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Kiplinger's PERSONAL FINANCE

MONEY SMART LIVING

HOW TO MAKE A MILLION

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MAY 2016

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Portfolio Manager
Fidelity® Contrafund®

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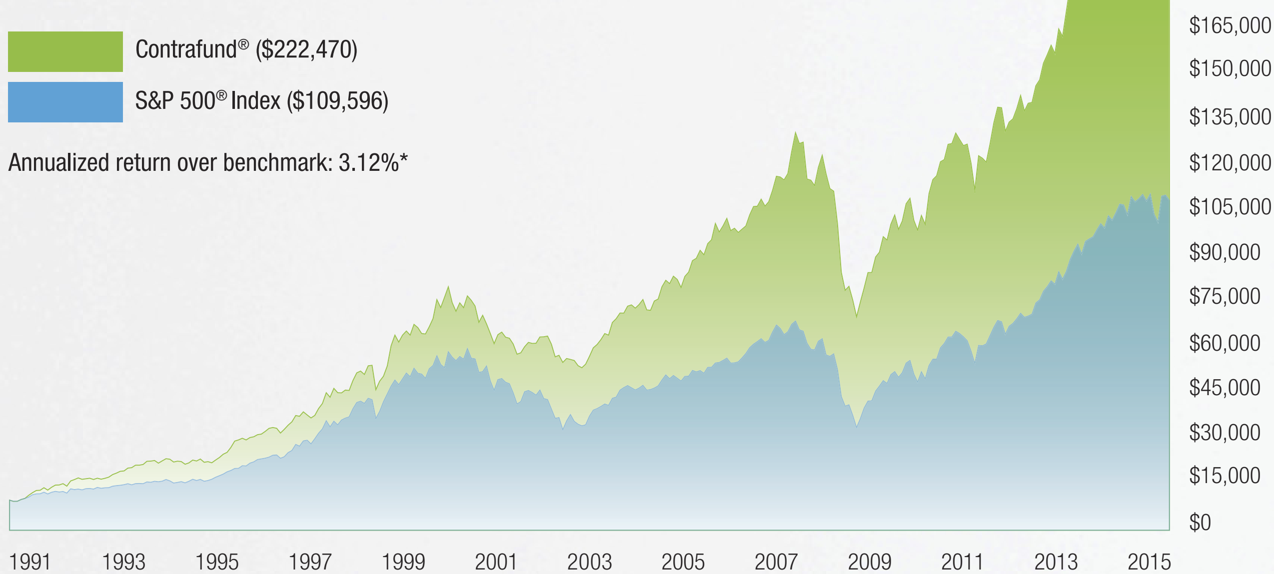
Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

[1]The chart above illustrates the performance of a hypothetical $10,000 investment made in the fund and a benchmark since the inception date of the product. Benchmark returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. It is not possible to invest in an index. This chart is not intended to imply any future performance of the investment product.

The $112,000 Difference

Hypothetical growth of $10,000 during manager's tenure
Fidelity® Contrafund® (FCNTX) vs. S&P 500® Index
(09/17/1990–12/31/2015)[1]



Average Annual Total Returns as of 12/31/2015	1 year	3 year	5 year	10 year	Life of Fund Since 5/17/1967	Manager Tenure Since 9/17/1990	Expense Ratio[2]
Fidelity® Contrafund®	6.49%	16.10%	12.69%	8.71%	12.39%	13.04%	0.64%
S&P 500® Index[3]	1.38%	15.13%	12.57%	7.31%	—	9.92%	

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so investors may have a gain or loss when shares are sold. Current performance may be higher or lower than what is quoted, and investors should visit Fidelity.com/performance for most recent month-end performance.

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[2]"Expense Ratio" is the total annual fund operating expense ratio from the fund's most recent prospectus.

[3]S&P 500 Index is a market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

*During manager tenure, Contrafund® has produced an average annual return of 13.04%, compared with 9.92% for the S&P 500® Index.

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VOL. 70 NO. 5

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ON THE COVER: Photograph by Devon Jarvis.
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3. Most Tax-Friendly States for Retirees
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FANG STOCKS TO BUY BEFORE THE REBOUND
Facebook. Amazon. Netflix. Google. We're still bullish on two of these large-cap, high-tech companies.

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FROM TOP: ADOBE STOCK (3); LISE METZGER(2)

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Kiplinger's PERSONAL FINANCE MONEY SMART LIVING

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Janet Bodnar

FROM THE EDITOR

LISE METZGER

Game Plan for the Kip 25

They say in sports that the best defense is a good offense. What's true on the playing field is also true of this year's version of the Kiplinger 25, the honor roll of our favorite no-load, actively managed mutual funds (see page 46). Confronted with a stock market that experienced two sharp sell-offs in the past year, senior associate editor Nellie Huang, our chief mutual funds specialist, has gone on the offensive and replaced seven funds, which is several more than usual. And instead of hunkering down, she is calling plays strategically. On the list, you'll find new funds that aggressively seek out market opportunities, yet are nimble enough to stay on their feet should the market stumble. It doesn't hurt for investors to play both offense and defense, and "we're doing a bit of both," says Nellie.

Take Vanguard Health Care, an addition to the Kip 25 in a volatile sector that took a hit over the past year. The fund has been on our list before; it was taken off when it closed to new investors, but it has since reopened. Nellie is impressed with Jean Hynes, an analyst with the fund since 1995 who became a comanager in 2008 and is now the sole manager. Says Nellie: "When Hynes speaks about the innovative prospects for cancer treatment, she makes it sound like science fiction." Yet her fund is one of the most conservative in the health care sector, so it "lags during powerful advances but holds up better in lousy markets."

Or consider Vanguard High-Yield Corporate. Junk bonds have been hammered because of recession fears and troubles in the oil patch, so it seemed an opportune time to add a high-yield fund to the Kip 25. But, says Nellie, this Vanguard fund is one of the tamer offerings. It is cautious in purchasing new issues, and nearly 85% of its assets are in bonds rated single-B or double-B, the highest junk rating.

On page 51, you'll find model portfolios for the Kip 25. That raises a question: Should you dump funds that we have removed from our list? Not necessarily. For instance, Vanguard's more traditional junk-bond fund replaces Osterweis Strategic Income, which focuses on short-term low-grade debt. "That's a niche," says Nellie, "but it's a great fund with low volatility and smart managers."

When we choose funds, one of our top priorities is to keep expenses as low as possible. That's a sure winner in any market.

"It doesn't hurt for investors to play both offense and defense."

Score one for Kiplinger. In January 2007, we wrote about an 85-year-old Florida woman who was sold an annuity with surrender charges that would have lasted until she was 101 years old, including a 25% surrender charge for the first five years. Florida's Department of Financial Services handed out reprints of that article at town hall meetings for seniors throughout the state, and the publicity was instrumental in the passage of a series of Florida laws from 2008 to 2010 that cap surrender periods at 10 years and surrender charges at 10% for seniors. Before the laws were enacted, the department opened 431 annuity cases in 2009 based on consumer complaints. Annuity complaints have dropped every year since; in 2015, the department opened just 95 cases.

Laws in Florida and elsewhere "have helped cut down on the most egregious cases," says contributing editor Kim Lankford, who wrote our 2007 story. "But people still need to be careful when deciding whether to buy a variable annuity." Our latest advice on who should consider these products and what you need to know starts on page 42.

P.S. Time is running out on the opportunity for hundreds of thousands of Americans to use a lucrative strategy for claiming Social Security benefits. See page 35 for details. ■

JANET BODNAR, EDITOR
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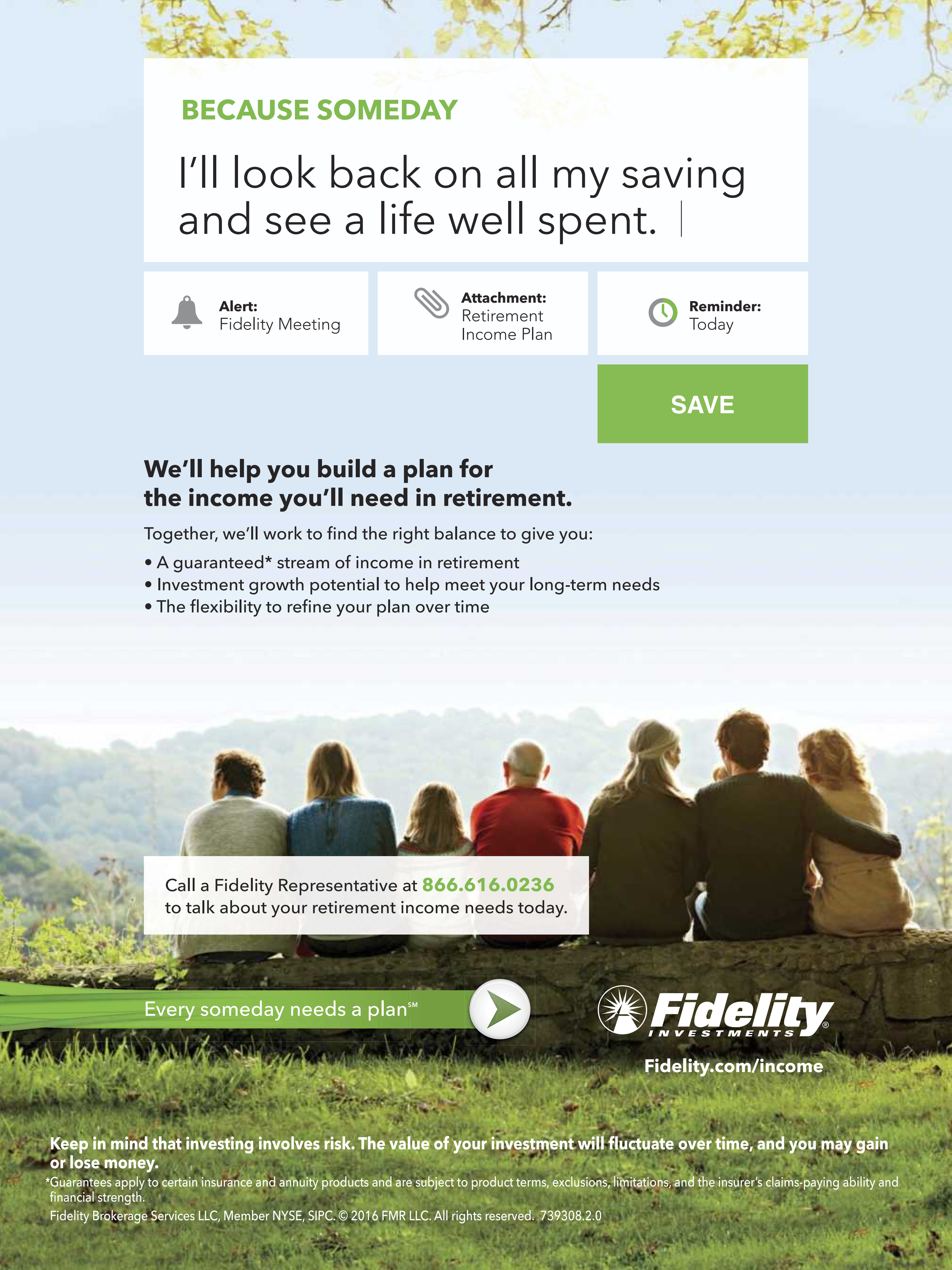
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Keep Documents Safe

We were victims of the Black Forest wildfire in Colorado in 2013 ("Do You Know Where Your Documents Are?" March). We lost everything, including a couple of strongboxes that we used for document storage. The boxes were burned but still identifiable, but when we forced them open, the contents were ash. In such a wildfire that burns so intensely hot, a strongbox, file cabinet or safe may survive, but the contents will be destroyed. We were lucky that almost all of our vital records were in a bank safe-deposit box. Keeping hard copies in the bank and soft copies on a flash drive is well worth the investment. Having those documents when our life was in chaos and we needed them most was a blessing.

BARB SULLIVAN
COLORADO SPRINGS

READER POLL

How our readers made a million

2%	Inheritance or windfall
3%	Employer bonuses/stock options
6%	Their own business
89%	Saving and investing

To learn how to make a million by the time you retire, turn to page 26.

Don't tempt them. True, one way to thwart ID thieves is to file your tax return early ("Ahead," March). But, invariably, I receive a last-minute amended Form 1099, which then requires me to file an amended 1040. My solution: Adjust your withholding or estimated tax payments so that you get a very small refund or none at all. If someone files a fraudulent return in your name, the IRS will know that the one you file is for real because no self-respecting crook would file a return that yields so little.

RICHARD READY
SHAWANO, WISC.

Render unto Caesar. Knight Kiplinger states that it may be unethical for taxpayers to meticulously divide their time between a low-tax state and a high-tax state in order to avoid burdensome taxes in their former home state ("Money & Ethics," March). Perhaps Judge Learned Hand answered this best when he wrote, "Nobody owes any public duty to pay more than the law demands: Taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant." The only ethical duty a taxpayer has is to pay the tax bill he legally owes.

JOHN M. DUSZA
GUILFORD, CONN.

Oops. Chris Nolte, of Propel Bikes, might not agree with the statement that "you *peddle* it like any other bike" ("Success Story," March). But I bet he would agree that "you *pedal* it like any other bike."

TOM KUSTERER
ELLICOTT CITY, MD.

ONLINE CHATTER

Readers took sides in the iPad Pro versus Microsoft Surface 4 debate ("Tech," March):

"How anyone could possibly call the iPad Pro a laptop alternative is completely beyond me. It is nothing more than an iPod with more screen real estate."

"I use Word, Excel, PowerPoint, Outlook and OneNote on my iPad, move spreadsheets and other documents between work and home without any difficulty, and print without any issues on hardware at work and home."

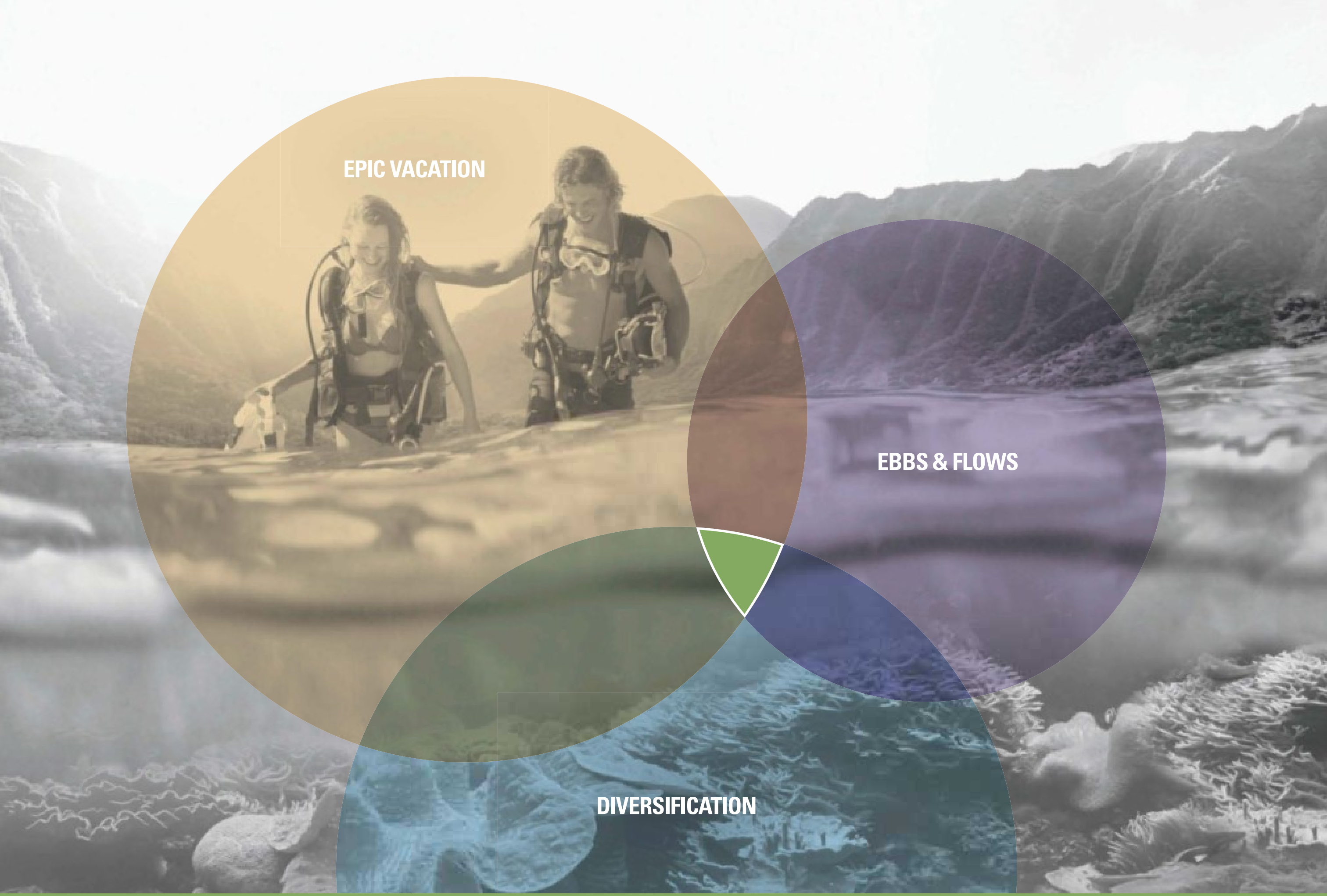
CORRECTION

Oakmark Global Select, not Oakmark Global, was a five-year winner among global stock funds ("A Lousy Year for Stocks," March).

› LETTERS TO THE EDITOR

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

SOURCE: POLL SURVEYED 214 *KIPLINGER'S* READERS; 41% SAID THEY HAD A NET WORTH OF $1 MILLION OR MORE.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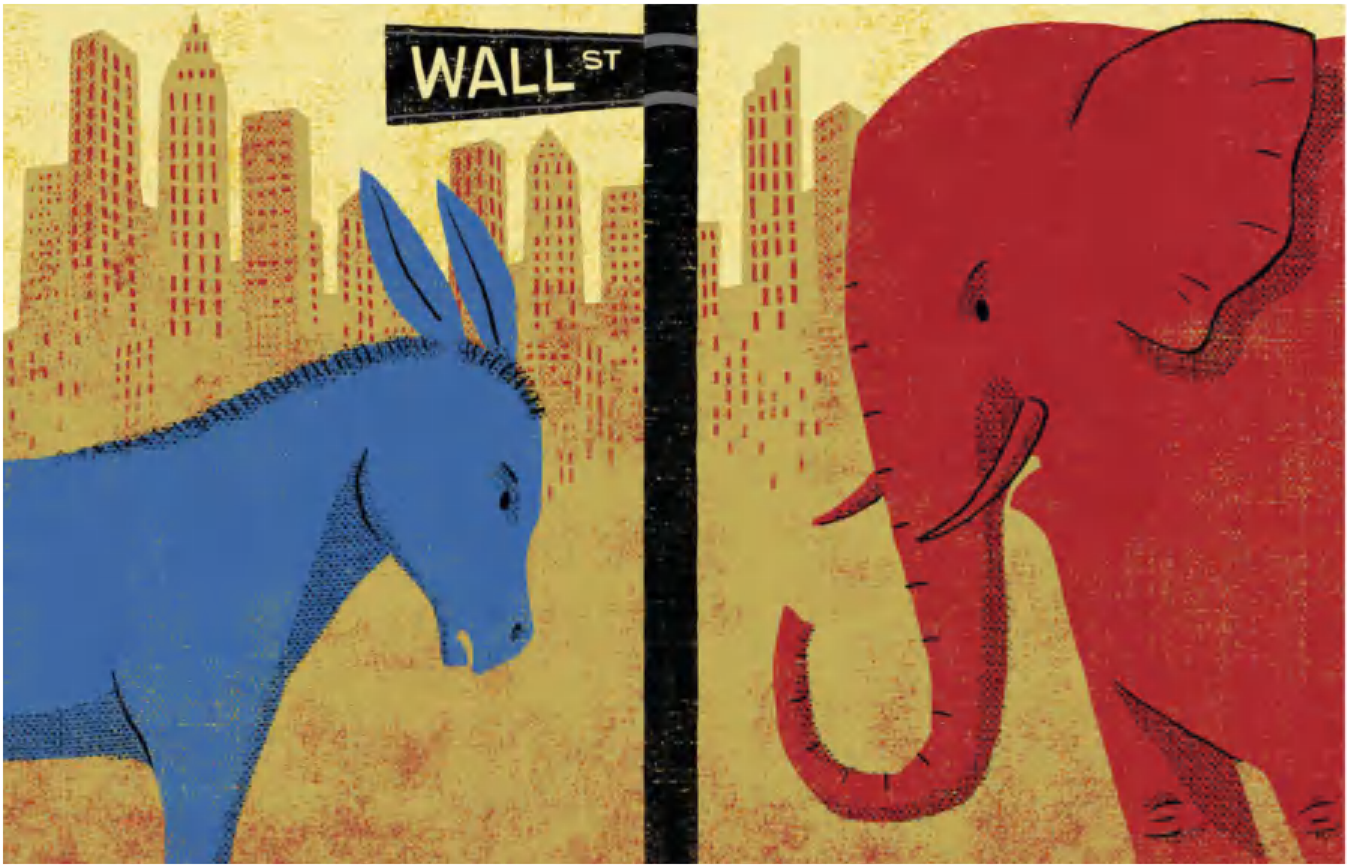


RICHARD FAUST

TOPIC A

HOW THE ELECTION WILL AFFECT STOCKS

Hint: Don't get hung up on which party wins the White House. BY ANNE KATES SMITH

EVERY FOUR YEARS, POLITICS and finance converge as Americans elect a president and investors try to figure out what the outcome means for their portfolios. Below, a few considerations for investors in 2016.

The presidential cycle. Wars, bear markets and recessions tend to start in the first two years of a president's term, says the *Stock Trader's Almanac*; bull markets and prosperous times mark the latter half. Since 1833, the Dow Jones industrial average (and its predecessor indexes) has gained an average of 10.4% (not including dividends) in the year before a presidential election and nearly 6%, on average, in election years. By contrast, the first and second years of a president's term see average gains of 2.5% and 4.2%, respectively. An exception to decent election-year gains: 2008, when the Dow sank nearly 34%.

The current cycle is anything but average. The Dow gained an impressive 27% in the first year of President Obama's second term and 7.5% in year two. Last year, which was supposed to be the strongest of the cycle, the Dow industrials fell 2%. "Given that the past three years are so out of sync with the normal cycle, we're not certain what 2016 will bring," says market historian Jim Stack, publisher of *InvesTech Research*.

Democrat or Republican? You may feel strongly about one party or the other when it comes to politics, but when it comes to your portfolio, it doesn't matter much which party wins the White House. Conventional wisdom might suggest that Republicans, who are supposedly more business-friendly than Democrats, would be more beneficial for your stock holdings. In fact, looking back to 1900, Democrats have been better for stocks, with the Dow up an average of nearly 9% annually when the Democrats are in control, compared with nearly 6% per year during Republican administrations. Normal variations in annual stock market returns dwarf that difference, says Russ Koesterich, chief investment strategist at BlackRock. He concludes that a focus on which party wins the White House is unwarranted, at least for investors.

Divided or united government. Another urban legend is that markets do better when government is divided, the premise being that with neither party in control, not much (and therefore little harm) gets done. History tells another story. *InvesTech* has looked at stock returns going back to 1928 under three separate scenarios. In the two years following an election, Standard & Poor's 500-stock index has gained 16.9%, on average, when one party controls the White House and both houses of Congress, 15.6% when one party controls both houses of Congress and the other party owns the White House, and just 5.5% when the House and Senate are divided. A divided Congress doesn't always mean subpar returns. In the two years after the 2010 and 2012 elections, the S&P 500 rose 19% and 42%, respectively.

A political crystal ball. Election results may not be great at predicting stock market returns, but the S&P 500 has an 86.4% success rate in forecasting the election. In the 22 presidential elections since 1928, 14 were preceded by stock market gains in the previous three months. In 12 of those 14 instances, the incumbent (or the incumbent party) won the White House. In seven of eight elections preceded by three months of stock market losses, incumbents were sent packing.

INTERVIEW

TAKING A FLIER ON CROWDFUNDED FIRMS

New rules allow small investors to buy shares of unproven start-ups.

Steve Branton is a financial planner at Mosaic Financial Partners, in San Francisco.

What do the crowdfunding rules allow? Someone making less than $100,000 per year or with a net worth of less than $100,000 can now invest the greater of up to $2,000 per year or up to 5% of their income or net worth (whichever is less). If both income and net worth are $100,000 or more, the cap is 10% of income or net worth, whichever is less, up to an annual cap of $100,000. Your house doesn't count toward your net worth.

What kinds of businesses are raising money this way? Companies are limited to raising $1 million per year. So this might be a way for smaller, local enterprises, such as retailers or restaurants, to raise money—companies that are visible in the local community, but not necessarily businesses an investment bank would lend to or do a stock offering for. It's a misconception that they'll all be tech start-ups.

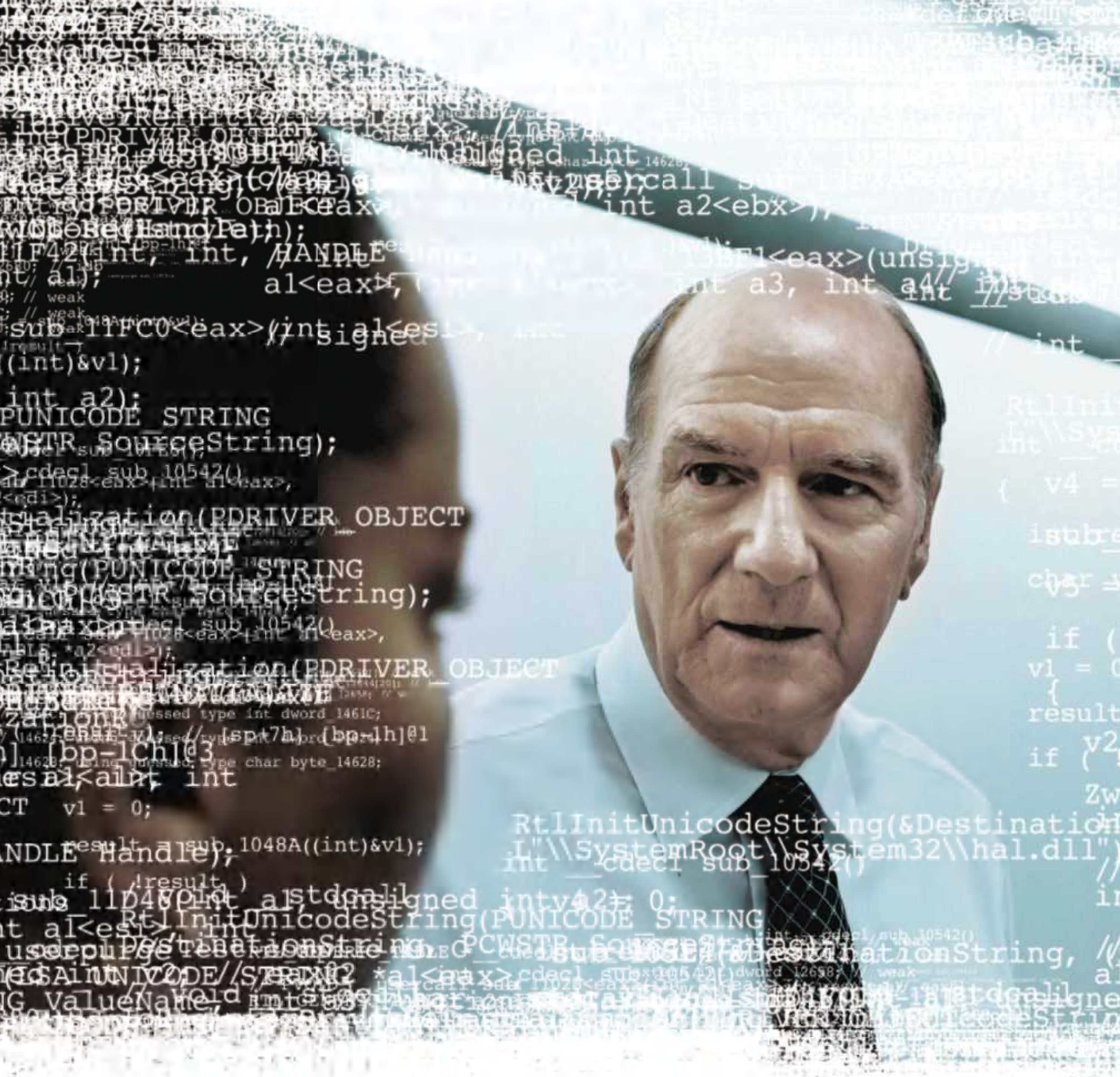
How can people invest? Through online portals. These portals extend the reach and access of investors by eliminating the middleman. Before, venture capitalists restricted information about these types of investments. Now it won't be limited to back-room presentations accessible only to wealthy individuals.

Just because people can invest, does that mean they should? We consider crowdfunding to be a high-risk, speculative investment. Most start-ups are out of business in three to five years. In a traditional stock offering, you've got a lot of educated, talented experts vetting the company's books, legal risks, proprietary information and competitive advantage. The average person doesn't know how to examine a company for long-term profitability, and companies don't have to provide as much information as a company going through an initial public offering. The financial accounting is not as robust. Also, venture capital funds typically invest in a basket of companies—they know that one or two won't do well. Mom-and-pop investors won't have this diversification.

For those who give it a go, how should this type of investment fit within their overall portfolio? Most investors should limit speculative investment to 5% to 10% of their portfolio. They need to think less about hitting the jackpot and more about whether, if they lose the entire investment, their financial plan will fail in the long run.

ANNE KATES SMITH

ERIC MILLETTE



THE BUZZ

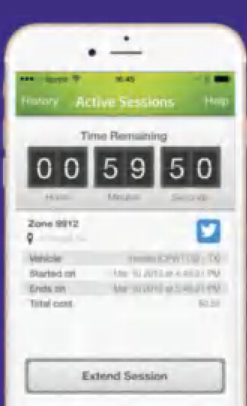
PARKING METERS GET A REBOOT

Scrounging for change may be a thing of the past as parking meters, introduced in 1935, are updated for the 21st century. Here's what to expect.

You'll launch an app. Many cities have added technology that relies on smartphone apps—typically free to download and linked to a credit or debit card. Use the app either to pay for a block of time or to start a session that you end in the app when you leave. By year-end, drivers will be able to use smartphones to pay for parking at all 85,000 of New York City's metered parking spaces.

You may avoid a ticket. Use the app to add minutes instead of racing back to beat the meter reader. If you're able to start and end sessions as you come and go, you won't pay for time you don't use. But you'll typically pay a transaction fee of about 25 cents to 40 cents.

You could pay more to park. Smart meters may charge a premium in prime locations or during peak hours, or less if you park farther from the main drag or during off hours. Some San Francisco meter prices range from 50 cents an hour to $6.25 an hour, depending on demand. KAITLIN PITSKER



WHAT'S THE DEAL?

MIXED BLESSINGS OF CHEAP OIL

Savings should still add up to a net plus for the economy.

THE DRAMATIC 70% PLUNGE in oil prices from a year ago has wide-ranging effects. Here's what it means for you and for the economy.

You'll pay less for gasoline, but more for car insurance. Americans paid an average of $1.75 per gallon at the pump recently, down 65 cents from last year. Those prices imply a collective savings of $150 million a day on gasoline, according to the American Automobile Association. But lower gas prices lure drivers to the road, boosting the likelihood of accidents. In response, some auto insurers are raising premiums, says James Lynch, chief actuary at the Insurance Information Institute. "Over the past two years, the rate of crashes has increased. That pushes rates higher," he says.

You may find a cheap flight. Lower oil prices result in lower fuel costs for airlines. So far, instead of passing savings along to customers, most carriers have used the windfall to reward employees, pay down debt and update their fleets. But Delta, United, American and Southwest are offering historically low fares on some domestic routes in order to compete with budget carriers, says George Hobica, founder of AirfareWatchdog.com. "They wouldn't be able to match these fares were it not for lower fuel costs," he says.

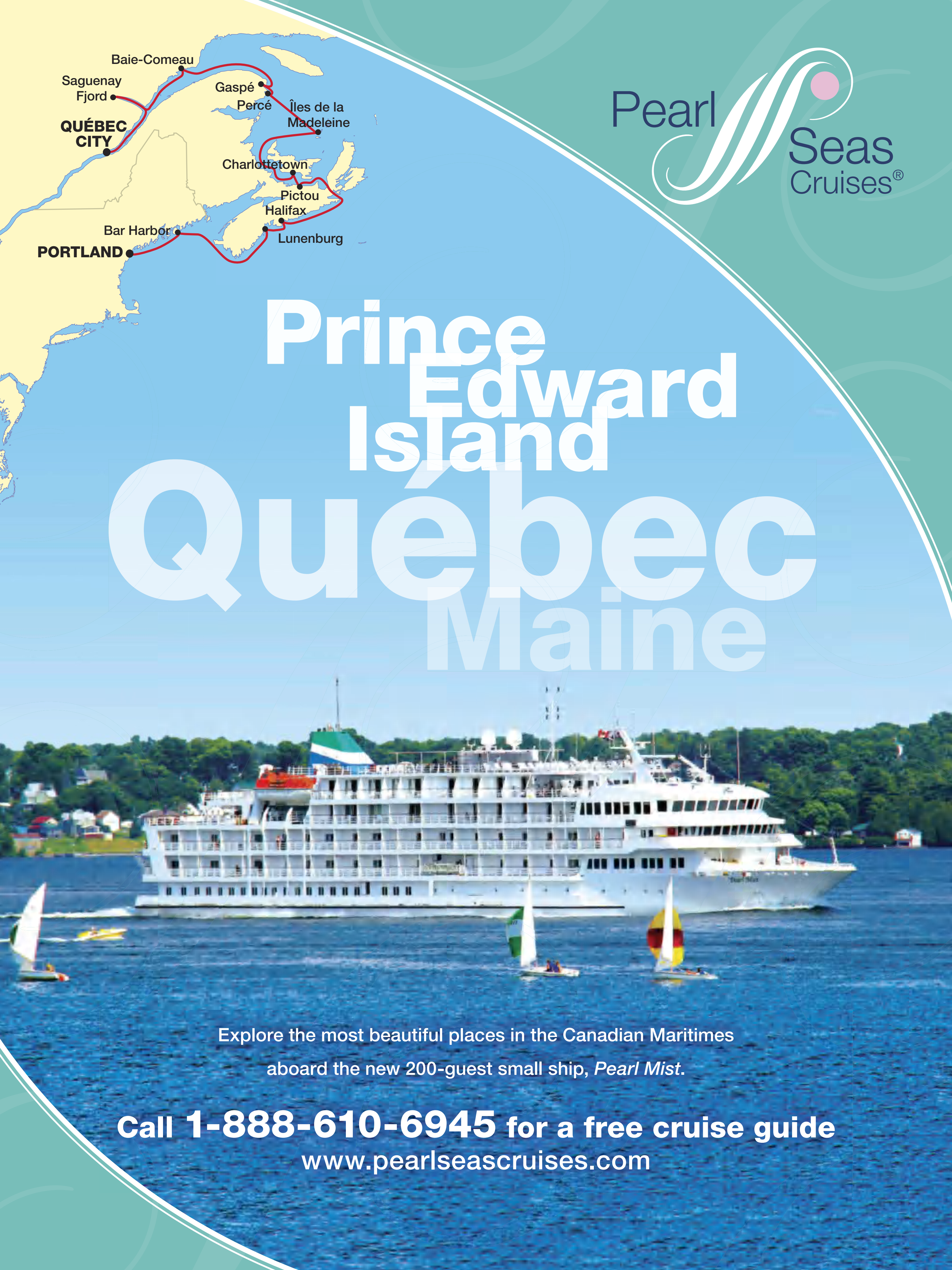
It's a net positive for the economy. Consumers haven't been spending their savings at the pump, at least not to the extent that economists expected. Memories of the last, deep recession and troubles in the energy sector have put a damper on growth, says Michael Hanson, an economist at Bank of America Merrill Lynch. But Hanson believes most of the drag on the economy from the energy sector is behind us. "As consumers begin to realize that this drop in gas prices isn't just a one-off," says Hanson, "more confident consumers will begin to open their pocketbooks." RYAN ERMEY

EXCERPT FROM *The Kiplinger Letter*

IT MAY BE THE WORLD'S SMALLEST PC

The next big thing: USB sticks that house a full PC. The tiny devices, which cost about $100 each, boast Windows 10, high-speed Wi-Fi and lots of storage. They can be plugged into any monitor, including a TV. Sales of the devices will grow fastest in areas with high-speed broadband service. Sellers include Intel, Asus and Lenovo, and sales look to be strong. (www.kiplingerbiz.com/ahead/usb)

FROM LEFT: COURTESY PARKMOBILE, ADOBE STOCK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TAXES

GET A JUMP ON YOUR 2016 RETURN

Keep accurate records to take advantage of these breaks.

IT'S NOT TOO EARLY TO START thinking about your 2016 tax return. Year-round record keeping is particularly important in the following areas:

College. If you plan to claim the American Opportunity tax credit or other educational tax breaks, keep good records of payments for tuition and other eligible expenses. Following reports that the IRS paid out billions of dollars in erroneous credits, taxpayers who claim these breaks are now subject to more-stringent reporting requirements.

Health savings accounts. These tax-advantaged accounts can help lower your medical costs, but it's important to keep track of how you spend the money. Withdrawals for nonqualified expenses are subject to taxes and a 20% penalty if you're under 65.

Sales taxes. In late 2015, Congress made permanent a deduction for state and local sales taxes that you can take instead of the write-off for state income taxes. This deduction primarily benefits residents of the nine states with no income tax, but if you buy a big-ticket item (or items) this year, save your receipts. You may get a bigger deduction by claiming sales taxes, even if you live in a state that has an income tax. **SANDRA BLOCK**

MONEY & ETHICS // KNIGHT KIPLINGER

Is a federal rule to remedy the gender pay gap a good idea?

Q What do you think about a proposed federal rule to require all companies with more than 100 employees to report the pay, age and sex of their workers, grouped by occupation? It's supposed to expose pay discrimination against women.

A It is not only illegal but unethical for an employer to pay an employee in a particular group—age cohort, race or sex—less than a colleague in the same job *because of that characteristic.* That's indefensible discrimination. Fortunately, it is becoming rare today. Where such bias exists, the employer should be held responsible by legal action. But employers have a right to pay varying wages to workers in the same or similar jobs if the differential is due to verifiable factors, such as education and experience, and/or intangibles, such as quality of work, creativity or work ethic.

This proposed rule strikes me as a burdensome new mandate designed to close a gender earnings gap that is mostly the result of factors other than discrimination. The gap is largely a legacy of historical social trends that are fading on their own—such as lower levels of education among women and their former tendency to leave the workforce for long stretches to raise children.

Today, with more young women graduating from college than men, and with more of them choosing higher-paying careers once dominated by men (in technology, medicine, finance and so on), the earnings gap between young men and women of similar education is rapidly narrowing. In 2012, all millennial women (ages 25 to 34), whatever their education and occupations, earned 93% of what their male counterparts earned; the comparable figure was 84% for women of all ages. Among millennial college graduates in professional positions, the gender gap has probably narrowed to zero.

One big problem with the proposed federal reporting rule, according to David Cohen, a pay consultant cited in the *Washington Post,* is that employers would have to slot each of their employees into one of 10 broad categories of work. A group called "professionals," for instance, could include jobs as different as physicians, nuclear engineers and social workers. That will tell us nothing.

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

LISE METZGER

CALENDAR
05/2016

▲ SUNDAY, MAY 1

Get back in shape during National Physical Fitness and Sports Month. See our money-smart guide to hitting the gym at kiplinger.com/links/gym.

MONDAY, MAY 2

Health care investors, keep an eye on AstraZeneca (symbol AZN). The drugmaker's exclusive patent on cholesterol drug Crestor expires this month. Company execs have predicted declines in revenues and earnings per share in 2016 as a result.

SUNDAY, MAY 8

If you're in the market for a new phone, check out our handy guide to see which plan might be right for you at kiplinger.com/links/newplans. Then pick up that phone and call your mom. It's Mother's Day.

FRIDAY, MAY 13

We could all use a little inspiration. During college graduation season, many schools make commencement speeches available online. Among financial luminaries speaking this year is Oracle founder Larry Ellison, scheduled to speak at the University of Southern California today.

TUESDAY, MAY 17

If you're taking a vacation this summer, consider beefing up your home security. A wireless system goes for \$100 to \$300, and unlike with hard-wired systems, you can likely install it yourself. **RYAN ERMEY**

DEAL OF THE MONTH

Memorial Day is the best day of the year to buy a mattress, according to DealNews. Expect 50% off entire mattress inventories, and look for coupons that will cut an additional 10% to 40% off.

ADOBE STOCK (4)

JANE BENNETT CLARK > Rethinking Retirement

Downsizing Costs Add Up

"Fixing up a house to sell often means spending thousands of dollars in repairs and upgrades."

When I look at my retirement stash, I have to admit it's kind of small. When I look at my house, I realize it's kind of big. And when I consider the two together, I think that maybe I should downsize and use the equity in my house to buy a condo or add to my retirement savings and rent.

Downsizing isn't for everyone, but it's one of the few strategies—along with working longer, delaying Social Security or spending less later in retirement—available to near-retirees who find themselves short on retirement savings and don't have time to catch up, says Steven Sass, of the Center for Retirement Research at Boston College. "The house is a major source of people's savings. If you don't want to work longer or give up eating out in retirement, downsizing should be part of the plan." (Another way to get at home equity is to take out a reverse mortgage; see "Reverse Mortgages Get a Makeover," April.)

Do the math. Before you sell your house and move, add up the costs that can chip away at the amount you free up. For starters, fixing up a house to sell often means spending thousands of dollars in repairs and upgrades (new roof, anyone?). Once the house does sell, you'll pay commissions to real estate agents on both sides of the transaction, usually to the tune of 6% of the home's value. Packing and transporting enough furniture to outfit a two-bedroom condo will run $1,500 if you move a few miles away and $5,000 or more if you move across the country, according to the calculator at www.moving.com. As for the furniture you don't keep, you could find yourself spending a few thousand dollars to ship the good stuff to your kid across country and paying a hauler to cart away the rest.

Even after the move, you won't be home-free. Condo association fees run at least several hundred dollars a month, on top of insurance and property taxes, and if the building needs a major improvement, such as a new roof, you'll get hit by a special assessment to help cover the cost. Renting is more predictable but leaves you vulnerable to annual rent hikes (see "Rethinking Retirement," Sept. 2015). And whether you rent or buy, you'll surely want to buy new furnishings that fit the smaller space, says Paul Miller, a certified financial planner in Boca Raton, Fla. "You think you're freeing up all this money by downsizing, and then you spend thousands to refurbish."

Other expenses you might not have considered: Instead of the driveway you currently enjoy, you'll probably have to fork over cash for a parking space. If you can't squeeze Grandma's armoire into the second bedroom (or bear to part with it), you'll pay $100 a month to rent a storage unit. Because you won't want to stash those old tax records in the second bedroom, you'll spring for storage space in the building. Moving far away from friends and family? Factor in the expense of traveling back to the old neighborhood a few times a year. As for the next family reunion, that won't be happening in your two-bedroom condo: Count on covering the cost of renting a beach house.

Of course, moving to a condo or apartment also allows you to cut your utility bills, eliminate yardwork and snow shoveling, and get rid of your mortgage or trade it for a smaller one—and maybe you'll make your kids chip in for the beach house. Still, be sure to add up the pluses and minuses *before* you put out the For Sale sign, not after. (For a ballpark estimate of the costs and savings of downsizing based on your circumstances, see http://squaredaway.bc.edu/calculators/move-or-stay-put.)

"There are a lot of considerations that go into the downsizing decision," says Miller. "This may be the last move you're going to make, so you'd better make it a good one." ■

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

LISE METZGER

"Shares of Goldman Sachs, trading at a P/E of 9 based on 2016 profit estimates, appear to be supercheap."

JAMES K. GLASSMAN > Opening Shot

Wall Street Firms Go on Sale

Wall Street, the alleged culprit of the financial meltdown that started eight years ago, has become the whipping boy for the 2016 presidential race. Does the intense animosity of Bernie Sanders, Hillary Clinton and Donald Trump explain the dive in the share prices of investment banks, private-equity firms and managers of hedge funds?

It's hard to escape the correlation. On May 26, 2015, Sanders, the socialist senator from Vermont, announced that he would seek the Democratic presidential nomination. Three weeks later, Trump, the wealthy New York businessman, announced his quest for the Republican nod. A week after that, shares of **GOLDMAN SACHS GROUP (SYMBOL GS, $155)**, the very symbol of Wall Street power and wealth, peaked at $219 a share. Within eight months, Goldman shares had fallen by nearly one-third. Morgan Stanley (MS) dropped even more. (All prices and returns are as of March 1; investments in boldface are those I recommend.)

Sanders has made reforming Wall Street the focus of his campaign. Clinton, despite large contributions from the financial sector, has echoed Sanders. The surprise is that attacks by Republicans have been nearly as strident. Trump said of hedge funds: "They're paying nothing [in taxes]. And it's ridiculous ... the hedge fund guys didn't build this country. These are guys that shift paper around and they get lucky."

Clinton, like Sanders and Trump, wants to end the "carried interest" loophole, which taxes what many consider a private-equity firm's incentive income at the capital-gains rate rather than the much steeper ordinary income tax rate. Like the investment-banking stocks, shares of private-equity firms have tanked. **BLACKSTONE GROUP (BX)** has sunk 39% since May 2015; **CARLYLE GROUP (CG)** has fallen by half and traded at an all-time low in February; **KKR (KKR)** has slid from $24 in June to $13.

Antagonistic candidates, however, aren't the only problem. Private-equity firms—whose traditional business is buying companies, then trying to improve their performance and selling them at a profit—are having a tough time finding bargains, which are their lifeblood. Prospective acquisitions have been picked over, and the days of easy money are over. The gems, such as Beats, the headphone maker, are getting scarcer as intense competition among the firms doing the buying pushes up purchase costs. Apple purchased Beats from Carlyle in 2014, allowing Carlyle to pocket an 80% profit in less than a year.

Sagging profits. As a result, the prices of some private-equity stocks started to fall well before the presidential candidates began giving the firms heat. **APOLLO GLOBAL MANAGEMENT (APO)**, founded in 1990, peaked in January 2014 at $36 and now trades at $16, a decline that makes perfect sense given that earnings per share skidded from $4.80 in 2013 to just 96 cents last year. Earnings at Blackstone, whose holdings include fashion designer Versace and camera maker Leica, dropped by nearly half in 2015 compared with a year earlier. KKR, the firm that pulled off the $24 billion RJR Nabisco deal in 1988, at the time the biggest buyout in history, hasn't come close to matching the earnings per unit it generated in 2010, the year it went public (publicly traded private-equity firms are set up as limited partnerships).

The firms are moving further afield, into loans to businesses, a territory dominated by commercial banks, and investments in distressed assets abroad, generally the province of hedge funds. Meanwhile, lenders to the private-equity firms are getting skittish themselves, especially after big losses in energy as oil prices have collapsed.

As troubles have mounted, share prices have come down, as have price-earnings ratios. Based on the average of analyst profit forecasts for 2016, Apollo, Blackstone

LISE METZGER

"Prices of private-equity stocks started to fall well before the presidential candidates began giving them heat."

and Carlyle all trade at P/Es of 11 to 12 (the overall stock market's P/E is 16). It's hard to resist private-equity stocks at these prices. And although the dividends these firms pay bounce up and down as they sell their holdings from year to year, the current yields look mouthwatering: Blackstone's is 9.0%; Carlyle's, 7.3%; Apollo's, 7.1%.

The tax advantage of carried interest will almost certainly disappear under the next president, but that prospect is *already* baked into stock prices, as are increased competition and harder-to-find deals. Still, analysts believe all of these firms will report sharply higher earnings next year.

Hedge funds and investment banks are also closely identified with Wall Street. Hedge funds raise money mainly from pension funds, university endowments, sovereign wealth funds (created by rich countries such as Kuwait and Norway) and well-heeled individuals, then invest in a wide variety of assets, from foreign currencies to small-cap stocks. Nearly all of the largest hedge funds, such as Bridgewater, Pershing Square and Caxton, are privately held partnerships, though some big ones are divisions of commercial banks and asset management companies, such as JPMorgan Chase (JPM) and BlackRock (BLK). One of the few hedge funds whose shares are traded on the New York Stock Exchange is **FORTRESS INVESTMENT GROUP (FIG)**. Fortress has suffered a number of setbacks, and its stock has plunged 84% since hitting a record-high price in early 2007. The stock, which yields 6.7%, is risky but worth a look.

Investment banks focus on raising capital for corporations and governments through such activities as bringing companies public, advising on mergers and underwriting bond issues. The repeal of the Glass-Steagall Act in 1999 tore down the barriers between commercial and investment banking. In investment-banking activities, commonly thought of as the province of Wall Street, Goldman is the standout—and a prime target of critics. Its ties to government are cozy and controversial. Two of the past seven Treasury secretaries, Robert Rubin and Henry Paulson, were top Goldman executives.

Goldman's shares, trading at a P/E of 9 based on profit estimates for 2016, appear supercheap. The stock price is lower today than it was 10 years ago—and so are revenues and earnings. The Dodd-Frank law and other regulatory constraints that followed the Great Recession have clearly harmed profits, and so has weakness in the market for initial public offerings and high-yield bonds. The merger business, strong for much of 2015, has also been slipping. In truth, the anemic pace of economic growth is hurting Goldman more than the assaults of Sanders, Clinton and Trump.

When politicians talk about "Wall Street," they often include money-center banks with huge consumer bases, such as Bank of America (BAC), Citigroup (C) and JPMorgan Chase. Although their stock prices are also down since last summer, I find them less attractive than private-equity firms and near-pure investment banks such as Goldman, which tend to be more efficient and are magnets for top talent. The latter are magnets for political attacks as well, but they have also shown that they can navigate around obstacles that governments put in their paths.

No matter the rhetoric, whoever becomes president will have a hard time throttling back firms that raise capital and deploy it. Now appears to be a good time to take advantage of negative perceptions that have driven their share prices into fertile territory. ■

The Street's Bear Market

DEPRESSED PRICES, JUICY PAYOUTS

Investors have pummeled shares of Wall Street–related companies, driving down their price-earnings ratios into bargain territory and boosting their dividend yields.

Company (Symbol)	Share price	Market value (billions)	% down from all-time high	Annual revenues (billions)*	Price-earnings ratio†	Dividend yield
Apollo Global Management (APO)	$16	$2.9	56%	$1.1	11	7.1%
Blackstone Group (BX)	27	15.1	38	4.5	11	9.0
Carlyle Group (CG)	16	1.3	58	1.8	12	7.3
Fortress Investment Group (FIG)	5	1.1	86	1.2	6	6.7
Goldman Sachs Group (GS)	155	68.3	38	33.8	9	1.7
KKR (KKR)	13	6.0	50	0.5	11	4.9

Through March 1. *Based on the past four quarters. †Based on estimated earnings for 2016.
SOURCES: Thomson Reuters, Yahoo.

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

A Doggie Day Spa Scales Up

This growing franchise offers poochie sushi along with grooming services.

PROFILE

WHO: Jef Strauss, 55 (interviewed), and Dan Remus, 50

WHERE: Denver

WHAT: Cofounders and owners, Wag N' Wash

Why a dog wash? Dan and I both kept long hours at work, and we felt it was unfair to our aging companion, Gini, a dalmatian. We wanted to be able to take her to work with us. Because Gini didn't like baths, washing her at home was an incredible chore. We'd seen self-serve dog washes that weren't user-friendly. Meanwhile, we saw a TV show about dog-biscuit bakers. And we were passionate about pets. So we decided to open a self-serve dog wash and biscuit bakery.

What do you sell? We provide customers with a large, sterile tub, a drying table with blow-dryer, a smock, products and tools that are appropriate to your dog's coat, and assistance. Our packages cost from $14 to $20. When our customers requested grooming and pet food, we added them. We looked for foods that were natural and healthy for dogs and cats. We also carry leashes, collars, toys and bedding, and we support local pet nonprofits and rescue groups. Our customers enjoy socializing with each other, and they often make dog washing a family event.

And the bakery? We bake dog biscuits almost every day. We also have a gourmet deli, where we prepare and sell pet treats, such as poochie ravioli, sushi, pizza, beef or turkey loaves, liver brownies and even birthday cakes.

How did you start? We opened our first store in 1999. No bank would give us a loan, so we took a $100,000 home-equity line of credit to lease and outfit space. Dan quit his job to run the store, and, for the first three years, I kept my job and worked evenings and weekends to help Dan. To open our second store in 2004, I sold property, and we got a loan after visiting about 20 banks.

Why franchise? We wanted to grow, but we didn't want to run a store that was too far away from home. We think you need to be grounded in your community to succeed. We spent about $50,000 in legal fees to write our franchise disclosure document [required under the Federal Trade Commission's franchise rule]. After selling a few franchise agreements ourselves—the first in 2006—we realized that we really didn't understand franchising. So we hired a company called RainTree to help us expand nationally.

How much does a store cost? Our franchise fee is $40,000 for one store, $90,000 for three and $150,000 for five. It costs an average of $340,000 to launch one store. Franchisees pay us a weekly royalty equal to 5% of gross sales.

How big are you now? We own five stores ourselves. We have five franchise locations and five more in the works in as many cities.

Are you making a living? Yes, we both take salaries. Our average annual gross sales for a store that has been open two years or more is more than $1.3 million.

Do you taste the treats? Sure. Everything we use is human-grade. The treats aren't super delicious to humans, but you can still share them with your pet. **PATRICIA MERTZ ESSWEIN**

BENJAMIN RASMUSSEN

■ JEF STRAUSS, LEFT, WITH DAN REMUS AND PLAYA

10 WAYS TO $1 MILL

Our smart strategies will help you reach (or the seven-figure milestone.

BY SANDRA BLOCK

PHOTOGRAPH BY DEVON JARVIS Prop stylist: Alma Melendez

MAKE
ION

surpass)

1

START A BUSINESS

Maggie Cook, 37, had no business experience when she founded Maggie's Salsa in 2004. Born in Mexico to American parents who ran an orphanage, she had developed a knack for making salsa. "The only thing I knew how to do was chop salsa ingredients into a bowl," says Cook. But friends at the University of Charleston, in Charleston, W.Va., raved about her recipe, so she decided to enter it in a contest at Charleston's Capitol Market, a year-round farmer's market. She won.

At the time, Cook was working full-time at an interior-design firm. With an $800 investment, she started making salsa in her kitchen. Her first two customers were stores in the Capitol Market; as her business grew, she rented commercial kitchens in Charleston and nearby Huntington, W.Va. Her big break came in 2007, when she cold-called Whole Foods. After a store representative expressed interest in her product, she loaded up her Honda Civic with salsa and drove 360 miles to Hyattsville, Md. The meeting led to a contract for 10,000 pounds of salsa a week, which enabled Cook to quit her interior-design job and focus on her business. She expanded her product line to include several kinds of dips and salsas and landed contracts with Kroger and Walmart. In 2014, Cook sold her business to Garden Fresh Gourmet, a national salsa manufacturer. (Cook declined to disclose the terms of the deal, but at the time, she was bringing in revenues of more than $1 million a year.) In 2015, Campbell Soup bought Garden Fresh for $231 million.

Starting a successful business can make you a millionaire (or even a billionaire, if you create the next Facebook), but the risks are high. About half of all new businesses fail within the first five years. Your chances of success are greater if you start with a well-thought-out business plan that outlines your competitive strategies and your goals. You should also have a plan in place to scale up—which usually means being bought out by a larger company, selling franchises or licensing your product. Keep good records, create an operations manual and develop a diverse group of customers. Not only will your business be more likely to succeed, you'll also make your business more attractive to deep-pocketed buyers. You can get free advice from more than 11,000 small-business volunteers through Score (www.score.org), a nonprofit organization supported by the Small Business Administration.

Cook, who briefly lived in her car because she couldn't afford rent, credits her success to her willingness to ride out the difficult times. "The biggest thing I've had is perseverance," she says.

Self-starters who want a template for their business can purchase a franchise. A franchisee typically acquires the right to use a franchise's name and business system for a specified period of time. Franchisors may also provide training, advertising and help finding a location. Start-up costs typically range from $50,000 to $200,000, depending on the franchise; fees are much higher for well-known chains.

For example, the minimum start-up fee for a Visiting Angels franchise, which provides home care for seniors, is about $69,000; franchisees must also have between $40,950 and $48,950 in cash and a net worth of at least $100,000. In addition, you'll probably have to fork over a percentage of your monthly gross revenue. Successful franchisees often have more than one store. Several websites rate franchises, including Franchise Business Review (www.franchisebusinessreview.com).

MAGGIE COOK'S SALSA BUSINESS WAS PULLING IN ANNUAL REVENUES OF MORE THAN $1 MILLION WHEN SHE SOLD IT.

JAMES FOSTER

2

SAVE EARLY **AND OFTEN**

A portfolio worth $1 million is the gold standard for many new retirees. Depending on where you live and how much you can count on from guaranteed sources of income, it's often enough for a secure retirement.

Employer-provided retirement plans offer the best route to success. Contributions to a 401(k) are pretax, which lowers your taxable income. Money inside the account grows unfettered by taxes, which boosts your annual return.

The sooner you start saving, the more likely you'll reach your goal, but you must be willing to increase your contributions. Nearly 60% of companies with 401(k) plans automatically enroll new employees, usually at a 3% contribution rate. But that will leave you short of your goal. For example, if a 30-year-old makes $60,000 a year and contributes 3% a year, he'll have about $367,000 by the time he's 65 (that assumes a 3% annual raise and a 7% rate of return). But if he bumps up his contributions to 10%, he'll end up with $1.2 million.

If your employer matches contributions (and the vast majority of large companies do), you'll have an even better shot at reaching the million-dollar milestone. If the same 30-year-old earns $60,000 and contributes 10% of his salary to a 401(k) plan with a 50% company match of up to 6% of pay, by age 65 he will have nearly $1.6 million.

3

LET YOUR **BOSS HELP**

Some employers provide valuable benefits that can help you reach your $1 million goal. For example, about 18% of private workers and more than 80% of public workers are eligible for a traditional pension. And restricted stock units—shares given to employees after a vesting date—can be lucrative if your company's stock performs well, as any number of Silicon Valley millionaires can attest. For example, a Google employee with 1,400 restricted stock units would have a nest egg valued at more than $1 million.

Another benefit that could be worth a lot more than you think: a health savings account. To qualify for an HSA, you must sign up for a high-deductible health insurance plan. In 2016, you can contribute up to $3,350 to an individual HSA or $6,750 to a family plan. Over time, contributions to an HSA can add up because HSAs offer a triple tax advantage: Contributions are sheltered from income taxes, the money grows tax-deferred, and funds can be withdrawn tax-free in any year for medical expenses. About half of large companies match contributions to an HSA; the average employer match is about $900.

To truly tap the power of an HSA, use money outside of the account to pay medical bills and let the money in the account grow. After you sign up for Medicare (when contributions to an HSA are no longer allowed), you can reimburse yourself for any eligible expenses you incurred after you first opened the HSA, plus pay for retirement health expenses—including long-term care.

4

DON'T **OVERSPEND**

Even people who live in modest homes, drive used cars and go camping on their vacations can undermine their thriftiness by committing money missteps. Overspending on children, for example, can be a big temptation, and it's particularly strong when it's time to send your kids to college. If you reduce or eliminate contributions to your savings plans to pay for college, you'll be hard-pressed to make up for those lost years of compounding. A better strategy: Select a college your family can afford without racking up debt—or encourage your children to take out federal student loans (as long as you keep a lid on the amount).

Paying more than you owe to the IRS is another mistake that could leave you short of your goal. About two-thirds of taxpayers claim the standard deduction, but millions would pay a lower tax bill if they itemized deductions, according to H&R Block's Tax Institute. Homeowners typically benefit most from itemizing, but renters who pay high state income taxes and make large charitable contributions could also save money if they itemized. And those savings could help to grow your million-dollar kitty.

Taxes may also hobble your investment returns, particularly in your taxable accounts. Tax-free municipal bonds are a good choice for these accounts, as are stock index funds and other investments that qualify for lower long-term capital-gains rates.

5

OWN A HOME

Derek and Lauren Ross didn't buy their home in Oak Park, Calif., because they thought it would make them rich. They bought it because the community of 14,000, about 40 miles from Los Angeles, has some of the best schools in California, plus lots of parks and open space. Nonetheless, their investment has paid off. They bought their two-story home in 2002 for about $542,000. Today it's worth more than $800,000, Derek estimates.

Home prices don't always rise, of course, and the housing bust wiped out the equity of plenty of homeowners. But over the long term, you're more likely to reach your $1 million goal if you own a home than if you rent. When you buy a home with a fixed-rate mortgage, you basically lock in your monthly housing payment. If your income rises, you'll pay an increasingly smaller share of it on housing, which means you'll have more to save and invest.

THE VALUE OF THE SOUTHERN CALIFORNIA HOME THE ROSSES BOUGHT IN 2002 IS CLOSING IN ON A MILLION DOLLARS.

Low interest rates have also made homeownership more affordable. The average rate for a 30-year, fixed-rate mortgage has been less than 5% since 2009. The National Association of Realtors' housing affordability index estimates that at the end of 2015, mortgage payments consumed only about 15.3% of household income, based on median family income and median home prices.

Derek says they refinanced several times to lower their interest rate and made some changes to the yard that reduced their water bills—an increasingly significant expense in California. "The value of our home has increased dramatically, but our overall expenses have gone down," he says.

Homeowners can deduct interest on up to $1.1 million of mortgage debt. This deduction is particularly valuable during the first half of your mortgage term, when most of your monthly payment will consist of interest. But the most lucrative tax break comes when it's time to sell. As long as the home is your primary residence and you've lived in it for two of the past five years, you can reap up to $250,000 in tax-free profit, or $500,000 if you're married.

The equity you've accumulated gives you options that can increase your wealth. You can use payments from a reverse mortgage—or money from selling your home, if you plan to downsize—to supplement retirement income. Then you can let other investments grow or delay taking Social Security benefits. If you wait to claim benefits until after your full retirement age (between 66 and 67, depending on when you were born), you'll earn a delayed-retirement credit worth 8% a year for each year you delay until age 70.

DAVE LAURIDSEN

6

BUY WHEN **STOCKS ARE CHEAP**

A stock market slide like the one that occurred earlier this year may be nerve-racking if you need to cash out your investments. But stocks still offer the best choice if your long-term goal is to hit the million-dollar mark.

How long it takes you to reach seven figures depends on how much you start with, how much you add to your kitty and how often, and how much you earn on your investments. Over the long haul, U.S. stocks have returned an annualized 10%, including dividends. Building at that rate, it would take a bit less than 32 years to turn $50,000 into $1 million. If you invest $10,000 per year, it would take 24 years to reach the milestone. (The calculations assume that you invest in a tax-deferred account.)

But now, seven years into a bull market that has seen share prices more than triple from the 2009 bottom, many pros expect less-generous returns in the future. For example, Jim Paulsen, chief strategist at Wells Capital Management, estimates that stocks will return an average of 6.5% a year for the next decade. If his projection is right, it will take 31 years to reach $1 million if you invest $10,000 per year.

As the market's performance since the financial crisis underscores, taking advantage of big declines to buy stocks can pay off handsomely. Few of us will be lucky enough to time the next big upward move perfectly. What's key is that the more share prices drop, the greater the future opportunity. So one way to boost your gains is to set thresholds for buying on the dips. You could do so after a decline of 10%, for example. And if stock prices fall another 10%, buy more.

Staying disciplined in the face of downturns should pay off. "One of the biggest mistakes people make is that they pull money out of stocks when things look cloudy," says Princeton economist Burton Malkiel. You should be doing the opposite. Before you know it, you may be sitting on a million bucks.

7

LOOK FOR STOCKS **ON STEROIDS**

The surest way to make a million bucks in stocks is to go for growth and not worry so much about the price. Your chances of earning spectacular returns improve if you hop aboard companies that are generating equally spectacular sales and profit growth. And you don't need to take a flier on small technology firms.

Consider the 30 best-performing stocks over the past 15 years. Not surprisingly, the roster includes such familiar tech firms as Apple (symbol AAPL) and Amazon.com (AMZN). But their returns pale beside that of retailer Tractor Supply (TSCO), which we recommended in our October 2001 issue. If you had invested in Tractor back then, you'd have earned 9,222%, an average of 36% per year. And if you hit the jackpot with the top 15-year stock, Monster Beverage (MNST), you'd be up by more than 48,000%, turning a $10,000 investment into $4.9 million today.

Finding the next monster stock isn't easy; if it were, we'd all be multimillionaires. But dynamic, innovative companies that have long runways for growth offer the best chances of supersized returns. Consider **ACUITY BRANDS (AYI, $200)**, one of North America's top makers of lighting products, such as LED bulbs and fixtures, sensors and control systems. Sales for commercial buildings are growing steadily. Acuity is also developing digital lighting products for the "Internet of things" (the expanding web connecting everything from buildings to appliances). Analysts see sales rising 20%, to $3.3 billion, in the fiscal year that ends in August, and profits soaring 39%, to $7.50 per share.

Also compelling is **ICON PLC (ICLR, $71)**, an Ireland-based company that helps drugmakers test their products in laboratories and conduct late-stage clinical trials. Pharmaceutical firms are contracting out more of their research to try to bring products to market more quickly and less expensively. That creates long-term "growth tailwinds" for Icon, says Morningstar analyst Stefan Quenneville. Wall Street expects sales of $1.8 billion this year (an increase of 8% from 2015) and forecasts that profits will jump 19%, to $5.25 per share.

Finally, you may be able to cash in on big tech firms that still have excellent long-term prospects. Both online travel giant **PRICELINE (PCLN, $1,296)** and cloud software company **SALESFORCE.COM (CRM, $70)** are boosting sales at a rate of more than 15% a year.

8

EARN INCOME **ON THE SIDE**

THE HAYMESES ARE SAVING MONEY THEY EARN FROM A SIDE GIG AS DOG SITTERS FOR A DOWN PAYMENT ON THEIR DREAM HOUSE.

A part-time job or side gig courtesy of the sharing economy could be the ticket to generating some extra cash. If you invest the money or use it to, say, help you buy a house, you'll get closer to your $1 million goal.

Danielle and Joe Haymes of Houston found a side gig they love two years ago after searching for a place to board their two dachshunds. Danielle is a technology instructor for a local school district and Joe is a sales manager, but they decided to become dog sitters on the side after learning about DogVacay, which matches pet sitters with dog owners. The Haymeses usually take in three to four dogs at a time, depending on their schedules. In 2015, they earned about $13,000; the year before, they earned about $12,000. (Sitters set their own rates and pay 20% to DogVacay.) That income alone might not make them millionaires, but they're planning to use it as leverage to reach a larger goal: They have saved most of the money as a down payment on their dream house in a neighborhood with a great school district.

Danielle says business is so good that they've had to turn away some customers. She and her husband don't mind receiving late-night texts from worried dog owners because they love caring for their pets. "I've gotten thank-you cards and presents because dog parents feel so much better leaving their dogs with us rather than a kennel," she says.

That kind of enthusiasm is critical to a successful side hustle. "You're not going to stay up until 3 A.M. working at your side job and then get up at 6:00 and go to your day job if it's not something you're passionate about," says Maria James, a career consultant based in Baltimore. James tells clients who are looking for work on the side to write down their interests and their skills, both at their day jobs and outside their regular jobs.

Side gigs can benefit retirees, too. The extra income will allow your savings to grow and help you postpone taking Social Security. Look for opportunities at www.retirementjobs.com, which lists jobs in fields such as tax preparation and caregiving; www.encore.org, which focuses on jobs in the nonprofit sector; and www.coolworks.com, which lists seasonal jobs in national parks and other outdoor settings.

SCOGIN MAYO

9

CAPITALIZE ON **A WINDFALL**

Unless you come from a super-rich family, you probably won't inherit a million dollars when one of your family members dies. Still, there's a good chance that a modest windfall will come your way. Two-thirds of boomers will receive an inheritance during their lifetime, according to the Center for Retirement Research at Boston College. The median amount is $64,000, but wealthier parents of boomers plan to leave much more, boosting the average amount to $292,000.

That may not be enough money to quit your day job, but with proper planning, it can help you reach your goal of $1 million. For example, after 20 years, a $292,000 investment would be worth more than $1.1 million, assuming a 7% average annual rate of return. But if you find yourself in that fortunate position, don't make any decisions right away. Most financial planners recommend stashing your windfall in a bank account for six months to a year to educate yourself about the investment options.

Plus, putting money aside will help you resist the urge to splurge, says Tim Steffen, director of financial planning for Baird's Private Wealth Management group. Otherwise, says Steffen, "you take a trip and buy a car and the next thing you know, $100,000 is gone." Putting your windfall on ice will also help you avoid the temptation to start a business without a solid plan or invest in your brother-in-law's llama farm.

Use the time to put together a financial team: a certified financial planner, an accountant and, depending on the circumstances, a lawyer and an insurance professional. A good team will help you figure out the best way to deploy your windfall, based on your age and goals. For example, the money could provide a down payment on a home for you (or your adult kids) or pay for college. Or it could help you pump up retirement savings. If you stash a windfall in taxable investments, when you take withdrawals in retirement, you'll be taxed at long-term capital-gains rates. Those rates max out at 20% (most investors pay 15%) and will likely be lower than the ordinary income tax rate you'll owe on withdrawals from tax-deferred retirement plans.

10

PROTECT YOUR **WEALTH**

Okay, arming yourself with insurance won't make you rich, but it can prevent your fortune from being wiped out if, say, you're found liable for a car accident or you need care in a nursing home.

Umbrella liability insurance will protect your assets and future income, as well as legal fees, if you're sued and are required to pay damages. The policies typically pick up after you've exhausted liability coverage from your home and car insurance. Most insurers require you to have at least $300,000 in liability coverage on both your home and auto before you can buy umbrella insurance. Premiums generally cost $150 to $200 a year for $1 million in coverage. Increasing that amount to $2 million costs an additional $75 to $100.

Health care costs represent another threat to your wealth, particularly as you get older. A stay in a nursing home can run from $70,000 to $100,000 a year—and twice that much in higher-cost areas. You can protect your assets by purchasing long-term-care insurance, but these policies are pricey. One strategy to keep premiums in check is to estimate how much you could cover from savings and buy a lower-cost policy to fill the gap. Married couples can lower premiums by purchasing a shared-benefit policy that provides a pool of benefits both spouses can use.

If you get a policy, most financial advisers recommend buying it in your fifties or early sixties, before you develop medical conditions that will make you ineligible for preferred health discounts. Look for a policy that covers home care, an assisted-living facility and a nursing home. For a 60-year-old couple, annual premiums for a policy with a three-year benefit period and a 90-day deductible range from $2,985 to $4,190, according to the American Association for Long-Term Care Insurance (see "Make Long-Term-Care Coverage Affordable," Oct. 2015).

ADOBE STOCK

A Claiming Strategy Ends

The clock is about to run out on the benefit-boosting option known as file-and-suspend. BY KEVIN McCORMALLY

ONE OF THE MOST LUCRATIVE Social Security strategies ever invented for married couples will soon join the dodo bird in extinction. As of April 30, the government will no longer permit one spouse to file for and immediately suspend benefits in order to open the door for the other spouse to claim spousal benefits. That nixes the benefit-boosting tactic that allowed a family to collect Social Security while one or both spouses accrued delayed-retirement credits, hiking benefits by 8% a year between ages 66 and 70.

Under a crackdown approved by Congress last year, anyone who suspends benefits after April 29 will also cut off payments to a spouse or children based on that worker's record. In other words, for someone else to collect on your work record, you'll actually have to be receiving benefits, not just banking delayed-retirement credits.

Put in your claim. If you'll be 66 on or before May 1, 2016, and are interested in the file-and-suspend strategy, get crackin'. You must file for benefits by April 29 to lock in the old rules. (Couples already benefiting from the strategy are not affected by the crackdown.)

You can call 800-772-1213 to set up a phone or in-person application session, but you may spend up to an hour on hold to make an appointment that could be days or even weeks away. Applying online (at www.ssa.gov) may be a better bet. William Meyer, whose firm, Social Security Solutions, offers sophisticated software to help workers maximize lifetime benefits from Social Security, reports that applicants are running into fewer glitches online.

Unfortunately, the online application does not offer the file-and-suspend option. Instead, you must note in a "comments" box your desire to do so. Meyer says this is an important way to document that your request has been made by April 29.

You must be 66 in order to file and suspend, and your spouse must be at least 62 to get spousal benefits. As long as you file and suspend by the April 29 deadline, your husband or wife can apply for spousal benefits after the deadline (if he or she turns 62 after that time, for example). If your spouse is at least 66, he or she can "restrict the application" to spousal benefits only. That allows both of you to earn delayed-retirement credits to as late as age 70. (Only workers age 62 or older by January 1, 2016, are allowed to restrict an application. Younger folks will automatically get their own benefit and be locked out of delayed-retirement credits.)

ADOBE STOCK

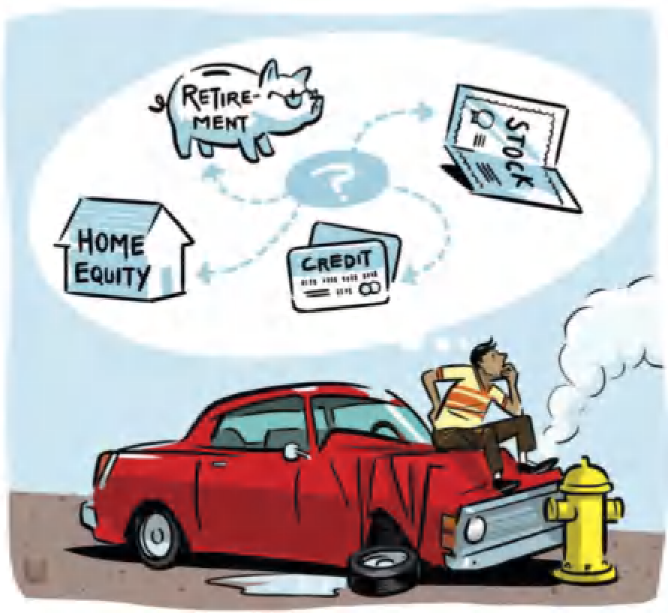
File-and-suspend can pay off for unmarried workers who beat the deadline, too, if they don't need the money right away and want to take advantage of delayed-retirement credits. As a general rule, Social Security will not pay more than six months' worth of benefits retroactively. But for those who qualify and file and suspend by April 29, there's no limit. If you file and suspend at 66 and decide at, say, 69 that you need the money, you could collect three years of benefits in a lump sum. Of course, that would mean forfeiting the delayed-retirement credits that had accrued.

The end of the file-and-suspend strategy for spousal benefits does not end the opportunity to suspend benefits at age 66 in order to undo part of the penalty imposed for claiming benefits earlier. That's exactly what Peter Lo, a retired chemist in Fremont, Calif., plans to do. Lo claimed Social Security benefits as soon as he turned 62, even though the $1,694 monthly benefit was 25% less than if he had waited until age 66. That cost him about $550 a month. When he turns 66 later this year, Lo plans to suspend his benefits, knowing that the 8%-a-year delayed-retirement credits he'll earn will deliver a big boost to his monthly income when he restarts benefits at age 70. ■

"I don't have enough in my emergency fund to fix my car. What's a good way to get the cash?"

IT'S EASY TO UNDERESTIMATE what you need to set aside in an emergency fund. A dual-income household with reliable cash flow should keep at least three months' worth of living expenses in a savings account or short-term certificates of deposit. But if you are the sole provider, have an irregular income or face steep child-care costs, you should save six or more months' worth of expenses. The tool at www.hellowallet.com/emergencysavings can help you estimate the amount of money you should set aside. For many families, an emergency fund should have tens of thousands of dollars.

If you haven't saved enough to cover your emergency, consider tapping these sources, in roughly this order:



Home equity. If you're a homeowner with a home-equity line of credit (HELOC), borrowing from it is one of the best ways to bridge the gap. "You're borrowing against equity you already have and paying yourself back," says Michael Gibney, a certified financial planner (CFP) at Highland Financial Advisors in Riverdale, N.J.

Setting up a line of credit is a good idea even if you haven't earmarked any of the money. You can borrow up to your limit, often for a 10-year period, before you have to repay principal. Interest rates recently averaged 5.1%, according to HSH .com, and interest on up to $100,000 in home-equity debt used for any purpose is usually tax-deductible.

Investments. Another option is to sell investments from taxable accounts. David Wirth, a CFP at Savant Capital Management in McLean, Va., recommends tapping short-term bonds because there is unlikely to be a significant taxable gain. If you decide to sell stocks or stock funds, stick with those that you've owned for more than a year so you'll be taxed at the long-term capital-gains rate. Or you could sell investments worth less than you paid for them and use the losses to offset gains.

Credit card. If you charge your car repairs with a credit card but can't pay off the balance before the grace period ends, you'll start racking up interest. You might be able to save a few bucks on interest if you transfer a balance to a credit card with a 0% annual percentage rate to pay off the higher-rate card. That could work if you are disciplined about paying off the balance before the 0% rate expires—typically in about 12 months (and watch transaction fees, which are often 3% of the transferred balance). Alternatively, if you have a bill with a due date a month out, you could apply for a card with a 0% introductory rate.

But before adding to your card collection, compare rates and terms at peer-to-peer lending sites, such as Lending Club or Prosper. Both services let you take out personal loans at fixed rates, with APRs recently starting at 5.99%. But you'll need a high credit score and meet other conditions to qualify for the best rates.

Retirement accounts. If you have no other options, consider tapping a Roth IRA. You can withdraw contributions from a Roth anytime, tax- and penalty-free. Once you're 59½ and you've held the account for at least five years, you can withdraw earnings tax- and penalty-free as well. Or you could borrow from your 401(k). You avoid taxes and penalties and make payments back to your account with interest. But if you leave your job, you'll have to repay the loan, typically within 60 days of leaving, to escape taxes and possibly a 10% penalty.

What about taking withdrawals from a traditional IRA or 401(k)? You'll pay taxes and, unless you're near retirement age, a 10% penalty. **MIRIAM CROSS**

DAVE URBAN

MORTGAGES»

It's Not Too Late to Refinance

Even a slightly lower rate could save thousands of dollars a year. BY PATRICIA MERTZ ESSWEIN

MORTGAGE RATES CONTINUE TO confound forecasters who predicted higher rates were on the way. The average rate for a 30-year fixed-rate mortgage recently fell to 3.7%, its lowest point in a year. When rates dip, it's worth exploring whether refinancing can save you money. You may benefit even if you don't cut your rate by a full percentage point—a rule of thumb you can safely ignore.

The larger your loan balance, the more money you'll save. Say you got a $300,000 mortgage with a 30-year fixed rate of 4.5% five years ago. If you were to refinance to a 30-year rate of 3.7%, you'd cut your monthly payment by $260, to $1,260, and recoup your total closing costs (2% of the loan balance in this example) in 21 months.

To pay off your mortgage more quickly, consider refinancing to a 15-year term. The 15-year rate was recently 3.1%, according to HSH.com, which surveys mortgage lenders weekly. The monthly payment will be higher, but with the shorter term, you save on interest. In the example above, if you took a 15-year fixed rate of 3.1%, your monthly payment would rise by $383, to $1,903, but you'd be mortgage-free in 15 years instead of 30 and save $168,474 in interest. Another option: Ask lenders for a term equal to the remaining years of your existing mortgage.

If you have an adjustable-rate mortgage and your fixed-rate period will end soon—and you're not comfortable with a rate that adjusts annually—refinancing to a fixed rate may make sense if you can lower your monthly payment and you plan to stay in your home long enough to recoup closing costs. But if you plan to move within the next five to seven years, you may benefit by refinancing to another ARM (or even from a fixed-rate loan to an ARM) with a fixed-rate period that matches your expected tenure. The average rate on a 5/1 ARM was recently 2.9%.

Assume the lender's origination fee and third-party costs (including the cost of an appraisal, title search and so on) will be 1.5% to 3% of the loan balance. If you have enough equity, you can add the closing costs to your loan balance and finance them. Or you could pay a higher interest rate in exchange for a lender credit that offsets closing costs. (You can determine your payment, savings and break-even point with the refinance calculators at www.hsh.com.)

Smart shopping. Check rates with the originator of your existing loan; your current loan servicer, bank or credit union; and an online lender, such as Quicken. Another good source is www.mortgagemarvel.com, where many smaller banks and credit unions advertise their rates (you don't have to supply your contact information to get rate quotes). Rates and lender credits can change daily or even every few hours, so try to call all prospective lenders the same morning.

You're looking for the best combination of rate (including discount points, which are equal to 1% of the loan balance) and closing costs. To compare apples with apples, ask for a rate quote with no points that reflects how you want to pay your closing costs.

Ask the lender you choose how long it will take to close the loan. If the lender says it can do it in 30 days, take a 45-day lock on the interest rate to leave yourself some wiggle room in case closing is delayed, says Keith Gumbinger, of HSH.com. ■

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FAMILY FINANCES »

9 Financial Fumbles You Can Fix

Our list includes do-overs for everything from an unexpected tax bill to a time-share purchase you regret. BY LISA GERSTNER AND KAITLIN PITSKER

1 I made a mistake on my tax return and now I've got a bill for back taxes. Will the IRS let me pay it over time? Generally, yes. If you can cover the bill within a few months, call the IRS at 800-829-1040 to request a 120-day extension. Interest and penalties will continue to accrue during the extension period.

Otherwise, pay off as much as you can now and apply for an installment agreement to split the rest of the balance into monthly payments. If you owe $50,000 or less in taxes, penalties and interest, apply at www.irs.gov for a plan to pay off the bill over a period of up to six years; your application will likely be accepted, says Jackie Perlman, principal tax research analyst for the Tax Institute at H&R Block.

You're guaranteed an installment agreement for a balance of $10,000 or less as long as you've filed your returns and paid taxes on time for the past five years and you agree to pay off the current bill within three years. You'll pay a one-time fee plus a late-payment penalty and interest for each month the agreement is in effect.

For amounts higher than $50,000, you must submit IRS Form 9465 to apply and Form 433-F to detail your assets, liabilities and income.

2 I bought something on eBay that was defective. What can I do about it? For an item that differs from what's described in the listing or that never shows up at your door, the eBay Money Back Guarantee assures that you'll get the product you were promised or a full refund. But first try to resolve the problem directly with the seller (you can see how to contact the seller in your purchase history). You'll avoid jumping through hoops with eBay's resolution process, and the seller will appreciate the opportunity to keep a clean record.

Stick with eBay's messaging platform to contact the seller (rather than, say, switching to a phone call) so eBay officials can see the correspondence if they have to step in. Attach photos to show damage or any other visible issues with the product, and specify how you want the problem to be resolved. For instance, if a shirt has arrived with a stain but you want to keep it, ask the seller to cover the cost of cleaning. "Usually, the seller will make it right," says Marsha Collier, author of *eBay for Dummies*. Or, if you return the item, ask the seller to include your shipping cost in the refund.

If you're dissatisfied with the seller's response or you don't get a reply within a reasonable time, you can involve eBay by requesting a return in your purchase history or by visiting http://resolutioncenter.ebay.com. If eBay determines that you deserve a refund or replacement, the Money Back Guarantee applies. (The Money Back Guarantee doesn't cover you if you decide you don't like the item or if it was damaged during shipping.) A separate policy, called Vehicle Purchase Protection, provides up to $50,000 in coverage for cars bought on eBay.

3 I took Social Security at age 62 and have since changed my mind. Can I undo the decision? Maybe. If you change

ILLUSTRATIONS BY TRACI DABERKO

your mind within 12 months of claiming benefits, you can withdraw your application by filing Form SSA-521. You'll need to repay all of the money you received, including any spousal benefits (but not including interest). You can then restart benefits later. Your benefit amount rises with age, until you reach 70. Note that you are limited to one withdrawal of your application.

4 I paid a local contractor for work he never finished. How can I get my money back? Start by gathering records of the payments you made, and document all your efforts to get in touch with the contractor, including keeping track of phone calls and e-mails. All of the paperwork you keep, even if unofficial, can serve as evidence in a dispute, says Ilona Bray, senior legal editor for Nolo.com.

Next, write a letter laying out your requirements and your deadline for meeting them, and let the contractor know that you'll take legal action if your demands aren't met. That should get his attention. If not, find out where the contractor is licensed (check with state, county or city agencies), and submit a complaint to the appropriate office. Many agencies will step in to investigate and mediate a dispute, and some state agencies have funds to reimburse consumers who are left high and dry.

Your state attorney general's office or consumer protection agency may be able to assist you if the contractor doesn't fall under the umbrella of a licensing board. If you signed a contract with an arbitration clause, you may have to settle the issue with a third party (possibly the licensing agency) outside the legal system. And even if you can take the case to court, the court may ask that you try to solve the issue through mediation before seeing a judge.

You can file your claim in small-claims court if the disputed amount doesn't exceed the state limit (typically \$3,000 to \$15,000). If a larger amount is involved, you'll have to hire an attorney and pursue your claim in a higher court—and the fees can add up.

No matter what the venue, you may be hard-pressed to collect if the contractor disappears or has no money with which to reimburse you, although sometimes the court is able to tap an insurance policy or garnish the contractor's assets.

5 I realize I made a mistake on my 2015 taxes. Is it too late to fix it? You generally have up to three years from the due date of the original return to file an amended return. Use IRS Form 1040X to note the changes you're making, and include revised copies of any supplemental forms that are affected (such as Schedule A for changes to itemized deductions). You cannot e-file an amended return. Amended returns take up to 16 weeks to process, so if you owe additional taxes, pay as soon as possible to avoid interest and penalty charges. If the change you've made lowers your tax bill, the IRS will send you a refund.

6 I had a tough year and was late paying some bills. How do I repair my credit score? Getting current on any overdue bills is crucial. Payment history is the largest component of the FICO score and VantageScore, two measures that lenders commonly use to judge whether to grant credit to potential borrowers. And how late the payment is matters: A 60-day delinquency, for example, can be more damaging to your score than a 30-day delinquency, says Ethan Dornhelm, senior director of scores and analytics for FICO.

The balance that you owe relative to your limit on revolving debt (such as credit cards), which FICO calls the *credit utilization ratio,* is another important factor in your credit score. Aim to keep your balance on each card at no more than 30% of the limit. "The lower the utilization, the better your score," says Dornhelm. And be judicious about opening new credit lines. Applying for several credit cards in a short period results in "hard" inquiries on your credit report, which can shave points from your score.

With time, your score will rise as long as you practice good habits. But bouncing back after a default or bankruptcy can take years. The newest versions of the FICO score and VantageScore exclude from their formulas collection accounts that have been paid off, but lenders are often slow to change to the latest scoring models.

7 My son has fallen behind on his student loan payments. How can he get back on track? Have him contact the loan servicer immediately. Even one missed payment is considered a delinquency, and federal loans that have been delinquent for at least 90 days are reported to the three major credit agencies. If your son acts soon enough, he can select a new repayment plan that better fits his budget, or he may qualify to delay loan payments through deferment or forbearance. After 270 days, the loan generally goes into default, and the entire balance, including interest, is due immediately. The borrower also loses eligibility for federal loan benefits, including a choice of repayment plans and the opportunity for loan forgiveness.

If the loan is already in default, your son has two options: rehabilitation and consolidation. Under a rehabilitation agreement, the borrower agrees to a reasonable payment (typically 15% of his or her discretionary income, as defined by the loan program) and must make nine on-time payments during a consecutive 10-month period before the loan comes out of default. The borrower regains eligibility for federal loan benefits, and the default is taken off the borrower's credit history. Be aware that loans can be rehabilitated only once.

The second option is to consolidate defaulted federal loans through a federal direct consolidation loan. This allows you to replace one or more federal loans with one new, fixed-rate loan. To consolidate a defaulted loan, a borrower must either agree to one of the federal income-driven repayment plans or make three consecutive on-time full monthly payments on the defaulted loans. Consolidation is faster than rehabilitation and restores access to federal loan benefits, but it doesn't remove the default from the borrower's credit history.

For private loans, your son should work with the lender to set up a payment plan. If the debt is already in collection, have him try to negotiate a settlement with the agency.

8 I bought an airline ticket for the wrong day. Is it too late to change it? Federal rules require U.S. and foreign airlines selling flights in the U.S. either to give travelers 24 hours to cancel a ticket that was purchased at least seven days before departure or to hold a reservation at the quoted fare for 24 hours, after which it disappears unless you confirm and pay. Most major U.S. and foreign airlines go with the first option, allowing travelers to cancel a ticket booked directly through the airline, without penalty, within 24 hours of purchase.

(Third-party booking sites, such as Expedia and Priceline, do not have to comply with the federal rule, but most offer a similar window for canceling some kinds of tickets.) American Airlines is one carrier that offers free 24-hour holds instead of 24-hour cancellation.

9 I bought a time-share, and now I have buyer's remorse. Can I get out of the deal? Most states allow you to rescind a time-share contract within three to seven days of signing the contract. To cancel the agreement, write a letter to the company stating that you are rescinding the contract and spell out the specifics of the agreement, such as the date the time-share was purchased. You do not need to give a reason for canceling your purchase. Most time-share companies will only accept letters delivered through registered or certified mail. For more information about how contracts are covered in your state or the state where your time-share is located, contact the state's consumer protection agency or the state attorney general's office.

If the cooling-off period has passed, your only option is to put the time-share up for sale. You can sell it on time-share rental and marketplace website www.redweek.com or the Time-share Users Group's website (www.tug2.net), or enlist a reputable resale broker by searching the Licensed Time-share Resale Brokers Association's directory at www.licensedtimeshareresalebrokers.org.

No matter which route you take, expect to take a beating on the sale. Time-shares often sell for less than half of the initial purchase price, and brokers typically charge a commission of 15% to 40% of your sale price. ■

KIMBERLY LANKFORD > Ask Kim

Compare Car-Insurance Costs

I'M LOOKING FOR A NEW CAR FOR my family. Are some cars cheaper to insure than others?

L.M., Wilkes-Barre, Pa.

Yes, the type of car you buy can make a big difference in your insurance premiums. Every insurer has its own calculations and claim figures, but a vehicle's insurance costs are generally based on theft statistics, crash tests, the cost of replacement parts and the cost of the car.

Insure.com compared rates for 2016 models and found that the Honda Odyssey LX cost the least to insure, with an average annual premium of $1,113, followed by the Honda CR-V LX (two-wheel drive), Dodge Grand Caravan AVP and Jeep Patriot Sport (two-wheel drive). The most expensive car to insure was the Dodge Viper GT, averaging more than $4,000.

Look up average premiums by car using Insure.com's tool (www.insure.com/car-insurance), or ask your agent or insurer about costs for cars you're considering.

Medicare sign-up. *I didn't sign up for Medicare at 65 because I'm still working and wanted to contribute to my health savings account. I plan to apply for Social Security at 66. Can I still refuse Part A and contribute to my HSA?*

W.S., Cleveland

No. Even though you may be able to delay signing up for Part A after age 65 if you're working (your employer usually must have 20 or more employees), you cannot decline Part A after you sign up for Social Security. Once you're enrolled in Part A, you'll have to stop making HSA contributions—or face a penalty for excess contributions. If you don't take Medicare Part A when you first qualify (generally when you turn 65), you should stop contributions to your HSA at least six months before you sign up for Social Security because your Part A benefits will be retroactive for up to six months if you were 65 or older during that time.

Retirement accounts. *My wife and I are about to purchase a new home. Can we spread the $10,000 withdrawal the IRS allows across my IRA and hers?*

L.F., Brooklyn, N.Y.

You can withdraw up to $10,000 from your IRA penalty-free for a first-time home purchase, and your wife can also withdraw up to $10,000 from her IRA penalty-free. The withdrawals from each IRA will be taxable (except any portion attributable to nondeductible contributions).

With Roth IRAs, you can withdraw contributions tax- and penalty-free anytime. And after you withdraw your contributions, you can each withdraw up to $10,000 in earnings as long as you haven't exceeded the $10,000-per-person limit for all IRAs. If you haven't held a Roth IRA for at least a five-year period, the earnings will be taxable.

College tax breaks. *Can I use 529 money to pay college tuition and also claim the American Opportunity tax credit in the same year?*

R.H., Paintsville, Ky.

Yes, if you plan carefully. The American Opportunity credit can be worth up to $2,500 per student for each of the first four years of college. It is calculated as 100% of the first $2,000 in eligible expenses (tuition and fees) for each student, plus 25% of the next $2,000. You can't double-dip tax breaks—that is, claim the credit for the same expenses you paid with tax-free money from your 529 plan—so it's best to pay at least $4,000 of tuition charges from money outside of your 529. Then you can use the 529 money tax-free for the remaining tuition and fees, plus other eligible expenses, such as room and board, books, and a computer and Internet access. ■

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

LISE METZGER

"Among 2016 models, the Honda Odyssey LX costs the least to insure, with an average annual premium of $1,113."

RETIREMENT»

Income Guarantees, With a Catch

Even with the promise of stock market growth and lifetime income, variable annuities aren't for everyone. BY KIMBERLY LANKFORD

DAVID PALAY DECIDED NOT TO CASH IN HIS VARIABLE ANNUITY BECAUSE HE COULD HAVE LOST TENS OF THOUSANDS OF DOLLARS IN INCOME BENEFITS.

KEVIN J. MIYAZAKI/REDUX

ANNUITY SALES ARE EXPLODING as baby boomers shift their focus from saving for retirement to creating an income stream that will last a lifetime. Some annuities are simple and straightforward. For example, with an immediate annuity, you pay a lump sum to an insurance company, which pays a fixed amount every year for life, starting—that's right—immediately. Deferred-income annuities (also known as longevity insurance) are a close cousin: You pay a lump sum in exchange for a higher payout that starts several years in the future.

But variable annuities and fixed-index annuities (see the box on page 44) introduce higher fees and complicated formulas that many investors don't understand. And some salespeople take advantage of the complexity, focusing on the benefits while glossing over the fees, surrender charges and complicated rules that can limit access to the guarantees.

Last fall, Sen. Elizabeth Warren (D-Mass.) released an investigation of the annuities business that found that 13 of the 15 insurers her office queried offered salespeople perks and kickbacks—including expensive vacations and other prizes—to push their products. Such incentives create conflicts of interest, Warren warns. Plus, sellers earn commissions that can be 7% or more of your investment.

Many states have already enacted rules designed to stop some of the most egregious practices (see the box on the next page). And a proposed Department of Labor rule is likely to tighten the screws. It would likely set a fiduciary standard for anyone who gives financial advice about IRA investments. (More than 60% of variable annuity sales in 2015 were in retirement plans.) That means advisers would be legally bound to act in your best interest, even at the cost of their own, when making recommendations to you.

HOW VARIABLE ANNUITIES WORK

A variable annuity is part investment, part insurance. You put your money in mutual-fund-like accounts, and gains are tax-deferred until you withdraw the money. Withdrawals are taxed as ordinary income rather than at lower capital-gains tax rates, just like payouts from traditional IRAs.

As more people invest in variable annuities inside their IRAs, the appeal of tax deferral clearly isn't the incentive. Rather, it's the income guarantees that draw IRA investors. The cost of these guarantees varies by insurer but typically ranges from 1% to 1.5% of the amount you invest.

How the guarantees work varies by insurer, too, but usually the insurer promises that you can withdraw a certain amount of money every year for the rest of your life, even if the investments you choose lose value or you run out of money. The calculations are complex. The balance that your guarantee is based on (called your benefit base) may grow by 4% or 5% per year or by the highest point your investments have reached during the year (sometimes on the anniversary date of your investment), whichever is higher. The guaranteed step-up means that the value of the benefit base can grow more than the value of your underlying investment.

Say you're 60 years old and your actual investments are worth $350,000 but your benefit base has grown to $500,000 over a number of years. If you withdraw 4% of the benefit base every

year, which is $20,000 per year, it will take you 17.5 years (to age 77.5) to withdraw more than $350,000. If you live longer than that, the rest of the payouts will come from the guarantee.

How can you lose? "One of the challenges is that there are an awful lot of guarantees that come with big asterisks that are never fully explained," says Tim Maurer, a certified financial planner in Charleston, S.C., and author of *Simple Money*. "You have principal protection or high-water-mark protection, but the only way you can take advantage of that is if it's paid out over the course of many years, and that, to me, is not a real level of assurance." Not only that, but you can't access your benefit base as a lump sum; if you cash out your annuity, you'll get only your actual investment value.

Another knock on some variable annuities is the high fees. Basic annuity fees (called mortality and expense fees) can run 1.2% or more per year. You could also pay more than 1% in investment fees for the underlying funds. If you decide to cash out the annuity, you may pay a surrender charge, which generally starts at 7% to 10% and gradually decreases over the first seven to 10 years you own the annuity.

There are variable annuities with lower fees. Vanguard sells one directly to investors that costs 0.75% or less per year for the annuity and investments, plus an extra 1.20% if you add an income guarantee. The guarantee locks in the value of the investments on the policy's anniversary each year and bumps up the benefit base if the value of your investments on that date has increased. You can take 4% of the benefit base each year for the rest of your life if you start taking withdrawals between ages 59 and 64, or 5% if withdrawals start between ages 65 and 79. Similar low-expense products from Ameritas, Jefferson National and TD Ameritrade are sold through advisers who charge separate fees for their services.

IS ONE RIGHT FOR YOU?

Reasonable-fee variable annuities with guarantees can be appropriate for some people in their fifties or sixties who fear retiring in a down market and running out of money later in life. Matt Sadowsky, director

Case Study

Florida's Annuity Reforms

IN JANUARY 2007, *Kiplinger's* featured an 85-year-old Florida woman who was sold an annuity with surrender charges that lasted until she was 101 years old, including a 25% surrender charge for the first five years. In 2009, the Florida Department of Financial Services opened 431 annuity investigations based on consumer complaints. Some reported surrender charges of up to 25% of the account value for withdrawals in the first 15 to 20 years, says Barry Lanier, chief of the bureau of investigations for the Florida Department of Financial Services. "We've collected millions of dollars in restitution for consumers, much of it in the area of annuities," says Lanier, who helped the Florida woman we wrote about.

From 2008 to 2010, the Florida legislature passed a series of laws that established suitability requirements for annuity sales plus capped surrender periods at 10 years and surrender charges at 10% for annuity sales to buyers who are 65 and older. Annuity complaints have dropped significantly since then. Most states have enacted similar laws for annuity sales over the past few years.

of retirement and annuities for TD Ameritrade, says you generally should consider investing no more than 30% of your liquid net worth in an annuity—total assets minus the value of your personal residence. "Annuities should provide a floor of guaranteed income to supplement Social Security and pensions to meet the expenses you need to cover for the rest of your life," he says.

Before buying a variable annuity, check its prospectus for information about fees and investment choices, and make sure you understand exactly how the guarantee works. "Ask questions and compare alternatives," says Gerri Walsh, senior vice president of investor education for Finra, which has issued investor alerts about annuity sales. "What is your goal in seeking out this annuity? Are you considering it only because somebody recommended it to you? Is this the most efficient way to achieve your goals?" She recommends getting a second opinion from someone who doesn't have a financial stake in your decision.

Be careful about adding costly perks. For example, you may want an income guarantee but not a feature that boosts the death benefit. "Be leery of agents who want to add all kinds of riders. It takes more money out of your account and puts more money into their pockets," says Barry Lanier, chief of the bureau of investigations for the Florida Department of Financial Services.

STRATEGIES FOR GETTING OUT

If you discover that you didn't really need an annuity or that yours is charging particularly high fees, getting out can be complicated.

If you change your mind right away (within about a month in most states), you may be able to get your money back. (For your state's rules and protections, see the links to state insurance departments at www.naic.org.)

After a free-look period, you'll have to pay income taxes on any gains, and you may have to pay a surrender charge. If you decide to switch to a lower-cost annuity, you can avoid the tax bill by making a tax-free transfer (called a 1035 exchange). You won't avoid surrender charges, but you will continue to defer the tax bill until you withdraw the money from the new annuity. (Vanguard offers a tool that calculates how much money you could save by switching to its annuity; see www.vanguard.com/annuity and click on "transfer an annuity.")

Before you switch to another annuity company or take any withdrawals, be sure you aren't giving up valuable guarantees. If the investments are worth less than the guaranteed value, you'll lose the benefit for which you may have been paying thousands of dollars each year. Plus, the guarantees on annuities sold before 2010 tend to be more generous than those available on new annuities, says Mark Cortazzo, a CFP in Parsippany, N.J. His Annuity Review service (www.annuityreview.com) charges $299 to analyze up to two annuities you're considering or already have.

Cortazzo recently worked with David Palay, 51, who owns a medical-device sales and marketing company in Milwaukee. Palay bought an annuity in 2003 with a lifetime income guarantee. He was happy with it, especially after the stock market downturn in 2008, but began to question whether it was the right choice after he started working with a new financial adviser, who recommended that he get out of the annuity and pay him to manage the money instead.

"I was looking for a third party without any skin in the game who could give advice about whether the annuity was appropriate," says Palay. Cortazzo found that the annuity's benefit base was worth 30% more than the actual account value and that Palay could lose tens of thousands of dollars in income benefits if he cashed in. Also, the guarantee was less expensive and more generous than guarantees on new annuities.

"Ultimately, I decided to keep the annuity but stop adding new money," says Palay, who figured he had already locked in enough guaranteed income from the annuity to cover his expenses in retirement. ■

Fixed-Index Annuities

Hidden Fees, So-So Results

FIXED-INDEX ANNUITIES ARE EVEN TOUGHER TO DECIPHER than variable annuities—but sales are taking off. Formerly called equity-index annuities, these products promise to accumulate interest based on the performance of certain indexes, with a minimum guarantee (such as 90% of your initial investment plus 1% to 3% in annual interest). You won't lose money in these products, but if the market does well, you'll earn much less than you would have by investing in a fund that replicates the index.

The fees for fixed-index annuities are embedded in the interest rate calculations rather than disclosed in a prospectus. Those calculations vary by annuity. Some offer a percentage of the performance of the index (called the participation rate), such as 80% of the growth of the S&P 500, not counting dividends. Or they may subtract a certain amount from the annual growth of the index—perhaps 2.25 percentage points. Or they may cap the growth of the index at, say, 8%. They generally do not include dividends in their calculations. Some index annuities impose several limitations, and they may change after you purchase the annuity.

Note that a securities license is required to sell variable annuities but usually not to sell fixed-index annuities, so a salesperson may not be able to offer or compare both options.

CREDIT »

Top Cards for Fraud Protection

AS DATA BREACHES MOUNT UP, you may want to choose a card whose issuer provides you with tools to counter fraud and will back you up if your information is stolen.

Javelin Strategy & Research recently ranked 20 leading credit card issuers based on the security measures they offer in three areas: prevention, detection and resolution. Among the prevention features were mobile and online authentication (the use of your voice or fingerprints to verify your identity) and controls that allow you to cap a transaction amount.

In the detection category, issuers were scored on features that allow customers to spot fraud—including alerts for unusually large purchases or password resets—as well as how those notifications are sent. And among the resolution criteria, Javelin favored issuers who help customers restore their accounts, including charge reversal and next-day card replacement.

USAA took the number-one spot for detection, tied with PNC for first place in the resolution category and came in second for prevention. Bank of America had a first-place finish for prevention; it was also among the top three in the other two categories. American Express, Capital One, Chase, Citibank, SunTrust and Wells Fargo all appeared among the top five in some categories.

One handy tool lets you switch off your card if it is lost or if your card number has been compromised. USAA offers the capability to both its credit and debit card users. Discover credit card customers have access to the feature, as do Capital One credit card holders who use the bank's wallet app. Financial institutions that issue Visa cards can add the capability through Visa's Consumer Transaction Controls service.

LISA GERSTNER

Kiplinger.com

RATE UPDATES

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

YIELD BENCHMARKS

	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds*	0.10%	0.10%	0.10%
U.S. Series I savings bonds	1.64	1.64	1.48
Six-month Treasury bills	0.46	0.45	0.08
Five-year Treasury notes	1.34	1.25	1.70
Ten-year Treasury notes	1.83	1.86	2.24

As of March 8, 2016. *EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.

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

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

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

TOP-YIELDING DEPOSIT ACCOUNTS

No-Minimum Checking Accounts	Annual yield as of March 8	Website (www.)
EverBank (Fla.)*†	1.01%	everbank.com
MyCBB (Calif.)*	0.79	mycbb.com
Bank of Internet USA (Calif.)*	0.71	bankofinternet.com
Alliant Credit Union (Ill.)#§	0.65	alliantcreditunion.org
NATIONAL AVERAGE	**0.11%**	

Rewards Checking Accounts	Annual yield as of March 8	For balances up to‡	Website (www.)
America's Credit Union (Wash.)#	5.00%	$1,000	youracu.org
Northpointe Bank (Mich.)	5.00	5,000	northpointe.com
Consumers Credit Union (Ill.)#	4.59	20,000	myconsumers.org
Destinations Credit Union (Md.)#	3.01	10,000	destinationscu.org
NATIONAL AVERAGE	**1.65%**		

Savings Accounts	Annual yield as of March 8	Min. deposit	Website (www.)
UFB Direct (Calif.)*	1.20%	$25,000	ufbdirect.com
EverBank (Fla.)*†	1.11	1,500	everbank.com
Silvergate Bank (Calif.)	1.11	1,000	silvergatebank.com
Dime Savings of Williamsburgh (N.Y.)&	1.10	1,000	dime.com
NATIONAL AVERAGE	**0.11%**		

*Internet only. †Promotional rate for first-time clients; available for the first year. #Must be a member; to become a member, see website. §1st Constitution Bank and FNBO Direct offer a similar yield. ‡Portion of the balance higher than the maximum earns a lower rate or no interest. To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. &Northeast Bank offers a similar yield. SOURCES: Bankrate.com, Depositaccounts.com.

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of March 8	Min. amount	Website (www.)
Connexus Credit Union (Wisc.)†	1.33%	$5,000	connexuscu.org
Live Oak Bank (N.C.)*	1.30	10,000	liveoakbank.com
AloStar Bank of Commerce (Ala.)*#	1.26	1,000	alostarbank.com
BAC Florida Bank (Fla.)*#	1.26	1,500	bacflorida.com
NATIONAL AVERAGE	**0.27%**		

5-Year	Annual yield as of March 8	Min. amount	Website (www.)
First Internet Bank of Indiana (Ind.)*	2.27%	$1,000	firstib.com
Colorado Federal Savings Bank (Colo.)	2.15	5,000	coloradofederalbank.com
CIT Bank (N.J.)*‡	2.10	1,000	bankoncit.com
State Farm Bank (Ill.)*‡	2.10	1,000	statefarm.com
NATIONAL AVERAGE	**0.82%**		

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

LOW-RATE CREDIT CARDS

Issuer	Rate as of Mar. 8*	Annual fee	Late fee	Website (www.)
Amalgamated Bank of Chicago (G)	7.50%	$45	$27†	aboc.com
Citizens Trust Bank Visa Elite	7.50	none	27†	ctbconnect.com
Simmons Bank Visa (P)	7.50	none	27†	simmonsfirst.com

CASH-REBATE CREDIT CARDS

Issuer	Rate as of Mar. 9*	Annual fee	Rebate earned Category/Other	Website (www.)
Amex Blue Cash Preferred	13.24%	$75	6%/1%‡	americanexpress.com
Discover It	11.24	none	5/1^	discover.com
Citi Double Cash	13.24	none	2&	citi.com

Rates are adjustable. *If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (G) Gold. (P) Platinum. †$37 if late more than once in 6 months. ‡6% on groceries up to $6,000 per year (1% thereafter); 3% gas/retail; 1% other purchases. ^Categories change quarterly on up to $1,500 of spending. &Earn 1% when you buy and an additional 1% when you pay your bill. SOURCE: Bankrate.com. Banks may offer lower introductory rates.

The Kip 25 Funds TAKE A PUNCH

We get off the mat by adding seven new funds that match up well against hostile markets.

BY NELLIE S. HUANG

EVERYONE HAS A PLAN, boxer Mike Tyson once said, until he gets punched in the mouth. The stock market has delivered a couple of vicious blows to investors over the past year, leaving them dazed and wondering whether it's time to throw in the towel on a bull market that is looking shaky and tired. // But, as even Tyson understood, it's how you react after you get hit that matters. The best reaction may be none at all. In particular, you shouldn't panic, which you're less likely to do if you look at the market's recent declines in context. After more than tripling since 2009,

ILLUSTRATIONS BY PATRICK GEORGE

Standard & Poor's 500-stock index last year endured its first correction (a drop of 10% to 20%) since 2011. The S&P first fell 11.9% from May 2015 through August, with nearly all of the damage occurring during the week of August 17. The index then recovered, only to plummet 10.3% in the first six weeks of 2016. All told, the S&P 500 lost 6.2% over the past 12 months. (All returns are through February 29 and include reinvested dividends.)

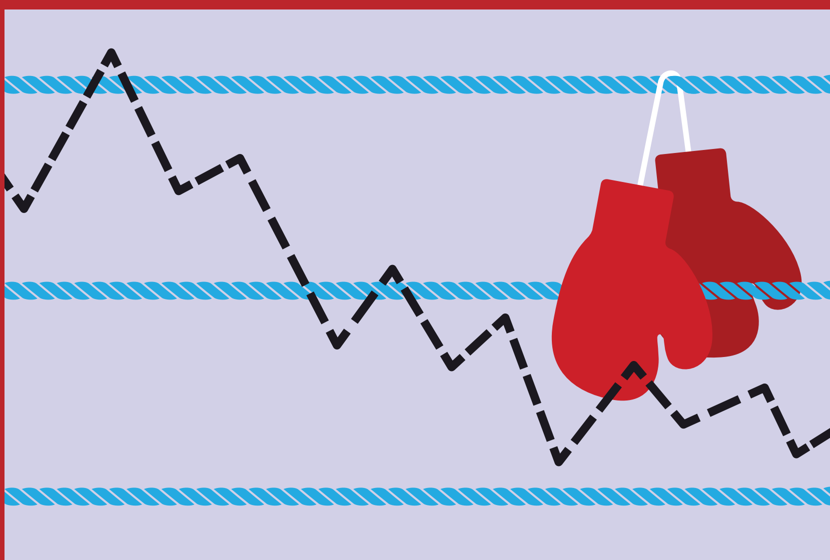
The correction could still morph into a bear market (a decline of at least 20%). But with the U.S. economy performing decently—Kiplinger expects gross domestic product to expand by 2.5% in 2016—and with a recession unlikely, a bear market would be "short and shallow," says Katie Nixon, a strategist with Northern Trust.

Still, if you hold any of the stock funds in the Kiplinger 25, the list of our favorite actively managed, no-load mutual funds, you've felt the sting of the market's one-two punch. The group's 12 U.S. stock funds lost 9.0%, on average, over the past year. "If investors didn't know their pain point before, they know it now," says Omar Aguilar, chief investment officer of stocks at Charles Schwab Investment Management. (For more details on how the Kip 25 funds did over the past year, see the box at left.)

No one can say for sure what the markets will do next, particularly over the short term. But it appears that the coming year will be a slog for U.S. stocks, with volatility high and returns, at best, in the mid-single-digit percentages. "Oil, China, the Federal Reserve's interest rate action or inaction—pick your poison, we won't get through them in the next six, nine, or even 12 months," says Nixon.

So what's an investor to do? Don't let a hard blow cause you to radically revamp your plan. But that doesn't mean you have to sit on your hands, either. Smart investors can play either offense or defense, boosting exposure to hard-hit parts of the markets or shoring up their portfolios with "defensive winners," funds that hold up well in hostile environments, says Jeff Speight, a certified financial planner in Houston.

We're doing a bit of both in this year's version of the Kiplinger 25, which contains more changes than usual. In several instances, we've ousted funds whose performance has not lived up to expectations. In some cases, we simply found cheaper, better-performing alternatives. And in others, we decided to switch strategic gears. For more on why we made certain changes, see the box on the next page. What follows is an introduction to the



Update

Mixed Results in a Down Year

WHEN A FUND DOESN'T KEEP PACE WITH ITS BENCHMARK, IT'S DISAPPOINTING. Ditto for when a fund beats its index but still loses ground. Both scenarios sum up how we feel about the performance of the Kiplinger 25 over the past year, a lousy one for markets all over the world.

How lousy? Over the past year through February 29, Standard & Poor's 500-stock index lost 6.2%. The MSCI EAFE index, which tracks foreign stocks in developed countries, plunged 14.8%, in part because of a strong dollar. The MSCI Emerging Markets index dived 23.1%. And it was a blasé year for bonds, with Barclays US Aggregate Bond index returning 1.5%.

The 12 U.S. stock funds on our list lost an average of 9.0%. Four—Akre Focus, Mairs & Power Growth, Parnassus Mid Cap and Vanguard Dividend Growth—beat the S&P 500. On a relative basis, our small-company stock funds shone. All three—Homestead Small-Company Stock, T. Rowe Price Diversified Small Company Growth (now known as QM US Small-Cap Growth Equity) and T. Rowe Price Small-Cap Value—beat the small-company Russell 2000 index. They did so, of course, by losing less than the Russell index. It was a similar story for our four international stock fund picks. All beat their respective indexes, albeit with losses all around.

All of our portfolios lost ground over the past 12 months, too. The conservative portfolio dipped 0.9%, the moderate portfolio slipped 6.6%, and the aggressive portfolio sank 10.2%.

newest members of the Kip 25. For rundowns on all the funds, including key statistics, see "Returns and More," on page 52.

American Century Equity Income

(SYMBOL TWEIX) This fund is all about defense. It has been about one-third less volatile than the S&P 500 over the past decade, a trait that has paid off in rough markets. It lost 39.2% during the 2007–09 bear market (when the S&P dived 55.3%) and 14.1% during the 2011 correction (when the index fell 18.6%). The fund's 6.5% annualized return over the past decade just edges the index. "We're the tortoise in the tortoise-and-hare race," says Kevin Toney, who manages the fund with Phil Davidson, Dan Gruemmer and Michael Liss. "We win by not losing."

Two elements of the fund's strategy provide protection in down markets. First, the managers invest most of the fund's assets in high-quality, dividend-paying stocks. They also place about 20% of assets in convertible stocks and bonds, as well as in straight preferred stocks, all of which tend to be less volatile than common stocks. One of Equity Income's biggest holdings is a Wells Fargo preferred stock that yields a whopping 6.6%. The fund itself yields 2.4%.

T. Rowe Price Blue Chip Growth (TRBCX)

Larry Puglia, a comanager of the fund when it opened in 1993 and sole manager since 1997, is in his investors' corner. He has socked more than \$1 million of his own money into the fund and "never sold a share," he says. Good move. Since Blue Chip's launch, it has earned 9.8% annualized, beating the S&P 500 by nearly one percentage point per year, on average.

Puglia is a proven stock picker. He favors well-run companies with steady growth prospects that are managed by execs who reinvest wisely in the business and that trade, he says, at "acceptable" prices. At last report, Blue Chip owned all of the FANG stocks—Facebook, Amazon.com, Netflix and Google (now called Alphabet)—which helped performance last year but have been nettlesome this year.

Vanguard Health Care (VGHCX)

After a long absence, this sector fund returns to the Kip 25. We added Health Care to our list in 2004, but, as is our policy, we removed it the next year after the fund closed to new investors.

As an analyst with the fund since 1995 and a manager since 2008, Jean Hynes has seen a lot of change in the industry. Much of it has come in recent years: electronic medical records, Obamacare and the revolution in biotechnology. "When I think about my 25-year career, this is the most exciting time for innovation in this sector," says Hynes.

She and her Wellington Management team of 11 analysts and researchers have a proven process. Within three basic areas—drugs (including biotech), devices and services—they favor large, undervalued firms with good growth prospects over the next five to seven years. The fund's biggest holdings are Allergan, Bristol-Myers Squibb and UnitedHealth Group.

The approach is one of the tamer ones among health-sector funds, and the result is what you might expect: The fund lags during powerful advances, but it holds up better in lousy markets. Hynes may not want to crow

2016 Changes

Why We Added Seven New Funds

WITH SEVEN NEW FUNDS, THIS YEAR'S VERSION OF THE KIPLINGER 25 HAS MORE turnover than usual. In a typical year, we replace three or four funds. Why such a big shake-up this time? It's partly due to the usual reasons: disappointment with a fund's performance and analysis that leads us to conclude that another fund can do the job better. But this year we also apply some big-picture judgments about the direction of the markets and sectors within them.

Three shifts stem from our top-down thinking. First, we think interest rates will remain low for a long time. That should mean more mediocre results for Merger Fund; its strategy of investing in takeover stocks after a deal is announced has been hurt by low rates. We replaced Merger with Vanguard Health Care, a conservative choice in a sector that took it on the chin over the past year. Our view on rates also prompted the removal of Metropolitan West Unconstrained Bond, which we added to the Kip 25 to protect against higher rates. Pimco Income, a multi-sector bond fund with a higher yield, replaces Met West.

And we think junk bonds, poor performers since last June, have become more attractive, so we replaced Osterweis Strategic Income, which focuses on short-term low-grade debt, with a more traditional junk fund, Vanguard High-Yield Corporate.

We replaced two Kip 25 members with funds that we think offer better potential. In the hybrid category, Vanguard Wellington, a classic balanced fund (one that owns both stocks and bonds), replaces the more esoteric FPA Crescent, a go-anywhere fund that has gone heavily into cash. Wellington has a big fee advantage, charging about 0.9 percentage point per year less. And Metropolitan West Total Return supplants Fidelity Total Bond. Both focus on intermediate-maturity, investment-grade bonds. Since 2011, the Met West fund has regularly outpaced the Fidelity fund, despite a slightly higher expense ratio.

Our last two changes were designed to rectify some imbalances in the Kip 25 stock funds. In particular, we had too many funds that concentrated on midsize-company stocks, so we said so long to Davenport Equity Opportunities and Vanguard Selected Value. We replaced them with T. Rowe Price Blue Chip Growth, a pure large-company growth fund, and American Century Equity Income, a dividend-oriented large-company fund that also owns convertible and preferred securities.

about her fund's 6.0% loss over the past year, but that beat the average health fund by 10.2 percentage points.

Vanguard Wellington (VWELX) In general, we think investors should build their own balanced portfolios, using the best and most appropriate stock and bond funds. But if you can't abide watching a pure stock fund tumble during market routs, consider a fund that holds stocks and bonds. Wellington, which launched in 1929, invests about two-thirds of its assets in stocks and the rest in bonds.

Not surprisingly, the fund is run by Wellington Management. John Keogh has handled the bond side since 2006, and Edward Bousa has picked the stocks since 2002. Since their pairing, the fund has returned 6.7% annualized, trouncing the typical "moderate allocation" fund (Morningstar's moniker for the balanced category) by an average of 2.7 percentage points per year. The fund yields 2.7%.

Bousa invests in three kinds of dividend stocks: stable companies with above-average yields (for example, Verizon Communications); stocks that are inexpensive because of a supply-demand imbalance (Royal Dutch Shell); and "broken" growth stocks (Bristol-Myers Squibb). On the bond side, Keogh mostly holds government IOUs, which, he says, serve as a "buffer" should the economy head south.

Metropolitan West Total Return Bond (MWTRX) The guiding principle of this medium-maturity, taxable bond fund is to buy at a bargain price. "If you're disciplined and buy as prices go down and sell as prices go up, you'll make money and do so at a reasonable level of risk," says Laird Landmann, one of four comanagers. With a five-year annualized return of 4.5%, the fund has met its goal of beating the Barclays US Aggregate Bond index, which gained 3.6% annualized over the period.

Landmann expects to see a rise in defaults over the next 18 to 24 months, so the managers have two-thirds of the fund's assets in Treasuries and government-backed mortgage securities. The defensive crouch crimps the fund's yield, which at 1.6% is a half-percentage-point below the index's yield. But this is temporary, Landmann says. Corporate debt will lose value as defaults (both actual and anticipated) increase. When that happens, Landmann says, he and his colleagues will buy bonds at lower prices and higher yields (bond prices and yields move in opposite directions).

Pimco Income (PONDX) This multi-sector bond fund's long-term record is nothing short of sensational. Since Income's launch in 2007, it has returned 8.6% annualized, trouncing the Aggregate index by an average of nearly four percentage points per year.

The fund, which yields 3.4%, employs a barbell strategy that provides income on one side and stability on the other. For income, managers Daniel Ivascyn (who is also Pimco's chief investment officer) and Alfred Murata buy junk bonds, which tend to perform well when economic growth is robust, as well as non-guaranteed mortgage securities, bank loans and

Second Guessing

Was Dumping Contrafund a Mistake?

TWO YEARS AGO, WE PULLED FIDELITY CONTRAFUND (SYMBOL FCNTX) FROM THE Kiplinger 25 and replaced it with Fidelity New Millennium (FMILX). We had no qualms about Contra's performance or the estimable Will Danoff, the fund's manager since 1990. Our concern was with its immense asset base, $114 billion at the time. We worried that Danoff would have trouble steering the battleship through increasingly turbulent markets. New Millennium, by contrast, had $3 billion in assets, about the same as it does today.

The switch hasn't paid dividends…yet. Over the past two years through February 29, New Millennium lost a cumulative 8.4%; Contra gained 4.6%, and Standard & Poor's 500-stock index returned 7.2%.

New Millennium's problem? Actually, there were three: too many energy stocks, too many small- and midsize-company stocks, and, in 2015 in particular, not enough FANGs—the acronym for Facebook, Amazon.com, Netflix and Google, now called Alphabet. These four high-tech behemoths led the market last year.

Though Danoff and New Millennium's manager, John Roth, both focus on growing companies, Roth has more of a value tilt: He'll consider cheap stocks that are out of favor or economically sensitive companies that are rebounding. So Roth started to boost his energy holdings after the sector began to tumble, along with oil prices, in mid 2014. At last report, the fund had 14% of its assets in energy stocks, about twice the weight in the S&P 500. Although the energy sector seemed to turn the corner in mid January, whether the turnaround will lead to a meaningful improvement in New Millennium's near-term results remains to be seen.

Investors' infatuation with large-company stocks also hurt the fund. Roth is free to invest in companies of any size—and he does. Some 40% of New Millennium's assets sit in small-cap and mid-cap stocks. That has been a drag on the fund's performance because, on the whole, the smaller the company, the worse the stock performance over the past two years.

Roth's long-term record is solid. Since he became manager in July 2006, New Millennium has returned 7.0% annualized, edging the S&P 500 by an average of 0.4 percentage point per year. Morningstar analyst Katie Rushkewicz Reichart says that investors shouldn't count out New Millennium, despite the recent "rough patch." Roth's experience, plus the likelihood that the market will eventually turn against the higher fliers (if it hasn't already) and turn toward the unloved, should eventually benefit New Millennium's shareholders.

emerging-markets bonds. The stable side of the portfolio, accounting for some 40% of assets, includes Treasuries, government-backed mortgage securities and high-grade corporate debt, as well as securities that benefit from falling interest rates in Australia without subjecting the holder to currency risk. Pimco expects rates in Australia to fall as its commodity-heavy economy weakens, a byproduct of China's decelerating growth.

Vanguard High-Yield Corporate Fund **(VWEHX)** Junk bonds have had a rough go since last June. Investors sold them in droves because of concerns about the economy in general and the health of the oil patch in particular. So we deemed this a good time to add a pure junk-bond fund to the Kip 25. But we didn't want to be overly aggressive, so we chose one of the tamer offerings, Vanguard High-Yield. The fund focuses on losing less when things get dicey, says Wellington Management's Michael Hong, who has run High-Yield since 2008. "It has a defensive quality," he says. Hong keeps risk down by loading up on the higher-quality end of junk bonds. Nearly 85% of the fund's assets are in bonds rated single-B or double-B, the highest junk rating. Over the past year, High-Yield lost 4.4%, but that beat the average junk-bond fund by 3.3 percentage points. The fund yields 6.6%. ■

PUTTING THE KIPLINGER 25 TO WORK

Reach Your Goals With These Plans

These portfolios are designed for investors with different time horizons and levels of risk tolerance. Use the portfolios as a starting point. Ratchet down the stock allocation if you're feeling cautious about the market, or kick it up if you're feeling frisky. If you have a long-term goal but a low tolerance for risk, for example, consider using the Moderate Portfolio. And rebalance regularly—say, every six months. By doing so, you'll lighten up on those funds and categories that have performed relatively well and add to funds and categories that have lagged.

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.

AGGRESSIVE PORTFOLIO		
1	American Century Equity Income	20%
2	Vanguard Dividend Growth	20%
3	Akre Focus	15%
4	Vanguard Health Care	15%
5	DoubleLine Total Return Bond	10%
6	FMI International	10%
7	Homestead Small-Co Stock	10%

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.

MODERATE PORTFOLIO		
1	American Century Equity Income	20%
2	Vanguard Dividend Growth	20%
3	DoubleLine Total Return Bond	15%
4	FMI International	15%
5	Vanguard Health Care	15%
6	Pimco Income	10%
7	Vanguard High Yield Corporate	5%

For Income

TIME HORIZON: Five years or less
PLAN: Put 30% into stock funds to generate growth and the rest in bond funds. This portfolio yields 3.4%.

CONSERVATIVE PORTFOLIO		
1	DoubleLine Total Return Bond	25%
2	Pimco Income	20%
3	American Century Equity Income	15%
4	Vanguard Dividend Growth	15%
5	Met West Total Return Bond	10%
6	Vanguard High-Yield Corporate	10%
7	Fidelity New Markets Income	5%

RETURNS AND MORE: THE KIPLINGER 25 AT A GLANCE

LARGE-COMPANY STOCK FUNDS

NEW	**American Century Equity Inc** (TWEIX) 800-345-2021	The managers invest mostly in large, high-quality, dividend-paying companies. They bolster income by holding some convertible stocks and bonds, as well as some straight preferred stocks. The fund yields 2.3%.
	Dodge & Cox Stock (DODGX) 800-621-3979	Stock's 10 managers focus on large companies trading at value prices. Financial stocks make up almost 30% of the portfolio. Performance can be streaky, but the fund rewards over time. Its low expense ratio is a draw.
	Fidelity New Millennium (FMILX) 800-343-3548	Manager John Roth invests in companies of all sizes, looking for growth but also paying attention to value. That led him to buy energy stocks in 2014—a bit too early, as it turned out. But Roth is sticking with his bet.
	Mairs & Power Growth (MPGFX) 800-304-7404	The managers like to invest close to their upper-Midwest base. Their top holdings—Ecolab, U.S. Bancorp and 3M—are based in the Minneapolis area. Beyond that, the managers favor growing firms that dominate their industries.
NEW	**T. Rowe Price Blue Chip Growth** (TRBCX) 800-638-5660	Larry Puglia has run this fund for nearly a quarter-century, focusing on large, growing companies that trade at acceptable valuations. Health care stocks (26% of assets) and tech firms (21%) are the portfolio's biggest sectors.
	T. Rowe Price Value (TRVLX) 800-638-5660	Manager Mark Finn invests in large companies, preferably when a business seems down and out but has a catalyst for a turnaround. Top three holdings: Citigroup, FirstEnergy and General Electric.
	Vanguard Dividend Growth (VDIGX) 800-635-1511	Donald Kilbride seeks high-quality firms that he thinks can and will raise their dividends over time. The fund tends to lag in go-go markets but shines in times of stress. Annual fees are low, at 0.32%, and the fund yields 2.0%.

SMALL- AND MIDSIZE-COMPANY STOCK FUNDS

Akre Focus (AKREX) 877-862-9556	The fund holds mostly large and midsize firms—26 at last word. The managers like companies that throw off a lot of excess cash, are industry leaders and are run by execs who reinvest profits wisely.
Homestead Small-Company Stock (HSCSX) 800-258-3030	A trio of managers travel the country hunting for small, out-of-favor companies primed for a turnaround. When they buy, they hold. Homestead has held some stocks for more than 10 years.
Parnassus Mid Cap (PARMX) 800-999-3505	The managers combine social and ethical screens (no tobacco or gambling stocks, for starters) with basic stock research to find prospects. They favor midsize firms that offer a service or product that is in demand.
T. Rowe Price QM U.S. Small-Cap Growth Equity (PRDSX) 800-638-5660	The fund has a new name to better reflect its computer-driven stock-picking process (QM stands for *quantitative management*). Since Sudhir Nanda took over in 2006, QM has beaten the average small-company growth fund.
T. Rowe Price Small-Cap Value (PRSVX) 800-638-5660	Just as David Wagner took over in mid 2014, small-company stocks began to wobble, and the fund did, too. But Wagner's getting his sea legs. He favors unloved and undervalued companies with market values below $4 billion.

INTERNATIONAL STOCK FUNDS

Fidelity International Growth (FIGFX) 800-343-3548	Good firms whose stocks have been unfairly punished and companies poised to benefit from a long-term growth trend figure prominently in this fund. About 95% of its assets are in developed markets.
FMI International (FMIJX) 800-811-5311	Hedging against currency moves has helped insulate the fund from the downside of a strong dollar. But the managers worry that many foreign stocks have become overvalued, so they have 18% of the fund's assets in cash.
Harding Loevner Emerging Mkts (HLEMX) 877-435-8105	Falling commodity prices and a strong dollar have hurt emerging-markets stocks. The fund's managers say that these are cyclical problems, not structural issues that undermine the long-term case for emerging markets.
Matthews Asian Growth & Inc (MACSX) 800-789-2742	A mix of common stocks, preferred stocks, convertible bonds and cash helps tame the inherent volatility of investing in Asia and also helps the fund deliver a 3.5% dividend yield. The biggest country weighting is in China.

SPECIALIZED/GO-ANYWHERE FUNDS

NEW **Vanguard Health Care** (VGHCX) 800-635-1511	Jean Hynes, who became comanager in 2008 and sole manager in 2013, divides the sector into three groups: drugs, devices and services. She looks for large, undervalued firms with strong long-term growth prospects.
NEW **Vanguard Wellington**‡ (VWELX) 800-635-1511	The oldest balanced fund in the country, Wellington holds two-thirds of its assets in stocks and the rest in high-quality bonds. Ed Bousa picks the stocks and John Keogh selects the bonds. The fund yields 2.7%.

BOND FUNDS

DoubleLine Total Return (DLTNX) 877-354-6311	The fund balances two kinds of risks: It holds mortgage bonds that aren't government-backed, which come with credit risk, and government-guaranteed mortgage securities, which carry more interest-rate risk. It yields 3.3%.
Fidelity Intermed Muni Inc (FLTMX) 800-343-3548	With a 1.3% yield, this fund won't make you rich. But the interest is free of federal income taxes, so for a top-bracket taxpayer, the payout is equivalent to a 2.3% taxable yield. Average credit quality is a solid single-A.
Fidelity New Markets Inc (FNMIX) 800-343-3548	A strong dollar has rocked investments in emerging markets. But manager John Carlson limits currency risk by investing mostly in dollar-denominated debt. The fund yields a hearty 6.4%, attesting to its above-average risk.
NEW **Metropolitan West Total Return** (MWTRX) 800-241-4671	The four managers of this high-quality, intermediate-term fund think the economic expansion is nearing an end, so they've gone defensive, putting nearly one-third of assets in government-backed bonds. The fund yields 1.6%.
NEW **Pimco Income** (PONDX) 888-877-4626	The managers of this multi-sector fund rely on a barbell strategy. One end holds high-yielding debt, which tends to rally when the economy is strong; the other contains high-quality bonds. The fund yields 3.7%.
NEW **Vanguard High-Yield Corp** (VWEHX) 800-635-1511	Yielding 6.6%, this is one of the tamer junk-bond funds. Nearly half of its assets are in debt rated double-B, and only 8% are in bonds that are unrated or rated below B. Michael Hong has been in charge since 2008.
Vanguard Short-Term Inv Grade (VFSTX) 800-635-1511	Manager Greg Nassour has half of the portfolio in corporate bonds; the rest is in cash, Treasuries, and asset- and mortgage-backed bonds. The short maturities limit the damage from rising interest rates. The fund yields 2.0%.

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio
Akre Focus	AKREX	–5.6%	12.1%	13.6%	—	1.34%
American Century Equity Inc	TWEIX	0.2	8.7	8.7	—	0.93
Dodge & Cox Stock	DODGX	–12.1	8.6	8.5	6.5%	0.52
Fidelity New Millennium	FMILX	–11.0	7.6	8.2	4.5	0.71
Homestead Small Co Stock	HSCSX	–13.5	7.0	8.1	6.9	0.89
Mairs & Power Growth	MPGFX	–4.7	9.4	10.8	8.0	0.65
Parnassus Mid Cap	PARMX	–5.9	9.1	9.4	7.2	0.99
T. Rowe Price Blue Chip Growth	TRBCX	–6.4	13.5	11.8	8.0	0.71
T. Rowe Price QM U.S. Sm-Cp Gro Eq	PRDSX	–11.4	10.1	9.5	7.9	0.82
T. Rowe Price Sm-Cap Value	PRSVX	–8.8	4.2	6.2	7.8	0.80
T. Rowe Price Value	TRVLX	–8.4	10.2	9.6	5.5	0.81
Vanguard Dividend Growth	VDIGX	–2.1	11.2	11.2	6.6	0.32

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio
Fidelity International Growth	FIGFX	–10.2%	2.9%	4.0%	—	0.96%
FMI International	FMIJX	–5.2	7.1	8.7	—	0.98
Harding Loevner Emrg Mkts	HLEMX	–20.2	–5.6	–2.0	2.5%	1.45
Matthews Asian Gro & Inc	MACSX	–9.7	–2.5	2.2	5.9	1.08

Specialized/Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio
Vanguard Health Care	FPACX	–6.0%	19.7%	17.8%	10.9%	0.34%
Vanguard Wellington‡	MERFX	–4.7	6.9	7.4	6.7	0.26

Bond Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Expense ratio
DoubleLine Total Return N	DLTNX	2.6%	2.9%	5.1%	—	0.72%
Fidelity Intermed Muni Inc	FLTMX	2.6	2.6	4.1	4.0%	0.36
Fidelity New Markets Income	FNMIX	0.2	–0.3	5.1	6.5	0.84
Metropolitan West Total Return M	MWTRX	0.6	2.3	4.5	6.3	0.68
Pimco Income D	PONDX	0.8	3.7	7.4	—	0.79
Vanguard High-Yield Corp	VWEHX	–4.4	2.0	4.9	5.8	0.23
Vanguard Sh-Tm Inv-Grade	VFSTX	1.1	1.4	2.0	3.5	0.20

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	**–6.2%**	**10.8%**	**10.1%**	**6.4%**
RUSSELL 2000 INDEX*	**–15.0**	**5.7**	**6.1**	**4.9**
MSCI EAFE INDEX†	**–14.8**	**0.8**	**1.0**	**2.0**
MSCI EMERGING MARKETS INDEX	**–23.1**	**–8.6**	**–5.1**	**2.2**
BARCLAYS AGGREGATE BOND INDEX#	**1.5**	**2.2**	**3.6**	**4.7**

Through February 29. —Not available; fund not in existence for the entire period. *Small-company U.S. stocks. †Foreign stocks. #Tracks high-grade U.S. bonds. ‡Open to new investors if purchased directly through Vanguard. SOURCE: © 2016 Morningstar Inc.

STOCKS»

Great Dividend Stocks for a Rocky Market

Cash payments provide some relief from the pain of falling share prices. **BY DAREN FONDA**

DIVIDEND-PAYING COMPANIES are like wallflowers at the prom when stocks are dancing up a storm. But when the music stops and stocks start to wobble, dividend payers can emerge as the life of the party.

With stocks slumping over the past year and the market gyrating wildly so far in 2016, it looks like a good time to settle down with solid, dividend-paying stocks. If share prices resume their slide, dividends can provide some income to cushion the losses. And small but regular dividend payments can add up to big gains over time.

Historically, dividends have generated about 40% of the market's total returns (the rest has come from price gains). Moreover, dividend payers tend to lose less than nonpayers during downturns and vault ahead of the broader market over long stretches. Since 1989, U.S. dividend stocks have delivered total returns of 10.6% annualized, compared with an average of 8.6% per year for Standard & Poor's 500-stock index, according to the Leuthold Group, an investment research firm.

One knock on dividend stocks is that they'll falter if interest rates turn up. Stocks bought mainly for their payouts become less attractive than bonds as rates climb, the argument goes, so the share prices must come down to bring their yields closer in line with those of fixed-income investments. But with the economy looking feeble, rates aren't likely to rise much this year.

Of course, reaching for high yields can lead to trouble. Companies with exorbitant dividends usually can't sustain their payouts. And high-yield stocks tend to be more sensitive to interest-rate changes than stocks that pay a small dividend or none at all.

More compelling are companies that are steadily boosting earnings and dividends along the way, measures that should help lift their stock prices. Most of our picks fit that criteria, though we included two high-yield stocks—a telecommunications giant and a real estate investment trust (REIT)—that also look attractive. Think of them as dividend icing on the cake. (All prices and returns are as of March 1; price-earnings ratios are based on estimated profits for the next 12 months.)

1 AT&T (symbol T, price $37, yield 5.1%) Decades ago, one of the best ways to scoop up dividends was to own stock in the Bell System phone monopoly. Today, Ma Bell's offspring AT&T remains a sturdy dividend play. Its 5.1% dividend yield towers over the 2.3% yield of the S&P 500 and is nearly three times the yield of the benchmark 10-year Treasury bond. AT&T should also hold steady in times of trouble. Over the past year, while the S&P 500 has lost 4.0%, the stock has returned 13.7% (including dividends).

AT&T, the second-largest provider of wireless service in the U.S. (behind Verizon Communications), aspires to be more than just a phone company. AT&T acquired

■ WARREN BUFFETT OWNS A MAJOR STAKE IN PACKAGED-FOOD GIANT KRAFT HEINZ.

DirecTV in 2015 to deliver satellite television services, aiming to defend its turf against cable providers and Verizon. Folding in DirecTV—and offering unlimited data to customers who buy both TV and phone service—should help AT&T hold on to "higher-value subscribers," says James Moorman, an analyst with brokerage firm D.A. Davidson. The company is also expanding in Latin America; it entered the Mexican wireless market in 2015 and now offers TV service to 12.5 million customers throughout the region.

AT&T's spending spree has saddled it with $126 billion in debt. But analysts say AT&T should have no trouble handling debt payments as revenues and profits pick up. Wall Street expects the company to book $168 billion in sales this year, up 14% from 2015. With earnings forecast to hit $2.85 per share in 2016, AT&T can easily afford its $1.92-per-share annual dividend, which analysts expect to edge up to $1.96 per share in 2017. One big fan of AT&T: Warren Buffett, who bought 59.3 million shares last year. (For more on the master, see page 60.)

2 Automatic Data Processing **(ADP, $87, 2.4%)** As the country's largest private payroll processor, ADP is riding a hiring wave that has seen the U.S. add an average of 228,000 jobs per month over the past three months. The company's payroll customers stick with ADP for an average of 12 years, providing a steady base of revenues. The firm has also expanded into other business services, including the administration of human-resources benefits. And ADP will benefit from higher short-term interest rates (whenever they come) because they will increase the income it receives from holding customers' payroll cash.

ADP's profits would suffer if hiring slowed or the economy slipped into a recession. Assuming that doesn't happen, analysts predict that ADP's earnings per share will jump 12% in the fiscal year that ends this June and 14% in the June 2017 year. ADP is also a dividend champ: It has hiked its payout for 41 years in a row—a streak in no danger of ending. Paying about two-thirds of its earnings as dividends, ADP should have plenty of room to increase its payout down the line.

3 Cisco Systems **(CSCO, $27, 3.9%)** The stock of networking-equipment maker Cisco has been a dud since the dot-com boom ended in early 2000. But Cisco is a tech survivor with huge financial muscles. It recently lifted its quarterly dividend by 24%, to 26 cents per share, and it authorized a new $15 billion stock-buyback program—moves that have helped the stock top the market so far this year.

Sales of Cisco's networking gear aren't expanding fast. But the firm has branched out into areas with greater potential. It plans to spend $1.4 billion to buy Jasper Technologies, a start-up involved in the "Internet of Things," which connects everything from cars to medical devices to the Web. Cisco has also bulked up its offering of services, security software and other products, spreading its bets across an array of tech businesses.

Wall Street expects Cisco's earnings per share to rise just 4% in the fiscal year that ends this July. But profits should expand at a faster rate in the years ahead as Cisco's tech bets start to pay off. Brian White, an analyst at brokerage Drexel Hamilton, sees the stock hitting $34 over the next 12 months.

4 Kraft Heinz **(KHC, $78, 3.0%)** Buffett's Berkshire Hathaway (BRK.B) doesn't pay dividends. But Buffett likes companies that do—one reason he owns a major stake in Kraft Heinz. Buffett helped engineer the combination of the two food-industry stalwarts, first by buying Heinz and then merging it with Kraft Foods in 2015, creating a packaged-food giant with more than $27 billion in annual sales.

One reason to like the stock now is that it's a "self-help" story, says Pablo Zuanic, an analyst with brokerage Susquehanna Financial. Although sales are barely growing, the firm should be able to boost its bottom line with cost cuts as the companies combine manufacturing facilities and slash duplicate overhead. Zuanic estimates that those savings could hit 10% to 12% of annual sales, much more than the 8% the company anticipates. If

Kraft Heinz does slim down that much, Zuanic figures that it could earn $5 per share by 2019, which would justify the stock reaching $98 within a year.

Even if those targets seem like a stretch, the company should stay solidly profitable. Analysts see the firm earning $2.96 per share this year and $3.72 in 2017—easily covering the annual dividend of $2.32.

5 Lockheed Martin (LMT, $218, 3.0%)
Assuming world peace doesn't suddenly arrive, sales should remain robust for Lockheed. The company is the leading contractor for the largest weapons program in Pentagon history—a roughly $400 billion multiyear plan to build more than 2,400 F-35 fighter jets. Lockheed's lineup also includes combat ships, missile systems and a spacecraft it's building with NASA for an upcoming journey to Mars. The company has expanded into high-tech areas such as cybersecurity and biometrics. And Lockheed expects to expand business at helicopter maker Sikorsky, which it acquired last year in a deal that cost $7.1 billion after tax benefits.

Lockheed's stock may slump if defense budgets rise less than expected. But it's more likely that U.S. defense spending will pick up, after years of congressionally mandated spending caps. Wall Street estimates that Lockheed will earn $11.80 per share in 2016, up 9% from 2015, and $13.70 in 2017, a sturdy 16% gain. Overall, the stock is a "high-quality play in the defense industry," says RBC Capital Markets analyst Robert Stallard, who sees the shares hitting $244 over the next 12 months.


A PICKUP IN DEFENSE SPENDING SHOULD BOOST THE FORTUNES OF WEAPONS MAKER LOCKHEED MARTIN.

6 Pfizer (PFE, $30, 4.0%)
Pfizer is trying to combine with Botox maker Allergan (AGN) in a $160 billion deal that would create the world's largest drug firm. The merger is controversial because the smaller Allergan would buy New York–based Pfizer, and the combined companies would be headquartered at Allergan's address in Dublin, Ireland. Known as a "tax inversion," the deal would cut Pfizer's U.S. tax bill. Pfizer says it sees no legal hurdles to the merger, which it aims to close in the second half of 2016. But regulators may still try to block it.

Although the deal would be a win for both firms, Pfizer looks compelling without Allergan. The company is lifting revenues with several recently launched drugs, such as pneumonia vaccine Prevnar 13, cancer drug Ibrance and blood thinner Eliquis. With its 2015 acquisition of Hospira, Pfizer entered the market for generic versions of biotech drugs, which could be another big source of revenues. Pfizer also supplies consumer products, such as Advil and Centrum, although it may sell the division that makes them to focus more on its core pharmaceutical business.

Pfizer's earnings aren't likely to climb more than 5% this year, partly because the dollar is crimping profits earned in foreign currencies. But analysts see profits rising 8% in 2017. "In this environment, people want stability in a stock, and Pfizer falls into that camp," says Ari Sass, comanager of the M.D. Sass Equity Income Plus Fund.

7 Welltower (HCN, $66, 5.2%)
Since 2007, Welltower has shelled out more than $27 billion to amass an enormous collection of health care–related real estate. Its roughly 1,400 properties range from outpatient medical facilities to assisted-living housing for seniors. In addition, Welltower generates about one-third of its revenues from managing senior housing, which gives it more ways to lift profits than just being a landlord.

As a REIT, Welltower must pay at least 90% of pretax income as dividends, and those payouts have risen steadily. Since 2009, Welltower's dividend has escalated from $2.72 per share to an annual rate of $3.44—a 26% gain.

REITs *do* face some steep hurdles. Higher interest rates would pressure their profits and could result in reduced property values. Health care REITs could slump if the government trims spending on Medicare and Medicaid. Moreover, some analysts worry that a glut of senior housing will squeeze rents.

But Welltower appears to be insulated from some of these pitfalls. Private insurance and payments from individuals account for 87% of its revenues, protecting the firm against government spending cuts. Most of its senior housing is in markets without much competition from new properties, says brokerage Canaccord Genuity. What's more, Welltower is financially healthy enough to buy more real estate and boost dividend income. Over the next 12 months, Canaccord figures that the stock could hit $79—a 20% increase from the current price, on top of the plump dividend yield. ■

"Constantly checking market results practically begs you to do something, even if doing nothing is the best course."

KATHY KRISTOF > Practical Investing

It Pays to Tune Out the News

If you're looking for a completely delightful experience, disconnect yourself from the markets for a few weeks—maybe longer. Don't read the news. Don't watch the indexes. Don't check your portfolio. Just go away and live a normal life. See things. Touch nature. Sing. Hike. Dance. Meet people. Talk with your family. Once you return to reality and review the investment news you missed, you may well conclude that ignorance really is bliss.

That is how things used to be, when my kids were small and I didn't have the time to constantly check my portfolio. But now that they're grown and it has become so easy to obtain information, I find myself checking news and market results multiple times daily. And all that checking practically begs you to do something, even if doing nothing is the best course. It took a two-week vacation to Panama and Ecuador, primarily to visit the Galapagos Islands, for me to relearn the lesson that less can be better than more.

I admit that it was hard to withdraw from my investment-centric world. In fact, we booked our flights on Copa Airlines just so I could get a firsthand view of one of my Practical Investing portfolio's worst performers, **COPA HOLDINGS (SYMBOL CPA, $62)**. The stock has been a nightmare, but our flights were dreamy, taking us back to an era when planes served full meals and booze free, and departed and arrived on time. (Share prices are as of March 1.)

Copa dominates Tocumen International Airport, which lets you avoid a slog through Panamanian customs when you're passing through to other parts of Latin America. But I suspect that few Americans are familiar with Copa, which serves just 12 U.S. airports. Most of our shipmates in the Galapagos had been steered to U.S. carriers, even though it meant that many traveled hours out of their way. I think Copa has the potential to attract many more U.S. travelers, so I am keeping the shares for now.

I actually thought I might stay connected during the trip because the sales literature promised Wi-Fi on the ship. The promise proved to be mostly a tease, as service was spotty. But the electronic deprivation turned out to be a blessing in disguise. I had a wonderful time living in the moment and, to quote Shakespeare, we missed a lot of "sound and fury, signifying nothing."

In the meantime, the markets fluctuated without me. When we arrived home, my portfolio was worth a bit more than it was when I left, despite a sharp drop in early February that would surely have unsettled me had I known about it in real time.

Portfolio moves. That said, I made a few moves in the portfolio both before and after my vacation. As I mentioned last month, I bolstered my position in **APPLE (AAPL, $101)**. I also bought 150 shares of biotechnology giant **GILEAD SCIENCES (GILD, $90)** for $90.81 apiece in late January. And I bought 550 shares of **GENERAL MOTORS (GM, $30)** for $28.58 in late February. GM sells for just 5.5 times estimated 2016 earnings, about two-thirds less than the overall market's price-earnings ratio. That seems ridiculously cheap, though I'm aware that many experts suggest *selling* shares of a cyclical company, such as an automaker, when its P/E is in the gutter, on the theory that earnings are at or near a peak and have nowhere to go but down. But I don't think GM's profits have peaked yet for this cycle. Plus, the stock boasts a healthy 5.1% dividend yield.

Finally, I unloaded my stake in Microsoft (MSFT, $53), even though I'd previously called it a core holding. The stock has been on a roll since I bought it four years ago. With the P/E now more than twice the firm's estimated earnings-growth rate, the shares have gotten too pricey for my taste. But this is one sell decision I'm not anguishing over. I walk away from Microsoft with a gain of 123%, including dividends. ■

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LISE METZGER

STOCKS»

8 Stocks Buffett Is Buying…or Should Be

Hitch a ride with stocks the master already holds, or take a chance on four firms that he doesn't own—yet. BY TOM PETRUNO

FOLLOWING BILLIONAIRE investor Warren Buffett into stocks he owns has often been a profitable strategy over the past few decades. But reversing the order—buying a stock *before* Buffett buys it—can potentially be even more rewarding.

With that in mind, we went prospecting for companies that Berkshire Hathaway (symbol BRK-B, $137), Buffett's holding company, has been buying recently, and four stocks that Buffett doesn't hold but we think he ought to buy. We looked for the things he favors: companies that are leaders in their industries, that have a strong commitment to sharing profit with investors, and whose stocks sell for relatively low prices compared with earnings and underlying asset value.

A few caveats: First, even Buffett makes mistakes (see kiplinger.com/links/worstbuffett for some of his clunkers). Second, many of Berkshire's picks are now made by Buffett's two investing deputies, Todd Combs and Ted Weschler, not Buffett himself. And third, anyone guessing which stocks might be attractive to Berkshire is doing just that—guessing.

All that said, here's a look at four stocks that Berkshire has bought since October 1 and four that we humbly suggest Buffett should consider. (Prices and related data are as of March 1.)

STOCKS HE'S BUYING

Wells Fargo & Co. (WFC, $49) If there's one stock that epitomizes Buffett's devotion to companies he likes, it's probably this banking titan. Wells has been a Buffett holding since 1989, and it is now Berkshire's second-biggest stock bet—behind only Kraft Heinz—with a stake worth $24.4 billion.

Bank stocks got off to a rough start in 2016. Investors worry about the weak global economy and rising energy-loan defaults. But Wall Street's biggest concern may be that the Federal Reserve will stop raising short-term interest rates. Higher rates are expected to boost bank profits because lenders typically raise loan rates faster than the rates they pay depositors.

Still, none of that is likely to change Buffett's long-term view of Wells, which he considers one of the world's best-managed big banks. Investors who want to tag along get a stock that sells for a modest 11 times estimated 2016 earnings and pays a 3.1% yield.

Phillips 66 (PSX, $83) When Berkshire bought its initial stake last year, Buffett told CNBC that people were the key: "We like the management very much." That's classic Buffett: buying a business for the brains behind the physical assets. Berkshire now controls 14.3% of Phillips, worth $6.1 billion.

Phillips owns 14 oil refineries, but the company sees its future in its other businesses, which include natural gas purification, gas pipelines, and olefins, the building blocks of many plastics and fibers. While many energy firms fell deep into the red in 2015, Phillips earned $7.67 per share on revenues of $101 billion. In 2016, however, analysts on average expect profits to fall to $6.46 per share because lower prices for refined gasoline have caught up with the cheap prices that Phillips pays for crude. Still, investing in Phillips looks like a fairly low-risk way of hitching a ride with Buffett.

Deere & Co. (DE, $81) Berkshire's wager on Deere (it holds 7.0% of the machinery maker) isn't looking great. The stock has tumbled 17% from its 52-week high as crop prices have dropped

COURTESY HARLEY-DAVIDSON

with other commodities. As farmers earn less, their income dives—and with it, their ability to buy tractors, harvesters and other equipment. Deere expects a 10% decline in sales for the fiscal year that ends next October. But, helped by cost cutting, earnings have been "much better than we have experienced in previous downturns," CEO Samuel Allen told investors in February.

Deere boasts an attribute that Buffett cherishes: The company has been disciplined about returning capital to shareholders, including via stock buybacks, which have shrunk total shares outstanding by 29% over the past 10 years.

Axalta Coating Systems **(AXTA, $26)** Buffett likes to own the strongest players in any industry. Axalta, a 150-year-old company that was once part of DuPont, fits the bill, with about 25% of the global market for paint and other coatings used in auto repair and refinishing. At last report, Berkshire held nearly 10% of the company.

One issue facing Axalta is the need to reduce heavy debt taken on in its split from DuPont. Over the longer term, a key question is whether self-driving cars will reduce accidents and therefore demand for auto-body repairs. The minds at Berkshire, of course, know all this and still chose to place a big bet on Axalta.

■ HARLEY-DAVIDSON IS THE KIND OF ICONIC BRAND THAT BUFFETT LOVES.

STOCKS BUFFETT SHOULD CONSIDER

Spectra Energy Partners **(SEP, $46)** As the plunge in energy prices accelerated over the past year, investors dumped anything tied to the industry—even stocks of companies that had little exposure to oil and gas prices. One such victim was Spectra Energy Partners, a master limited partnership that owns major natural gas pipelines and storage facilities in the East and the South. Spectra's shares, or units, slid from $60 in 2014 to a low of $36 last year. Yet most of Spectra's revenues come from set fees paid by gas customers under long-term contracts. The units have since rebounded but still offer a hefty yield of 5.6%. Brokerage RBC Capital projects that Spectra's payouts will jump 8.1% this year and 7.5% in 2017, which should appeal to Buffett's appreciation of cash returns.

Alliance Data Systems **(ADS, $214)** One of Buffett's classic bits of investment advice is to "be greedy when others are fearful." Some Wall Street analysts believe that shares of Alliance have been wrongly trashed by fearful investors. Alliance, which had $6.4 billion in revenues last year, manages private-label credit cards, such as those offered by major retailers, and provides data-driven marketing services to retailers. As worries about the weak global economy have deepened, financial stocks have been hit hard because of fears that loan losses could surge, including on credit cards. Alliance's shares crashed from $312 in 2015 to a low of $177 in February, before rebounding a bit recently.

Ramsey El-Assal, an analyst at brokerage Jefferies, says the stock's plunge is "baking in severe credit losses" that are unlikely to materialize. When that scare abates, he says, the stock should recover as investors focus on the "resurgence" of private-label credit cards. And Buffett knows something about credit cards. Berkshire owns 15.6% of American Express and has smaller stakes in MasterCard and Visa.

Harley-Davidson **(HOG, $44)** Buffett has some history with the legendary U.S. motorcycle maker. In 2009, during the financial crisis, Buffett helped Harley survive by lending it $303 million. Harley's sales rebounded, and its stock, which briefly fell below $10 in 2009, reached $74 in 2014. But the price has since fallen by 41% as sales and earnings have stagnated, due in part to the strong dollar. Some analysts also worry that Harley hasn't done enough to court young customers, as its core fan group of aging males gets, well, more aged.

But like Coca-Cola and See's Candies, Harley is the kind of iconic brand that Buffett loves to own. Brokerage Robert W. Baird & Co. says that Harley fits another one of Buffett's criteria: The firm is committed to returning capital to shareholders through stock buybacks and dividends. It recently raised its payout by 13%.

Harman International Industries **(HAR, $79)** The sound-system giant has several key attributes that might attract maestro Buffett. Harman owns a number of well-known brands, including Harman Kardon and JBL. But its largest business now is technology for the "connected car." That means one platform that integrates sound, the Internet, safety features, cybersecurity and navigation aids. That puts Harman at the crossroads of two industries Buffett has favored—autos and entertainment.

But some investors fear that despite Harman's relationships with major automakers, it might lose the connected-car race to much bigger players, such as Apple. As a result, Harman stock has been cut in half over the past year. The shares now sell for 12 times calendar 2016 earnings estimates, a price that makes Harman look like a gift to value hunters, perhaps including Buffett. ■

“Many bond pros say subzero interest rates are unlikely because they wouldn’t help the U.S. economy and could damage it.”

JEFFREY R. KOSNETT > Income Investing

Negative Rates? No Way, USA

Imagine you’re a saver who puts $1,000 in the bank and discovers when you go to withdraw your money that your deposit is worth only $990. Of course, no bank in its right mind would advertise a subzero yield. But Last National could slap a $10 exit fee on top of a no-payments policy and effectively impose a negative interest rate without calling it that. And I guarantee you that this kind of incongruity won’t cut both ways. No bank will accept $29,000 of payments on a $30,000 car loan and then extinguish the lien.

In truth, when it comes to the savings of the average American, subzero interest rates are a nonissue. If necessary, you could fight back by sticking your cash in a safe-deposit box or finding an online bank that would pay you *something*. Avid competition for the public’s money in the U.S., as opposed to near-comatose demand in Europe and Japan, provides some assurance that yields here will stay in the black. Laurie Brignac, chief of money market funds at Invesco, says she doesn’t know of any money fund that has bought a debt instrument that sported a negative interest rate.

By contrast, European government bonds with maturities of up to one year regularly change hands at yields of −0.2% to −0.5%. And submerged yields aren’t limited to short-term debt. In March, the Bank of Japan sold 10-year bonds with a 0.10% interest coupon at a price above face value, resulting in a yield to maturity of −0.024%.

For investors, the only way that owning bonds paying negative yields could work out is if deflation takes hold—or if someone else buys their bonds at a higher price (and at an even lower negative yield). At any rate, I am confident that you are not foolish enough to buy yield-free foreign bonds denominated in currencies, such as the euro, Swiss franc or yen, that could continue to lose value against the dollar.

But the prospect of negative yields in the U.S. just won’t go away. For example, the Federal Reserve is asking banks how negative rates would affect their businesses when it “stress-tests” them (alongside other questions about such perils as a deep recession and a spike in loan delinquencies). Even so, Fed chair Janet Yellen said during recent testimony before Congress that the Fed has no intention of introducing negative rates.

The downside. Many bond professionals say subzero interest rates are unlikely here because they wouldn’t help the U.S. economy and could actually damage it. Bob Andres, a former Merrill Lynch bond honcho who now runs his own investment firm, predicts that negative rates in the U.S. could lead to dire unintended consequences. The scariest scenario? Banks and insurance companies could find themselves having to pay interest to depositors or policyholders but be unable to earn anything on their own investments without taking substantial risks. Moreover, says Dan Heckman, a strategist for U.S. Bank, below-zero rates “would be telegraphing negativity to the financial markets and the general populace.”

And don’t forget that foreign investors view Uncle Sam as the go-to source for safe income. Consider that in early March, Treasury bonds with maturities of two, five and 10 years yielded 1.3 to 1.8 percentage points more than comparable Dutch, French and German government bonds. Those rate spreads have held steady for more than a year. If yields on Treasury bonds were to plunge below zero, the Europeans would likely force their own bond yields way, way, way into negative territory. The giant sucking sound likely to follow would be that of more European money crossing the pond. The dollar, already robust, could strengthen further. The risks of deflation and recession would rise. It would not be pretty. ■

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

LISE METZGER

FUND SPOTLIGHT

Banking on Small Banks

By focusing on dull savings and loans, this fund crushed its rivals over the past year.

IF ANYTHING UNDERSCORES THE IDEA that bigger isn't always better, it's the recent results of small-bank stocks in general and of **HENNESSY SMALL CAP FINANCIAL FUND** in particular. Although the fund gained only 1.9% over the past year, it crushed the average financial sector fund by 13.8 percentage points.

Bank stocks have been flailing because of recession fears, uncertainty about interest rates and concerns that many energy firms may default on their loans. But small banks have held up better than their larger counterparts. Over the past year, the KBW Nasdaq Regional Banking index, which tracks shares of small banks, shed 5.7%, while a KBW index that tracks large banks sagged 14.9%.

Hennessy's managers, Dave Ellison and Ryan Kelley, invest mainly in savings and loans with market values of less than $3 billion. Small banks earn 70% to 100% of their profits from the "spread"—the difference between the rate at which they borrow and the rate at which they lend. Big banks, Ellison says, rely much more on such things as investment banking and money management. Small banks, he adds, benefit more from higher interest rates, which is why investors flocked to them when it became apparent that the Federal Reserve would raise rates last year.

Hennessy held 38 stocks at last report. Its top three holdings were WSFS Financial, Flushing Financial and Independent Bank. **RYAN ERMEY**

FINANCIAL SECTOR STOCK FUNDS Ranked by one-year returns

Rank/Name	Symbol	Annualized total return through Feb. 29 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Exp. ratio	Toll-free number
1. Burnham Financial Services A@	BURKX	11.3%	14.9%	12.3%	5.00%s	1.61%	800-462-2392
2. Hennessy Small Cap Financial Inv@	HSFNX	1.9	7.4	5.8	none	1.50	800-966-4354
3. Emerald Banking and Finance Inv@	FFBFX	0.6	13.1	11.9	none	1.58	855-828-9909
4. 1919 Financial Services A@	SBFAX	–2.2	10.0	9.7	5.75	1.44	844-828-1919
5. Fidelity Select Insurance	FSPCX	–2.5	11.5	10.3	0.75r	0.81	800-343-3548
6. JHancock Regional Bank A@	FRBAX	–3.3	10.2	8.9	5.00	1.26	800-225-5291
7. Franklin Mutual Financial Services A@	TFSIX	–6.1	7.4	6.4	5.75	1.41	800-632-2301
8. Davis Financial A@	RPFGX	–7.6	8.7	7.5	4.75	0.86	800-279-0279
9. Fidelity Select Banking	FSRBX	–12.6	6.3	5.9	0.75r	0.79	800-343-3548
10. AR Capital BDC Income A@&	BDCAX	–13.1	—	—	4.50	1.50	866-271-9244
CATEGORY AVERAGE		–11.9%	5.0%	5.0%			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets† (billions)	Annualized total return through Feb. 29 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Toll-free number
1. Vanguard Total Stock Market Idx Inv@	VTSMX	$335.7	–8.0%	9.9%	9.5%	none	800-635-1511
2. Vanguard Total Intl Stock Idx Inv@	VGTSX	177.2	–16.5	–1.6	–1.1	none	800-635-1511
3. Vanguard 500 Index Inv@	VFINX	171.8	–6.3	10.6	10.0	none	800-635-1511
4. American Growth Fund of America A@	AGTHX	131.0	–7.5	10.3	9.0	5.75%	800-421-0180
5. American EuroPacific Growth A@	AEPGX	113.2	–14.5	1.1	1.1	5.75	800-421-0180
6. Fidelity Contrafund@	FCNTX	101.6	–5.1	11.5	10.1	none	800-343-3548
7. American Capital Income Builder A@	CAIBX	93.0	–7.3	4.4	5.7	5.75	800-421-0180
8. American Income Fund of America A@	AMECX	91.5	–6.2	5.9	7.0	5.75	800-421-0180
9. Fidelity Spartan 500 Index Inv@	FUSEX	87.4	–6.3	10.7	10.0	none	800-343-3548
10. American Balanced A@	ABALX	83.8	–3.0	8.0	8.4	5.75	800-421-0180
11. Vanguard Wellington@‡	VWELX	83.8	–4.7	6.9	7.4	none	800-635-1511
12. American Capital World Gro & Inc A@	CWGIX	76.3	–12.3	4.6	4.9	5.75	800-421-0180
13. American Washington Mutual A@	AWSHX	72.9	–6.2	9.8	10.0	5.75	800-421-0180
14. Franklin Income A@	FKINX	72.7	–13.0	1.2	3.5	4.25	800-632-2301
15. American Invstmt Co of America A@	AIVSX	69.0	–7.6	10.2	8.9	5.75	800-421-0180
16. American Fundamental Inv A@	ANCFX	68.6	–5.9	9.8	8.6	5.75	800-421-0180
17. American New Perspective A@	ANWPX	54.5	–8.2	6.6	6.3	5.75	800-421-0180
18. Dodge & Cox Stock	DODGX	50.6	–12.1	8.6	8.5	none	800-621-3979
19. Vanguard Mid Cap Index Inv@	VIMSX	50.0	–11.2	9.4	8.6	none	800-635-1511
20. Dodge & Cox International Stock@**	DODFX	49.7	–25.6	–1.5	–0.6	none	800-621-3979
S&P 500-STOCK INDEX			–6.2%	10.8%	10.1%		
MSCI EAFE INDEX			–14.8%	0.8%	1.0%		

@Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. †For all mutual fund share classes combined. ‡Open to new investors if purchased directly through Vanguard. **Closed to new investors. &Closed to all investors. 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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RETURNS FOR THOUSANDS OF FUNDS ONLINE

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EXPLANATION OF TERMS

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

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

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

>> LIVING

SHARE YOUR HOME FOR FUN AND PROFIT

Websites such as Airbnb make it easy to rent out a spare room, a wing of your house or a backyard cottage.

BY MIRIAM CROSS

PHOTOGRAPH BY JOSÉ MANDOJANA

BETH EVERETT OF PORTLAND, ORE., RENTS OUT HER BACKYARD COTTAGE THROUGH AIRBNB. SHE EARNED ABOUT $9,000 FROM RENTALS LAST YEAR.

BETH EVERETT AND HER HUSBAND, GLENN, built a cottage in their backyard in 2014 for their son Jordan to live in when he's home from college. But while the studio sits empty, visitors to Portland, Ore., can rent the cozy space through Airbnb for $99 a night. Fox Lair, as it's known, offers heated floors, a small sitting area decked out with guitars and bongos, and plenty of eclectic artwork.

Everett estimates that in 2015 they earned about $9,000 from a steady stream of visitors, which she used to help pay for editing and cover designs for her self-published books, the Lee Harding mystery series. "It was the easiest money I ever made," she says. "And it was fun."

Airbnb wasn't the first website to help owners, or "hosts," rent out their homes directly to travelers. But the rental site has made it easy for anyone, in any city, to offer up a couch, a spare room, an in-law suite or the entire house for a short-term rental, generally defined as fewer than 30 days. "You don't have to have a six-bedroom house in Florida," says Joseph DiTomaso, CEO of AllTheRooms.com, a search engine that aggregates both traditional accommodations and short-term rentals. "You can rent out a room while you're traveling for a week and make money to pay for your trip."

A plethora of websites compete with Airbnb. The sites typically charge a service fee of at least 3% of the rent (and sometimes substantially more), but some lend a hand with the marketing, take care of collecting taxes in some locations and offer insurance (see the box on page 68). Airbnb, along with other sites, collects payments from your guests and deducts fees and sometimes taxes before sending the rest to you. Third-party services, including Guesty, Pillow and Proprly, offer to help make your gig as a landlord easier by managing your listings, delivering keys to guests, cleaning your place and more, often for a small percentage of the rental income.

NAVIGATE THE RULES

Start by checking with your homeowners association, condo or co-op board (or landlord, if you're a renter) to see if short-term rentals are allowed and under what conditions. Your city or county may also have restrictions, but in many jurisdictions, laws that apply are rarely enforced—or they haven't been updated to address sharing-economy rentals.

Several cities have made changes to deal with the new realities of home sharing. Last year, for example, San Francisco passed a law allowing rentals of fewer than 30 nights by residents who follow a set of strict rules. In New York City, rentals of fewer than 30 days are legal in apartment buildings if the host is there.

Your city may charge a registration fee, require you to secure city permits and business licenses, and enforce zoning rules that may prohibit short-term rentals. Sometimes that sounds more intimidating than it actually is. In Portland, where Everett lives, you're allowed to rent out part of your primary residence as long as you register with the city and jump through a few hoops, such as notifying your neighbors and keeping a log of your guests. And you may have to undergo an inspection to ensure your rental meets safety standards.

Right now, laws governing short-term rentals tend to be enforced only if the neighbors complain because, say, your guests throw a raucous party. But that may be changing. "I am seeing increasing oversight and enforcement of short-term rental ordinances, particularly for tax collection and code enforcement," says Paula E. Meyer, a real estate lawyer and owner of Paula E. Meyer & Associates, in Tustin, Calif. If you flout the rules and get caught, the extra bucks you make could be gobbled up by fines and other penalties.

Vacation rental websites generally take a hands-off approach to local laws, leaving it to you to work out the legalities of subletting your home. Your city council or local government website is the best place to start your research. Airbnb also has summaries and links for about 50 U.S. cities on its "Responsible Hosting" page.

FIGURE THE TAXES

Whether you're renting out your couch or an entire villa, your guests usually have to pay taxes to the city, county or state—and sometimes all three. The taxes go by different names: sales, lodging, occupancy or hotel taxes. Some rental services, including Airbnb and FlipKey by TripAdvisor, automatically deduct and pay these taxes for you in locations that have agreements with the services. That's one reason Everett prefers Airbnb over VRBO, a website on which she used to list her cottage. The city and county split an 11.5% "transient lodging" tax,

COURTSEY OF HOMEEXCHANGE

and the state takes another 1%.

If you list with a site that doesn't take care of taxes for you, services such as Avalara MyLodge Tax can help you calculate what you owe. Avalara charges about $150 a year to file taxes on your behalf, but the amount changes depending on how many monthly or quarterly returns your city and county require.

Unless you rent out your home for 14 or fewer days a year—say, when a

How to Swap Homes

IF YOU WILL SETTLE FOR NOTHING LESS THAN AN APARTMENT in the Sixth Arrondissement of Paris in May, then stick with short-term rental websites to plan your dream vacation. But if you're open to traveling anywhere, anytime, you can save a lot of money with a home swap.

Home swaps, or exchanges, can be simultaneous, in which you trade residences with someone else at the same time. Or you can set up a non-simultaneous swap with someone's second home (or

THIS HOME IN QUEENSLAND, AUSTRALIA, IS AVAILABLE FOR A SWAP THROUGH HOMEEXCHANGE.COM.

primary home, when they're away), and repay the favor at a later date. Some sites, including GuestToGuest and Love Home Swap, facilitate non-simultaneous exchanges through a "points" system.

Devoted swappers find the process less risky than renting your home for money. "People tend to feel a little more entitled about how they treat things when they're paying for it," says Dawn Royski, who blogs about home exchanges for www.sharetraveler.com and has completed about 15 swaps over the past couple of years. Instead of charging security deposits, swappers commonly establish trust by communicating via e-mail and phone, reading reviews, checking references and operating on the idea that they will take care of each other's homes. Photos of a spotless home can be misleading, so ask your swapper for a Skype tour if you feel uncomfortable.

Many home-exchange websites charge a membership fee—typically about $100 per year. HomeLink and Intervac are two of the oldest and most reputable home-exchange websites. HomeExchange.com is one of the largest and most diverse. Newbies can start with a free site, or free trial, to get comfortable with the idea, though Royski notes that free sites tend to end up with a lot of inactive members. (See Royski's list of more than 100 home-exchange companies at http://sharetraveler.com/home-exchange/house-swapping-sortable-tables.) Before joining a site, see how many listings it has in locations that interest you. Try a short swap in the U.S. before venturing abroad.

Organize a successful swap. Be flexible about your destination—especially if you live in a rural or suburban area that might not be so appealing to the owner of that Tuscan villa you've been eyeing. You'll also have to plan well in advance. Lauren Kahn, who has been swapping homes since 1990 and blogs about her experiences at www.altecockertravels.weebly.com, recommends negotiating between October and January for summer swaps in Europe, and a couple years out for swaps in Australia or New Zealand. Exchanges across shorter distances—especially where both parties can drive—can be arranged with less notice. She expects her swappers to have a firm time frame in mind and waits to buy her plane tickets until her exchange partners have bought theirs.

Some home-exchange sites are offering cancellation insurance, but if you've done your homework on your exchange partners, the risk of cancellation is fairly low. Think about the worst-case scenario before you opt for insurance: a change fee for your plane ticket? A few nights in a hotel? Or, if you buy comprehensive travel insurance, see which cancellation scenarios it would cover.

When you've made a swap and guests will be staying in your home, you won't be governed by the rules that cover short-term rentals. But if you live in a condo or co-op, clear the swap with the board, and if you are a renter, tell your landlord. Your homeowners insurer might be more lenient in swapping situations than with a revolving door of short-term renters, says Spencer Houldin, of Ericson Insurance Advisors, in Washington Depot, Conn., but check to be sure. Generally, as long as you give your guests permission to drive your car, your auto insurance will cover them—but call your insurer to confirm.

To head off unpleasant incidents, prepare a binder for your guests with information on everything from how to operate your coffeemaker to the person to call in a plumbing emergency. Clarify whether you're expected to water plants, look after pets or chip in for utility bills. Substitute cheap dishes so your guests don't break fine china, and lock up valuables and private documents.

big convention comes to town—you'll owe income tax on your rental income, too. Airbnb collects payment from your guests before sending it to you and may send you a 1099 form at tax time if your income and reservations exceed a certain amount. Regardless of whether you get a 1099 form, report your rental income on Schedule E of your Form 1040 (your state and city will probably want to know about your rental income, too). You can deduct costs directly related to your rental, such as the state and local taxes you pay, advertising expenses, and even new sheets and towels. You can also deduct a portion of expenses that you pay for your entire home, such as utilities and potentially homeowners insurance. Consult IRS Publication 527, *Residential Rental Property (Including Rental of Vacation Homes),* for more details.

●● CHECK YOUR INSURANCE

You want to be protected if a guest steals something or suffers an injury and holds you liable. And if a guest starts a fire or causes water damage, you want to be sure your insurance will pay for repairs. Tell your insurer how often you rent and whether you live in the home simultaneously; insurers might see it as a plus if you're there when renters are.

Your homeowners insurer might be fine covering the occasional paying guest, says Jeanne Salvatore, of the Insurance Information Institute—but get that approval in writing. Or your agent might advise you to switch to a "dwelling fire" policy, which typically costs about 25% more than homeowners insurance, to account for the extra risk you take on as a host.

To add liability protection, Spencer Houldin, president of Ericson Insurance Advisors, in Washington Depot, Conn., recommends an umbrella policy of at least $1 million, which typically costs $150 to $200 per year.

Take simple precautions as well, such as concealing valuables. And be clear about your house rules to cut down on incidents that wouldn't trigger an insurance claim but would still hurt your wallet. A few bad experiences prompted Everett to impose some restrictions. For example, she instituted a no-guests policy when renters invited guests who drank too much and trashed her place.

Airbnb includes coverage for liability and property damage, up to $1 million each. Other rental sites sell or include insurance as well. Whether you choose to rely on this coverage depends on how comfortable you are trusting your home to an insurer you may not know much about. "It's a good backup, but don't rely on it," says Houldin. "I would much prefer to work with my own insurance company." Also, if you list your home on multiple websites, you need coverage that will apply to all guests.

■ TO HEAD OFF UNPLEASANT INCIDENTS, EVERETT GIVES HER GUESTS A LIST OF HOUSE RULES.

Everett priced a couple of commercial policies, but the premiums were more than double her homeowners insurance. For now, she is sticking with Airbnb's coverage.

Everett says she loves getting texts alerting her to new bookings. She often brightens up the rental with fresh flowers and hands out coupons for free beer at her favorite restaurant. "You get really lovely people whom you want to keep in touch with forever," she says. ■

KipTip

The Big Three Sharing Sites

THE SITES BELOW ARE THE BEST-known home-sharing economy services. Other smaller or specialty sites include HouseTrip, Kid & Coe, Onefinestay, Rent Like a Champion, Roomorama and Wimdu.

Airbnb. Rents out private rooms or entire structures. The service fee is 3% per booking. Airbnb holds payments from guests until after check-in and collects and pays occupancy taxes in certain cities. Property and liability coverage are included at no extra charge. Hosts can impose a security deposit as well.

HomeAway. The site, which also owns VRBO, rents out entire structures only. The service fee starts at 8% per booking, or owners can pay a $349 annual fee instead. Homeowners can buy tailored vacation-rental insurance called HomeAway Assure. There is no assistance with taxes. Hosts can impose a security deposit.

FlipKey by TripAdvisor. FlipKey lets you rent out private rooms or entire structures. The service fee is 3% per booking, or owners can pay an annual fee that starts at $399. The site holds payments from guests until after check-in. TripAdvisor, which owns other sites as well, collects and pays occupancy taxes in certain cities. No insurance products are available. Hosts can impose a security deposit.

JOSÉ MANDOJANA

Beware the PC Snatchers

How to get your computer back after it's been hijacked by a "tech support" scammer. BY KAITLIN PITSKER

RICHARD FAUST

IT STARTS WHEN YOU SEE A notification that your computer is sending an error message or is infected with a virus. Maybe you (rightly) shrug it off as just another scam. But maybe you panic, call the number on the screen and listen to someone posing as a Microsoft technician offer to fix the problem if you allow him to gain remote access to your computer. You give him the go-ahead.

Uh-oh. That's exactly what the scammers are counting on. Once in, they'll install spy software that lets them return through a back door or watch your activity down to the keystroke. Then they'll claim they have fixed the original problem and ask for payment. Each year, about 3.3 million people are victimized by unsolicited technical support scams, and the fraudsters rake in $1.5 billion. That amounts to a victim nearly every 10 seconds, according to Microsoft's Digital Crime Unit.

What to do now. You need to make sure the scammer doesn't set up camp permanently. Disconnect the affected machine from the Internet immediately to keep the crook from accessing your computer while you batten down the hatches. Use another PC, tablet or smartphone to change your passwords, starting with financial sites and e-mail accounts. If you paid for the bogus service with a credit card, ask your card issuer to dispute the charges, and monitor your statements.

To boot the intruder off your computer, you'll need to identify any sneaky programs left behind. Start by running a full anti-virus and anti-malware scan and removing anything it flags as a problem. Visit your Web browser's settings page to remove any unfamiliar extensions or add-ons, or restore the browser to its original settings. Before reconnecting to the Net, check your downloads folder and delete or uninstall anything that looks suspicious.

Another alternative: Call on one of several services to clean up your machine. Best Buy's Geek Squad charges $150 for remote or in-store virus and spyware removal, and $250 if the technician comes to you. Staples charges $100 for its remote service, $160 if you take the machine to the store, and $300 if the tech makes a house call. If you choose an independent repair service, check the company's record with the Better Business Bureau (www.bbb.org). If you allow the technician to access your computer remotely, watch the screen as he works. You should see a window notifying you that the session has ended. Ask that the temporary software used to control your computer be removed.

Even if you think you've eliminated the malware, you may not have gotten it all. Watch for suspicious activity, such as slow PC performance, unfamiliar websites in your browser history, or strange e-mails in your inbox or sent folder. If the infection lingers, your computer's hard drive may need to be reformatted and the operating system and apps reinstalled.

To ward off attacks in the future, use an anti-virus and anti-malware program, and keep it up-to-date. Regularly back up your files to an external hard drive (disconnect it when you're done) as well as to the cloud so your data won't be lost for good if your hard drive needs to be reformatted. And even if you're not a victim, report any unsolicited offers of technical support to the Federal Trade Commission (www.ftc.gov). ■

LOWDOWN

What You Need to Know About Chip Cards

Their rollout has been slow, spotty and sometimes frustrating. **BY LISA GERSTNER**

1. Deadline? What deadline? New rules went into effect last October that make merchants liable for fraudulent transactions if they haven't updated their terminals to accept chip-card, or EMV, payments. But as of late January, merchants had activated chip-card readers at only 17% of in-store locations, according to Visa; only 50% of locations were expected to have functioning readers by the end of 2016. Card issuers are doing a little better. There are more than 400 million chip cards now in circulation, says Randy Vanderhoof, director of the EMV Migration Forum—but that's still only one-third of the estimated 1.2 billion total cards on the market.

2. They've got your number. The microchip in an EMV card drastically reduces fraudsters' ability to create counterfeit cards. But it doesn't prevent crooks from using a stolen card number to pay online or over the phone. Canada saw a 133% spike in fraud involving such "card not present" transactions from 2008 through 2013, as the country made the switch to chip cards, according to Aite Group. (For more on how to protect payments online, see "Chip Credit Cards Aren't a Cure-All," Feb.)

3. Signature versus PIN. Chip-card users in the U.S. typically seal the deal with a signature, rather than by entering a PIN. That's not much of an obstacle for a thief who gets hold of your card. "Chip-and-signature is a half-measure," says Debra Berlyn, director of the advocacy campaign ProtectMyData.

4. Speed bumps at the register. Glitches abound as merchants work through the learning curve. For example, some restaurants that have enabled EMV payments have improperly configured tipping options, says Vanderhoof. Some stores haven't activated the chip capability on their payment terminals because they are still making sure the equipment is ready for prime time and their employees are properly trained. The word "insert" on the terminal's screen is your clue that you should dip your card in the chip-reading slot, says Gregory Burch, vice president of strategic initiative for Ingenico Group, a provider of payment services and terminals. Chip transactions typically take a few seconds longer to process than those with a magnetic stripe, but many merchants are shortening the delay as they optimize their systems.

5. Swipe with care. Operators of ATMs and automated gasoline pumps were given a liability reprieve. MasterCard extended the deadline to October 2016 for ATMs to support updated card readers, and Visa's ATM deadline is October 2017. Owners of gas terminals that aren't EMV-compliant also won't face liability until October 2017. In the meantime, watch out for "skimmers" that crooks place on card readers to steal data from your card's magnetic stripe. Pull on the card reader and surrounding area to see whether anything moves, and shield the keypad with one hand as you enter your PIN with the other to conceal the number from hidden cameras.

6. You're still covered. The move to EMV affects the liability of merchants and card issuers. But most credit card users still enjoy zero liability for unauthorized purchases, and banks will usually cover funds stolen with a debit card as long as you report the problem promptly. ■

RICHARD FAUST

THEN AND NOW

Rebecca Hoffberger has set her sights on raising a $25 million endowment for the museum she founded.

164 *Rewards* KIPLINGER'S | AUGUST 2000

Rebecca Hoffberger's gift for persuasion raised millions to create a very UNUSUAL MUSEUM.

BUILDING HER WORK OF ART

Name: Rebecca Hoffberger, 47, Baltimore
Achievement: In 1995 founded the American Visionary Art Museum in Baltimore to spotlight the work of self-taught artists outside the mainstream.
Signs of success: Congress designated her vision a national museum, and it won the Urban Land Institute's highest award for architectural design.
How she did it: Left a job raising funds for a program for the mentally ill at a Baltimore hospital, and talked the city into donating land for redevelopment; raised $7.5 million from donors.
Sources of help: Her family and her husband, LeRoy, who sold his art collection to help finance the museum.
Lessons learned: "Make clear plans, and raise money only from kindred spirits whom you admire."
Next goal: Lobby Apple Computer's Steve Jobs to donate money for a new museum wing.

PHOTOGRAPH BY JOHN DOLAN

August 2000

Expanding Her Unique Art Museum

THEN: Rebecca Alban Hoffberger appeared in our August 2000 issue, five years after founding the American Visionary Art Museum to spotlight the work of self-taught artists outside the mainstream. Hoffberger had raised $7.5 million from donors and persuaded the city of Baltimore to donate land for her project, which was designated a national museum by Congress and won the Urban Land Institute's highest award for architectural design.

NOW: The museum, which just celebrated its 20th anniversary, attracts more than 100,000 visitors each year and has become a model for similar museums. It doubled the size of its campus in 2004, and Hoffberger, 63, continues to use her contagious charisma to attract a diverse group of supporters.

Her goal is to assemble exhibits that get people to think. "A lot of people who don't like museums love coming to ours," she says. The museum's current Big Hope Show features art that reflects visions of hope, including many pieces by survivors of personal trauma—such as the dream home designed by a man who spent more than 40 years in solitary confinement before his conviction was overturned in 2013. The show also includes a tribute to a California state trooper who has talked more than 200 people out of jumping off the Golden Gate Bridge.

In addition, Hoffberger finds ways to empower Baltimoreans—for example, by hiring some museum employees from a homeless shelter, including three who have been on the staff for nearly 20 years. Mosaics on the museum's exterior walls were created through an apprenticeship program for youth at risk of dropping out of school.

Hoffberger is applying that same focus to try to help her beloved Baltimore, which has suffered from crime, riots and a dwindling population. Earlier this year, she hosted the Big Hope for Baltimore conference and used her curator's approach to gather brilliant minds from diverse fields to talk about ways to turn the city around.

And she's looking toward the museum's future, as well as her own. "Last year, I took my first sabbatical after taking not one day of vacation in 15 years," she says. She visited friends who own a gallery in Poland and returned with even more ideas. Her goal is to raise a $25 million endowment so the museum can continue to thrive without her constant advocacy. "We've been offered West Coast land for an expansion, but we won't expand until we have the endowment," says Hoffberger. "That will mean I really have done my job. It's very rewarding to see something flourish and become respected." **KIMBERLY LANKFORD**

INSET PHOTO: JOHN DOLAN

PHOTOGRAPH BY ALLANA CLARKE


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