ANNUAL FORECAST ISSUE

Kiplinger's
PERSONAL FINANCE
MONEY SMART LIVING

WHERE TO INVEST IN 2016

Stocks are still the place to be, but brace yourself for a bumpy ride. p 48

- **8 Stocks to Buy Now** p 56
- **The Best Bonds to Own** p 55
- **Where to Earn More on Your Savings** p 15

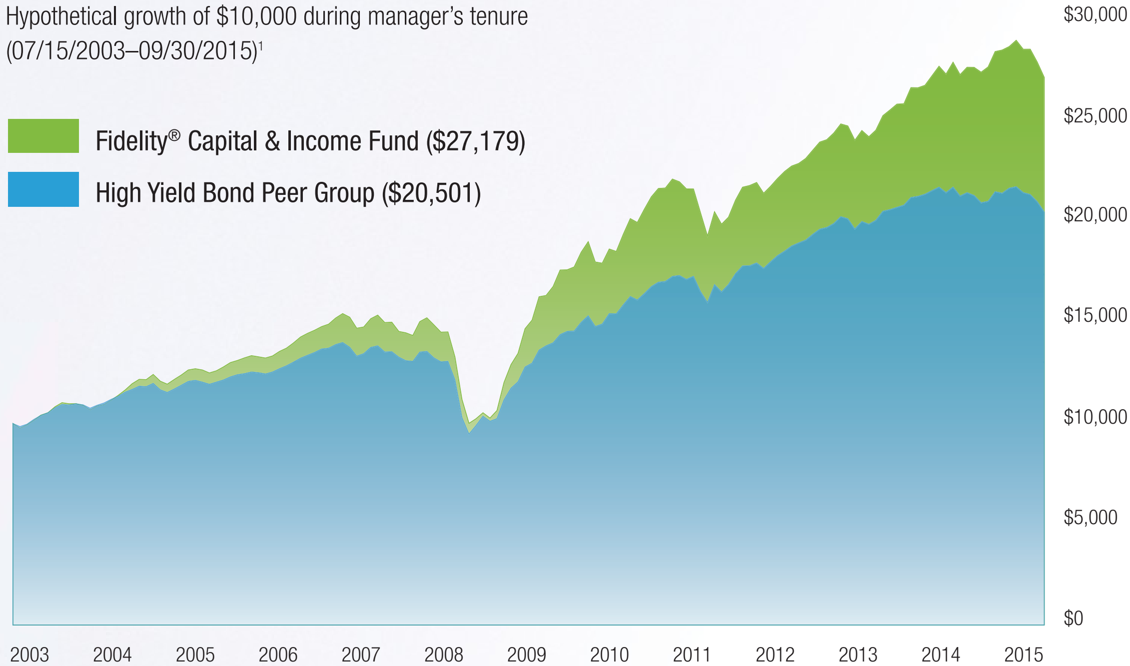
PLUS:

What Homes Are Worth Where You Live p 68
Fly to Europe for the Weekend! p 17

"We're still in a bull market, though in the late innings."
Saira Malik, of TIAA-CREF p 51

Fidelity® Capital & Income Fund (FAGIX) vs. High Yield Bond Peer Group

Hypothetical growth of $10,000 during manager's tenure (07/15/2003–09/30/2015)[1]



Average Annual Total Returns as of 09/30/2015	1 year	3 year	5 year	10 year	Manager Tenure 07/15/2003	Expense Ratio[2]
Fidelity® Capital & Income Fund	–0.50%	6.06%	6.98%	7.94%	8.53%	0.72%
High Yield Bond Peer Group[3]	–3.64%	2.89%	5.21%	5.87%	6.10%	

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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[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.

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

[3] The Morningstar category average is the average return for the peer group based on the returns of each individual fund within the group, for the period shown. This average assumes reinvestment of dividends. **Past performance is no guarantee of future results.**

CONTENTS

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VOL. 70 NO. 1

AHEAD

ON THE COVER: Photograph by Amanda Friedman. Hair and makeup: Meaganne McCandess; Stylist: Micah Bishop

ALEX MARTINEZ

MONEY

INVESTING // COVER

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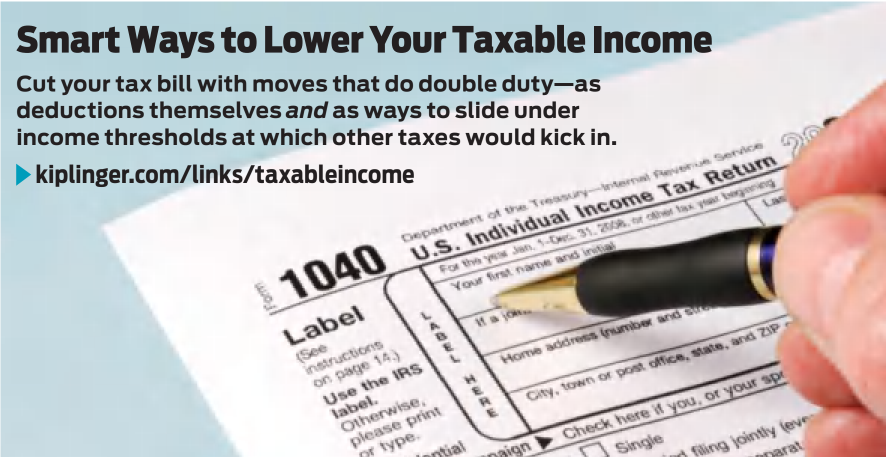
IN EVERY ISSUE



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INTERACT

ETFs TO BUY AND HOLD FOREVER

Columnist Steve Goldberg picks low-fee exchange-traded funds that long-term investors can lock into their portfolios for steady growth.

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Stacy Rapacon walks parents through the process of applying for college aid. You can submit a FAFSA for 2016–17 as early as January 1, 2016.

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STACY RAPACON
@srapacon

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

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Janet Bodnar

FROM THE EDITOR

LISE METZGER

What's in Store for 2016

On October 20, 2015—10 weeks before the end of the year—nine members of our staff sat down to plan our investing outlook for 2016. Talk about sticking our necks out. But senior editor Anne Kates Smith, who wrote our main outlook story on page 48, thought it might actually be "less dangerous" to make a prediction for 2016 than it was for 2015. Her reasoning: We already experienced a stock market correction last summer, and the bull recovered nicely.

Look for more bumps ahead, but a bear market in 2016 is unlikely. Besides, says Anne, predicting a bear market would be "a fool's errand," not least because it could scare off long-term investors who should stay in the market no matter what. Despite a nerve-racking lack of consensus on Wall Street, here's our bottom line: Economic growth and a recovery in corporate earnings point to stock-price gains in the mid single digits, plus another couple of percentage points for dividends.

Of course, the 800-pound gorilla lurking behind any attempt to predict stock prices is the Federal Reserve, which has been sending on-again, off-again signals regarding higher interest rates. Our consensus is summed up succinctly by senior editor Jeff Kosnett, who writes our "Income Investing" column (see page 55) and is editor of *Kiplinger's Investing for Income* newsletter. Opines Jeff: "Fed, schmed."

If the Fed raises short-term rates incrementally throughout 2016 and into 2017, as expected, the increases are likely to be so modest that you'll hardly notice. In fact, predicts Jeff, "low bond yields are an entrenched fact of life and will be around for the rest of this decade."

Since 2008, the U.S. Treasury has been able to sell more than $1 trillion in Treasury bills at an interest rate of precisely 0%—a boon for the government but a disaster for long-suffering savers. Assuming rates begin to inch up, "the pain (and gain) will be minimal for some time," reports contributing editor Lisa Gerstner in her interest-rate outlook (see "Ahead," on page 15).

We're not the only ones weary of Fed watching. Fixed-income specialist Marilyn Cohen, CEO of Envision Capital Management, concludes that individual investors "have to stop reading about what the Fed is or is not going to do and make conservative, well-analyzed investments."

That's where we come in. In her outlook story, Anne advises investors to stick with quality both here and abroad. On page 56, associate editor Daren Fonda lists eight stocks to buy and five to sell. In "The Contrarian Investor," a new feature that debuts on page 64, Daren also makes the case for beaten-down master limited partnerships. In his column, Jeff recommends sectors that can supplement a core bond fund or ETF. And Lisa tells how to eke out the most from your savings.

Keeping a promise. As a follow-up to my October column on "What Women Want," I promised that readers would see more stories on financial issues of

> **"Look for more bumps ahead, but a bear market is unlikely."**

particular interest to women. This month, three stories illustrate my point that although men and women use the same financial products and services, women often face different situations and have different priorities. For example, in our special report on pensions (see page 32), women should pay close attention to how to build a lifetime income stream and choose a survivor option. On page 43, we clarify Congress's recent changes to Social Security claiming strategies that affect married couples and spousal benefits. In "Caring for the Caregiver," on page 40, we offer advice and encouragement to readers—including a number of our Kiplinger colleagues—who are caring for elderly family members. Both men and women take on this role, but about 60% of caregivers are women, according to AARP. ■

JANET BODNAR, EDITOR
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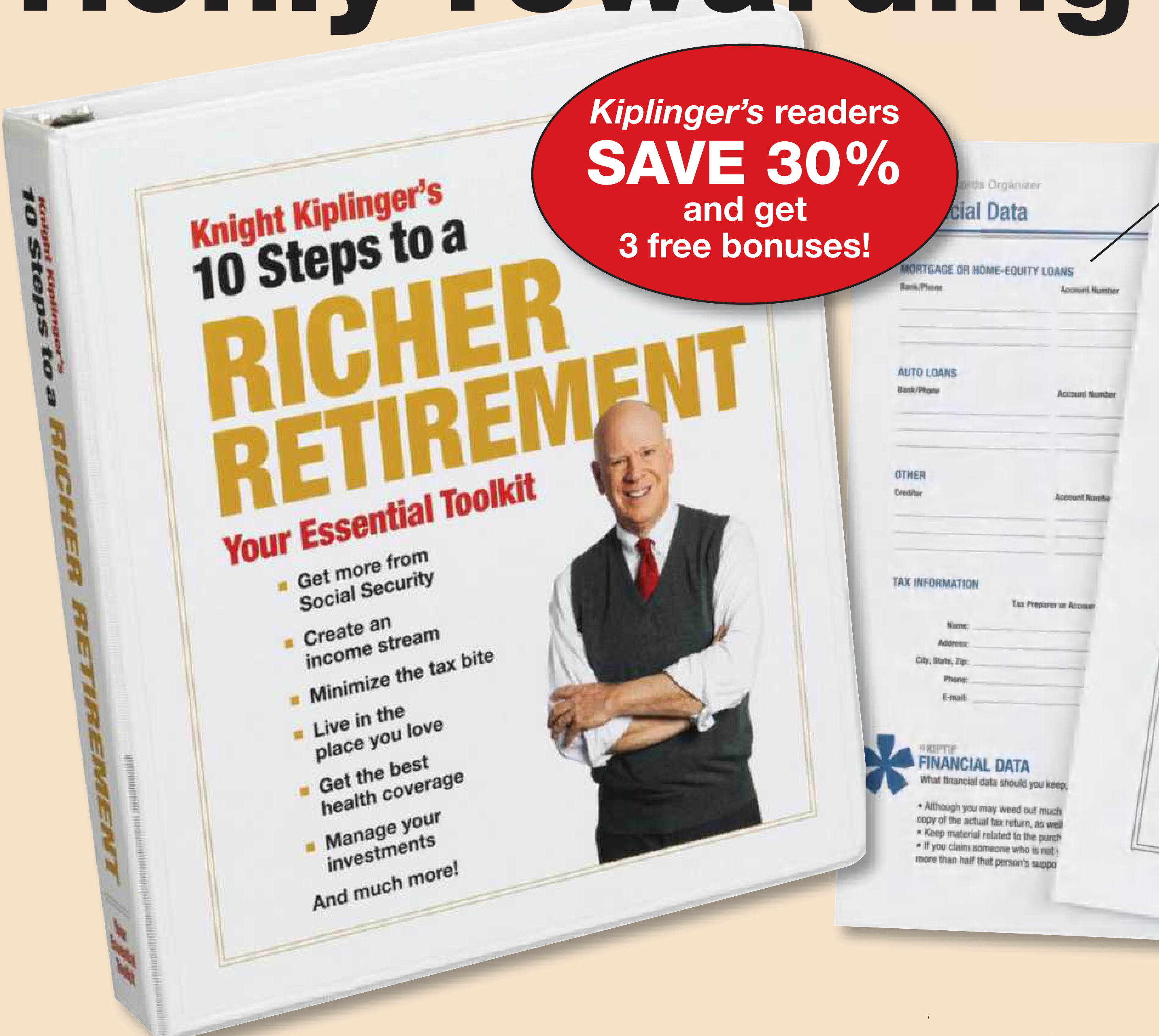

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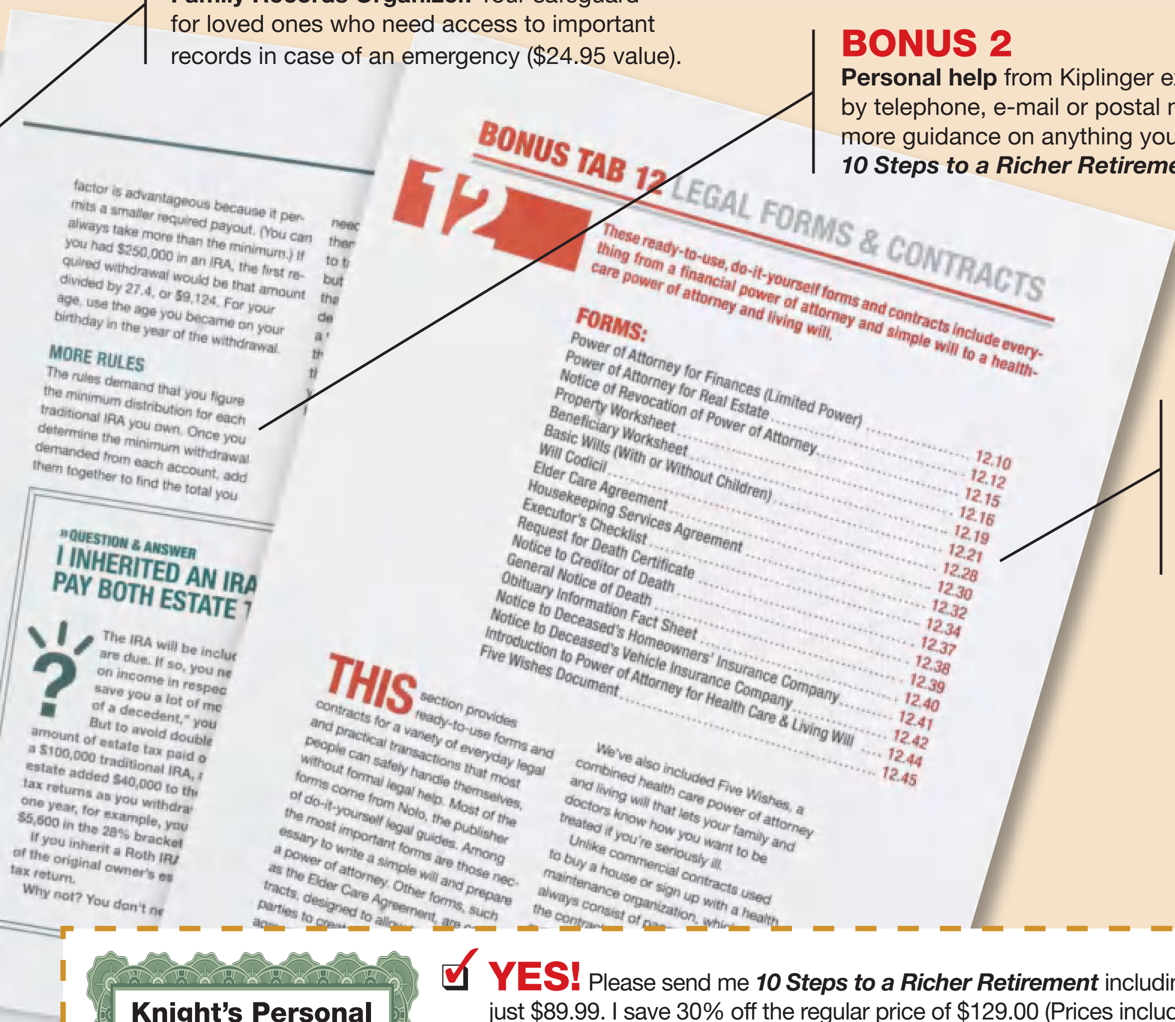

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Medicare's Rigid Rules

I appreciated your comprehensive report on Medicare ("Get the Most out of Medicare," Nov.). And you are correct that the time lines for filing appeals are rigid. For an appeal to be considered timely, not only must you file in writing within 120 days of receiving a Medicare summary notice; the claims office must also *receive* your appeal within those 120 days. In my case, I sent a written request for redetermination by Priority Mail Express on the 119th day, with guaranteed delivery to the contractor's post office box by noon the next day. But the USPS did not put my request in the Medicare contractor's box until the 121st day, and the contractor did not pick it up until day 122. The Medicare contractor ruled that my appeal was not filed within 120 days, and a subsequent appeal of the denial yielded the same result.

JASON KOGAN
LOS ANGELES

You state that single enrollees who earn more than $85,000 are subject to surcharges for Medicare Part B and Part D prescription-drug coverage. I am older than 65. If I have no earnings but my retirement and investment income exceeds $85,000, do I have to pay the Medicare surcharge?

REG URSCHLER
OMAHA

EDITOR'S NOTE: For an answer to this and similar questions, see page 45.

Give, but verify. Your article on measuring the impact of charitable donations was right on the money ("Ahead," Nov.). People should limit giving in response to high-profile disasters. Also, you noted that nonprofits with unique missions can make a big difference in both helping people in need and giving peace of mind to donors. We give to two such charities: Project C.U.R.E., which distributes medical supplies, and the Stuttering Foundation, which reaches out to people in more than 135 nations.

DANIEL SULLIVAN
STAMFORD, CONN.

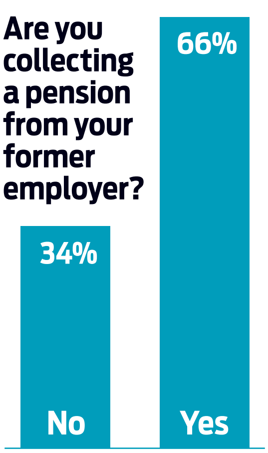
Pesky telemarketers. There must be a more effective way to stop unwanted and unsolicited calls to your home than hanging up ("Ask Kim," Nov.). I recently retired, and I'm shocked at the number of unsolicited telemarketing calls I get. Short of having my phone disconnected, it looks as if there is very little I can do.

BILLY CHATMAN
HOUSTON

EDITOR'S NOTE: For other ways to block unwanted calls and texts, turn to page 76.

Q READER POLL

Are you collecting a pension from your former employer?



To learn more about the future of pensions, turn to page 32.

SOURCE: POLL SURVEYED 227 *KIPLINGER'S* READERS.

ONLINE CHATTER

Sandra Block's column on taking regular withdrawals from a 401(k) started this discussion ("Game Plan," Nov.):

"Even though I was still working, at 59½ I moved the maximum allowable out of the company plan. Some was pre-tax money that went into a rollover IRA, and some was Roth money that went into a Roth outside the plan."

"Who would keep money in a former employer's 401(k)?"

"I would. Expense ratios on my two index funds in the plan are minuscule."

› LETTERS TO THE EDITOR

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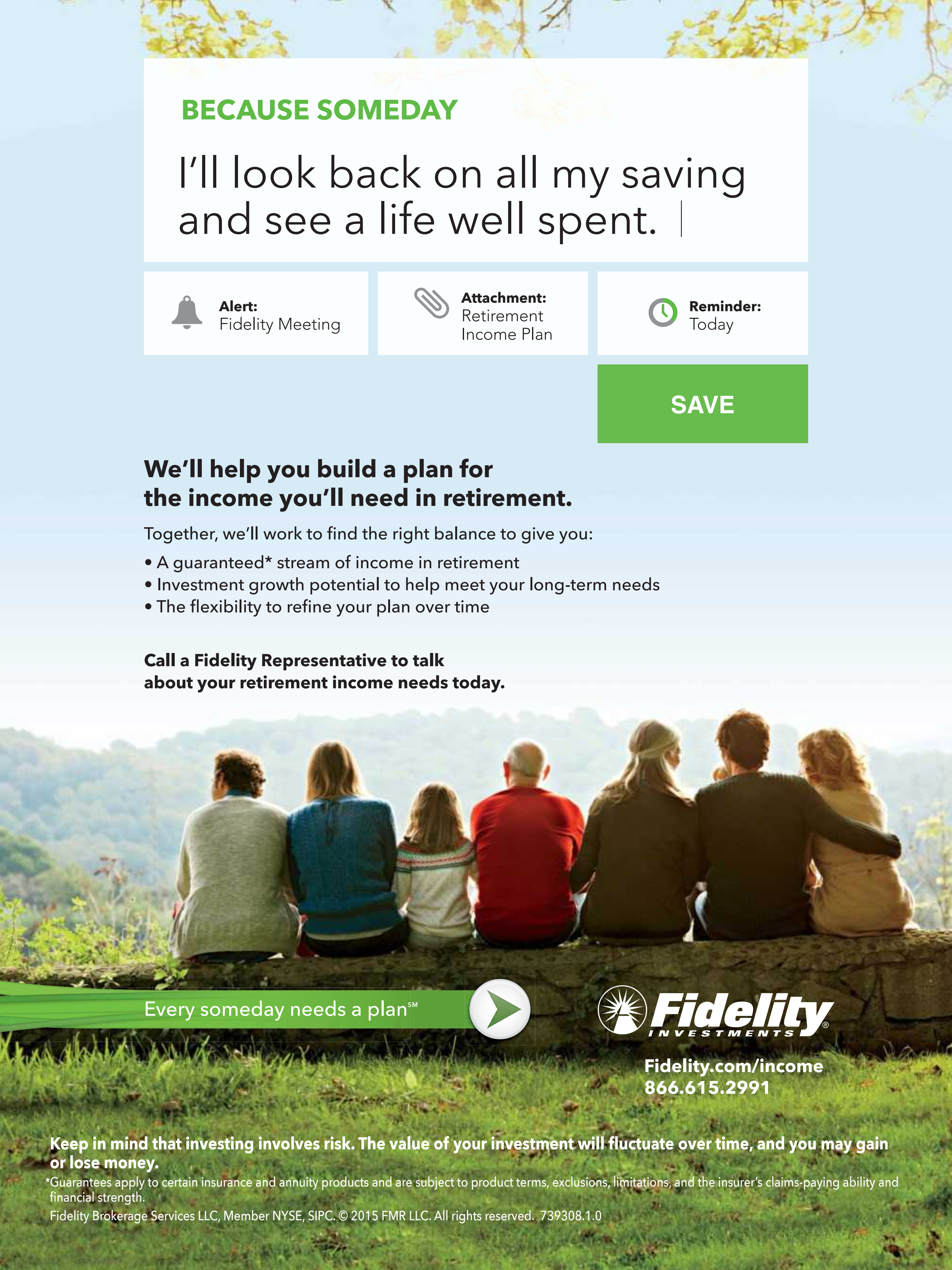
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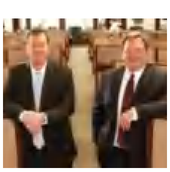

Dear Investor,

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

 Investing in bonds involves risk including possible loss of principal. Income may be subject to state, local or federal alternative minimum tax. When interest rates rise, bond prices fall, and when interest rates fall, bond prices rise. *Source: Moody's Investor Service, March 7, 2012 "U.S. Municipal Bond Defaults and Recoveries. 1970-2011." Past performance is not guarantee of future results.

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

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

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

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

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

Strategies for smart bond investing. (Page 4)

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NIGEL BUCHANAN

TOPIC A

GET AHEAD OF RISING INTEREST RATES

It's time for savers and borrowers to rethink their strategies. BY LISA GERSTNER

AFTER YEARS OF HOLDING short-term interest rates to near zero, the Federal Reserve is expected to orchestrate a long-anticipated lift throughout 2016. Rising rates swing a dual-edged sword: Although savers can look forward to more-attractive yields on their cash, borrowers must brace for a higher cost of taking on debt. Still, the pain (and gain) will be minimal for some time as rates only inch upward.

On federally insured savings accounts, "there will be incremental improvement in what are miserly returns now," says Mark Hamrick, an economic analyst at Bankrate.com. Look for Internet-based banks, which already boast many of the top-yielding accounts, to lead the way in pushing up rates. You can search for the highest rates at www.depositaccounts.com.

You'll be best positioned to pounce on enticing rate offers if you keep cash in easily accessible savings and money market deposit accounts. Long-term certificates of deposit currently pay better rates—recently, as high as about 2.5% on a five-year CD, compared with half that rate on top-yielding savings accounts.

But with standard CDs, you're stuck with the same rate for the full term. And if you withdraw money early, you'll typically face a penalty of several months' interest. If you do invest in CDs, build a "ladder" by putting money in CDs of various terms so that you'll have a steady stream of funds to reinvest as rates increase and the certificates mature.

Borrowers who have debt with a variable rate, including most credit cards and home equity lines of credit (HELOCs), will see their rates rise in tandem with their underlying benchmarks, such as the prime rate. But unless you're carrying a heavy load of debt, the resulting increase in your minimum monthly payment will likely be limited to a few dollars each time the rate edges higher. Still, it's wise to pay down as much as possible now. Consider transferring your credit card balance to a card with a lower rate; issuers may pull back on lengthy 0% introductory periods or increase the fees for balance transfers as rates go up.

HELOC borrowers who are approaching the end of an interest-only payment period could be in for a rude awakening if they have to shift to payments of interest plus principal at the same time that rates rise. Pay extra now, if you can fit it into your budget. You may be able to convert all or a portion of your variable-rate HELOC balance to a fixed-rate home equity loan. But a home equity loan recently averaged a fixed rate of 6.18%, compared with an average 5.06% on a variable-rate HELOC, according to mortgage research site HSH.com. So a switch may not be worthwhile if you can retire the debt in the next few years.

If you have a mortgage, explore the options for refinancing while rates are still scraping bottom. (For more, see "Home Price Hikes: Slow and Steady," on page 68.) That goes for car loans, too. Pentagon Federal Credit Union recently offered an APR as low as 1.49% to refinance a three-year car loan. For prospective borrowers who are well positioned to take on a loan, now is the time to lock in a record-low rate. But don't worry about missing the boat if you're not ready to jump. Rate hikes will be modest and gradual, and they are starting from rock bottom. "Even if rates were to go up a point or two, we would still be in very favorable territory, historically" says HSH vice president Keith Gumbinger.

INTERVIEW

GET A GREAT DEAL ON A NEW SET OF WHEELS

Buyers can expect discounts, low-rate financing and help with the driving.

Karl Brauer is the senior director of insights and senior editor for Kelley Blue Book.

Kelley Blue Book predicted 17.4 million vehicle sales for 2015, the most since 2000. What's driving the market? Pent-up demand. The average car on the road is 11.5 years old. Low fuel prices also make people feel as if they have more spending power. You have a good set of cars and trucks to choose from, with trucks bringing people back into showrooms. There is a rebirth in demand for SUVs. Smaller ones, like the Mazda CX-3 and Jeep Renegade, are appealing because they fit into a sweet zone of fuel efficiency, functionality and cost.

Are low interest rates a factor? If you have a high credit score, it's common to be offered 0% interest. But even if you don't, a fair number of financing companies will figure out a way to work with you. There are a lot of six- or seven-year loans out there, so you can get a new car for relatively cheap monthly payments. Leasing is at record levels, too, at a recent average of 26% of all retail car sales.

Any other sweeteners? Besides low-rate financing, expect to get thousands of dollars off the sticker price. There are lots of deals on cars, especially fuel-efficient models like the Toyota Prius. Those models are struggling because trucks are so popular, and gas is inexpensive. As for incentives, Ford is offering a "Friends & Neighbors" deal through January 4 on almost everything, with aggressive price-cutting—$275 over invoice, and more incentives can bring the price even lower. The other two U.S. makers are likely to jump in with similar deals.

DAVE LAURIDSEN

What's your outlook for cars that drive themselves? We'll see autonomous vehicles [that could be driven hands-free in certain circumstances] on freeways in the next two years. Cars that can be autonomous off the freeway will show up a year or two after that. In five years, you'll start to see widespread availability of autonomous vehicles going anywhere, in any weather. Autonomous technology will show up on the most expensive vehicles first. But you'll be able to buy a cheaper car, then add the technology for a relatively low price. For example, Cadillac's 2017 CT6, a $75,000-plus car, will have Super Cruise, which will make it essentially capable of autonomous driving on freeways. But for $1,000, you can add Honda's Sensing package to any trim level on most new Hondas. It includes smart cruise control, lane-keeping assist and more. **MIRIAM CROSS**

SAY *MAIS OUI* TO PARIS WITH AFFORDABLE FLIGHTS.

TRAVEL

FLY TO EUROPE FOR THE WEEKEND

No-frills carriers give U.S. travelers more options for overseas getaways.

TAKING A FEW DAYS OFF TO jet to Paris is more feasible now that more low-cost airlines are expanding their horizons. U.S.-based carriers such as Spirit and Frontier offer limited international travel to Mexico and other countries in Latin America, but Norwegian Air Shuttle and Iceland's Wow Air are promoting ultralow fares from select U.S. cities, including Boston and Los Angeles, to Europe.

These carriers take a no-frills approach: attractive base fares with amenities paid à la carte. Thrifty travelers can avoid extra fees on short flights by packing light and skipping a meal, but you might have trouble escaping checked-baggage fees and other charges on long flights. To be sure you're getting a deal, include your must-have extras when comparing fares. We found a nonstop flight on Norwegian from Los Angeles to London in February for $546 round-trip, without frills. Bundling in checked baggage, meals and a seat reservation brought the cost up to $708.

Even if the price is right, however, limited schedules and fewer comforts might make no-frills flying unappealing for long distances. Check out seating options and more at www.seatguru.com or www.seatplans.com.

For now, long-haul, low-fare flights for U.S. travelers mainly exist between the continental U.S. and Europe, although Asian carriers Jin Air and AirAsia X are each launching service to Hawaii. To discover which airlines serve your location or destination, Brett Snyder, of CrankyFlier.com, recommends starting with an airport's Wikipedia page (usually a more up-to-date starting point than an airport's own Web site), then booking directly through the carrier's site, where you can prepay for extras.

MIRIAM CROSS

EXCERPT FROM
The Kiplinger Letter

A PRICE SURGE FOR HOT ITEMS

Retailers are eyeing a tactic called surge pricing to boost online sales. Made possible by technological advances in data gathering and analysis, surge pricing is based on demand: A merchant identifies when another merchant sells out of a popular item and automatically bumps up its price on that item. The tactic would also allow for discounts to customers willing to wait until demand for a hot product dies down or inventories increase. (www.kiplingerbiz.com/ahead/surge)

THE BUZZ

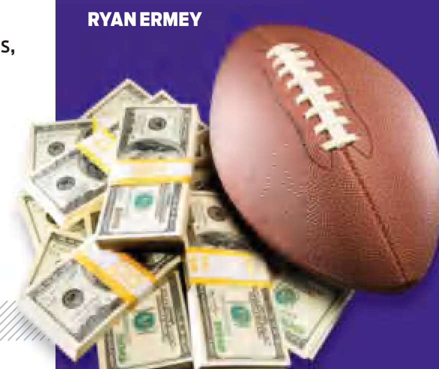
DAILY FANTASY: A LONG SHOT

Anyone who watches professional football on TV has likely seen the commercials for DraftKings or FanDuel, the two biggest companies in the growing industry of one-day fantasy sports. The ads make fantasy games sound easy. Select a sport, pay an entry fee (typically $1 to $20) and choose a lineup of players based on who you think will perform well in that day's real-life games. Assemble a better team than your competitors, and you stand to win a jackpot of hundreds of thousands of dollars or more.

But with beginners facing off against elite players, chances are you won't be the next "regular guy" holding a giant check on TV between quarters. About 70% of daily fantasy players broke even or lost money over the past year, according to Eilers Research, a gaming research firm.

Daily fantasy is considered a game of skill, which currently exempts it from a federal law prohibiting sports gambling. That may change. The FBI and the Justice Department are investigating, and class-action suits have cried "foul." Six states already label daily fantasy as gambling—including Nevada, whose gaming commission sets the tone for regulators nationwide.

RYAN ERMEY



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HEALTH CARE

MEDIGAP FOR THE REST OF US

As deductibles rise, insurers are offering policies to cover out-of-pocket costs.

HEALTH CARE COSTS ARE ON the rise, and not just premiums. The average deductible for an individual with employer-provided coverage jumped from $646 in 2010 to $1,077 in 2015, says the Kaiser Family Foundation. So it's no surprise that supplemental policies covering major out-of-pocket expenses for accidents, hospital stays or a serious illness are becoming popular. MetLife estimates that the number of supplemental plans offered industrywide has increased by more than 20% annually over the past few years. "We've seen exponential growth and interest from employers who are offering these products for the first time," says Meredith Ryan-Reid, head of accident and health/worksite benefits at MetLife.

The policies—similar to Medicare supplemental policies—can cost from a few dollars to $150 per month. They can also be purchased directly from an insurer and are available in all 50 states and D.C. Benefits are paid to you when you file a claim, often a flat dollar amount per incident (for example, $3,000 if you have a skin-piercing fracture). It may seem like a small price to pay to protect against out-of-pocket expenses, including those you might not think of (say, a babysitter to watch your child while you get treatment). But read the fine print. A critical-illness policy might cover only one type of ailment, such as cancer. And preexisting conditions can be excluded for up to 12 months. Disciplined savers might funnel $150 a month into an emergency fund instead. **CAROLYN BIGDA**

MONEY & ETHICS // KNIGHT KIPLINGER

Are Drug Prices Unethically High?

Q Drugs under patent protection strike me as outrageously overpriced, including old drugs that have been sold for years, new drugs just hitting the market, drugs for common illnesses, drugs for rare diseases—whatever. Do you think drug pricing today is ethical?

A I understand your frustration, but I urge you to distinguish among the several situations you're describing. Focus your moral indignation on drug companies run by tough financiers, not idealistic medical researchers—ones that buy the patent rights to old, popular drugs and immediately jack up the prices simply because they can. They give the whole industry a black eye and invite regulatory scrutiny for monopolistic practices.

To me, it makes sense, ethically and financially, for the maker of a best-selling drug to *lower* the price gradually over the life of its patent. The company will have already achieved a solid return, and the drug must eventually compete with lower-priced generics anyway.

Genuine pharmaceutical innovators have a legal and ethical right to recover the cost of creating and bringing a new drug to market and to earn a good profit. It's reasonable that they price the drug to accomplish this over, say, five to 10 years.

Competition matters. If the new drug works only slightly better than existing drugs, it can't be priced a lot higher than its competitors or it won't sell well. The size of the market affects pricing, too. If a lot of people will potentially benefit from the new drug, its price will be moderated by the breadth of demand. The maker can earn less profit per unit but make it up on high volume.

But if a company spends millions developing an effective new therapy for a rare disease that afflicts very few people, it's fair for the company to price it very high. The development cost will be borne by insurers, Medicare, Medicaid or patients themselves, sometimes assisted by hardship discounts that many companies offer.

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

Use our timely reminders all year long to make the right investing moves, stretch your income, cut your taxes, and save on shopping and travel.

2016

KIPLINGER'S **MONEY CALENDAR**

TURN PAGE AND UNFOLD FOR 12 MONTHS OF IMPORTANT MONEY DATES. ➡

JANUARY

Friday, January 1
Parents of high school seniors should file the Free Application for Federal Student Aid (FAFSA) at https://fafsa.ed.gov.

Sunday, January 3
Go to AnnualCreditReport.com to receive free copies of credit reports from Equifax, Experian and TransUnion. You can get all three at once or stagger them throughout the year.

Monday, January 4
First trading day of 2016. For our take on the investing outlook, turn to page 48. Tax tip: If you received a year-end raise, boost your 401(k) contribution by at least the percentage of your increase in salary.

Sunday, January 31
Open enrollment for buying individual health insurance ends. For links to your state exchange, go to Healthcare.gov. Also: Look for W-2 and 1099 tax forms in the mail.

FEBRUARY

Friday, February 5
Take a romantic Valentine's Day vacation now and take advantage of low airfares during the post-holidays lull.

Sunday, February 7
Ski slopes are wide open on Super Bowl Sunday. Buy your lift tickets in advance from Liftopia.com and save up to 85% compared with walk-up-window rates.

Thursday, February 18
Tax tip: Tax-filing day is two months away, but if you have a refund coming, file as soon as possible. You'll get your money and reduce the risk of ID thieves getting to it first.

Monday, February 22
Start building an emergency fund during America Saves Week. For the best interest rates on savings accounts, see page 46.

MARCH

Tuesday, March 1
Order prescription sunglasses. If your employer offers a grace period for using cash in a 2015 flexible spending account, you have two weeks to spend it.

Saturday, March 5
Shareholders: Look for proxy forms to arrive prior to upcoming annual meetings.

Sunday, March 6
National Consumer Protection Week begins. To learn how to combat five types of ID theft, go to kiplinger.com/links/idtheft.

Sunday, March 13
Need a tax pro? Head to www.aicpa.com or www.naea.org. CPAs and enrolled agents must pass competency exams and can represent you before the IRS if you're audited.

Thursday, March 31
Tax tip: Remember to check last December's pay stub for charitable contributions made via payroll deduction.

APRIL

Friday, April 1
If you turned 70½ in 2015, today is the deadline to take your first required minimum distribution from 401(k) accounts and traditional IRAs.

Monday, April 18
Tax-filing day is delayed in honor of the April 15 celebration of Emancipation Day in Washington, D.C. Today is also the due date for first-quarter estimated tax payments.

Friday, April 22
Earth Day. Consider going solar. If your system is tied to the grid and you produce a surplus of power, you may receive a credit instead of a bill.

Tuesday, April 26
The Federal Open Market Committee meets to discuss interest rates. Kiplinger expects two quarter-point rate hikes in 2016.

ISTOCKPHOTO.COM (12)

MAY

Sunday, May 1
The window for the "file and suspend" Social Security benefits strategy closes forever (see page 43 for details).

Monday, May 2
Find out if you need to buy flood insurance. For details, go to www.floodsmart.gov.

Wednesday, May 11
Tax tip: Track your refund by going to www.irs.gov/refunds, or call the IRS refund hotline at 800-829-1954.

Monday, May 16
National Bike to Work Week begins. Go to kiplinger.com/links/biketowork to see how much money you could save.

Tuesday, May 24
Grads: Sign up for automatic payments on federal student loans to get a 0.25-point reduction in the interest rate.

JUNE

Wednesday, June 1
Moving this year? IRS Publication 521, *Moving Expenses*, can tell you whether your expenses are deductible.

Saturday, June 4
Go fish. Most states are offering free fishing days to casual anglers. Head to http://takemefishing.org for a list of participating states and family-friendly fishing locations.

Monday, June 13
Morningstar holds its annual Investment Conference in Chicago.

Wednesday, June 15
Second-quarter estimated tax payments are due.

Sunday, June 19
Wedding bells are ringing. If you're a newlywed, be sure to coordinate employer benefits with your spouse. For more advice, take our Couples and Money quiz at kiplinger.com/links/couplesquiz.

JULY

Friday, July 1
Another milestone: The first baby boomers turn 70½.

Saturday, July 2
Time for a midyear portfolio checkup. If yours could use a makeover, see Kiplinger's model portfolios at kiplinger.com/links/portfolios for ideas.

Sunday, July 3
Use SeatGeek.com to get discount tickets to ballgames and popular summer concerts.

Friday, July 15
A home exchange lets you vacation across the globe for a one-time fee and perhaps a small service charge (kiplinger.com/links/houseswap).

Monday, July 18
It's summer restaurant week season. Discounts on regular menu items are a sign of a good deal. A special prix fixe menu probably isn't.

AUGUST

Monday, August 1
More babies are born in August than any other month. If you have a new bundle of joy, file a new Form W-4 to cut withholding. For guidance, try our Easy-to-Use Tax Withholding Calculator at kiplinger.com/links/withholding.

Monday, August 15
Take the stress out of holiday travel and sign up for Global Entry ($100 for five years). You'll get a speedier trip through Customs. Plus, you'll likely qualify for TSA PreCheck and keep your shoes on through security.

Monday, August 22
College classes start back up for students—and seniors. If you are 60 to 65 or older, many public colleges will let you enroll in courses tuition-free.

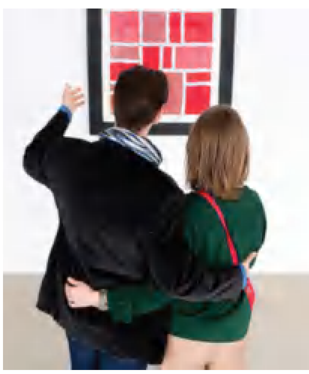
Thursday, August 25
The National Park Service turns 100. To celebrate, the service is offering free admission to all 407 national parks.

SEPTEMBER

Thursday, September 1
Investors: Brace for a stock sell-off. Standard & Poor's 500-stock index has finished the month down in 37 out of 65 years since 1950.

Thursday, September 15
Third-quarter estimated tax payments are due.

Sunday, September 18
Get a home-energy audit. Addressing inefficiencies can lower utility bills and make your home comfortable all winter.



Saturday, September 24
The Smithsonian sponsors Museum Day Live. Look for free admission to participating museums nationwide.

Friday, September 30
Even if the Fed has been pushing up interest rates, it's not too late to refinance an adjustable-rate mortgage to a fixed rate.

OCTOBER

Saturday, October 1
New FAFSA rules kick in. Parents of college-bound high school seniors can file early using 2015 tax returns. See kiplinger.com/links/fafsa2016 for details.

Sunday, October 2
Apply for a credit card with a big sign-up bonus for holiday shopping. You generally get three months from the time you sign up to score lots of points and miles.

Monday, October 3
Holiday job seekers: Start looking. Most companies hire seasonal workers now through November.

Saturday, October 15
Open enrollment begins for Medicare Part D and Medicare Advantage plans.

Monday, October 17
Tax tip: Today is the deadline if you got a filing extension. It's also the deadline for "recharacterizing" (undoing) a 2015 Roth conversion.

Tuesday, October 18
Update your will, powers of attorney and living will during National Estate Planning Awareness Week. Visit www.naepc.org for resources.

NOVEMBER

Tuesday, November 1
November is National Adoption Month. If you adopt a child in 2016, you may be eligible for a tax credit. See IRS Tax Topic 607, "Adoption Credit and Adoption Assistance Programs," for more information.

Friday, November 11
Go to GiftCardGranny.com to buy discounted gift cards, either to put toward holiday shopping or to give to friends and family.

Monday, November 14
Tax tip: Sell investments in taxable accounts that have declined in value. You can use the losses to offset capital gains and lower your tax bill.

Thursday, November 24
May graduates: November marks the end of the six-month grace period for federal Direct student loans. Sign up for Iontuition, our favorite student-loan management tool, to organize and track your loans and even chat online with a loan counselor.

DECEMBER

Thursday, December 1
No time to research your charitable giving? Start a donor-advised fund. You can make contributions now that qualify for a 2016 write-off and decide on the recipients later.

Wednesday, December 7
Open enrollment ends for Medicare Part D and Medicare Advantage plans.

Friday, December 16
About 1,000 merchants are expected to participate in Free Shipping Day. There's no minimum order, and merchants guarantee delivery by Christmas Eve in the contiguous U.S.

Saturday, December 31
The federal tax credit for residential geothermal, solar and wind systems expires. Seniors: Today is the last day to take required minimum distributions from retirement accounts.

JAMES K. GLASSMAN > Opening Shot

My 10 Top Picks for 2016

“Shares of Johnson & Johnson have been largely treading water for two years, and it’s time for them to catch up with the rest of the health care sector.”

What a wild year! Every one of my 10 stock picks for 2015 registered a gain or loss of at least 17%, and three were down 31% or more. It was the most volatility I can remember in the 20 years I have been composing my annual list. In the end, I had six winners and managed to eke out a gain of 1.6%, compared with 5.2% for Standard & Poor’s 500-stock index (all figures include dividends). It was not a good showing, but there’s a lesson here: With a well-chosen 10-stock portfolio, you can often balance out big losers with impressive gainers.

Every January, I offer readers a list culled from selections of investment advisers I trust, with a stock I choose tossed in. Unfortunately, in 2015, my own pick, Twitter (symbol TWTR), performed miserably, declining by 31.4%. Conrad Industries (CNRD), which plunged 37.6%, was my worst pick, even though the suggestion came from Dan Abramowitz, whose choices in 2012, 2013 and 2014 each returned more than 40%. (Second lesson: No one gets it right *every* year.) Conrad builds and services boats for the offshore drilling industry and got caught in the oil-price downdraft.

But Abramowitz, who heads Hillson Financial Management, in Rockville, Md., is still my guy for micro-cap stocks, the smallest of the small. For the coming year, he likes **XERIUM TECHNOLOGIES (XRM)**, a manufacturer of products used in papermaking machines. Abramowitz calls the company “a turnaround story that is now at an inflection point.” Changes that a new management team put into effect in 2012 should start bearing fruit. The stock’s price-earnings ratio is a mere 7, based on the average of analysts’ earnings estimates for 2016. (Returns, share prices and related figures are as of October 30.)

Wasatch World Innovators Fund (WAGTX) spreads its net across the globe, investing in fast-growing companies of all sizes. My pick from its portfolio a year ago, drugmaker Novo Nordisk (NVO), was one of my best picks in 2015. For 2016, the choice is **TAL EDUCATION GROUP (XRS)**, a Beijing-based provider of K-12 after-school services that I recommended earlier this year and that has weathered the downturn in the Chinese stock market exceptionally well. (Third lesson: Look for resilient companies.)

It was a rough year for small-cap growth stocks, and that’s all the more reason to be buying them. A good place to hunt is in the portfolio of Meridian Growth Legacy (MERDX), an excellent fund in the category. One of its top holdings, a previous highflier that has stalled out because of the decline in energy prices, is **RIGNET (RNET)**, which provides digital-communications systems that link oil-and-gas operations around the world. Revenues and earnings are expected to be flat in 2016, but RigNet’s price has fallen by nearly half since July 2014, and it looks like a bargain.

Salesforce.com (CRM), with a gain of 21.4%, was one of my 2015 winners. The pick came from Terry Tillman, an analyst with Raymond James Associates who specializes in business software companies. I began using Tillman as a selector in 2012, and since then his four choices have averaged gains of 36%. For 2016, Tillman likes **BENEFITFOCUS (BNFT)**, which makes software that helps employees of large companies navigate the complex world of benefits, including health insurance. The company has been losing money, but Tillman sees revenues rising by 24% in the coming year.

My biggest winner for 2015 was Alphabet (GOOGL), the former Google, with a gain of 29.8%. It was the top holding of my all-time favorite large-cap mutual fund, Fidelity Contrafund (FCNTX). Lately, manager Will Danoff has been adding to his positions in **FACEBOOK (FB)**, which is now his top holding. Although the stock recently hit a new high, analysts estimate that both revenues and earnings will rise by about one-third in 2016. Given such rapid growth, I don’t

LISE METZGER

"As a Public Storage customer, I know just how good a business this is. Rental rates keep rising, and it's a pain to move your stuff."

consider Facebook to be overpriced, despite its seemingly high P/E of 37, based on profit forecasts for 2016.

My second-best 2015 pick, with a return of 28.3%, was Restoration Hardware Holdings (RH), from the portfolio of T. Rowe Price New Horizons (PRNHX), the place to go for hot small and mid-cap stocks since 1960. Manager Henry Ellenbogen made a large addition to his position in **BURLINGTON STORES (BURL)** in the third quarter of 2015, a move that I endorse. The apparel chain, with 546 stores and a robust Internet presence, is growing briskly, with profits expected to rise 18% in the fiscal year that ends in January 2017.

Of the more than 2,000 stocks ranked by the *Value Line Investment Survey* (the best one-stop research shop, in my view), only nine are ranked in the top category ("1") for both timeliness and safety. And of those nine, my favorite is a large real estate investment trust called **PUBLIC STORAGE (PSA)**, which owns and operates self-storage facilities. As a customer, I know just how good a business this is. Rental rates keep rising, and it's a pain to shop around and move your stuff. (Fourth lesson: Invest in companies you know.) Earnings are rising robustly, and the stock currently yields 3.0%.

Stocks that pay consistently rising dividends tend to provide ballast for a portfolio, delivering regular, though unspectacular gains. That's why I chose Lockheed Martin (LMT) in 2015. It performed well, with a return of 18.5%. For the coming year, using Fidelity Dividend Growth fund (FDGFX) as my source, I'm choosing **JOHNSON & JOHNSON (JNJ)**, which has increased its payout for 53 consecutive years. Shares of the health care giant have been largely treading water for two years, and it's time for them to catch up with the rest of the health care sector.

Veteran investment adviser David Dreman, author of the classic 1980 book *Contrarian Investment Strategy*, is a hunter of extreme value. His philosophy: "We believe that the markets are not perfectly efficient." Some stocks, in other words, are judged by the market to be cheaper than their actual worth. Lately, Dreman has been buying shares of **OLD NATIONAL BANCORP (ONB)**, a 181-year-old financial institution with 195 branches, mainly in the Midwest. The stock, which is still down by about one-third from its prerecession high, trades at just 13 times projected 2016 earnings and yields an attractive 3.4%. (Fifth lesson: Go for the trusty dividend.) If interest rates ever rise, the bank should benefit from a widening spread between its cost of funds and the interest rates borrowers pay.

My own pick this year is **TWITTER**—again. In my January 2015 column, I quoted venture capitalist Peter Thiel as saying, "It's a horribly managed company." I agreed with the sentiment but believed that Twitter, now with more than 300 million active users per month and revenues rising at more than 40% annually, "will eventually find a way." Clearly, Twitter didn't in 2015, but with Jack Dorsey back as CEO, I think it will in 2016 and beyond.

Please remember my annual warnings: Although I expect these stocks will beat the market in the coming year, I don't believe in short-term investing (holding a stock for less than five years), so consider them long-term holdings. Also, these are just suggestions. Ultimately, the decisions are yours. ■

Potpourri of Picks

NAMES YOU KNOW, NAMES YOU DON'T

You'll recognize some of the names on this list, but Glassman also populates his picks with a few small and obscure companies, such as Benefitfocus and RigNet.

Company (Symbol)	Source	Recent price	Market value (billions)	Price-earnings ratio*	Yield
Benefitfocus (BNFT)	Tillman	$32	$0.9	NM	0
Burlington Stores (BURL)	T. Rowe Price New Horizons	48	3.6	18†	0
Facebook (FB)	Fidelity Contrafund	102	287.3	37	0
Johnson & Johnson (JNJ)	Fidelity Dividend Growth	101	279.6	16	2.9%
Old National Bancorp (ONB)	Dreman	14	1.6	13	3.4
Public Storage (PSA)	Value Line	229	39.7	35	3.0
RigNet (RNET)	Meridian Growth Legacy	30	0.5	25	0
TAL Education Group (XRS)	Wasatch World Innovators	38	3.1	24#	0
Twitter (TWTR)	Glassman	28	19.3	48	0
Xerium Technologies (XRM)	Abramowitz	14	0.2	7	0

Through Oct. 30, 2015. *Based on estimated earnings for 2016, unless otherwise noted. †Based on estimated earnings for the fiscal year ending January 31, 2017. #Based on estimated earnings for the fiscal year ending February 28, 2017. NM Not meaningful; expected to lose money. SOURCES: Thomson Reuters, Yahoo.

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


DOES DRIVING MATTER?
DOES A WINDING ROAD INTO THE CLOUDS
OR AN EMPTY FREEWAY ON SUNDAY MORNING
MATTER IF THE CAR YOU'RE IN DOESN'T TAKE
ADVANTAGE OF THE MOMENT?
DOES SAFETY, TECHNOLOGY, BEAUTY
OR EFFICIENCY MATTER IF A CAR DOESN'T FEEL
RIGHT IN YOUR HANDS?
IF YOU BUILD MAZDAS, DRIVING IS WHAT
MATTERS MOST.
IT'S WHY WE BUILD CARS LIKE THE NEW MX-5
AND WHY EVERY MAZDA SHARES ITS DNA.
WHAT'S BETTER THAN A GREAT DRIVING CAR?
A CAR COMPANY THAT WON'T BUILD
ANYTHING LESS.
mazda
DRIVING MATTERS™ | 2016 MAZDA MX-5 MIATA
zoom-zoom

JANE BENNETT CLARK > Rethinking Retirement

Health Costs You Can Count On

A few years ago, my mom, who is now 90, asked me for help tracking her health care costs. The process of matching Medicare claims to payments had become too much for her, and she wanted out. I don't blame her. Why spend your time puzzling over paperwork when you could be reading novels and rooting for your beloved Redskins?

Going over her monthly costs has been an eye-opener. First, it brings home that Medicare and supplemental coverage are neither free nor particularly cheap (contrary to what many people believe). My mom pays $3,381 a year in premiums for Medicare, medigap, prescription-drug coverage, and dental and vision insurance. Co-payments and deductibles add another $1,350 or so a year.

Still, Mom's costs for medical care are manageable on a middle-class income and, surprisingly, they haven't gone up much over the years. That's true for most people, according to a February 2015 report by the Employee Benefit Research Institute. Recurring costs for doctor visits, dental care and prescription drugs are relatively stable (albeit not insignificant) throughout old age. It's a different story for nonrecurring costs; you're more likely to need hospital, home health and nursing home care as you age, bringing much higher expenses.

Two types of costs. The beauty of this report, by Sudipto Banerjee, is that it breaks health care costs into two categories, the predictable and the unpredictable, whereas some other studies lump the costs together. Fidelity Investments recently estimated that retirement health costs, excluding long-term care, will total $245,000 for a couple who are each 65 and live to their average life expectancies—85 for a man, 87 for a woman. In an October 2015 report, EBRI estimated that a couple who are each 65 with median drug expenses would likely need $264,000 for their health costs.

But even the researchers who crunched these numbers acknowledge that they're more a wake-up call than a precise action plan. For one thing, if you're saving for retirement at all, you're already saving for health care costs, and you certainly don't need the whole amount on Day 1 of retirement (see "Rethinking Retirement," Nov. 2013). For another, big-picture health care estimates are, as with any prediction, uncertain. "You don't know what new technology is around the corner, or what medication is going to be available as a generic or over the counter," says Paul Fronstin, one of the authors of the October EBRI report. Finally, global numbers don't factor in your specific circumstances, including your health, life expectancy and even your location, all of which play a role in your own health cost estimate.

So how do you predict your own retirement health costs? As you close in on your retirement date, assess what you're spending for recurring expenses, such as visits to the doctor and dentist and prescription drugs. Calculate premiums and deductibles for Medicare Part B (for doctor visits and outpatient care), as well as for supplemental insurance such as Part D for prescription drugs and medigap to protect against unlimited out-of-pocket expenses. (To compare costs in your area, use the Medicare Plan Finder, at www.medicare.gov/find-a-plan.) Factor in health care inflation (ask a financial planner for help running the numbers). Then identify how you'll pay for these recurring expenses—say, from Social Security, pensions or an annuity.

Make separate provisions for unpredictable expenses by setting aside savings (ideally in a health savings account), purchasing a long-term-care insurance policy or setting up a home-equity line of credit. You may never have to tap those resources, but if you do need them, you'll be ready. ■

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

"Mom's costs for medical care are manageable so far and, surprisingly, they haven't gone up much over the years."

LISE METZGER

SUCCESS STORY

Tailgating Is Their Business

They provide the game-day sites, tents, tables, coolers and even the BBQ.

PROFILE

WHO: Parker Duffey, 31 (interviewed), and Michael Otwell, 34

WHERE: Auburn, Ala.

WHAT: Cofounders, Tailgate Guys

What's your game plan? Tailgating at football games is a way of life in the South, but it's a hassle. You need to secure a place to set up and lug your equipment there. We partner with universities to provide a reserved location close to the stadium, as well as packages of equipment [tents, tables, chairs, linens, coolers, ice, personalized signs and even TVs], catering options and physical support [see www.tailgateguys.com]. We can host a small group or thousands of people—say, members of a large university alumni association.

Who's the other "guy"? My cofounder and the chief operating officer of our company, Michael Otwell. We met at a Halloween party in 2008. At the time, I was a project manager for a commercial contractor and he worked for a home developer. We hit it off, and three months later he was my business partner. My strengths are planning business development and strategy. Michael's are getting out in the field, communicating with our staff and making it all happen. He's great at it.

Who are your current partners? We're the "official tailgate management company" of Auburn Athletics, Florida Athletics, Georgia Tech Athletics, Texas Athletics, Texas A&M Athletics, the Goodyear Cotton Bowl and the Chick-Fil-A Peach Bowl.

Where did you get the idea? On an Auburn football weekend in 2008, I met someone who was doing the same thing on a small scale. The next day, I began writing a business plan to show how you could develop the idea by partnering with universities.

How did you finance your start-up? With a $30,000 line of credit from a local bank and a lot of sweat equity. Plus, we saved everything we could from our salaries to put toward the start-up until we quit our jobs in 2009. After we began selling in the summer of that year, we poured cash back into the business.

How have you grown? We have 43 full-time employees and another 50 to 75 part-time employees during peak periods. In 2014, we introduced the Event Group [serving East Alabama, West Georgia and Central Florida] to offer year-round rentals.

We've averaged 50% to 60% growth in sales annually since 2009. We may exceed that in 2015, when we expect gross sales of more than $5 million. In 2016, we're shooting for $7 million.

Are you making a living? Yes, but a humble one. We pay ourselves as employees and take distributions when we can. Our wives are accomplished professionals, and their incomes allow us to plow more money back into the business.

What's your greatest satisfaction? Seeing team members who are 100% behind our mission build their careers and succeed. It's very rewarding to see all these people and their families become part of this bigger family. Plus, we're building relationships and finding unique opportunities with some of the more well-known schools in college athletics.

What's the most unusual piece of equipment in your inventory? Cake plateaus [decorative presentation bases for wedding cakes]. They're kind of an odd thing to own when you start a business based on college sports. **PATRICIA MERTZ ESSWEIN**

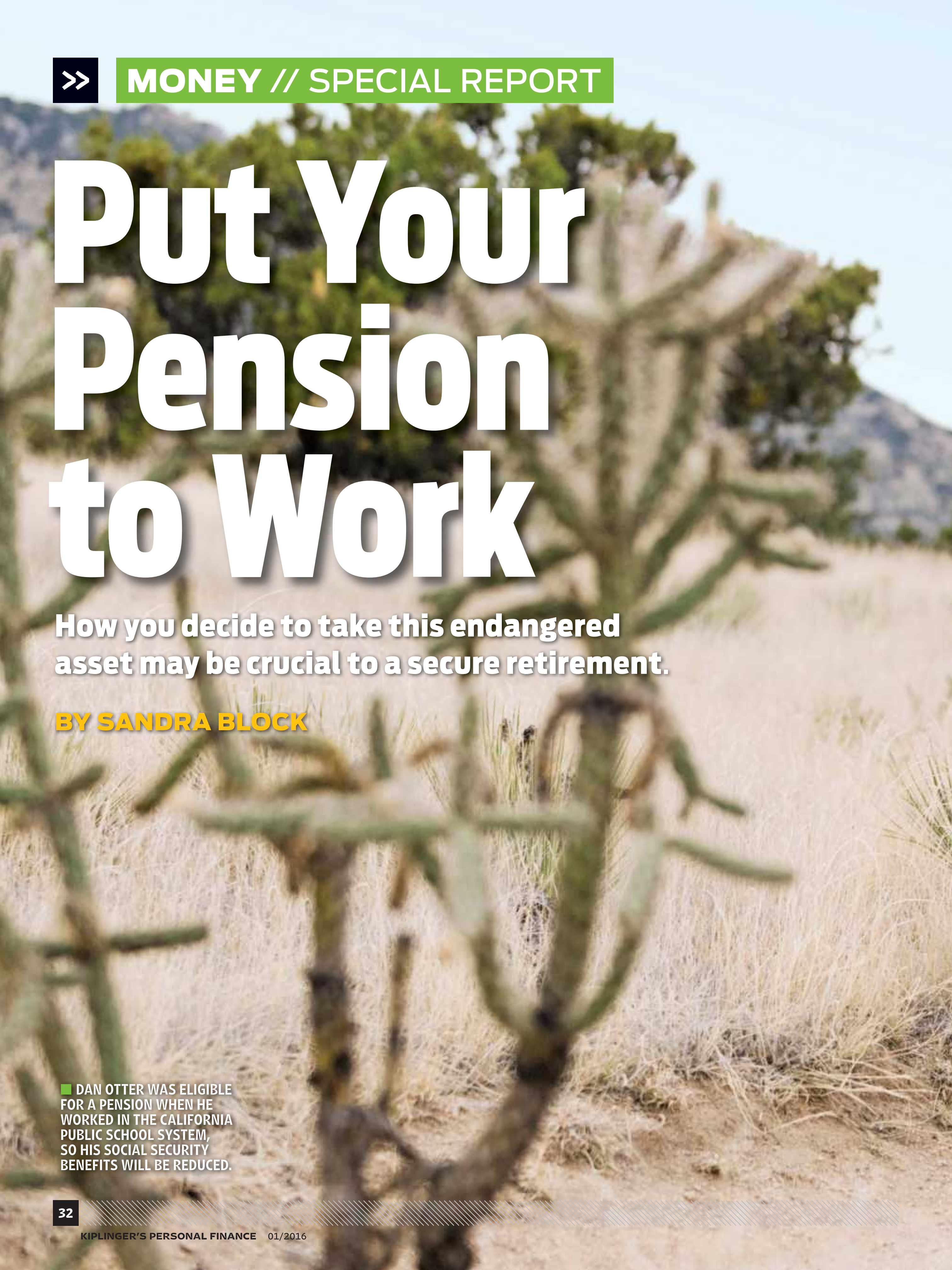
PARKER DUFFEY (SEATED) AND MICHAEL OTWELL

ALEX MARTINEZ

Put Your Pension to Work

How you decide to take this endangered asset may be crucial to a secure retirement.

BY SANDRA BLOCK



DAN OTTER WAS ELIGIBLE FOR A PENSION WHEN HE WORKED IN THE CALIFORNIA PUBLIC SCHOOL SYSTEM, SO HIS SOCIAL SECURITY BENEFITS WILL BE REDUCED.

FRETTING ABOUT HOW to manage your pension is like complaining about the cost of winterizing your beach house. Lots of people would love to have your problem.

Only about 18% of private-industry workers have a defined-benefit pension. Less than one-fourth of Fortune 500 companies offered a defined-benefit plan to new employees at the end of 2013, down from 60% in 1998, according to Towers Watson, the human resources consulting firm. The number is much larger for public-sector workers; about 80% of them have a traditional pension (see page 38).

If you're eligible for a traditional pension, you'll be faced with important

PHOTOGRAPH BY MARK PETERMAN

decisions that could affect your financial security, and they're usually irrevocable. That means when you retire, you'll need to do more than turn in your security badge and wait for the monthly checks to roll in.

Backing Away From Defined Benefits

The move away from traditional pensions reflects several trends. Employees are living longer, which increases the cost of providing a lifetime monthly payment. Low interest rates have reduced pension funds' investment returns, requiring companies to put more money into their plans to avoid a shortfall. Government regulations designed to protect pension participants have increased the cost of offering and maintaining defined-benefit plans (see the box on page 37). Finally, companies used to view pensions as a way to attract and retain good employees. But these days, a benefit that rewards longevity is a lot less valuable because workers change jobs every 4.6 years, on average, according to the Bureau of Labor Statistics.

Even if you're among the minority of private-sector workers covered by a pension, you're not immune from efforts to reduce pension costs. AT&T, Boeing and IBM have joined other companies with big pension obligations in switching to a cash-balance plan. These hybrid plans combine features of a 401(k) and a traditional pension. Benefits from a traditional pension are typically based on a participant's salary during the final years of employment, but with a cash-balance plan, benefits are accrued evenly over time. When a company converts, participants are usually entitled to the benefits they've earned to date under the traditional formula, with future benefits based on the cash-balance calculation. For longtime employees, the shift can result in a big cut in benefits.

Other companies have frozen pension benefits. The number of plans with frozen benefits rose from 10% in 2003 to 32% in 2011, according to Russell Research, a financial research firm based in East Rutherford, N.J. Many companies have cushioned a pension freeze by providing higher contributions to workers' 401(k) plans. That could pay off for young workers who haven't accrued much in the way of pension benefits, but a freeze can be costly for mid-career workers. Their future raises and years of service won't be factored into their pension, and they'll have less time to make up the difference by contributing to a 401(k), even if it comes with a generous employer match.

In the past, pension participants could count on the payouts they were promised once they started receiving benefits, but that's changing, too. A new law allows multi-employer pension plans to cut benefits for current and retired workers. These plans typically provide coverage for union members who work for different companies, usually in the construction, manufacturing and trucking industries. Because of a decline in employment in those sectors, the plans have come under severe financial stress. In October, the Central States Pension Fund, a multi-employer plan that covers more than 400,000 participants, proposed cutting its benefits by an average of 22%. Some retirees will see their benefits cut by up to 60%.

A Nice Problem to Have

Carin Hoch, 58, vice president of real estate for NuStar Energy in San Antonio, vividly recalls a meeting she and her husband, Ron, had about five years ago with their financial adviser to discuss financing a retirement home. After reviewing their salaries, retirement savings and other assets, the adviser turned to Ron and said, "She's a keeper." The reason: Hoch will retire with a traditional pension.

Hoch hasn't decided whether she'll take her pension as lifetime payouts or a lump sum when she retires. The Hochs have other sources of retirement income, including 401(k) plans, but having a pension in the mix has given them options they wouldn't otherwise have. It has made it possible for Ron to retire at age 59 so that he can help care for Carin's father, who is 93. It will allow Carin to retire in four to six years. It even helped them get a lower interest rate on the mortgage for their retirement home because it showed "financial stability."

The couple plan to use the income from Carin's pension and Social Security to pay for their living expenses. They'll spend money from their 401(k) plans on travel and other discretionary items. Considering what can happen in the stock market, Carin says, having a pension "really gives us a comfort zone."

Not only that, but retirees like the Hochs can invest money in their retirement accounts and other savings more aggressively, which offers the potential for higher returns. A monthly annuity payment "is like a bond portfolio," says Charles Sachs, a certified financial planner in Miami. "You can buy riskier assets because you have this cushion of dollars coming in."

Lump sum versus lifetime payout. If, like Hoch, you're covered by a pension, this decision may be the most important one you'll face when you retire.

As employers look for ways to rid themselves of costly pension liabilities, they're increasingly offering to pay departing employees a lump sum in lieu of a lifetime annuity payout. Figuring out which option is right for you will depend on a number of factors, ranging from the size of the lump sum to how long you expect to live.

Look for these offers to increase over the next few months. In 2017, the IRS is expected to update the mortality tables it uses to calculate corporate pension obligations to reflect the fact that retirees are living longer. That change will increase the amount of money companies must put aside to meet their pension obligations. It will also require them to offer larger lump

■ WHEN CARIN HOCH RETIRES, SHE PLANS TO USE HER PENSION INCOME TO PAY FOR BASIC LIVING EXPENSES.

MATTHEW MAHON/REDUX

sums to departing employees in exchange for future income that is expected to last longer.

A lump sum could lighten the load for your employer, but it may not be the best choice for you. The lump-sum payment is supposed to equal the present value of the payments you'd receive in the future, based on an estimated rate of return and your estimated life expectancy. But if you expect to live longer than that—and there's a good chance you will—the annuity will probably be a better deal. That's particularly true for women, who have a longer life expectancy than men, and couples, who can stretch the annuity over both spouses' lifetimes.

If you take the lump sum, you must shoulder the responsibility—and risks—of investing the money yourself. Suppose, for example, that you're 65 and your company gives you a choice of a $300,000 lump sum or $2,000 a month in a single-life annuity. If you take the lump sum and expect to live another 18 years, you'll have

HOW SHOULD YOU TAKE YOUR PENSION?

When you retire, you have to make decisions about your pension that could be worth hundreds of thousands of dollars to you and your spouse. Usually, the decisions are irrevocable.

TAKE A LUMP SUM IF

You are comfortable investing the money yourself or using a money manager.

Pluses

- Money invested in an IRA could grow faster than the rate of inflation.
- You have more flexibility to take withdrawals.
- No need to worry about the financial health of your employer.
- Money left over can go to your heirs.

Minuses

- Down markets or poor investments may force you to reduce withdrawals.
- You could run out of money if you live longer than you expected or need it for a health or other emergency.

TAKE LIFETIME PAYOUTS IF

You want a fixed monthly paycheck for life to supplement Social Security and other sources of income.

Pluses

- You're protected against market downturns.
- You can invest other assets more aggressively.
- Employers pay more than you can get on your own with an immediate fixed annuity.

Minuses

- Unless your plan has a cost-of-living adjustment, inflation will erode your purchasing power.
- If your employer declares bankruptcy and the pension is taken over by the Pension Benefit Guaranty Corp., your payments could be reduced.
- Payouts end at your death or death of your spouse.
- Heirs get nothing.

Take the single-life option if

You want a larger monthly payment and have other assets, such as life insurance or investments, to support your spouse after you die. A signed waiver from your spouse is required.

Take the joint-and-survivor option if

You can make do with a smaller monthly payment and your spouse needs guaranteed income for life. Survivor options range from 50% to 100% of the original monthly pension.

to generate a 4.16% return annually to receive $2,000 a month as you draw down the interest and principal. But if you think you'll live another 30 years, you'll need a return of 7.31% a year.

Another way to evaluate the value of a lump sum is to figure out how much it would cost on the open market to buy an annuity that would provide the same lifetime payout you'd get from your pension. Low interest rates have depressed payouts from immediate annuities. Your company payout is likely to be higher because your employer is on the hook for the promised dollar amount, no matter how much it costs to make good on that obligation. A fee-only financial planner, or a Web site such as www.immediateannuities.com, will help you run the numbers.

With the lump sum, you must also figure out how much you can withdraw each year without running out of money. "It's hard to budget for an unknown period of time," says Stephanie Lee, a CFP in San Francisco. "It can be very easy for that money to go quickly."

And it's difficult to put a value on the peace of mind that comes from having a guaranteed paycheck for life. When Paula Lampley's husband died last year, she had to choose between taking his pension from Harley-Davidson as a lump sum or a lifetime payout. Lampley, 55, of Milwaukee, decided in favor of the lifetime payout, which has helped her fulfill a lifelong dream of starting an early childhood development center. The monthly payments, although modest, provide a backstop if her business, Four Seasons Learning Center, doesn't work out.

When the lump sum is better. There are situations in which the lump sum is the better option—particularly if you have other sources of income in retirement (see "How Should You Take Your Pension?" on the previous page). A lump sum gives you the flexibility to take large withdrawals for unexpected expenses. If you have a life-threatening illness or family history of, say, Alzheimer's, taking a lump sum can provide funds for health care or long-term care. Whereas a lifetime payout ends when you and your spouse die, the money from a lump sum that you don't spend can be left to your heirs.

Taking a lump sum also gives you more control over taxes in retirement, says Kevin Reardon, a CFP in Pewaukee, Wis. When you take a lifetime annuity, your monthly payment will be taxed at your ordinary income tax rate. If you take the lump sum and roll the money into an IRA, you'll still pay ordinary income tax rates, but only when you take withdrawals. That gives you the flexibility to take larger withdrawals when your tax rates are lower—say, because you have less income from investments—and smaller withdrawals when they're higher. In addition, you can convert some or all of the money to a Roth IRA. You'll pay taxes on the conversion, but the money will grow tax-free, and you won't have to take required minimum distributions when you turn 70½.

If you change your mind, you can always use your lump sum to buy an immediate or deferred annuity. If interest rates go up, as expected, payouts from private annuities will increase. If you wait until you're older to purchase the annuity, the monthly income will also be higher. That's what Kay Kenealy, 54, of Waukesha, Wis., decided to do. Kenealy worked for the state of Wisconsin when she was in her twenties and is eligible for a modest pension when she turns 55 in February. Her options were to take a payout of $300 a month or a lump sum of about $57,000. She decided in favor of the lump sum. In a few years, she'll combine it with some other retirement funds and buy an annuity.

Some companies, eager to get pension liabilities off their books, pay an insurance company to provide lifetime annuities for their employees. If this happens, the amount of your payout won't change. Your payout won't be insured by the Pension Benefit

Plan PBGC

The Pension Safety Net

EMPLOYERS THAT HAVE DECIDED THEY CAN NO LONGER AFFORD THEIR PENSION plans can't just shut them down and give employees an extra year-end bonus. By law, an employer that wants to terminate its pension must have enough money to pay all of its vested benefits, either in a lump sum or as a lifetime annuity.

If a company files for bankruptcy protection, though, it can transfer its liabilities to the Pension Benefit Guaranty Corp., the federal agency that insures private pension plans. Your pension won't disappear, but it could be reduced. In 2016, the maximum payout is $60,136, or $5,011.33 a month, for a 65-year-old retiree. (The monthly payment is lower if you retire earlier or elect survivor benefits.) Some higher-paid workers, such as airline pilots, have ended up with lower payouts than they would have received if their plan hadn't been terminated.

Thanks to a string of bankruptcies in recent years, the PBGC is running a $19.3 billion deficit for single-employer plans; the deficit for multi-employer plans is $42 billion (see the accompanying article). In an effort to close the gap, Congress has proposed raising premiums paid by employers by 22% over the next three years. The proposal would increase premiums from $64 per participant in 2016 to $78 by 2019, after which they would be indexed to inflation.

Critics of the increase say it's excessive because the PBGC's deficit for single-employer plans has been dropping. They also claim that Congress is using the increase as a backdoor measure to reduce the federal deficit, and that it will cause more employers to look for ways to reduce their liabilities, such as offering lump-sum payouts and freezing benefits. That could end up weakening the PBGC because a reduction in pension participants would also lead to a reduction in premiums paid by employers.

Guaranty Corp. (see the box on page 37), but you will have coverage from your state guaranty association. You can find more information at www.nolhga.com.

Single life versus joint and survivor. If you decide to take a lifetime payout and you're married, you have another important decision to make: whether to take a single-life payment or the joint-and-survivor option. Taking the single-life payment will deliver bigger benefits, but your pension will end when you die. By law, you'll be required to obtain your spouse's consent before taking this option. With the joint-and-survivor alternative, payments will be smaller, but they'll continue as long as you or your spouse is alive.

Andrew Houte, a CFP in Brookfield, Wis., says he worked with one retiree who took the single-life option because her husband had serious health problems and she expected to outlive him. But the woman died suddenly of a heart attack, resulting in an immediate loss of $3,000 in monthly pension benefits for the surviving spouse. As a result, Houte usually recommends joint coverage, even if the spouse who is eligible for the pension is younger.

The survivor benefit is based on a percentage of the pension participant's benefit. Company plans are required to offer a 50% option, which pays the survivor 50% of the joint benefit. Other survivor-benefit options range from 66% to 100% of the joint benefit. In most cases, the lower benefit kicks in no matter who dies first. Choosing one of the higher percentages for the survivor benefit would set initial pension benefits below the level they'd be with the 50% option.

Some married couples try to increase their overall payout by choosing the single-life option and using the extra money to buy life insurance to protect the surviving spouse. Examine the numbers carefully before you sign up. The death benefit may not be large enough to buy an annuity that would replace the lost pension benefits. ■

The Problem With Public Pensions

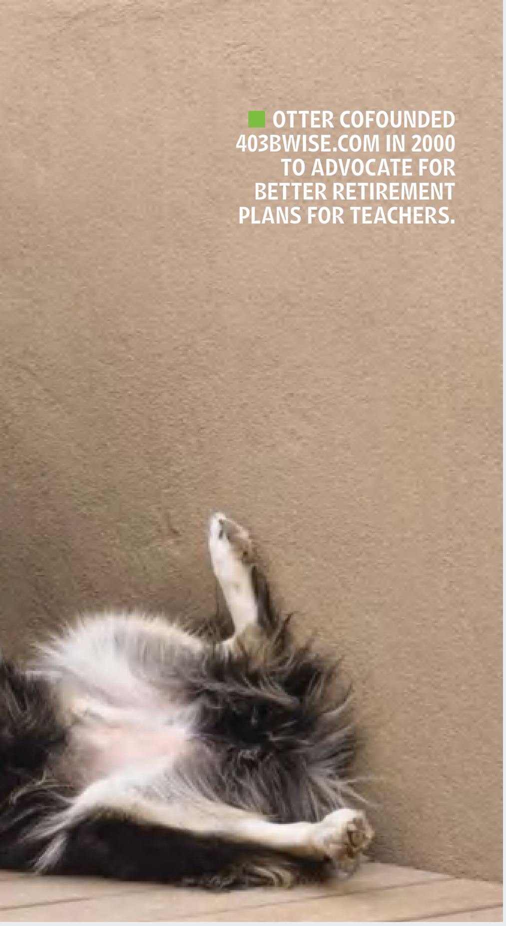
If you're a teacher, firefighter or other public employee, you're probably covered by a pension. Nearly 80% of state and local government employees are covered by a defined-benefit plan, and so are federal government workers.

But don't assume your retirement will be worry-free. To start, even a short stint as a public-sector worker could reduce your Social Security due to what's known as the "windfall elimination provision," or WEP. This provision of federal law reduces benefits for workers who are eligible for Social Security but who also earned a government pension on wages that weren't covered by Social Security. The WEP affects government workers in 15 states. (For a complete list, go to www.nea.org/home/16819.htm.) Workers who have 30 or more years of earnings covered by Social Security are exempt from the WEP.

A separate provision, known as the government pension offset (GPO), could reduce your Social Security spousal or survivor payments if you worked in a public-sector job not covered by Social Security. Usually, a spouse gets up to 50% of a worker's Social Security benefit, and a survivor gets up to 100%. The GPO provision reduces the spousal or survivor benefit by two-thirds of the recipient's public worker's pension. You can check your status by reviewing your Social Security benefit statement (find it online by signing up for an account at www.socialsecurity.gov). You'll see zeroes for years in which you weren't covered by Social Security.

Dan Otter, 50, who teaches at the University

MARK PETERMAN



OTTER COFOUNDED 403BWISE.COM IN 2000 TO ADVOCATE FOR BETTER RETIREMENT PLANS FOR TEACHERS.

of New Mexico, wasn't covered by Social Security during the nine years he worked in the California public school system. "When I look at my Social Security statement, there are these very bleak nine years" for which there is no income that counts toward Social Security benefits, says Otter. He's working with a financial planner to figure out how big a dent those lost years will make, but it could be more than $700 a month in reduced Social Security benefits.

Government employees, like private-sector workers, are more mobile than they used to be, and that has diminished the value of their pensions. A 2015 study by Bellwether Education Partners, a nonprofit education advocacy group, estimates that only 20% of new teachers will qualify for the maximum monthly payment under their pension plan. The rest will see their benefits reduced or eliminated because they changed jobs.

Longtime public-sector workers have another concern: the financial stability of their employer. The Pew Charitable Trusts estimates that there's a $1 trillion gap between the amount of money state-run pensions have and the amount they've promised their workers. Some academics believe the shortfall is more than three times that amount. Estimating liabilities is difficult because state pension administrators aren't subject to the same financial and accounting standards as private pensions, says Olivia Mitchell, a professor at the University of Pennsylvania's Wharton School and executive director of the Pension Research Council. "States have tremendous leeway in how they calculate liabilities," she says. In particular, states can project much higher investment returns than private pensions can.

Illinois, Connecticut and Kentucky have the largest shortfalls, with less than half of their estimated liabilities covered, according to a 2014 Pew analysis. Other states are in much better shape. Wisconsin's funding ratio is nearly 100%, and South Dakota and North Carolina have more than 95% of the amount needed to cover their estimated liabilities.

Closing the gaps. To close funding gaps, states and municipalities have sought to reduce cost-of-living increases and raise age and tenure requirements for new employees. Some states are trying to move away from traditional pensions entirely. Oklahoma recently eliminated its traditional pension for some new state employees in favor of a 401(k)-style plan. Pennsylvania lawmakers are debating a similar proposal.

Some of those efforts have been blocked by state courts. The Illinois Supreme Court has ruled that the state's reform plan, which would have increased the retirement age and reduced cost-of-living increases, was unconstitutional. There's no precedent for a fiscally troubled state seeking bankruptcy relief, but it has happened at the local level. About 12,000 Detroit retirees saw their pension checks cut by nearly 7% last March as a result of the city's bankruptcy.

What to do. Teachers can enhance their retirement security by contributing to a 403(b) plan, a tax-deferred savings plan that's similar to a 401(k). Unfortunately, as far as investment choices are concerned, many 403(b) plans are vastly inferior to their private-sector counterparts. They're often aggressively sold by insurance agents, and the primary offerings are products such as equity-indexed annuities, which often carry high fees and offer limited market returns.

In 2000, Otter cofounded 403bwise.com to advocate for better retirement plans for teachers. He says he has seen some improvement since then. Last year, for example, the board of education in Montgomery County, Md., a suburb of Washington, D.C., contracted with no-load mutual fund company Fidelity Investments to administer its 403(b) plans. In many states, though, school districts have shown little desire to negotiate with financial services firms, and they're not legally required to do so. In California, state law *prohibits* public school employers from putting 403(b) plans out for competitive bidding. Instead, school districts turn the job over to sales representatives who don't have much of an incentive to offer low-cost mutual funds.

Other public employees have better savings options. Federal government workers can save through the Thrift Savings Plan, generally considered the gold standard of retirement savings plans because of its slate of ultra-low-fee index funds. Employees of state and local government agencies are often offered a 457 plan, which is similar to a 401(k) or a 403(b), with a couple of key differences. If you have a 457 plan and leave your job, you can take penalty-free withdrawals, no matter what your age. With a 401(k) or 403(b), you'll usually pay a 10% penalty if you withdraw money before age 55. In addition, workers who are within three years of their "normal retirement age" (typically the age when they can collect unreduced benefits in their pension plan) can double the $18,000 basic maximum contributions for three years if they haven't maxed out on contributions in the past.

Some school systems offer both a 403(b) and a 457 plan to employees. In that case, employees can contribute the maximum ($18,000 in 2016, plus $6,000 in catch-up contributions if they're 50 or older) to each plan. If the 457 plan offers better investment options, you should max it out first.

Another option for teachers with lackluster 403(b) plans is a Roth IRA (see "Reap the Roth Rewards," Dec.). In 2016, you can contribute up to $5,500, or $6,500 if you're 50 or older. You can withdraw the money tax-free after age 59½, and you can tap contributions without paying taxes or penalties at any time.

FAMILY FINANCES »

Caring for the Caregiver

When you spend time, money and emotional capital providing care, you don't have to go it alone. BY JANE BENNETT CLARK

JOHN W. TOMAC

IT'S AN ACT OF LOVE, A LESSON in crisis management, a stress on finances and often a years-long slog. Over a recent 12-month period, more than 43 million adults provided care for a vulnerable family member or friend, according to the National Alliance for Caregiving and the AARP Public Policy Institute. The contribution to family and society is staggering. A Rand Corp. report puts the annual value of unpaid caregiving just for the elderly at $522 billion—more than the amount it would take to retire the 2015 federal deficit.

Not only do caregivers provide mostly free care, but they also often sacrifice their own financial security in the process. The majority of caregivers are women, and for them, the total cost of caregiving amounts to an average of $324,040, according to a study of caregiving costs by MetLife. That figure reflects $142,690 in forgone wages, $131,350 in lost Social Security benefits and $50,000 in reduced pension benefits. It does not reflect forfeited career opportunities, nor does it include the expenses caregivers cover out of pocket, which can add up to several thousand dollars or more a year.

For all their efforts, most people don't identify themselves as caregivers, says John Schall, CEO of the Caregiver Action Network, an advocacy group (www.caregiveraction.org). "They think it's just something you do as family, so they have no way of knowing there are resources for them." But caregiving doesn't have to be a solo enterprise. If you're spending time, money and emotional capital providing care, here's how to find help.

ENLIST THE FAMILY

You'd think that the more siblings you have, the more help you'd get when Mom or Dad needs assistance. But the job of caregiving often falls on the child who lives closest to the parent or on the child who is single. "One person always does more," says Cindy Hounsell, president of the Women's Institute for a Secure Retirement (www.wiserwomen.org). Daughters are more likely to provide basic care, according to the MetLife study, whereas sons tend to contribute financial support. Either way, rather than carrying the load single-handedly, says Hounsell, discuss roles with your siblings as soon as you realize that your parent or elderly relative needs help.

One way to get everyone on the same page is to set up a family meeting—by Skype, FaceTime or conference call, if necessary—and have a social worker, mediator or care manager facilitate the discussion (see below for resources). A neutral party can identify assignments each of you can take on (say, regular visits by the sibling who lives nearby and bill paying by the one who lives in another state) and help the family navigate emotions that often arise when ailing parents are involved. "It's really hard for some families to come to terms with the fact that they're going to have to step up," says Leah Eskenazi, director of operations and planning at the Family Caregiver Alliance (www.caregiver.org).

At the meeting, discuss how caregiving and related expenses will be covered. Treat the matter as a business proposition, says Hounsell. "Say, 'You want someone to take care of Mom. This is what it costs, and we're all going to have to share in those costs.' " If you're the primary caregiver, your family might agree to pay you as an independent contractor. In that case, it's good to have a formal contract, known as a personal care agreement, to spell out the terms of the arrangement. (For information on how to draw up a con-

tract, see “Financial Steps for Caregivers,” at www.wiserwomen.org.)

Or your parent might compensate you, either from income and savings or by adjusting his or her estate plan to give you a bigger share. Whatever the plan, “get buy-in from your siblings from the beginning,” says Melissa Rowley of Chicago, who managed the care for both of her parents and has been involved in a family dispute over how the finances were handled.

Meet with your parents while they are still healthy to discuss their expectations for later care and how they plan to pay for it, says Randi Merel, a senior financial adviser at Merrill Lynch. After having that conversation, the children of one of her clients arranged to help pay for his long-term-care insurance. “If you do it before someone is ill, it’s a much easier dialogue,” says Merel. “You make better decisions.” As for Rowley, she says she’s angry with her parents for not spelling out the caregiving arrangements up front “because it gets ugly. There’s never a clear winner.”

LINE UP RESOURCES

Even with the help of siblings, you may need more boots on the ground—say, someone to drop by your parent’s place to fix meals or to provide transportation. To find help in your community, contact your local area agency on aging through the Eldercare Locator (800-677-1116). Such agencies provide direct support to caregivers, including respite care (usually on a limited basis), counseling and emergency assistance. They can also connect you with local providers for such services as home-delivered meals, transportation and help with chores.

Some of these services may be free. For instance, at Lotsa Helping Hands (www.lotsahelpinghands.com), you can post requests for help and get matched up with volunteers.

If a volunteer isn’t available, check out caregiving agencies, such as Home Instead Senior Care (www.homeinstead.com). Home Instead’s 611 U.S. franchises offer in-home care, including meal preparation, errand-running and housekeeping, generally for about $18 to $24 an hour. (You can also find nonmedical caregivers in your area by using the search tools at www.care.com and www.caring.com.) Homemaker services run a median $20 an hour, according to Genworth’s 2015 Cost of Care survey.

If you need a supervised setting for your relative while you’re at work or so you can take a break, investigate adult day care. Such facilities offer meals, supervised outings, social activities and sometimes health services. The median daily rate is $69.

Consider hiring a geriatric care manager if your parent has complicated needs or lives in another state. Such professionals, who often have a background in nursing or social work, can assess your parent’s situation, put together a care plan and help you execute it, and keep you and other family members in the loop. Fees range from $300 to $800 for an initial assessment and $100 to $200 an hour for care management, according to the Aging Life Care Association (formerly the National Association of Professional Geriatric Care Managers). You can find a geriatric care manager in your area by using the search tool at www.aginglifecare.org.

If you need help resolving family differences involving caregiving, find a mediator through www.mediation.org, a division of the American Arbitration Association. To find social workers who specialize in family and caregiving issues, use the HelpPro Social Worker Finder, at www.helppro.com.

Medicare does not pay for personal or homemaking care, but it does cover home health care for people who are homebound and intermittently need skilled nursing or physical or occupational therapy. The services must be part of a plan established and reviewed by a doctor, and they must be provided through a Medicare-certified home health agency. For details, see www.medicare.gov/coverage/home-health-services.html.

Medicaid, run by the states, will pay for personal and homemaker services, as well as adult day care, but only for care recipients whose income and assets fall under state limits (eligibility rules and covered services vary by state). Most states also have programs, including Medicaid, in which eligible care recipients are given a budget from which they can pay caregivers of their choice, including family members. See the National Resource Center for Participant-Directed Services, at www.bc.edu/schools/ssw/nrcpds.

Long-term-care insurance also pays for in-home care. You may have to wait up to 120 days, depending on the policy, before coverage kicks in. Be prepared to jump through hoops—such as providing documentation from a doctor that your family member needs the care—when you submit claims.

TALK TO YOUR BOSS

Your ability to juggle caregiving and your day job successfully could depend on your boss. A 2014 survey conducted for the Families and Work Institute shows that half of those who left their jobs to provide elder care did so because their employers weren't flexible enough to accommodate their dual responsibilities—say, by letting them telecommute or work an earlier or later shift. For their part, employees are reluctant to raise an issue that might be perceived as affecting their work performance, says Ken Matos, senior director of research at the institute. "They don't want to reveal their situation and don't think there's anything their employer can do about it."

Recently, however, some employers have initiated programs that educate employees on elder-care resources and create a more receptive atmosphere for discussing work accommodations, such as job sharing. "Large businesses have realized it is more costly to them if they lose employees who are caregivers and have to hire and train new employees. It's only a tiny crack in the wall, but it has begun," says Schall, of the Caregiver Action Network. If your company has no such program and you need to ask for flexibility, frame it in a problem-solving way, says Matos: "Approach your employer not by saying 'I'm not meeting goals' but 'I'm planning ahead to meet my goals.' "

Under the Family and Medical Leave Act, companies with 50 or more employees must allow up to 12 weeks a year of unpaid leave for workers who are caring for a newborn or an ailing family member. California is among a handful of states that go a step further by requiring employers to offer eligible employees up to six weeks of paid leave a year, at 55% of their wages, to care for a seriously ill family member.

Often, the stress of working a full-time job while caring for an elderly relative can feel overwhelming, even with a supportive employer. If you're considering quitting your job, try to work at least long enough to vest in your pension or 401(k) plan (which may require vesting for employer contributions) or to accumulate enough credits to qualify for Social Security. And prepare a budget for paying expenses after you leave your job, says Schall. His advice: Rather than quit altogether, switch to part-time status. Be sure to find out how cutting your hours might affect your benefits, such as your pension or health insurance. ■

KipTip

Tax Breaks Can Help

UNCLE SAM MAY OFFER A HELPING HAND IF YOU'RE TAKING CARE OF A RELATIVE. IF YOU provide more than 50% of the relative's support and she has a gross income (not counting tax-free Social Security benefits) of less than $4,000 in 2015, you can claim her as a dependent on your tax return. Your relative does not have to live with you to qualify.

The exemption will knock $4,000 off your taxable income (restrictions apply if your income exceeds $258,250, or $309,900 for married couples filing jointly). You can include medical expenses paid for a dependent (or someone who would qualify if not for the income test) when determining if you can write off medical expenses on your return. You can deduct such expenses to the extent they exceed 10% of your adjusted gross income (7.5% if you or your spouse is 65 or older). Allowable expenses include the cost of nursing care at your home or a care facility and of modifications to your home, such as installing grab bars and handrails, to the extent the cost exceeds any added value to your home. For the list of all eligible expenses, see IRS Publication 502, at www.irs.gov.

If you pay someone to care for your relative while you work or look for work, you may be able to claim the child and dependent care credit on your federal tax return. The credit can knock $600 to $1,050 off your tax bill for the year. Home care qualifies for both the medical expense deduction and the dependent care credit, but you can't apply the same expenses to both; it's usually best to count them first toward the dependent care credit.

If you have flexible benefit plans at work that allow you to use pretax income to cover medical or dependent care costs, you can tap those accounts for reimbursement for qualified expenses paid for a dependent parent or other eligible person. You'll generally get a bigger break by using the flexible spending account rather than the dependent care credit (see "Ask Kim," at kiplinger.com/links/dependentcare).

Hiring someone to provide care in your home or the care recipient's home could trigger requirements that you pay Social Security, Medicare and unemployment taxes for the employee. This requirement generally does not apply if the paid caregiver is a family member or an employee of an agency.

FAMILY FINANCES»

A Squeeze on Social Security Benefits

Dead-of-night negotiations axed two benefit-boosting tactics. But millions can still cash in. **BY KEVIN McCORMALLY**

IN RECENT YEARS, THIS MAGAZINE and our sister publication *Kiplinger's Retirement Report* have frequently alerted readers to opportunities to make the most of their Social Security benefits. Now, perhaps because we did our job too well, two popular strategies—"file and suspend" and "restricting an application" (we'll explain in a bit)—are being wiped out.

Both were created by the Senior Citizens Freedom to Work Act of 2000 to encourage workers to stay on the job and delay claiming Social Security. Doing so allows their benefits to grow to better serve them in retirement. That legislation passed unanimously. But as more people took advantage of the changes, yesterday's "freedom" morphed into today's "loophole." And just before Halloween, with no public hearings or debate, Congress voted to put the kibosh on what were termed "aggressive" claiming strategies.

But, and this is a big *but,* the lawmakers decided to give millions of Americans six months to take advantage of the old rules. Read on to see if you (or maybe your parents or grandparents) are among the chosen people.

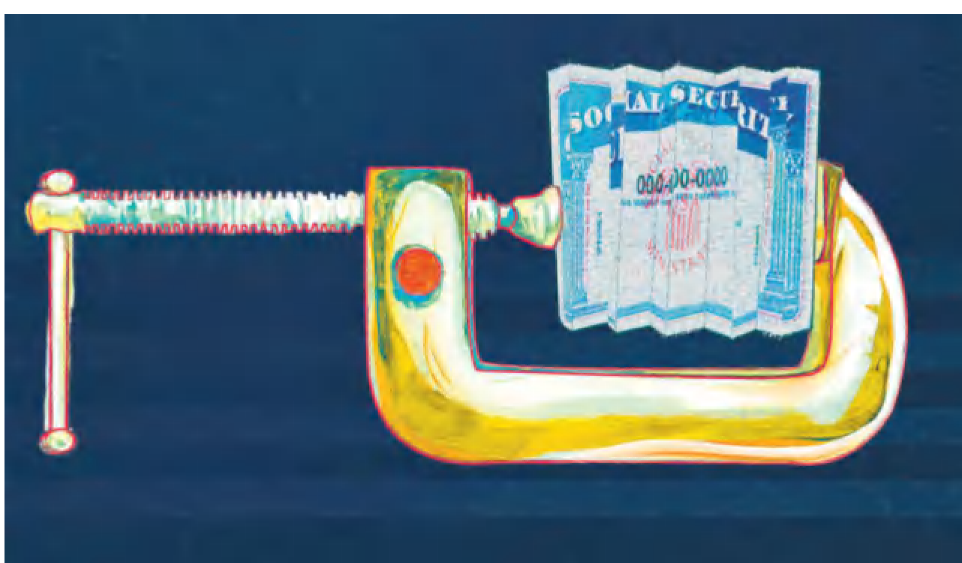
File and suspend. Once you reach full retirement age (FRA), which is now 66 but will gradually rise to 67 for those born in 1960 or later, you can claim your benefits and immediately tell Social Security not to pay you. The point of the pirouette is that only after you claim your benefits can others who qualify for payments based on your work record—such as your spouse or dependent children—receive those benefits. And if you suspend after turning on the spigot for them, you earn delayed retirement credits that will boost your benefit by 8% a year until you reach age 70.

The strategy is key to many plans to "maximize" lifetime benefits. If you live longer than the average life expectancy, getting higher benefits later (for yourself or as survivor benefits for a spouse) could more than make up for the cash you passed up earlier.

Here's an example: A husband who has earned a $2,200 monthly benefit files and suspends at age 66, making his nonworking wife (also 66) eligible for a spousal benefit equal to half that amount, or $1,100 a month. By suspending his benefits, the husband earns delayed retirement credits that will boost his payout at 70 by 32%, to $2,904, plus cost-of-living hikes between now and then.

As originally written, the new law was going to cut off anyone receiving benefits based on the record of someone who had suspended his or her own benefits. The checks to spouses and dependent children were to stop six months after President Obama signed the new law. But in a middle-of-the-night change, the lawmakers relented. Not only will those now benefiting from file and suspend continue to receive payments, but nearly 2 million other Americans will be allowed to age into using the "loophole." Anyone who is 66 by May 2 can capitalize on this strategy if it is advantageous. (As the deadline approaches, we'll write more about how to determine whether it makes sense for you and, if so, how to do it.)

Restricting an application. Although you can apply for Social Security benefits as early as age 62, waiting until FRA opens an important opportunity. Before 66, any application is considered to be a request for your highest possible benefit, whether based on your own work record or your spouse's. At FRA,



PRATIKA APPAIAH

though, you can "restrict an application" to spousal benefits only, even when that's less than you'd get on your own record. Why take a haircut? So your own benefit will grow at 8% a year until you turn 70.

The new law will eliminate this option for those who turn 62 after January 1. If you're older than that, you're grandfathered in and can still restrict an application once you reach age 66. Because file and suspend is disappearing, your husband or wife will actually have to be receiving payments for you to get spousal benefits.

Retroactive benefits. The strategies we just described benefited married couples. A third strategy being abolished helped singles, too. As a general rule, Social Security will not pay more than six months' worth of benefits retroactively. But if you file and suspend at FRA, your suspended benefits are basically banked. At any time, you can claim all benefits due since age 66 as a lump sum, if you are willing to forfeit the delayed retirement credits that have accrued. That could be valuable if, say, your delayed-claiming strategy based on a long life expectancy is threatened because you become ill at 69. Under the new law, this "insurance" will be available only to those who turn 66 by May 2.

The impact. William Meyer's company, Social Security Solutions, offers sophisticated software to design strategies to maximize lifetime income from Social Security. He says the changes could cost a one-earner couple more than $60,000 in benefits between ages 66 and 70. He chafes at the notion that the targeted strategies were loopholes, and he worries about the long-term impact on lower-income and middle-class workers who now might claim benefits sooner rather than later, thus accepting lower payments for themselves and their survivors. He argues that it's still important to consider the big picture. "It's not an easy, no-brainer decision," he says. ■

How to Get In on a VW Payout

I OWN A VOLKSWAGEN JETTA TDI, a model implicated in the company's emissions cheating scandal, and I'd like to join a class-action lawsuit. How do I pick one?
A.P., NEW YORK

More than 300 class-action lawsuits have been filed related to the Volkswagen emissions scandal, and the Web is filled with ads from law firms asking people to sign up. But Clarence Ditlow, executive director for the Center for Auto Safety, says that "at this point, there is no need for anyone to 'join' a class action." The lawsuits are likely to be consolidated soon, and one U.S. District Court will handle the case. A class-action settlement could be reached from six months to two years after that, says Ditlow. All who meet the definition of the class will be able to participate and file a claim (unless they opt out). Enter your VIN at www.vwdieselinfo.com to see if your car is affected and, if so, to sign up to receive a $500 gift card from Volkswagen, which should not affect your ability to participate in a lawsuit.

For a possible claim, keep your purchase or lease agreement, any related documents and correspondence with Volkswagen, Audi or your dealer, and any receipts for expenses you may try to claim, says Andre Mura, a lawyer with Girard Gibbs in Oakland, Calif., which filed one of the lawsuits. Make sure VW has your current address.

You don't need to sign up with a law firm to collect on a settlement, but a lawyer can help you decide whether to opt out of the class and file your own suit.

Charity scams. *I received a phone call asking for money from a charity that says it's helping people who lost homes in recent storms. How do I know if this charity is legitimate?*
J.C., BOSTON

Don't pledge money to an unknown charity over the phone or click on a link in an e-mail. Scam artists make phone calls, send e-mails and create fake Web sites posing as charities, and they often use news stories about recent disasters as their hook. Some crooks won't just steal your money; if they get your credit card number, bank information or Social Security number, they could steal your identity.

Several Web sites make it easy to check whether a charity is legitimate and to find reputable ones that are doing similar work. Most of these sites also analyze charities' financial situations and rate their effectiveness. Check out CharityNavigator.org, the Better Business Bureau's Wise Giving Alliance (www.give.org), CharityWatch.org and GiveWell.org.

Medicare surcharge. *I have to pay the high-income surcharge for my Medicare Part B premiums in 2016. Is there any way to avoid it?*
J.G., CINCINNATI

Most people will continue to pay $104.90 per month for Medicare Part B in 2016. But if you sign up for Medicare in 2016 or don't have your premiums paid from your Social Security benefits, then you'll have to pay $121.80 per month in 2016. And if your adjusted gross income plus tax-exempt interest income is more than $85,000 for single filers or $170,000 for joint filers (which includes all taxable income, such as from a job, interest, dividends, capital gains or a pension), then your premiums may be as much as $268 per month higher.

You may be able to reduce or avoid the surcharge if your income has dropped since 2014 (the last tax return on record) because of certain life-changing events, including retirement. Contact the Social Security Administration to request that the premiums be based on your current income. See "Medicare Premiums: Rules for Higher-Income Beneficiaries" at www.ssa.gov/medicare, or call 800-772-1213. ■

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

"You don't need to sign up with a law firm to collect on a settlement, but a lawyer can help you decide whether to opt out of the class and file your own suit."

LISE METZGER

CREDIT »

Never Pay an ATM Fee Again

WITHDRAWING YOUR OWN cash is more expensive than ever. According to a recent Bankrate.com survey, the average out-of-network ATM fee hit a record $4.52. That includes the fee your bank charges to use a non-network ATM and the fee the ATM's owner levies. But some institutions cut you a break. They charge no fees to customers who stray out of network *and* they reimburse fees that others

Kiplinger.com

RATE UPDATES

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

charge. We found five online banks and credit unions that refund ATM fees and have no minimum balance, monthly fees or other strings attached to get the rebates.

BANK OF INTERNET USA (www.bankofinternet.com) refunds all domestic out-of-network ATM fees on its Rewards, CashBack and Essential checking accounts. If you enroll in online banking and sign up for e-statements at **RADIUS BANK** (www.radiusbank.com), you're eligible for its Hybrid or Checking account, both of which reimburse all ATM fees. **ALLIANT CREDIT UNION** (www.alliantcreditunion.org) refunds up to $20 a month in out-of-network ATM fees. **BANK5 CONNECT** checking (www.bank5connect.com) reimburses $15 per statement cycle, and **ALLY BANK** interest checking (www.allybank.com) refunds $10 per statement cycle.

Other institutions reimburse ATM fees if you use your debit card a certain number of times a month and have a direct deposit or bill payment. Among them: **CONSUMERS CREDIT UNION** Free Rewards Checking (www.myconsumers.org), which offers unlimited ATM reimbursement plus an interest rate that was recently as high as 5.1%. **LAKE MICHIGAN CREDIT UNION** Max Checking (www.lmcu.org) pays back $15 a month and yields 3%. To find banks and credit unions that refund ATM fees, go to www.checkingfinder.com or www.kasasa.com. **LISA GERSTNER**

YIELD BENCHMARKS

	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds*	0.10%	0.30%	0.10%
U.S. Series I savings bonds	1.64	0.00	1.48
Six-month Treasury bills	0.27	0.06	0.07
Five-year Treasury notes	1.63	1.35	1.63
Ten-year Treasury notes	2.23	2.07	2.36

As of November 5, 2015. *EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
● Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.
● Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.

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

TOP-YIELDING DEPOSIT ACCOUNTS

No-Minimum Checking Accounts	Annual yield as of Nov. 6	Web site (www.)
EverBank (Fla.)*†	1.03%	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 Nov. 6	For balances up to‡	Web site (www.)
Consumers Credit Union (Ill.)#	5.09%	$20,000	myconsumers.org
Northpointe Bank (Mich.)	5.00	5,000	northpointe.com
Great Lakes Credit Union (Mich.)#	3.00	10,000	glcu.org
Lake Michigan Credit Union (Mich.)#	3.00	15,000	lmcu.org
NATIONAL AVERAGE	**1.64%**		

Savings Accounts	Annual yield as of Nov. 6	Min. deposit	Web site (www.)
North American Savings Bank (Mo.)	1.12%	$100	nasb.com
EverBank (Fla.)*†	1.11	1,500	everbank.com
My Savings Direct (N.Y.)*&	1.10	1	mysavingsdirect.com
Dime Savings of Williamsburgh (N.Y.)&	1.10	1,000	dime.com
NATIONAL AVERAGE	**0.10%**		

*Internet only. †Promotional rate for first-time clients; available for the first year. #Must be a member; to become a member, see Web site. §1st Constitution Bank, Clear Sky 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. &iGObanking, Northeast Bank, Palladian Private Bank and Radius Bank offer a similar yield. SOURCES: Bankrate.com, Depositaccounts.com.

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of Nov. 6	Min. amount	Web site (www.)
Colorado Federal Savings Bank (Colo.)	1.35%	$5,000	coloradofederalbank.com
Connexus Credit Union (Wis.)†	1.33	25,000	connexuscu.org
E-Loan (N.Y.)*	1.30	10,000	eloan.com
CIT Bank (N.J.)*	1.30	25,000	bankoncit.com
NATIONAL AVERAGE	**0.27%**		

5-Year	Annual yield as of Nov. 6	Min. amount	Web site (www.)
E-Loan (N.Y.)*	2.45%	$10,000	eloan.com
Barclays Bank (Del.)*	2.25	none	banking.barclaysus.com
Synchrony Bank (N.J.)*	2.25	25,000	synchronybank.com
First Internet Bank of Indiana (Ind.)#	2.15	1,000	firstib.com
NATIONAL AVERAGE	**0.84%**		

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

LOW-RATE CREDIT CARDS

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

RETAIL REBATE CARDS

Issuer	Rate as of Nov. 6*	Annual fee	Rebate earned store/other	Web site (www.)
Barnes & Noble MasterCard	13.99%	none	5%/1%^	barnesandnoble.com
L.L. Bean Visa	13.99	none	3/1	llbean.com
Amazon.com Rewards Visa	14.24	none	3/1‡	amazon.com/rewards

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

ILLUSTRATION BY THE HEADS OF STATE

WHERE TO INVEST IN 2016

In a world of muted economic growth, investors can expect modest gains and more volatility. But the bull lives on.

BY ANNE KATES SMITH

IS A BEAR MARKET NIPPING at our heels? That question, more than any other, will dog investors as we enter 2016. We don't think you should give up on the bull just yet. Just don't expect too much from it. // As the bull market heads into its eighth year, investors will have to contend with heightened volatility as the Federal Reserve Board nudges interest rates toward more-normal levels, election-year rhetoric boils over, and economic growth—

here and abroad—starts and stutters. Corporate profits will grow tepidly, and price-earnings ratios, a measure of how much investors are willing to pay for each dollar of a company's earnings, are unlikely to expand.

As a result, investors can expect stock prices to appreciate on average by mid-single-digit percentages over the coming year, commensurate with the modest earnings gains expected from corporate America. That would put Standard & Poor's 500-stock index at 2200 or a bit higher (figure on the Dow Jones industrials approaching 19,000). Add in two percentage points to account for dividends and that brings the expected total return for U.S. stocks to roughly 8%. "The majority of the bull market is behind us," says Matthew Berler, a portfolio manager at Osterweis Capital Management. "But this is not 2007 or 1999—we are not on the precipice of a bear market."

That doesn't mean you can rule out more pullbacks of the sort that agitated investors last summer. Expect rolling corrections within sectors and industries, says Ernest Cecilia, chief investment officer at Bryn Mawr Trust. "We've had huge run-ups, then the air comes out, without the whole market falling," he says. "That will continue." Your portfolio may require more tending as market leaders and laggards trade places. A regimen of regularly pocketing gains and using the proceeds to scout for bargains will pay off.

THE CHINA FACTOR

The chief worry for investors in 2016 is whether a global economy that's already in low gear will downshift further. For now, improvement in the developed world, albeit lackluster, is partially offset by the bleak picture in emerging markets. All eyes are on China, as it navigates a transition from a fast-growing manufacturing economy to a slower-growing, consumer-driven one. IHS Economics expects global economic growth of roughly 3% in 2016—within the 2.5%-to-3% range the world has been stuck in since 2011.

The U.S. economy will strengthen, but only modestly. Kiplinger expects gross domestic product growth of 2.8% in 2016, up from an expected 2.5% for 2015. Commodity prices will continue to languish due to lack of demand, but oil, at least, will stabilize, averaging between $45 and $55 a barrel in 2016, up from its August low of $38 a barrel. The dollar, already up nearly 20% since July 2014, will tack on another 5% to 7% against a basket of major foreign currencies as the Fed embarks on a course of modest, gradual rate hikes, while central bankers in Europe, Japan and China go in the opposite direction. A beefier buck will continue to bedevil U.S. multinational companies, as their goods become more expensive overseas and foreign sales translate into fewer dollars.

Emerging from the profit doldrums of 2015 will be key to market gains in 2016. When the tallies are in for 2015, analysts expect zero earnings growth for the year. Although the profit slump was mainly confined to the energy sector, a victim of plunging oil prices, and multinationals, which were hurt by the strong dollar, sluggish corporate revenues are a more widespread challenge. Sales growth remains the Godot of corporate America; it has yet to materialize, at least with any strength, although we've been waiting for years. Investors are right to question how much longer corporate America can engineer earnings gains by cutting costs, buying back shares and acquiring other companies.

Long and Strong

HOW TODAY'S BULL MARKET STACKS UP

The current upturn has to last for nearly three more years to match the length of the great bull market of the 1990s.

When	Length of bull market	Total return*
May 1970 – January 1973	2 yrs. 8 mos.	58%
October 1974 – November 1980	6 yrs. 1 mo.	198
August 1982 – August 1987	5 years	266
December 1987 – July 1990	2 yrs. 7 mos.	76
October 1990 – March 2000	9 yrs. 5 mos.	546
October 2002 – October 2007	5 years	121
March 2009 – Today†	6 yrs. 8 mos.	257

*Figures are cumulative. †Period ended Nov. 6.
SOURCE: S&P Dow Jones Indices

WHAT COULD GO WRONG

For pessimists looking for a worst-case scenario, it's not hard to imagine the stock market derailed by some kind of economic shock. Analysts at Bank of America Merrill Lynch posit another possibility, more banal but equally devastating: Growth expectations simply suffer "significant downward revision by a thousand cuts."

There's plenty to worry about, for sure. But we still think the weight of the evidence favors the bull. For one thing, neither the economic recovery nor the bull market is as old as it might seem. Economic expansions last 58 months, on average, and this one is 78 months long at the start of 2016. But the three recoveries since 1981, which occurred during periods of relatively low inflation, may be more comparable, and they lasted an average of 95 months. "Recoveries aren't over because of a 'sell-by' date," says economist John Canally, of LPL Financial, a brokerage firm. He thinks the economy won't contract until 2018 or 2019 because we have yet to see the excesses of overbuilding or runaway inflation that typically precede a downturn.

The same goes for the stock market. The bull market, which celebrates its seventh birthday in March, will by then be nearly three years longer than the average bull market. But it will also be three years shorter than the nearly 10-year run that began in 1990 (see the table at left). Shares in the S&P 500 trade at 16 times expected earnings for 2016—higher than the

Europe Is Your Best Bet for Stocks

SAIRA MALIK *is head of global stock portfolio management at TIAA-CREF.*

KIPLINGER'S: What's ahead for investors in 2016?
MALIK: In general, stocks should do better than fixed-income investments in 2016. We see Standard & Poor's 500-stock index up by low-to-mid single digits, similar to what we saw in 2015, with a lot of volatility. In years when interest rates go up you see a lot of volatility around the increases.

But no bear market? We're still in a bull market, though in the late innings. Last summer's correction was typical. But growth remains pretty strong in the U.S. The economy is on track; housing and the consumer look strong. We don't see the things that generally cause a bear market. We don't see any signs of a recession, stocks aren't overvalued—they're fairly valued—and there's no credit crisis.

What are some of the themes you see playing out? An interesting shift is taking place. Over the past year, stocks with upward price momentum have led, including health care and Internet stocks. Economy-sensitive and bargain-priced stocks have not performed as well. But those will be the stocks you want to own in 2016 if you do see an improving economy. As growth slowly accelerates, industrial and basic-materials companies, such as chemical makers, could do well. For example, we like **OLIN CORP. (SYMBOL OLN, $19)**, which makes chemicals used in many industrial and housing applications. But we also look for high-quality, momentum names when they trade down. In software, we consider **SALESFORCE.COM (CRM, $78)** a core holding. You want to buy it on dips when the market is volatile.

What else do you like? Energy. We see a better demand-supply balance than the market sees right now. As oil prices have gotten lower, demand has remained strong. But drilling rig counts are declining, and oil production is down. The sector looks cheap, with price-to-book-value ratios below their historical average. One favorite is **DIAMONDBACK ENERGY (FANG, $74)**. It operates in the Permian Basin, in the West Texas area. It's a low-cost place to drill, with high-quality reserves, and Diamondback is a big player.

What's your take on foreign markets? We like developed markets in general, and of all the world's markets we have the highest conviction about Europe. Economic growth is in positive territory, and manufacturing is expanding. Interest rates are low, so businesses can borrow and consumers are buying houses and cars. A weak currency promotes exports. Stocks in Europe are up less than half the level of the S&P 500 since 2009, and assuming corporate earnings go back to normal levels, the stocks look cheap.

What should investors be buying there? We like the consumer discretionary sector—companies providing goods that aren't necessities. In that group we like automaker **RENAULT S.A. (RNLSY, $19)**.

How about emerging markets? We're keeping a close eye on areas no one cares about, and emerging markets fall into that camp. But we're selective. We're fans of India as long as Prime Minister Modi continues to get support for plans to boost growth. By the second half of the year, investors should be taking a serious look at Brazil. Yes, it has problems, but the government has been trying to cut the deficit by reducing spending, and it's raising interest rates to fight inflation and defend the currency. The economy is still contracting, but we think it will reach a trough around the middle of 2016, setting up the market for recovery.

What's the biggest risk to the U.S. market? We've been watching wage inflation. We're already starting to see some labor shortages in housing and in some service areas. Higher wages can squeeze profit margins, causing earnings to decline, and that could derail the bull market. Plus, if the Federal Reserve started to worry about inflation, it could raise rates faster than expected. ■

PHOTOGRAPH BY AMANDA FRIEDMAN

historical average of 15, but down from 17 times earnings last spring. "The market is not expensive, but it's not cheap, either," says Darrell Cronk, president of Wells Fargo Investment Institute, which provides research to Wells Fargo advisers and their clients. "It can go up as much as earnings can grow." Cronk is calling for average earnings growth of 6.5% for companies in the S&P 500, while analysts on average expect 8%. We think 6% to 8% is a fair range. In any case, the risk is that P/Es contract in the coming year if investors decide to pay less for their share of earnings, muting returns.

Investors should consider bumping up their allocations to foreign stocks in 2016, but they'll have to choose carefully. Fears of a hard landing for China's economy (which is what threw the U.S. market into a tailspin last summer) are overblown. The jury is out on whether Japan can climb convincingly out of its funk, but Europe is attracting a fair share of bulls, including us. Intrepid investors who are ready to embrace their inner contrarian can explore emerging markets in 2016 (see the box at right).

EYES ON CENTRAL BANKERS

More than anything else, the fate of overseas markets—and to some extent, ours, too—depends on actions taken (and signals telegraphed) by central bankers in foreign lands. A bullish sign for investors is that those bankers are likely to maintain easy-money policies and low interest rates throughout 2016.

Even here, where rates will creep higher, Wall Street's mantra remains "lower for longer." Still, fixed-income investing will remain a challenge. "Rates will remain low enough that it will be hard to find decent returns, but it will be dangerous to stretch to find that return," says Scott Clemons, chief investment strategist at money-management firm Brown Brothers Harriman. (Our bond-market outlook appears on page 55. For more on consumer rates, see "Ahead," on page 15.)

In a world of slow economic growth and modest profit expectations, the most dependable returns will come from companies with stellar finances and stable earnings. Such high-quality shares usually stand up well to market volatility, too. Think names such as **CVS HEALTH (SYMBOL CVS, $99)**, the drugstore chain and pharmacy-benefits manager; **KROGER (KR, $38)**, the supermarket giant; and apparel maker **V.F. CORP. (VFC, $68)**. (For our top picks, see "Eight Stocks to Buy Now," on page 56.)

Even in a middling market, investors can find plenty of pockets of strength. Start by looking in the mirror: Consumers are in good shape. Wages have ticked higher but not enough to stoke inflation. And savings from lower

International Outlook

Where to Find Bargains Abroad

IF YOUR PORTFOLIO MIRRORED THE GLOBAL STOCK MARKET, YOU'D HAVE ONLY ABOUT half of your assets in U.S. stocks. You don't need to put 50% of your money in overseas stocks, but in 2016, you may be penalized for being too provincial. "We are tilted to international stocks rather than to the U.S.," says Charles Shriver, who runs T. Rowe Price Global Allocation Fund. He has increased international holdings in the fund's portfolio by a few percentage points. He likes emerging markets and prefers Europe among developed markets.

The case for Europe is strong. The Continent's economies are gaining traction from rock-bottom interest rates, a falling euro (which helps boost exports) and pent-up demand. Bargains abound. Stocks in eurozone markets trade for less than 14 times estimated 2016 corporate earnings, compared with a price-earnings ratio of 16 for U.S. stocks. Moreover, earnings should rise by about 8% in 2016, compared with 6.5% for U.S. companies, according to Wells Fargo Investment Institute. Finally, dividends are more generous across the Atlantic, with the average yield more than 3% compared with 2% here.

Stick with well-known, high-quality stocks. Ernest Cecilia, chief investment officer at Bryn Mawr Trust, recommends **NOVARTIS (SYMBOL NVS, $90)**, the Swiss pharmaceutical giant. Harding Loevner portfolio manager Richard Schmidt favors energy stocks that he thinks have been punished unfairly as the price of oil has plunged. Among his favorites are **SCHLUMBERGER (SLB, $78)**, the French energy-services giant, and Luxembourg-based **TENARIS (TS, $25)**. (All of our picks trade in the U.S.; prices are as of October 30.)

Fund investors should consider Kiplinger 25 member **ARTISAN INTERNATIONAL (ARTIX)**, which at last word had 56% of its assets in developed European countries. But hurry: The fund closes to new investors in February. Artisan does not hedge against currency swings. **FMI INTERNATIONAL (FMIJX)**, another member of the Kip 25, does hedge and so will benefit if the dollar continues to strengthen.

Japan is a mixed picture. The bulls argue that economic reforms are bolstering growth, albeit slowly. But Saira Malik, head of global stock portfolio management at TIAA-CREF, isn't convinced. "We're just not seeing the results," she says. "Growth is going in the wrong direction in Japan." (See the interview on the previous page.)

Still, you can find promising stocks even in iffy markets. Japan's **FANUC (FANUY, $29)** is a major player in the fast-growing market for robots that are primarily used to automate factory work. In China, cash in on the burgeoning consumer economy with **CTRIP.COM INTL. (CTRP, $93)**, a travel-services firm.

Emerging markets will appeal to bold investors in 2016. Of course, the group encompasses diverse countries with varying prospects. For fund investors seeking broad exposure, we favor Kip 25 member **HARDING LOEVNER EMERGING MARKETS (HLEMX)**, which Schmidt comanages. Risk-tolerant investors can zero in on a robust market with **MATTHEWS INDIA FUND (MINDX)**. India's consumer-driven economy is benefiting from declining inflation. For more on India and other attractive developing markets, see kiplinger.com/links/emergingmarkets.

gasoline prices are at last fueling spending at restaurants, retailers and other consumer-goods companies, says Jason Pride, director of investment strategy at money-management firm Glenmede. We're spending 78 cents of every dollar saved at the pump, up from just 45 cents in March.

S&P Capital IQ recommends that investors tilt their portfolios toward companies that make and market nonessential consumer goods. Although the stocks were up by double-digit percentages in 2015, the group is expected to log earnings growth of 15% in 2016, beating estimated earnings gains for the S&P 500 by a long shot. One way to invest is through **CONSUMER DISCRETIONARY SELECT SECTOR SPDR (XLY)**, an exchange-traded fund. Top holdings include Amazon.com (AMZN), Home Depot (HD) and Nike (NKE).

Investors who prefer individual stocks might like **WALT DISNEY CO. (DIS, $114)**, "an iconic brand that's extremely well managed," says Henry Smith, chief investment officer at Haverford Trust, who thinks Disney's December 2015 release of *Star Wars: The Force Awakens*, plus all the movie spin-off products to follow, bodes well for the company.

Bargain hunters might take a chance on home-goods retailer **BED BATH & BEYOND (BBBY, $60)**. The company has struggled to integrate in-store and online shopping, and its stock sells at 11 times expected earnings for the fiscal year that ends in February 2017, compared with a five-year average P/E of 15 (and a P/E of 17 for the specialty retail group overall). "We think the company has turned the corner," says Bryn Mawr's Cecilia.

Technology stocks have been top performers, too, but remain well priced. **APPLE (AAPL, $120)**, for example, sells for just 12 times estimated earnings for the fiscal year that ends next September. "Apple is going to be returning cash to shareholders in terms of significant share buybacks and dividend increases for years to come," says Smith. Mutual fund investors can find scads of today's tech leaders in **T. ROWE PRICE GLOBAL TECHNOLOGY FUND (PRGTX)**.

Income-seeking investors will in many cases do better with stocks than with bonds, especially as rates begin to rise and as bond prices, which move in the opposite direction, fall. More than 60% of S&P 500 companies pay more than the 1.6% yield of the five-year Treasury note. Avoid the highest-yielding stocks; the underlying companies typically generate little, if any, earnings growth. Instead, seek rising-dividend stocks, which are likely to do better than their more bondlike counterparts when rates start going up.

An analysis from BofA Merrill shows chip maker **SKYWORKS SOLUTIONS (SWKS, $77)** among stocks increasing dividends the fastest. **SHERWIN-WILLIAMS CO. (SHW, $267)**, the paint manufacturer, is among the most consistent dividend raisers; retailer **COSTCO WHOLESALE (COST, $158)** has room to increase its dividend; and **CELGENE (CELG, $123)**, a biotechnology firm, fits the financial profile of companies that don't pay dividends now but have the wherewithal to begin doing so soon (see also "Three Great Future Dividend Payers," Nov.). A great choice for fund investors is **VANGUARD DIVIDEND GROWTH (VDIGX)**, a member of the Kiplinger 25.

Volatility is unnerving, but investors able to keep their heads can use it to their advantage. There's sure to be a lot of heated political rhetoric in 2016 about limiting drug costs, for example. That could be a cue to shop for bargains among top-notch pharmaceutical firms and other health care stocks. Health care prospects to pounce on include drug giant **ABBVIE (ABBV, $60)** and instrument maker **THERMO FISHER SCIENTIFIC (TMO, $131)**.

Finally, investors should be on the lookout for a resurgence in the industrial sector, which has shown signs of strength since the summer market rout. "Softness in manufacturing has made industrials cheap," says Cronk, of Wells Fargo. Throughout the economic expansion, U.S. corporations have spent liberally on share buybacks, dividends and acquisitions but have put relatively little into buildings and equipment to expand their businesses. "I expect capital spending to pick up in 2016," says Cronk, "and that's played through industrials."

USAA portfolio manager Robert Landry favors industrials that aren't too dependent on a resurgence of global growth and stronger commodity prices; that means he's staying away from heavy equipment makers. Rather, he favors global conglomerate **GENERAL ELECTRIC (GE, $29)**, military contractor **RAYTHEON (RTN, $117)**, waste management company **REPUBLIC SERVICES (RSG, $44)** and package delivery firm **UNITED PARCEL SERVICE (UPS, $103)**. ■

2015 Update

Our Call Was a Bit Too Rosy

WE WARNED YOU IN OUR JANUARY 2015 issue that the stock market would be "more erratic than usual." Check. The market's first correction since 2011, an 11.9% decline that occurred mostly in August, underscored that prediction. But we were too optimistic in predicting that Standard & Poor's 500-stock index would deliver a total return of about 11%. Instead, the index earned 5.2% over the one-year period that ended October 30. Still, given the range of results in the not-too-distant past—the index gained 32% in 2013 and plunged 37% in 2008—we're not hanging our heads in shame.

Like most professional stock pickers, we found it hard to keep up with the S&P 500 over the past year. The picks in "8 Stocks to Buy Now" returned an average of 1.9%. Our five winners were led by Stanley Black & Decker (symbol SWK), with a return of 15.4%. Our biggest loser was American Express (AXP), which surrendered 17.3%.

"And 5 to Sell," our suggestions for stocks to dump, did slightly better than our buy recommendations, gaining 2.7%, on average. Two of our suggested sells lost money, with Sears Holdings (SHLD) and International Business Machines (IBM) dropping 28.9% and 11.9%, respectively. But we shouldn't have suggested unloading McDonald's (MCD). Its shares gained 23.4% over the period.

JEFFREY R. KOSNETT > Income Investing

The Right Bonds for 2016

LISE METZGER

As the Federal Reserve gets ready to finally raise interest rates, and fear and loathing reach a fever pitch in bond-land, I am reminded of a column that appeared in a well-known business magazine in December 2013, just before Janet Yellen's confirmation as Fed chairman. It began, "Bonds are going to get killed. Are you ready?" My reaction at the time: Poppycock. Now, two years later, my view hasn't changed much.

Bonds will not get slaughtered in 2016 any more than they were clobbered in 2015, mauled in 2014 or creamed over any extended period in recent memory. And that's because, no matter what the doom-and-gloom crowd opines, interest rates will not skyrocket (bond prices and rates move in opposite directions).

Rates won't climb much because, as the Fed said after its October meeting, global economic growth is tepid and inflation remains persistently low. A strong dollar also keeps rates low because it encourages foreigners to buy our Treasuries and corporate bonds. All this buttresses my view that low rates and bond yields are an entrenched fact of life and will be around the rest of this decade.

My yield forecast. Cutting to the chase, I expect the yield on the benchmark 10-year Treasury bond to range from 2.0% to 2.75% in 2016 (compared with 2.2% in early November). It's true that if and when the Treasury prints 2.75% on a new bond due in 2026, an existing 10-year bond will lose roughly 6% of its market value. But bond prices and yields will bounce all year within that range. A temporary 6% hit is no more cause to boycott bonds than the 2015 correction in share prices was reason to quit stocks.

For 2016, I suggest that you adhere to a core-and-satellite strategy. The core of your bond portfolio should be a high-grade, medium-maturity mutual fund or exchange-traded fund. **FIDELITY TOTAL BOND (SYMBOL FTBFX, 3.1% YIELD)**, a member of the Kiplinger 25, is a solid choice. If you prefer ETFs, use **PIMCO TOTAL RETURN ACTIVE ETF (BOND, 2.8%)**, a member of the Kiplinger ETF 20.

Then target corners of the vast bond marketplace that pay you the most extra income for the least amount of risk. (Tax-exempt municipal bonds are the leading example; I'll discuss them in detail next month.) Next, look at debt with maturities of two to five years. Even as the Fed kept overnight rates near zero through October, short-term yields have quietly been rising. You can buy short-term and intermediate-term bonds directly, or use funds, such as Kip 25 member **VANGUARD SHORT-TERM INVESTMENT-GRADE (VFSTX, 1.8%)** or **DOUBLELINE LOW DURATION (DLSNX, 2.1%)**, that mostly hold bonds in that range of maturities.

To aim for still higher yields, take advantage of the growing gap between yields of long-term Treasuries and those of medium-grade corporates of similar maturities. Many long-term corporates with triple-B ratings are now paying about 2.5 percentage points more than comparable government debt, meaning you can get yields of about 5% on IOUs from solid, though not pristine, borrowers. I sense that yields of 5% on triple-B bonds are more than enough to attract such key buyers as banks, insurance companies and Europeans who cannot abide the Continent's invisible yields, and I wouldn't be surprised to see total returns of 7% in this area in 2016. A solid fund with about two-thirds of its assets in bonds with triple-B ratings is **T. ROWE PRICE CORPORATE INCOME (PRPIX, 3.3%)**.

I am much less sanguine about high-yield bonds because of the heavy representation of energy companies in the junk-bond market. Unless oil prices unexpectedly rally, we could be facing a raft of defaults in the energy patch. Stick with investment-grade bonds over the coming year. ■

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

"Take advantage of the growing gap between yields of long-term Treasuries and those of medium-grade corporates of similar maturities."

EIGHT STOCKS TO BUY

OUR PICKS LEAN TOWARD COMPANIES THAT GATHER MOST OF THEIR SALES IN THE U.S.

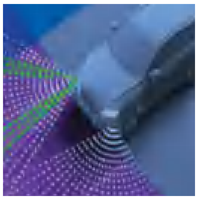
Acadia Healthcare

Just over a decade since its creation, **ACADIA HEALTHCARE (SYMBOL ACHC, $61)** runs the largest network of private treatment centers for mental health and addiction problems, with 256 locations in the U.S. and the U.K. With more people gaining access to insurance and revenues climbing as the firm expands, Acadia's profits are expected to jump 24% in 2016. Although Acadia, at 24 times estimated earnings, is hardly cheap, the shares don't reflect the firm's growth potential, says BMO Capital Markets, which has a 12-month price target on the stock of $92. (Prices are as of October 30.)

CVS Health

Drugstore chain **CVS HEALTH (CVS, $99)** bulked up big-time in 2015, buying Target's 1,660 pharmacies for $1.9 billion and paying $12.9 billion for Omnicare, a provider of pharmacy services to nursing homes. Both deals should help boost revenues, even as CVS expands in other areas, such as walk-in clinics and drug-benefits management, a business that accounts for about one-fifth of all prescriptions in the U.S. Wall Street analysts see sales and profits rising about 13% in 2016. Rating the stock a "strong buy," research firm S&P Capital IQ has a 12-month price target of $127.

Delphi Automotive



Cars are becoming high-tech machines on wheels, with "adaptive" safety systems, computerized powertrains and software to help guide them down the road. Analysts estimate that by selling these and other products to carmakers, **DELPHI AUTOMOTIVE (DLPH, $83)** will see sales rise by 12% in 2016 and profits climb by 20%. A slowdown in China is denting sales, and Delphi could see fallout from the emissions scandal at Volkswagen. But Delphi's long-term growth story remains intact, says Credit Suisse analyst Dan Galves. (Although Delphi is based in England, key execs work in Michigan.)

Dollar Tree

Every item at **DOLLAR TREE (DLTR, $65)** costs a buck or less, but the bigger bargain may be its stock. After buying Family Dollar in 2015, Dollar Tree runs 13,900 stores that will generate more than $20 billion in sales over the next year. Investors seem to doubt the deal's merits, and the stock has sunk from $82 last summer. But Dollar Tree should be able to boost profits at the old Family Dollar stores and lift the combined firm's earnings more than expected, says Stacie Cowell, comanager of the Rainier Mid Cap Equity Fund. She sees the stock topping $90 within the next two years.

Phillips 66

Even if oil prices stay low in 2016, refiner **PHILLIPS 66 (PSX, $89)** should prosper. Low crude prices mean higher profit margins at Phillips's refining operations and gas stations, and the company is investing in such promising areas as natural-gas pipelines, processing facilities and petrochemical plants. Compared with other refiners, the stock's valuation looks compelling given Phillips's diverse business mix and growth potential, says Oppenheimer & Co. analyst Fadel Gheit. Another fan: Warren Buffett, whose Berkshire Hathaway owns more than 10% of Phillips's shares.

Southwest Airlines

As the largest U.S. domestic airline, **SOUTHWEST AIRLINES (LUV, $46)** is flying high these days. Low jet-fuel prices are boosting profit margins, and the carrier is seeing strong demand for its seats, flying planes at a record 85% of capacity. Southwest should fare well as it starts to fly more international routes, launching service to Mexico and other parts of the Caribbean, for instance. It's also expanding domestically. Even with big gains in the stock over the past year, it "has a lot of runway left," says analyst Helane Becker of investment bank Cowen and Co.

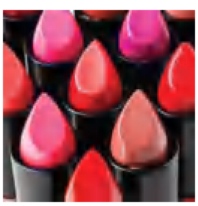
ISTOCKPHOTO.COM (6), COURTESY DELPHI AUTOMOTIVE, COURTESY SOUTHWEST AIRLINES, COURTESY UNDER ARMOUR

Y NOW

BY DAREN FONDA

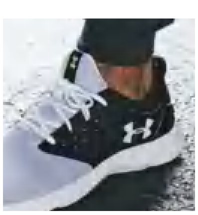
Ulta

Some retailers sell cosmetics; others run beauty salons. Combining both businesses in its 817 stores, **ULTA SALON, COSMETICS & FRAGRANCE (ULTA, $174)** is thriving. Sales have been rising at a 22% annual pace as Ulta has opened about 100 stores a year, aiming for more than 1,200 in North America. The shares aren't cheap, at 31 times estimated earnings for the fiscal year that ends in January 2017. But Ulta has never traded in the bargain bin, and it offers one of the highest growth rates of any major retailer. Analysts forecast that earnings will jump 19% in the 2017 fiscal year.



Under Armour

Nike reigns as the king of sports apparel and footwear, but **UNDER ARMOUR (UA, $95)** seems to be the charmed prince. By 2018, the company aims to more than double annual sales, to $7.5 billion, as it opens more Under Armour stores, expands abroad and develops high-tech fitness gear. The stock, at 70 times estimated 2016 earnings, looks off-the-charts expensive, but it's worth the price, says Michael Cuggino, manager of Permanent Portfolio Aggressive Growth Fund. "Under Armour is a similar story to Facebook," he says, "except that it's in the apparel business."



AND FIVE TO SELL

KNOWING WHEN TO DUMP A STOCK IS NEVER EASY. COMPANIES IN A DITCH CAN CLAW their way out, and highfliers sometimes keep soaring. Yet some stocks are hampered by too many obstacles to make them compelling. The following five stocks face considerable troubles, making them good candidates to sell or trim your holdings.

One beleaguered business is industrial conglomerate **EMERSON ELECTRIC (SYMBOL EMR, $47)**. CEO David Farr recently warned that the company sees "difficult market conditions" into 2016. Emerson is grappling with weakness in developing nations, waning demand in the energy sector and a strong dollar. Analysts see sales slipping 7.1% in the fiscal year that ends next September. "The business's strengths don't outweigh the risks," says Eric Schoenstein, comanager of the Jensen Quality Growth Fund. (Prices are as of October 30.)

CHIPOTLE MEXICAN GRILL (CMG, $640) still serves up tasty burritos. But the "fast casual" restaurant company faces pressure from higher labor costs and marketing expenses. Sales at stores open at least a year (a key measurement for restaurant chains) inched up just 2.6% in the third quarter of 2015, down from 19.8% growth a year earlier. Even with the stock sliding 16% from last summer's record high of $758, it's no bargain at 31 times estimated 2016 earnings. "The business isn't falling apart, but we don't see much upside," says Stacie Cowell, comanager of the Rainier Mid Cap Equity Fund.

For **STRATASYS (SSYS, $26)**, a maker of 3D printers, the challenge these days is stiffer competition. Businesses and consumers are buying 3D printers to churn out everything from dental implants to homemade guns. But rivals have muscled into the business, and demand for the hardware and related services hasn't climbed as much as expected. UBS analyst Steven Milunovich says that with the stock at 31 times his 2016 profit estimate, Stratasys's price-earnings ratio is becoming "more realistic." But "we don't yet have confidence in the earnings," adds Milunovich, who rates the stock a "sell" and has a 12-month price target of $18.

After losing more than half its market value over the past year, **SPIRIT AIRLINES (SAVE, $37)** looks cheap. But don't be fooled. Spirit's ultralow-fare model is under attack by carriers such as American Airlines, which recently said it was willing to match some Spirit fares, setting the stage for a price war. Low fuel prices are giving other carriers more flexibility to match Spirit's fares, and Spirit's CEO rattled investors when he said recently that the company faces a "volatile pricing environment." Wall Street sees profits dipping 1.2% in 2016. "It seems to be a struggling business," says Lamar Villere, comanager of the Villere Equity Fund.

It may take guts to bet against **VALEANT PHARMACEUTICALS (VRX, $94)** now that the stock has tumbled 64% from its August peak. But given the drugmaker's woes, the stock could fall further. Valeant's strategy of buying competitors and quickly hiking prices on some of their products seems to have collapsed. What's more, U.S. prosecutors are investigating the Canadian firm's pricing and distribution practices. And some investors have raised questions about Valeant's accounting. Meanwhile, Valeant's balance sheet is loaded with $30.1 billion in long-term debt. Although Valeant could itself get swallowed up, steering clear seems wise for now.

MUTUAL FUNDS»

THE WORLD ACCORDING TO THE BOGLEHEADS

Their zealous devotion to the principles espoused by John Bogle means a nearly exclusive reliance on index funds and close ties with Vanguard. **BY DAREN FONDA**

THEY CALL HIM BY HIS FIRST NAME: JACK. He isn't in the room and has never met most of them. Yet on a recent Sunday afternoon, a group of his devotees has gathered at a public library in Arlington, Va. They've come to discuss such things as the stock market's wild swings and what to do with their retirement accounts. Jack's presence is felt, infusing the conversation and advice that's being doled out ("don't time the market" is a common refrain). At the end of the session, a retiree named Lydia Segal sums up her affection for him: "Jack Bogle is responsible for my financial happiness."

If the fund world has a patron saint, it would likely be John "Jack" Bogle. The founder of fund giant Vanguard Group and the mastermind behind the index fund for individual investors, Bogle may be the only person in the business with a fan club of thousands, many of whom view his investing wisdom as gospel. "A Boglehead is someone who follows the advice and path set up by Jack Bogle," says Mel Lindauer, coauthor of *The Bogleheads' Guide to Investing,* a book that details the group's thinking and has a Bogle bobblehead on its cover.

How they got started. Originally called the "Vanguard Diehards," the Bogleheads got their start on Morningstar's Web site in 1998 as a forum to discuss Vanguard and its index funds. The forum, now called Bogleheads Unite, became one of the most popular on Morningstar, with more than 627,000 posts so far. In 2007, the group launched its own Web site, Bogleheads.org, which now has 47,000 members, an average of 70,000 daily visitors and up to 4 million hits a day, making it one of the most active online investing communities.

Offering advice on all types of financial matters, the site now hums with tips on everything from retirement planning to how to pay for college. Many members use the forum to tap the wisdom of a like-minded crowd. A recent post by "Codemaster" asked whether it was a good time to buy shares of scandal-tarred Volkswagen, eliciting more than 150 replies. (One answer: "Take the money and go to Vegas ... same result, more fun.") Other Bogleheads raise more esoteric questions. A 22-year-old named "bigguy8437" wondered if a prenuptial agreement would "make things weird in a relationship." (Answer: It depends.)

Over the years, more than 60 Boglehead chapters have sprung up, including groups in Taiwan and the United Arab Emirates. The groups typically meet every few months, discussing everything from Social Security benefits to market trends. Once a year, there's a national gathering at which a lucky few who sign up early and pass a security screening converge for a few days of presentations and face time with the 86-year-old Bogle himself.

ILLUSTRATION BY NIGEL BUCHANAN

At the latest annual meeting, a three-day confab at a Philadelphia-area hotel in mid October, Bogle held a half-hour "fireside chat" with William Bernstein, a retired neurologist and veteran Boglehead. Bogle, who had a heart transplant in 1996, then patiently met with about 200 fans, posing for pictures, signing books and chatting with his admirers. The next day, the group boarded shuttle buses to Vanguard's campus in nearby Malvern, Pa., for an afternoon of hobnobbing with the firm's executives.

To Vanguard, Bogleheads are a vocal constituency that can't be ignored. The group openly rebelled against Vanguard when the firm asked Bogle to give up his post as chairman in 1999 at the mandatory retirement age of 70. Bogle didn't want to go, prompting the Bogleheads to launch an online campaign to keep him at the helm. Though Vanguard offered to let Bogle stay, he decided to retire with a deal that included money to help him launch the Bogle Financial Markets Research Center, which is independent of Vanguard but situated on its campus. "Our posts created such a ruckus that Vanguard realized it had a problem and worked to resolve it," says Lindauer, 77.

At Vanguard headquarters, the firm rolled out the red carpet for the Bogleheads, who wore nametags with a photo of Jack. Vanguard executives greeted them at a reception that featured light snacks (pulled pork sandwiches, cookies and soft drinks), a raffle of Vanguard-branded trinkets (golf balls, mugs) and canvas gift bags for every Boglehead. A panel of Vanguard execs discussed the markets and addressed their questions. And Vanguard sent a message that Boglehead opinions matter. Joel Dickson, senior investment strategist, told the group that he always checks the Boglehead forum the day Vanguard launches a new product. "I'm interested in the reaction," he told the crowd, eliciting nods of approval. "They're fanatic, but fanatic in a good way," says Francis Kinniry, a principal in Vanguard's investment strategy group.

Jack meets the king. For his part, Bogle hasn't missed the yearly meeting of his disciples since he showed up at the first gathering of Bogleheads in 2000. That year, 21 of them met in the Miami condo of a Vanguard investor named Taylor Larimore, a World War II veteran who launched the group and went on to earn the title "King of the Bogleheads." Over the years, Larimore has posted more than 22,000 notes on the Boglehead Web site. (At 91, he didn't attend this year's event, but he remains an active poster on the forum.)

Bogle has remained active in the group because it spreads his investing gospel. "Indexing works," he tells Kiplinger, "and the Bogleheads have been an important part of passing on that message to other investors." As a show of his dedication, he even phoned into the group's 2009 reunion from a hospital where he was being treated for a listeria infection. Says Bogle: "You could say what I did was stupid. I was flat on my back and sick. But I talked to them for 15 or 20 minutes."

If reverence for Bogle runs deep, it's because fans see him as a linchpin of their financial success. Lindauer, a retired businessman from Philadelphia, says that for years he "was guilty of chasing hot funds and other non-Boglehead behavior." Eventually he gave up trying to beat the market, "got religion" and stashed almost all his money in Vanguard index funds.

Benefits of membership. Belonging to the Bogleheads helps others avoid self-destructive investing behavior. Victoria Fineberg, 61, a retired engineer in Arlington, Va., discovered the Boglehead path after making a costly mistake in her 401(k) plan. Plowing money into shares of telecom equipment maker Lucent Technologies, her employer at the time, she lost more than $100,000 as the stock crashed during the tech-stock bust at the turn of the century. "I was sophisticated enough to know better but, like in a casino, I couldn't take myself away from the gambling table," she says. Being part of the community helps her stick with index funds. "I identified my temptation to speculate," she says, "and vowed never to do it again."

Regardless of their reasons for joining, Bogleheads see little point in debating one of the key questions in investing today: whether individual investors can beat the market, either by picking their own stocks or by investing in actively managed funds. The forum topic "Active vs. Passive Investing" has all of 10 posts, the last in 2009. When asked at the October gathering how many Bogleheads use active fund managers, only seven sheepishly raised their hands in a room of 200.

Even with an ace manager at the helm, Bogleheads believe, most actively managed funds have slim chance of beating index funds over the long haul because of their inherently higher costs. Many studies back up their view, along with real-world results: In 2014, for instance, just 21% of actively managed U.S. stock funds beat their benchmarks. And even if you could find a winning fund, it probably wouldn't do you much good. According to research by Morningstar, most investors chase performance, plowing money into a fund *after* it's had a hot streak. Thereafter, the fund is likely to slump back to the middle of the pack.

None of these ideas is new, of course. Bogle discussed the drawbacks of active management in his senior thesis at Princeton in 1951, and the notion that investors could get a better deal was the reason he invented the index fund for individual investors. Launched in 1975 as the First Index Investment Trust, the fund later became Vanguard 500 Index (symbol VFINX), now one of the largest funds on the market, with more than $200 billion in assets.

Vanguard hasn't done badly either, thanks in good measure to Bogle's belief that investors should keep more of what they earn. He set up Vanguard so that shareholders of its funds technically own the company. Vanguard provides its funds at cost, lowering fees as its own expenses edge down.

That penny-pinching model and focus on indexing has been remarkably successful. Vanguard is now the world's largest fund company, with more than 20 million investors, 175 U.S.–based funds and $3.2 trillion in assets, equal to 20% of all U.S. fund assets (excluding money market funds). Vanguard controls so much money that it now owns an average of 6% of every publicly listed U.S. stock, more than any other company. It's also muscling out much of the fund industry. In 2014, new cash coming into Vanguard funds exceeded cash going out of them by $219 billion. According to Morningstar, Vanguard accounted for 45 cents of every dollar of net inflows into mutual funds and exchange-traded funds (the figure excludes money market funds). "Vanguard's impact on investors has been enormous, and so has Jack Bogle's," says Russel Kinnel, director of fund research for Morningstar. "I can't think of anyone who's had a greater impact than he's had."

Despite being long retired from Vanguard, Bogle remains active in the industry, railing against high fees and the growing array of ETFs that aim to beat the market by using enhanced indexes. The business remains filled with "financial buccaneers offering a panoply of silly investment strategies that people may not understand," he says. Much of the industry, he adds, is about "marketing, merchandising, gambling and losing—because gamblers always lose in the end."

For many Bogleheads, being part of the group is all about staying on Jack's righteous path, which boils down to sticking with index funds and avoiding almost everything else. "It takes constant vigilance to stay disciplined," says John Ouzts, a retired psychiatrist from Mount Pleasant, S.C., who attended the annual meeting. "I come back every year to renew my faith in index funds and to keep me from temptation." ■

5 Key Principles

HOW TO BE A BOGLEHEAD

- **Live frugally and invest regularly, with as much as you can afford.**
- **Develop a core mix of stocks and bonds suitable for your age and financial goals.**
- **Settle for matching the markets' returns by buying traditional, low-cost index funds for the bulk or all of your portfolio; you'll beat most other investors.**
- **Master your emotions; they can be your worst investing enemy.**
- **Don't peek at your portfolio too often. Adjust it once or twice a year to keep your investment mix intact.**

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KATHY KRISTOF > Practical Investing

Letting Go Is Hard to Do

Four years into my experiment to see whether an educated amateur stock picker could beat the market, my Practical Investing portfolio has become an advertisement for index funds. After nearly three years of staying even with, and occasionally outpacing, my benchmark—Vanguard Total Stock Market ETF (symbol VTI)—my stocks slipped in late 2014 and, frankly, stunk in 2015. The portfolio, which was originally worth $200,000 and is now valued at about $280,000, has returned an annualized 8.4% since its launch in October 2011, compared with an average of 14.7% per year for the ETF.

To be sure, these are tough times for value investors (which I consider myself to be). Not long ago, CNN Money led a story like a children's book to describe Warren Buffett's recent performance: "Warren and the terrible, horrible, no good, very bad year." Among Buffett's top holdings are American Express, International Business Machines and Wal-Mart Stores, all big losers in 2015.

One manager's redemption. Meanwhile, FPA Crescent, comanaged by Steve Romick, another of my investing heroes, is trailing Standard & Poor's 500-stock index for the fourth straight year. True, it's a bit unfair to compare Crescent, a member of the Kiplinger 25, with the S&P 500 because Crescent is not a pure stock fund. Still, Romick strives for stock-like returns and has beaten the market over the course of Crescent's 22-year existence. His greatest triumph came after Crescent lagged the market badly during the late 1990s, when dot-coms and large-company growth stocks were all the rage. Then came the 2000–02 bear market, and growth and tech stocks cratered. The S&P 500 fell three years in a row, but Crescent made money each year.

I mention this not to imply that my portfolio will rise like a phoenix, as Crescent did. Rather, it's to suggest that tracking the progress of long-term goals using short-term measures doesn't make sense. We tend to measure performance over the course of a calendar year. Yet to gauge properly whether a strategy is working, you need to measure results over market cycles—from one peak to the next, with a bear market in between—not "lunar cycles or any other arbitrary metric," Romick says.

Over the past few years, growth has been in vogue, meaning investors have favored firms that typically command high, sometimes exorbitant, valuations. If I tried to buy those kinds of stocks in pursuit of beating an index over the short run, I might lose sight of my long-term goal of buying high-quality companies at fair prices.

That said, it pays to look at your progress against the market every so often and evaluate what you're doing right and what you're doing wrong. Frankly, although I'd like to think I have done some things right, a critical look at my performance reveals a glaring shortcoming: I hate to sell.

> **"I own several stocks I should have sold, but a stubborn adherence to a buy-and-hold philosophy prevented me from pulling the trigger."**

Knowing when to sell is as important as knowing what to buy. I own several stocks I should have sold in recent years, but my inherent optimism and a stubborn adherence to a buy-and-hold philosophy prevented me from pulling the trigger. I should have dumped Acacia Research (ACTG) two years ago, when Congress began to scrutinize outfits, such as Acacia, that help businesses protect their patents. When oil prices plunged and it became clear that they would stay low for a long time, I should have sold my energy stocks. When Latin American economies started to slide, I should have let go of Panamanian airline Copa Holdings (CPA). As far as these stocks go, I'm still weighing my options.

Many pros advise investors to review each holding periodically and ask themselves, "Would I buy that stock today?" If the answer is no, it may be time to unload. I'm taking that advice to heart. My investing resolution for 2016 is to be a better seller. ■

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

LISE METZGER

Battered Pipeline MLPs Worth a Look

What they are. Master limited partnerships own energy pipelines, processing facilities and storage depots, collecting fees on the volume of oil and gas they handle. As partnerships, they distribute to investors most of the "available cash" they generate each year (cash on hand after setting aside money for reserves and other business expenses). The stocks, called units, yield 7.7%, on average.

How much they've fallen. The benchmark Alerian MLP index plunged 30% over the past year. (Prices and returns are as of October 30.)

What caused the downturn. Low energy prices are putting the brakes on oil production, squeezing industry profits and reducing the need for more pipelines in some areas. MLPs tend to carry massive amounts of debt and could face higher borrowing costs if interest rates rise. Ultimately, MLPs may have to trim future payouts, keeping their stocks depressed.

Why the bears may be wrong. Crude oil and natural gas still need to be piped around the country, and MLPs haven't stopped making money as the middlemen in the industry. Some MLPs are seeing business dry up and are scaling back

WILLIAMS PARTNERS NATURAL-GAS FACILITY IN SUMAS, WASHINGTON.

expansion plans. But well-managed partnerships are earning enough cash to cover their distributions, and demand for pipelines, terminals and processing facilities continues to rise in parts of the industry, particularly involving natural gas.

The stocks look cheap. Whenever MLP yields have been at least five percentage points greater than the yield of 10-year Treasury bonds (now at 2.2%), the stocks have delivered positive returns 100% of the time over the next 12 months, according to Credit Suisse. Note that MLPs have an unusual tax structure that can be a headache come tax time, so consult with a tax planner before you buy.

What to buy. For a good mix of income and potential for share-price gains, consider **ENTERPRISE PRODUCTS PARTNERS (SYMBOL EPD, $28, YIELD 5.6%).** The largest MLP on the market, Enterprise owns a vast network of pipelines and storage and processing facilities—an integrated model that helps insulate it from weakness in one area of business. Although its yield is below average, Enterprise has a robust balance sheet, giving it plenty of financial flexibility to make acquisitions, expand its business and boost cash flows, says Hinds Howard, of CBRE Clarion Securities, in Radnor, Pa., who runs an institutional fund that invests in MLPs.

Rising demand for natural gas should fuel long-term gains for **WILLIAMS PARTNERS (WPZ, $34, 10.0%).** A natural-gas powerhouse, Williams processes the commodity into other energy products and runs one of the longest gas pipelines in the country. Low commodity prices have dampened profit margins, and Williams's payouts may be flat over the near term. But Williams should be able to cover its payouts, currently running at an annual rate of $3.40 per unit. That makes the stock attractive for income, says Todd Williams, manager of the Westwood MLP and Strategic Energy Fund. Further, Williams Partners is slated to be controlled by a much larger MLP, Energy Transfer Equity (ETE), which should help support it financially.

Two other MLPs to consider are **TESORO LOGISTICS (TLLP, $56, 5.4%)** and **SUNOCO LOGISTICS PARTNERS (SXL, $29, 6.3%).** Tesoro owns terminals, trucks and pipelines around refineries that serve its parent company, Tesoro Corp. Sunoco, controlled by Energy Transfer Equity, has a healthy natural-gas liquids business in the Northeast, along with operations in Texas and other areas. Both MLPs are backed by deep-pocketed corporate parents that can help them expand their business, says Howard, and each should be able to hike its payout by at least 10% annually over the next few years. Even if the stocks languish, investors should fare well just by collecting on a rising stream of income. **DAREN FONDA**

COURTESY WILLIAMS PARTNERS

THE KIPLINGER 25 UPDATE

Finding Gems in Surprising Places

THE MANAGERS OF HOMESTEAD Small-Company Stock work hard to find out-of-favor companies primed for a turnaround. Sometimes, their dogged research takes them to places far from their Arlington, Va., headquarters under less-than-ideal conditions. Prabha Carpenter, who comanages the fund with Mark Ashton and Greg Halter, recalls one unglamorous trip she made to Paducah, Ky., during a violent thunderstorm to visit a computer-services firm. And during a stop in Jackson, Miss., to visit a family-owned egg producer, Halter found himself in a sketchy part of town one night. Says Carpenter, "He was texting me emojis to tell me that he was scared to death."

To find undiscovered companies, the managers have to look under proverbial rocks. It helps, perhaps, that they are personally motivated: Every manager has money invested in the fund. Ashton, who has been on the job since 1999, has the most—more than $1 million, according to fund filings. "That's important to us," says Carpenter. "We want to make money, absolutely."

The team uses the Russell 2000 index as a guidepost. The index's holdings recently ranged in value from $177 million to $4.3 billion, so any company in that size range qualifies. And once the managers buy, they tend to hold on for a long time. The $1.2 billion portfolio has a turnover ratio of 5%, which implies an average holding period of 20 years.

Dycom Industries has been a major contributor to the fund's performance. Shares of Dycom, which provides services and infrastructure to the telecommunications industry, soared 142% over the past year and, at last report, accounted for 7.2% of Homestead's assets. The fund has held the stock since June 2012.

The fund's investments in regional banks helped, too. National Penn Bancshares, which has branches in Pennsylvania, Maryland and New Jersey, and Cardinal Financial, which operates in the Washington, D.C., area, both had one-year gains of 21%. Says Carpenter: "Smaller banks are more nimble than bigger banks—customers are able to get a loan, small businesses can finance an acquisition—and they know their customers, which is the essence of banking." They can also be tempting takeover targets. In August, BB&T disclosed plans to buy National Penn for $1.8 billion; National Penn shares soared 17% on the news. **NELLIE S. HUANG**

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

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Akre Focus	AKREX	6.6%	17.4%	16.7%	—	Dec. 2009
Davenport Equity Opps	DEOPX	5.3	16.2	—	—	May 2014
Dodge & Cox Stock	DODGX	2.2	16.4	13.8	6.6%	May 2008
Fidelity New Millennium	FMILX	1.9	14.5	13.5	9.7	May 2014
Homestead Small Co Stock	HSCSX	6.1	16.1	14.6	11.0	May 2012
Mairs & Power Growth	MPGFX	2.3	14.8	14.0	8.3	Jan. 2013
Parnassus Mid Cap	PARMX	4.8	13.8	13.7	9.9	Aug. 2014
T. Rowe Price Divers Sm-Cap Gro	PRDSX	7.7	18.8	16.0	10.3	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	1.1	11.2	11.3	7.7	May 2009
T. Rowe Price Value	TRVLX	3.1	16.4	14.3	8.2	May 2015
Vanguard Dividend Growth	VDIGX	7.2	15.0	14.1	9.5	May 2010
Vanguard Selected Value	VASVX	2.0	15.5	13.3	8.8	May 2005

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Artisan International	ARTIX	–2.5%	8.3%	7.2%	6.2%	May 2015
FMI International	FMIJX	7.5	13.0	—	—	April 2015
Harding Loevner Emrg Mkts	HLEMX	–12.3	–0.2	–0.2	6.3	May 2013
Matthews Asian Gro & Inc	MACSX	–5.8	2.1	3.5	8.0	Aug. 2013

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
FPA Crescent	FPACX	2.0%	10.0%	8.8%	7.6%	Oct. 2008
Merger	MERFX	0.5	2.2	2.1	3.5	June 2007

Bond Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
DoubleLine Total Return N	DLTNX	3.0%	3.1%	5.2%	—	May 2011
Fidelity Intermed Muni Inc	FLTMX	1.8	2.3	3.3	4.0%	May 2004
Fidelity New Markets Income	FNMIX	–2.2	0.9	4.6	7.6	May 2012
Fidelity Total Bond	FTBFX	1.1	2.0	3.6	5.1	May 2014
Met West Unconstrained Bd M	MWCRX	0.2	2.6	—	—	May 2013
Osterweis Strategic Income	OSTIX	0.2	3.7	4.6	6.4	May 2013
Vanguard Sh-Tm Inv-Grade	VFSTX	1.3	1.5	2.0	3.6	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	5.2%	16.2%	14.3%	7.8%
RUSSELL 2000 INDEX*	0.3	13.9	12.1	7.5
MSCI EAFE INDEX†	0.4	8.5	5.3	4.5
MSCI EMERGING MARKETS INDEX	–14.2	–2.5	–2.5	6.0
BARCLAYS AGGREGATE BOND INDEX#	2.0	1.6	3.0	4.7

Through October 31. —Not available; fund not in existence for the entire period. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. SOURCE: © 2015 Morningstar Inc.

FUND SPOTLIGHT

Cleaning Up With 22 Blue Chips

Despite its concentrated portfolio, this fund held up during the recent downturn.

OVER THE PAST YEAR, POLEN GROWTH has trounced the market and most other large-company growth funds. But aside from Alphabet (nee Google), Facebook and two biotech stocks, the fund holds mainstream blue chips such as Starbucks and Nike.

What have managers Daniel Davidowitz and Damon Ficklin done to separate Polen from the pack? For one thing, they're choosy. At last report, they held only 22 stocks, compared with 145 for the average actively managed diversified U.S. stock fund. To even be considered, a firm must have a market value of at least $3 billion, little or no debt, and a high return on equity (a measure of profitability). Beyond that, the managers favor companies with strong balance sheets and "massive" competitive advantages. In the end, they build a portfolio with average estimated earnings growth of about 15%. Davidowitz points to holdings Visa and MasterCard—which, he says, have a duopoly in the credit card business—as prime examples.

The managers' focus on high-quality, steady growers, rather than on the market's novas, means the fund generally doesn't stand out when stocks are soaring. In 2013, for example, Polen lagged Standard & Poor's 500-stock index's 32.4% return by 10.2 percentage points. But the fund has shone during periods of weakness. During the May–August correction, it lost only 5.5%, compared with a loss of 11.9% for the S&P 500. **RYAN ERMEY**

LARGE-COMPANY GROWTH FUNDS Ranked by one-year returns

Rank/Name	Symbol	Annualized total return through Oct. 30: 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Exp. ratio	Toll-free number
1. Polen Growth Inv@	POLRX	22.3%	19.0%	—	2.00%[r]	1.25%	888-678-6024
2. Morgan Stanley Inst Opportunity A@	MEGPX	21.9	23.4	15.0%	5.25	1.23	800-548-7786
3. Janus Forty T@	JACTX	17.1	18.5	13.8	none	0.76	800-525-0020
4. TCW Select Equities I@	TGCEX	14.5	17.5	15.0	none	0.86	800-248-4486
5. Morgan Stanley Inst Advantage A@	MAPPX	14.5	19.7	15.8	5.25	1.39	800-548-7786
6. Brown Advisory Sustainable Growth Inv@	BIAWX	14.4	18.3	—	1.00[r]	0.90	800-540-6807
7. Buffalo Large Cap	BUFEX	14.2	20.2	13.9	2.00[r]	0.96	800-492-8332
8. Provident Trust Strategy	PROVX	13.7	14.8	11.3	none	0.92	855-739-9950
9. Saratoga Large Capitalization Growth A@	SLGYX	13.5	20.4	16.8	5.75[s]	1.59	800-807-3863
10. J Hancock US Global Leaders Growth A@	USGLX	13.2	15.3	14.8	5.00	1.18	800-225-5291
CATEGORY AVERAGE		6.6%	16.6%	13.4%			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets† (in billions)	Annualized total return through Oct. 30: 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Toll-free number
1. Vanguard Total Stock Market Idx Inv@	VTSMX	$342.9	4.3%	15.9%	14.0%	none	800-635-1511
2. Vanguard 500 Index Inv@	VFINX	182.0	5.1	16.0	14.2	none	800-635-1511
3. Vanguard Total Intl Stock Idx Inv@	VGTSX	181.4	–4.9	5.0	2.6	none	800-635-1511
4. American Growth Fund of America A@	AGTHX	146.2	6.7	17.0	13.4	5.75%	800-421-0180
5. American EuroPacific Growth A@	AEPGX	126.8	–0.1	8.0	4.7	5.75	800-421-0180
6. Fidelity Contrafund@	FCNTX	111.2	9.0	17.2	14.0	none	800-343-3548
7. American Capital Income Builder A@	CAIBX	97.2	–0.7	7.5	7.3	5.75	800-421-0180
8. American Income Fund of America A@	AMECX	95.8	0.3	9.1	9.1	5.75	800-421-0180
9. Fidelity Spartan 500 Index Inv@	FUSEX	91.7	5.1	16.1	14.2	none	800-343-3548
10. American Capital World Gro & Inc A@	CWGIX	85.6	–1.0	10.8	7.9	5.75	800-421-0180
11. Vanguard Wellington@‡	VWELX	84.4	3.0	10.4	10.0	none	800-635-1511
12. American Balanced A@	ABALX	84.2	4.2	11.4	10.8	5.75	800-421-0180
13. Franklin Income A@	FKINX	83.0	–4.6	5.4	6.8	4.25	800-632-2301
14. American Washington Mutual A@	AWSHX	77.5	2.6	14.4	13.4	5.75	800-421-0180
15. American Invstmt Co of America A@	AIVSX	74.9	1.1	15.2	12.3	5.75	800-421-0180
16. American Fundamental Inv A@	ANCFX	74.0	6.2	15.6	12.8	5.75	800-421-0180
17. Dodge & Cox International Stock**	DODFX	63.5	–8.1	8.7	4.7	none	800-621-3979
18. American New Perspective A@	ANWPX	60.7	7.2	13.3	10.2	5.75	800-421-0180
19. Dodge & Cox Stock	DODGX	57.8	0.9	16.6	13.8	none	800-621-3979
20. Vanguard Mid Cap Index Inv@	VIMSX	53.3	4.1	17.2	13.9	none	800-635-1511
S&P 500-STOCK INDEX			5.2%	16.2%	14.3%		
MSCI EAFE INDEX			0.4%	8.5%	5.3%		

@Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments. †For all share classes combined. ‡Open to new investors if purchased directly through Vanguard. **Closed to new investors. rMaximum redemption fee. sFront-end load; redemption fee may apply. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

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EXPLANATION OF TERMS

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

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

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

JUSTIN ABBOTT BOUGHT A CONDO IN DOWNTOWN OMAHA BEFORE HE SOLD HIS SUBURBAN HOME.

PHOTOGRAPH BY RON BERG

Home Price Hikes: Slow and Steady

Prices in most cities are rising moderately, but tight supply is holding back buyers and sellers.

BY PATRICIA MERTZ ESSWEIN

AFTER MORE THAN A DECADE OF head-snapping ups and downs, the housing market has settled into a steadier, less-spectacular groove. In 2015, home prices nationally rose 4%, following a 6.4% hike in 2014, according to Clear Capital, a provider of real estate data and analysis. Kiplinger forecasts that home prices will moderate even more in 2016, rising 3%—at the low end of the historical range.

Home values rose in 236 of the 276 cities tracked by Clear Capital. (For data on the 100 largest metro areas tracked by Clear Capital, see page 73.) In most parts of the U.S., prices are still regaining ground lost in the bust; they remain nearly 19% below their peak, on average. Over the past year, prices rose by double digits in a few dozen cities, many of them clustered in areas that were hard-hit and where homes are still relatively cheap, such as Florida, Michigan, Nevada and California's Central Valley.

Among larger cities with the biggest gains, Miami (up 10.1%) and Seattle (10.6%) have benefited from sales to international investors. Prices in Dallas (up 10%), Denver (12%) and Pittsburgh (11.5%) never really bubbled up nor tanked, and now they benefit from strong economies. Home prices in the cities of coastal California are taking a breather after run-ups that have made homes there less affordable.

At the bottom of the rankings, prices in a few dozen cities fell over the past year. These are mostly smaller cities located in the Northeast, the industrial Midwest and the South. In Nevada, New Jersey and New York, banks are finally pushing through foreclosures that had been dammed up either by legislation or by judicial process, and that dampened home prices.

SPEED BUMPS IN SUPPLY

Sales of existing homes rose by nearly 9% in September over September 2014, to 5.6 million, says the National Association of Realtors (NAR). That's the second-fastest pace since early 2007. Chief economist Lawrence Yun says the trend represents the release of pent-up demand by homeowners who have regained enough equity to sell and trade up. But when you combine that with homeowners who might move but are stuck because they don't have enough equity, plus a notable lack of newly built homes, you have a shortfall of homes for sale.

That tight supply is the speed bump for many home buyers, as well as for sellers who want to trade up. Nationwide, inventory has hovered at about five months' supply (the time it would take to sell the current number of homes for sale at the current pace), which is considered equally favorable for buyers and sellers. But inventory in many cities is much lower and strongly favors sellers.

Homeowners who want to sell and have enough equity to cover the transaction costs face a chicken-and-egg situation: They won't list their home until they've found their next home, and they can't do that until there are more houses for sale. New construction will help break the stalemate but not anytime soon. A lack of buildable lots, skilled labor and construction loans have held builders back.

Many homeowners don't have enough equity to move up, and that's adding to the scarcity of homes, especially at the entry level. Meanwhile, as the economy has improved, members of the millennial generation are moving out on their own in greater numbers. They want to buy, but many aren't ready yet. Burdened by student debt and high rents, they're struggling to save for a down payment and qualify for a mortgage.

The number of people who owe more on their mortgage than their home is worth is slowly decreasing. Nearly 13% of homes with a mortgage are underwater by at least 25%, according to RealtyTrac. Distressed sales fell to just 7% of total sales in September, says the NAR.

More than half of homeowners with a mortgage have at least 20% equity, and the vast majority are staying put. Many homeowners are using wealth from their home to remodel. Contractors have reported rising activity over the past few years, and more often than not, a backlog of projects.

SELLERS NEED A STRATEGY

Once a cow town, Omaha today is a transportation hub and home to Warren Buffett's Berkshire Hathaway, insurance companies and one of the largest toll-free-call centers in the

ALEX MARTINEZ

Financing

The Outlook for Mortgages

MORTGAGE CREDIT IS STILL TIGHTER TODAY THAN IT WAS DURING THE LEAD-UP TO THE housing bust, but it has loosened a little every year since 2009. Whether you're buying or refinancing, it's easier to get a mortgage at rates that are still at historically low levels. The average 30-year fixed rate hovered around 4% in the past year, dipping to 3.76% at the end of October. That makes six years in a row that the 30-year fixed rate has been below 5%, and the pattern won't change in 2016. Kiplinger expects the 30-year fixed rate to end the year at 4.4%.

The interest-rate premium for conforming jumbos (loans of $417,000 to $625,500) that lenders added during the financial crisis has mostly disappeared. Jumbos (loans of more than $625,500), which lenders typically hold on their own books, occupy a sweet spot, says Guy Cecala, publisher of *Inside Mortgage Finance*. This past fall, lenders offered jumbo rates as low as 3.6%. They consider jumbos to be relatively low risk because borrowers typically have a high credit score and a large down payment.

Borrowers who want to buy or refinance will find fixed-rate and adjustable-rate loans backed by Fannie Mae and Freddie Mac that require just 5% down. Freddie Mac offers a 3%-down-payment program to home buyers with low to moderate incomes, which can provide a less costly alternative to loans insured by the Federal Housing Administration that require 3.5% down but impose up-front mortgage insurance costs.

Still time to refinance? Of loans made in September, 42% were refis. "Nobody expected a mini refi boom in 2015, but that's what happened," says Cecala. Because a small rate change can make a big difference in the payment on a jumbo mortgage, many jumbo borrowers have refinanced within a year of a previous refi, he says. With little or no increase in rates, refinancing could still be attractive through the first half of 2016.

Lenders have been reluctant to roll back the higher standards for credit score and loan-to-value and debt-to-income ratios that they imposed over those required by Fannie Mae and Freddie Mac, says Cecala. Most lenders will compete for your business with greater flexibility in underwriting rather than with a lower rate. They will allow, say, a higher credit score to offset a higher debt-to-income ratio, or a larger down payment to offset a lower credit score.

Although the documentation required to obtain a conforming mortgage is pretty straightforward, prepare to feel raked over the coals if you have been jobless recently, you're self-employed, you have commission-based income or you're changing jobs during the application period. One bright spot: In early October, lenders introduced new closing procedures to make disclosures clearer and reduce paperwork.

PAM AND CHRIS LUCAS FACED STIFF COMPETITION WHEN THEY LOOKED FOR A HOME TO BUY IN NASHVILLE.

country. With low unemployment and affordable homes, buyers are eager to make a move. Sellers should be sitting pretty, but the market is deceptively challenging for them. With just two months' supply recently, sellers who want to trade up confront that chicken-and-egg scenario: They can't sell until they find a home they can move to. Plus, sales in Omaha have slowed.

That's the market Justin Abbott, 44, faced when he listed his suburban Omaha home for sale with NP Dodge Real Estate in September. Divorced and without kids, he was tired of suburban living. But before he listed his home, Abbott found a two-bedroom, one-bath, loft-style condo in a former warehouse in the Old Market neighborhood of downtown Omaha. That eliminated hustling to find something to buy after he had a sale contract.

Abbott had bought his ranch-style house—with three bedrooms, two baths and a great view—in the fall of 2011 for $254,000. He listed it for $278,000 and received four offers within the first week. But this was no bidding war: Three of the offers were full price, but each one asked for concessions. Omahans are "a little too conservative to get frantic," says Mike Riedmann, president of residential real estate at NP Dodge. Abbott accepted an offer that asked for a modest contribution to closing costs but no contingency for sale.

The sellers of the condo Abbott bought had their own challenges. Since originally listing the condo for sale in 2012, they had reduced the price six times. When Abbott saw it, the sellers were asking $333,000. He offered $316,000 and a quick close. They accepted immediately.

Nothing sells a house quicker in any market than presenting it in move-in condition, says Riedmann. Most buyers don't have the desire or time for do-it-yourself projects, and they typically overestimate the cost of work when they ask sellers for price concessions. If your home needs paint or new carpet, get it done before your first open house. It also pays to price your home right the first time. Your agent should help you do that based on recent comparable sales. Buyers are too smart to make unrealistic offers on overvalued homes, Riedmann says.

BUYERS SING THE BLUES

Nashville may be known as Music City, but that's not the only act in town. Its economy has diversified, the population is growing, and people are moving there without a job, expecting they will get one. But if they want to buy a home, they may have to scramble. In September, home prices rose at a 7.3% clip from the year before. In August and September, Nashville had the largest year-over-year increase in sales of the 66 cities followed by the Redfin Housing Market Tracker. With just three months' supply, the market feels "frantic" for buyers, says Alexander Brandau, a local agent with Keller Williams Realty.

Pam Lucas, 37, and her husband, Chris, 38, were living in a suburb of Columbia, S.C., when Pam received a job offer from a veterinary practice in Nashville, their hometown. Chris is able to work anywhere with a computer and an airport, so Pam took the offer. Because the housing market is hot in Nashville but not in Columbia, they decided to buy first and sell later.

In September, Pam began doggedly searching online listings. The couple set their sights on a three-bedroom, two-and-a-half-bath Victorian in East Nashville, a desirable older neighborhood, but they lost that first choice to other buyers. After seeing a succession of other homes they didn't fall in love with, they decided to reconsider a home they had previously rejected. When they saw it, they discovered the pictures hadn't done it justice and made an offer. The sellers were asking $589,900. The Lucases bid $550,000 and included a preapproval letter and a contingency for a home inspection. When the sellers countered at $580,000, the Lucases quickly accepted it to beat an offer from another buyer.

There was one glitch: Because the Lucases planned to move before Pam began her new job, they lacked the two paychecks required to qualify for the mortgage they needed. After putting down 20% and taking out a conforming jumbo mortgage of $425,500 with a 30-year fixed interest rate of 4.25%, they were more than $30,000 short, which they covered with an unsecured loan with a rate of 5.3%. They haven't decided what to do with their South Carolina home. They don't think they can get the price they want for it now, so they may rent it out.

In a fast-paced market with limited supply, get your ducks in a row before you shop. See how much house you can really afford by getting preapproved for a mortgage from a local lender that sellers' agents value for reliability and responsiveness; the preapproval letter will assure sellers that you will qualify for the financing you need to close the deal.

If you see a home you want, make your best offer first. If you make a lowball offer in a multiple-offer situation, the seller may not give you time to make a higher bid. You could include an escalator clause to increase your offer automatically by a certain amount over a competitor's, but sellers prefer knowing how high you're willing to go the first time around. Tell your agent what you're willing to offer other than your offering price. For example, the sellers may want to close quickly or rent the home from you after closing while they look for their next one.

Protect yourself with contingencies for financing, an appraisal, a home inspection or the sale of a previous home. Assure sellers that you'll use an inspection to identify major issues, not demand a multitude of small repairs. And expect the unexpected. The Lucases' mover canceled on moving day because of the "1,000 year" rainstorm and flooding in Columbia. The couple rented a truck and moved their stuff themselves. ■

Housing Snapshot

HOME PRICES IN 100 CITIES

The table at right shows changes in prices for existing homes (single-family houses and condos) **over the past year** and **since the peak** of the national market in mid 2006 for the largest 100 metro areas tracked by Clear Capital (for updates, see kiplinger.com/links/homeprices15). Prices nationwide rose 4% over the past year. The **median home price** as of September 30 was $215,000.

About a dozen cities posted double-digit gains over the past year, led by Palm Bay and Cape Coral, in Florida. Nationally, home prices are still 19% below what they were in mid 2006. About two dozen cities on this list have posted positive price appreciation since then, led by Austin, Texas, with a gain of 38.6%. Texas metro areas plugged along while others boomed and busted, and thanks to a diversified economy, they have stayed the course despite falling oil prices this past year. In California, only San Jose has surpassed its previous peak.

Affordability index measures (on a scale of 1 to 10) home prices in relation to median family income—the smaller the number, the more affordable the housing. For the U.S., affordability stands at 3, close to the historical average. Los Angeles is the least affordable city in the U.S.; it is followed closely by San Francisco and other California cities.

Homes with 10% or less equity shows the share of homeowners who are underwater (or barely above water) on their mortgages. *Underwater* means homeowners owe more on their mortgage than they could get by selling the home, making it difficult or impossible to sell. More than one-third of U.S. homeowners with a mortgage have less than 10% equity or are underwater.

For updates, see kiplinger.com/links/homeprices15

METRO AREA	Median home price	% change 1 yr.	% change Since peak*	Affordability index†	Homes with 10% or less equity#
Akron, Ohio	$93,500	−0.2%	**−27.0%**	1	50%
Albany, N.Y.	195,250	−2.8	**−9.4**	5	38
Albuquerque, N.M.	129,000	1.4	**−11.1**	3	40
Allentown, Pa.	185,000	2.2	**−27.7**	5	43
Atlanta, Ga.	180,000	9.1	**−17.6**	6	42
Augusta, Ga.	110,000	2.9	**−8.1**	2	46
Austin, Texas	225,000	7.0	**38.6**	7	18
Bakersfield, Calif.	182,500	6.4	**−37.0**	8	38
Baltimore, Md.	276,753	−2.3	**−29.5**	8	45
Baton Rouge, La.	178,750	3.7	**3.8**	6	39
Birmingham, Ala.	139,233	5.1	**−19.4**	4	43
Boise City, Idaho	173,250	3.3	**−20.0**	6	32
Boston, Mass.	350,000	1.5	**−7.4**	9	21
Bridgeport, Conn.	441,250	1.0	**−26.3**	9	36
Buffalo, N.Y.	110,000	3.2	**20.3**	1	28
Cape Coral, Fla.	177,000	12.8	**−39.1**	8	41
Charleston, S.C.	199,000	8.4	**−4.4**	7	39
Charlotte, N.C.	138,000	7.5	**1.5**	3	37
Chattanooga, Tenn.	142,000	7.7	**1.4**	5	39
Chicago, Ill.	205,000	5.8	**−36.9**	6	50
Cincinnati, Ohio	122,499	3.9	**−15.7**	2	44
Cleveland, Ohio	110,000	2.1	**−37.1**	1	55
Colorado Springs, Colo.	221,450	4.6	**−0.4**	7	38
Columbia, S.C.	124,650	6.2	**−7.6**	2	51
Columbus, Ohio	119,950	5.7	**−12.9**	2	42
Dallas, Texas	129,700	10.0	**17.7**	2	30
Dayton, Ohio	63,000	2.2	**−23.3**	1	52
Deltona, Fla.	135,000	9.7	**−41.3**	6	50
Denver, Colo.	302,000	12.0	**23.6**	9	17
Des Moines, Iowa	186,500	5.1	**−1.5**	4	38
Detroit, Mich.	147,000	12.5	**−40.3**	3	44
Durham, N.C.	156,500	3.6	**7.0**	4	32
Fayetteville, Ark.	150,000	2.7	**−12.2**	5	41
Fresno, Calif.	210,000	7.4	**−37.7**	9	38
Grand Rapids, Mich.	140,000	10.6	**−10.8**	3	36
Greensboro, N.C.	118,500	3.4	**−12.2**	3	46
Greenville, S.C.	162,700	6.1	**5.6**	7	36
Harrisburg, Pa.	175,000	1.4	**−9.5**	5	43
Hartford, Conn.	220,000	0.3	**−20.6**	5	41
Honolulu, Hawaii	466,000	5.8	**21.5**	10	15
Houston, Texas	162,500	8.7	**12.1**	4	27
Indianapolis, Ind.	114,450	3.2	**−22.5**	2	47
Jacksonville, Fla.	165,000	7.8	**−35.5**	6	51
Kansas City, Mo.	117,000	1.6	**−28.9**	1	53
Knoxville, Tenn.	129,950	4.2	**−1.0**	3	34
Lakeland, Fla.	119,950	8.5	**−38.1**	4	53
Lancaster, Pa.	187,763	3.4	**0.9**	6	40
Las Vegas, Nev.	193,700	8.1	**−46.3**	8	48
Little Rock, Ark.	177,000	2.2	**−2.4**	7	46
Los Angeles, Calif.	530,000	7.6	**−16.8**	10	20

METRO AREA	Median home price	% change 1 yr.	% change Since peak*	Affordability index†	Homes with 10% or less equity#
Louisville, Ky.	$117,000	4.4%	**−6.0%**	2	39%
Madison, Wis.	244,000	4.8	**2.7**	7	27
McAllen, Texas	85,000	3.2	**10.8**	3	37
Memphis, Tenn.	128,000	2.7	**−26.9**	4	55
Miami, Fla.	210,000	10.1	**−36.7**	9	41
Milwaukee, Wis.	165,000	4.3	**−30.7**	4	39
Minneapolis/St. Paul, Minn.	222,700	6.0	**−20.2**	6	29
Modesto, Calif.	239,000	9.6	**−41.7**	9	34
Nashville, Tenn.	158,000	7.3	**14.0**	5	30
New Orleans, La.	153,000	4.8	**−8.9**	5	43
New York, N.Y.	375,000	5.6	**−16.3**	10	28
Ogden, Utah	178,500	5.8	**13.9**	5	40
Oklahoma City, Okla.	152,250	4.8	**11.2**	4	37
Omaha, Neb.	123,550	3.9	**3.1**	2	38
Orlando, Fla.	170,000	8.0	**−40.4**	7	49
Oxnard, Calif.	507,500	4.6	**−22.8**	10	22
Palm Bay, Fla.	140,000	15.0	**−38.4**	4	46
Philadelphia, Pa.	252,800	3.5	**−15.6**	8	42
Phoenix, Ariz.	205,000	7.1	**−33.0**	8	37
Pittsburgh, Pa.	157,000	11.5	**3.8**	4	24
Portland, Ore.	289,900	8.2	**1.1**	9	22
Providence, R.I.	224,575	−6.2	**−41.8**	8	37
Provo, Utah	229,950	4.6	**6.7**	8	36
Raleigh, N.C.	156,000	4.7	**5.9**	3	31
Richmond, Va.	224,000	4.9	**−13.9**	7	43
Riverside/San Bernardino, Calif.	276,000	7.0	**−34.5**	10	32
Rochester, N.Y.	104,000	2.2	**6.6**	1	39
Sacramento, Calif.	305,000	7.4	**−29.1**	9	30
Salt Lake City, Utah	248,500	9.1	**13.9**	8	39
San Antonio, Texas	128,494	3.8	**9.5**	3	39
San Diego, Calif.	460,000	6.3	**−16.1**	10	23
San Francisco/Oakland, Calif.	700,000	8.8	**−7.7**	10	15
San Jose, Calif.	816,000	9.4	**3.9**	10	10
Santa Rosa, Calif.	493,000	7.7	**−14.8**	10	19
Sarasota, Fla.	192,000	11.7	**−33.4**	7	38
Scranton/Wilkes-Barre, Pa.	104,500	0.5	**−25.1**	2	34
Seattle, Wash.	370,000	10.6	**−1.7**	9	29
Springfield, Mass.	188,000	−2.7	**−18.2**	7	36
St. Louis, Mo.	89,900	5.9	**−25.1**	1	46
Stockton, Calif.	267,000	10.0	**−42.3**	10	35
Syracuse, N.Y.	101,450	−1.3	**3.0**	1	39
Tampa, Fla.	140,400	9.0	**−40.0**	5	48
Toledo, Ohio	98,800	4.3	**−33.0**	1	52
Tucson, Ariz.	160,000	4.6	**−31.3**	6	43
Tulsa, Okla.	124,700	2.5	**−0.9**	3	40
Virginia Beach, Va.	230,000	4.2	**−20.9**	8	48
Washington, D.C.	385,000	1.8	**−23.3**	9	33
Winston-Salem, N.C.	100,000	2.8	**−10.1**	2	45
Worcester, Mass.	225,000	0.2	**−25.8**	6	39
Youngstown, Ohio	88,500	1.3	**−33.5**	1	50

As of September 30, 2015. Cities represent metropolitan statistical areas as defined by the U.S. Census. *Since May 31, 2006, when the housing market peaked nationally. †Ranked 1 (most affordable) through 10 (least affordable). #Percentage of mortgaged homes with 10% or less equity or underwater as of September 30, 2015. SOURCES: Clear Capital, RealtyTrac, U.S. Census.

DAVID MUHLBAUM > Drive Time

Where Rubber Meets the Road

Buying new tires can be a tiresome task. Tires are pricey and, being universally black and round, hard to tell apart. Plus, you can't really try them out yourself. It makes mattress shopping seem transparent.

At the same time, tires are the most important factor in how your car rides, brakes, and handles curves on slippery roads. Over the life of your car, assuming your drivetrain holds up, new tires may well cost more than any repair you make.

You could just throw up your hands and get a new set of whichever tires your car came with. If you've been happy with them, well, okay. But they may not be your best bet, either for price or quality.

Tread carefully. When you stick a penny head-down in a groove in each tire, part of Abe's head should always be covered. The penny test proves that the tire has at least 2/32 inch of tread, the legal minimum in most states. But when you're flirting with that level, your tire's ability to cope with rain—not to mention snow—is dramatically reduced. Use a quarter instead. If George's pate has some coverage, that's 4/32 inch, a safer margin. It also gives you more time to think about your next set of tires.

You'll want your tires to last a long time, but don't get too hung up on claims of longevity. It's hard to judge, even though the government has a metric called the UTQGS, which includes an estimate of how long you can expect the tire to last. Tire testers have found it unreliable, and the government is working on a replacement standard (for the time being, look for a number higher than 400). Most tires come with a tread life warranty (60,000 miles is typical), but good luck cashing in on it. For one thing, you'll have to wait until the tire's tread is down to that sketchy 2/32 inch before you can even file a claim.

It's worth your while to spend some time at TireRack.com, which is loaded with tutorials that will help you decode the alphanumerical soup of tire sizing, learn about which brands and models fit your car, and reflect on the more subjective topic of your driving style. Because no single tire can be best at all things (dry grip, wet grip, snow grip, tire life, quietness, price), you'll need to make some compromises. The combination of Tire Rack's testing and user-generated reviews will help you make the choice that's best for you. *Consumer Reports* also tests tires and publishes reviews.

Get the lowest price. You can buy new tires from national and regional chains, big-box stores, car dealerships, and mom-and-pop independents. You could also order your rubber online from Tire Rack or Discount Tire Direct, both of which have been doing business by mail order since even before Al Gore invented the Internet. Manufacturers such as Goodyear and Michelin are experimenting with selling directly to the consumer.

No store or site always has the lowest price, so do some research. For example, I recently shopped for a set of Goodyear Assurance Comfortred tires for my Volkswagen Passat. The price ranged from \$94 per tire direct from Goodyear to \$120 from Mr. Tire, a regional chain. But Mr. Tire's price included installation.

Start with the online tire stores to find good options, but use the competitive marketplace to your advantage. Check the regional chains, and consider taking your research to your local garage, too—it may match or come close to prices you find online. And remember that if you buy tires online, shipping may be extra, and a local shop will charge for installation. If your preference is for a tire from one of the top-line brands, such as Michelin, Goodyear or Bridgestone, keep an eye on promotions from Costco and Sam's Club; the savings you realize on such a big-ticket item could cover an annual membership fee. ■

"No store or site always has the lowest price, so you'll need to do some research. Start with the online tire stores to find good options."

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

LISE METZGER

TECH »

BLOCK THAT PITCH!

These services and apps shut down nuisance calls and texts to your home and mobile phones. **BY KAITLIN PITSKER**

IF YOU'D RATHER NOT GET another offer to fix you up with a "free" cruise, a few simple steps can eliminate most such annoying calls and text messages.

Start by adding your landline and cell-phone numbers to the Federal Trade Commission's Do Not Call Registry (www.donotcall.gov). Your number should appear on the list the next day, and most sales calls will stop after your number has been on the registry for 31 days. Registration does not expire, but it's a good idea to occasionally verify that your number is still listed on the Web site.

But that's only the first step. Political organizations, charities and companies with which you have done business within the past 18 months are exempt from the do-not-call restrictions. And robocalls, which use automated dialers to place calls (and which are generally illegal if they're trying to sell you something), won't be deterred, either. Phone companies may soon add features to protect customers from annoying calls and text messages, but for now you're mostly on your own.

If you have either a landline or a VoIP phone, which uses an Internet connection rather than a phone line, ask your phone company about anonymous-call rejection. This service weeds out calls from companies that have withheld their names and numbers from caller ID—a common tactic among robocallers. For more control over incoming calls, consider a device such as Digitone Call Blocker Plus (about $100). The box plugs into your phone line and allows you to approve welcome callers and banish others to a blacklist.

If you have a VoIP-based phone service, Nomorobo (www.nomorobo.com) offers a simple solution. The free service, which works with Frontier, Verizon FiOS and Vonage, among others, compares incoming calls with a list of known robocallers. When a blacklisted call comes in, your phone rings, then drops the call.

Block smartphone calls and texts. To ban nuisance calls and messages from reaching your smartphone, use an app such as Truecaller (free; Apple and Android) or PrivacyStar (free; Android). These apps combine public databases with crowdsourcing and their own algorithms to identify annoying or suspicious calls and texts.

Most smartphones have built-in features to screen out unwanted calls. To block a number that has contacted your iPhone once from calling or texting you again, tap the info icon next to the number and select "Block this caller" at the bottom of the screen. Most Android users can do the same by selecting the nuisance call or text, clicking on the three-dot menu icon and choosing "Add to auto reject list." Apple's latest iOS update cleared the way for content-blocking apps, such as 1Blocker and Adblock Browser (also available for Android phones), to knock out ads that make it difficult to load or read content in your phone's browser. (Note: Some Web sites that are supported by ad revenue are beginning to block access to content by devices that block ads.)

If an unwanted call or message gets through and you find yourself talking with a live person, firmly tell him or her to add you to the company's do-not-call list. If it's a robocall, just hang up—even if the recording invites you to press a number to opt out. You can file a complaint against illegal robocallers anytime and against telemarketers once your number has been registered at www.donotcall.gov for 31 days. ■

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LOWDOWN

What You Need to Know About Your Used Tech

You can sell, trade in or donate your gently used castoffs. BY MIRIAM CROSS

1. Act fast. You'll do best if you sell your older model before a new version is launched. "The moment the announcement goes out, everyone wants to upgrade," says Scott Steinberg, head of consulting firm TechSavvy Global. In general, Apple products hold their value best; on the flip side, don't expect much demand for a desktop PC.

2. Trade in your tablet. Online trade-in services—such as Gazelle, NextWorth, Amazon Trade-In, uSell and BuyBackWorld—and programs offered by retailers such as Best Buy, GameStop and Target offer convenient ways to get money for your gadgets. But some accept a broader range of devices than others, and price estimates vary widely. For example, searching for a Verizon 32-gigabyte iPhone 5s in good condition on 10 trade-in sites pulled up offers between \$120 and \$199. Note: A big payout isn't everything. Amazon Trade-In offered the most, but you're restricted to an Amazon gift card—not much use if you rarely shop online. Think creatively: Trade-in sites probably won't be interested in your ancient Rio MP3 player, says technology writer Louis Ramirez. But a tech enthusiast on eBay might pounce.

3. Know the drill. To get an instant quote, log on to the Web site and search for your device, then tick off the boxes that best describe its condition. After shipping your device free (or bringing it into the affiliated retailer), you'll receive a final offer. Depending on the program, you may be paid in cash, through PayPal, or by check, gift card, store credit or prepaid debit card. Carriers may also buy back your old device, but payment is less flexible: You'll typically receive credit you can use only with that carrier.

4. Sell your cell yourself? Selling electronic devices privately or through an online marketplace, such as Amazon or eBay, means you can price them however you want, but it's up to you to manage your listing. Beginners may find the Glyde .com site easy to navigate.

5. You might give back. Some trade-in programs, such as Gazelle or AT&T, will let you donate your proceeds to charity. For devices broken beyond repair, recycle them through the manufacturer if it offers a mail-in or drop-off program (such as Dell's Reconnect) or a retailer such as Best Buy or Staples. For more information, go to www.epa.gov or www .electronicstakeback.com.

6. Secure your data. Whether you sell, dispose or donate, start by backing up all your data. For phones, remove SIM and memory cards, turn off any device tracking, sign out of cloud services, e-mail and apps, and remove passwords. Use an app, such as Lookout, to wipe your data, and perform a factory reset. For full instructions, look in your owner's manual or the Web site of your mobile provider or device manufacturer. Be aware, though, that it is very difficult to remove your data completely, says John Sileo, CEO of the Sileo Group. Deactivate service from your carrier, too. "De-authorize" computers that use digital rights management software (such as iTunes) and wipe the hard drive clean using software that overwrites data, such as the free Active@ KillDisk. ■

NIGEL BUCHANAN

THEN AND NOW

Cindy Campbell, with daughter Aniyah: On track to reach their goals.

NOVEMBER 2007

Secrets for Living the Good Life

THEN: Cindy Campbell appeared in *Kiplinger's* twice—first in November 2007, when she shared her strategies for getting out of $7,000 in credit card debt from college and then saving to buy a house at age 25. In "11 Tips to Be a Better Saver" (April 2012), Campbell talked about the importance of building an emergency fund—a lifesaver when she lost her job in 2009 and was out of work for six months. The emergency fund also gave her the freedom to take 16 weeks of unpaid maternity leave after her daughter, Aniyah, was born in 2011.

NOW: Campbell, 36, still lives in the same house and celebrated her sixth anniversary as a legal assistant for a nonprofit in Washington, D.C. And she continues to follow her rules for living the good life: "Living below your means, saving, having an emergency fund, and having little or no credit card debt is the way to go," she says.

Campbell pays off her credit card bill in full every month. An avid traveler, she has planned trips to Jamaica, the Bahamas and Miami for herself and Aniyah without landing in debt. To save for vacations ahead of time, she earmarks a little money from every paycheck for a "play account." She starts to plan six months to a year in advance, jumping in to buy tickets when airfares are low. She monitors hotel prices online and reads reviews before making a decision, and she tends to find the best rental car rates through Hotwire. Before traveling to Miami last year, she paid $70 for a discount entertainment card. "I probably did $200 worth of activities in Miami," she says. "You can preplan your day to get the biggest bang for your buck."

Campbell recently completed a major home-improvement project. She used YouTube videos to learn how to do most of the work on her own, with the aid of friends and family—including Aniyah, who helped paint her bedroom pink.

Campbell saves for retirement in her 403(b) plan and benefits from her employer's contributions. After Aniyah started school and her child-care expenses decreased, Campbell was able to boost her own contribution.

Right now she's aiming to replenish her emergency fund, which she tapped last year when she had to replace her 2005 Honda Accord. To help her do so, she plans to refinance her mortgage, which will cut her monthly payments by about $200.

Campbell's longer-term goal is to teach Aniyah how to reach her own goals. "I'll give her an allowance and let her know things are not free, but you can save to buy them," she says. **KIMBERLY LANKFORD**

INSET PHOTO: MELISSA GOLDEN

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