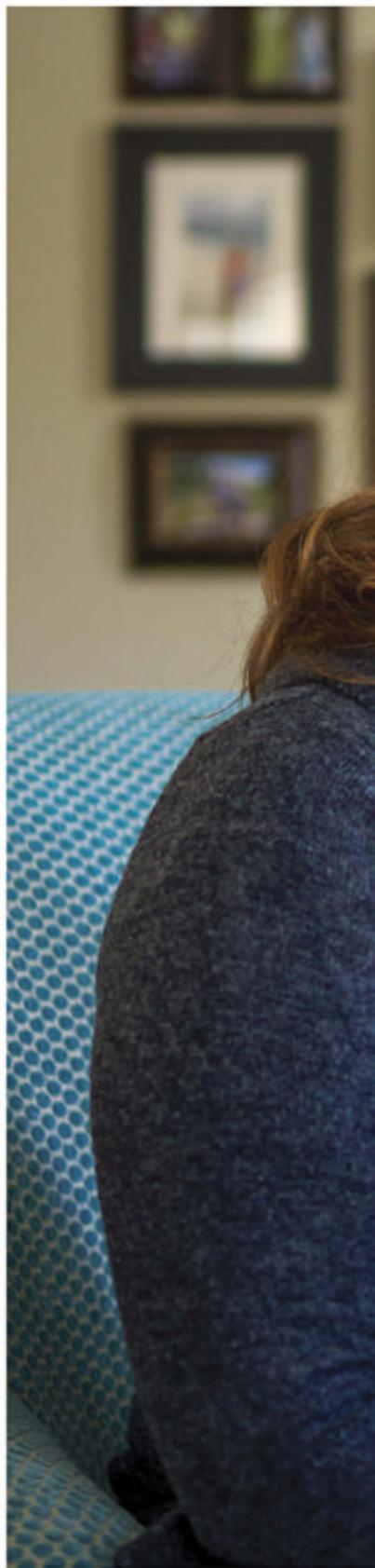
Before stretching to pay for the out-of-network specialist, ask your insurance company about your options. Generally, it will try to find an in-network doctor who can perform the procedure. Contact the doctors the insurer recommends and ask about their credentials, experience and proposed course of treatment. (You might also run their names past the doctor who recommended the out-of-network specialist in the first place.) Keep track of the doctors you call and what they say. Proving that you've covered the bases can be helpful later if you have to make a case for out-of-network coverage.

Even if you hope to work with another doctor, it's a good idea to visit the specialist recommended by the insurer. "If nothing else, you get a second opinion," says Tom Bridenstine, the man-

aged-care ombudsman for Virginia, who helps state residents with coverage questions and appeals. You could decide to work with the in-network specialist after all, or the specialist might agree to write a letter explaining that you have a condition that he or she can't adequately treat, Bridenstine says.

That happened to Robin Mullins Grunwald, 51, from Clintwood, Va. She had several surgeries for breast cancer starting in 2009, including reconstructive surgery, and her insurer paid the claims. But she ended up with an infection from the reconstructive surgery and developed a hernia. The hernia surgery was complicated because of the infection, so her doctor recommended a surgeon in Greenville, S.C., who specialized in the procedure. "I loved the doctor in South Carolina and felt comfortable with him," she says.

When she tried to get preapproval for the surgeon in Greenville, Grunwald was denied coverage. She





■ **KIM JACOBS**
DISPUTED ERRORS
ON HER BILL WITH
THE HELP OF A
CLAIMS SPECIALIST.

appealed and lost. Eventually, she got a recommendation from her insurer for an in-network surgeon in Richmond but went to Bridenstein for help anyway. He suggested she at least meet with the surgeon in Richmond. "He was fantastic," she says of her decision to go with him. Grunwald's advice: "Communicate with the physician and don't be scared to ask questions." Another piece of advice: Keep an open mind.

● ● **LOOK FARTHER OUT**

If you can't find a doctor in your network with whom you're comfortable, have your insurer cast a wider net, says Denise Sikora, president of DL Health Claim Solutions, in Woodbridge, N.J. Sikora specializes in helping cancer patients deal with their medical bills. She recently helped a client who needed a specific type of brain surgery but couldn't find an in-network doctor in New Jersey with the experience she was seeking. Sikora kept asking the insurer for more in-network candidates and finally found one in Pennsylvania who specialized in the procedure.

You may have more in-network options than you realize. Kathleen Hogue, president of Mediform Inc., a medical billing specialist in Twinsburg, Ohio, recently helped a client with coverage from a small, local insurer in Ohio that gives patients access to a national network of doctors and hospitals. The client ended up going to the MD Anderson Cancer Center, in Houston, a world-renowned

facility, for the price of in-network care.

If no in-network solution exists, the insurer may consider your situation a "network adequacy gap" and cover an out-of-network provider as if he or she were in network. At Aetna, for example, a precertification nurse researches the options and, if there are no in-network providers in the area who can supply the service you need, the insurer will authorize the coverage.

You don't have to stand by while someone else makes this decision. Ask the insurer what information you can provide to strengthen your case. For instance, your insurer might be receptive to a statement from your primary-care doctor saying that he has studied the case and, for this condition, he believes you are justified in seeking treatment out of network, says Hogue.

Some people choose to go to the out-of-network specialist despite the out-of-pocket costs. In that case, try to negotiate a deal. Kirsten Sloan, of the American Cancer Society, says that some plans may agree to pay a portion of the bill at the in-network rate and have the patient pay the balance. It can help to have the physician's office call and explain that the doctor is willing to accept in-network payment and get a preapproval, she says. Or you can ask the provider for a cash discount (see "Pay Cash for Your Health Care," Feb.).

● ● **REVIEW THE BILL**

You may think that all of your care was approved,

only to receive a surprise bill from the insurance company. Don't pay it until you get the explanation of benefits to find out why your claim was denied. (These forms can be difficult to decipher; ask the insurer for a translation.) The doctor may have billed with the wrong tax ID, or you may have used an old insurance card. In such cases, an appeal usually isn't necessary, says Patrick Shea, a claims specialist and director of MedicalClaims Help.org, in Green Bay, Wis. "You can get the errors re-processed with a phone call."

Coding mistakes can also cause problems. The provider's office may have input the wrong code for the procedure or the diagnosis. "Sometimes the doctor can resubmit it with a different diagnosis and procedure code, and the charge will be paid," says Hogue.

To spot mistakes from the start, get an itemized bill that breaks down each cost separately, especially for

complex procedures and hospital stays. "Anytime you receive a bill from a facility, you should ask for a detailed, itemized bill to know exactly what you're being charged for," says Pat Palmer, CEO of Medical Billing Advocates of America, in Roanoke, Va. You may have been charged for services you didn't receive, in which case you can usually fix the error with a phone call or by providing the medical records.

●● FIGHT TWO FRONTS

Kim Jacobs of Lakeville, Minn., had both authorization issues and clerical errors. Two years ago, she underwent an outpatient procedure recommended by her gynecologist. She had been told by the doctor's office that the procedure was authorized, so she was surprised to receive a bill for nearly \$10,000. "The doctor's office said they got the approval, and you don't think to double-check it," she says. Her doctor has

since written letters to the insurer explaining why the procedure was medically necessary, in hopes of overturning the denial.

In the meantime, Jacobs contacted Palmer and her colleagues for help. They asked the hospital for an itemized bill and successfully disputed several of the charges, bringing the bill down by nearly \$4,000. Disputing errors on the bill is a good strategy for knocking down the cost while you're undergoing the more complicated process of appealing. Jacobs continues to pursue her appeal with help from Palmer and her colleagues.

●● WIN AN APPEAL

If you decide to appeal, your case will likely go through several layers of review—first within the insurance company, then from outside doctors, and finally from the state insurance department (or through the Department of Labor, if you're covered by an employer's self-funded plan). Your explanation of benefits and your insurance policy should spell out the procedure and deadlines for appeals. Sometimes you can conduct the appeal via a conference call with your physician, the insurance person who made the claims decision, and your claims advocate, says Palmer.

No matter how you do it, build a strong case. "I always prepare my appeal as if it's the only chance I have," says Sikora. "You have to do the research and pull it all together."

The first step, she says, is to find out why the claim was denied. Then gather evidence and focus your appeal specifically on that reason. "I recently did an appeal for someone whose treatment was considered experimental," she says. "We researched the drug and included about 15 research articles citing that this drug was a standard of care during the fourth stage of treatment." The case was won on the proof in the medical record that doctors didn't use the drug the first time—they used it the fourth time, and the treatment helped, says Sikora.

If your insurer denies your appeal, you can generally file one with your state insurance department. Californians, for example, can request an independent medical review through the Department of Managed Health Care and have the case reviewed by doctors who are not part of their health plan. "Approximately 60% of enrollees who submit independent medical review requests to the DMHC receive the service or treatment they requested," says spokesman Rodger Butler. Find your state insurance department at www.naic.org.

The last step? Be patient. It can take several months to go through all the levels of appeal. "I usually keep the provider in the loop and ask him to keep the bill from collection while we're working on this," says Sikora. Keep in mind that it's difficult to get money back once you've paid it. Hold out while the appeal works through the system. ■

★ KipTip

Where to Get Help

A MEDICAL CLAIMS SPECIALIST CAN HELP YOU DECRYPT your bills and appeal denials (go to www.claims.org). Most offer a free initial meeting to review the bills and complexity of the case, after which they charge \$75 to \$120 per hour. You can meet in person, or e-mail your bills and give the specialist permission to access your insurance-claim files online.

Also seek help and resources from advocacy groups, such as CancerCare.org, the American Cancer Society or the Arthritis Foundation. These groups can help you research commonly used drugs or procedures, and they sometimes have people on staff who will answer claims questions or help with filing appeals. CancerCare.org also has information about financial resources if your insurer won't pay your claim and you end up with big out-of-pocket expenses.

CREDIT >

Boost Yield With Ultra-Short Funds

SAVINGS CAN GENERALLY BE divided into two pots: cash that must be shielded from losses and money that can tolerate a little investment risk. Short-term savings that fall into the first category should reside in federally insured deposit accounts. Top-yielding savings accounts and one-year certificates of deposit are earning 1% or more.

But maybe you have, say, interest and dividend

● ● Kiplinger.com

RATE UPDATES

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

income that you're holding to invest later. Money that you put in a high-yielding insured account may not be as readily available as cash in an account that's tied directly to your brokerage accounts. But money market mutual funds are currently yielding next to nothing.

Ultra-short bond funds provide an opportunity to earn a better yield with-

out incurring much more risk. The average maturity of fund holdings is often about a year. So although yields are lower than those of longer-term bond funds, the funds are less vulnerable to rising interest rates (when interest rates increase, bond prices fall).

Watch out, though, for high expenses, which can eat into gains. And look for funds that hold mostly high-quality debt, such as government-backed bonds and investment-grade corporate bonds.

Baird Ultra Short Bond Investor (symbol BUBSX) invests in short-term Treasury bonds and low-risk corporate bonds and mortgages; it has a 0.40% expense ratio and recently yielded 0.7%. Northern Ultra-Short Fixed Income Fund (NUSFX), with annual expenses of 0.25% and a 0.7% yield, holds a solid mix that includes corporate bonds and Treasuries. Keep an eye on Vanguard's new Ultra-Short-Term Bond (VUBFX). The fund says it will invest in high-quality debt, and the expense ratio is a low 0.20%. **LISA GERSTNER**

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds*	0.10%	0.10%	0.10%
U.S. Series I savings bonds	1.48	1.48	1.38
Six-month Treasury bills	0.10	0.08	0.08
Five-year Treasury notes	1.61	1.52	1.64
Ten-year Treasury notes	2.12	2.01	2.79

As of March 10, 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 3	Min. investment	Web site (www.)
Davis Govt. MMF A (RPGXX)*	0.14%	\$1,000	davisfunds.com
Meeder Money Market Retail (FFMX)*	0.06	2,500	meederfinancial.com
Delaware Cash Reserves A (DCRXX)*	0.05	1,000	delawareinvestments.com
HSBC Prime MMF A (REAXX)*\$	0.03	1,000	us.hsbc.com
NATIONAL AVERAGE	0.02%		
Tax-Free Funds	30-day yield as of March 2	Tax. eq. yield 25%/39.6% bracket	Min. investment
PNC Tax-Ex MMF A (PXAXX)*	0.02%	0.03%/0.03%	\$1,000
Alpine Muni MMF (AMUXX)*‡	0.01	0.01/0.02	2,500
American Cent T-F Inv (BNTXX)*‡	0.01	0.01/0.02	2,500
BMO Tax-Free MMF Y (MTFXX)*‡	0.01	0.01/0.02	1,000
NATIONAL AVERAGE	0.01%	0.01%/0.02%	
Deposit Accounts:#	Annual yield as of March 9	Min. amount	Web site (www.)
My Savings Direct (N.Y.)†	1.05%	\$1	mysavingsdirect.com
EverBank (Fla.)†	1.01	1,500	everbank.com
ableBanking (Maine)†&	1.00	250	ablebanking.com
Barclays Bank (Del.)†&	1.00	none	banking.barclaysus.com
NATIONAL AVERAGE	0.09%		

*Fund is waiving all or a portion of its expenses. \$HSBC U.S. Govt., PNC Govt. and PNC MMFs offer similar yields. †Various fund companies offer similar yields. #Deposit accounts include money market deposit accounts and high-yield savings accounts. †Internet only. &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).

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of March 9	Min. amount	Web site (www.)
Chartway Fed Credit Union (Va.)*	1.31%	\$25,000	chartway.com
Connexus Credit Union (Wis.)*	1.30	5,000	connexuscu.org
BankDirect (Tex.)†	1.21	10,000	bankdirect.com
CIT Bank (N.J.)†&	1.20	25,000	bankoncit.com
NATIONAL AVERAGE	0.28%		
5-Year	Annual yield as of March 9	Min. amount	Web site (www.)
Barclays Bank (Del.)†	2.25%	none	banking.barclaysus.com
GE Capital Bank (Ill.)†	2.25	\$500	gecapitalbank.com
Synchrony Bank (N.J.)†	2.25	25,000	myoptimizerplus.com
EverBank (Fla.)†	2.23	1,500	everbank.com
NATIONAL AVERAGE	0.87%		

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

LOW-RATE CREDIT CARDS

Issuer	Rate as of Mar. 6*	Annual fee	Late fee	Web site (www.)
First Command Bank (P)	6.25%	none	\$25†	firstcommandbank.com
Lake Michigan Credit Union (P)	6.25	none#	25†	lmcu.org
Citizens Trust Bank Visa (G)	7.25	none	25†	ctbconnect.com

CASH-REBATE CARDS

Issuer	Rate as of Mar. 9*	Annual fee	Rebate earned Category/Other	Web site (www.)
Amex Blue Cash Preferred	12.99%	\$75	6%/1%‡	americanexpress.com
Discover It	10.99	none	5/1^	discover.com
Citi Double Cash	12.99	none	2&	citi.com

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

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

WORLD-CLASS

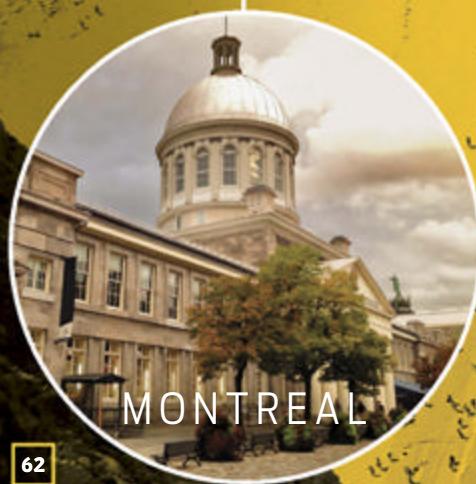
We pick international destinations where the strong dollar is a plus



TURKEY



CHILE



MONTREAL



5 BARGAINS

ing dollar is making travel remarkably affordable.

BY JESSICA ANDERSON AND MIRIAM CROSS

The good news for U.S. travelers who plan to venture abroad this year is that their dollars will go further. The euro is at a 12-year low, and other currencies have also dropped relative to the dollar. That makes train travel, hotels and restaurants more affordable. // We asked travel experts to recommend destinations where you'll get extra bang for your buck this year. Not only are Europe and some Mediterranean countries bargains, it's also a great time to jet down to Argentina or Chile, or even to visit Canada. Late August and September are good times to snag deals on airfare and hotels and to enjoy good weather while avoiding the tourist crush.





EUROPE AND THE MEDITERRANEAN

You'll benefit from the favorable exchange rates in euro-zone countries as soon as you hit the ground. The strong dollar will get you discounts of 20% to 30% off prices in recent years for food, train tickets, shows and more, according to travel experts. You'll find the biggest bargains in locations off the beaten track, and packages can be

good deals in bigger cities. Want to take a cruise? The Mediterranean ports have plenty of ships, and carriers are counting on the weak euro to attract U.S. tourists, says Carolyn Spencer Brown, editor in chief of *CruiseCritic.com*.

Portugal. Portugal offers inexpensive restaurants and hotels, as well as wine that rivals the French and Italian varietals. It boasts Old World city squares lined with cafés and ornate churches, beautiful beaches, and lush wine country in the Douro Valley. The country was hit hard by the recession, but that works in your favor, says Anne Banas, executive editor of *SmarterTravel.com*, because second-tier hotels and restaurants are mostly gone. "Any businesses that were not thriving fell out, so what remains is the best."

Wander the winding streets of Lisbon, take one of the vintage trams, or grab a cheap cab to see the sights. There's no charge for the Berardo Museum, which includes works by Picasso, Dali and Warhol, or stroll the waterfront at Parque das Nações. Take a day trip to the medieval village of Obidos or hit the beach in surfer's paradise Cascais.

Airfares to Lisbon are cheaper than to neighboring countries. Flights from Boston in September recently cost as little as \$730, and four-star hotels averaged \$141 per night. (All airfares are round-trip, and average hotel rates come from Expedia.) The five-star Corinthia Hotel offers an annual sale that cuts rates in half; rooms in September start at \$101.

Romania. Best known as the home of Transylvania, Romania's charm extends beyond mountainside castles and picturesque villages. Bucharest's wide, tree-lined avenues and belle époque architecture have earned it the nickname "Little Paris." The capital city may have lost its allure for tourists during the decades it was under Communist rule, but the vibe today is reminiscent of Prague without the crowds and high prices. Stroll the cobblestone streets of the old merchant center of Lipscani (now home to art galleries and antique shops), or celebrate classical music with the George Enescu International Festival in late August and most of September.

Bucharest is one of the cheapest cities in the world in which to stay at a five-star hotel, according to *SmarterTravel.com*. September rates recently averaged \$147 per night. Three hours northwest of the city, you can stay in a Transylvanian castle for as little as \$41 per person per night, including breakfast. Flights from northeastern U.S. airports run about \$800 to \$1,000 in September. A package may save you even more and provide a guide: Gate 1 Travel recently offered a nine-night escorted trip including airfare from New York and most meals for \$2,199 per person.

Latvia. Relatively new to the euro, Latvia is a boon for value seekers. Because this former Eastern Bloc nation is still off most tourists' radar, prices are low. The capital city, Riga,

is home to the largest collection of art nouveau buildings in the world. It is a city where castles and Victorian gingerbread houses meet Soviet-style apartment blocks and skyscrapers. Tour the Central Market for free samples of local delicacies, such as smoked meats and pickles, and grab a beer at a local pub for about \$2. For another couple of dollars, take a train to the nearby beach town of Jūrmala, considered the Riviera of the Baltics.

Airfare from New York in August recently cost \$810, and waiting until September to travel dropped the cost by \$200. Upscale hotels are cheap, too. Four-star accommodations averaged \$82 per night. TripAdvisor's number-one-rated hotel in Riga, the five-star Dome Hotel & Spa, recently cut its normal rate in half, to just \$190 per night in September.

Turkey. From iconic mosques and frenetic bazaars to hip hotels and edgy boutiques, Turkey offers a blend of history and pop culture. Istanbul is an inexpensive city for travelers, for everything from eating to sleeping and playing. Sean Murphy, editor in chief of travel Web site *Jetsetter*, recommends the traditional food in historic buildings with any of the government-run *sosyal tesisleri*, or social facilities, aimed at Turkish families. Another tip from Murphy: Bypass Bosphorus cruises and take a boat from Eminönü to Kadiköy. Not only will you find the city's best produce market, but you can snack on a sesame-seed ring and grab a glass



BUENOS AIRES

of tea. Cost of the entire trip: about \$2.

Airfare from New York in August and September runs about \$700 to \$800. Turkish Airlines added a route from Boston

last year; it also flies from five other U.S. cities. A recent LivingSocial Escape offered a 12-day tour of Turkey starting at \$1,599 for fall departures from a handful of U.S. airports, including most meals and guided excursions. Four-star hotels average \$117 per night in the fall.

Greece. Greece's financial troubles make it tops in value for vacationers. The tourist trade dried up enough to force lower prices, so there's no better time to explore the whitewashed facades, twisting staircases and quaint villages of Santorini or to make the climb to the Acropolis in Athens.

Flights run \$900 to \$1,000 from East Coast airports in August and September, but a package deal can cut costs. A recent Groupon Getaway offer, starting at \$1,899, featured 10 days touring Santorini, Mykonos and Athens in September with a New York departure (including airfare and accommodations). Want to see Greece by sea? CruiseCritic.com's top-rated Mediterranean cruise ship, *Celebrity Reflection*, sails from Rome on a 10-night trip that rounds the Greek isles for \$1,349.

Tunisia. Though it's located in North Africa, Tunisia has a Mediterranean vibe. You'll find real value traveling independently. Dine for a fraction of the cost of meals elsewhere in North Africa or Europe; according to Murphy, the average price of a three-course dinner for two is about \$18.

Getting around is cheap, too. Mini-buses take you around town for about a dollar (taxis cost twice that per mile). Visit the Medina (Old Town) in Tunis, the capital city, to wander the souks and haggle over carpets and spices.

Accommodations include historic throwbacks to the French colonial era as well as modern buildings evocative of neighboring Morocco. Four-star hotels in Tunis average \$111 a night in September. A Turkish Airlines flight from New York in September recently cost \$929.

CANADA

A trip to Canada may not sound like the most exotic of vacations. But now that you can get more loonie for your buck—recently \$1.26—it's a good time to explore the country's multiethnic flavors and diverse topography. Tack a corner of the country onto a summer road trip, or wait until early fall, when travel prices drop but temperatures are still mild.

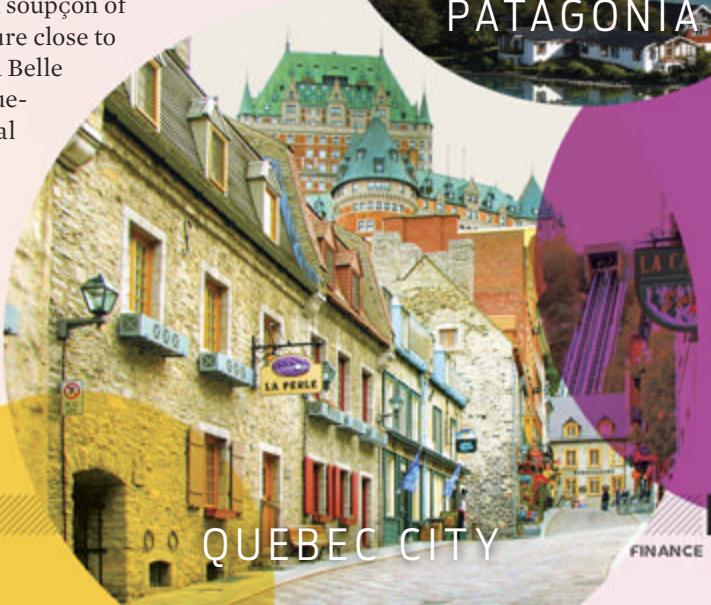
Quebec. For a soupçon of French culture close to home, try La Belle Province, Quebec. Montreal offers a romantic blend of cobblestone streets and historic architecture, beau-

tiful views from Mount Royal, and the world-famous International Jazz Festival in late June and early July (outdoor shows are free). Sampling *poutine*, a combination of French fries, gravy and cheese curds, is a must; local favorite La Banquise offers more than 30 varieties, 24 hours a day. In the evenings, trade the charm of old town for the excitement of downtown, where four-star hotels recently averaged \$171 a night in September. Flights to Montreal from West Coast airports hovered around \$450 in August and September, but the city is easily drivable from much of the Northeast.

History buffs will eat up Quebec City, a three-hour drive northeast from Montreal. Amble atop the centuries-old fortification walls surrounding Old Quebec, which is situated on a cliff overlooking the St. Lawrence River. Or picnic on the nearby Plains of Abraham. Lodging at the Château



PATAGONIA



QUEBEC CITY



TUNISIA

Frontenac, the most photographed hotel in the world, will set you back \$400 a night in early September. Instead, try the stylish Le Port-Royal Hotel & Suites nearby, where we found a room for \$135 per night in the same period. Waiting until September instead of August to fly to Quebec City will easily lop \$100 off your ticket; fares from Los Angeles in September start at about \$500.

Vancouver. Fill your days in Vancouver with a stroll around the Stanley Park seawall, a trip to the beach and local nibbles at Granville Island's Public Market. Or use Vancouver as a base to explore the surrounding British Columbian mountains and coastline. Nearby ski slopes, such as Grouse and Cypress mountains, are oases for hiking in the summer; Grouse Mountain is reachable by public transit. Or take a ferry to laid-back Vancouver Island, where you can find killer whales, rain forests, vast surfing beaches, fresh seafood, the oldest brewpub in Canada, First Nations culture, and the

→ SOUTH AMERICA

It's a good time for South American adventures, says Tim Leffel, author of *The World's Cheapest Destinations*. Keep in mind that much of South America lies south of the Equator, so you'll want to aim for the Southern Hemisphere's springtime, in September, October and November. July and August are peak ski season in mountainous areas.

Argentina. The vibrant capital city of Buenos Aires is a mix of old European architecture and trendy neighborhoods packed with cafés and designer boutiques. You can view Argentinean masterworks free at the National Museum of Fine Arts (MNBA), or stumble upon an impromptu tango lesson at the open-air Plaza Dorrego market on Sundays. We found flights to Buenos Aires in August and September for less than \$1,000 from New York City, or about \$800 if you depart from Miami.

If you want to explore the rest of the country, book a long-distance bus instead of splurging on an internal flight. The buses usually come with perks such as lie-flat seats, meals and free wine. Wineries that give Napa a

colonial city of Victoria.

Vancouver is a three-hour drive from Seattle. (The Clipper ferry also shuttles passengers from Seattle

directly to Victoria.) Airfare can be pricey from the East Coast, but if you wait until September or October, ticket prices from Boston edge below \$400. Four-star hotel rates also fall dramatically in October, to about \$160, on average, later in the month.

run for its money dot the country, but if you have to pick one region, choose Mendoza, the birthplace of Malbec, which is situated along the base of the Andes Mountains. It's a 13-hour journey by bus, but a one-way ticket in first class costs about \$125 (a one-way flight costs about \$175). Booking a tour can help you navigate the more than 1,200 wineries in the area. Expect to pay \$170 to \$200 for a full-day private or small-group tour, which typically includes tastings at three or four wineries, a gourmet lunch and transportation from your hotel in Mendoza city. Stay at one of the city's stylish boutique hotels, such as centrally located Villaggio Hotel Boutique (\$125 a night in September).

Patagonia. Otherworldly Patagonia, spanning the southern ends of Argentina and Chile, teems with ice fields, mountains, steppes and aquamarine lakes. One tour that traverses these landscapes is Viva Expeditions' Southern Explorer package, starting at \$3,135, plus a local fee, in November (but keep an eye out for specials online). This 12-night trip includes hiking through national parks, trekking over glaciers, boat expeditions and a visit to Ushuaia, the southernmost city in the world and a jumping-off point for Antarctica voyages. Most accommodations and meals are included. A one-way flight from Buenos Aires to El Calafate, one starting point for the tour, costs about \$200.

Chile. Many natural wonders abound in the north of Chile, but sticking to urban centers offers its own excitement. The towering peaks of the Andes form a backdrop to the capital, Santiago. Ski resorts are one or two hours away; you can buy a day pass for about \$55 during the low season (roughly late August onward). In a beach mood? The Pacific coast is also a couple of hours away. We found flights from Boston to Santiago for \$800 in September, when four-star hotels in the city average \$189 a night. ■



7 INSIDER TRAVEL TIPS

01 ADD A FREE DESTINATION

You may be able to squeeze an extra destination into your itinerary at no cost—or for a smidge more than what you're already paying for your flight. Some airlines offer a free stopover (a break of more than 24 hours) in their hub cities en route to another country. Find these deals under “special offers” or by searching “stopover” on the airline’s Web site. Icelandair lets passengers hop off in Iceland when traveling between North America and Europe. Air Canada allows breaks in three cities on routes to foreign countries. We also uncovered promotions or packages for Finnair and Singapore Airlines, among others. For some carriers, such as Turkish Airlines, it pays to play around with the multicity booking tool. If you can’t find details online, call the airline to inquire about no-cost stops on your route.

02 PRICE A PACKAGE

Hotels and airlines don’t like to advertise sales because it hurts the brand, says Sean Murphy, editor in chief of travel Web site Jetsetter. Instead, he says, they’ll often package a trip to disguise the discount. Search travel giants such as Expedia and Priceline for vacation package deals ranging from simple airfare-hotel bundles to guided tours. Daily deal sites have gotten in on the act, too, with Groupon Getaways and Living Social Escapes. Check smaller sites as well, such as Apple Vacations and Gate 1 Travel.

03 SNAG A DEAL ON A FLIGHT

Low fuel prices haven’t lowered the cost of airfares. Consolidation in the airline industry and decreased competition mean bargain prices are harder to come by. But sneak sales can reduce a round-trip fare that’s typically \$1,200 to \$1,800 down to \$700, says George Hobica, president of Airfarewatchdog.com. Sign up for alerts from the site, or follow travel sites on social media to get early access to deals.

04 AVOID BUYER’S REMORSE

Use Tingo.com and Yapta.com to save money even after you’ve booked hotel rooms and flights. Hotels are easy: Reserve your hotel room directly through Tingo (search the site by city for a list of participating hotels), and it will check prices on your booking up until your stay. If the total price drops, your credit card will be refunded automatically. One catch: You have to prepay for your stay.

Getting an airfare refund is a little more complicated. After entering your flight itinerary on Yapta, you’ll get an alert if the price drops and you become eligible for a voucher. Most airlines charge change fees, but Yapta takes those into account and notifies you only if a price drop exceeds that fee. Then the site guides you through the process of contacting the airline to get your voucher.

05 BOOK TO FIT YOUR BUDGET

If you have a budget in mind but not a destination, check out <http://kayak.com/explore> for inspiration. This interactive tool lets you select a departure city and month or season of travel, then adjust a sliding scale to set a maximum ticket price. Airfares that fit into your budget will populate a map, and you can click on a city for details. Google.com/flights has a similar feature, and you can browse by precise dates. Select “expand map,” enter your travel dates, choose a price limit, and airfares that fit will pop up. Click on a city for a bar graph displaying fares for other date combinations.

06 PICK UP THE PHONE

Sometimes a phone call can yield greater savings than booking on the Web. For hotels, contact the front desk and see whether the agent can beat the online rate. Mention anything that could get you a discount, such as being a senior, a member of AAA or a government employee. If the agent won’t budge, ask for the duty manager. When it comes to airfares, you may need to pay to reserve over the phone. But if your dates are flexible and you’re booking an expensive long-haul flight, try calling an airline agent to see if he can find a sale or cheap fare combination. Calling is the way to go when you’re looking for frequent-flier award flights, says Ed Perkins, of SmarterTravel.com.

07 GET A TRAVEL REWARDS CARD

Keep these ingredients in mind when shopping for a travel-friendly credit card: no foreign transaction fee, a microchip and generous rewards. Barclaycard Arrival Plus World Elite MasterCard (\$89 annual fee, waived the first year) offers a chip along with extra-secure PIN capability. You earn 40,000 bonus miles after spending \$3,000 within 90 days of opening your account. If you would rather trade significant rewards for no annual fee, consider the PenFed Platinum Rewards Visa Signature, which is also chip- and PIN-enabled.



“

Payouts over the life of an extended warranty typically fall short of the cost of the warranty.”

JESSICA ANDERSON > Drive Time

Extended Warranty Woes

It's no surprise that extended warranties for autos rank high on consumer complaint lists. Contracts are riddled with exclusions, making it hard to tell what is covered and under what circumstances. If a covered part is damaged by a noncovered part, you may be on the hook for the whole bill. And if you haven't followed the maintenance schedule, the warranty could be terminated.

Payouts over the life of an extended warranty typically fall short of the cost of the warranty. In a 2014 survey by *Consumer Reports*, more than half of extended warranty purchasers never used their policies. Those who did, on average, spent hundreds more on the policy than they recouped. The median price paid was just over \$1,200 (though less-reliable brands and luxury makes charged \$1,500 to \$2,200); the median savings on covered repairs for all brands was \$840.

Despite the poor track record of extended warranties, one in three car buyers takes one home, says the Service Contract Industry Council. It's easy to see why you're likely to get the hard sell in the finance-and-insurance office. The difficulty of cashing in on a contract keeps the profit margin high (a 50% cut for the dealer is not unusual), and the added warranties keep customers coming back to the dealership for lucrative repairs after the manufacturer's warranty has expired.

Even if you don't buy an extended warranty when you buy your new car, you may get another pitch when you bring your car in for routine maintenance or via an official-looking notice mailed to you just before the manufacturer's warranty expires.

Buying peace of mind. One big reason people never use an extended warranty is that cars are more reliable than they've ever been, and manufacturers' warranties are better, too. Bumper-to-bumper coverage lasts three or four years, and the powertrain

is covered for five to 10 years. If your car is rated highly for reliability, it's less likely you'll find value in an extended warranty. In *Consumer Reports'* survey, owners of traditionally reliable makes, such as Honda, Subaru and Toyota, were far less likely to have used extended warranties than buyers of brands that have had average or below-average reliability or luxury brands that tend to have high repair costs.

If you're determined to buy an extended warranty, do some homework. Know what's covered by any policy you're considering as well as what your factory warranty covers. Some policies offer extended bumper-to-bumper coverage, some offer powertrain coverage, and some offer both. You may find extensions of the original warranty to 10 years or 100,000 miles, or even longer. Bumper-to-bumper coverage will probably give you the most bang for the buck. The engine and transmission are the most costly to repair, but they're covered by the original powertrain warranty, and most repairs today aren't related to the powertrain.

Also, warranty prices are negotiable. Get an offer from your dealer as well as other dealers in your area, and be prepared to haggle. Prices will jump after your original warranty expires.

The issuer of the warranty makes a difference. Steer clear of third-party sellers; you'll be limited to certain shops or need authorization for repairs, and you will often have to pay out of pocket for the work done and then be reimbursed. “Automakers offer the safest harbor if peace of mind is your top priority,” says Kelsey Mays, consumer affairs editor for Cars.com. Prices are similar to third-party warranties, the dealer takes care of the paperwork for repairs, and you can get repairs done at any dealership that services your brand.

If you purchase a warranty and then change your mind, in most states, you have the right to cancel within 30 days of signing if you haven't used the policy. ■

Who Gets the Vacation Home?

How families can preserve the fun and avoid the feuds. **BY VICKIE ELMER**

A VACATION HOME YOU OWN

with your extended family can create beautiful memories. But family ownership can also lead to feuds over who stays during prime weeks, who pays for new plumbing or who gets to choose the colors when you repaint. And without careful planning, you may find yourself embroiled in bitter battles over the home's future.

The biggest mistake owners make is failing to create a detailed plan for succession, says Wendy Goffe, an estate-planning lawyer in Seattle who has helped dozens of vacation homeowners. It's best if the owners sit down with their adult children and their children's spouses to create a plan for either keeping the vacation house in the family or selling it. Families might seek the help of a financial planner or estate-planning lawyer to develop plans.

Selling the property sometimes makes the most sense. The adult children may not be able to afford the taxes, maintenance and cost of travel to the house. And the recovery in property values has prompted families who need cash to sell, says Mark Fisher, a real estate agent in Glen Arbor, Mich. He helped one family sell a cabin that had been in the family since 1929.

"They needed the money to pay for Mom's long-term care," says Fisher.

Put it in writing. If you decide to keep the house, draw up a written plan you all agree to that outlines how to pay for expenses, including repairs, insurance and taxes. Family members often pay into an account that covers cleaning and maintenance costs.

Time spent on household chores can also be a source of tension. One solution is to set up a rotation for maintenance work among siblings so there's a sense of fairness. Hiring a cleaning service or property manager can reduce resentments. If one

sibling serves as the primary caretaker, consider giving that person a small bonus, such as extra weeks in the house or a discount on maintenance fees.

If one family member can't afford to share expenses, he or she could take on extra responsibilities in lieu of paying for repairs. Or if money is an issue, you could rent out the home for part of the year to help cover expenses. Sometimes, parents set up trusts to pay for future upkeep.

Passing it on. One important part of a plan is deciding how to transfer the property to future generations. Check

with an estate-planning lawyer to figure out the gift-and estate-tax implications of a transfer. One common way to transfer ownership is to set up a limited liability company or a family limited partnership, which would own the property. Rather than transferring the real estate to your children directly, you would give gifts of membership shares to them. You may give shares worth up to \$14,000 (\$28,000 from you and your spouse) to each family member each year without having to file a gift-tax return, thus reducing the size of your taxable estate.

The operating agreement for the partnership could cover such things as scheduling, maintenance, fees and any other guidelines you'd like to include, says Goffe. Because the individual members of the family wouldn't own the property under such an agreement, it could prevent a forced sale of the house if one member wanted out. It could also establish buyout terms for the other family members.

What if one of the heirs doesn't want the house? One option might be for the owners to leave that family member other assets in the estate, says Stacy Allred, director of Merrill Lynch's wealth structuring group. ■



LOWDOWN

What You Need to Know About Aging in Place

Planning to stay put in retirement? Get your home ready now. **BY PATRICIA MERTZ ESSWEIN**

1. It pays to retrofit. Basic design and structural modifications to a one-story home cost an average of \$9,000 to \$12,000, according to *The MetLife Report on Aging in Place 2.0*. Contrast that expense to the cost of assisted living, which averaged \$3,500 per month in 2014, according to Genworth Financial, or \$42,000 a year.

2. Think small. Start with replacement hardware, such as lever-handled doorknobs and sturdy handrails along stairs. Install grab bars, single-handled faucets and “comfort height” toilets in the bathrooms. Upgrade your kitchen by adding rollout shelves and better undercabinet lighting. (For a comprehensive to-do list, see the “Aging-in-Place Remodeling Checklist” at www.nahb.org.)

3. Make it accessible. Other modifications will cost more, and you may want to consult an expert. Certified Aging-in-Place Specialists

(CAPS)—who have completed a program developed by the National Association of Home Builders in collaboration with AARP—can create a prioritized to-do list suited to your budget and resources (to search by zip code, visit the NAHB Web site at www.nahb.org

and search for “CAPS Directory”). If, for example, your home has entry steps, consider installing a ramp; it will run \$1,200 to \$2,500, according to www.costowl.com. A curbless modular shower will cost \$2,000 to \$3,000 to install; a custom-tiled one could run \$5,000 to \$15,000, depending on the level of finish materials, fixtures and fittings, says Vince Butler, a builder in Clifton, Va., and a CAPS program instructor.

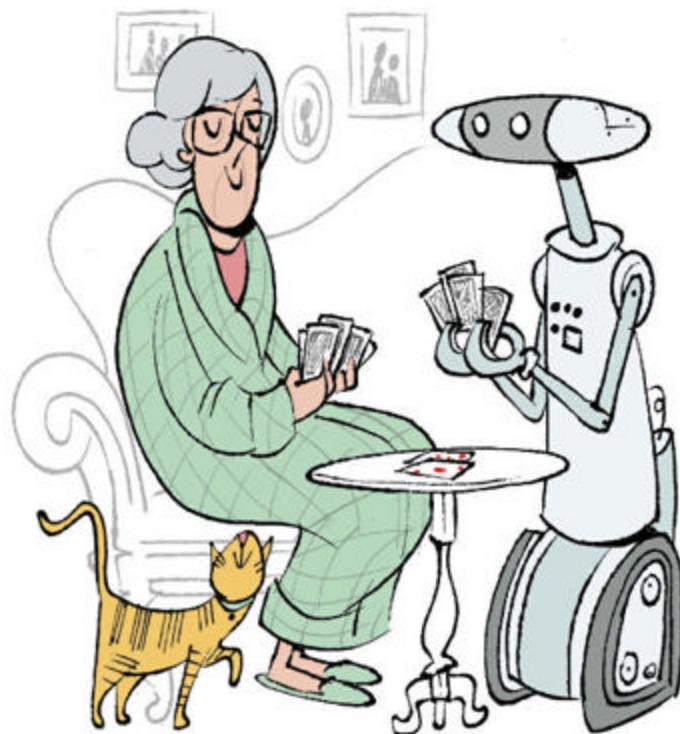
4. Consider the big picture.

Structural changes may include widening doorways and corridors and eliminating walls to accommodate wheelchairs and scooters, or even creating space in a multistory home to add an elevator later. The perfect time to make such adjustments is when you’re updating or remodeling

your home, when they’ll add an average of 5% to your job cost, says Butler.

5. Tap your equity. If you have substantial equity in your home, you have multiple ways to pay for improvements, such as a cash-out refinance of your mortgage, a home-equity loan or line of credit, or a reverse mortgage. For more information on reverse mortgages, visit the Web sites of the Consumer Financial Protection Bureau (go to www.cfpb.gov and search for “reverse mortgage”) and the National Reverse Mortgage Lenders Association (www.reversemortgage.org). Veterans may be eligible for a grant to construct or retrofit their homes (see www.benefits.va.gov/home loans/adaptedhousing.asp).

6. R2-D2 to the rescue. Voice-activated robot helpers are on the way. Meanwhile, existing tech tools can help you stay in touch with family, caregivers and community, as well as monitor your health and provide for security, says Laurie Orlov, founder of the Aging in Place Technology Watch (www.ageinplacetech.com). For example, the BeClose system ([\\$499 for equipment plus \\$99 a month](http://beclose.com)) will alert your emergency contacts if you diverge from your usual activity pattern. Lively ([\\$50 for the system plus \\$28 to \\$35 a month](http://www.mylively.com)) is a “safety watch” that combines an emergency alert system with a fitness band. It will also remind you to take your medications. ■



Fitness Bands for \$100 or Less

These alternatives to smart watches may be all you need to get moving. **BY JEFF BERTOLUCCI**

SMARTER SMART WATCHES, including the Apple Watch, are coming soon. So why buy a fitness band now? If all you want is to set fitness goals, track your workouts (say, calories burned and steps taken) and monitor your sleep patterns, any of these wearables will do the job—for a lot less than the \$349 or more an Apple Watch will cost. Each is water-resistant, so you won't have to take it off to jump in the shower.

Flash your style. The Misfit Flash (www.misfit.com; \$50) fits inside a clasp or wristband (both are included) and comes in seven colors. The readout, a circle of LEDs, takes a bit of getting used to. To see how you're progressing toward a daily fitness goal—say, walking 3,000 steps or burning 300 calories—click on the display and a number of consecutive lights will appear that show how far along you are. As for monitoring sleep, the Flash records “light” and “deep” sleep, as well as the number of hours slept. The current time is displayed by illuminating the 3, 6, 9 and 12 reference lights, plus two brighter lights for the hour

and minute. Intuitive? Well, no, but fairly easy to learn. The Misfit's smartphone app (Android and Apple iOS; Windows Phone coming soon) links to the Flash via Bluetooth; you use the app to set and track your daily goals. The Flash runs on a 3-volt coin cell battery that lasts up to six months with normal use. And Misfit recently announced that users would be able to use the Flash to control home automation devices, such as Google's Nest thermostat and the August smart door lock. One drawback: The round plastic module feels flimsy, even a little cheap.

Flex your muscle. The Fitbit Flex (www.fitbit.com; \$100) lists for twice the price of the Flash, but it has a Web interface for users who would rather monitor their activity via a Mac or a Windows PC. Flex bands are available in two sizes and 10 colors. Each of the five LED display lights represents 20% of the way toward your daily fitness target. The Flex does not display the time, but it has an internal clock; it can tell you how long you slept and how often you got up, and the

silent vibration motor will gently wake you in the morning. The Flex's brain is housed inside a removable tracking module that needs charging every three to five days. You'll need the mobile app (Android, iOS or Windows Phone) to plan and track your fitness goals.

Viva Vivo. The Garmin Vivofit (<http://sites.garmin.com/en-US/vivo>; \$130, or \$90 online) has an honest-to-goodness display—no cryptic lights to decipher—that shows your steps, calories and distance, and sleep patterns, as well as time of day and other data. The band comes in three sizes and six colors, and the device will run for more than a year on two lithium coin-size batteries. The Garmin Connect app, where you'll track your fitness goals, runs on Macs and Windows PCs, as well as on Android and iOS mobile devices. One nifty feature: a “move bar” that's designed to prevent binge watching. To reset the move bar, you need to get up and walk around. An optional heart rate monitor (\$60, or an extra \$20

■ **SLEEK AND INEXPENSIVE (FROM TOP TO BOTTOM): MISFIT FLASH, FITBIT FLEX AND GARMIN VIVOFIT.**

when purchased online as an add-on) wraps around your chest and wirelessly transmits your heart rate to the fitness tracker. A new model, the Vivofit 2 (list price \$130), adds a backlit display, an activity timer and an audible move bar that sounds an alert to get you off your duff. ■



3 SIMPLE STEPS

Reshop Your Cell-Phone Plan

STEP 1

Match a plan with your usage patterns. At www.wirefly.com, enter the type of phone you want, the number of minutes and text messages and the amount of data you typically use in a month, whether you prefer having a contract or not, and the number of phone lines you'd like. The tool will produce a list of suitable plans and prices. A basic prepaid plan may be a good fit for casual users, but if you stream video or music regularly, look into a plan with bountiful data. If you crave the newest devices, focus on an early-upgrade plan that allows you to trade in your phone after you've made a certain number of payments.

STEP 2

Look for deals. Wireless carriers are battling to grab your business. But check the fine print and do the math to make sure you're getting a better deal. For example, Sprint recently promised AT&T and Verizon customers that they would pay half their current plan's monthly price if they switched to a similar Sprint plan. Sprint also offered to reimburse any early-termination fees and to waive activation fees. **But you have to buy a new Sprint phone** at full retail price (or agree to a leasing program), and you must trade in your old phone or pay a \$200 fee. In addition, the plan price may jump when you eventually upgrade your device.

STEP 3

Check network coverage in your area.

Ask neighbors, coworkers and friends who have service with carriers you're considering about the reception. At www.rootmetrics.com, you can check your location on a coverage map to see network performance based on RootMetrics' testing.

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