WHAT TO EXPECT FROM MEDICARE p 26

Kiplinger's PERSONAL FINANCE
MONEY SMART LIVING

HOW TO BE A BETTER INVESTOR Now!

Expert advice on how to stay calm and find opportunities in today's turbulent markets. p 44

Warren Buffett (center), flanked from left by Jim Paulsen, Savita Subramanian, Kate Moore and John Rogers. p 46

NOVEMBER 2015

CONTENTS

KIPLINGER'S PERSONAL FINANCE // FOUNDED 1947

VOL. 69 NO. 11

JAMES FOSTER

COVER PHOTOGRAPHS Jim Paulsen: **Chad Holder;** Savita Subramanian: **Alex Martinez;** Warren Buffett: **Ben Baker/Redux;** Kate Moore: **Suzanne DeChillo/The New York Times/Redux;** John Rogers: **Bob Stefko**

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KIM LANKFORD
askkim@kiplinger.com

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Volatility is up, and your portfolio is likely down. Associate editor Daren Fonda picks sectors that will limit further losses.

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Kiplinger's PERSONAL FINANCE MONEY SMART LIVING

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Janet Bodnar

FROM THE EDITOR

Much Ado About Medicare

Our special report on Medicare (see page 26) couldn't be more timely. The likelihood that high-income recipients will see a major hike in their Part B premiums in 2016 is adding to the general angst and confusion that often goes along with enrolling in Medicare. Contributing editor Kim Lankford, our insurance specialist and author of our "Ask Kim" column, says she gets "tons" of mail from readers who often ask basic Medicare questions, beginning with whether to sign up or not.

For example, California reader Leland Sheppard enrolled in Medicare because he was eligible and out of work. Now he's employed again and wants to switch to his employer's plan. His concern: If he drops out of Medicare now, will he be able to re-enroll in the future? The answer: Yes, but he may have difficulty signing up for a medigap plan.

People who are still working often want to know whether they can delay signing up for Medicare so that they can continue contributing to a health savings account. The answer: Yes, as long as their employer has 20 or more employees and they're not taking Social Security benefits (see page 30).

Once they do sign up, questions arise about how to fill the gaps that Medicare doesn't cover. You have a choice between buying a medigap policy along with Medicare Part D for prescription drugs, or signing up for a Medicare Advantage plan, which may be less expensive but limits you to its provider network. The key is to compare the cost of policies in your area with the type of medical expenses you have and anticipate having in the future. Prescription-drug coverage in particular can vary a lot, says Kim, so "it's important to look not just at premiums but at out-of-pocket costs as well" (see page 30).

Readers are also concerned about paying the high-income surcharge, which in 2015 kicks in for single enrollees earning more than $85,000 and married enrollees filing taxes jointly and earning more than $170,000. Kim points out that you don't have to be super-rich to be hit with a surcharge if you're on Medicare but are still working (see page 33).

Once the sign-up and payment issues are resolved, recipients often run into billing snafus. That's why it's important to make sure that claims are filed with both Medicare and your supplemental policy or your former employer's retiree health plan. "You have to coordinate all your plans before you get the final bill," says Kim.

Future prospects. Coverage issues aside, the 800-pound gorilla with regard to Medicare is how the system is going to be put on a sound financial footing to avoid going broke. Proposals are all over the map. To control costs, Medicare is testing "bundled care" programs that give providers a set amount of money to provide all the services needed to treat a specific condition. If it costs more to treat a patient than the agreed-upon amount, providers absorb the extra costs; if it costs less, providers benefit from the savings. Such a system raises concerns that providers might skimp on care or cherry-pick healthy patients.

LISE METZGER

"The 800-pound gorilla is how the system is going to avoid going broke."

On the patients' side are proposals to offer more high-deductible medigap plans, allow Medicare recipients to contribute to health savings accounts, and gradually replace the current system by giving future Medicare recipients vouchers with which to purchase their own insurance. One suggestion is to slowly raise Medicare's eligibility age from the current 65 to 67. That might not be as big a deal as it first appears, especially because the age for full Social Security eligibility is also rising to 67. In fact, says Kim, because 66 is the current age for full Social Security benefits, some people simply forget to sign up for Medicare at 65. ■

Janet Bodnar

JANET BODNAR, EDITOR
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Vanguard's Top 4 Funds for 2016

These are the profitable Vanguard mutual funds you should own right now!

The nearly impossible task of finding and getting into the best funds at Vanguard ends now… with the release of my new special report, ***Vanguard's Top 4 Funds for 2016***.

I love Vanguard. But I hate that so many investors are missing out on Vanguard's strongest funds. Every Vanguard investor seeking to build wealth should own these funds.

My name is Dan Wiener, and I'm an independent voice and advocate for Vanguard investors. I'm not paid or endorsed by Vanguard… or any mutual fund company… which means I can tell you things you won't hear from them or anyone else. And all those little secrets add up to greater profits!

And in this new report, you'll discover what Vanguard won't tell you, including…

- Two funds that put the performance of Vanguard's flagship funds to shame last year.
- Vanguard has 10 index funds you can't get into unless you're able to cough up $100,000… none of these 10 funds are good enough to earn a spot in ***Vanguard's Top 4 Funds for 2016***. In fact, not one of Vanguard's index funds are good enough to earn a spot on this list!

No fluke funds in this report. No risky one-year wonders. No index funds, either.

The Shocking Truth About Index Funds

You've been told time and again that managed funds can't beat index funds. So this might shock you: *All four* of the

- Dan is America's leading expert on investing in Vanguard mutual funds and has helped tens of thousands of Vanguard investors choose their funds wisely.

Dan Wiener

- Dubbed the "Vanguard Gumshoe" by *Forbes* magazine, he's won the industry's "Financial Advisory" award.
- Independent study at Duke University declared, "The probability that [Dan Wiener's] Growth portfolio could have outperformed by such a wide margin because of luck rather than skill is only 13.4%."

funds revealed in this free report soundly trounced Vanguard's flagships over the last 10 years… and will probably continue to beat indexing over the next 10 years, too.

Here's a preview of what you'll discover:

Fund #1 — A stream of dividend income that grows while generating capital growth

This fund, led by one of Vanguard's top index-beating managers, holds stocks that not only pay dividends, but also ones that are likely to *increase* their dividends. But it takes a mastermind to find them. The fund manager's name is revealed in ***Vanguard's Top 4 Funds for 2016***.

One of the mandates of this fund is to be diversified across all market sectors. And this expert stock-picker does just that, with total confidence. He beat Vanguard's dividend stock index in six of the past eight years.

Fund #2 — Capital appreciation and income from small- and mid-cap stocks

Vanguard doesn't have an index that does the work of this fund, and records show it beat Vanguard's 500 Index fund by 33% over the past 10 years, thanks to one of my all-time favorite fund managers. How? By finding small- and mid-cap stocks with below-average price-earnings ratios, low debt, good internal growth and strong cash flows.

The manager of this fund is another one of Vanguard's unadvertised stars. He runs circles around Vanguard's flagship funds. In fact, his is one of the most profitable Vanguard Funds over the last decade… up 142%.

Plus I'll share with you 2 more funds that Vanguard will never tell you about — each again led by top fund managers that are delivering better than expected results.

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Vanguard is great, but so many investors are missing out on their strongest funds. That's why you need to **download my special FREE online report**, ***Vanguard's Top 4 Funds for 2016***, **NOW and take the first step to securing your financial future**.

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How to Foil ID Thieves

Despite all the high-tech ways thieves can steal our personal information, two of the most common ways to steal sensitive data are decidedly low-tech: Dumpster diving and mail theft ("How to Fend Off ID Thieves," Sept.). And although we have little control over how well others secure our data, investing in a home crosscut shredder and a lockable mailbox eliminates those risks.

ROB MEEHAN
SCRANTON, PA.

I was pleased to learn that Social Security numbers will be removed from Medicare ID cards. That means that Medicare recipients, who are urged to carry their cards at all times, won't have to worry about their Social Security number getting into the wrong hands. However, wouldn't it make sense to prohibit all entities from using your Social Security number as a universal identifier?

MICHAEL I. SILVER
EASTON, MD.

Renting rocks. We downsized to a one-bedroom, 800-square-foot apartment from a four-bedroom, two-level house ("Rethinking Retirement," Sept.). We got rid of all the junk, and now cleaning is a 15-minute breeze once a week. We pay less in insurance and no property taxes. Any maintenance issues are fixed in two hours. If we're traveling, all we do is lock up and leave. We cover the rent with stock dividend income. And best of all, when we leave for our final, one-way trip, all our kids will have to do is pay the last month's rent and give away stuff to Goodwill.

BIPIN AVASHIA
AUSTIN, TEXAS

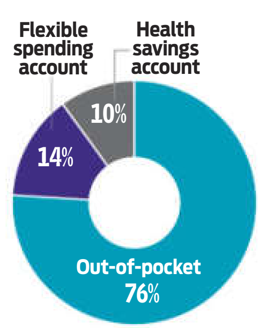
The right portfolio. Kathy Kristof's asset-allocation advice is spot-on ("Practical Investing," Sept.). Anyone creating or maintaining an investment portfolio can appreciate her analogy of raising a family and investing in the market. Her down-to-earth guidelines—master the basics, have a mission and pay attention—sound great to me.

GARRY BROWN
POMFRET, CONN.

CORRECTION
Social Security benefits are based on a beneficiary's 35 highest-paid years ("Ask Kim," Oct.).

Q READER POLL

How do you pay for unreimbursed dental care?



For tips on paying dental bills, turn to page 39.

ONLINE CHATTER

The rollout of our list of favorite exchange-traded funds produced this discussion ("Introducing the Kiplinger ETF 20," Sept.):

"I like ETFs because they offer instant diversification, have lower expense ratios and are safer than buying individual stocks. Of course, I stick with regular ETFs and never mess with 3x funds or anything that uses derivatives."

"If an ETF drops at least three days in a row, I buy the underlying triple leveraged equivalent and catch the rebound. I have a 5% allocation to a gold ETF, but I will also buy the 3x gold ETF if gold continues to fall. That's how I fiddle with my cash position, which otherwise would earn practically nothing."

"I've been an investor for more than four decades, and I've never touched an ETF. I prefer individual stocks."

› LETTERS TO THE EDITOR

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SOURCE: POLL SURVEYED 247 *KIPLINGER'S* READERS.

PETE RYAN

TOPIC A

MEASURE THE IMPACT OF YOUR DONATIONS

Apply the same due diligence to giving as you would to investing. BY SANDRA BLOCK

IF A MUTUAL FUND SALES REP called during dinner to give you his spiel, you'd probably hang up or insist that he send a prospectus outlining the fund's management, portfolio and performance relative to its peers.

A group of former hedge fund managers, tech entrepreneurs and academics have applied the same no-nonsense approach to philanthropy. Effective altruism focuses on charities doing the most good for the least amount of money.

The movement was pioneered by GiveWell (www.givewell.org), a nonprofit founded in 2007 to support underfunded organizations that can provide evidence that their programs produce results. One of its top charities, Against Malaria Foundation, buys and distributes insecticide-treated malaria nets. The nets, which cost AMF between $5.30 and $7.50 each, save thousands of lives in developing countries. And AMF can scale up quickly. "It's easy to see that if you give them more money, they're going to spend it on more bed nets," says GiveWell research analyst Sean Conley.

Supporters of effective altruism tend to favor small charities such as AMF because it's easy to determine whether they're making a difference. They also prefer charities that focus on the developing world because small amounts of money can make a huge difference in the lives of people who may live on less than $2 a day.

Whether you give to charities across the street or around the world, you can adopt some of GiveWell's ideas to make your own philanthropy more effective.

Limit your disaster giving. Major natural disasters, such as earthquakes and floods, trigger an outpouring of donations. But in the aftermath of a catastrophe, aid organizations are often unable to use all the money. Within days after the 2011 tsunami in Japan, for example, the Japanese Red Cross said it didn't need donations. A better idea: Give to charities that provide treatment for chronic diseases, such as malaria and tuberculosis, that kill thousands of people every day.

Focus on impact, not overhead. Charity watchdog groups often rate organizations based on the amount they spend on administrative costs versus programs. That seems logical: Donors don't want their money used to pay for excessive salaries and plush offices. But such ratios (which are usually self-reported) discriminate against charities that invest wisely in tools and expertise. When you invest in a company, you look at whether it makes a good product, not how much it spends on operations, says Oxford University professor William MacAskill, author of *Doing Good Better: How Effective Altruism Can Help You Make a Difference.*

Overhead is only one of several measures that Charity Navigator, the largest watchdog site, uses to evaluate a charity, says chief executive Michael Thatcher. A planned update of the site's rating system will include a way to quantify whether a charity gets results.

Look to the future. Savvy investors know that past performance is no guarantee of future returns. That applies to charities, too. A charity may already have enough in reserve to fulfill its mission, or it may be so small that it's unable to spend more money effectively. Whether a group has "room for more funding" is one of the criteria that GiveWell uses to rate its top charities.

INTERVIEW

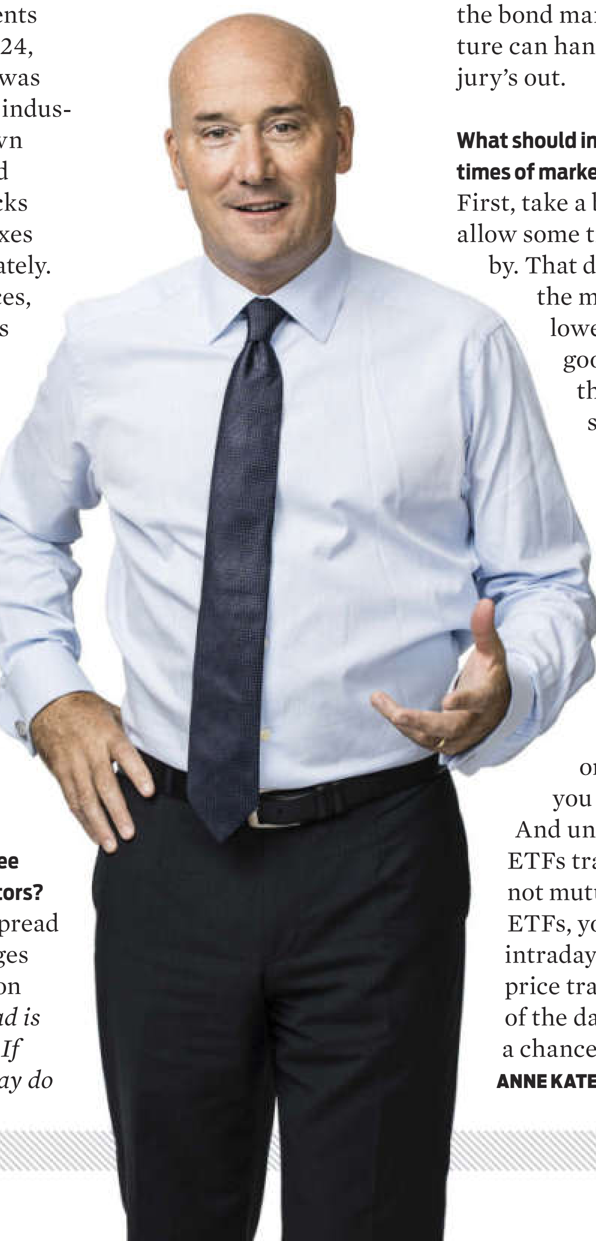
WHY ETF PRICES TANK IN A MARKET ROUT

Mispricing during the most recent "flash crash" underscores a risk of these funds.

Tom Lydon is president of Global Trends Investments and editor of ETFtrends.com.

During market routs, the prices of exchange-traded funds can be crazy. How come? Most ETFs are based on a stock index. In the opening moments of trading on August 24, for instance, volume was huge, the Dow Jones industrial average was down more than a thousand points, and some stocks underlying ETF indexes weren't priced accurately. In those circumstances, it's natural for traders authorized to make markets in ETFs to lower the price at which they're willing to buy the ETF and raise the price at which they'll sell it, widening the spread between the two. That makes it unattractive for investors to buy or sell; it's a way to pause trading.

What would you like to see happen to protect investors? If a market maker's spread is very high, brokerages could put a warning on the screen: *This spread is greater than average. If you buy or sell, you may do so at a price that does not accurately reflect the underlying securities. You may want to place a limit order or wait until the price stabilizes.* [A limit order allows you to set the price at which your trade is executed.]



People are worried about a similar scenario unfolding in the bond market. Are you? In the fixed-income area, there's a greater concern about a demand imbalance than there is about inaccurate pricing. ETFs trade on stock exchanges, but bonds change hands through dealers who aren't used to stock-like volume. The concern is that if the bond market reverses course, there will be heavy selling of ETFs because they're so easily traded. If we see billions of dollars suddenly leaving bond ETFs, the question is whether the bond market infrastructure can handle it, and the jury's out.

What should investors do in times of market turbulence? First, take a breath and allow some time to go by. That doesn't mean the market can't go lower, but it's never good to jump into the fray in panic situations.

Second, understand the difference between a market order, executed at the prevailing market price, and a limit order, where you set the price. And understand that ETFs trade like stocks, not mutual funds. With ETFs, you can trade intraday. Mutual funds price trades at the end of the day, giving prices a chance to stabilize.

ANNE KATES SMITH

DAVE LAURIDSEN

FOUR POINTS HOTEL GUESTS SAMPLE LOCAL CRAFT BEER.

TRAVEL

HOTELS TURN ON THE CHARM

They're luring guests with wine tastings, art exhibits and even free Lego sets.

YOU MIGHT JUST FORGIVE having to pay for in-room bottled water if someone hands you a glass of wine at check-in. "Hotels have realized loyalty is harder to acquire because people are looking for unique experiences," says Sean Murphy, of Jetsetter.com. As a result, venues are trying to differentiate themselves with new and distinctive perks.

Although loyalty members get some exclusive bonuses—say, the ability to earn Starwood points on Uber rides—many perks are available to all guests. Look for wine, beer or spirit tastings paired with food at Kimpton, Sheraton and Four Points by Sheraton locations; nighttime socials at Residence Inn, Homewood Suites and Hyatt House; and curated music soundtracks or art exhibits (the Radisson Blu in Chicago has an app for guests to tour the building's art). Hotels are partnering with other businesses so guests can sample dishes from local food trucks, say, or test-drive a luxury car. Kids staying at Le Méridien get a free Lego set, Westin guests can rent New Balance running gear, and TVs in some Marriott hotels stream Netflix. Some extras once considered bonuses are now standard, such as free Wi-Fi at mid-range and low-price hotels.

Hotels are on track to collect a record $2.47 billion in fees in 2015, according to data collected by Bjorn Hanson, a professor at New York University's Tisch Center for Hospitality and Tourism. But hotels will rarely raise the price of your room to pay for these enhanced perks, he says. To see what extras your hotel offers, follow the brand on social media and check the location's Web page or calendar of events. Instead of using mobile check-in to skip the line, ask the front-desk manager about new programs. **MIRIAM CROSS**

EXCERPT FROM *The Kiplinger Letter*

SAVE MONEY ON SMARTPHONES

Cheaper smartphones from China are coming, courtesy of manufacturers such as Huawei, Xiaomi and ZTE, which can churn out high-quality models for $300 or less. By comparison, Apple's latest iPhone costs $650 without a cellular service contract. Samsung and Microsoft, in particular, stand to lose out as consumers gain options and look to save money on phones. Even Apple could suffer eventually. (www.kiplingerbiz.com/ahead/cell)

THE BUZZ

THE POST OFFICE STEPS UP DELIVERY

To compete with FedEx and UPS, the beleaguered U.S. Postal Service is testing enhanced services in select locations.

Mail notification. This new service, which is expected to launch in New York City, will tell customers what's coming to their mailbox every day by sending e-mails they can read on their mobile device. The service doesn't include packages.

Sunday and same-day delivery. This holiday season, some customers can expect their gifts and packages to be delivered on some Sundays leading up to Christmas. Sunday delivery will be offered in most major U.S. cities with high package volume. The USPS also has a pilot program for same-day delivery in New York City and for grocery delivery through Amazon in some locations in California and New York.

Alcohol delivery. Postmaster General Megan Brennan has said that delivering beer, wine and spirits would make the USPS more competitive. Current law prohibits U.S. mail carriers from delivering alcoholic beverages, so Congress would have to give its blessing. **VARSHA BANSAL**

COURTESY FOUR POINTS

WORKPLACE

TECH FIRM PERKS GO MAINSTREAM

But don't pass up a competitor's higher salary just to get on-site dry cleaning.

NEXT TIME YOU'RE ON A JOB hunt, don't be surprised if potential employers dangle a nap room or the proverbial free lunch as a fringe benefit. Following the lead of Silicon Valley tech companies, firms in all kinds of industries are using incentives to compete for top talent. Sweeteners include sports facilities, fitness rooms and lounges with TVs, games and snacks, and services such as on-site dry cleaning, massages, dog walking and grab-and-go meals.

Consider the value of such perks before you take the bait. Don't reject a competitor's offer of a higher salary or better health insurance in favor of free snacks or the opportunity to play air hockey at work. But free or low-cost child care could be worth it. Ask the employer how long the benefits have been in place and how long you have to be employed before you can use them. Gauge the office culture. Do employees seem to take advantage of the amenities, or are they mere window dressing? And be aware that all those in-house services could be designed to give you fewer reasons to leave the office—and encourage you to put in long hours. **LISA GERSTNER**

MONEY & ETHICS // KNIGHT KIPLINGER

Is this lump-sum offer for future benefits ethical?

Q For 10 years my aunt has received monthly checks from a structured settlement after she was partially disabled in a car accident. The payments are a major part of her income, and she has few other assets besides her home.

Now she has been approached by a smooth-talking salesman offering a lump sum to buy the remaining 20 years of payments. She is tempted by the deal, thinking she can use some of the money to make repairs to her home and help a young relative with tuition, while gradually drawing down the rest to live on. Problem is, she's not sophisticated about money, and as best I can tell, she's being offered less than 20% of what I calculate to be the present value of the total she would get over the next 20 years. Is this ethical? How can I protect her from a bad decision?

A There is nothing unethical about offering to buy your aunt's future income stream for a fair lump sum, but this deal sounds suspect. I'm concerned that the salesman is trying to buy all her future payments, with a risk that she will go through the funds too soon. Most structured-settlement sales involve the transfer of only a portion of future payments. Worse, a lump-sum offer of less than 20% of the present value is a bad deal. Discounting the value of two decades of future payments would set the present value at about 40% to 50% of the total of those payments. Various factors rightly reduce a fair offer below that level, but nowhere close to the stingy offer your aunt is considering.

Tell your aunt that she can sell just a portion of her future payments, giving her some liquidity now but leaving most of her guaranteed income intact. Insist that she consult an impartial attorney (recommended by someone other than the purchaser) and get a financial planner's opinion. Solicit competitive bids from two or three reputable buyers to negotiate a fair offer that delivers a higher portion of the present value. Most states require a judge to certify that agreements like this are in the best interest of the seller, but some judges approve appallingly bad contracts. Your aunt deserves better.

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

BECAUSE SOMEDAY
My money will work for me.
Alert:
Fidelity Meeting
Attachment:
Retirement Income Plan
Reminder:
Today
SAVE
Put some certainty in your retirement lifestyle with a guaranteed stream of income.
One simple investment gives you cash flow for as long as you want – or as long as you live.
Call to talk with a Fidelity representative about your retirement plan.
Every someday needs a plan℠
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Investing in a variable annuity involves risk of loss -- investment returns, contract value, and for variable income annuities, payment amount is not guaranteed and will fluctuate. A contract's financial guarantees are solely the responsibility of and are subject to the claims-paying ability of the issuing insurance company.
Before investing, consider the investment objectives, risks, charges, and expenses of the annuity and its investment options. Call or write to Fidelity or visit Fidelity.com for a free prospectus or, if available, summary prospectus containing this information. Read it carefully.
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Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.
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CALENDAR 11/2015

SUNDAY, NOVEMBER 1

November is National Career Development Month. If you've hit a professional dead end, consider hiring a career adviser. For more advice on kick-starting your work life, head to kiplinger.com/links/career.

▲ FRIDAY, NOVEMBER 6

Don't hibernate this winter. If you're thinking about moving or downsizing, you're more likely to sell your home within 180 days if you list it in winter than in any other season, according to data from online real estate brokerage Redfin.

SATURDAY, NOVEMBER 14

Make a budget for holiday spending, but don't stop at the gift list. Factor in everything from eggnog for your annual party to postage for Christmas cards. If you're worried about racking up a big credit card bill, consider setting aside some cash. (For cash budgeting tips, see "Lowdown," on page 71.)

TUESDAY, NOVEMBER 24

Swiped, a new book from Identity Theft 911 cofounder Adam Levin about preventing identity theft, hits bookshelves. For our guide on protecting your identity, go to kiplinger.com/links/idtheft.

SATURDAY, NOVEMBER 28

Size up your portfolio and consider jettisoning investments that have declined in value in taxable accounts. You can use the losses to offset capital gains and lower your tax bill before year-end. **RYAN ERMEY**

DEAL OF THE MONTH

Beauty goes on sale on Cyber Monday, November 30. Stila (www.stilacosmetics.com) will take at least 80% off more than 60 items. At e.l.f. (www.eyeslipsface.com), purchases of $30 or more will be half off.

ISTOCKPHOTO.COM (3)

He Turned Down Apple to Build an App

With his creation, you can get paid to cover breaking news with your smartphone.

PROFILE

WHO: John H. Meyer, 20

WHERE: New York City

WHAT: Founder and CEO of Fresco News Inc.

You started programming early? I was inspired in 2007 when Apple announced that it would provide a platform to develop apps for the iPhone. Anyone with an idea could build an app and put it in the hands of millions of people. I taught myself Objective-C, the language used by the iPhone, iPad and Mac. In 2010 I founded TapMedia LLC, and by the time I graduated from high school I had developed about 45 mobile apps.

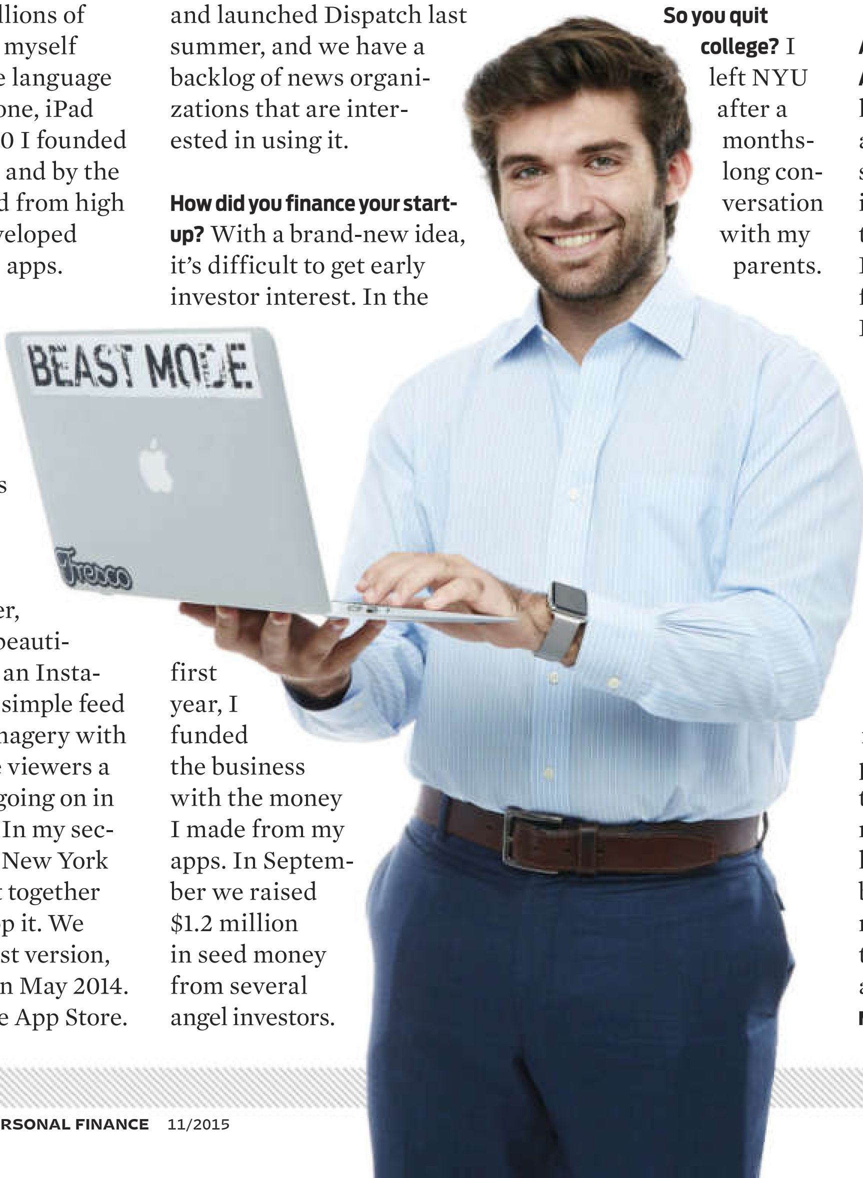
Where did you get the idea for Fresco? After attending the Apple Worldwide Developers Conference in June 2013, I wanted to do something bigger, innovative and beautiful. I thought of an Instagram of news, a simple feed of captivating imagery with captions, to give viewers a sense of what's going on in the world—fast. In my second semester at New York University, I put together a team to develop it. We launched the first version, for the iPhone, in May 2014. It's free from the App Store.

The idea has evolved? We've developed Fresco Dispatch, which lets any news organization send out requests for coverage to our mobile app users in an area. The media outlet can buy a user's photo for \$20 or video for \$70. The outlet gets verified, royalty-free content. The user gets a credit and about two-thirds of the fee. We get a credit, too, and the rest of the fee. We tested and launched Dispatch last summer, and we have a backlog of news organizations that are interested in using it.

How did you finance your start-up? With a brand-new idea, it's difficult to get early investor interest. In the first year, I funded the business with the money I made from my apps. In September we raised \$1.2 million in seed money from several angel investors.

You won a fellowship? This year I won a Thiel Fellowship [http://thielfellowship.org], which is a grant of \$100,000 to support yourself for two years while you focus on work, research or self-education outside of a university. It helps quite a bit. [You must be under age 23, without a college degree, and agree not to enroll during the program.]

So you quit college? I left NYU after a months-long conversation with my parents.



POON WATCHARA-AMPHAIWAN

It was initially very difficult for my mom, who is a professor at NYU. My dad was more understanding because he knows that I teach myself. I've learned more out of school than in school, through mentors, books and experience. For start-ups, you just can't learn a lot of what you need in school. If I ever go back, it will be for a handful of classes that would benefit me.

And you turned down a job at Apple? Yes, it's crazy. All my life, I dreamed of working at Apple. I would have started as an intern, and it would probably have turned into a full-time job. But when I received the offer, things were moving at Fresco. I was excited about controlling the company's mission and path. It was a no-brainer for me to say no so that I could build this company. It's what I love doing.

What are your company's prospects? We've grown from three employees to 23. With what we've lined up from all the organizations ready to use Dispatch, we can hit \$700,000 to \$1 million in gross revenues by year-end 2015, and half of that will most likely be pure profit. We would reinvest most of the money to take Dispatch national and international. **PATRICIA MERTZ ESSWEIN**

JANE BENNETT CLARK > Rethinking Retirement

At Home in a Village

“Neighborhood villages allow members to stay at home and have access to everything from pet walking and grocery runs to a list of vetted workers.”

Last winter, I shoveled my sidewalk about a gazillion times (slight exaggeration). At 63, I still had the strength and stamina to do it. Some 20 or 25 years hence, I probably won’t. Nor will I necessarily be able to drive or climb several flights of stairs with ease. Plus, at 85, I doubt I’ll be walking half a mile to the local pub to meet friends or a mile in the other direction to see a movie, as I do now.

One way to deal with the gradual loss of vitality and social activity is to move to a more age-friendly place—say, an apartment close to stores and public transportation, or to a retirement community that includes transportation, home maintenance, and organized gatherings and outings.

Another solution is to stay put but become a member of a neighborhood “village.” Based on a concept introduced by Beacon Hill Village, in Boston, these groups offer members access to everything from pet walking and movie clubs to grocery runs and a list of vetted workers, such as plumbers and handymen. Volunteers, often members themselves, provide some services—say, driving an older member to a doctor’s appointment. Providers who do charge typically offer a discount. Membership can run from less than \$100 a year for a single member to \$1,000 for a couple; the average annual fee is \$450 for an individual and \$600 for a household.

A growing network. About 160 villages—from Bend, Ore., to Albany, N.Y.—are up and running across the country, with another 160 or so in the works, says Natalie Galucia, of Village to Village Network, which helps communities establish their own villages. That’s up from only 50 in operation five years ago. Increased awareness of aging issues and word of mouth are helping propel the movement, she says. “Two people get to chatting, one mentions an organization that gets them a ride, the other says, ‘That’s a great idea.’ ”

Capitol Hill Village, which covers a three-square-mile area in Washington, D.C., is a thriving example of the village concept. Formed eight years ago, it now has about 400 members, more than half of whom also volunteer. The group arranges for educational programs and outings and lines up volunteers for services such as driving and home maintenance. “People want to live at home,” says executive director Molly Singer. “Helping them do that is our key mission.”

Setting up a village is easiest in an urban area like Capitol Hill, says Galucia. Still, rural communities can make the concept work. For instance, Monadnock at Home, a village that serves 10 small towns in a 400-square-mile area east of Mount Monadnock, in New Hampshire, generally rotates big social events from town to town and arranges for transportation for members in farther-out areas who want to attend, says executive director Cindy Bowen. Paid service providers agree to cover the whole area for a week at a time; the group also tries to have a core group of volunteers in each community.

The Washington, D.C., metro area has more than two dozen villages, including one in my hometown, Takoma Park, Md. Less than one year old, the Village of Takoma Park matches volunteers with members who need rides; offers a program to provide weekly visits with housebound members; and enlists students to shovel sidewalks for older residents. Membership is \$10 a year.

To see if a village serves your community or to find out how to start one in your neighborhood, contact Village to Village Network, at www.vtvnetwork.org. Getting help with chores can make the difference between continuing to live at home and having to leave it—and that’s the whole point of the village concept. ■

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

LISE METZGER

JAMES K. GLASSMAN > Opening Shot

Crazy Values, Good Stocks

"You risk passing up promising investments when you eliminate stocks because they seem expensive by many measures."

Even after the market's late-summer correction, many technology stocks are trading at astronomical valuations. Based on estimated year-ahead profits, the price-earnings ratio of Standard & Poor's 500-stock index is 16, which means that investors have to pay $16 to purchase $1 of the average firm's estimated profits. By contrast, the P/E for **AMAZON.COM (AMZN)** is 150; for **NETFLIX (NFLX)**, it's 241; for Salesforce.com (CRM), it's 82.

Does that mean you should shun such stocks, which seem obscenely overpriced? Emphatically not. Standard measures of valuing stocks simply do not apply to fast-growing companies, and you risk passing up promising investments when you eliminate stocks because they look to be statistically expensive.

FACEBOOK (FB) offers a good example. The stock went public in May 2012 at $38 per share. In 2013, Facebook earned 60 cents a share. Divide $38 by 60 cents, and you get a forward P/E at the time of the initial offering of 63. You might have passed up the shares as too rich, but they now trade at $88 and sell for 37 times estimated year-ahead earnings. (Prices and related data are as of September 3; stocks in boldface are those I recommend.)

Of course, I could have just as easily cherry-picked high P/E companies that have tumbled or even gone out of business. I chose Facebook not merely because it performed well but because there were ways you could have anticipated its rise—or at least understood that a high P/E was no reason to ignore the stock.

There are three indicators of an excellent stock that trump standard value measures. Let's take them in order of importance.

Powerfully rising revenues. Increasing sales—preferably at a double-digit percentage rate—are the most important sign of a company's health. A firm can manipulate earnings in the short term by, for example, shifting costs into the future, but it's difficult to distort sales. Again, look at Facebook. Revenues jumped 37% in 2012, then 55% the next year, 58% the next and, based on analyst estimates, they will rise another 38% in 2015, to $17.2 billion. No wonder the stock more than doubled.

Amazon is an even better example because its CEO, Jeff Bezos, doesn't appear to care about profits. He's spending a lot of money to build a giant company to dominate retailing and the cloud. What comforts investors is that Amazon's revenues have more than tripled in the past five years—even though the company barely makes a profit. The stock price has quadrupled. Ditto Netflix. Its earnings are anemic, but its revenues have, like Amazon's, roughly tripled in the past five years, while the stock has quintupled.

A great, innovative idea. I can ignore a high P/E if a company has a fabulous new idea for a business. That is certainly the case with Amazon, Facebook, Netflix and Zillow (Z), the online research hub for home buyers. Naturally, great ideas are in the eye of the beholder, and you are bound to make mistakes. My point is that a homebuilder or an oil company is never going to be worth a P/E of 50 or 100, no matter how well it is run. But a business that develops a miniature battery that can power a car for 200 miles certainly could be.

Fast-rising profits. Profits for fast growers are less important than revenues, but they still count. A rule of thumb is that, even if a company's P/E is above average for the market, a stock is reasonably priced, or even undervalued, if the P/E is lower than the company's expected earnings growth rate over the next three to five years. The P/E-to-growth-rate (or PEG) ratio measures this relationship. You'll rarely find a PEG ratio below 1.0 for companies that are growing superfast, such as Facebook,

LISE METZGER

"I can ignore a high P/E if a company has a fabulous new idea for a business. That is certainly the case with Amazon, Facebook and Netflix."

because their P/Es are so high. But a PEG ratio below, say, 1.5 indicates that a stock may be a bargain. Facebook's PEG is 1.5.

Beware, however, of the limitations of PEG ratios. Companies with turbocharged revenue growth, such as Amazon and Netflix, as well as Zillow and LinkedIn (LNKD), may have few or no profits today, so estimating what they will earn in three to five years is often a fool's errand. PEG ratios are also of limited value for cyclical companies, whose fortunes wax and wane with the overall health of the economy.

In determining whether to invest in a high-priced, fast-growing company, I also look at the balance sheet. Young, high-tech companies need, like sharks, to keep moving constantly. If they aren't investing to maintain rapid growth, competitors may eat them. Many companies with high P/Es have excellent balance sheets. Facebook has a mere $149 million in debt, with just $7 million in annual interest payments—a pittance for a company that is expected to earn more than $3 billion this year. Facebook's cash hoard is $14 billion. LinkedIn has $1.1 billion in debt and is expected to lose nearly $200 million this year, but it's also sitting on $3 billion in cash.

Also remember that rapid growth does not last forever. Even the best companies transition to a more stately stage that demands lower prices. According to the *Value Line Investment Survey*, **GOOGLE (GOOGL)** generated annualized earnings growth of 47% over the past 10 years. But analysts on average expect growth of just 17.5% a year over the next few years. Any earnings growth rate over 10% is impressive, and Google's forward P/E, at 21, seems fair, or even a bit low. (For more on Google, see "Three Great Future Dividend Payers," on page 55.)

Also, I feel more comfortable with high-valuation tech stocks than non-tech companies. Because the Internet is global and distribution is so inexpensive, a tech company can expand to billions of customers. Not so a hamburger chain such as Shake Shack (SHAK), which has a P/E of 178, or an automobile manufacturer—even an innovative one, such as Tesla Motors (TSLA), which sells for 356 times estimated earnings.

Vulnerable in downturns. Finally, remember that when the market turns down, stocks with high valuations get clobbered. For example, during the 2007–09 bear market, shares of Amazon plunged from $101 to $35, a drop of 65%. This year, when the S&P 500 dropped 11% between August 17 and August 25, many high P/E stocks lost more. Netflix, for instance, tumbled 23%, and **TWITTER (TWTR)** surrendered 16%.

The best time to buy a fast-growing tech stock (or any stock, for that matter) is when the market hates it. That's certainly the case with Twitter, which is so unloved that it's my favorite high-growth company. Twitter has never made a profit (based on generally accepted accounting principles), but its revenues have risen from $317 million in 2012, the year before it went public, to a projected $2.2 billion in 2015 and $3.2 billion next year. Twitter's balance sheet is not the best, but it does feature $3.6 billion in cash, compared with $1.6 billion in debt.

Also look at Twitter's market value. At $19 billion, it's about 8% the size of Facebook's. And Twitter has a great idea (short messages disseminated immediately and globally); it just doesn't have a great business. At least not yet. But profits are a lot easier to come by when your revenues are growing by 50% a year. ■

Five Highfliers

WHEN GROWTH TRUMPS INFLATED P/Es

With the exception of Twitter, these popular technology stocks have delivered stellar long-term returns, despite high price-earnings ratios. But the lofty valuations leave the stocks particularly vulnerable to market corrections and company-specific disappointments.

Company	Symbol	Recent price	Market value (billions)	Price-earnings ratio*	2016 revenue growth†	2016 earnings growth†
Amazon.com	AMZN	$505	$236.1	150	19.4%	207.5%
Facebook	FB	88	248.4	37	35.3	32.9
Google	GOOGL	637	436.7	21	15.1	16.9
Netflix	NFLX	101	43.1	241	26.5	36.4
Twitter	TWTR	28	19.1	67	44.3	85.3

Data through September 3. *Based on estimated earnings for the next four quarters. †Estimate.
SOURCES: Thomson Reuters, Yahoo.

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

GET THE MOST OUT OF MEDICARE

BY KIMBERLY LANKFORD

KNOW WHEN TO SIGN UP

FILL in the GAPS

$AVE ON DRUGS

Track your claims

DON'T PAY MORE THAN YOU HAVE TO

APPEAL a DENIAL

AVOID the PITFALLS

Retirees count on Medicare to cover the bulk of their medical expenses, but the rules are complicated and it's easy to make costly mistakes if you don't know how the system works. Sign up too late and you could face a gap in coverage, or wind up paying a penalty on top of your regular premium for the rest of your life. Fail to understand what's covered—and where to get help if coverage is denied—and you risk missing out on valuable benefits. // This comprehensive guide to Medicare will help you navigate the system, avoid problems and make sure you're getting all the benefits you deserve. We also explain the best ways to fill Medicare's considerable gaps.

USE TAX-FREE MONEY

ILLUSTRATIONS BY RYAN FEERER

KNOW WHEN TO SIGN UP

THE FEDERAL GOVERNMENT SENDS "WELCOME TO Medicare" packets only to people who are already receiving Social Security benefits. If you're not among them, you're on your own in deciding how and when to sign up. And the stakes are high: Big coverage gaps and potential lifetime penalties could result from missing key deadlines.

You're eligible for Medicare at age 65, even though the age for full Social Security benefits is now 66 and rising. If you have been receiving early Social Security benefits, then you're automatically enrolled in Medicare when you turn 65 and will receive your Medicare card three months before your birthday. Otherwise, you'll have to enroll in Medicare yourself.

At this point, you'll need to decide whether to sign up for one or both parts of Medicare. Medicare Part A covers hospitalization and is premium-free if you or your spouse paid Medicare taxes for at least 10 years. Part B covers outpatient care, such as doctors' visits, x-rays and tests, and costs most people $104.90 per month in 2015. (High-income earners pay a surcharge; see "Don't Pay More Than You Have To," on page 33.)

If neither you nor your spouse has health insurance through a current employer, then sign up for both Medicare Part A and Part B. The word *current* is key. You'll also need to sign up for Medicare if you left your job and continued your employer's coverage through COBRA, the federal law that lets former employees keep group coverage for up to 18 months.

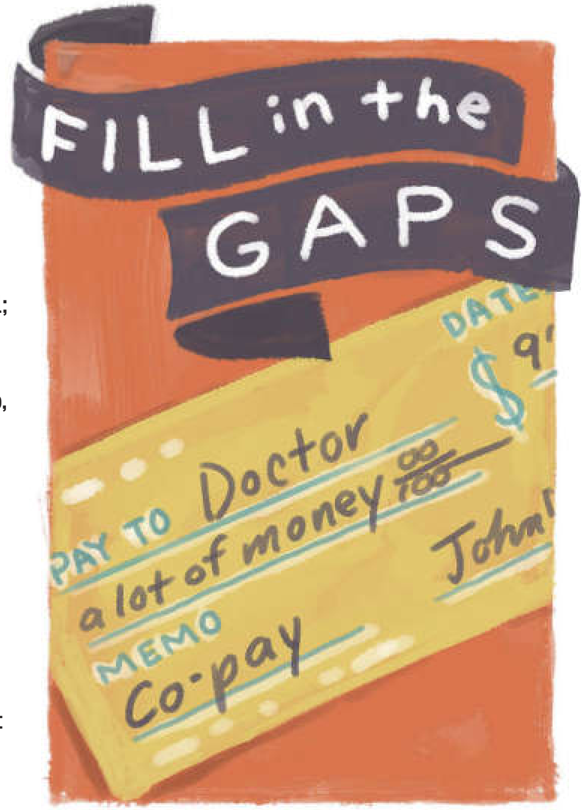
You can sign up without penalty at any time from three months before until three months after your 65th birthday. Go to www.socialsecurity.gov to enroll in Medicare, even if you aren't signing up for Social Security yet. If you miss the deadline, you'll be able to get Part B coverage only at limited times (January through March, with coverage starting July 1), and you may have to pay a lifetime late-enrollment penalty of 10% over your regular Part B premium for every year you delayed enrolling in Part B. See www.medicare.gov for details.

You'll also generally have to sign up for Medicare if you are retired and receiving retiree health benefits. Your retiree coverage can fill in gaps in Medicare, but your Medicare policy must pay first if you're 65 or older. (Federal retiree coverage is an exception; it will remain your primary coverage if you don't sign up for Medicare. But you will pay a penalty if you decide to sign up for Medicare Part B later.)

Coordinate with work coverage. For people who are still working for companies with fewer than 20 employees, employee coverage generally becomes secondary to Medicare at age 65, and you should sign up for parts A and B. Some employers negotiate with insurers to keep their coverage primary for employees who are 65 and older. Ask your employer (and get it in writing) before delaying Medicare.

If you or your spouse has coverage through a current employer with 20 or more employees, then you don't have to sign up for Medicare while you're still working. Because Part A is generally premium-free, however, you have no reason not to enroll at age 65 (unless you want to contribute to a health savings account; see "Use Tax-Free Money," on page 30). If you're happy with your employee coverage and don't want to get Part B but are receiving Social Security benefits and automatically received a Medicare card, you can send it back and ask for it to be reissued just for Part A. (You can't delay signing up for Part A if you are already on Social Security.)

When you do retire, you must sign up for Medicare Part B within eight months of leaving your job. You won't be able to sign up online because you'll need to provide evidence that you've had coverage through work since age 65. Visit your local Social Security office or call 800-772-1213.



MEDICARE COVERS THE bulk of your medical expenses, but you must pay deductibles and co-payments for hospital stays and doctors' services; fees for doctors who charge more than Medicare pays; the cost of prescription drugs and other expenses, including dental; and care in a foreign country.

You can add coverage with both a supplemental, or medigap, policy and a Part D prescription-drug policy, or with a Medicare Advantage plan (see below). In most cases, medigap policies only fill holes in the coverage Medicare already offers; Medicare Advantage may offer extra services, such as vision or dental care. Most people choose the medigap/Part D route. With that combination, you'll typically pay higher total premiums than with Medicare Advantage but have fewer out-of-pocket costs, and you can go to any doctor or facility that is covered by Medicare. You'll also have to pick up separate dental coverage (see "Pay Dental Bills With Less Pain," on page 39).

Medigap policies are sold by private insurers and come in 10 standardized versions. The most popular is Plan F, for its good balance of coverage and cost. (For details, see "Choosing a Medigap Policy," at www.medicare.gov.)

Every medigap plan with the same letter must provide the same coverage, but the price can vary enormously by insurer—for example, from $1,529 to $3,667 per year for a 65-year-old Colorado man who buys a Plan F policy, according to Weiss Ratings. Look at the plans with the lowest premiums.

If you're healthy, consider going with a high-deductible version of Plan F (the only plan that offers this option). You'll pay $2,180 of Medicare-covered costs before the medigap plan pays anything, but premiums are lower, ranging from $348 to $1,075 per year for the 65-year-old man described above, according to Weiss. Another lower-cost option is Plan N, which provides coverage similar to that of Plan F but with a few more out-of-pocket expenses, including a $20 co-pay for each doctor visit and $50 for each emergency-room visit. For Plan N, the 65-year-old man would pay from $1,081 to $2,419 per year.

You can compare prices by using the Medigap Search tool at www.medicare.gov or at most state insurance department sites (get links at www.naic.org). Or, for $99, you can get a personalized report from Weiss Medigap (Kiplinger readers have access to a 30-day offer of $49, ending October 26, at https://weissmedigap.com/kiplinger).

Choose your medigap policy carefully. In most states, insurers can reject you or charge more because of your health if more than six months has passed since you signed up for Part B.

You'll also need to get a Part D drug policy, which costs $33 a month, on average (see "Save on Drugs," on page 30).

Medicare Advantage. These plans provide both medical and drug coverage through a private insurer. They tend to have lower premiums than medigap/Part D but also higher co-pays and more restrictions. The average cost is $38 per month above the cost of Part B, although some plans charge no premium beyond that of Part B.

As for coverage, the plan can't offer less than would be available through Medicare. You'll be restricted to a network of doctors and facilities and may have much higher costs (or no coverage at all) if you go out of network. You may also need a referral to see a specialist.

Look for plans that include your key doctors in the network, and compare the out-of-pocket costs for your usual medical care and prescription drugs (for cost estimates, go to www.medicare.gov/find-a-plan and click on "Medicare health plans"). Also look at star ratings, which rank plans according to customer service (five is the highest rating). For best values based on typical costs for people in good, fair and poor health, go to www.medicarenewswatch.com.

You can switch Medicare Advantage policies during open enrollment (October 15 to December 7, 2015, for 2016) or anytime for a five-star policy.

WITH RARE EXCEPTIONS, Medicare doesn't cover prescription drugs at all unless you're in the hospital. There are two ways to fill the gap if you don't have retiree health insurance. You can either get a Medicare Part D prescription-drug plan (paired with a medigap plan for your other out-of-pocket costs) or buy a Medicare Advantage plan that includes both medical and drug coverage. Either way, you need to follow a similar process when shopping.

Don't just look at premiums when comparing plans. Find out whether your drugs are covered on the plan's formulary (its list of covered drugs) and *how* the drugs are covered. Some plans have you pay 40% to 50% of the cost of certain brand-name drugs, which could be hundreds of dollars, even if your drugs are covered.

It's easy to compare all of the Part D and Medicare Advantage plans available in your area at www.medicare.gov/find-a-plan. Type in your drugs and dosages; the tool estimates your total costs over the year. Reshop every year during open enrollment because coverage, costs and your drugs can change.

The tool also shows when you're likely to hit the coverage gap known as the doughnut hole. For 2015, your Part D plan provides coverage until your drug expenses reach $2,960 (including both your share and the insurer's share of the costs). You then have to pay 45% of the cost of brand-name drugs and 65% of the cost of generics yourself. When your own out-of-pocket costs (as opposed to total costs) reach $4,700, your plan kicks back in, paying 95% of your covered drug costs.

To save money and possibly avoid the doughnut hole, shop at preferred pharmacies, which your plan will list in its enrollment materials. "Almost all of the prescription-drug plans now have a preferred pharmacy network," says John Lee, senior director of Medicare Part D for Walgreens. Your co-pay may be $1 for certain generics at a preferred pharmacy instead of $10 at other pharmacies, or 35% of the cost instead of 50% for certain brand-name drugs. A preferred mail-order pharmacy may cost even less.

Generic drugs can cost up to 85% less than brand-name versions. If the generic version isn't an option, your doctor may be able to switch to another drug that costs less under your plan.

USE TAX-FREE MONEY

A HEALTH SAVINGS ACCOUNT CAN BE A GREAT SOURCE of tax-free money for medical expenses and some premiums, even after you're on Medicare.

You can use HSA money for out-of-pocket costs, such as co-payments and deductibles for medical care and prescription drugs; vision and dental care; and a portion of qualified long-term-care premiums. You can even use HSA money to pay premiums for Medicare Part B, Part D prescription-drug coverage and Medicare Advantage plans (but not medigap premiums). If your Medicare premiums are automatically deducted from your Social Security benefits, you can reimburse yourself for those expenses with money from your HSA. For a list of eligible expenses, see IRS Publication 502, *Medical and Dental Expenses,* at www.irs.gov.

Keep your HSA in mind when making Medicare sign-up decisions. You can continue making pretax HSA contributions even after age 65 if you're still working and decide to delay taking Medicare. To qualify, you must have a high-deductible health insurance policy ($1,300 for individual coverage or $2,600 for family coverage in 2015) and must not have signed up for either Medicare Part A or Part B. Some people who are still working delay signing up for Medicare (even premium-free Part A) so they can make HSA contributions, especially if their boss kicks in some money to their account. When you sign up for Medicare after leaving your job, you must stop making HSA contributions.

AVOID the PITFALLS

MEDICARE HAS STRICT REQUIREMENTS FOR CERTAIN kinds of care, which can lead to claims problems.

One of the biggies is getting coverage for skilled nursing or skilled rehab care. Medicare covers up to 100 days in a skilled nursing facility if you need skilled nursing care seven days a week or skilled rehabilitation services at least five days a week. But to qualify, you must have been an inpatient in a hospital for at least three days. If the hospital classified you as "under observation" rather than as "admitted"—even if you were in the hospital for several days—you won't meet the standard. (You may not know you weren't admitted until you get the bills.)

To avoid being blindsided, ask the hospital how your stay is categorized while you're still in the hospital. If your status is "under observation," work with your doctor to try to get it switched while you're still there. Some hospitals will resist doing it, perhaps to keep admission days down. Still, they might revise your status if your doctor provides new information.

Kathleen Hogue, a medical claims specialist in Twinsburg, Ohio, knew what questions to ask when the rescue squad took her aunt to the hospital after she fell and injured her neck. At first, the hospital said her aunt was under observation, but after an MRI showed a fracture in her aunt's neck, Hogue worked with the hospital to change her aunt's status to admitted.

The observation designation can also cause confusion with drug coverage. Drugs in the hospital aren't covered under Medicare Part A if you're under observation, but they may be covered by Part D if you submit the paperwork.

Coverage restrictions. Certain services are covered by Medicare only in limited circumstances. For example, chiropractic services are covered if medically necessary to correct a subluxation (when the bones of your spine move out of position). "Make sure the service you're getting is covered by Medicare for the reason you're getting it," says Margaret Murphy, of the Center for Medicare Advocacy. If not, you may have to eat the whole cost (remember, medigap supplements only what Medicare already covers). Use the tool titled "Is my test, item or service covered?" on the home page of www.medicare.gov.

Medicare Advantage plans have restrictions similar to those of managed-care plans for people younger than 65. "Understand the rules of the plan if you need referrals or to see someone out of network," says Casey Schwarz, of the Medicare Rights Center. You may get permission to go to an out-of-network provider if you can prove that the special care is necessary. Patty Shaffer, of Florida SHINE (the State Health Insurance Assistance Program), recently helped the family of a Florida man with cancer who needed emergency treatment while visiting his daughter in New York. The insurer wanted him to return to Florida but changed its decision after Shaffer worked with the man's doctor and the hospital.

Prescription-drug glitches. Part D insurers may require your doctor to fill out a preauthorization form explaining why you need a specific drug, or they may cover a particular drug only after you've tried a list of less-expensive medications. Such steps take time, so don't delay getting your prescriptions filled, says Denise Sikora, president of DL Health Claim Solutions, in Woodbridge, N.J.

For more help, contact your State Health Insurance Assistance Program (call 800-633-4227 or visit www.shiptacenter.org), or call the Medicare Rights Center (800-333-4114).

MEDICARE MAKES THE FIRST STEP in the claims process easy: Providers usually submit the claims to Medicare, so you don't have to do it yourself. But it can be complicated to keep track of the paperwork and to make sure you don't pay more than you owe when you're coordinating several types of coverage.

If you're in traditional Medicare, you'll get statements from Medicare and your medigap or retiree health insurer. Keep the statements in a file and organize them by the date of the procedure, but don't pay anything until you get an explanation of benefits, says Sikora. Medicare's EOB (called a "summary notice") shows the services providers billed to Medicare over the past three months, what Medicare paid and the amount you owe the provider. "Once you get a bill, pull out the file and look at the EOB," says Sikora. Match this notice with any bills you receive to make sure that claims for all services have been processed.

If Medicare approves a payment, then medigap should kick in to pay remaining charges (retiree health plans can have different coverage rules; check your plan). Medicare usually sends the claim to your medigap or retiree insurance company directly, but first you have to alert Medicare that you have additional coverage; otherwise, you may get the bill yourself. To get Medicare in the loop, fill out a form when you first sign up for Medicare. You can update the list at www.mymedicare.gov.

Also pay attention to any "advance beneficiary notice of noncoverage" a provider asks you to sign. This document warns that coverage will likely be denied. It's possible that the service isn't covered, but the warning may be the result of a coding mistake. For instance, a diagnostic test (which is covered) might have been coded as a screening (which isn't covered). Ask questions and identify coding issues up front.

The paperwork is less complicated if you have a Medicare Advantage plan

APPEAL a DENIAL

IF YOUR CLAIM IS DENIED, FIRST TALK WITH THE DOCTOR (or hospital) and Medicare to see if you can identify the problem and get the claim resubmitted. "When Medicare rejects a bill, it's often because it wasn't billed properly," says Murphy, of the Center for Medicare Advocacy. "Call the doctor's office and ask why it was rejected." The office may just need to coordinate Medicare with your medigap policy or fix a coding mistake.

If that doesn't work, look on the back of the Medicare summary notice to find out how and when to appeal the denial. Traditional Medicare has several levels of appeal, each with a time line—and those time lines are rigid, says Sikora.

You have 120 days after receiving the Medicare summary notice to request a "redetermination" by a Medicare claims reviewer. Circle the item you're disputing on the summary notice, then send any supporting information, such a letter from the doctor explaining why the charge should be covered. The claims reviewer will usually make the decision within 60 days of receiving your request.

If that appeal is denied, you have 180 days in which to request reconsideration from a different claims reviewer and submit additional evidence. Reconsideration is usually completed within 60 days. Failing a decision in your favor, for a charge of $150 or more, you have 60 days to request a hearing with an administrative law judge. For amounts of $1,460 or more, the final level of appeal is judicial review in U.S. District Court.

At each level, focus your appeal on the reason the claim was denied. To strengthen your case, keep records of your interactions with Medicare and the doctor or hospital involved. "You need to document every phone call or conversation—the name, because you aren't coordinating several policies. But you may have issues if you go out of network or fail to get preauthorization for a procedure. Know the rules for your coverage, and keep notes of authorization, specialist referrals and other relevant information.

If you're overwhelmed by the claims process, hire a claims specialist by the hour or project to help with the paperwork, fix coding or other errors, and file appeals. To find one, go to www.claims.org. You can also get help—say, with a bill you think should be covered—from your local State Health Insurance Assistance Program. "SHIP counselors are given the direct line to the specialists at Medicare, and we're able to handle issues over the phone so a problem doesn't have to go to appeal," says Shaffer, of Florida SHINE. (You can find a local SHIP counselor at www.shiptacenter.org or by calling 800-633-4227.)

DON'T PAY MORE THAN YOU HAVE TO

FOR MOST PEOPLE, the Medicare Part B premium is $104.90 per month in 2015. But your monthly bill could be between $146.90 and $335.70 per person if your adjusted gross income (plus tax-exempt interest) is higher than $85,000 if you're single or $170,000 if you're married filing jointly. Cross that threshold and you'll also have to pay an extra $12.30 to $70.80 each month, based on the size of your income, for Part D prescription-drug coverage.

The Social Security Administration uses your most recent tax return on file to determine whether you're subject to the surcharge (generally, 2013 tax returns were used to set 2015 premiums). But you may be able to get the surcharge reduced if your income has since dropped because of certain life-changing events, such as marriage, divorce or death of a spouse, or if you retired.

In that case, ask Social Security to use your more recent income instead. Submit your tax return for the year (or estimate the income if you haven't filed yet) and provide evidence of the qualified change, such as a marriage or death certificate, a signed statement of retirement from your employer, or pay stubs showing your reduced income.

date, time, what you are talking about," says Diane Omdahl, president of 65 Incorporated, which helps people navigate Medicare. She took an appeal for her father's skilled nursing care up to an administrative law judge and won.

You have 60 days to initiate an appeal involving a Medicare Advantage or Part D prescription-drug plan. In both cases, you must start by appealing to the private insurance plan rather than to Medicare. Follow the plan's instructions on its explanation of benefits. Part D has a 72-hour fast-track appeal process if your health would be jeopardized by waiting for the prescription. Otherwise, the plan must make its decision within seven days.

For more information about each type of appeal, see "How Do I File an Appeal?" in the "Claims & Appeals" section of www.medicare.gov. Your local State Health Insurance Assistance Program can help (go to www.shiptacenter.org, or call 800-633-4227 for contacts). Or call the help line at the Medicare Rights Center at 800-333-4114. ■

COACHING HAS HELPED DEBBIE DALTON (RIGHT), HER DAUGHTER, JACKIE, AND HER MOTHER, CHRISTY HOLMES, COALESCE AROUND THE VALUES THEY WANT TO SHAPE THEIR LEGACY.

WEALTH MANAGEMENT»

Preserve the Family Money

Use these five strategies to keep your heirs from blowing their inheritance. BY ANNE KATES SMITH

FROM SHIRTSLEEVES TO SHIRTSLEEVES in three generations, goes the early 20th-century American proverb. Then there's the 19th-century British version: Clogs to clogs in three generations. And from Italy, date uncertain: From the stable to the stars and back again. You'll find similar sentiments in almost every language, all expressing the same thought: It's nearly impossible to pass on family wealth and have it last beyond your grandkids.

Statistics back up the folklore. Studies have found that 70% of the time, family assets are lost from one generation to the next, and assets are gone 90% of the time by the third generation.

That's because a crucial element of successful inheritances is often neglected. Traditionally, the focus has been on the givers of wealth, but it should rather be on the receivers. Investing assets wisely and crafting a good estate plan are crucial to success, but so is preparing the heirs. "Estate planning is a process to transfer wealth, but it doesn't help the family develop an infrastructure to sustain it, or keep the family unified from one generation to the next," says Debbie Dalton, a Bay Village, Ohio, resident, whose family is learning how to successfully steward the wealth that her father, a chemical engineer, amassed as founder of cryogenic equipment maker Chart Industries.

Preparing the next generation has a lot to do with financial literacy. But it has just as much (if not more) to do with passing down and putting into practice values that will sustain your family as well as your fortune. In other words, a successful inheritance is as much about parenting as it is about money management, and that goes as much for multimillionaires as for mom-and-pop investors with a six-figure portfolio to pass along.

INHERITANCES GONE WRONG

It's counterintuitive to think about the downside of inherited wealth, and it may be off-putting for families of modest means. But giving money to kids can be fraught with danger, says Brad Klontz, a psychologist and certified financial planner. First-generation wealth creators, often coming from poverty or a middle-class background, have worked hard, made mistakes, picked themselves up and persevered. Along the way, they've become self-disciplined, resourceful and resilient.

$1.1 MILLION
Average inheritance for the wealthiest 5% of households. Next 45%: $183,000. Bottom half: $68,000.

"You assume that those values will trickle down automatically," says Klontz. "But your children are having a vastly different experience of the world than you had." Parents who strive to give their kids what they themselves never had (which is what many worked so hard for, after all) can wind up fostering financial dependence, and raising kids who lack drive, creativity or passion, Klontz says.

In the book *Inherited Wealth,* John Levy lists a number of challenges that accompany a family windfall, observed over many years of consulting with families on inheritance issues. According to Levy, inheritors can lack self-esteem if they suspect that their success stems from their wealth instead of their efforts. Or, feeling guilty, they find it hard to accept good fortune that they didn't earn. Their emotional development can be delayed if they never face important life challenges. Boredom can be a problem, and because of the boredom, inheritors are at risk for substance abuse or other self-destructive behaviors. Finally, heirs can be stymied by too many options or paralyzed by a fear of losing their wealth.

Little wonder that rich people from Warren Buffett to Sting have vowed to "spare" their children from inheriting fortunes, choosing instead to give most of theirs away or spend it. Buffett has said the ideal inheritance for kids is "enough money so that they would feel they could do anything, but not so much that they could do nothing." Sting told Britain's *Daily Mail* last year, "I certainly don't want to leave them trust funds that are albatrosses round their necks."

But that attitude is rare among wealthy parents, says Rod Zeeb, CEO of the Heritage Institute, which trains advisers and works with families to prepare younger generations for their inheritances. "When it comes down to it, most parents don't want to disinherit their kids," he says. What they'd prefer is a game plan that will not only keep the family assets intact but also keep the kids

JAMES FOSTER

grounded, healthy and productive.

Richard Hansen had a plan from the get-go. The retired Navy man, who lives most of the time in Virginia Beach, Va., has done very well as a military contractor for several government agencies, including the departments of State and Homeland Security. "I come from a working-class family," he says. "I always intended that if I made something of myself, I'd give back and make sure my children and grandchildren did, too. They were not going to be that second- and third-generation family that didn't understand where they came from."

Hansen's four adult kids all have jobs, and they are not wealthy—but they will be when they inherit. In preparation for that day, they've taken an active role in the family foundation, learning to invest money and to give it away wisely. Family members, including an 11-year-old granddaughter, support causes ranging from ending homelessness to animal rights to the arts. Each of them knows what's involved in making the money to give away, how to pitch a project to a board of directors and how to analyze costs, set priorities and evaluate outcomes. "Each of my children can stand on his or her own anywhere in the business world," says Hansen. "That's the greatest thing I've been able to do for them—that, and making sure that they're not rotten, spoiled brats."

A FIVE-POINT PLAN

A growing number of families are turning to advisers and specialized programs to help prepare the next generation for the riches they will inherit, in a way that goes beyond the benchmarks of money managers and the legalese of estate lawyers. Here's some of what those advisers recommend.

Get over the money taboo. Family finances are often an unpopular topic of discussion, especially if parents are worried that family wealth might spoil their kids. "It becomes a big elephant in the room," says Daisy Medici, managing director of governance and education at GenSpring Family Offices, a unit of SunTrust Banks. "The kids are surrounded by wealth and the opportunities that it brings, but the family doesn't talk about it," she says. Young people with no preparation who suddenly come into a trust fund because they've turned 21—or, heaven forbid, the parents die in an accident—can be completely derailed, the same way lottery winners often are.

The same goes for spouses. "My father retired and a couple of years later was diagnosed with lung cancer. He died within six weeks," says Dalton. The tragedy was compounded by the fact that Dalton's mother was unprepared to take the financial reins, having been shielded from much of that responsibility during her marriage. "I was really angry at my dad for that. It was well intentioned, but my mother was paralyzed," says Dalton. It didn't help that the transition took place in 2008, as the family's investments were being pummeled by a bear market. The family assets survived the bear market, and Heritage Institute coaching has since helped Dalton's mom develop her own voice and leadership style. Coaching has also helped the family to coalesce around the Christian values they want to shape their legacy, says Dalton.

Sometimes parents are silent because they're not sure their money will outlast the health challenges of old age or mercurial financial markets. Whatever the reason for the lack of communication, heirs who are ill-prepared are left to wonder why their parents thought they were incapable of handling the information or couldn't be trusted with it. Better to be up front about the wealth you have and your plans for it. And don't forget about how it came to be in the first

Estate Planning

The Power of a Trust

AS A PARENT, YOUR VISION OF HOW YOUR LEGACY IS PASSED ON TO THE NEXT generation and beyond probably doesn't linger on legal vehicles. But such structures are key to achieving your goals.

When it comes to distributing assets, many families turn to trusts. Trusts come in more flavors than Baskin-Robbins ice cream. Depending on the arrangement, they can minimize estate taxes, protect your estate from the mistakes of your heirs or maintain privacy by avoiding probate. The cost to set one up typically ranges from $3,000 to $10,000; it can be more, however, depending on complexity, with additional costs for individual tweaks and maybe 1% of assets to administer it.

A **REVOCABLE** or **LIVING TRUST** lets you keep control of your assets while you're alive. Although assets usually pass directly to your heirs, bypassing probate, a revocable trust won't spare you from estate taxes. If that's your main goal, then an **IRREVOCABLE TRUST**, which effectively removes trust assets from your estate, is the way to go. A **LIFETIME ASSET PROTECTION TRUST** might be in order if you have concerns about the ability of your heirs to preserve your estate. Beneficiaries are protected against creditors, bankruptcy—even future ex-spouses—because assets belong to the trust, not the beneficiary.

Whichever trust you choose, consider inserting a personal message to your heirs to breathe life into an otherwise sterile document. You might include the stories behind family heirlooms, for instance. Or, instead of imposing edicts and tying distributions to certain achievements, express why you value education or entrepreneurship. "This is the last message we get to leave," says John Warnick, of the Purposeful Planning Institute. "When it comes in a positive and warm way, it has a tremendous impact."

place, especially if the wealth was created several generations ago.

Embark on a mission. Make sure your legacy is about more than money. Many families find a mission statement helpful. After meeting with a family, wealth transition coaches at the Williams Group, in San Clemente, Calif., will have family members write on an easel the values they want to emphasize in their lives—say, education, philanthropy or self-sufficiency. "It takes half a day, and the paper is several feet long," says founder Roy Williams. "Most of them frame it and hang it in their family offices." In light of those core values, the family identifies the long-term purpose of their wealth in a mission statement.

50%
How much of an inheritance the average American saves.

Williams considers crafting the mission statement a crucial exercise. His study of 3,250 families found that a breakdown in trust and communication is behind 60% of failed inheritances. Involving the whole family in determining common objectives and deciding how they'll be accomplished avoids the trap of Mom or Dad dictating the future to their children. It can also smooth tensions between family factions—between those running the family business, for example, and those not involved.

Raise money smart kids. From an early age, children should be taught budgeting and delayed gratification, even if you can afford to give your kids everything they want and more. It doesn't matter if the monthly budget is $3,000 or $30,000, "there's no amount of money that can't be spent through," Medici reminds her clients. When kids are little, get them a piggy bank with three slots or three separate piggy banks—one for spending, one for saving and one for giving. Remind grandparents who are fond of cash gifts to make them in multiples of three.

Let older kids budget an allowance to cover their expenses. Figure the monthly average spent on a teen's car insurance, cell phone and so on, and then give the young adult an allowance to pay those bills. The tough part is letting the phone get shut off or taking back the car if the bills are not paid. "It all goes back to the law of consequences," says Zeeb. "Without a budget, kids never learn to prioritize or make decisions."

Provide financial training wheels. Don't make the mistake of delaying all access to the family fortune in order to preserve it. Brian Matter, a certified financial planner at Creative Capital Management, in San Diego, encourages clients to seed an investment account when children are in their late teens. Allow the child to make investment decisions, and agree to match a percentage of the returns earned over a specific time period. The child can withdraw money from the account, but the parent can't add to the principal. This teaches the child about investing and spending, and it illustrates the power of compound growth as well as the opportunity cost of robbing a nest egg. "We had one client try this, and the child decided to withdraw all the money within the first six months for a lavish trip to Paris. The parents changed their estate plan as a result," says Matter.

$30 TRILLION
Amount expected to pass from baby boomers to heirs over the next 30 to 40 years.

The Dalton kids and their cousin share responsibility with their parents for the management of a family lake house in upstate New York, owned jointly and organized under the legal structure of a limited liability corporation. Debbie Dalton says she expects that the kids will soon take an active role in directing some of the family's charitable giving, as well. Such experiences boost the odds that when it's the next generation's turn to manage the family business or an investment portfolio, "they'll have the skills, knowledge and insight to be effective," says Jeff Ladouceur, a director at SEI Private Wealth Management.

Assemble a good team. In addition to a cadre of advisers that includes investment managers, tax preparers, estate planners and trust lawyers, bring in mentors for the next generation—especially for teens and young adults, who might not always see Mom and Dad as the font of all wisdom. Enlist qualified associates, such as financial advisers, board directors you may know and other successful businesspeople. "The smartest thing I did was bring in outside expertise at the highest level," says Hansen, the contractor, of the board members he has enlisted for his foundation. "Several of them have managed millions—billions—of dollars. The value they add is incredible."

A de facto advisory board comes in handy when your kids' friends and classmates start to hit them up for contributions to investment schemes or business start-ups—the surest way, other than overspending, for young adults to fritter away an inheritance, says Zeeb. "They want to help their friends by nature, but the best way is to defer. If the committee says yes, the kid's a hero; if it says no, it's not his fault."

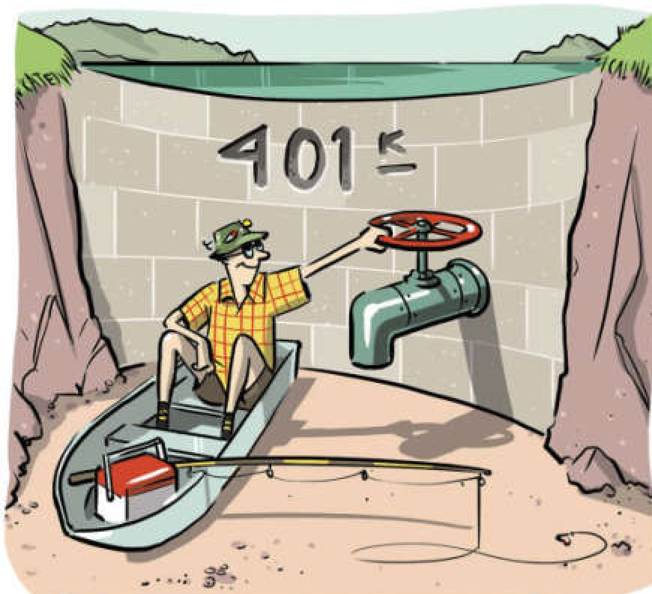
In the end, you'll have the best shot at preserving both your wealth and your family with a multigenerational effort that begins when your kids are born, not when you die. Dalton, for one, is pleased with the path her family is now on, and she urges others to get started. "Unlike investing, where timing can be critical, there's no bad time to invest in your family's legacy. You should start now." ■

“Can I take regular withdrawals from my 401(k) plan when I retire?”

IT DEPENDS ON THE RULES for your employer’s plan. Two-thirds of large 401(k) plans allow retired participants to withdraw money in regularly scheduled installments—say, monthly or quarterly. About the same percentage of large plans allow retirees to take partial withdrawals whenever they want, according to the Plan Sponsor Council of America (PSCA), a trade association for employer-sponsored retirement plans.

Other plans offer just two options: Leave the money in the plan without regular withdrawals, or take the entire amount in a lump sum. (Check your 401(k)’s summary plan description, which lays out the rules, or call your company’s human resources office.) If those are your only choices, your best course is to roll your 401(k) into an IRA. That way, you won’t have to pay taxes on the money until you start taking withdrawals, and you can take money out whenever you need it or set up a regular schedule.

If your company’s 401(k) allows periodic withdrawals, ask about transaction fees, particularly if you plan to withdraw money frequently. About one-third of all 401(k) plans charge retired participants a transaction fee, averaging $52 per withdrawal, according to the PSCA.



DAVE URBAN

Benefits of staying put. Leaving money in your 401(k) plan after you retire can have significant benefits. Large plans often have access to institutional-class shares of mutual funds, which typically charge lower fees than the retail versions. In 2014, the average expense ratio for a stock fund in a 401(k) plan was 0.54%, compared with an average of 1.33% for all stock funds, according to the Investment Company Institute. Participants in the Thrift Savings Plan, the retirement-savings plan for federal government employees, have an especially powerful incentive to stay put, says Drew Weckbach, a certified financial planner with Scaling Independence, in St. Louis. The average expense ratio for funds in the TSP portfolio is 0.029%.

Many 401(k) plans offer a stable value fund, an option that’s not available in an IRA. These low-risk funds, with recent yields averaging 1%, offer an attractive alternative to money market funds, which are currently yielding just slightly above 0%. And unlike bond funds, stable value funds won’t take a nosedive if interest rates rise.

The IRA advantage. If your 401(k) plan charges high fees and is stocked with poor-performing funds, you’ll want to roll your money into an IRA as soon as you leave your job. And there are other reasons to roll your money into an IRA. You can select which funds to sell when you make a withdrawal—something your 401(k) plan administrator likely won’t let you do, says Daniel Lash, a certified financial planner with VLP Financial Advisors, in Vienna, Va. Most plans take an equal amount from each fund in the portfolio. In 2008, when stock funds fell 40% or more, such withdrawals would have been devastating.

In addition, if you already have an IRA (or IRAs), consolidating all of your savings under one roof or, for traditional IRAs, even in one account will make it easier for you to figure out the amount of required minimum distributions you must withdraw when you turn 70½. RMDs are calculated by dividing the account balances of all of your IRAs at year-end by a life expectancy factor set by the IRS. You can withdraw the money from one IRA or a combination. However, if you have money in a 401(k) plan, you must take a separate RMD from that account, based on its value at the end of the year.
SANDRA BLOCK

FAMILY FINANCES»

Pay Dental Bills With Less Pain

Use open enrollment as an opportunity to fill holes in your coverage. BY MIRIAM CROSS

SURE, DENTAL INSURANCE IS CHEAP. The most popular kind of group plan costs just $32 a month, on average, and three-fourths of employers help pay the tab, according to the National Association of Dental Plans (NADP). That cuts the average employee premium down to about half the original cost—or even less. But you get what you pay for. The coverage is awful.

As you choose benefits during open enrollment, it's worth checking up on the coverage in your dental plan. If you anticipate needing an expensive procedure next year that your plan won't pay for, you may be able to put money aside tax-free in a flexible spending account (if your employer offers one) or a health savings account (if you have a high-deductible health plan).

Assessing your group plan. If your employer subsidizes your coverage, you probably should take it, says Evelyn Ireland, executive director of the NADP. The plan likely covers routine care, such as cleanings and exams every six months, and most of the cost of basic procedures, such as filling a cavity. But out-of-pocket costs pile up quickly with more-complicated procedures. For example, a single porcelain or resin crown goes for $650 to $1,600 in Los Angeles, according to estimates from Fair Health (http://fairhealthconsumer.org), a cost-lookup tool. A set of dentures runs about $1,600 in Indianapolis. A typical plan covers 50% of the cost for these services but limits coverage to once every five to seven years. And once your plan has reached its maximum annual benefit (often $1,000 to $2,000, if your plan has one), you're paying out of pocket.

Don't expect your plan to cover cosmetic procedures, such as tooth whitening, and orthodontia may require a separate rider, if coverage is available at all. For dentally necessary veneers, inlays, onlays, implants and other procedures, the plan may pay out only once every few years or per tooth.

One promising trend: Implants are now covered by 59% of plan sponsors, according to Mercer's National Survey of Employer-Sponsored Health Plans. In addition, many group carriers have started to add periodontic procedures, such as scaling and root planing (deep gum cleaning), at no cost for patients with certain high-cost medical conditions, says Ireland. And many plans will now roll over unused annual maximum amounts to the following year.

Buying insurance on your own. For the benefits it offers, an individual plan is generally pricier than a group plan,

A FLEXIBLE SPENDING ACCOUNT OR HEALTH SAVINGS ACCOUNT CAN HELP YOU COVER WHAT INSURANCE DOESN'T.

PETER DAZELEY/GETTY IMAGES

ranging from $12 to $45 a month nationwide. Some individual plans also impose a waiting period of six to 12 months before covering a major procedure.

To see whether the cost of dental insurance nets you more than you might pay, add up expenses over the past few years and the treatments you anticipate over the next few years. You can estimate costs for specific procedures by zip code at Fair Health, or call your dentist's office and ask what it charges. Then weigh the plan's annual maximums, coverage restrictions and premiums, as well as whether your dentist is in-network.

Compare plans on a Web site such as eHealth.com, or on DentalPlans.com for "discount" or "savings" plans. You can also search for agents in your area at the National Association of Health Underwriters' Web site (www.nahu.org/consumer/findagent2.cfm). An agent who sells health insurance is in the best position to help you navigate dental products, too, says Janet Trautwein, CEO of NAHU. You can also find a list of insurers that provide individual coverage in your state on www.nadp.org under "Find a Dental Plan." Currently, you can buy dental insurance on the exchanges only if you enroll in health care at the same time.

When you have a choice of plan types for group or individual coverage, consider which one would be best for you. For example, HMOs offer low premiums, deductibles and co-payments, and often unlimited annual coverage caps, so if you need a lot of expensive work done, you'll get more bang for your buck. However, they limit care to a specified pool of providers. You'll usually pay higher premiums and deductibles for PPOs, but they are more flexible because they cover care both in-network and (at a reduced rate) out-of-network. Plus, even after you've maxed out your annual limit, services are billed at the negotiated rate.

Filling the gaps. If you've hit your annual limit or are facing treatment that's barely covered by insurance—if at all—you need to find other ways to cover the costs. An FSA or an HSA can cover co-pays, deductibles and non-cosmetic expenses related to dental care. The money you contribute to FSAs and HSAs is pretax, meaning it's exempt from income taxes, and FSAs avoid payroll taxes, too. "Paying for dental expenses through your employer's FSA is like having a coupon for 30% to 40% savings," says Jody Dietel, chief compliance officer for WageWorks, which administers FSAs and HSAs.

For 2015, the maximum amount you can stash in an FSA is $2,550. If you start treatment in December, you can use up the remaining balance in your FSA, then complete treatment in 2016 to dip into the coming year's pot of FSA money, too.

Another smart option is an HSA. If your employer doesn't offer one, you can set one up on your own as long as you have a health insurance policy with a high deductible—at least $1,300 for individual coverage or $2,600 for family coverage in 2015 and 2016 (ask your insurer or employer if the plan is HSA-eligible). In 2015 and 2016, you can contribute up to $3,350 to the HSA if you have individual coverage. If you have family coverage, the limits are $6,650 in 2015 and $6,750 in 2016. If you're 55 or older anytime during the year, you can contribute an extra $1,000. Your contributions are pretax if made through your employer or tax-deductible if you're on your own.

You generally can't contribute to both an HSA and FSA in the same year, but more employers are offering "HSA-compatible" FSAs. With these accounts, you can fund an HSA as well as set aside up to $2,550 pretax in the FSA to use for dental (or vision) expenses until you reach your health plan's deductible. After that, you can use the money for any out-of-pocket medical expenses.

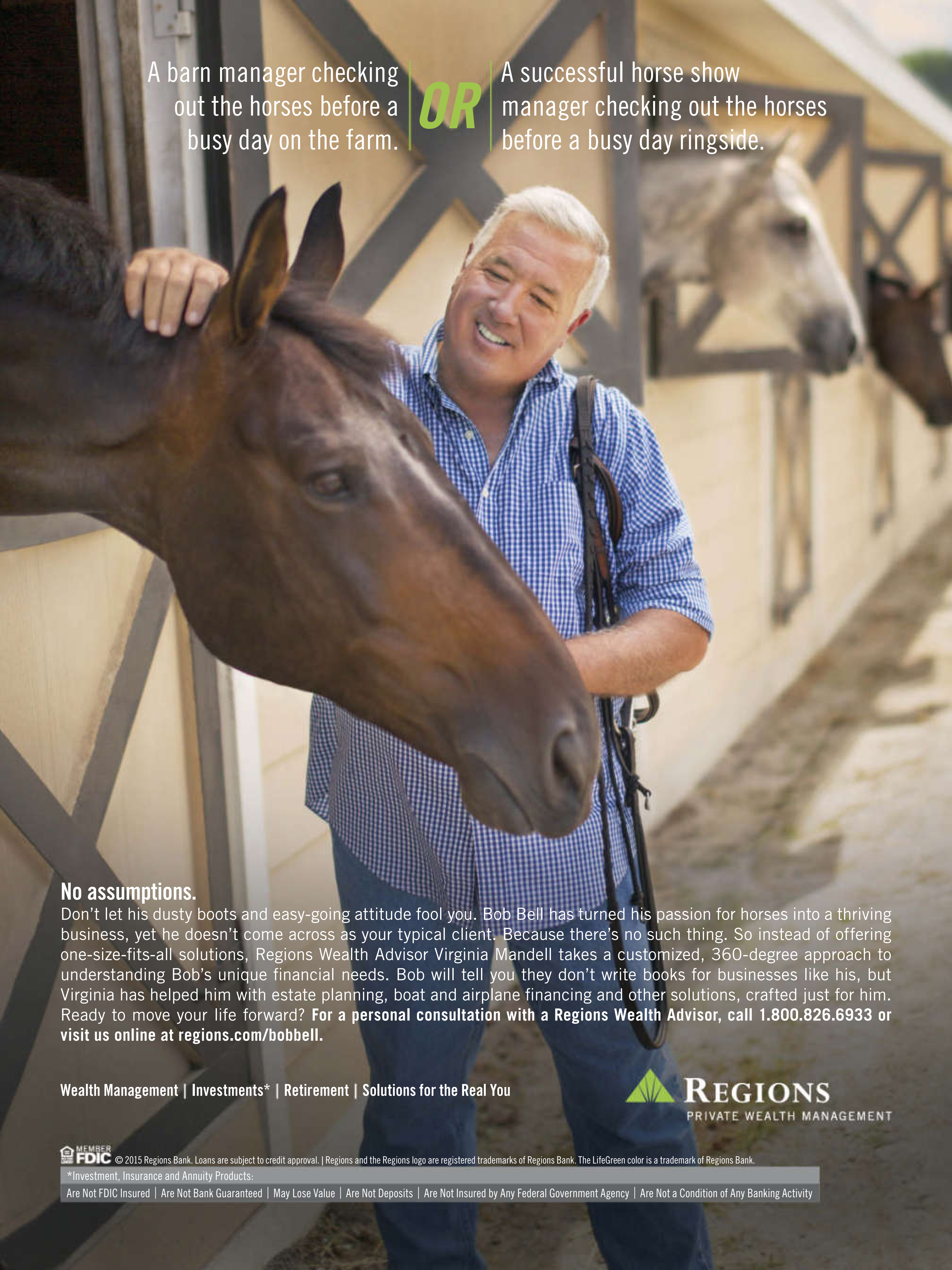
If cash flow is an issue, ask your dentist to work out a payment plan, say by stretching out work over several months so you can pay in installments, or over two years to take advantage of two annual maximums for your dental plan (as long as treatments are billed in separate years). Alternatively, see if you can negotiate a discount by paying in cash up front. Before you agree to an extensive and costly procedure, "be very sure you need the work," says Mark Wolff, an associate dean at New York University College of Dentistry. Seek a second opinion if you feel uncomfortable with the diagnosis, and ask for records to be transferred.

If you have more time than money, shop for care at one of the 64 accredited dental schools in the U.S. (www.ada.org/en/coda/find-a-program). Appointments take hours longer than regular dental visits, but students are heavily supervised and offer a full array of services at a reduced cost. "You can save hundreds to a thousand dollars on a single tooth implant," says Wolff. For other sources of low-cost or pro bono dental treatment, look up community health centers at http://findahealthcenter.hrsa.gov. You can also consult your state or local dental society for resources. ■

KipTip

Fill the Medicare Dental Gap

MEDICARE DOESN'T COVER ROUTINE dental care, so after you enroll, you're pretty much on your own. In addition to individual plans, look into Medicare Advantage plans with dental benefits, although the care can be limited (see "Get the Most From Medicare," on page 26). AARP's dental plans cost about $28 to $71 a month, depending on the type and your location. You can still withdraw funds from your health savings account tax-free after you sign up for Medicare, but you can no longer contribute to the HSA. Oral Health America, a nonprofit educational group, lists resources by state at www.toothwisdom.org.


A barn manager checking out the horses before a busy day on the farm.
OR
A successful horse show manager checking out the horses before a busy day ringside.
No assumptions.
Don't let his dusty boots and easy-going attitude fool you. Bob Bell has turned his passion for horses into a thriving business, yet he doesn't come across as your typical client. Because there's no such thing. So instead of offering one-size-fits-all solutions, Regions Wealth Advisor Virginia Mandell takes a customized, 360-degree approach to understanding Bob's unique financial needs. Bob will tell you they don't write books for businesses like his, but Virginia has helped him with estate planning, boat and airplane financing and other solutions, crafted just for him. Ready to move your life forward? For a personal consultation with a Regions Wealth Advisor, call 1.800.826.6933 or visit us online at regions.com/bobbell.
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KIMBERLY LANKFORD > Ask Kim

Hang Up on Telemarketers

“Interacting in any way alerts the telemarketer that you’re home at that time of day and may lead to more calls.”

I’VE BEEN GETTING MORE telemarketing calls recently, even though I signed up for the Do Not Call Registry a few years ago. Do I need to renew my number on the list?

E.G., BALTIMORE

Registration on the Federal Trade Commission’s Do Not Call list doesn’t expire as long as you keep the same phone number, but you might have fallen off the list if you moved. To check, go to www.donotcall.gov.

Being on the list won’t stop all unwanted calls, though. The Do Not Call Registry prohibits sales calls only from companies trying to solicit new customers. You may still receive political calls, surveys, and calls from charities or companies you’ve done business with over the past 18 months.

The new telemarketing calls are probably prerecorded robocalls, and signing up for the list won’t stop them because sales robocalls are already illegal. “More than half of the complaints we receive each month are about robocalls,” says Bikram Bandy, the Do Not Call program coordinator for the Federal Trade Commission.

Your only solution? “Just hang up,” says Bandy. Don’t interact in any way, even if the recording says to press a certain number to stop receiving calls. That alerts the telemarketer that you’re home at that time of day and may even lead to more telemarketing calls, says Bandy. Instead, you should report the call to www.donotcall.gov.

Car rental insurance. *I’m going to rent a car when traveling for Thanksgiving. I understand that my credit card will provide rental car insurance. How does this coverage work?*

E.S., HANOVER, PA.

Your own auto insurance policy most likely covers rental car damage and liability, up to the same limits as for your own vehicle, and that insurance kicks in first. But your credit card can fill in the gaps, such as the deductible. The coverage varies by card issuer and requires certain steps.

All Visa, Discover and American Express cards, and some MasterCards, provide rental car coverage. To qualify, you must reserve the rental car with the same credit card you use to pay for it. You must also decline the rental company’s supplemental insurance and collision damage waiver.

The card company may limit coverage to 15 or 31 days, and it may not cover cars rented in certain countries, according to Card Hub, which provides credit card rates and other information. Most card companies don’t cover trucks, and American Express doesn’t cover some full-size SUVs, such as Chevy Suburbans and Tahoes, GMC Yukons and Ford Expeditions.

Health exchange coverage. *I bought health insurance through my state health exchange last year. Do I need to do anything during open enrollment this year to keep the policy?*

M.M., OMAHA

If your plan continues to be offered in your area, you’ll automatically be re-enrolled unless you switch to another plan. But you should check out your options anyway. Even if your premiums are similar, your plan can change its network or coverage (especially for your drugs). Go to your state’s exchange (find links at www.healthcare.gov) and review your options during open enrollment, from November 1 to January 31.

Even if you stick with your current plan, contact the exchange to let it know about any changes in your income, which could affect your subsidy. If you earn more than expected, you may have to pay back some of the subsidy at tax time; if you earn less, you could get a bigger subsidy next year. A health care navigator can help you with the updates. Go to “Find Local Help” by clicking on “Contact Us” at www.healthcare.gov. ■

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

LISE METZGER

Premium Checking Has Its Privileges

WE'VE MADE SOME CHANGES in the tables that accompany this column. Instead of taxable and tax-free money market funds, both of which have been hovering at minuscule yields of 0.1% or less, we've substituted no-minimum and rewards checking accounts, which pay higher yields.

Many of the checking accounts listed are from online-only banks, or from smaller banks and credit unions with a national online reach. If, however, you prefer the convenience of a large national bank, and you can afford to keep a chunk of cash in the bank—say, $25,000 in combined deposit, investment and loan accounts—you might prefer a premium checking account. You'll probably have to forgo a great interest rate, but premium checking accounts offer other appealing benefits. You'll avoid most nuisance fees that come with standard accounts, such as charges for ATM withdrawals, overdraft transfers, personal and cashier's checks, and money orders. The bank may also reduce rates or fees on loans and add bonus points to your credit card rewards.

PNC Bank's Performance Select account has a relatively low barrier to entry. The bank will waive its $25 monthly fee if you maintain a $5,000 monthly balance in checking, have $5,000 in monthly direct deposits, or keep $25,000 in linked deposit and investment accounts. Perks include free checks, bonus yields on certificates of deposit, and increased rewards on PNC credit cards. To avoid a $30 monthly fee for Wells Fargo's PMA package, you'll need $25,000 in bank deposits, or $50,000 in bank, brokerage and credit balances. Benefits include two free withdrawals each month from non–Wells Fargo ATMs and discounted trades in a WellsTrade brokerage account. **LISA GERSTNER**

Kiplinger.com

RATE UPDATES

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

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds*	0.30%	0.30%	0.50%
U.S. Series I savings bonds	0.00	0.00	1.94
Six-month Treasury bills	0.24	0.23	0.05
Five-year Treasury notes	1.52	1.59	1.72
Ten-year Treasury notes	2.20	2.18	2.48

As of September 8, 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 Sept. 8	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 Sept. 8	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 Sept. 8	Min. deposit	Web site (www.)
My Savings Direct (N.Y.)*	1.25%	$1	mysavingsdirect.com
EverBank (Fla.)*	1.11	1,500	everbank.com
Dime Savings of Williamsburgh (N.Y.)*	1.10	none	dime.com
Palladian PrivateBank (Ill.)*	1.10	10,000	palladianprivatebank.com
NATIONAL AVERAGE	**0.09%**		

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

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of Sept. 8	Min. amount	Web site (www.)
E-Loan (N.Y.)*	1.30%	$10,000	eloan.com
Synchrony Bank (N.J.)*	1.25	2,000	synchronybank.com
CIT Bank (N.J.)*	1.25	25,000	bankoncit.com
AloStar Bank of Commerce (Ala.)*†	1.21	1,000	alostarbank.com
NATIONAL AVERAGE	**0.28%**		

5-Year	Annual yield as of Sept. 8	Min. amount	Web site (www.)
E-Loan (N.Y.)*	2.45%	$10,000	eloan.com
Capital One 360 Bank (Va.)*	2.25	none	capitalone360.com
Synchrony Bank (N.J.)*	2.25	25,000	synchronybank.com
First Internet Bank of Indiana (Ind.)*	2.17	1,000	firstib.com
NATIONAL AVERAGE	**0.87%**		

* Internet only. †BAC Florida Bank, BankDirect and Pentagon Federal Credit Union offer 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 Sept. 8*	Annual fee	Late fee	Web site (www.)
First Command Bank (P)	6.25%	none	$25†	firstcommandbank.com
Lake Michigan Credit Union (P)	6.25	none#	25†	lmcu.org
Citizens Trust Bank Visa (G)	7.25	none	25†	ctbconnect.com

CASH-REBATE CARDS

Issuer	Rate as of Sept. 8*	Annual fee	Rebate earned Category/Other	Web site (www.)
Amex Blue Cash Preferred	12.99%	$75	6%/1%‡	americanexpress.com
Discover It	10.99	none	5/1^	discover.com
Citi Double Cash	12.99	none	2&	citi.com

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

Smart Moves to Make Now

USE THESE STRATEGIES TO STAY COOL, AND EVEN PROSPER, IN UNCERTAIN MARKETS. By Anne Kates Smith

THERE'S NOTHING INVESTORS HATE MORE THAN UNCERTAINTY, AND NOW IT seems there's nothing but. The chief worries are the Federal Reserve's intentions and the potential impact that a slowdown in China will have on the rest of the world. The two combined to precipitate the U.S. stock market's first correction since 2011, with Standard & Poor's 500-stock index falling 12.4% from its May peak through late August. // The big question is whether the downturn remains a correction or turns into a bear market, defined as a drop of at least 20%. "We're still treating this as a correction," says James Stack, publisher of the *InvesTech Research* newsletter. But

 ILLUSTRATIONS BY BILL BROWN

although the U.S. economic outlook remains healthy, the bull market, now more than 6½ years old, is showing its age. One warning sign: a waning number of shares advancing relative to those declining.

It's not so much that investors have to worry about a 2008-like cataclysm, says Ben Inker, co-head of asset allocation at GMO, a Boston investment firm. The more pressing concern is that the typical investor will have a hard time beating inflation over the next five to 10 years. Says Inker: "It's difficult to make a case that you'll get returns close to historic averages. It's not so much scary as it is disheartening."

What makes today's environment unique is that the challenges aren't confined to any one country or any one market. Stocks in developed foreign markets catch a cold when China sneezes, and they stumble every time a debt crunch materializes in the eurozone or a geopolitical crisis emerges anywhere. Emerging-markets stocks might tempt bargain hunters. But shares in commodity-producing countries look unattractive. At any rate, developing markets are high-risk by definition and should claim only a small part of your assets (see "Emerging Markets: Not a Pretty Picture," on page 61).

With interest rates likely to rise from today's historically low levels, a bond-heavy portfolio is vulnerable to losses (bond prices and rates move in opposite directions). Supposedly safe U.S. Treasury bonds represent "a return-free risk as opposed to a risk-free return," says Martin Sass, of M.D. Sass, a New York City investment firm.

Cash, the ultimate safe haven, pays nothing today, making it a guaranteed loser after inflation. Yields on money market funds and the like will lag the inflation rate even after the Fed starts to raise rates this year, says Bankrate.com's chief analyst, Greg McBride. That's because inflation itself has to rise before the Fed will hike rates enough for savers to notice. In short, says Inker, "It's not clear where to put money to try to make money."

We're here to help. In the following pages, you'll find our best ideas for how to become a better investor—one who is able to meet the challenges of today's markets and get decent returns in stocks, bonds, cash and even alternatives, those outside-the-box strategies and investments that you might not normally consider. But they're worth a look now, because today's investing environment is anything but normal.

Timely Advice From Six Top Pros

Looking out over the next 24 months, there's a good chance we'll see a bear market. Steer toward defensive areas such as consumer staples and health care. If you want to add new money to the market, my advice is to wait. Profit opportunities always come around again.

James Stack
Publisher,
InvesTech Research newsletter

We prefer stocks over bonds, but would avoid overheated parts of the market, such as biotech and social media stocks. Think about investing in large, all-weather companies that chug along and deliver a healthy dividend.

Savita Subramanian
Head of U.S. Equity and Quantitative Strategy at Bank of America Merrill Lynch

Expect some market turbulence but stay invested in stocks. It's not a bad time to invest in companies involved in energy and other materials. Commodity prices are at the tail end of an emotional sell-off and are bottoming.

Jim Paulsen
Chief Investment Strategist, Wells Capital Management

Tactics for a Nasty Market

THESE FOUR STOCK-PICKING TECHNIQUES WILL IMPROVE YOUR RESULTS. **By Kathy Kristof**

■ **MAKE VOLATILITY YOUR FRIEND** The summer swoon unsettled stock investors, but it was a great opportunity for those who were prepared, says Hugh Johnson, a money manager in Albany, N.Y. Johnson used the downturn to snap up shares of such high-quality companies as **APPLE (SYMBOL AAPL, $110)** and **TARGET (TGT, $77)**.

Stock market volatility is likely to persist for months, which means you'll probably get more opportunities to buy at discounted prices. How do you prepare for such occasions? The best strategy is to assemble a list of stocks you'd like to buy but can't because they're too expensive. Take Apple. At a price of $110, the stock is 19% below its record high of $135. You may conclude that Apple is still too pricey but you'd be happy to own it at $100 per share. Add it to your shopping list, and don't be surprised if it hits your buy price; the stock traded as low as $92 on August 24, the day the market experienced a mini crash. (All other prices are as of September 3.)

Volatility can work both ways, so be ready to act if the market zooms back up. Standard & Poor's 500-stock index surged 6.4% over August 26 and August 27. Use stretches like that to lighten up on your holdings, suggests Jeff Knight, head of global asset allocation at Columbia Threadneedle Investments. "Conventional wisdom tells you to buy and hold," he says. "But there's nothing wrong with selling when the ongoing investment potential is no longer compelling."

■ **FOCUS ON VALUE** In the race between the tortoise and the hare, the hare has been way out in front lately. Over the past year, the S&P 500

The ability of people to dance in and out of markets is quite limited, and in my case it is zero. But stocks are going to be higher, and perhaps a lot higher, 10 years from now, 20 years from now. My game is to own decent businesses and own them at decent prices. If you do that, you are going to make a lot of money over time.

Warren Buffett
Chairman and CEO, Berkshire Hathaway

Don't mistake market volatility for a change in the outlook for stocks—they still have stronger total-return prospects than bonds and offer better value. Stay focused on the best growth opportunities in the world. Look for sectors, such as health care, consumer discretionary and parts of technology, that are likely to see strong demand over the next three to five years.

Kate Moore
Chief Investment Strategist, JP Morgan Private Bank

There's a lot of fear in the market now, but stocks aren't overpriced. Lower commodity prices, related to China's slowdown, will reduce costs for businesses and should help the U.S. economy grow faster than anticipated.

John Rogers
Chairman and Chief Investment Officer, Ariel Investments

Growth index, which tracks the faster-growing companies in the S&P 500, beat the S&P 500 Value index, which tracks the index's slower-growing but cheaper firms, by 7.6 percentage points. That kind of performance divergence doesn't last forever, so it's a good time to focus on the tortoises: companies, and sometimes entire industries, selling at bargain prices.

One entire industry that's in the doghouse, for obvious reasons, is energy. But as the price of oil has slumped, investors have punished some good companies unfairly, says Matt Berler, president of Osterweis Capital Management. He cites three master limited partnerships: **ENTERPRISE PRODUCTS PARTNERS (EPD, $27)**, **MAGELLAN MIDSTREAM PARTNERS (MMP, $70)** and **PLAINS GP HOLDINGS (PAGP, $19)**. All transport oil and gas to refiners and storage facilities, and all operate on long-term contracts that pay based on the volume of the products passing through them, not the price of oil or gas. All three yield 4.2% or more. (MLPs can cause tax headaches, so consult with your tax adviser before you invest.)

If you can assume more risk, consider energy producers and services stocks. Some companies with the potential for big rebounds are **CARRIZO OIL & GAS (CRZO, $36)** and **DIAMONDBACK ENERGY (FANG, $67)** among small producers and **HELMERICH & PAYNE (HP, $55)** and **WEATHERFORD INTERNATIONAL (WFT, $10)** in services. For more on this battered group, see kiplinger.com/links/energystocks.

Bargains aren't limited to the energy sector. Although its name may make you think of a hare, **SWIFT TRANSPORTATION (SWFT, $19)**, one of the nation's biggest trucking companies, clearly belongs with the tortoises. The stock sells for just 10 times projected year-ahead earnings because of concerns about the strength of the economic recovery. But analysts expect Swift's profits to rise by 23% in 2015 and by 14% in 2016. If the company comes through, the stock will prove to be a steal. For other bargain-priced stocks, see kiplinger.com/links/bear.

■ BEWARE SKY-HIGH VALUATIONS

Highly valued stocks engender controversy. Columnist James Glassman writes this month that stocks with even triple-digit price-earnings ratios can be attractive "if a company has a fabulous new idea for a business" (see "Opening Shot," on page 22). He cites Amazon.com (AMZN, $504), Facebook (FB, $88) and Netflix (NFLX, $101) as prime examples.

In hostile markets, though, highfliers can quickly lose altitude. Netflix, for example, tumbled 23% between August 6 and August 24. And keep in mind that Amazon plunged 77% when tech stocks plummeted during the 2000–02 bear market.

Consider what happened to another nova, LinkedIn (LNKD, $179), after it reported disappointing results in late April. The stock, which was then selling for 84 times estimated 2015 earnings, sunk 19% in one day and today is 30% below where it stood before the earnings news.

LinkedIn and the others may still turn out to be winners. But if a firm stumbles or a bear market arrives, your portfolio could be decimated. Make sure you can handle steep drops, both financially and emotionally.

■ LOOK FOR REVENUE GROWTH

Over the long term, stock prices track corporate profits. But companies can goose earnings per share by cutting costs and buying back stock. If you want to make sure you're investing in a company capable of generating sustainable growth, focus on the top line: revenues.

Unfortunately, companies with rapidly expanding sales often trade at stupendous valuations. To find fast growers selling at fair prices, we asked FactSet, a research firm, to filter for members of the S&P 500 with market values of at least $10 billion that are expected to generate sales growth of at least 5% both this year and in 2016 and whose stocks trade for less than 20 times estimated year-ahead earnings.

The screen uncovered 61 firms. Many were in the health care sector, including **CVS HEALTH (CVS, $102)**, **ALLERGAN (AGN, $297)**, and biotech leaders **AMGEN (AMGN, $149)** and **GILEAD (GILD, $102)**, the last one trading at a shockingly low 9 times estimated earnings.

One name on the list outside of health was consulting hotshot **COGNIZANT TECHNOLOGY SOLUTIONS (CTSH, $63).** It sells for just 20 times estimated year-ahead earnings, even though analysts expect revenues to increase by 21% this year and 14% next year. Likewise, **SKYWORKS SOLUTIONS (SWKS, $85)**, a maker of smartphone chips, sells for just 14 times projected year-ahead earnings, yet analysts see sales jumping by 14% in the fiscal year that ends in September 2016. (To learn more about Skyworks and its role in the "Internet of Things," see "Cash in on These Megatrends," April.)

How to Protect Your Bonds

IN TODAY'S LOW-YIELD ENVIRONMENT, AVOID TAKING BIG RISKS. By Daren Fonda

With interest-rate hikes looming, you should start bailing out of the bond market before losses pile up. That, at least, has passed for conventional wisdom over the past year. But the market for safe, traditional bonds has defied that wisdom, remaining remarkably stable and suggesting that you can make money if you stick with solid funds or individual bonds and don't reach too far for yield.

The economy is showing some strength, so the Federal Reserve is likely to raise short-term rates this year. By 2017, the federal funds rate, essentially zero today, is expected to reach 1.6%. Because bond prices and rates move in opposite directions, bonds are likely to slump as rates inch up.

But the bond market is hardly monolithic. Though higher rates will pressure prices, the impact won't be uniform. Long-term Treasuries, which are especially sensitive to rate swings, will likely post steep losses. But losses for short-term bonds should be minimal. "Short-term funds will be able to weather the storm," says Jay Sommariva, of Fort Pitt Capital, a Pittsburgh investment firm.

One way to play it safe is with **VANGUARD SHORT-TERM INVESTMENT-GRADE FUND (SYMBOL VFSTX, YIELD 1.8%)**, a member of the Kiplinger 25. Holding more than 1,800 high-quality bonds, the fund should be able to remain in the black if rates rise modestly. Since the fund launched in 1982, it has had only two down years, including a loss of just 0.1% in 1994. During the Fed's previous rate-hiking cycle, from June 29, 2004, to June 30, 2006, the fund generated a 5.4% cumulative total return, slightly trailing the broad bond market's 5.6% gain.

If the pipsqueak yields on short-term funds don't appeal to you, you'll need to take on extra risk, either by extending maturities or by investing in bonds with lower credit ratings. Two solid performers in the Kip 25 are **DOUBLELINE TOTAL RETURN (DLTNX, 3.6%)** and **OSTERWEIS STRATEGIC INCOME (OSTIX, 4.1%)**. DoubleLine invests in mortgage-backed securities, the specialty of lead manager Jeffrey Gundlach. Osterweis favors short-term junk bonds, which pose a greater risk of default than high-grade bonds. Although Osterweis lost 5.5% in 2008, it was a rock star in the junk bond fund category that year.

Floating-rate funds may also provide protection against higher rates, though they pose other risks. The funds, which invest in bank loans typically made to low-quality borrowers, should benefit as rates climb because the rates on such loans will tend to adjust upward. The risk is that the floating-rate-loan landscape is a minefield of risky assets, and the funds could plunge if investors lose their appetite for risky instruments. If you're going to invest, look at **FIDELITY FLOATING RATE HIGH INCOME (FFRHX, 4.1%)**, a solid fund that poses minimal interest-rate risk, says Morningstar analyst Sarah Bush.

Finally, consider building your own bond fund. Although it takes a bit of work, you can buy individual issues tailored to your income needs, taking as much or as little risk as you want. Moreover, if you "ladder" your bonds by buying IOUs with maturities of, say, one, three, five, seven and 10 years, you'll be able to take advantage of higher rates as each IOU comes due. "Holding individual bonds is the safest way to go now as long as you hold them to maturity," says Anna Rathbun, director of research for CBIZ Retirement Plan Services, an investment adviser in Cleveland.

One hitch: You need at least $50,000 to build a well-diversified portfolio. But if you hold a mix of Treasuries and high-quality corporate or tax-free municipal bonds rated single-A or higher, you're almost guaranteed to recoup your money when it's time to cash in—regardless of market stampedes along the way.

WEIGHING THE RISKS AT FOUR TOP BOND FUNDS

Bond investors face two main kinds of risk: interest-rate risk (the likelihood that a bond will decline in value when rates rise) and credit risk (the chance that a bond's issuer will default on its obligations). The table shows how vulnerable our picks are to both of these risks.

Fund (Symbol)	Category*	30-day yield	Interest-rate risk	Credit risk	Comment
Fidelity Floating Rate High Income (FFRHX)	BL	4.1%	Very low	Moderate/High	Holds risky assets but benefits from higher interest rates.
DoubleLine Total Return Bond (DLTNX)	Mort	3.6	Moderate	Low/Moderate	Owns a mix of low-risk and high-risk mortgage securities.
Osterweis Strategic Income (OSTIX)	HY	4.1	Low	Moderate/High	Offers high yield in exchange for taking credit risk.
Vanguard S-T Investment-Grade (VFSTX)	STcorp	1.8	Low	Low	One of the safer bond funds, though its yield is meager.

Through September 7. ***Key to categories:** BL = Bank Loan; HY = High Yield; Mort = Mortgage-backed securities; STcorp = Short-term corporate. SOURCES: Morningstar, company Web sites.

4 Investing Rules to Live By

THESE TIME-TESTED TIPS WORK IN ANY KIND OF MARKET. By Kathy Kristof

1. DIVERSIFY. Stocks, bonds, cash, real estate and other investments provide varying rewards: Some protect against inflation, and others provide the growth or income you might need for specific goals. Plus, their prices move at different speeds and, sometimes, in opposite directions. Owning something in each investment category allows you to take reasonable risks without producing unreasonable volatility for your portfolio. Likewise, you should diversify within each category.

2. REBALANCE. The normal (and sometimes abnormal) moves of any given investment category can derail your well-thought-out plans if you fail to rebalance regularly. Rebalancing requires nothing more complicated than reviewing your investments annually to make sure that the percentages you hold in each investment class (and sometimes in each specific investment) have not strayed wildly from your original goals. Then, you sell investments that have performed relatively well and use the proceeds to invest in relative laggards.

3. DOLLAR-COST AVERAGE. Another simple and effective way to buy low is to put your investments on autopilot by subscribing to a dollar-cost-averaging plan. Dollar-cost averaging simply means that you invest the same amount of money in the same investments on a regular basis. If you're contributing to a 401(k) plan, you're already practicing dollar-cost averaging. If you receive a windfall, averaging keeps you from putting all of your money into an investment at an inopportune time and forces you to bravely keep buying even if the market tumbles.

4. KEEP COSTS DOWN. It's hard to gauge ahead of time what your investments will earn. But investment costs are something you know in advance and can control. For starters, you can save money on brokerage commissions by using an online discount broker, such as Fidelity, E*Trade, Schwab or TD Ameritrade. If you're okay with just earning a market's return, buy index mutual funds from firms such as Vanguard and Fidelity; many of their index funds charge just 0.1% or so per year. If you prefer active management, give extra credit to funds with below-average fees. The Kiplinger 25, the list of our favorite mutual funds, is a good place to start (see page 61). ■

Nontraditional Investments

When Stocks Quake, Alternatives Offer Stability

MAYBE IT TAKES A SWOONING STOCK MARKET TO FOCUS THE MIND on alternative assets, a category that most people ignored over the past few years as share prices soared to new highs. But following the recent stock market plunge, alternatives, which have little to no correlation with the stock and bond markets, are looking more appealing.

Consider what occurred during the summer slump. Standard & Poor's 500-stock index plunged 11% between August 10 and August 25. Over the same period, managed futures mutual funds, which use futures contracts to track trends in various markets, nearly broke even, on average. And market-neutral mutual funds—which seek to reduce risk by offsetting stock holdings with roughly equal positions in stocks that are sold short (a bet on falling prices)—lost just 1.2%, on average.

How much of your portfolio should you devote to alternatives? Chris Geczy, an adjunct professor of finance at the University of Pennsylvania's Wharton School, suggests at least 10% of your assets, which should provide some cushion when the stock market tanks. With alternatives, "you may not make as much during a bull market in stocks, but you won't see the same declines, either," he says.

The mutual fund industry has produced a slew of alternative offerings in recent years. The category includes a hodgepodge of diverse strategies, so choosing the right one is key. Morgan Stanley says that multi-strategy alternative funds, managed futures funds and market-neutral stock funds make sense now.

In the first category is **IQ HEDGE MULTI-STRATEGY TRACKER ETF (SYMBOL QAI)**, an exchange-traded fund that tracks an index of six alternative strategies. **ALTEGRIS FUTURES EVOLUTION STRATEGY N (EVONX)**, a mutual fund, combines managed futures with an actively managed bond portfolio. (For more, see "Alternative for a Rocky Market," on page 62.) A rise in takeovers enhances the appeal of merger funds. They typically buy stock in a targeted firm after a deal is announced. We favor the aptly named **MERGER FUND (MERFX)**, a member of the Kiplinger 25. Finally, consider **TFS MARKET NEUTRAL (TFSMX)**, which invests mostly in small-company stocks, maintaining a market-neutral stance by holding an equal ratio of long and short positions.

ANDREW FEINBERG > Promised Land

I'm Shutting Down My Fund

LISE METZGER

After 15 years of managing money, I recently decided to close my hedge fund and exit the business. Though I have continued to do better than the stock market on a long-term basis, my performance has faltered badly over the past two years, and the stress of the job has come to outweigh the benefits, such as they are.

I have sold more than 80% of my fund's holdings. That has led to a strange sensation. I still wince when some stocks I no longer own decline—a bizarre corollary to phantom-limb syndrome. Having suffered so much over the past two years, it's as if my psyche doesn't know how to let go.

I apologize to readers who have shared the pain of some of my recent picks, such as Horsehead Holding (symbol ZINC, $7) and SunEdison (SUNE, $12). Note: I have sold all the stocks I have mentioned favorably, with the exception of **ADAMIS PHARMACEUTICALS (ADMP, $4)**, **BANK OF AMERICA (BAC, $16)**, **CITIGROUP (C, $52)**, **FACEBOOK (FB, $88)** and **HOWARD HUGHES (HHC, $126)**, which I will continue to hold in family accounts. (Prices are as of September 3.)

I've always empathized with money managers who are having performance problems, but I didn't know the half of it until recently. This year, two clients told me they were sticking with me on a "month-to-month basis." Folks, we are all sometimes guilty of neglecting the long term for the short term, but nothing teaches you what a dread disease short-termism can be quite like getting to the 20th of a particular month and feeling that you need to make something special happen in your portfolio in the next 10 days. Performing poorly is tough enough, but when you feel as if everything you've done right over an investing lifetime is being warped by the desire to do something heroic in the next 12 minutes to save your fund, then you stop trusting yourself and your investment process altogether. At such moments, I understood why anyone would simply decide to walk away from the game. And I also understood—really, really understood—why some people would decide to cheat.

Insider trading by professionals isn't solely about greed. Some do it because they know they'll get canned if they don't. I'm sure some of them cross the line just to survive a rough patch, and they probably vow never to do it again. Unless they have to.

I never came close to engaging in insider trading. But I understood how some money managers could be tempted to cheat knowing that nothing less than hitting a home run would help salvage the year.

Lessons learned. So what did I learn from my plight? First, that I took a big risk when I created a portfolio that was wildly different from Standard & Poor's 500-stock index. That was especially problematic in 2014, when hardly anyone beat the index. Magnifying the problem was my decision to put too much money into my favorite ideas. I totally bought into the notion that it was foolish to invest in my 60th-best idea. What I overlooked was how bad things could get if I was wrong about my second-best, third-best and fifth-best ideas at the same time.

So now I plan to invest a chunk of the family portfolio in index funds—oh, the horror!—and put most of the rest into companies that should do at least okay no matter how the world changes. In other words, I'm buying the kinds of companies owned by Warren Buffett, who has long recommended owning stocks you'd be happy to hold even if the markets were closed for five years. But, as wise as that advice is, I generally ignored it because it would keep me out of stocks that could double in two years. No longer.

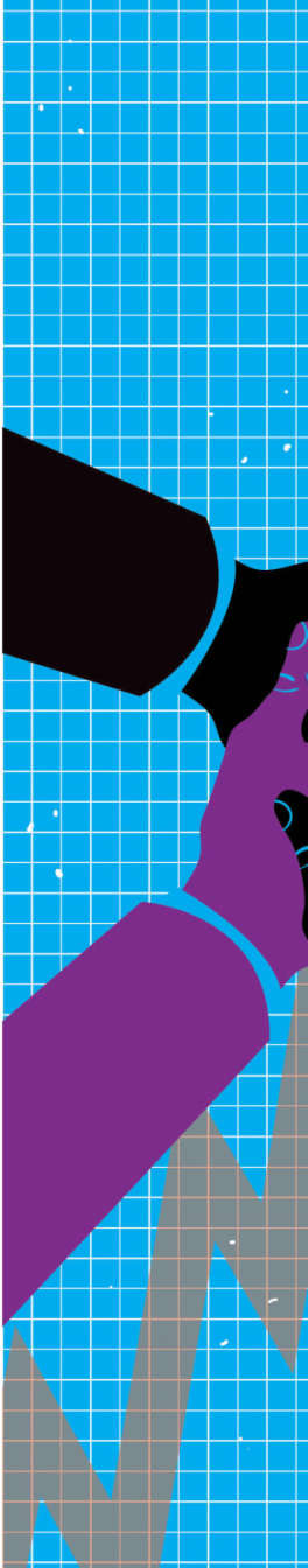
My wife is elated that I'm quitting, which should clue you in to the impact she thought lagging the market was having on my life. I'm looking forward to not following the market every day and finishing my second novel. Investing doesn't have to make you rich, but it shouldn't make you miserable. ■

"Now I plan to invest a chunk of the family portfolio in index funds—oh, the horror!"

MUTUAL FUNDS»

T. Rowe Price's Best 401(k) Funds

Most of its popular retirement-plan funds are top-notch, thanks to experienced managers and a team culture. **BY NELLIE S. HUANG**



IF YOU'VE INVESTED ANY OF your 401(k) money in a T. Rowe Price fund in recent years, chances are you're pleased. The Baltimore firm isn't as big a player in the retirement-plan world as Fidelity and Vanguard; only 13 of its funds rank among the top 101 mutual funds in 401(k) plans, well behind Fidelity's 22 and Vanguard's 32. But most of Price's popular 401(k) funds are winners, and none is an out-and-out clunker.

That's probably a result of the firm's collegial, team-oriented culture. T. Rowe fund managers are mostly homegrown. Many join the firm as analysts straight out of business school, and they learn its ground-up, company-by-company way of stock picking while working alongside veteran managers. Eventually, the best analysts get a chance to manage a fund (Price currently runs 120 funds for average investors). Over time, the system has produced a roster of funds with solid records. And because Thomas Rowe Price believed in putting clients first when he founded the firm in 1937, Price funds tend to boast below-average fees.

Here, in the latest in our series on the best funds for your 401(k), we rate T. Rowe's most popular funds for retirement savings as "buy," "hold" or "sell." Six of the 13 are target-date funds in the T. Rowe Price Retirement fund suite, which we evaluated as a group.

Although your plan may offer these funds' low-cost institutional shares, the data (with one exception) and symbols are for the share class of each portfolio that's most accessible to the average investor. Funds are listed in order of their retirement-plan assets, starting with the fund with the most assets, based on data from BrightScope, a consulting firm that rates and ranks retirement plans. Returns are as of September 3. To see data on all 101 of the most popular funds in 401(k) plans, visit kiplinger.com/links/101funds.

T. ROWE PRICE GROWTH STOCK (SYMBOL PRGFX) HOLD We hate to be mean to the new guy, but a manager change is always cause for concern, especially if the new manager has no record as the lead stock picker of any fund. That manager is Joe Fath, who took over Growth Stock in January 2014 after former manager Rob Bartolo abruptly left T. Rowe.

That said, Fath, who joined Price as an analyst in 2002, has done pretty darn well so far. He says it took him six months to transform the portfolio to his liking. So if we start tracking Fath's record from the start of July 2014, Growth Stock's results are impressive. Over 14 months, the fund returned 9.9%, beating Standard & Poor's 500-stock index by 8.6 percentage points. That also beat the average large-company growth fund over the period by 6.5 points.

Because of the great start, we rate Growth Stock a "hold," rather than suggest selling it because of the arrival of a new manager. We'll watch more closely as Fath's record grows.

T. ROWE PRICE MID-CAP GROWTH (RPMGX) BUY This may be one of the all-time best funds from any shop. If your 401(k) plan offers it,

ILLUSTRATION BY BEADY EYES ILLUSTRATION

load up. It has been shut to new investors since May 2010, but the closure doesn't apply to employer-sponsored retirement plans.

As its name suggests, Mid-Cap Growth focuses on midsize companies, but manager Brian Berghuis is willing to hold on to them as they grow into behemoths. He homes in on firms with market values that fall in the range of either the S&P MidCap 400 index or the Russell Midcap Growth index—$843 million to $14 billion, and $275 million to $32 billion, respectively. Netflix, with a market value of $43 billion, is one of the fund's largest companies. Berghuis has owned Netflix since 2011.

Mid-Cap Growth has returned 13.8% annualized since Berghuis launched it in June 1992. Only one other diversified U.S. stock fund (a load fund) has done better over the 23-year period. And Mid-Cap Growth has been consistently good. Over the past 11 calendar years (including so far in 2015), it outpaced the typical midsize-company growth fund nine times.

Berghuis favors firms that boast double-digit profit or cash-flow growth, and that have low debt. Top holdings are biotechnology firm Alkermes, semiconductor maker Altera and auto retailer CarMax.

T. ROWE PRICE EQUITY INCOME (PRFDX) **HOLD** Investing in large, well-established, dividend-paying companies is this fund's mission. The main reason for the "hold" recommendation is that longtime manager Brian Rogers stepped down in October. (He remains Price's chief investment officer and chairman of its board.)

But Rogers's replacement, John Linehan, is no newbie. He heads up U.S. stock picking for T. Rowe, and he comanages T. Rowe Price Institutional Large-Cap Value with Rogers and two others. From 2003 to 2009, he ran T. Rowe Price Value, a member of the Kiplinger 25 (the list of our favorite no-load funds, which you can find on page 61). During his six-year tenure at Value, the fund returned an annualized 8.3%, an average of 2.0 percentage points per year better than the typical large-company value fund. With a record like that, we think Linehan has a good shot at producing winning results at Equity Income.

T. ROWE PRICE BLUE CHIP GROWTH (TRBCX) **BUY** Since it opened for business in mid 1993, this fund has delivered a 10.2% annualized return, beating the S&P 500 by an average of 1.3 percentage points per year. It has also been a shade more volatile than the index. But despite the extra jumpiness, performance has been consistently good: In eight of the past 10 calendar years (including so far in 2015), Blue Chip outpaced the average for its category—funds that invest mainly in large, growing companies. So if you're a long-term investor, we think the fund is worth the ride.

Larry Puglia was present at Blue Chip's creation; he ran it with a comanager at the outset and solo since 1997. Puglia likes well-run companies with steady growth prospects that throw off cash and are managed by execs who reinvest wisely in the business. His top three holdings: Alexion Pharmaceuticals, drugmaker Allergan and Amazon.com.

T. ROWE PRICE INSTITUTIONAL LARGE CAP GROWTH (TRLGX)

HOLD If you've never heard of this fund or its manager, Robert Sharps, it's probably because its $1 million minimum investment requirement takes it off the radar screen of most individual investors.

Since Sharps became manager in 2002, Institutional Large Cap Growth has returned 11.2% annualized, which beats the S&P 500 and the typical large-company fund. But it has been a bumpy journey: The fund has been 17% more volatile than the index over that time. In the 10 calendar years from 2005 to 2014, Institutional Large Cap Growth ranked in the top 25% of its peers (funds that focus on large, growing companies) in three years. But in four instances, it landed in the bottom half of its category. Things are looking good this year: So far in 2015, the fund ranked among the top 5% of all large-company growth funds.

Over time, of course, the good years have made up for the bad ones. Still, we rate Large Cap Growth a "hold" rather than a "buy" because of the volatility and the inconsistent results.

T. ROWE PRICE SMALL-CAP STOCK (OTCFX) **BUY** You can't buy this fund outside of a workplace retirement plan because it has been closed to new investors since December 2013. Too bad.

This is another Price fund that's run by a highly experienced manager. Greg McCrickard, who has been in charge since 1992, tries to walk the line between growth and value. He's drawn to small, growing firms with robust cash flow and solid management teams. But he also likes out-of-favor companies with a catalyst for change that trade at reasonable prices. And when he buys, he hangs on for longer than most other small-company fund managers. Small-Cap Stock has a 12.6% turnover, which implies that a stock stays in the fund for about 8 years on average, way longer than the 17-month holding period of the typical small-company fund.

> "New Horizons has produced stunning results in recent years under manager Henry Ellenbogen."

McCrickard's 23-year record is impressive. Small-Cap Stock has gained 11.8% annualized, an average of 2.2 percentage points per year better than the Russell 2000 index, which tracks the stocks of small U.S. companies. And McCrickard has delivered that performance with about 12% less volatility than the Russell index.

T. ROWE PRICE NEW HORIZONS (PRNHX) **BUY** Widely considered the granddaddy of small-company stock funds, New Horizons has produced stunning results in recent years under manager Henry Ellenbogen. Unfortunately, the fund is closed to new investors outside of employer-sponsored retirement plans.

Since Ellenbogen took over the reins of New Horizons in March 2010, the fund has returned 19.2% annualized, beating 99% of all other small-company funds. In every calendar year from 2010 through 2014, New Horizons ranked in the top 22%. So far in 2015, the fund ranked among the top 17% of its peer group.

Ellenbogen likes small, fast-growing companies that cater to niche markets and have solid footholds in their industries. And he'll hang on to winners even after they grow into midsize- or large-company territory. Top holding O'Reilly Automotive, the auto-parts retailer, has been in the fund since before Ellenbogen came on the scene and now has a market value of $23.6 billion. Netflix, with a hardly small market value of $43 billion, is the fund's fourth-biggest holding.

T. ROWE PRICE RETIREMENT FUNDS

BUY Target-date funds—those one-stop funds that hold stocks, bonds and other assets in a mix that grows more conservative over time—are growing increasingly popular. T. Rowe's flagship Retirement target-date series has won high marks from many, including *Kiplinger's*. The obvious reason is the funds' above-average allocation to stocks as the asset mix adjusts over time. For example, Retirement 2030, which is designed for those who expect to retire around 2030, devotes 76% of its assets to stocks; the average 2030 target-date fund holds 70% of its assets in stocks. Even Price's Retirement 2015 fund, with 53% in stocks, is more aggressive than the typical 2015 target-date portfolio, which on average has 45% in stocks. The series' underlying funds have provided some *oomph*, too. Among the 18 funds in Retirement 2020 are Kip 25 member T. Rowe Price Value, as well as Mid-Cap Growth, New Horizons and Small-Cap Stock.

Not surprisingly, the high stock allocation means above-average volatility. In 2008, when the S&P 500 plunged 37%, all of the most-popular T. Rowe target-date funds in 401(k) plans landed in the bottom half of their peer groups. But the good times have outweighed the bad, as seen by the funds' results during the subsequent bull market. Thanks to their strong results in a blistering stock market, every one of the Retirement target-date funds on this list boasts a 10-year return that ranks among the top 1% of its peer group. ■

STOCKS»

Three Great Future Dividend Payers

These companies pay nothing now, but they have the cash to pony up plenty down the road. **BY DAREN FONDA**

INCOME-HUNGRY INVESTORS HAVE flocked to dividend-paying stocks in recent years. But you may get a bigger payoff if you invest in a company that starts to share the wealth in the next year or two. Stocks of companies that initiate dividends rise an average of 15% in the 12 months following the announcement of the first disbursement, says David Park, an analyst with Santa Barbara Asset Management, in Los Angeles. Such stocks also beat their sector by an average of six percentage points in that first year, and they beat the overall market in the second and third years after a dividend launch.

Where can you find these future payers? Start with Standard & Poor's 500-stock index. Seventy-nine companies in the index don't pay cash dividends, including many profitable firms, such as Biogen (symbol BIIB) and Berkshire Hathaway (BRK-B).

Berkshire doesn't pay a dividend because Warren Buffett figures he can put the cash to work better than his shareholders can. For fast-growing companies, reinvesting in the business is usually a better idea than paying a dividend. Moreover, investors may not want one if it means that corporate bosses will spend less on expanding the business. Such highfliers as Amazon.com (AMZN) and Netflix (NFLX) have never paid a dividend.

A company faces more pressure to pay a dividend when it can no longer justify hoarding so much money. Microsoft (MSFT), for example, declared its first dividend in 2003—17 years after it went public. By then, profit growth had waned and shareholders were clamoring for cash back. The lineup of tech giants that pay dividends now includes Apple (AAPL), Cisco Systems (CSCO) and Oracle (ORCL).

One notable tech holdout is **GOOGLE (GOOGL, $637)**. The search giant has amassed a cash stash of $64.6 billion, after subtracting debt, which is equal to 15% of Google's stock market value. The company reaped $11.4 billion last year in free cash flow (cash profits after the capital spending needed to maintain the business), and the cash pile is likely to keep growing. "Google views itself as a growth company," says Park, but it has ample cash to expand the business and still pay a dividend. (Share prices are as of September 3.)

RETAILER BED, BATH & BEYOND HAS AMPLE RESOURCES TO START PAYING A DIVIDEND.

Although a payout is icing on the cake, investors should focus on high-quality businesses that have growing revenues and profits and a manageable debt load. Without those attributes, a dividend may not be sustainable.

Even if a company can afford it, a dividend may not be in the offing. Some firms' bondholders place restrictions on shelling out cash as dividends. Growing firms often prefer to use their money to buy back shares because if profits fall, it's harder to cut a dividend than to rescind a buyback program.

Slap those caveats on the roster of non-dividend payers and the list of compelling stocks shrinks rapidly. One that looks as though it could initiate a dividend without much stress is **BED, BATH & BEYOND (BBBY, $62)**. Analysts expect earnings for the home furnishings retailer to climb a modest 3% in the current fiscal year, which ends next February. But the company is investing in its online business and other initiatives to help lift future earnings. And it's winding down a $9 billion stock-repurchase program. If the company doesn't authorize more buybacks, it could be a signal that a dividend is in the cards, says Joshua Borstein, an analyst with Longbow Research, an investment firm in Independence, Ohio. With a solid financial profile, Bed Bath could easily pay enough cash to give the stock a yield of 2% to 3%.

EXPRESS SCRIPTS (ESRX, $83), the largest pharmacy-benefits manager in the U.S., also looks like a good candidate to pay a dividend eventually. Express Scripts swallowed rival Medco Health Solutions in 2012, expanding its business and giving it more clout to negotiate cheaper drug prices. Earnings climbed at an annualized rate of 16% over the past three years, and the company generated free cash flow last year of $4.1 billion, or $5.42 per share.

For now, Express Scripts is using its cash to buy back shares and pay off debt. But the firm could initiate a dividend within a few years, says analyst Mohan Naidu, of Oppenheimer & Co. "It definitely has the ability to pay." ■

KATHY KRISTOF > Practical Investing

My Four Core Tech Stocks

Writing an article for the Kiplinger Web site about Warren Buffett's favorite stocks (kiplinger.com/links/Buffett) got me thinking about the concept of "core holdings." These are the foundation of a portfolio—stocks of businesses so entrenched you're likely to hold them through thick and thin. For Buffett, they include Coca-Cola (symbol KO) and American Express (AXP). But until he invested in International Business Machines (IBM) a few years ago, his enormous portfolio was largely devoid of technology stocks. As Buffett has often said, he didn't understand them well enough to invest.

I'm obviously no Warren Buffett, which may explain why all of the core holdings in my Practical Investing portfolio *are* tech stocks—**APPLE (AAPL, $110)**, **INTEL (INTC, $29)**, **MICROSOFT (MSFT, $44)** and **SEAGATE TECHNOLOGY (STX, $49)**. I consider them core holdings for the same reason Buffett sticks with Coca-Cola, which he drinks by the liter. These are companies that make products I use every day and that I think I understand well enough to make the foundation of my portfolio. All told, they represent more than one-third of my portfolio's assets. (Prices are as of September 3.)

> **"These are companies that make products I use every day and I think I understand well enough to make the foundation of my portfolio."**

To be sure, I don't understand the technical wizardry that allows a fingernail-size chip to store the contents of an entire library. But that didn't stop me from falling in love with these four tech luminaries 25 years ago, after I had my first child.

Before Samantha was born, I was working full-time as a business writer at the *Los Angeles Times*. Because I didn't want a nanny raising my daughter, I formulated a plan that would let me keep my job and work from home. I turned my dining room into an office and, while still technically on leave, I started cranking out stories while Samantha napped. At a time when working at home full-time was rare, I wanted my bosses to have every reason to accommodate my request to do just that.

The equipment in my office was paramount. If I was going to work at home, the only thing that would show my bosses I was on the job would be my production. So I bought the best personal computers I could find. The brand wasn't important. Instead, I learned to look for the "Intel Inside" button, which meant the device ran on an Intel microprocessor and would be fast and reliable. Microsoft has made the operating systems and word-processing programs on every PC I've used over the decades. Even though Microsoft has stumbled with new operating systems over the years, I've yet to find a better word-processing program than Word or a better spreadsheet than Excel.

Storage needs. Meanwhile, when I needed to back up my stories and the book I was working on, I bought a Seagate hard drive. Now I've got a library of these drives that hold not only all the documents I've produced but also my music and photos. Sure, I know I can back up everything to the "cloud." Seagate operates there, too. But those photos and playlists are too precious not to have a back-up copy on site.

I fell in love with Apple later, when Samantha and my son, Michael, persuaded me to try their iPods. I never imagined I'd want or need this little music player, but it soon became a part of my daily routine. I was still struggling to figure out my BlackBerry when my kids talked me into buying an iPhone. Now I don't even mind paying a premium price every time I upgrade it. It's just so darn useful to have this thoroughly intuitive phone/computer in my pocket. I now own an iPod, an iPad, an iPhone and a Mac Mini. I may buy an iWatch, too.

So when Mr. Market ratchets down the share price of Apple and my other core holdings, I shrug, continue to reinvest the generous dividends of all four and, when I have cash to spare, use the opportunity to buy more shares. ■

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.

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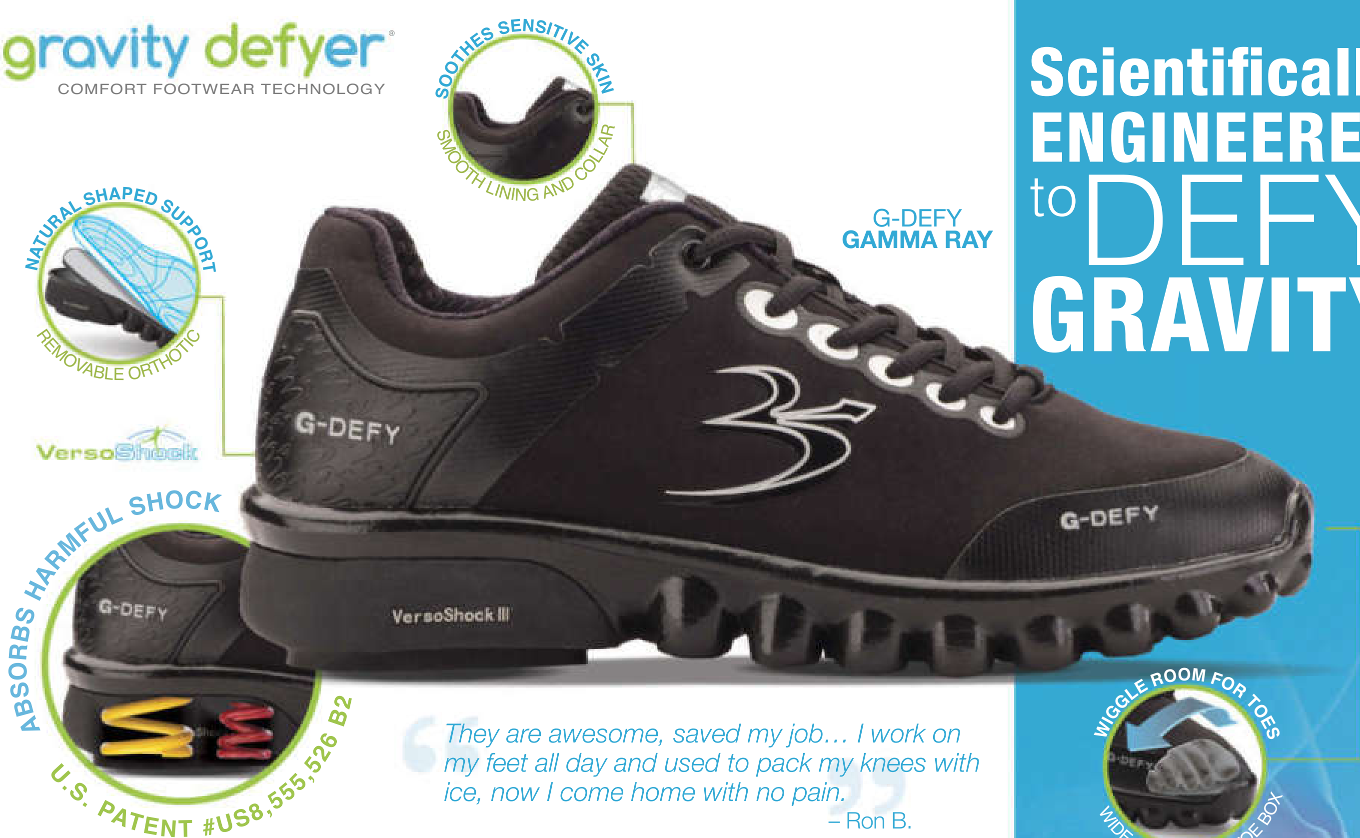
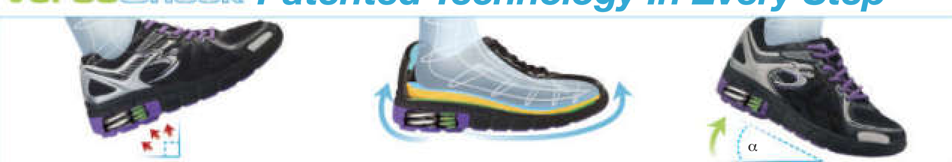


"They are awesome, saved my job… I work on my feet all day and used to pack my knees with ice, now I come home with no pain."
– Ron B.

VersoShock *Patented Technology In Every Step*



PROTECTION	COMFORT	PERFORMANCE
Absorbs Harmful Impact	Stores Energy, Distributes Force	Returns Energy

- ✓ Absorb harmful impact
- ✓ Stay comfortable & active
- ✓ Support & protect your body
- ✓ Stand & walk with greater ease

WIDE WIDTH AVAILABLE
X-WIDE WIDTH AVAILABLE

Feel better. Do more.
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THE KIPLINGER ETF 20 UPDATE

More Trouble for Pimco

PIMCO TOTAL RETURN ACTIVE ETF RECENTLY made headlines—and it wasn't because the exchange-traded bond fund was among the dozens of ETFs that crashed on the day the Dow Jones industrial average plummeted by more than a thousand points at the start of trading. Rather, the news was the revelation that the Securities and Exchange Commission was investigating Pimco's stewardship of the fund.

Pimco, the enormous Newport Beach, Calif., bond specialist, disclosed that the SEC was investigating a four-month stretch starting from the fund's inception, on February 29, 2012. Regulators are looking into the method Pimco used to value small positions in non-government-agency mortgage-backed securities that the fund purchased during the period, as well as what effect the pricing procedures had on the fund's reported performance over that period. Pimco says it is working with the SEC to demonstrate that its conduct was "appropriate, in keeping with industry standards."

Total Return Active ETF is, as its name suggests, an actively managed ETF (most ETFs merely seek to match an index). The ETF is run like Pimco's flagship mutual fund, Pimco Total Return (symbol PTTDX), which is not a part of the investigation. The ETF holds $2.5 billion in assets; the mutual fund, which was once the biggest in the land, contains $98 billion.

Should investors in the ETF be worried? No. "The worst-case scenario is that Pimco pays a fine, which doesn't impact shareholders of the ETF one bit," says analyst Todd Rosenbluth, of S&P Capital IQ. Tom Lydon, editor of ETFtrends.com, agrees. "It won't be a big deal," he says. (For an interview with Lydon about the summer's wild ETF trading, see "Ahead," on page 11.)

The inquiry comes on the heels of a rocky year for Pimco. In late September 2014, Bill Gross, a cofounder of the firm and the lead manager of both incarnations of Total Return, abruptly left and joined the Janus fund group. Gross was the ETF's manager during the period covered by the SEC investigation. His departure came after a nearly two-year stretch of subpar results at Total Return.

The firm replaced Gross on Total Return (both the ETF and mutual fund versions) with Scott Mather, Mark Kiesel and Mihir Worah, all longtime Pimco managers, and they appear to have things in hand. Over the past 12 months through September 7, the ETF returned 2.7%, outpacing the fund's bogey, Barclays U.S. Aggregate Bond index, by 0.4 percentage point.

So we're keeping Total Return Active in the Kiplinger ETF 20. We like its low exposure to U.S. Treasuries (6% of assets), which are especially sensitive to rises in interest rates (bond prices and rates move in opposite directions). Plus, the ETF yields 2.6%, 0.5 percentage point more than 10-year Treasuries. **NELLIE S. HUANG**

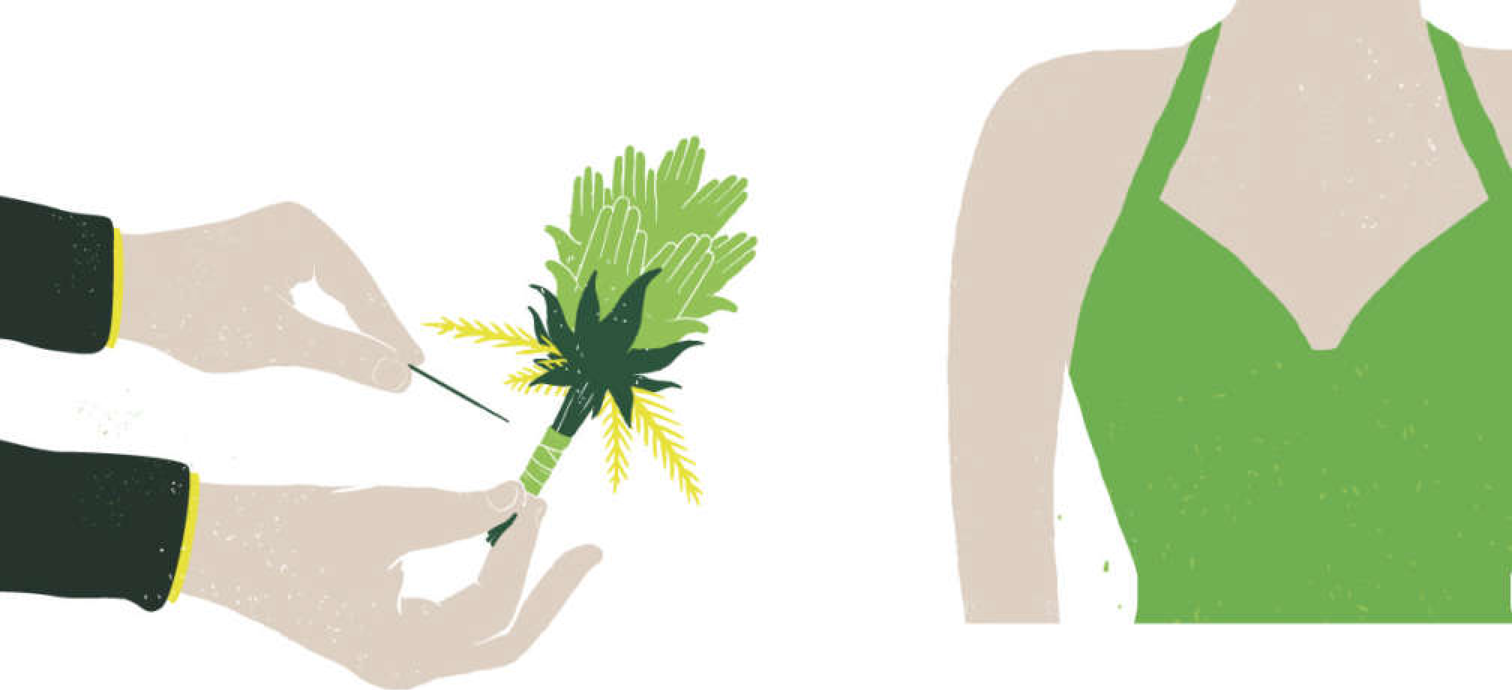
Returns, Fees, Free Trades

KIPLINGER ETF 20: VITAL STATISTICS

Fund	Symbol	Recent price	Annualized total returns 1 yr.	3 yrs.	5 yrs.	Yield	Exp. ratio	Commission-free trades
CORE STOCK MARKET FUNDS								
iShares Core S&P 500	IVV	$194	–1.9%	13.4%	14.0%	1.9%	0.07%	F, FT, TD
iShares Core S&P Mid-Cap	IJH	139	–2.0	13.7	14.1	1.3	0.12	F, FT, TD
iShares Core S&P Small-Cap	IJR	109	–0.2	14.0	15.3	1.2	0.12	F, TD
Vanguard FTSE Devel Markets	VEA	36	–11.7	7.2	5.2	NA	0.09	TD, V
Vanguard FTSE Emerg Mkts	VWO	33	–27.0	–3.5	–2.6	NA	0.15	FT, TD, V
Vanguard Total Intl Stock	VXUS	44	–15.7	4.5	—	NA	0.14	V
Vanguard Total Stock Market	VTI	100	–1.9	13.6	14.3	2.0	0.05	TD, V
DIVIDEND STOCK FUNDS								
iShares US Preferred Stock	PFF	$39	4.8%	5.7%	6.7%	5.5%	0.47%	F
Schwab US Dividend Equity	SCHD	36	–5.6	10.8	—	3.0	0.07	S
Vanguard High Dividend Yield	VYM	62	–4.5	11.4	15.9	3.4	0.10	TD, V
WisdomTree Intl LgCap Div	DOL	43	–15.3	5.2	4.3	3.0	0.48	E
CORE BOND FUND								
iShares iBonds Mar 2020 Corp	IBDC	$105	2.7%	—	—	2.3%	0.10%	
OPPORTUNISTIC STOCK FUNDS								
Financial Select Sector SPDR	XLF	$23	–1.6%	16.3%	11.1%	1.8%	0.15%	
Guggen S&P 500 Eq Wt Health	RYH	149	15.6	26.3	23.0	NA	0.40	S
Vanguard Information Tech	VGT	100	0.3	12.5	15.0	1.4	0.12	V
WisdomTree Euro Hedged Eq	HEDJ	56	0.4	12.7	7.7	1.6	0.58	E
OPPORTUNISTIC BOND FUNDS								
iShares J.P. Morgan USD EM Bd	EMB	$108	–2.1%	1.0%	4.2%	5.4%	0.40%	F
Market Vectors Fallen Angel HY	ANGL	26	–0.7	6.3	—	5.7	0.40	
Pimco Total Return Active	BOND	106	2.7	3.1	—	2.6	0.55	
PowerShares Senior Loan Port	BKLN	23	–1.2	2.3	—	5.2	0.65	S
INDEXES								
S&P 500-STOCK INDEX (large U.S. stocks)			**–1.8%**	**13.4%**	**14.1%**	**2.2%**		
MSCI EAFE INDEX (foreign stocks)			**–10.2%**	**6.8%**	**6.0%**	**3.2%**		
BARCLAYS US AGGREGATE BOND INDEX			**2.3%**	**1.6%**	**3.2%**	**2.4%**		

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

Through September 7. NA Not available. —Fund not in existence for the entire period. SOURCE: © 2015 Morningstar Inc.



JEFFREY R. KOSNETT > Income Investing

Why Yields Aren't Going Up

> **"Inflation, the great enemy of bondholders, is almost nonexistent, and demand remains strong for Treasuries and other high-quality, income-paying assets."**

The Dow Jones industrial average is down 415 points when bond sage Sreeni Prabhu declares over the phone that "stock market volatility sure does help fixed income." Although he believes the Federal Reserve's plan to finally take short-term interest rates off rock bottom is correct, Prabhu doesn't worry that such a move will torpedo the bond market. In plain language, he's convinced that no matter what the Fed does with short-term rates, long-term rates aren't going to change much because investors are so concerned about turmoil in the stock market. (Prabhu's best idea, incidentally, is mortgage-backed securities, both government-backed and so-called non-agency securities. **DOUBLELINE TOTAL RETURN BOND [SYMBOL DLTNX]**, a member of the Kiplinger 25, invests in both kinds.)

An hour later, with the Dow off 385 points, I ring up Kansas City bond strategist Dan Heckman. He seconds Prabhu's view that no matter what the Fed does, bond yields will remain flat or even dip a bit because "volatile stock markets create a floor that supports bond prices" (bond prices and interest rates move in opposite directions).

One reason the Fed's long-anticipated hike, the first since 2006, probably won't sink bond prices is that the Fed isn't really tightening credit; it's simply reclaiming some of the extreme stimulus measures it used to combat the Great Recession. Beyond that, inflation, the great enemy of bondholders, is almost nonexistent, and demand remains strong for Treasuries and other high-quality, dollar-denominated, income-paying assets.

And then there's China. Prabhu, chief investment officer for Angel Oak funds, and Heckman, who works for U.S. Bank, have crowned China as the best friend of U.S. bond investors. The downshift in growth and other economic stresses in the world's second-biggest economy buttress my contention that rates on high-quality medium- and long-term bonds in the U.S., Europe and the rest of the developed world will move little in the foreseeable future.

Worrywarts will always see disaster behind the headlines. The China horror movie goes like this: The country is a house of cards, full of zombie companies and insolvent banks. To rescue these walking-dead firms and buy social peace by paying wages to millions of people working at unnecessary jobs, the crony Communists in Beijing will cut purchases of Treasuries and draw down China's $4 trillion in hard-currency savings. The U.S. Treasury won't be able to find other big buyers to finance our debt, so T-bond prices will drop and yields will ascend. Main Street will join Wall Street in the soup as fear spreads that the days of affordable mortgages and cheap business credit are just about over.

Minimal impact. I don't buy the doomsday scenario. The Chinese stock market is a manipulated joke. Although its economy is a force, China accounts for only 1% of our exports. Moreover, compared with almost every other place in the world, the U.S. is cooking. Gross domestic product in the U.S. grew at an impressive annualized rate of 3.7% in the second quarter. Kiplinger expects growth of 2.5% for all of 2015 and 2.8% in 2016. And this is being accomplished with almost no inflation.

It's true that the U.S. bond market wobbled a bit over the summer, with the yield on the benchmark 10-year Treasury bond rising to 2.5%. For a while, all major bond categories briefly showed negative year-to-date returns. But as soon as China lit the stock market fire, the 10-year Treasury yield fell below 2% again. As of September 7, the 10-year yielded 2.1%. Look for the yield to stay in a narrow range the rest of the year. And if that happens, your bonds and bond funds will end 2015 in the plus column. Can't say that about your stocks. ■

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

LISE METZGER

THE KIPLINGER 25 UPDATE

Emerging Markets: Not a Pretty Picture

WHAT HAD BEEN A ROUGH FEW years for emerging markets has turned into a full-fledged bear market. Since late April, the MSCI Emerging Markets index has sunk 25%. As a result, the index is now in negative territory for the past five years, with an annualized loss of 2.3%.

The biggest culprit is China, which accounts for one-fourth of the index. Though it soared early in the year, the MSCI China index has plunged 33% since late April. The collapse accelerated in mid August, when the government devalued the yuan, fueling concerns that China's economy is in much worse shape than the authorities are letting on.

Looking beyond China, many experts say emerging-markets stocks have yet to hit bottom. Although they are now better priced, says Alejo Czerwonko, a strategist for UBS, "there's still a lot of uncertainty in the emerging world."

How have the two Kiplinger 25 funds that focus on emerging markets fared? On an absolute basis, poorly; on a relative basis, just fine. **HARDING LOEVNER EMERGING MARKETS**, a stock fund, fell 23.7% over the past year, losing 3.3 percentage points less than the Emerging Markets index. "We're in the downside of the cycle," says Rusty Johnson, one of the fund's comanagers. He sees bright spots in some countries, such as India, Mexico and Poland, that have low debt and structural reforms under way.

Emerging-markets bond funds have also had a tough time. Although **FIDELITY NEW MARKETS INCOME** dropped 5.0% over the past year, that was 6.6 percentage points less than the amount lost by the typical emerging-markets bond fund. The fund's focus on dollar-denominated debt helped avoid currency losses associated with the strong dollar. New Markets yields 5.6%.

With each passing year of dismal results, it becomes harder to argue for placing some of your money in emerging markets. But the case for investing in them remains the same as it always has: Economies of developing nations are growing at twice the rate of developed economies. Plus, many emerging nations are much stronger than they were during previous financial crises, says Omar Aguilar, chief investment officer of stocks at Charles Schwab Investment Management.

That being the case—and because it's better to buy low—we are keeping Fidelity and Harding Loevner in the Kip 25. **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	3.2%	16.7%	17.5%	—	Dec. 2009
Davenport Equity Opps	DEOPX	1.2	16.1	—	—	May 2014
Dodge & Cox Stock	DODGX	–6.3	15.3	14.3	5.8%	May 2008
Fidelity New Millennium	FMILX	–5.2	12.8	13.8	8.8	May 2014
Homestead Small Co Stock	HSCSX	0.3	14.0	15.5	10.1	May 2012
Mairs & Power Growth	MPGFX	–4.6	12.6	13.6	7.4	Jan. 2013
Parnassus Mid Cap	PARMX	–0.8	11.8	13.9	8.7	Aug. 2014
T. Rowe Price Divers Sm-Cap Gro	PRDSX	4.3	16.4	17.8	9.7	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	–6.0	9.6	11.9	7.0	May 2009
T. Rowe Price Value	TRVLX	–5.3	15.2	14.0	7.2	May 2015
Vanguard Dividend Growth	VDIGX	–1.0	12.2	13.5	8.3	May 2010
Vanguard Selected Value	VASVX	–6.4	14.4	13.8	7.7	May 2005

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Artisan International	ARTIX	–10.7%	7.7%	8.4%	5.4%	May 2015
FMI International	FMIJX	–2.1	11.3	—	—	April 2015
Harding Loevner Emrg Mkts	HLEMX	–23.7	–0.6	0.0	5.3	May 2013
Matthews Asian Gro & Inc	MACSX	–15.6	1.8	3.3	7.0	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	–4.1%	8.6%	9.1%	7.0%	Oct. 2008
Merger	MERFX	–3.0	1.6	2.0	3.0	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	3.4%	3.3%	6.0%	—	May 2011
Fidelity Intermed Muni Inc	FLTMX	1.6	2.1	3.1	3.8%	May 2004
Fidelity New Markets Income	FNMIX	–5.0	1.2	5.0	7.4	May 2012
Fidelity Total Bond	FTBFX	1.5	2.1	4.0	4.9	May 2014
Met West Unconstrained Bd M	MWCRX	0.2	3.4	—	—	May 2013
Osterweis Strategic Income	OSTIX	–0.3	4.3	5.2	6.3	May 2013
Vanguard Sh-Tm Inv-Grade	VFSTX	1.2	1.6	2.2	3.5	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	–1.8%	13.4%	14.1%	6.9%
RUSSELL 2000 INDEX*	–1.4	12.9	13.6	7.0
MSCI EAFE INDEX†	–10.2	6.8	6.0	3.7
MSCI EMERGING MARKETS INDEX	–27.0	–4.4	–2.3	4.9
BARCLAYS AGGREGATE BOND INDEX#	2.3	1.6	3.2	4.5

Through September 7. —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

Alternative for a Rocky Market

A fund that trades futures clocked the stock market over the past year.

WITH THE MARKETS IN TURMOIL, alternative mutual funds are getting a chance to strut their stuff. One category worth a look is managed futures funds. Managers of these funds typically follow trends, betting that asset classes that are performing well will continue to gain and that those in decline will keep sinking. They do so by trading futures contracts (agreements to buy or sell a commodity or financial asset for a set price at a future date).

ALTEGRIS FUTURES EVOLUTION STRATEGY N is one of the few no-load futures funds with a low minimum ($2,500). It shined over the past year, beating Standard & Poor's 500-stock index by 16 percentage points. "Trends that run and persist, such as the strengthening dollar, weakening euro and yen, and declining crude oil prices, have been great opportunities," says Matt Osborne, co-president of Altegris Advisors.

Two firms that specialize in futures manage up to one-fourth of the fund's assets. Because securing a futures contract usually requires less cash than the contract's face value, Altegris can invest the bulk of its assets in bonds. DoubleLine, which runs Kiplinger 25 member DoubleLine Total Return, manages the fund's bond portfolio to produce extra return beyond the gains (or losses) from the futures trading.

Like other managed futures funds, Evolution Strategy isn't cheap. The fund's expense ratio is 1.94%, though that's slightly lower than the category average of 2.12%. **KAITLIN PITSKER**

MANAGED FUTURES FUNDS Ranked by one-year returns

Rank/Name	Symbol	Annualized total return through Sept. 7: 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Exp. ratio	Toll-free number
1. LoCorr Market Trend A@	LOTAX	27.6%	—	—	5.75%s	2.20%	855-523-8637
2. Longboard Managed Futures Strategy A@	WAVEX	22.7	9.7%	—	5.75	3.24	855-294-7540
3. Credit Suisse Managed Futures Strat A@	CSAAX	20.5	—	—	5.25	1.95	877-870-2874
4. Salient Trend A@	SPTAX	20.2	—	—	5.50	1.73	866-667-9228
5. Abbey Capital Futures Strategy A@	ABYAX	17.3	—	—	5.75	2.01	844-261-6484
6. American Beacon AHL Mgd Futs Strat Inv@	AHLPX	16.3	—	—	none	1.92	800-658-5811
7. LoCorr Long/Short Commodity Strats A@	LCSAX	15.8	3.2	—	5.75s	2.20	855-523-8637
8. Arrow Managed Futures Strategy C@	MFTTX	14.5	1.8	−1.4%	1.00r	2.91	877-277-6933
9. Altegris Futures Evolution Strategy N@	EVONX	14.1	7.8	—	1.00r	1.94	877-772-5838
10. Equinox Chesapeake Strategy A@	ECHAX	13.2	—	—	5.75	1.35	888-643-3431
CATEGORY AVERAGE		**7.4%**	**1.6%**	**1.6%**			

20 LARGEST STOCK MUTUAL FUNDS Ranked by size

Rank/Name	Symbol	Assets† (in billions)	Annualized total return through Sept. 7: 1 yr.	3 yrs.	5 yrs.	Max. sales charge	Toll-free number
1. Vanguard Total Stock Market Idx Inv@	VTSMX	$326.2	−2.0%	13.5%	14.1%	none	800-635-1511
2. Vanguard Total Intl Stock Idx Inv@	VGTSX	172.0	−15.4	4.5	3.2	none	800-635-1511
3. Vanguard 500 Index Inv@	VFINX	171.0	−2.0	13.2	13.9	none	800-635-1511
4. American Growth Fund of America A@	AGTHX	137.6	0.0	15.3	13.8	5.75%	800-421-0180
5. American EuroPacific Growth A@	AEPGX	120.1	−8.2	7.7	5.5	5.75	800-421-0180
6. Fidelity Contrafund@	FCNTX	106.3	1.8	14.2	14.5	none	800-343-3548
7. American Capital Income Builder A@	CAIBX	92.3	−6.1	6.0	7.3	5.75	800-421-0180
8. American Income Fund of America A@	AMECX	90.5	−5.8	7.6	9.0	5.75	800-421-0180
9. Franklin Income A@	FKINX	87.9	−11.8	4.6	6.7	4.25	800-632-2301
10. Fidelity Spartan 500 Index Inv@	FUSEX	86.6	−1.9	13.3	14.0	none	800-343-3548
11. Vanguard Wellington@‡	VWELX	85.9	−2.1	9.2	9.8	none	800-635-1511
12. American Capital World Gro & Inc A@	CWGIX	80.9	−7.5	9.8	8.4	5.75	800-421-0180
13. American Balanced A@	ABALX	78.8	−1.5	9.7	10.6	5.75	800-421-0180
14. American Washington Mutual A@	AWSHX	71.3	−4.9	11.6	12.9	5.75	800-421-0180
15. American Invstmt Co of America A@	AIVSX	69.8	−4.8	12.8	12.4	5.75	800-421-0180
16. Dodge & Cox International Stock**	DODFX	68.6	−18.0	9.0	5.7	none	800-621-3979
17. American Fundamental Inv A@	ANCFX	67.9	−2.9	13.0	12.5	5.75	800-421-0180
18. Dodge & Cox Stock	DODGX	60.6	−6.3	15.3	14.3	none	800-621-3979
19. American New Perspective A@	ANWPX	56.2	−1.9	11.6	10.6	5.75	800-421-0180
20. Vanguard Mid Cap Index Inv@	VIMSX	52.0	−0.1	15.8	14.7	none	800-635-1511
S&P 500-STOCK INDEX			**−1.8%**	**13.4%**	**14.1%**		
MSCI EAFE INDEX			**−10.2%**	**6.8%**	**6.0%**		

@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. sFront-end sales charge; redemption fee may apply. rMaximum redemption fee. MSCI EAFE index consists of developed foreign stock markets. SOURCES: Morningstar Inc., Vanguard.

Kiplinger.com

RETURNS FOR THOUSANDS OF FUNDS ONLINE

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

EXPLANATION OF TERMS

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.

Six Home Projects That Save Energy (and Money)

BY PATRICIA MERTZ ESSWEIN

THE AVERAGE AMERICAN HOMEOWNER PAYS ABOUT $2,300 a year in utility bills, according to the U.S. Energy Information Administration. Almost half of the energy we use goes to heat and cool our homes, and more than one-third goes to keeping the lights on and running our appliances and electronics. These six projects will trim the bills, and three of them qualify for the generous renewable-energy federal tax credit if they're completed before year-end 2016 (see the box on page 68). The cost, savings and payback period will

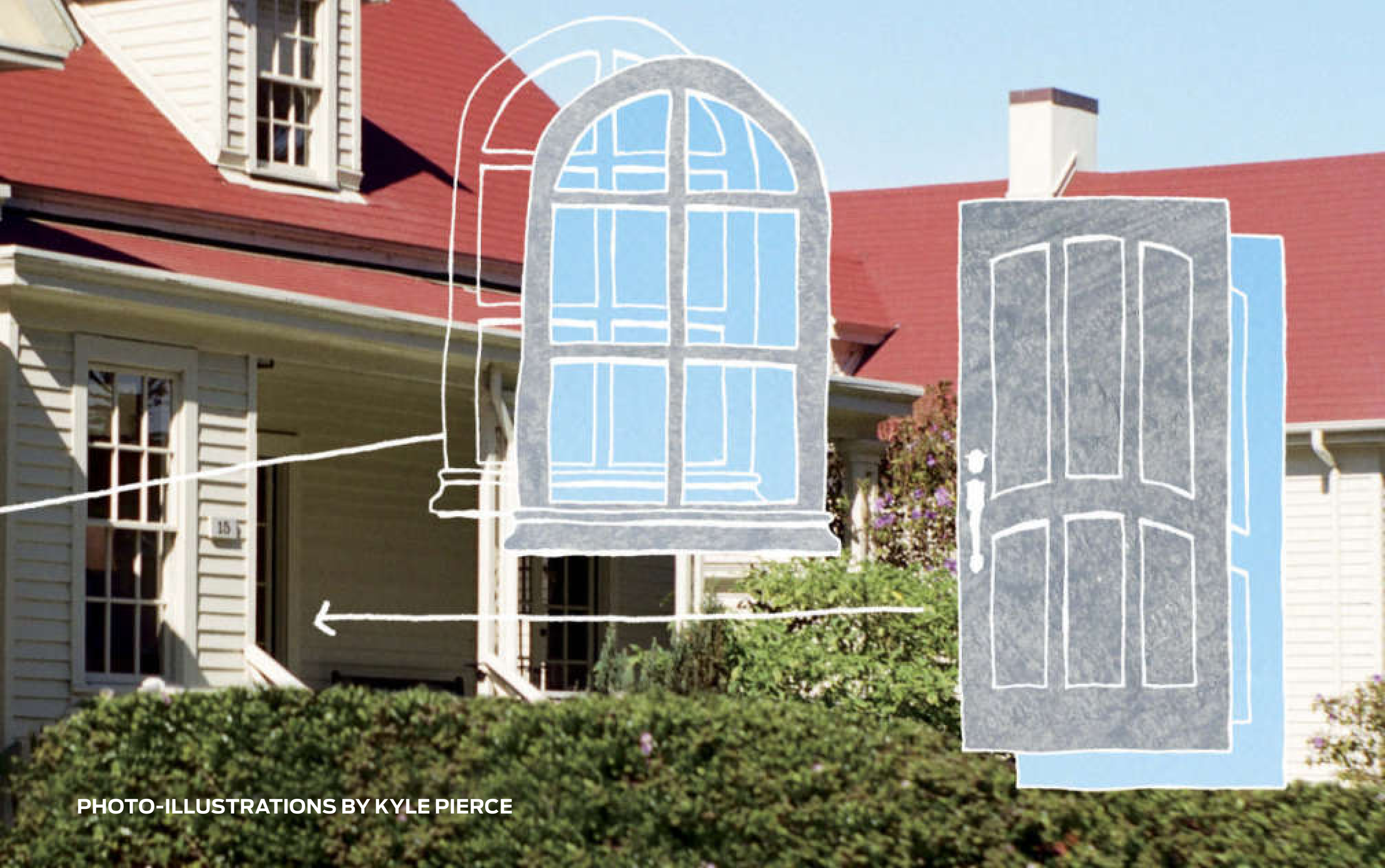


PHOTO-ILLUSTRATIONS BY KYLE PIERCE

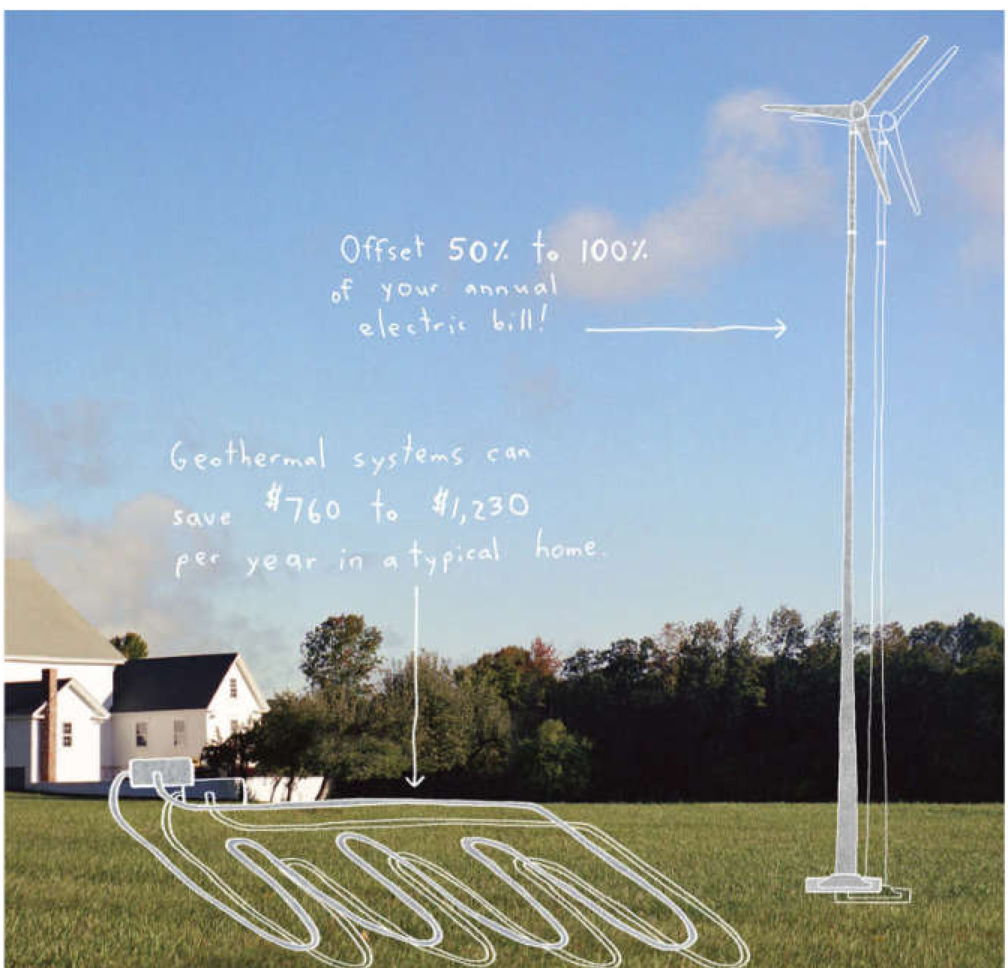
vary depending on your climate, your home (its size, age, construction and condition) and the type of fuel you use. To help decide which projects are right for your home, consider getting an energy audit (see the box on the facing page).

BUTTON UP YOUR HOME

The project: Seal the exterior and add insulation.
Cost: $1,700 to $7,000 for a 2,500-square-foot home.
Savings: The typical single-family home can cut heating and cooling bills by 15% to 35%, or about $165 to $390 in the first year (savings will increase as energy prices rise). The colder your climate, the greater your savings. Plus, when you replace your heating, ventilating and air-conditioning (HVAC) system, you may get by with smaller, less-expensive units.
Details: The exteriors of most U.S. homes are so leaky and poorly insulated that you might as well be leaving a window open year-round. Symptoms? You shiver with drafts or have a room that's never warm or cool enough. In winter, your pipes are liable to freeze or ice dams form on the roof.

The first step, which is easy to do yourself, is to weather-strip and caulk doors and windows, add or replace door sweeps, and adjust or replace locks on window sashes to close any gaps.

The remaining work is best left to the pros. Their first priority will be the attic, where heat escapes, and then the basement, where convection draws cold air. Contractors will find and seal holes and gaps in your home's exterior and add insulation, which works best when air isn't moving through or around it. They will also check your ductwork to ensure that it's straight (bends diminish airflow), sealed and insulated.
Who to hire: Look for contractors who are certified by the Air Conditioning Contractors of America (ACCA; www.acca.org), Efficiency First (www.efficiencyfirst.org), the Building Performance Institute, Energy Star or the Residential Energy Services Network (see the box on the facing page for URLs).
Tip: If your well-sealed house needs more fresh air, you can add mechanical ventilation.



UPGRADE WINDOWS

The project: Replace old windows with new, well-insulated windows.
Cost: $300 to $1,000 apiece for Energy Star–qualified replacement windows (50% to 100% more if you must replace the frame).
Savings: Replacing 10 windows in a typical home would save about $135 in the first year on heating and cooling bills.
Details: You'll save the most if you're replacing single-pane windows. But you'll also benefit if your home has newer but cheap, builder-grade windows. Clues to a problem: The window glass inside feels cold in winter and hot in summer, plus windows are cloudy with condensation, and they don't open easily or close tightly.

Energy Star certifies windows for four climate tiers in the U.S., depending on how well the windows insulate and block heat caused by sunlight. Energy-efficient windows feature at least two panes of glass separated by spacers and filled with air or, better, argon. "Low-E" coatings reflect infrared light, keeping heat inside in winter and outside in summer. Triple-pane windows are more expensive but are most cost-effective in extreme climates. Elsewhere, you may want them to help reduce noise.

If your window frames are in good shape, you can replace just the sashes. If not, you need to replace the frames, too.

Who to hire: Look for window installers certified by the American Window and Door Institute (www.awdi.com) or Installation Masters (www.installationmastersusa.com).

Tip: If your front door is old, warped and has single-pane windows, replace it with an Energy Star model (about $400 to $3,000, including installation).

HEAT & COOL FOR LESS

The project: Install a new, high-efficiency furnace or boiler and add central air-conditioning.

Cost: $5,000 to $10,000, per www.costhelper.com.

Savings: Typical savings on heating and cooling bills: about $400 in the first year.

Details: If your furnace or boiler is at least 15 years old or your central air-conditioning is at least 10 years old, upgrading to an Energy Star–qualified HVAC system is worthwhile. A new, high-efficiency system can be up to 40% more efficient than an older system. (If your furnace has a pilot light, you're likely wasting about one-third of the fuel you use.) Even in a newer home, you may have noticed that your HVAC system fails to heat, cool or dehumidify your home consistently; it requires more frequent repairs; or your energy bills are rising.

When the air-conditioning system uses the furnace's blower to move cooled air through your home, replace both units simultaneously. That will decrease your total cost by about one-third compared with staggered installation. If you have a split AC system, with an outdoor and an indoor unit, you must replace both units to optimize efficiency.

If you live in a warm or moderate climate, an air-source heat pump ($2,000 to $8,000) can efficiently heat, cool and dehumidify your home. If you're heating with electricity, it will cut your electric bill by 30% to 40%. However, when outdoor air temperatures fall to 40 degrees F or lower, air-source heat pumps generally don't perform well.

Who to hire: Look for members of the ACCA who employ technicians certified by North American Technician Excellence (NATE) and adhere to the ACCA's "Quality Installation Specification." Use ACCA's "Residential Quality HVAC Installation" worksheet to compare bids.

Tip: You can increase cost savings by about 10% with a programmable thermostat.

TAP UNDERGROUND ENERGY

The project: Install a geothermal system for heating and cooling.

Cost: A ground-source heat pump costs $3,500 to $7,500, but installation can increase the total cost to $10,000 to $25,000 or more. A 30% renewable-energy tax credit will help offset the cost (see the box on the next page).

Savings: $760 to $1,230 in the first year, based on an increase in your heating system's efficiency by 50% to 70% and your air-conditioning system's efficiency by 20% to 40%.

Details: A geothermal system taps solar energy stored below ground, where the temperature is relatively constant. High-density, polyethylene pipes are buried in your yard and filled with fluid. The heat pump circulates the solution and transfers heat to the house in winter and carries heat away from the house to the ground in summer. In areas with severe winters, you may need a back-up source of heat, usually your existing furnace.

Horizontal systems, with pipes laid about 4 feet to 6 feet deep in trenches, require the most land but are the most economical to install. Vertical systems, with pipes inserted into holes drilled from 100 feet to 400 feet deep, are more expensive but are used if space is limited or bedrock underlies a shallow layer of soil. The pipes are generally warrantied for 50 years, although they may last longer, and the heat pump for five to 10 years, although it can last up to 25 years.

Who to hire: Look for contractors who are trained and accredited by the International Ground Source Heat Pump Association (www.igshpa.okstate.edu).

Tip: You can upgrade the system to channel heat to your hot-water heater and pay about half the usual cost of gas- or electric-fueled water heating in winter and nothing in summer.

KipTip

Get a Home Energy Audit

An energy audit will help you assess your usage and choose the projects that make the most sense. Do-it-yourselfers can try Energy Star's Home Energy Yardstick (go to www.energystar.gov and search for "Home Energy Yardstick"). For a rigorous evaluation, you can hire an energy auditor ($250 to $600). Qualified auditors are trained and certified by the Building Performance Institute (www.bpihomeowner.org), Energy Star (www.energystar.gov) and the Residential Energy Services Network (www.resnet.us). Your utility provider may offer and subsidize an audit.

GET POWER FROM THE SUN

The project: Install a solar-power system.

Cost: The typical home system has 6 kilowatts of generating capacity, which costs about $21,400 to install before any financial incentives and the 30% federal tax credit.

Savings: You can offset up

to 100% of your annual electric bill; for a typical home with air-conditioning and an electric water heater, that's $1,360.

Details: The higher the electric rate you pay, the more sunshine your roof receives and the greater the financial incentives available to you, the better the return on a solar system.

A system consists of photovoltaic panels, usually mounted on the roof of your home, and an inverter that converts the direct current that the panels produce into the alternating current that feeds into your home's electric service panel. Solar power systems are usually connected to the electric grid for backup power. In most states, you can sell electricity back to the grid when your system makes more than you need. You'll almost certainly continue to pay your utility a small fee each month for connection and infrastructure.

If you pay up front, you'll enjoy 100% of the savings after you recoup the cost of the system. If you lease a system, you'll have a monthly payment, but you'll still see 20% to 30% savings on your utility bill. For more on going solar, see kiplinger.com/links/solar.

Who to hire: Attend energy expos and home-and-garden shows to find installers, or contact your local chapter of the American Solar Energy Society (see www.ases.org) for referrals. The best installers are certified as photovoltaic installation professionals by the North American Board of Certified Energy Practitioners (www.nabcep.org).

Tip: To get apples-to-apples comparisons of proposals for your home from local installers, visit www.energysage.com.

KipTip

Cash In on Incentives

The renewable-energy tax credit will reduce your federal income tax dollar for dollar by up to 30% of the cost (including installation) of a geothermal heat pump, solar electric system or small wind turbine. The credit expires next year. You must buy the system for your primary residence or second home, and it must be installed by December 31, 2016.

Congress may revive a tax credit that expired in 2014 equal to 10% of the cost of energy-efficient home improvements—up to a lifetime maximum of $500. Eligible projects in the past included insulation, heating and cooling equipment, and replacement windows and doors. If you complete a project in 2015 or are thinking of one for 2016, check www.energystar.gov for updates.

Your state or utilities may offer rebates for projects that improve your home's energy efficiency. To see what's available, check the Database of State Incentives for Renewables and Efficiency (www.dsireusa.org). For example, customers of Tampa Electric, in Florida, can recoup $50 for ductwork sealing, $275 to $400 for installation of an air-source heat pump, $200 to $350 for ceiling insulation, 31 cents per square foot for wall insulation, and $2.65 per square foot for replacement windows. Customers of Southern California Gas can choose a Home Upgrade program with a rebate of up to $6,500.

Funding for incentive programs may be limited. Contact your state or utility to verify availability, requirements for eligibility and deadlines.

HARNESS THE WIND

The project: Create electricity with a turbine.

Cost: A turbine with a capacity of 10 kilowatts, sufficient to supply a 2,500-square-foot house using about 2,000 kilowatts of electricity per month, will cost $65,000 to $70,000 before incentives (including a 30% federal tax credit).

Savings: You can offset 50% to 100% of your annual electric bill with a small wind turbine, for a typical savings of $680 to $1,360.

Details: Wind turns the fan blades on a turbine's rotor, which spins a shaft connected to a generator, which generates electricity. The turbine is mounted on a tower on a concrete pad. Wiring and an inverter to convert direct current to alternating current complete the system.

For a small wind turbine to make economic sense, the wind in your area must blow at an annual average speed of at least 10 miles per hour (search online for "WINDExchange residential map") and your electricity must cost at least 12 cents per kilowatt-hour, which is just under the national average. Small wind turbines are best suited for exurban or rural properties of at least one to two acres, says Mike Bergey, president of Bergey Windpower, a manufacturer of small wind turbines in Norman, Okla. The structure should be at least 200 feet from the nearest house and a distance equivalent to the tower's height from property lines.

The higher the tower, the more electricity the system will produce. The rotor and blades must be higher than any surrounding obstacles. Check your local zoning ordinances, which often limit the height of structures to 35 feet.

Bergey says his company's customers commonly receive bills from their electric provider only in summer, the least windy season. If the system is connected to the grid, you can sell back excess production.

Who to hire: To qualify for the federal tax credit, the wind turbine must be certified by the Small Wind Certification Council (http://smallwindcertification.org). Start there to find manufacturers, whose Web sites will point you to dealers and installers in your area.

Tip: Don't wait too long to get a system installed in 2016, because "there's likely to be a land rush" due to the expiring tax credit, says Bergey. That goes for geothermal and solar, too. ■

TECH»

Say Goodbye to Cell Phone Subsidies

You'll pay retail for your smartphone, but you may save on your plan. BY KAITLIN PITSKER

BLOOMBERG/GETTY IMAGES

IN RECENT YEARS, WIRELESS CARRIERS have vied for smartphone market share by offering flexibility: no-contract, lower-price service plans for customers willing to pay full price for a phone. Now, with nearly every cell phone user a smartphone user, providers are applying that model to all their plans, eliminating the hefty subsidies that longtime customers relied on to knock hundreds off the price of a phone. "The market was based on subsidies for such a long time that the U.S. consumer might think the price of the latest iPhone is $200," says Brad Akyuz, a director at NPD Group, a market research company. You may no longer be tethered to a two-year contract, but you'll pay the retail price for your new smartphone, either up front or in monthly installments.

T-Mobile led the charge in the spring of 2013, when it discontinued two-year contracts. The other three major U.S. carriers—AT&T, Sprint and Verizon—responded with similar, voluntary programs. But in August, Sprint announced that it was eliminating long-term contracts, and Verizon said it would eliminate long-term contracts for all new customers. (AT&T recently stopped offering contracts for sales made at third-party stores.)

How the new plans work. Will the imminent death of the two-year contract and subsidies cost you more or save you money in the long run? That will largely depend on how often you upgrade your device and how much data you use (most no-contract plans include unlimited calling and texting).

You'll be able to upgrade immediately or end service with your current carrier by paying off the remaining balance on the phone. If you forgo another upgrade, you can continue using your current phone and start seeing the benefits of the lower cost of service. The savings should be about $15 to $25 a month, says Logan Abbott, president of Wirefly.com, a Web site that compares phone plans. So if you continue using a paid-off phone for even one more year, you'll save $180 to $300.

Let's say you're ready to upgrade to an iPhone 6. With both Sprint's and Verizon's new plans, you'll pay $27 a month for two years for the 16-gigabyte model, which retails for $650. Sprint charges $20 a month for 1GB of data (and as much as $100 for 10GB), plus a $15 to $25 monthly fee per smartphone to access the service. Verizon's data plans start at $30 a month for 1GB of data (and run as high as $80 for 12GB), plus a $20-per-month line access fee. That's a price break compared with the older contract option: roughly $200 for the phone up front, plus $90 a month, including $50 for service (calls, texts and data) and typically a $25 or $40 access fee.

What you should do now. Whether or not your contract has expired, talk to your mobile carrier about your options. For example, if you are an existing Verizon customer whose contract is up, you may either opt for a no-contract plan or renew your two-year contract and upgrade your device with a subsidy. (If you switch to a no-contract plan before your contract is up, you'll pay an extra $20 a month per line until the contract would have expired.) Bottom line: It's a good time to re-shop your service, says Akyuz. "Some plans are really appealing," he says. "And you gain the freedom to go with another carrier if you see a better deal in a year or so." ■

LOWDOWN

What You Need to Know About Cold, Hard Cash

Currency still has its place, despite the pervasive use of plastic. BY LISA GERSTNER

1. A cashless society? Not so fast. From PayPal to Bitcoin to Samsung Pay (the newest contender among mobile wallets), advances in payment technology make pocket change look as if it's headed for the history books. But according to a 2012 Federal Reserve study, 40% of an average consumer's transactions were in cash—more than for debit cards (25%), credit cards (17%), electronic payments (7%) and checks (7%). The number of notes in circulation has grown by about 5% per year since then, says Doug Conover, an author of the study.

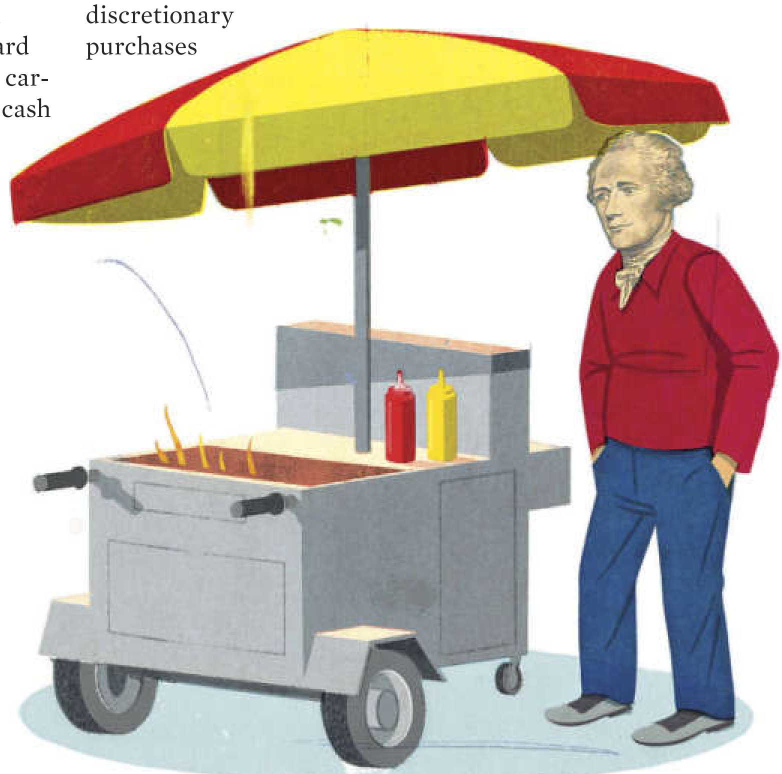
2. Currency comes in handy. Most vending machines don't take plastic, and cash works best for all small purchases. In the Federal Reserve study, consumers used cash for two-thirds of transactions smaller than $10 and for half of all payments of less than $50. Merchants are legally permitted to refuse plastic for transactions of less than $10, and they may provide a discount to customers who pay with cash. For most people, $50 or so is an adequate amount of cash to keep on hand, says Matt Schulz, senior industry analyst for CreditCards.com.

3. Hamiltons can't get hacked. With data breaches of major retailers becoming common, some consumers have turned to cash payments to prevent hackers from obtaining their credit card information. But plastic carries one big benefit that cash doesn't: If a thief racks up charges on your credit card, you're protected by the card networks' zero-liability policies. And banks will most often reimburse you for fraudulent debit card charges.

4. A cash fix can cost you. Use an ATM outside your bank's network and you'll pay more than $4, on average, in combined fees to the bank and the ATM's owner, according to a MoneyRates.com survey. Check your bank's app or Web site to locate in-network ATMs. Or use a checking account that reimburses ATM surcharges (Ally Bank pays back up to $10 a month). A few banks have introduced ATMs from which customers can get cash by arranging a withdrawal on a smartphone app, then using the app to scan a QR code that the ATM displays—no card required.

5. It's a great budgeting tool. If you have trouble controlling your spending when you pay with credit cards, then favoring cash or a debit card is best for your finances. With cash, you can spend only what you have, so you may treat your money more carefully if you see real dollars leaving your hands. Divide the cash into envelopes labeled for each category of your monthly budget—or at least for discretionary purchases such as eating out and shopping. Unfortunately, doing that means you won't be able to use online tools that automatically track each dollar you spend. But with mobile apps such as GoodBudget and Mvelopes (both are available for Apple and Android devices), you can create virtual envelopes and connect to your bank account to see where the money goes.

6. But it won't help build your credit history. Consider using a credit card now and then—perhaps for routine purchases, such as gas, that won't tempt you to overspend. A history of responsible card usage on your credit record can help you get the best terms on a mortgage or other loan. It may even improve your prospects for getting a job or an apartment rental. ■



PETE RYAN

THEN AND NOW

Garrick Jones: Teaching players about life after football.

An NFL Veteran Tackles a New Career

THEN: Garrick Jones had bounced around the NFL and the Canadian Football League as an offensive tackle for several years, and he had recently been signed by the Houston Texans when he appeared in our "Bonus Babies" story in December 2004. He knew his $305,000 annual salary could be short-lived, so he was saving in the NFL's 401(k) plan, continuing the graphic-design business he started in high school and making the most of his NFL connections to prepare for life after football. "This is the best temporary job you can have," he said, "but it helps to have something to fall back on."

NOW: Jones, now 36, continued to play for the Texans and became involved in programs to help disadvantaged kids in Houston. He went to the Atlanta Falcons' training camp in 2006 but returned to Houston while his wife was going through a high-risk pregnancy with twins. A year after Gavin and Gizelle were born in 2007, he returned to Canada and played in Calgary and Edmonton for three years.

Jones ran into financial troubles while going through a divorce in 2008, the same year he suffered a shoulder injury and was placed on injured reserve. In 2009, he left Canada and was hired by an arena football team in his hometown of North Little Rock, Ark., near his children. "I wanted to do some coaching and playing, and my son wanted to see me play," he says.

After retiring from football in 2010, Jones had to adjust to a new life. He maintained his graphic-design business on the side, but gradually transitioned into the coaching and business side of football to "develop a league where I could focus on things I knew would be beneficial to the players."

In 2012, he cofounded the States Developmental Football League, which helps players between the ages of 18 and 30 in Arkansas and Texas learn about both football and finance. He uses his NFL connections to give players exposure to coaches and scouts, and he brings in outside experts to offer classes in budgeting, investing and starting a business. "We try to teach them about the things they need to know outside of being players," says Jones. "Nobody taught me that in the NFL you get paid six months out of the year but not the other six months. You need to learn to live below your means."

His players benefit from his experience and mistakes. "I was paid well. But at any given moment, that career can be taken away from you through an injury, or you can be cut from the team," he says. "You have to understand that success is not guaranteed. But the NFL is a great platform from which to do other things." **KIMBERLY LANKFORD**

ASSOCIATED PRESS

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