Kiplinger's

PERSONAL FINANCE

Max Out Your TAX REFUND

Use our guide to get all the tax breaks you deserve and lower your tax bill. p 42

PLUS: Moving in retirement? Check state taxes first. p 52

MARCH 2023


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FOUNDED 1947

VOL. 77 NO. 3

PETE RYAN

AHEAD

INVESTING

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MONEY

ON THE COVER: PHOTO BY C.J. BURTON

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ADRIAN BAUER

GET MORE ADVICE FROM KIPLINGER

Kiplinger.com

19 BELIEVE-IT-OR-NOT TAX BREAKS

Your fellow taxpayers have successfully claimed write-offs for many things that most of us wouldn't even imagine, from cat food to body oil used by a professional bodybuilder. We've picked 19 of our favorites.

kiplinger.com/kpf/tax-breaks

WHAT YOU'LL REGRET KEEPING IN A SAFE-DEPOSIT BOX

Locking away certain valuables and important documents in a bank vault could turn into a headache for you or your heirs.

kiplinger.com/kpf/regrets

CALCULATING RMDs FOR 2023

If you don't need to live on your RMDs, then last year's market downturn could have a bright side: lower RMDs this year and lower taxes, says financial adviser Chris Gullotti.

kiplinger.com/kpf/rmds

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GETTY IMAGES

Social Security

I did the usual analysis of my projected cash flow in retirement and where Social Security would fit in ("From the Editor," Jan.). The bird in the hand prevailed, and my wife and I both claimed at 66, the full retirement age for each of us. While I don't expect to see an overt reduction in our benefits over our lifetimes, I do expect to see, more likely, covert reductions via means testing, a larger percentage of benefits being taxed, or adjustments to increases whereby low-dollar beneficiaries may get a higher percentage increase than high-dollar beneficiaries. Also, the taxes—or whatever you want to to call them—for Medicare Parts B and D based on income will also continue to erode benefits without actually "reducing" them. The Feds have enough smart people to figure out multiple ways to skin a cat.

JOE SYKORA
WOODLAND HILLS, CALIF.

I chose to delay taking Social Security until I was 70-plus because I was still working. I wanted the 8%, but I also did not want the added cash, which would have increased my tax burden. The tax impact has to be considered as well as other financial issues when deciding to take or defer taking Social Security.

RICHARD D. WILLIAMS
LINCOLN CITY, ORE.

An 8.7% cost-of-living increase in Social Security does not cover the increase in the cost of a person's living expenses, even with the small decline in Medicare Part B. In the past 12 months, the cost of food is up 10.9% and the cost of energy is up 17.6% [according to the CPI report released in early November]. Have you purchased a dozen eggs lately? This "raise" doesn't make a retiree's net balance sheet positive compared with a year ago.

JOHN WENDEL
HUDSON, WIS.

Accounts for expats. Schwab's high-yield checking account is not available to U.S. persons who are residing abroad ("Free Checking From Your Broker," Jan.). But Schwab offers American expats a Schwab International Brokerage account, which provides unlimited ATM fee reimbursements worldwide with no foreign-transaction fees and free check writing. Securities and cash are held in one account, so there is no need to transfer funds.

JOHN A. MAXWELL
AJIJIC, JALISCO, MEXICO

Vanguard fees. We have done exceptionally well investing in Vanguard funds over the years ("Bogleheads Stay the Course," Jan.). However, Vanguard is now requiring you to convert to a brokerage account instead of simply staying with its regular mutual fund platform, or else you will be charged a $20 annual fee for each fund you own.

LEWIS FISCHER
JACKSONVILLE, FLA.

Credit card perks. You did not say that there are several credit cards that offer primary (not secondary) CDW rental car insurance coverage in which you do not have to file a claim with your insurance company ("Tap Your Credit Card's Perks and Protections," Jan.). They include Chase Sapphire Preferred, Chase Sapphire Reserve and Capital One Venture X Rewards Card.

DAVID HAHN
ST. PETERSBURG, FLA.

Editor's note: Note that those cards charge annual fees of $95, $550 and $395, respectively.

Real ID delay. The Department of Homeland Security announced early in December that they intend to extend the deadline again for individuals to have a Real ID–compliant driver's license or other approved form of ID for boarding domestic/commercial air flights ("Kiplinger's 2023 Money Calendar," Jan.). The DHS is moving the deadline to May 7, 2025.

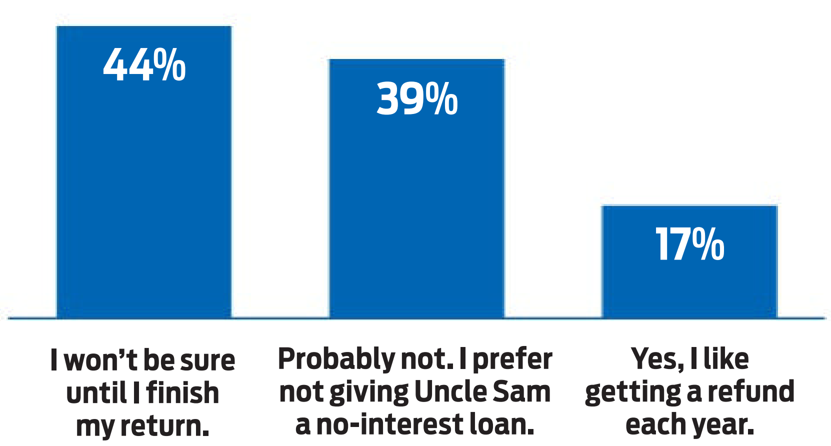
DICK CARTER
OAK RIDGE, TENN.

Clarifications. If you were married at least 10 years and then divorced and your ex-spouse predeceases you, you may be eligible for survivor benefits of 100% of his or her benefits ("Yours, Mine and Ours: Social Security Benefits for Couples," Jan.). However, if you remarry before you reach age 60 (age 50 if you have a disability), the remarriage could affect your eligibility.

The 3% yield on a Capital One 360 savings account we mentioned is for the Performance Savings account ("Fixing your Fixed-Income Portfolio," Feb.).

READER POLL

Do you expect to get a refund for your 2022 taxes?



For strategies to lower your tax bill, turn to page 42.

CONTACT US

Reader Feedback may be edited for clarity and space, and initials will be used on request only if you include your name. Send to Kiplinger's Personal Finance, c/o Future US LLC, 130 West 42nd Street, 7th Floor, New York, NY 10036, or send an e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.

FROM THE EDITOR

Mark Solheim

The Tao of Indexing

If you have more than a passing interest in investing, you're probably familiar with Burton Malkiel and his modern investing classic, *A Random Walk Down Wall Street.* I've heard this book cited as a must-read my entire four-decade career in personal finance publishing. I am mildly surprised each time he updates it and does another round of author interviews, because it makes me think, *Man, this guy must be at least 90.*

Random Walk, first published 50 years ago, just came out in its 12th edition—and Malkiel turns 91 this year. Senior associate editor Kim Clark recently interviewed Malkiel to find out what's new in the book and what's been on his mind lately (see page 32).

Doubling down on indexing. When the first edition was published, index funds weren't readily available to Main Street investors—Vanguard didn't introduce its first index fund until 1976. Malkiel is still a champion of indexing because he's a proponent of the efficient-market hypothesis, the idea that prices of publicly traded assets reflect all available information, and investors can't beat the market without taking on a great deal of risk (or being as smart as Warren Buffett). As he told Kim: "Over the long term, the old, boring total stock market index fund is the winner because the market is a random walk. ... On average, two-thirds of active managers are beaten by the index in any given year."

In the book's new edition, Malkiel promotes dollar-cost averaging because it gives you the discipline to invest in bad times as well as good. He also discusses behavioral finance, cryptocurrencies, tax-loss harvesting, "lifecycle" investing and strategies for retirees.

Kim asked him what he considers the best developments of the past 50 years. His answer: index funds, Roth IRAs, money market funds and zero-commission exchange-traded funds. She also asked Malkiel what he thinks about environmental, social and governance investing. He is not a fan, mostly because he's not convinced that we can tell which are "good" companies and which aren't, and the ratings services often don't agree.

MALKIEL SAYS THE BEST DEVELOPMENTS OF THE PAST 50 YEARS INCLUDE INDEX FUNDS, ROTH IRAS AND ZERO-COMMISSION EXCHANGE-TRADED FUNDS.

"I fully understand that there are people who will feel much better if they think that some of their money is going into projects that are going to improve humanity," he says. "So put the core of your portfolio in a broad-based index fund. And then, if you want to buy a company that makes solar panels or wind towers, fine. But do it as an add-on to a basic broad index."

If Vanguard founder John Bogle is the godfather of indexing, Malkiel is certainly a candidate for consigliere. In fact, Malkiel was a director of Vanguard for 28 years. Bogle published a number of books, but his *Common Sense on Mutual Funds,* first published in 1999 and updated in 2009, makes the same arguments in favor of indexing as *Random Walk,* though with a deeper dive into the mutual fund industry.

A more recent investing book worth checking out is *The Bogleheads' Guide to Investing.* The Bogleheads are the Jack Bogle groupies who carry on his mission to promote patient, passive indexing as the route to investing success. Kim also wrote our January issue profile of the Bogleheads after attending their conference last fall. It was one of the most volatile days of the bear market, and Kim reported how calm and disciplined the attendees were. You can find out more about their community at the group's appropriately no-frills website, www.bogleheads.org.

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POON WATCHARA-AMPHAIWAN

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AHEAD

TOPIC A

THE NEW RULES OF RETIREMENT

SECURE Act 2.0 gives retirees more time for their nest egg to grow and helps workers save more. **BY SANDRA BLOCK**

HOURS BEFORE HUSTLING OUT of town in December, Congress passed a federal spending bill that includes SECURE Act. 2.0, a potpourri of provisions that could affect the way you save for retirement and manage your nest egg after you stop working.

New distribution rules. In 2023, the starting age for taking required

ILLUSTRATION BY DANIEL HERTZBERG

minimum distributions from traditional individual retirement accounts, 401(k)s and other tax-deferred plans increases to 73, up from 72. In 2033, the starting age will increase to 75.

The change means that individuals who turn 72 this year will get a one-year delay in RMDs, says Tim Steffen, director of advanced planning for Baird. (Technically, you can wait until April 1, 2025, to take your first RMD, but that means you'll need to take two RMDs in 2025.) The legislation isn't retroactive, so if you turned 72 in 2022, you're still required to take your first RMD no later than April 1, 2023.

Retirees who don't need money from their tax-deferred accounts may welcome the delay in RMDs, especially if they need more time for their portfolios to recover from last year's bear market. Similarly, individuals who are in their seventies and still working may appreciate the opportunity to delay distributions until they retire and fall into a lower tax bracket.

The delay could also give retirees more time to convert some of the money in their traditional IRAs to a Roth IRA. Roth IRAs have no RMDs, and because they're funded with after-tax dollars, withdrawals are tax-free. But once RMDs kick in, you can't convert to a Roth until you've taken your required distribution, which could result in a hefty tax bill.

Still, there are downsides to postponing RMDs because you (or your heirs) are eventually going to have to pay taxes on funds in tax-deferred accounts. RMDs are calculated based on the amount of money in all of your tax-deferred accounts at the end of the year and your life expectancy as determined by the IRS's Uniform Lifetime Table. When you're eventually required to withdraw money, the amount of the RMD could be large enough to push you into a higher tax bracket. For that reason, many financial planners recommend taking modest distributions from your tax-deferred plans long before you're required to make withdrawals.

SAVINGS INCENTIVES

Benefits for Younger Workers

While some of the most significant provisions in SECURE Act 2.0 affect retirees and near-retirees, the legislation also contains some benefits for younger savers.

- Starting in 2024, employers can make a matching contribution to an employee's retirement plan account based on the individual's student loan payment amount. This change is designed to address concerns that student loan payments prevent young workers from saving for retirement.

- Beginning in 2027, the Saver's Credit, which is designed to encourage low-income workers to save for retirement, will be simplified. Eligible individuals will receive a credit of up to 50% of the first $2,000 contribution to an IRA or other retirement plan. Instead of reducing the individual's tax bill, the credit will be deposited directly into a retirement account.

- Starting in 2024, employers will be allowed to offer employees a Roth-like emergency savings account of up to $2,500 a year, which could include matching contributions. Employees will be permitted to take up to four tax- and penalty-free withdrawals a year.

Perhaps in a nod to increased confusion about the timing of RMDs, SECURE Act 2.0 significantly reduces the penalties for missing an RMD or taking out less than you're required to withdraw. Starting in 2023, the penalty drops to 25% of the amount you should have withdrawn, down from 50%. The penalty drops to 10% if you take the necessary RMD by the end of the year following the year the RMD was due.

Changes for retirement savers. Starting in 2025, workers who are age 60 through 63 can make a catch-up contribution of the greater of $10,000 or 150% of the age 50-and-older catch-up amount ($7,500 in 2023) to their 401(k) or other employer-sponsored plan. In a quirk of the law that has nothing to do with retirement and everything to do with congressional budget maneuvers, catch-up contributions by workers over 50 who earned at least $145,000 from their employer will be required to go into a Roth 401(k) (more on Roth 401(k)s below).

A better Roth 401(k). If you're worried about being blindsided by large taxable RMDs after you retire, one strategy is to contribute to a Roth 401(k) while you're working. Contributions are after-tax, but withdrawals are tax-free as long as you're 59½ and have owned the account for at least five years. Starting in 2023, if you have a Roth 401(k), you can request that your employer match go into that account. Previously, employer matches were required to go into a pretax 401(k) account. The legislation also eliminates RMDs on Roth 401(k) plans, effective in 2024. In the past, you could avoid RMDs by rolling your Roth 401(k) into a Roth IRA, but if you prefer your employer plan's investment options, you'll have the ability to leave the money there until you need it.

Finally, the legislation will allow some parents to roll over unused funds in their 529 college-savings plans to a Roth IRA—but with significant restrictions. The 529 plan must have been open for at least 15 years, and the rollover amount is limited to the maximum IRA contribution for that year with a lifetime maximum of $35,000. In addition, the owner of the Roth IRA must be the beneficiary of the 529 plan. If the beneficiary of the 529 plan is your child, for example, the Roth IRA must be set up for that child.

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INTERVIEW

REGULATORS FOCUS ON NEW TYPES OF FRAUD

Seniors are among the most vulnerable victims of online scams.

Andrew Hartnett is deputy commissioner of the Iowa Insurance Division and president of the North American Securities Administrators Association (NASAA), which represents state securities regulators and advocates for investor protection and education.

Protecting seniors from fraud and exploitation is part of NASAA's mission. What types of scams are targeting seniors lately? States and the Commodity Futures Trading Commission have brought several actions against sellers of precious metals who were using fear to convince investors to move their retirement savings to self-directed IRAs and use the funds to buy precious metals coins. The sellers did not disclose large mark-ups on the coin prices, and the states and the CFTC alleged that the investors might lose one-third to one-half of their retirement savings just by saying yes. We also continue to see classic scams, such as grandparent scams, in which a con artist poses as a grandchild in distress and asks for money. In a romance scam, a crook feigns romantic interest in a victim to gain trust and then tricks him or her into handing over money or personal information. And there are tech scams where victims are asked to pay money to get nonexistent viruses off their computers or to regain access to their photos online.

How can seniors avoid falling victim to scams? Because scams are so diverse, there's no single approach to help older Americans protect themselves. We need engaged family members who can talk openly about scams and the dangers they present—not only to make older Americans aware of the scams, but also to empower them in case they have fallen victim. We also need older Americans, their families and their caregivers to understand that it's not their fault if they have fallen for a scam. In my experience prosecuting scams, scam artists are unfortunately talented at their work. Those feelings of shame in victims can really be counterproductive and have adverse health consequences.

Are you evaluating the services investment advisers and brokers provide? On the investment-advisory side, there has been a development in the marketplace where investment advisers are increasingly using subscription services or other fee structures that differ from the traditional model of charges based on assets under management. This is something I think states will be focusing on more in the future. We certainly don't want to stand in the way of efforts to right-size fee structures to better fit client needs or to provide services to additional clients, but we do want to make sure that the fees are reasonable and that the services performed are in line with those costs.

On the broker-dealer side, we've been doing on-site exams to see how broker-dealer firms have implemented the Securities and Exchange Commission's 2020 regulation that requires brokers to act in a client's best interest when recommending securities transactions, such as stock purchases. We hope to have a report later this year.

How can investors find a reputable adviser or broker who will best serve their needs? Work with a registered financial professional. The worst cases of victimization that we see almost always involve an unregistered person. You can look up registered brokers and advisers on BrokerCheck (https://brokercheck.finra.org) or call your state securities regulator, who can give you similar information. Understand what your needs are and how the adviser you're thinking of working with gets paid so that you're getting the full value of your investment dollar. **LISA GERSTNER**

PHOTO BY JUSTIN MEYER

TIME TO STOCK UP

DON'T FORFEIT YOUR FSA MONEY

Still have money to spend from your 2022 health care flexible spending account? Here are some ideas to use it up.

Flexible spending accounts, or FSAs, allow employees of companies that offer the accounts to set aside pretax money from their paychecks for out-of-pocket health care or dependent care expenses. A little less than one-fourth of FSAs require accountholders to spend all the money by the end of the plan year, forfeiting their funds if they miss the deadline, according to the Employee Benefit Research Institute. The rest offer some wiggle room, with 42% of FSAs permitting employees to roll over a certain amount of unused funds to the following plan year and 36% offering a grace period of 2.5 months to use up the money.

For FSA plan years that ended December 31, 2022, and have a grace period, you have until March 15, 2023, to spend the funds. And depending on your plan, you may have until March 31 to file claims for reimbursement of eligible purchases that you made before your FSA's spending deadline.

Forsaken Funds

Nearly half of workers forfeited funds in their health care flexible spending accounts in 2019, according to the Employee Benefit Research Institute. A breakdown:

Average worker contribution	$1,179
% of workers who forfeited part or all of FSA funds	44%
Average amount forfeited	$339
Median amount forfeited	$157

Most recent figures available. As part of the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, employers could allow their workers to carry over excess funds, and the provision was extended in 2021.

Spending down your FSA. If your health care FSA has a grace period and you still have 2022 dollars to spend, review your options among qualifying purchases. Health-insurance co-payments and deductibles and prescription drugs are common ways to spend FSA money. But many other products qualify, too.

"FSA eligibility is much broader than most people realize," says Rachel Rouleau, chief compliance officer at Health-E Commerce, the parent brand of FSA Store (www.fsastore.com), a seller of FSA-qualifying products. "FSA Store estimates that the average household spends $1,600 a year on everyday health products that are FSA-eligible."

Don't overlook items that have become newly eligible in the past few years. Thanks to a 2020 law, over-the-counter medications such as pain relievers, cough suppressants, allergy medicine, and heartburn medications qualify, as do certain menstrual-care products. As a result of the pandemic, the IRS has also deemed eligible at-home COVID-19 tests and personal protective equipment including face masks, hand sanitizer and sanitizing wipes. More recently, a 2022 Food and Drug Administration ruling opened the door for consumers to buy hearing aids without a prescription, and as with prescription hearing aids, you can use FSA money to buy them.

You can get a range of medical equipment and devices with FSA funds, from canes, crutches and walkers to blood-pressure monitors, support braces for injured muscles or joints, and CPAP machines and accessories. First-aid kits, bandages and thermometers also qualify, as does sunscreen with an SPF of 15 or higher—and that includes facial moisturizers and lip balms containing SPF. And don't forget that vision and dental expenses such as prescription eyeglasses and contacts lenses (as well as lens solution and cases), reading glasses, and orthodontic braces and aligners are eligible.

For more ideas, visit www.fsastore.com/fsa-eligibility-list, which lists FSA-eligible items. If you find yourself scrambling to buy FSA-qualifying items because you overfunded your account, consider dialing back the amount you contribute to your FSA in future years if you expect to have similar medical expenses. **LISA GERSTNER**

GETTY IMAGES (2)

CALENDAR
3/2023

SATURDAY, MARCH 4
The holiday gifting season is behind us, but you may still be holding on to some unwanted gift cards. If you haven't used them by now, consider cutting your losses and selling them online at a gift card resale site such as Card Cash (www.cardcash.com). You won't get face value for your gift card, but you might get 70% to 80% of the card's value.

SUNDAY, MARCH 12
Daylight savings time begins in most parts of the U.S., which means you'll lose an hour of sleep. While you're changing your clock, take a few minutes to change the batteries in your smoke alarms and other home safety devices.

WEDNESDAY, MARCH 15
The Federal Reserve meets today, and it's expected to raise interest rates another quarter-point. To learn how to take advantage of rising interest rates by switching bank accounts, see page 64.

SATURDAY, MARCH 18
The federal tax-filing deadline is a month away. As the deadline looms, don't overlook ways to maximize your refund or reduce what you owe. See page 42 for guidance on how to trim your tax bill.

▲ THURSDAY, MARCH 23
It's National Puppy Day. Some animal shelters are seeing returns of animals from people who say they can't afford the additional costs. Turn to page 66 to learn how to cut the cost of pet ownership.

FRIDAY, MARCH 31
If you're not satisfied with your Medicare Advantage plan, today is the deadline to switch to a different plan or change to traditional Medicare and, if needed, join a Medicare prescription drug plan. The Medicare Plan Finder at www.medicare.gov/find-a-plan can help you compare plans and enroll in a new Medicare Advantage or drug plan in your area. **EMMA PATCH**

DEAL OF THE MONTH
Luggage prices tend to drop in March. Look for big name brands, such as Kipling and Samsonite, to offer up to 60% off their luggage pieces, says Julie Ramhold, consumer analyst for DealNews.

BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY.

GE'S STORIED HISTORY DATES BACK TO THOMAS EDISON.

GENERAL ELECTRIC REINVENTS ITSELF

General Electric, one of the most storied conglomerates in the U.S., is streamlining itself in a bid to add value for shareholders, starting with the spin-off of its health care businesses. GE HealthCare (symbol GEHC) officially began trading January 4, opening at $54 a share and closing at $60. GE shareholders received one share for every three shares of GE they held. The spin-off is the first of two: GE is cutting loose its energy unit in early 2024; aviation-focused GE Aerospace will be what's left after the spin-offs.

The original GE was formed by the 1892 merger of Thomas Edison's Edison General Electric Co. with another electrical manufacturer. The company became an original constituent of the Dow Jones industrial average in 1896, where it remained until 2018. The sprawling conglomerate became known for everything from lightbulbs to jet engines. Now, it's hoping that the sum of its parts will add up to more than the whole.

The health care business makes and services a variety of medical imaging equipment, among its other products and services. It generated about $18 billion in sales in 2021, roughly half from recurring revenue sources. GE told analysts it expects the spun-off business to generate internal revenue growth at an annual rate in the mid-single-digit percentages, aided by aging demographics, data-driven precision care and other long-term, global trends.

Favorable prognosis. If history is a guide, the outlook is good for this spin-off, according to analysts at BofA Securities. Spin-offs in general tend to do well when mangers are freed from a larger bureaucracy to zero in on core strengths. And seven of the eight biggest medical technology spin-offs over the past 20-plus years have handily outperformed the S&P 500 following their spin-off, says BofA.

But investors should expect some volatility immediately after the spin-off; the average decline for the spin-offs tracked by BofA was nearly 2% in the first 30 days after trading began.

ANNE KATES SMITH

GETTY IMAGES

SPINNING PROFITS

The track record for medical technology spin-offs bodes well for GE HealthCare. At right, eight large-cap spin-offs in the sector and how their shares have performed, relative to the S&P 500 index, post spin-off.

			OUTPERFORMANCE VS. S&P 500 (PERCENTAGE POINTS)		
SPIN-OFF	PARENT	DATE	1-YEAR	2-YEAR	3-YEAR
Zimmer Holdings	Bristol-Myers	7/25/01	44	73	164
Edwards Lifesciences	Baxter Intl	3/27/00	34	90	106
Covidien	Tyco Intl	6/30/07	26	26	25
Hospira	Abbott Labs	5/3/04	19	24	20
AbbVie	Abbott Labs	12/10/12	22	50	15
CareFusion	Cardinal Health	8/23/09	20	21	6
Baxalta	Baxter Intl	6/17/15	—	—	—
Alcon	Norvartis	4/9/19	–5	–16	–17
AVERAGE			**23**	**38**	**46**

—Not applicable; company acquired. SOURCE: BofA Securities

12.9%

The average overall menu price hike at five popular fast-food chains, according to price-comparison website Pricelisto.com, which analyzed data from September 2021 to October 2022. Burger King's Chicken Fries rose 16%, the largest increase for a single item.

RATE PREDICTIONS FOR 2023

Here's where average key interest rates for savers and borrowers will land by the end of 2023, according to forecasts by Bankrate.com chief financial analyst Greg McBride:

		CURRENTLY	END OF 2023
10-year Treasury yield		3.55%	3.00%
30-year fixed-rate mortgage		6.74	5.25
Home equity line of credit		7.62	8.25
Home equity loan		7.75	8.75
Money market account		0.25	0.34
One-year CD	National average	1.38	1.80
	Top-yielding	4.86	5.00
Five-year CD	National average	1.15	1.50
	Top-yielding	4.63	4.10
Savings account	National average	0.20	0.29
	Top-yielding	4.35	5.25
Five-year new car loan		6.13	6.90
Four-year used car loan		6.77	7.75
Credit card		19.60	20.50

STOCK MARKET SLIDE MEANS LOWER RMDs THIS YEAR

Many retirees have seen the value of their retirement assets drop by 20% or more this year. While this has forced many to adjust their spending habits, it may actually result in one benefit for retirees: lower required minimum distributions (RMDs) next year.

That's because RMD amounts for the new year are based on the value of assets in retirement accounts as of the last day of the preceding year. In other words, your RMD for 2023 will be based on how much your traditional IRA and pretax 401(k) accounts were worth as of December 31, 2022.

This process worked against retirees last year because 2022 RMDs were based on the value of accounts on the last day of 2021, when the stock market was at its peak. Unfortunately, RMDs can't be adjusted downward when bear markets occur. So, many retirees faced the double whammy of having to take RMDs that no longer reflected the true value of their nest eggs. And they had to pay taxes on these distributions while they were also paying record-high prices at the supermarket and gas pump.

To calculate your RMD, type "kiplinger rmd calculator" in your search engine or go to kiplinger.com/retirement/retirement-plans/required-minimum-distributions-rmds/603196/calculate-your-rmds.

From *The Kiplinger Letter*

INVESTORS ARE LIKELY TO GET BETTER PRICES ON STOCK TRADES

Coming financial regs could help investors get better prices on their trades. The Securities and Exchange Commission wants to replace the current system, in which brokers send clients' stock trades to market makers for execution in return for a fee. The SEC wants to set up an auction system to handle investors' trades. The idea is to route trades to the market players offering the best prices, as opposed to whichever off-exchange market maker the brokerage has a relationship with. The big stock exchanges, like Nasdaq and the New York Stock Exchange, are in favor, while big market makers such as Virtu Financial and Citadel Securities are opposed, arguing that the fees they earn allow brokers to waive trade fees for their customers.

Another likely reg: Letting exchanges price stocks in fractions of a cent instead of the current system that mostly prices stocks to the nearest penny. Again, the idea is to level the playing field between the exchanges and off-exchange markets, which handle the bulk of retail trades and can already fill orders at fractions of a cent. Off-exchange market makers will fight the move, arguing that it will reduce liquidity and increase transaction costs. However, the SEC is likely to go ahead with both regs with minimal changes sometime next year as it seeks to improve market transparency.

COURTESY OF BURGER KING

INVESTING 2023 MUTUAL

IN A YEAR WHEN EVERY CATEGORY FINISHED IN THE RED, FUND INVESTORS HAD TO BE CHOOSY TO FIND WINNERS

Few investors are sad to see the back of the past year. Just two trading days into 2022, the stock market began to tumble, dragged down by worries about inflation and rising interest rates, among a litany of other concerns. The S&P 500 index hit bear-market territory, defined as a decline of at least 20%, in June. Though the stock market rallied briefly in both the summer and the fall, the damage was done.

FUND GUIDE

BY NELLIE S. HUANG
ILLUSTRATION BY NATALYA BALNOVA

TOP FUNDS IN 11 CATEGORIES

LARGE-, MIDSIZE- AND SMALL-COMPANY STOCK FUNDS, FOREIGN STOCK FUNDS, HYBRID FUNDS, SECTOR FUNDS AND MORE

In the final tally for 2022, all broad stock indexes finished in the red. Any pockets of the market that fared better than others simply declined less in value—yes, it was that kind of year. For the 12-month period ending December 31, the S&P 500 lost 18.1%. Small-company stocks, depending on which index you look at, did better or worse. The Russell 2000 index declined 20.4% for the year, but the S&P SmallCap 600, which includes only profitable firms, finished with a 16.1% drop. Shares in midsize companies rallied in the second half of the year and ended 2022 with a 13.1% decline.

Energy proved to be the single bright spot in U.S. markets. The sector climbed 65.7% in 2022. Utilities stocks eked out a 1.6% return for 2022, but every other S&P 500 sector finished in the red. The worst? It wasn't information technology, which dropped 28.2%. Instead, it was its close cousin, communications services, with a 39.9% plunge.

If anything, 2022 will be remembered as the year that value-priced shares overtook their growth-stock counterparts, at long last. The S&P 500 Value index—the portion of the S&P 500 composed of stocks deemed bargain priced based on various factors—lost just 5%. The S&P 500 Growth index slipped 29%.

Foreign markets, on top of higher inflation and interest rates, faced the extra pinch of the war in Ukraine and China's COVID shutdown. At its worst point, the MSCI EAFE index, which tracks large companies in foreign developed markets, was down 27.5% for the year in late September. But the index recovered some ground in the last months of 2022 and finished the year with a decline of 14.5%. Emerging markets, constrained by a wobbly recovery in China, fell 20.1%.

On the following pages, we show the top-performing stock mutual funds in 11 categories, using information from Morningstar, the financial data firm that determines the categories into which the funds are sorted. The list only includes funds with a minimum investment requirement of $10,000 or less. We removed funds available only to institutional investors, as well as leveraged funds (which seek to boost returns with borrowed money) and inverse index funds (which promise to move in the opposite direction of a benchmark).

Most of the funds listed are widely available at brokerage firms; a handful must be purchased directly from the fund company. In addition, many funds in the tables charge a front-end sales fee, but in most cases, you can purchase shares with no fee at several large brokerage firms. That said, these lists are not meant to represent recommendations. Instead, they are a starting point for research into solid funds. You can see the returns for the top funds in 12 categories (target-date funds are broken out into their own category, unlike in the tables below) at kiplinger.com/kpf/funds.

LARGE-COMPANY STOCK FUNDS

Value was the place to be in 2022.

Large-company value funds lost 5.9%, on average, over the past 12 months, making them the best-performing diversified stock fund category in 2022. Thus, the top one-year funds are all value-oriented. Some are dividend focused, including Federated Hermes Strategic Value Dividend, which favors high-dividend-paying stocks with dividend growth potential. It trades fee-free at E*Trade, Fidelity and Schwab and yields 3.52%. Over longer periods, growth funds dominate. JPMorgan Large Cap Growth's longtime manager Giri Devulapally targets fast-growing companies. This fund, too, trades without a fee at E*Trade, Fidelity and Schwab. Baron Partners posts impressive returns, but more than half of its assets are invested in Tesla shares. Finally, at Fidelity OTC, manager Christopher Lin is responsible for only half of the fund's 10-year return. But the fund boasts above-average returns over three and five years.

1 YEAR	
1. Federated Hermes Strategic Value Div A	8.1%
2. GQG Partners US Quality Dividend Inc Inv	6.7
3. Federated Hermes MDT Large Cap Value A	6.3
4. Hennessy Cornerstone Value Investor	6.1
5. Marshfield Concentrated Opportunity	5.1
6. BNY Mellon Income Stock Inv	4.3
7. Buffalo Flexible Income	4.0
8. Invesco Comstock Select A	3.3
9. Delaware Equity Income A	3.2
10. Delaware Growth and Income A	3.1
CATEGORY AVERAGE	–18.1%

3 YEARS	
1. Baron Partners Retail	23.3%
2. Centre American Select Equity Inv	17.2
3. Christopher Weil & Co Core Investment	14.7
4. Muhlenkamp	14.1
5. Tanaka Growth	13.9
6. Neuberger Berman Large Cap Value Inv*	13.2
7. GQG Partners US Select Quality Eq Inv	13.0
8. Parnassus Value Equity Investor	12.9
9. Marshfield Concentrated Opportunity	12.6
10. AXS Alternative Value Investor	12.4
CATEGORY AVERAGE	6.0%

5 YEARS	
1. Baron Partners Retail	21.7%
2. Marshfield Concentrated Opportunity	14.6
3. Eaton Vance Atlanta Capital Focused Gr A	14.5
4. Amana Growth Investor	13.9
5. JPMorgan Large Cap Growth A	13.7
6. Calvert Equity A	13.6
7. T. Rowe Price All-Cap Opportunities Fund	13.5
8. Christopher Weil & Co Core Investment	13.3
9. Fidelity Advisor Growth Opps A	13.1
10. Baron Opportunity Retail	12.8
CATEGORY AVERAGE	7.8%

10 YEARS	
1. Baron Partners Retail	19.2%
2. Fidelity OTC	16.3
3. Fidelity Growth Company*	16.0
4. USAA NASDAQ-100 Index	15.9
5. Shelton Nasdaq-100 Index Direct	15.8
6. T. Rowe Price All-Cap Opportunities Fund	15.5
7. JPMorgan Growth Advantage A	15.1
8. JPMorgan Large Cap Growth A	15.0
9. Rydex NASDAQ-100 Inv	14.9
10. Fidelity Advisor Growth Opps A	14.8
CATEGORY AVERAGE	11.1%

As of 12/31/2022. *Closed to new investors. **Closed to all investors. SOURCE: Morningstar Direct

MIDSIZE-COMPANY STOCK FUNDS

Energy stakes won the day.

It should come as little surprise: Energy stocks were among the few outperformers in 2022, so midsize-company funds with heavy stakes in energy companies top the one-year winner's table: Kinetics Paradigm, for instance, devotes 65% of assets to energy. Recent returns help the fund rank well in other time frames as well, but in six of the past 10 calendar years, it lagged its peers. Baron Focused Growth doesn't own any energy stocks at all. The fund invests in companies of all sizes, a trait shared among many funds in this category. Over the long haul, its growth-company tilt left it in good stead. Value Line Mid Cap Focused holds a mix of growth and of value stocks and is centered on midsize firms; stocks in the portfolio have an average market value of $16 billion. Manager Stephen Grant uses the Value Line Timeliness Ranking System as part of his stock-picking process.

1 YEAR	
1. Kinetics Spin-Off and Corp Rest Adv A	39.5%
2. Kinetics Paradigm No Load	29.2
3. Schwartz Value Focused	21.1
4. Kinetics Market Opportunities No Load	15.0
5. Ave Maria Value	4.2
6. Frank Value Inv	4.2
7. Hotchkis & Wiley Mid-Cap Value A	1.4
8. Invesco Value Opportunities A	1.4
9. Parametric Dividend Income A	0.0
10. Nuveen Multi Cap Value A	–1.3
CATEGORY AVERAGE	**–18.8%**

3 YEARS	
1. Kinetics Spin-Off and Corp Rest Adv A	27.9%
2. Baron Focused Growth Retail	23.7
3. Kinetics Paradigm No Load	22.6
4. Schwartz Value Focused	21.0
5. Kinetics Market Opportunities No Load	20.7
6. Shelton Sustainable Equity Direct	17.1
7. Invesco Value Opportunities A	13.2
8. Hotchkis & Wiley Mid-Cap Value A	12.2
9. Ave Maria Value	11.4
10. Victory Sycamore Established Value A*	11.3
CATEGORY AVERAGE	**5.1%**

5 YEARS	
1. Baron Focused Growth Retail	20.6%
2. Kinetics Spin-Off and Corp Rest Adv A	20.3
3. Kinetics Paradigm No Load	17.8
4. Schwartz Value Focused	14.1
5. Kinetics Market Opportunities No Load	14.0
6. Shelton Sustainable Equity Direct	13.4
7. Sparrow Growth No-Load	13.3
8. ClearBridge Select A	13.2
9. Value Line Mid Cap Focused	13.0
10. Sparrow Growth A	12.9
CATEGORY AVERAGE	**6.5%**

10 YEARS	
1. Kinetics Paradigm No Load	16.5%
2. ClearBridge Select A	15.9
3. Kinetics Market Opportunities No Load	15.7
4. Baron Focused Growth Retail	15.1
5. Kinetics Spin-Off and Corp Rest Adv A	14.6
6. Virtus KAR Small-Cap Core A*	14.1
7. T. Rowe Price New Horizons*	13.9
8. Value Line Mid Cap Focused	13.5
9. Eventide Gilead N	13.4
10. Primecap Odyssey Aggressive Growth*	13.3
CATEGORY AVERAGE	**10.1%**

SMALL-COMPANY STOCK FUNDS

Did we mention energy?

Here we go again: Heavy stakes in energy helped lift a few small-cap value funds to the top of the one-year tables, including Auer Growth (27% of assets in energy), Invesco Small Cap Value (18%) and Kinetics Small Cap Opportunities Fund (55%). A typical benchmark energy exposure is around 5% or 6%. The Kinetics fund is non-diversified, which means assets can be concentrated in a single stock, and Texas Pacific Land (up 90.3% in 2022) accounts for 54% of fund assets. Although the Kinetics fund ranks first over all time frames, it tends to whipsaw between very good years and very bad years, relative to peers. Investors looking for smoother rides might consider Fidelity Small Growth, which sports below-average volatility over long hauls. Manager Patrick Venanzi looks for small companies with above-average growth prospects that trade at reasonable prices.

1 YEAR	
1. Kinetics Small Cap Opportunities No Load	32.0%
2. Auer Growth	10.0
3. Invesco Small Cap Value A	4.3
4. Palm Valley Capital Investor	3.2
5. Hotchkis & Wiley Small Cap Value A	2.9
6. Hennessy Cornerstone Mid Cap 30 Inv	2.8
7. Dean Small Cap Value	1.8
8. Franklin MicroCap Value A	0.7
9. Cullen Small Cap Value Retail	0.2
10. Adirondack Small Cap	–1.4
CATEGORY AVERAGE	**–19.3%**

3 YEARS	
1. Kinetics Small Cap Opportunities No Load	26.6%
2. Oberweis Micro-Cap	21.2
3. Bridgeway Small-Cap Value	20.1
4. Oberweis Small-Cap Opportunities	19.1
5. Hennessy Cornerstone Mid Cap 30 Inv	17.3
6. Invesco Small Cap Value A	16.4
7. Auer Growth	16.1
8. Bridgeway Ultra-Small Company**	16.1
9. Driehaus Micro Cap Growth*	15.4
10. Needham Aggressive Growth Retail	14.7
CATEGORY AVERAGE	**4.7%**

5 YEARS	
1. Kinetics Small Cap Opportunities No Load	20.9%
2. Driehaus Micro Cap Growth*	16.4
3. Oberweis Small-Cap Opportunities	14.4
4. Needham Small Cap Growth Retail	14.2
5. Oberweis Micro-Cap	13.8
6. Driehaus Small Cap Growth Investor	13.6
7. Needham Aggressive Growth Retail	12.8
8. Lord Abbett Micro Cap Growth A*	12.7
9. Congress Small Cap Growth Retail	12.6
10. Bridgeway Small-Cap Value	11.6
CATEGORY AVERAGE	**5.3%**

10 YEARS	
1. Kinetics Small Cap Opportunities No Load	18.1%
2. Oberweis Micro-Cap	17.3
3. Lord Abbett Micro Cap Growth A*	16.9
4. Oberweis Small-Cap Opportunities	14.6
5. Virtus KAR Small-Cap Growth A*	14.6
6. Hood River Small-Cap Growth Investor	13.4
7. Wasatch Ultra Growth	13.1
8. Needham Small Cap Growth Retail	12.8
9. Fidelity Small Cap Growth	12.8
10. Thrivent Small Cap Stock S	12.7
CATEGORY AVERAGE	**9.4%**

As of 12/31/2022. *Closed to new investors. **Closed to all investors. SOURCE: Morningstar Direct

HYBRID FUNDS

Varied takes on a stock-and-bond mix.

This category includes funds that hold stocks, bonds and other securities, such as asset-allocation funds and target-date funds. Baron WealthBuilder is a fund of funds that stands out over three and five years (it doesn't have a 10-year record). It holds 16 Baron funds and is designed to represent the ideal diversified portfolio across market caps, geographies and sectors. It falls in the awkwardly named Morningstar category of "Allocation—85%+ equity," and over the past three and five years it ranks among the top 2% and 3% of its peers. Fidelity Convertible Securities wins over three and five years, too, by investing in convertible securities, which are debt securities that can be converted into stocks, and a smattering of dividend-paying stocks, such as crude oil tanker DHT Holdings. But the bear market in stocks has weighed on the performance of convertibles over the past year.

1 YEAR	
1. Catalyst/Millburn Hedge Strategy A	7.5%
2. Hussman Strategic Allocation	4.4
3. Morgan Stanley Multi-Asset Real Return A	2.7
4. Arrow DWA Tactical Macro A	2.1
5. First Foundation Total Return A	1.8
6. Hennessy Total Return Investor	1.4
7. Pinnacle Value	1.1
8. RQSI GAA Systematic Global Macro Retail	0.7
9. Hartford Real Asset A	0.4
10. Pioneer Multi-Asset Income A	−0.1
CATEGORY AVERAGE	**−15.2%**

3 YEARS	
1. First Foundation Total Return A	11.1%
2. Kinetics Global No Load	10.8
3. Hundredfold Select Alternative Svc	10.0
4. Fidelity Convertible Securities	9.9
5. Virtus Convertible A	9.8
6. Franklin Convertible Securities A*	9.7
7. MainStay MacKay Convertible Investor	9.0
8. Invesco Convertible Securities A	8.4
9. Baron WealthBuilder Retail	8.3
10. Lord Abbett Convertible A	8.2
CATEGORY AVERAGE	**2.3%**

5 YEARS	
1. Virtus Convertible A	11.4%
2. Franklin Convertible Securities A*	11.3
3. Fidelity Convertible Securities	11.0
4. Baron WealthBuilder Retail	10.1
5. T. Rowe Price Capital Appreciation*	9.1
6. Columbia Convertible Securities A	9.0
7. MainStay MacKay Convertible Investor	8.9
8. Lord Abbett Convertible A	8.8
9. Invesco Convertible Securities A	8.7
10. Prospector Capital Appreciation	8.3
CATEGORY AVERAGE	**3.6%**

10 YEARS	
1. Franklin Convertible Securities A*	10.9%
2. T. Rowe Price Capital Appreciation*	10.8
3. Allspring Diversified Cap Bldr A	10.5
4. Virtus Convertible A	10.5
5. North Square Multi Strategy A	10.1
6. Westwood Total Return A	9.8
7. Columbia Convertible Securities A	9.7
8. MainStay MacKay Convertible Investor	9.6
9. Eaton Vance Tax-Managed Eq Aset Allc A	9.5
10. Meeder Dynamic Allocation Adviser	9.4
CATEGORY AVERAGE	**5.9%**

LARGE-COMPANY FOREIGN STOCK FUNDS

Foreign markets edge the U.S.—kind of.

Winning by losing less is the theme of 2022. Last year, the MSCI EAFE, which tracks large and midsize companies in developed foreign countries, lost 14.6%, but that was better than the U.S. market. Value-oriented funds dominate the one-year winners. Janus Henderson Global Equity Income, a member of the Kiplinger 25 (our favorite no-load funds), fared well thanks to its dividend-stock focus. Among its top holdings are British American Tobacco and TotalEnergies, an integrated oil and gas company based in France. The fund yields 3.84%. Another Janus fund, Janus Henderson Overseas, stands out over three and five years. The U.K., China, Netherlands and France are its biggest country exposures. Finally, Vanguard International Growth is a long-term winner, but it lagged its category over the past year largely because of the market's turn away from the kinds of fast-growing stocks it favors.

1 YEAR	
1. EuroPac International Dividend Income A	1.3%
2. EuroPac International Value A	0.5
3. Barrow Hanley International Value Y	−2.1
4. Hartford International Value A	−2.6
5. Federated Hermes Intl Strat Val Div A	−2.8
6. Templeton Foreign A	−3.6
7. JHancock Disciplined Value Intl A	−5.2
8. JPMorgan International Value A	−5.6
9. Columbia Overseas Value A	−6.3
10. Janus Henderson Global Equity Income T	−6.3
CATEGORY AVERAGE	**−17.5%**

3 YEARS	
1. EuroPac International Value A	8.4%
2. Thornburg Better World International A	7.3
3. Chautauqua International Growth Investor	6.8
4. Janus Henderson Overseas T	6.3
5. EuroPac International Dividend Income A	5.9
6. Kopernik International Investor	5.8
7. Artisan International Value Investor*	5.6
8. Goldman Sachs International Eq ESG A	5.6
9. Goldman Sachs GQG Ptnrs Intl Opps A	4.6
10. Harbor Overseas Investor	4.2
CATEGORY AVERAGE	**0.5%**

5 YEARS	
1. WCM Focused International Growth Inv*	6.5%
2. Goldman Sachs GQG Ptnrs Intl Opps A	6.4
3. Fiera Capital International Equity Inv	5.9
4. PGIM Jennison International Opps A	5.8
5. Thornburg Better World International A	5.5
6. Janus Henderson Overseas T	5.3
7. Sextant International Z	5.2
8. Buffalo International	5.1
9. Kopernik International Investor	5.1
10. Virtus SGA International Growth A	5.1
CATEGORY AVERAGE	**1.2%**

10 YEARS	
1. WCM Focused International Growth Inv*	8.7%
2. Morgan Stanley Inst Intl Advtg A	8.3
3. ClearBridge International Growth FI	8.0
4. Morgan Stanley Inst International Opp A	7.8
5. Vanguard International Growth Inv	7.7
6. MFS International Intrinsic Value A*	7.7
7. PIMCO StocksPLUS Intl (USD-Hedged) A	7.7
8. Artisan International Value Investor*	7.4
9. PGIM Jennison International Opps A	7.3
10. Buffalo International	7.1
CATEGORY AVERAGE	**4.4%**

As of 12/31/2022. *Closed to new investors. **Closed to all investors. SOURCE: Morningstar Direct


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This offer ends at 11:59PM (PST) on March 23rd 2023. For other standard terms and conditions, please see our website.

SMALL- AND MIDSIZE-COMPANY FOREIGN STOCK FUNDS

Beaten and bedraggled.

Small foreign companies lagged their large-company counterparts in 2022. But funds with a value tilt, such as Avantis International Small Cap Value, fared best over the past year. Moerus Worldwide Value is an outlier in the one-year table. It invests in companies of all sizes; 44% of its assets are in small firms. And the fund's positive one-year return comes only after a whopping rebound in late 2022. Brown Capital Management International Small Company, a Kip 25 fund, invests in non-U.S. companies with revenues of $500 million or less. Grandeur Peak specializes in small-cap foreign stocks and has several funds in the winners' tables. Shares in its Global Micro Cap fund must be purchased directly; otherwise, it's closed to new investors. The fund suffered a blistering loss in 2022, but strong returns in the previous two years make it a winner over three and five years.

1 YEAR	
1. Moerus Worldwide Value N	6.2%
2. Pzena International Small Cap Value Inv	−1.1
3. Brandes International Small Cap Equity A	−8.6
4. Harbor International Small Cap Investor	−8.7
5. Kopernik Global All-Cap A*	−9.2
6. Avantis International Small Cap Val G	−10.6
7. Invesco EQV Intl Small Company A	−11.3
8. Causeway International Small Cap Inv	−11.5
9. Segall Bryant & Hamill Intl Sm Cp Ret	−13.3
10. Oakmark International Small Cap Investor	−14.5
CATEGORY AVERAGE	−23.4%

3 YEARS	
1. Kopernik Global All-Cap A*	13.2%
2. Grandeur Peak Global Micro Cap Instl*	7.0
3. Invesco EQV Intl Small Company A	5.0
4. Harbor International Small Cap Investor	4.7
5. Brandes International Small Cap Equity A	4.2
6. Pzena International Small Cap Value Inv	4.1
7. Moerus Worldwide Value N	4.0
8. Brown Capital Mgmt Intl Sm Co Inv	3.7
9. Manning & Napier Rainier Intl Discv S	3.7
10. Driehaus International Small Cap Growth	3.3
CATEGORY AVERAGE	−0.3%

5 YEARS	
1. Kopernik Global All-Cap A*	7.1%
2. Brown Capital Mgmt Intl Sm Co Inv	6.4
3. Grandeur Peak Global Micro Cap Instl*	4.5
4. Driehaus International Small Cap Growth	3.6
5. Artisan International Small-Mid Investor*	3.6
6. Grandeur Peak Intl Stalwarts Inv	3.0
7. Manning & Napier Rainier Intl Discv S	2.6
8. Federated Hermes Intl Small-Mid Co A	2.6
9. Segall Bryant & Hamill Fdml IntlSmCpRet	2.5
10. Harbor International Small Cap Investor	2.3
CATEGORY AVERAGE	0.1%

10 YEARS	
1. Invesco International Small-Mid Com A	9.7%
2. Manning & Napier Rainier Intl Discv S	8.7
3. Driehaus International Small Cap Growth	8.2
4. Oberweis International Opportunities	8.1
5. Grandeur Peak International Opps Inv	7.8
6. Fidelity International Small Cap	7.6
7. T. Rowe Price International Discovery*	7.4
8. Fidelity International Small Cap Opp*	7.3
9. AMG GW&K International Small Cap N	7.1
10. Virtus KAR International Small-Mid Cap A	6.8
CATEGORY AVERAGE	5.5%

GLOBAL STOCK FUNDS

A focus on the whole world.

This category is a mishmash of strategies, but the common theme is funds that invest in a mix of U.S. and foreign stocks. One- and three-year winner Vanguard Global Capital Cycles holds at last 25% of assets in precious metals and mining companies and a chunk more in companies with irreplaceable infrastructure assets—utilities and telecom. T. Rowe Price Global Stock takes a more conventional approach: Longtime manager David Eiswert invests in a diverse mix of mostly large and midsize companies all over the world. Japanese pharmaceutical firm Daiichi Sankyo is one of the fund's best performers over the past 12 months. Finally, you may wonder why Guinness Atkinson Alternative Energy is in this category. The one-time energy fund now holds a mix of shares in tech, industrial, basic materials and economically sensitive consumer stocks around the world. Morningstar grouped it with foreign/global stock funds in 2017.

1 YEAR	
1. Third Avenue Value Investor	17.1%
2. Vanguard Global Capital Cycles Investor	7.4
3. USA Mutuals Vice Investor	3.3
4. Wasatch Global Value Investor	0.0
5. Destinations Equity Income I	−1.1
6. Pioneer Global Sustainable Value A	−1.7
7. Virtus KAR Global Quality Dividend A	−2.8
8. BNY Mellon Global Equity Income A	−3.7
9. GQG Partners Global Quality Equity Inv	−3.8
10. LSV Global Managed Volatility Investor	−4.1
CATEGORY AVERAGE	−20.9%

3 YEARS	
1. Guinness Atkinson Alternative Energy	20.9%
2. Third Avenue Value Investor	15.4
3. Vanguard Global Capital Cycles Investor	14.6
4. Vanguard Baillie Gifford Glb Pstv Imp Stk Inv	12.7
5. Calvert Global Energy Solutions A	12.2
6. Oberweis Global Opportunities Investor	11.3
7. HCM Dividend Sector Plus Investor	10.4
8. New Alternatives Investor	10.3
9. Pioneer Global Sustainable Equity A	9.5
10. Hartford Climate Opportunities A	9.5
CATEGORY AVERAGE	3.2%

5 YEARS	
1. Guinness Atkinson Alternative Energy	14.2%
2. Vanguard Baillie Gifford Glb Pstv Imp Stk Inv	13.2
3. New Alternatives A	11.5
4. BNY Mellon Worldwide Growth A	9.3
5. Artisan Global Discovery Investor	9.2
6. Fiera Capital Global Equity Inv	9.2
7. T. Rowe Price Global Stock	9.2
8. Calvert Global Energy Solutions A	8.6
9. MainStay Epoch Capital Growth Inv	8.6
10. AMG Yacktman Global N	8.5
CATEGORY AVERAGE	4.8%

10 YEARS	
1. T. Rowe Price Global Stock	12.7%
2. Morgan Stanley Inst Global Opp A*	11.9
3. Guinness Atkinson Global Inntrs Inv	11.9
4. New Alternatives A	11.7
5. PGIM Jennison Global Opportunities A	11.4
6. American Funds New Economy A	10.5
7. AB Sustainable Global Thematic A	10.4
8. Victory RS Global A	10.3
9. Oberweis Global Opportunities Investor	10.3
10. Grandeur Peak Global Opportunities Instl*	10.2
CATEGORY AVERAGE	7.9%

As of 12/31/2022. *Closed to new investors. **Closed to all investors. SOURCE: Morningstar Direct

DIVERSIFIED EMERGING-MARKETS FUNDS

Value triumphs over growth.

Emerging-markets funds with a value tilt fared best over the past year—that's what Seafarer Overseas Value, Pzena Emerging Markets Value and Pimco RAE Emerging Markets have in common. But over longer hauls, funds with a growth bent, such as Wasatch Emerging Markets Select and Fidelity Emerging Markets, have posted solid returns. Be wary of Cook & Bynum, a new member of this category after a strategy shift (it was formerly a global large-company stock fund). It holds nine stocks; five are beverage companies. The bet paid off in 2022, but this is not a diversified stock fund. Small stocks in the developing world outpaced their larger counterparts over the past three, five and 10 years. Matthews Emerging Markets Small Companies fund emphasizes growing firms with competitive advantages. But bear in mind that market sentiment has shifted away from growth, and a new manager stepped in 2020.

1 YEAR	
1. The Cook & Bynum	9.3%
2. Seafarer Overseas Value Investor	−0.8
3. Pzena Emerging Markets Value Investor	−6.0
4. PIMCO RAE Emerging Markets A	−10.7
5. Parametric Emerging Markets A	−11.3
6. BlackRock Defensive Advantage EM Inv A	−11.3
7. Fidelity Emerging Markets Discovery	−11.8
8. Seafarer Overseas Gr and Income Investor*	−11.8
9. Vaughan Nelson Emerging Mkts Opps Inv	−12.0
10. LSV Emerging Markets Equity Inv	−13.1
CATEGORY AVERAGE	−22.9%

3 YEARS	
1. Matthews EM Sm Coms Inv	13.4%
2. Oberweis Emerging Markets Investor	7.0
3. Driehaus Emerging Markets Small Cap Gr	6.9
4. Ashmore Emerging Markets Sm Cp Eq A	6.5
5. JOHCM Emerging Mkts Discovery Advisor	5.8
6. BNY Mellon Global Emerging Mkts A	5.4
7. Seafarer Overseas Value Investor	4.3
8. Wasatch Emerging Markets Select Investor	4.1
9. Fidelity Emerging Markets Discovery	3.2
10. William Blair Emerg Mkts Sm Cp Gr N*	3.1
CATEGORY AVERAGE	−2.8%

5 YEARS	
1. Matthews EM Sm Coms Inv	7.0%
2. Wasatch Emerging Markets Select Investor	5.0
3. Driehaus Emerging Markets Small Cap Gr	4.4
4. Seafarer Overseas Value Investor	3.5
5. Virtus KAR Emerging Markets Small-Cap A	3.1
6. abrdn Emerging Markets ex-China A	3.0
7. Morgan Stanley Inst EMkts Ldrs A	2.9
8. Artisan Developing World Investor	2.7
9. American Funds New World F1	2.6
10. JOHCM Emerging Mkts Discovery Advisor	2.3
CATEGORY AVERAGE	−1.5%

10 YEARS	
1. Matthews EM Sm Coms Inv	6.9%
2. William Blair Emerg Mkts Sm Cp Gr N*	5.2
3. Driehaus Emerging Markets Small Cap Gr	4.7
4. American Funds New World F1	4.6
5. Fidelity Emerging Markets	4.4
6. abrdn Emerging Markets ex-China A	4.2
7. Fidelity Advisor® Focused Em Mkts A	4.2
8. Seafarer Overseas Gr and Income Investor*	3.8
9. Sunbridge Capital Emerging Markets Inv	3.8
10. Calvert Emerging Markets Equity A*	3.6
CATEGORY AVERAGE	1.6%

REGIONAL AND SINGLE-COUNTRY FUNDS

Latin America provides some warmth.

Investors in Latin American funds, including Fidelity Latin America and T. Rowe Price Latin America, are the only happy campers in this category over the past 12 months, thanks to double-digit gains in stock markets in Brazil and Chile in 2022. Brazil makes up more than half of both fund portfolios. And although the lists here include a smattering of developed-country or regional funds—namely Fidelity Canada, Fidelity Nordic, Franklin Mutual European and Janus Henderson European Focus—most of the winners are focused on emerging countries. Matthews Asia funds stand out, including Matthews Emerging Markets Sustainable Future (formerly Asia ESG fund), which emphasizes companies making a positive environmental, social and economic impact in the developing world, and Matthews Asia Innovators fund, which zeros in on innovative companies in Asia outside of Japan.

1 YEAR	
1. DWS Latin America Equity A	8.1%
2. OTG Latin America A Shares	1.6
3. Fidelity Latin America	1.4
4. T. Rowe Price Latin America	0.2
5. Franklin Mutual European A	−1.0
6. T. Rowe Price Africa & Middle East	−5.9
7. Fidelity Canada	−6.1
8. Commonwealth Africa	−7.1
9. Matthews India Investor	−9.9
10. Invesco EQV Asia Pacific Equity A	−10.8
CATEGORY AVERAGE	−22.3%

3 YEARS	
1. Matthews Emerging Markets Sust Fut Inv	11.0%
2. Fidelity Nordic	9.3
3. ALPS/Kotak India ESG Inv	8.2
4. Wasatch Emerging India Investor	8.2
5. Janus Henderson European Focus T	8.1
6. Fidelity Canada	7.5
7. Matthews India Investor	7.4
8. T. Rowe Price China Evolution Equity	7.4
9. Matthews Asia Innovators Investor	6.9
10. Matthews China Small Companies	6.6
CATEGORY AVERAGE	−1.5%

5 YEARS	
1. Matthews Emerging Markets Sust Fut Inv	6.8%
2. Timothy Plan Israel Common Values A	6.5
3. Wasatch Emerging India Investor	6.4
4. Fidelity Nordic	6.2
5. Matthews China Small Companies	6.2
6. Fidelity Canada	6.0
7. DWS Latin America Equity A	5.5
8. abrdn China A Share Equity A	5.4
9. Matthews Asia Innovators Investor	5.2
10. AMG Veritas Asia Pacific N	4.5
CATEGORY AVERAGE	0.0%

10 YEARS	
1. Wasatch Emerging India Investor	12.0%
2. Matthews Asia Innovators Investor	10.7
3. Matthews China Small Companies	10.1
4. Fidelity Nordic	9.9
5. Hennessy Japan Small Cap Investor	9.6
6. AMG Veritas Asia Pacific N	9.5
7. ALPS/Kotak India ESG Inv	9.0
8. Matthews India Investor	8.7
9. Fidelity Pacific Basin	8.2
10. AMG Veritas China N	8.2
CATEGORY AVERAGE	3.7%

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SECTOR FUNDS

Tech and energy trade places.

The worm turned in 2022 for sector investors. Tech plunged; energy boomed. Fidelity funds in both sectors, as well as in health care, are well represented among the winners' lists. Fidelity Select Energy, at the top of the one-year list, has the lowest expense ratio of the energy funds on these lists. The fund is all-in on ExxonMobil, accounting for 22.5% of the portfolio at last report. Although it makes only the 10-year winners' list here, Fidelity Select Software & IT Services has ranked in the top half of tech funds in six of eight calendar years since current manager Ali Kahn took the helm in mid 2014. The fund's top holding is an outsize, 25% stake in Microsoft. The health care sector has a history of steady growth, and Justin Segalini, manager of Fidelity Select Health Care Services since 2016, has outperformed at a low cost. The fund's top holding is UnitedHealth Group, up nearly 7% in 2022.

1 YEAR	
1. Fidelity Select Energy	63.0%
2. Fidelity Advisor Energy A	61.9
3. Invesco Energy A	52.9
4. Rydex Energy Inv	49.5
5. Hennessy Energy Transition Investor	47.5
6. BlackRock Energy Opportunities Inv A	43.1
7. Rydex Energy Services Inv	43.0
8. Delaware Climate Solutions A	41.4
9. Fidelity Natural Resources Fund	41.0
10. Invesco SteelPath MLP Alpha Plus A	38.3
CATEGORY AVERAGE	–14.8%

3 YEARS	
1. Victory Global Energy Transition A	46.5%
2. BNY Mellon Natural Resources A	25.4
3. Goehring & Rozencwajg Resources Retail	22.1
4. Cavanal Hill World Energy Investor	21.9
5. PGIM Jennison Natural Resources A	20.8
6. Fidelity Select Energy	19.6
7. Hennessy Energy Transition Investor	19.4
8. Fidelity Advisor Energy A	19.0
9. Invesco Energy A	17.4
10. Fidelity Global Commodity Stock	17.3
CATEGORY AVERAGE	3.4%

5 YEARS	
1. Fidelity Select Semiconductors	16.6%
2. Fidelity Advisor Semiconductors A	16.1
3. Rydex Electronics Inv	15.5
4. Columbia Seligman Tech & Info A	14.4
5. Columbia Seligman Global Tech A	14.4
6. Fidelity Select Health Care Svcs Port	13.7
7. BNY Mellon Natural Resources A	13.5
8. Fidelity Advisor Technology A	13.1
9. Fidelity Select Medical Tech and Devcs	12.9
10. Fidelity Select Construction & Hsg Port	12.7
CATEGORY AVERAGE	4.8%

10 YEARS	
1. Fidelity Select Semiconductors	22.5%
2. Fidelity Advisor Semiconductors A	21.9
3. Rydex Electronics Inv	19.1
4. Columbia Seligman Global Tech A	18.2
5. Columbia Seligman Tech & Info A	17.8
6. Columbia Global Technology Growth A	17.7
7. Fidelity Select Software & IT Svcs Port	17.1
8. Fidelity Select Medical Tech and Devcs	17.1
9. Fidelity Advisor Technology A	16.9
10. BlackRock Technology Opportunities Inv A	16.9
CATEGORY AVERAGE	7.1%

ALTERNATIVE FUNDS

Commodities and futures ruled.

A jumble of nontraditional strategies fill this category, but they share one goal: to provide diversification from stock and bond markets. Camelot Event Driven targets shares in companies involved in mergers, takeovers or other corporate moves. You can buy it with no fee at E*Trade and Schwab. High raw-materials prices have lifted commodity funds in recent years. TCW Enhanced Commodity Strategy, a Kip 25 fund, balances a mix of commodity-linked futures with a high-quality bond portfolio. Finally, managed futures strategies, which trade futures contracts (promises to buy or sell a commodity, stock or other asset at a set price on a future date), tend to do well when stock and bond markets falter. AlphaSimplex Managed Futures Strategy buys long positions in a diversified mix of contracts that are trending positively, and it sells short assets that are trending negatively. It trades fee-free at E*Trade, Fidelity and Schwab. ■

KIM CLARK ALSO CONTRIBUTED TO THIS REPORT.

1 YEAR	
1. Arrow Managed Futures Strategy A	57.6%
2. Invenomic Investor*	49.5
3. AlphaSimplex Mgd Futs Strat A	35.4
4. Campbell Systematic Macro A	30.6
5. LoCorr Market Trend A	29.6
6. Rydex Commodities Strategy H	23.5
7. Pimco CommoditiesPLUS Strategy A	22.7
8. Credit Suisse Managed Futs Strat A	21.1
9. Goldman Sachs Managed Futs Strat A	20.1
10. AXS Chesapeake Strategy A	19.8
CATEGORY AVERAGE	–0.5%

3 YEARS	
1. Invenomic Investor*	38.9%
2. Parametric Commodity Strategy A	17.8
3. PIMCO CommoditiesPLUS Strategy A	16.7
4. AlphaSimplex Mgd Futs Strat A	16.6
5. Arrow Managed Futures Strategy A	15.6
6. Columbia Commodity Strategy A	15.5
7. VanEck CM Commodity Index A	15.3
8. Camelot Event Driven A	14.8
9. ALPS/CorCmdty Mgmt CmpltCmdty Strat Inv	14.3
10. TCW Enhanced Commodity Strategy N	13.9
CATEGORY AVERAGE	3.4%

5 YEARS	
1. Invenomic Investor*	25.3%
2. Camelot Event Driven A	12.0
3. Pimco CommoditiesPLUS Strategy A	10.6
4. Parametric Commodity Strategy A	10.0
5. Campbell Systematic Macro A	8.7
6. CBOE Vest US Large Cap 20% Buffer Inv	8.6
7. Madison Covered Call & Equity Income A	8.6
8. AlphaSimplex Mgd Futs Strat A	8.4
9. Anchor Risk Mgd Equity Strategies Instl	8.2
10. CBOE Vest Dividend AristocratsTgtIncInv	8.2
CATEGORY AVERAGE	2.6%

10 YEARS	
1. BlackRock High Equity Income Investor A	10.1%
2. Goldman Sachs US Eq Div and Premium A	9.6
3. Shelton Equity Income Direct Shares	9.5
4. Camelot Event Driven A	8.6
5. Easterly Snow Long/Short Opportunity A	7.8
6. Alger Dynamic Opportunities A	7.8
7. Madison Covered Call & Equity Income A	7.6
8. AXS Chesapeake Strategy A	7.4
9. Federated Hermes MDT Market Neutral A	7.4
10. AlphaSimplex Mgd Futs Strat A	7.3
CATEGORY AVERAGE	2.8%

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PORTFOLIO FUEL

Energy Stocks Should Pump Out More Gains

Returns could cool after two red-hot years, but the sector remains strong. BY KIM CLARK

The gusher of rising energy-stock prices, which has sent the sector up 66% in 2022 on top of 55% in 2021, may finally be calming a little. But there's still plenty of *oomph* left for volatility-tolerant investors to reap rich profits in energy stocks in 2023.

Global recessions, war and COVID could buffet the sector in the first half of the year, says Darrell Cronk, president of the Wells Fargo Investment Institute. But because he expects energy supplies to struggle to keep up with a likely economic recovery later in the year, his outlook for energy stocks remains bright. Wells Fargo sees the price of West Texas Intermediate crude finishing 2023 between $100 and $120 a barrel, up from $80 at the end of 2022. Alternative-energy sources aren't currently growing fast enough to meet demand, so Cronk says the outlook is positive over the long term for legacy energy producers—the companies that find, extract, refine, transport and store oil and gas. "We are only a couple of years into a multiyear bull supercycle," he says.

Just don't expect profits to grow at the torrid pace of the past couple of years. The consensus forecast of analysts is for energy profits to contract 13% in 2023, following an estimated 152% jump in 2022 compared with 2021, according to FactSet, an investment research firm. And there are still plenty of bargains. Based on estimated earnings, the energy sector carries the lowest price-earnings ratio of the 11 stock sectors in the S&P 500 index. While the P/E for the overall index is 17.3, stocks in the energy sector recently traded at an average P/E of 9.6—significantly less than the sector's long-term historical average P/E of 17.8, according to research firm CFRA.

With those kinds of discounts, "What else are you going to do with your money?" asks energy bull Cole Smead, comanager for the Smead Value Fund. The fund, whose returns rank it in the top 25% of similar funds for seven of the past 10 years, according to fund-tracker Morningstar, held 23% of its portfolio in oil and gas companies at last report.

Ben Cook, who manages the Hennessy Midstream Fund, adds that a revolution in the C-suites of energy firms should also support their stock prices. Companies are no longer spending all of their profits—and then some—on oil fields, plant and equipment in response to rising oil prices, he says. Now, most are reining in capital spending and instead using cash to reduce debt, raise dividends and buy back stock. "Total shareholder return has become a more significant priority to management," he says, which could lead to higher P/Es for the shares as investors become willing to pay more for those potential returns.

Below, we list five energy companies that stand out as strong contenders for 2023. (Prices, returns and other data are as of December 31.)

CONOCOPHILLIPS

Houston-based ConocoPhillips is the second-largest oil and gas producer in Texas's vast Permian Basin, and the company has thousands of additional wells in 13 countries outside the U.S.

Because it costs Conoco less than $40 per barrel to produce oil, it reaped huge profits when oil prices spiked in 2022. The consensus of Wall Street analysts polled by S&P Global Market Intelligence is for Conoco to report earnings of $13 a share in 2023, a 7% decline from estimated 2022 profits but more than double per-share earnings for 2021. And the company is returning heaps of cash to shareholders. In November, it announced an 11% bump in its quarterly dividend, declared an additional cash distribution of 70 cents per share and approved a $20 billion increase in the company's share-buyback program, to $45 billion.

Although the stock returned more than 70% in 2022, it recently traded at just nine times expected 2023 earnings, and its wide profit margins bode well. The company's return on equity (net income divided by shareholders' equity), at 38.5%, was about triple the overall market's average. Return on equity is a gauge of how well a company generates

■ CONOCOPHILLIPS IS AUGMENTING OIL AND GAS OPERATIONS WITH OTHER BUSINESSES.

COURTESY CONOCOPHILLIPS

profits from shareholder capital, and it is one reason Conoco was one of the top 10 holdings of Smead Value in late 2022, says comanager Cole Smead. He also likes the way the company has been buying competitors at reasonable prices and keeping debt manageable.

Analysts at Morningstar call Conoco "a compelling option" in part because it is augmenting oil and gas operations with businesses such as water management that are likely to grow as the world eventually tapers the use of oil.

EOG RESOURCES

A long-ago spin-off of the notorious Enron, EOG focuses on producing oil and gas from fields in the U.S. It is one of the nation's lowest-cost producers of conventional energy sources and can remain profitable even if oil prices drop to $40 a barrel, says Stewart Glickman, an energy stock analyst at CFRA Research. EOG is expected to earn slightly more than $15 per share next year—about $1 per share more than it is projected to report for 2022 and up almost 80% from 2021 earnings per share, according to S&P Global. That gives EOG a healthy return-on-equity ratio of more than 30%. The company has said that it is committed to returning at least 60% of its free cash flow (cash left after operating expenses and spending to maintain the business) to shareholders each year, mostly by raising its regular quarterly dividend and issuing special dividends. Although the stock returned 56% in 2022, it recently traded 30% below Glickman's 12-month target of $170 a share. He rates it a "strong buy."

Alex Fitch, a portfolio manager for the Oakmark Select fund, notes that EOG trades at a low P/E—just eight times estimated 2023 earnings—even though it is one of the more profitable companies in the energy sector. The stock is among the fund's top holdings. Fitch adds that EOG's vast oil and gas reserves, high profitability, and shareholder return warrant a double-digit P/E multiple for the stock, so he believes it has plenty of room to rise.

OCCIDENTAL PETROLEUM

When Warren Buffet makes a big bet on a stock, investors pay attention. The Sage of Omaha bought into this large integrated oil company in 2019, when he kicked in $10 billion to help Occidental buy out a big exploration firm, Anadarko Petroleum. Buffet apparently liked Occidental's combination of wells, pipelines, and gas, chemical and power plants and started boosting his stake. In 2022, he got an okay from the Federal Energy Regulatory Commission to buy up to 50% of the company.

After losing money in 2020 due to the plunge in oil prices sparked by COVID shutdowns, Occidental reported $2.55 per share in profits for 2021 and is expected to report nearly $10 a share in 2022. In 2023, analysts project a smaller but still healthy profit of roughly $7.60 per share. After using the initial round of profits to cut its debt load, Occidental has turned its attention to returning cash to shareholders and has begun to hike its dividend. The stock currently yields just 0.8%.

Buffet's interest no doubt helped the company's stock price more than double in 2022. Yet it still trades at just eight times expected 2023 earnings—below the sector average. Although he appreciates whatever support Buffett's connection gives the stock, Matt Stephani, manager of Cavanal Hill's World Energy fund, says fundamentals—notably, strong cash flow and a diverse set of businesses—are why Occidental was a top-10 holding in late 2022. Stephani can pick winners: The fund has outpaced the average energy-stock fund by nearly five percentage points over the past eight years.

OVINTIV

Ovintiv, a U.S. exploration and production company based in Denver (formerly Canada-domiciled Encana), owns thousands of oil and gas wells across the U.S. and Canada. This midsize company's stock is a favorite among analysts, with 21 of 24 who follow the stock rating it a "buy" or "strong buy," according to S&P Global.

One reason for the enthusiasm: Ovintiv is one of the few energy companies expected to post big profit gains in 2023. Analysts expect earnings of $13.92 a share in 2023, up from an expected $8.80 in 2022 and a reported $4.90 in 2021. Despite a gain of 53% in 2022, the stock trades at a bargain-basement P/E of 3.4.

Why so cheap? Ovintiv was a victim of bad timing, says Bill Smead, father of Cole and lead manager of the eponymous Value Fund. In 2019, Ovintiv acquired another oil and gas firm in a deal valued at $7.7 billion. So the COVID shutdowns that drove energy prices lower hit Ovintiv especially hard, and it reported a loss of $6.1 billion in 2020 "It is out of favor, a left-for-dead producer of oil and gas," says the elder Smead. But he was buying up shares in late 2022 because higher oil prices are allowing Ovintiv to reap big profits. At its current valuation, the company is an "attractive" value play, agrees Goldman Sachs, which calls the stock a "laggard" that has a good chance of catching up to at least the average energy valuation.

■ TARGA'S MIDSTREAM SERVICES INCLUDE PROCESSING, STORING AND TRANSPORTING NATURAL GAS.

DERICK E. HINGLE/BLOOMBERG VIA GETTY IMAGES

TARGA RESOURCES

The companies that store, process and move oil and gas—called midstream companies because they are between the wells and the customers—are typically less exciting than those that prospect for black gold.

Hennessy's Cook, manager of the company's Midstream Fund, says that makes the subsector attractive to many investors. Midstream companies have "lower risk, good cash flows and more resiliency" than the boom-or-bust producers, he says.

He and CFRA's Glickman say anybody looking to benefit from the energy sector with less drama should consider Targa, which specializes in handling natural gas and liquified petroleum gasses such as propane and butane from wells in Texas. Targa was one of Cook's top holdings in late 2022. Glickman rates it a "strong buy" in part because of its fee-based business that generates revenue with some protection from the swings in oil prices—somewhat like a toll booth, he says.

With a P/E of just over 12, Targa may not seem the bargain that other energy stocks are. But thanks to high global demand for U.S. gasses—especially as Europe seeks alternatives to Russian oil and gas—analysts expect Targa to earn $5.14 a share in 2023, up nearly 80% from an expected $2.92 in 2022. Not surprisingly, 19 of 20 analysts with recent recommendations on the stock are bullish. On average, the analysts set a target price of $93 for Targa, implying a potential gain of more than 25% from its recent close. ■

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TOP PICKS

5 Energy Stocks for 2023

The stocks below represent different industries within the old-line oil and gas sector.

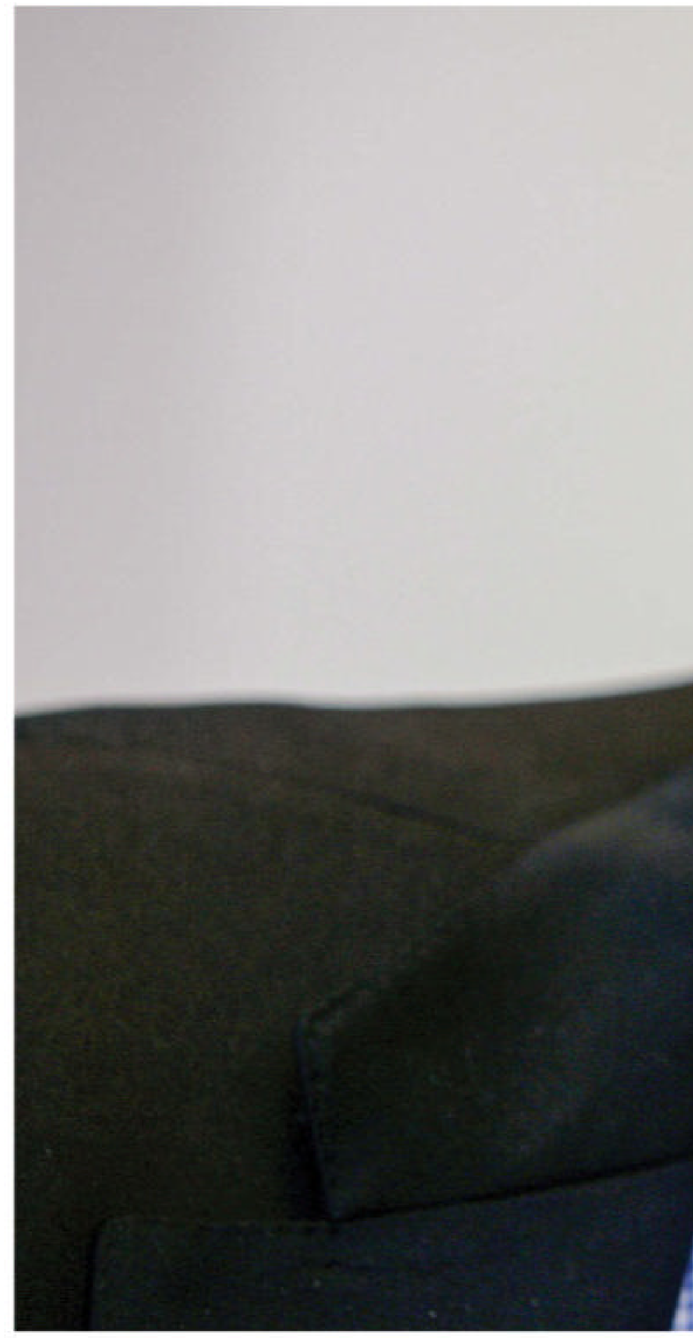
Company	Symbol	Price	Yield	Price-earnings ratio	Annualized total return 1 yr.	Annualized total return 5 yrs.
ConocoPhillips	COP	$118	2.0%	9	70.4%	18.7%
EOG Resources	EOG	130	2.6	8	55.7	6.2
Occidental Petroleum	OXY	63	0.8	8	119.1	−0.8
Ovintiv	OVV	51	2.0	3	53.3	−4.4
Targa Resources	TRGP	74	1.9	12	43.4	11.6
S&P 500 INDEX			**1.8%**	**17**	**−18.1%**	**9.4%**

As of December 31, 2022. SOURCES: Morningstar Direct, S&P Global Market Intelligence.

INTERVIEW

Is the Walk Down Wall Street Still Random?

The author of an investing classic says yes and remains a champion of index investing. BY KIM CLARK

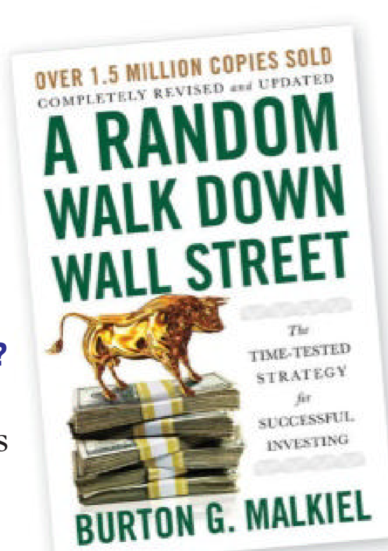


Princeton University emeritus economist Burton Malkiel, who turns 91 this year, has just published a 50th anniversary edition of his investing classic, A Random Walk Down Wall Street *(Norton, $32.50).*

Kiplinger: So much has changed since your first edition—there weren't even any index funds for individual investors then. What are the best developments for investors you've seen in the past 50 years?
Malkiel: Index funds. And Roth IRAs. People ought to use Roths because you can save for retirement in a tax-friendly way—without paying tax on any of the gains. Money market funds are a real boon for investors because bank accounts are earning essentially zero even when short-term interest rates are high. Zero-commission trading is another big deal. Exchange-traded funds allow the individual investor to access funds with zero commissions. These are, without any question, advantages for the individual investor.

What are the worst changes? Some trading platforms have marketed themselves as investors' best friends. They are lovely sites that made it easy and like a game to gamble by buying and selling stock. As you know, I am a buy-and-hold investor. Some of the other things that have led many people to disaster are cryptocurrency, non-fungible tokens and the Reddit mobs.

You wrote another book in 2008 on investing in China. Have your views on international investing changed? I still recommend that you have some international diversification and some exposure to emerging markets. The valuations are very much more attractive in emerging markets than they are in the United States right now. Fifteen years ago, I would have said if you're in one emerging market country, you should be in China. I'd probably pick India today. I may be a little less optimistic about China than I have been in the past. A number of things President Xi Jinping has done have not been helpful. I think there will be stronger growth in India.



We had a pullback in stocks in 2022. But price-earnings ratios for the broad market still average about 17, higher than the historical average. And when you first wrote your book in 1973, the stock market's average dividend yield was greater than 3%. Now we're at half that. What do these valuation measures tell us about the stock market's outlook?
Even with the decline, valuations are far less attractive than they've been. And while nobody can predict what the stock market is going to do over the short run, I think we're going to have a tough market. Generally, when valuations are stretched, you don't get 9% or 10% annualized returns. You're much more likely to be in the 6% area. But that doesn't mean you should say "Oh my God, I don't want common stocks anymore!" Stocks are the only things that, reliably, in good times and bad, have rates of return that exceeded inflation in the long run.

If the overall market is still expensive, why should people put their money into

FAIRFAX MEDIA VIA GETTY IMAGES

a broad index fund? Why shouldn't they just buy bargain stocks or a value fund? Because we know perfectly well that over the long haul, that simply doesn't work. The evidence is very clear. Over the long term, the old, boring total stock market index fund is the winner because the market is a random walk. S&P Dow Jones Indices publishes something called a SPIVA report [SPIVA is an acronym for S&P Indices Versus Active]. On average, two-thirds of active managers are beaten by the index in any given year. And the ones who beat the index in one year are not the same ones who beat the index the next year. When you compound that over 10 years, you find that 90% of funds don't beat the index. And let me just conclude by mentioning one person who has beaten the indexes over his lifetime: Warren Buffett. Buffett has told his trustees he wants his estate invested in index funds. That's a very good example of how even the guy who has actually done it knows perfectly well how hard it is and how unlikely it is that anyone's going to do it in the future.

Another big change in 50 years is the growth of research in behavioral finance. How has that changed your advice? It's very important to know about behavioral finance, know the biases we have, know how difficult it is for us to keep on track when, as Pogo would say, you know the enemy and realize it's us. Just as it is hard for people to stay on a diet, it's hard for people to save regularly because when the sky is falling—when it's 2007 and the whole world's financial system is falling apart—you say, "Oh, no, no. I'm not going to put money in now." That is exactly the time when you should put money in.

One of the things that's new in this edition of the book is an understanding that dollar-cost averaging can really help. If you are regularly investing when the market is down, you're buying more shares. We had a terrible time at the beginning of the 21st century [from 2000 to 2009]. The S&P 500 index was the same at the end of the period as it was at the beginning. But the investor who contributed regularly, dollar-cost averaged and reinvested dividends actually made more than 5% on average per year. That's pretty darn good.

The new edition gives an example of somebody who put a bit more than $20 a week into a total stock market index fund starting from 1978, shortly after index funds were first available from Vanguard. That person today would have $1.5 million. Wow! What I think is the most important lesson is that for people of modest means, who've never had big salaries, my book shows that they could accumulate a massive amount of money for retirement. What pleases me more than anything else is the letters I get from people who say that they read an earlier edition of the book, did exactly what I said, and they find now, much to their amazement, they have a comfortable retirement.

Your advice is that everybody should put their money in index funds. But you like to play the market a little bit. Could tell us one or two stocks that you like right now? I enjoy gambling, and I enjoy buying individual stocks. But I can do it because my 401(k) plan is completely invested in index funds. So if you've got enough for a comfortable retirement all saved in index funds and you want to have fun and buy individual stocks, by all means, go and do it. I will not answer the question because I don't think I do any better than average with the stock picks that I have. I do it because it's fun. ■

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STREET SMART | James K. Glassman

Buy Food Stocks? We All Gotta Eat

In a terrible time for most stocks, a few sectors have done awfully well. Energy, of course. Also defense and aerospace (there's a war on) and health care (needed always). Another strong sector may come as a surprise: food. **ARCHER-DANIELS-MIDLAND**, the giant food-processing company, surged 39.7% in 2022, and **GENERAL MILLS**, whose brands include Pillsbury, Häagen-Dazs and Progresso, returned 27.6%, including an attractive 2.6% dividend yield. I'm doing a little cherry-picking here (perhaps an apt metaphor), but the food sector—which includes agriculture, manufacturing, packaged goods and grocers—has outperformed the averages. (Stocks and funds I like are in bold; prices and other data are as of December 31.)

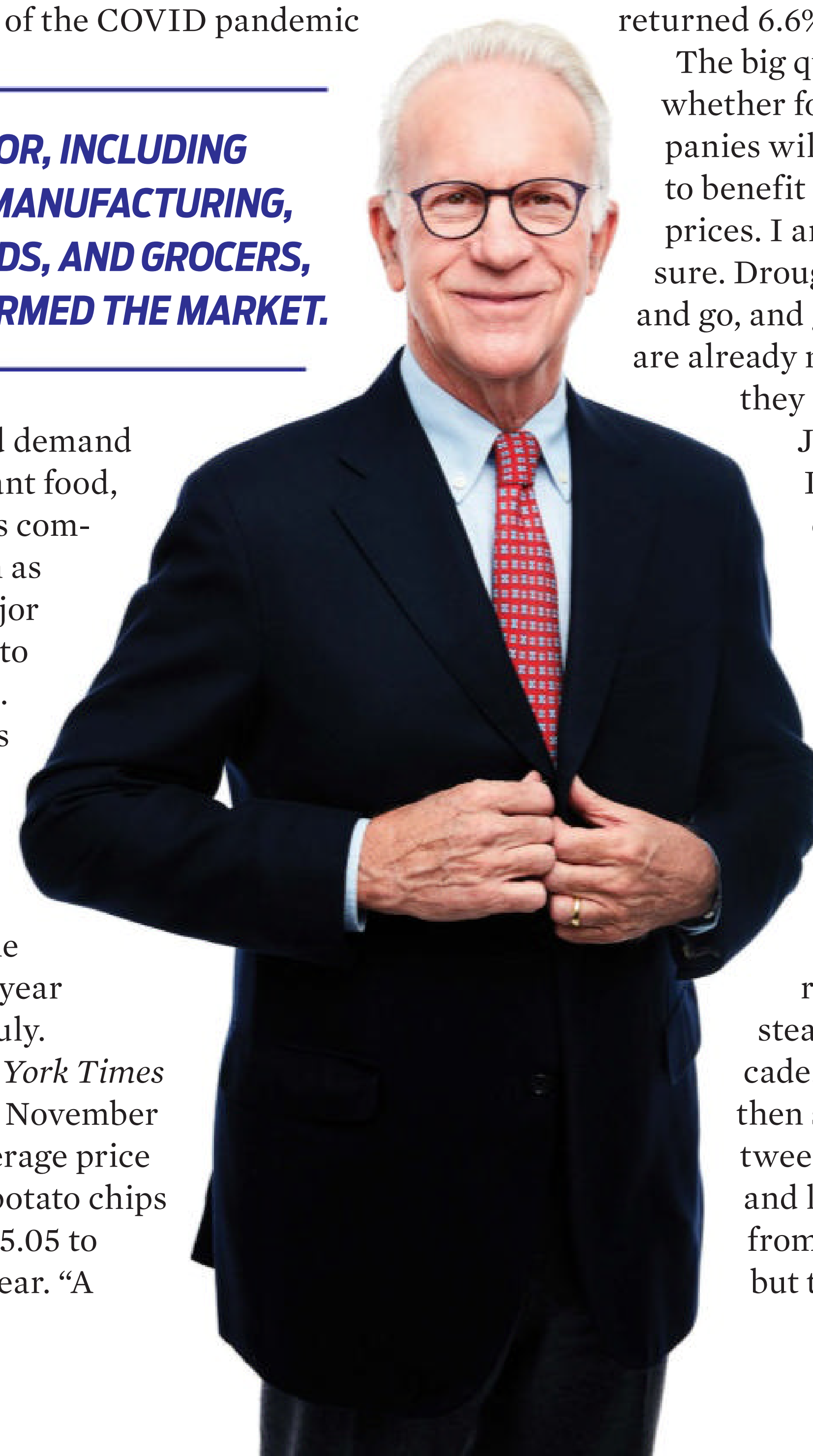
FIRST TRUST NASDAQ FOOD & BEVERAGE, an exchange-traded fund, returned 6.2% in 2022, beating the S&P 500 index, the large-cap benchmark, by more than 24 percentage points. The ETF has a broad portfolio that includes Lamb Weston, an Idaho-based maker of frozen potato products, and Bunge, a 200-year-old company that's the world's largest processor of oilseeds. **INVESCO DYNAMIC FOOD & BEVERAGE**, whose assets include food distributor Sysco and Campbell Soup, whipped the S&P by 21 points.

But let's consider why food stocks have risen and whether the phenomenon is temporary. In other words, does the sector makes sense long-term?

Strong headwinds. Food companies have recently benefited from three factors: drought, war in Ukraine and COVID. The western half of the U.S., especially major agricultural states such as Kansas, Nebraska and California, has been experiencing a long-term lack of rain. Drought is not restricted to the U.S. China is also suffering, and half of Europe is drier than it has been since the Renaissance. Many farmers and ranchers are producing less. Reduced supply means higher prices, which, for many food businesses (though not always the farmers and ranchers themselves), means higher profits. Meanwhile, the war in Ukraine has cut production of wheat and corn from one of the world's largest grain exporters, pushing up prices around the world. Because grain is so widely traded and easily shipped, its price is global, like the price of oil. Finally, the waning of the COVID pandemic has boosted demand for restaurant food, which helps companies such as Sysco, a major distributor to restaurants. Its revenues increased 33.8%, and profits were up 31.7% for the 2022 fiscal year ending in July.

THE FOOD SECTOR, INCLUDING AGRICULTURE, MANUFACTURING, PACKAGED GOODS, AND GROCERS, HAS OUTPERFORMED THE MARKET.

The *New York Times* reported in November that the average price of a bag of potato chips rose from $5.05 to $6.05 in a year. "A dozen eggs that could have been picked up for $1.83 now average $2.90. A two-liter bottle of soda that cost $1.78 will now set you back $2.17." Of course, food-company expenses—gasoline for delivery trucks, parts for processing machinery, salaries—have also risen with inflation, but in general the companies' bottom lines have benefited from higher food prices. Take **PEPSICO**, maker of potato chips (Lay's) as well as soft drinks and oatmeal (Quaker). In the company's most recent quarter, earnings were up 22% compared with the same period last year. The stock, which yields 2.6%, returned 6.6% in 2022.



The big question is whether food companies will continue to benefit from rising prices. I am not so sure. Droughts come and go, and grain prices are already moderating; they peaked last June. The U.S. Department of Agriculture maintains an "All Farm Index" of prices paid for U.S. crops. Those prices were remarkably steady for a decade. The index then shot up between mid 2020 and late 2022, from 110 to 137, but the curve is

POON WATCHARA-AMPHAIWAN

leveling off. Even in the case of food, higher prices dampen demand and encourage more investment in supply.

Inflation hedge. Still, there's no doubt that food stocks are a hedge against inflation, which is one good reason to own them. Another is that properly chosen, food stocks add stability to a portfolio—especially the big manufacturers with powerful brands, which provide a moat against competitors. My favorite in this sector is General Mills, but also consider **MONDELEZ INTERNATIONAL**, Chicago-based maker of Oreo cookies, Tang, Ritz crackers and more. The stock was up 2.7% in 2022, and over the past 10 years it has returned an annual average of 11.6%, rising consistently. Or **CAL-MAINE FOODS**, which sells $2 billion worth of eggs a year. The stock stumbled in December after it reported quarterly earnings that didn't meet analysts' high expectations. But the shares have nearly tripled in the past 10 years and currently yield more than 5%. The stock is well priced,

FOOD STOCKS ADD STABILITY TO A PORTFOLIO—ESPECIALLY BIG MANUFACTURERS WITH POWERFUL BRANDS LIKE GENERAL MILLS.

with a forward price-earnings ratio of 17, based on analysts' estimates for the fiscal year ending in May 2024.

Food stocks can tank, too. Poor management has crushed shares of Kraft Heinz despite its spectacular array of brands, which include Oscar Mayer, Jell-O and Ore-Ida, among many others. The stock peaked at more than $90 a share in 2017 and now trades at less than half that. But contrarians should note that Warren Buffett's Berkshire Hathaway owns 26% of the company, and he's not selling. The stock price of Tyson's Food, the global chicken, beef and pork purveyor, is also lower than it was five years ago. Tyson is suffering lately as consumers move to cheaper cuts of meat—or to no meat at all—as a way to deal with inflation.

TASTY MENU

NOURISH YOUR PORTFOLIO

The stocks and funds below can provide ballast and a hedge against inflation.

Company	Symbol	Price	Yield	Price-earnings ratio	Annualized total return 1 yr.	3 yrs.	5 yrs.
Ahold Delhaize	ADRNY	$29	3.6%	11	–14.2%	7.8%	8.6%
Archer-Daniels Midland	ADM	93	1.7	15	39.7	28.1	20.1
Cal-Maine Foods	CALM	54	5.7	17	51.9	9.6	5.1
General Mills	GIS	84	2.6	20	27.6	18.9	9.6
Ingles Markets	IMKTA	96	0.7	7*	12.5	27.5	23.6
Mondelez International	MDLZ	67	2.3	22	2.7	8.7	11.2
PepsiCo	PEP	181	2.6	25	6.6	12.3	10.9

Mutual fund/ETF	Symbol	Price	Yield	Expense ratio	Annualized total return 1 yr.	3 yrs.	5 yrs.
First Trust Nasdaq Food & Beverage	FTXG	$27	1.6%	0.60%	6.2%	8.8%	6.9%
Invesco Dynamic Food & Beverage	PBJ	46	1.4	0.63	3.1	11.9	7.7
S&P 500 INDEX			**1.8%**		**–18.1%**	**7.7%**	**9.4%**

As of December 31, 2022. *Based on previous 12-months' earnings. Fund yields are 30-day SEC yields.
SOURCES: Morningstar Direct, S&P Global Market Intelligence.

With two exceptions, the supermarket sector is unattractive. Walmart leads in sales, but U.S. groceries account for less than 40% of total company revenues, so it's not a pure play. The number-two supermarket chain is Kroger, which also owns Ralph's and Harris Teeter. Kroger is trying to purchase number-three Albertson's, which owns Safeway, but is running into government opposition. The uncertainty means neither of those stocks is a good bet now. Publix is private, and Whole Foods and other brick-and-mortar grocery stores represent just 4% of total sales for Amazon. The future of food shopping may be online, but not even Amazon, has cracked the code. I consider **AHOLD DELHAIZE**, a Dutch company with 7,400 stores in Europe and the U.S. (brands include Giant, Stop & Shop and Food Lion), the best of the large chains. It trades at a P/E of 11 and yields 3.6%.

I also like a smaller chain, **INGLES MARKETS**, which operates in the Southeast and has a market capitalization (shares times stock price) of just $1.8 billion. Ingles is a consistent grower with strong profit margins. Investors have noticed, and the stock has risen at an average annual rate of 24% over the past five years. Analyst estimates are scarce, but the P/E based on earnings for the past 12 months is a mere 7.

Guessing when the next war or drought will boost food prices—or whether the current dislocations will continue—is a fool's errand. But it makes sense to nourish your portfolio with food stocks. They offer a balanced diet in a time when sectors like technology can upset even the strongest stomachs. ■

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INCOME INVESTING | Jeffrey R. Kosnett

Juicy Cash Ideas to Consider Now

In the final week of 2022, the Federal Farm Credit Banks, an agency with an implied Treasury guarantee, sold one-year bonds with an interest rate of 4.75%. In December 2021, the same organization borrowed for one year at 1.06% and for nine years at 2.00%. The one-year deal was fair at the time, as 90-day T-bills were at 0.17%. But the 2.00% bond due at the end of 2030 now trades at 83, representing a price 17% below its original par value. That's the difference between a cash equivalent—where you have limited risk to principal due to the short time frame—and an IOU with a long-enough maturity (duration) to get you in trouble.

Longer duration is back in favor, and the price cut on that 2% Farm Credit bond (now an eight-year note) boosts its yield to 4.6%, assuming it's held to maturity. But the low coupon means the current yield, or what you'll earn in annual income, is just 2.4%—unappealing for income-first investors. There are scads of similar listings: deeply discounted principal for a fine long-term trade, but scant immediate income and a long wait for the full return of capital.

FIVE PERCENT UP FRONT IS NOW A REALISTIC BASELINE TARGET FOR INCOME INVESTORS.

If cash still paid peanuts, it would make sense to take 2.4% and go about your other business while the principal slowly regenerates. But with 5% up front a realistic baseline target, yield hunters seeking better payouts should look for high coupons or rising distributions at a bargain price. Four thoughts, below. (Prices and yields are as of December 31.)

Highly rated preferreds. Preferreds took a beating in 2022, but I see excellent yields again from strong issuers. Public Storage is one of the soundest real estate investment trusts, rated BBB+ by Standard & Poor's owing to minimal debt and reliable cash flow. Its numerous preferred-share series, such as the 4.625% L Series (symbol PSA.PRL, $19.17, current yield 6.0%) and the 4.7% J Series (PSA.PRJ, $19.62, 6.0%), yield more than twice the firm's common stock yield.

$25 utility bond snippets. Utility and infrastructure firms' $25 par value "baby bonds" are another casualty of the bond rout, but investment-grade issues such as DTE Energy's lifetime (due in 2081) 4.75% debentures (DTG) entered 2023 on sale. At $17.55, the bond pays a current 6.2% yield. Brookfield Infrastructure, Duke Energy, Entergy and Georgia Power also have listed bonds discounted to $20 or less for current yields above 6%.

Bank loan funds. This category fell less than 2% in 2022, and with rates rising, good funds offer a combination of good yield and rising distributions. Our favorite, Fidelity Floating Rate High Income (FFRHX), paid a December dividend at an annualized 7.5%. These are below-investment-grade credits, but until we see a deep recession, there's no reason to take fright.

Discounted nonleveraged closed-end funds. Rising borrowing costs are no problem for funds that don't borrow, such as TCW Strategic Income Fund (TSI). The portfolio holds bonds rated triple-A to high yield. It currently trades at 6% below its net asset value, for an income-only distribution of 6.2% on a share price of $4.62. TCW's 14.2% loss in 2022 is deceptive; the fund has been in the green since September. If you can absorb the swings from discounts to premiums and back, it deserves to be a core holding. ■

POON WATCHARA-AMPHAIWAN

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THE KIPLINGER ETF 20 UPDATE

A Tale of Two Dividend Funds

IT HAS BEEN THE WORST OF TIMES FOR U.S. stocks lately. The S&P 500 index fell 18.1% over the past 12 months. But dividend stocks held up better. **SCHWAB U.S. DIVIDEND EQUITY ETF**, for instance, slipped just 3.2%; **VANGUARD DIVIDEND APPRECIATION ETF** declined 9.8%.

Why did one exchange-traded fund do better than the other? The Schwab fund concentrates on high-yielding dividend payers. That means it tilts toward bargain-priced shares, which outperformed stocks in fast-growing companies over the past year. The fund's 3.4% yield helped, too. Vanguard Dividend Appreciation, by contrast, focuses on dividend growers—favoring companies with rising revenues and earnings—and yields 1.8%.

Two other factors helped Schwab U.S. Dividend Equity, says Aniket Ullal, head of ETF data and analytics at CFRA Research. Sizable stakes, relatively speaking, in energy stocks, the best-performing sector in the S&P 500 over the past year, and midsize companies, which beat large-company stocks, was another plus for Schwab U.S. Dividend Equity. By contrast, the Vanguard ETF holds a negligible stake in energy shares and is more focused on mega-size companies.

Looking under the hood. The two ETFs track different indexes, so performance will naturally differ. The Schwab ETF tracks the Dow Jones U.S. Dividend 100 index. It holds shares in firms that have paid a dividend for at least 10 years and score well on certain financial measures, such as return on equity (a profitability measure) and free cash flow relative to total debt. (Free cash flow is the money left over after expenses to run and maintain the business.)

By contrast, the Vanguard ETF tracks the S&P U.S. Dividend Growers index, which homes in on large companies that have raised annual payouts for at least 10 consecutive years. It excludes real estate investment trusts, and it weeds out problem stocks whose high yields are a function of sinking share prices by excluding the top 25% of the highest-yielding companies.

We still like both funds. Despite their different approaches, both of them have delivered market-beating returns over time. Over the past five years, Schwab U.S. Dividend Equity has returned 11.7% annualized; Vanguard Dividend Appreciation, 10.4%. The S&P 500, meanwhile, has a 9.4% annualized record over the same period. **NELLIE S. HUANG**

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Returns/Fees

KIPLINGER ETF 20: VITAL STATISTICS

Core Stock Funds	Symbol	Share price	Annualized total return 1 yr.	3 yrs.	5 yrs.	Yield	Expense ratio
iShares Core S&P 500	IVV	$384	–18.1%	7.6%	9.4%	1.6%	0.03%
iShares Core S&P Mid-Cap	IJH	242	–13.1	7.2	6.6	1.6	0.05
iShares Core S&P Small-Cap	IJR	95	–16.2	5.7	5.8	1.4	0.06
iShares MSCI USA ESG Select	SUSA	82	–21.3	8.5	9.8	1.4	0.25
Vanguard Total International Stock	VXUS	52	–16.0	0.5	1.1	3.1*	0.07
Dividend Stock Funds							
Schwab US Dividend Equity	SCHD	$76	–3.2%	13.1%	11.7%	3.4%	0.06%
Vanguard Dividend Appreciation	VIG	152	–9.8	8.8	10.4	1.8	0.06
WisdomTree Global ex-US Qual Div Growth	DNL	32	–22.3	2.2	4.4	4.0	0.42
Strategic Stock Funds							
Invesco Optm Yd Dvrs Cdty Stra No K1	PDBC	$15	19.3%	16.0%	8.6%	2.9%	0.62%
Invesco S&P 500 Equal Weight Financials	RYF	56	–10.6	8.7	7.4	2.0	0.40
Invesco S&P 500 Equal Weight Health Care	RYH	288	–9.3	9.9	10.6	0.6	0.40
Invesco WilderHill Clean Energy	PBW	38	–44.4	6.0	10.7	0.0	0.62
Technology Select Sector SPDR	XLK	124	–27.7	11.8	15.6	1.0	0.10
Vanguard FTSE Europe	VGK	55	–16.0	1.3	2.0	3.2*	0.08
Core Bond Funds							
Fidelity Total Bond	FBND	$45	–12.7%	–1.6%	0.8%	5.1%	0.36%
Invesco BulletShares 2026 Corp Bond	BSCQ	19	–8.3	–0.3	2.0	5.0	0.10
SPDR DoubleLine Total Return Tactical	TOTL	40	–12.1	–3.2	–0.5	5.4	0.55
Opportunistic Bond Funds							
BlackRock Ultra Short-Term Bond	ICSH	$50	1.0%	0.9%	1.6%	4.2%	0.08%
Invesco Senior Loan	BKLN	21	–1.7	0.7	2.0	6.9	0.65
Vanguard Tax-Exempt Bond	VTEB	49	–8.2	–0.7	1.2	3.3	0.05
Indexes							
S&P 500 INDEX (LARGE U.S. STOCKS)			**–18.1%**	**7.7%**	**9.4%**	**1.8%**	
MSCI EAFE INDEX (FOREIGN STOCKS)			**–14.5**	**0.9**	**1.5**	**3.2**	
BLOOMBERG U.S. AGGREGATE BOND INDEX			**–13.0**	**–2.7**	**0.0**	**4.7**	

As of December 31, 2022. *12-month yield. SOURCES: Morningstar Direct, MSCI, S&P Dow Jones Indices.

THE KIPLINGER 25 UPDATE

Turbulence for This Tech Fund

WE ADDED T. ROWE PRICE GLOBAL TECHNOLOGY to the Kiplinger 25 in late 2021, just as growth stocks began to deflate. The fund has struggled over the past year, delivering a 56% loss. Over the same period, the S&P 500 index lost 18%.

When we picked the fund, we liked that it did not own (and still doesn't own) Alphabet, Apple or Microsoft—stocks that probably crowd the portfolios of other funds you hold. Manager Alan Tu favors promising, but nascent, midsize companies. That positioning proved painful in late 2021 and the first half of 2022, as smaller tech stocks underperformed their large-company counterparts.

Since last summer, small and midsize tech stocks have recovered some, beating large tech firms, but Global Technology continues to lag. Not surprisingly, a new manager is stepping in. Dom Rizzo, a new comanager, will take over as sole manager in April. But Rizzo has never before managed a portfolio, though he has been part of Price's tech-stock analyst team since 2018. Tu is stepping down but will remain in T. Rowe Price's stock division.

Rizzo is clearly well regarded if he's getting the bump up at this fund. A Price spokesman said Rizzo has at least one stock recommendation in virtually all of Price's diversified stock funds, thanks to his research of semiconductor firms. Three of his key picks are chip-industry stocks ASML Holdings and Synopsys and next-generation payment company Ayden.

Eying other options. We'll give the new manager a shot, but we're eyeing Fidelity Select Technology, too. That fund is promising, but its manager has a short track record, too, and 40% of the fund's assets are in two stocks: Apple and Microsoft. So we're watching both funds for now. Stay tuned.

In the meantime, we still believe in tech-stock investing. It may be a while before tech firms dominate stock performance tables again. But if you want to bet on innovation, there's no better sector than technology. And with the tech-heavy Nasdaq Composite index down 33% over the past 12 months, it's a good time to build some exposure.

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KEY DATA FOR OUR MUTUAL FUND PICKS

Kiplinger 25 funds are no-load; you can buy them without sales charges. For more about the funds, visit kiplinger.com/links/kip25.

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DF Dent Midcap Growth	DFDMX	–30.5%	7.3%	11.1%	0.0%	0.85%
Dodge & Cox Stock	DODGX	–7.2	8.7	12.4	1.4	0.51
Fidelity Blue Chip Growth	FBGRX	–38.5	10.6	14.6	0.0	0.76
Mairs & Power Growth	MPGFX	–21.1	7.9	10.8	0.8	0.61
Parnassus Mid-Cap	PARMX	–21.6	4.7	9.1	0.0	0.96
T. Rowe Price Dividend Growth	PRDGX	–10.2	10.8	12.8	1.1	0.62
T. Rowe Price QM US Sm-Cp Gro	PRDSX	–22.4	5.7	10.9	0.0	0.78
T. Rowe Price Small-Cap Value	PRSVX	–18.5	5.1	9.0	0.4	0.78
Primecap Odyssey Growth	POGRX	–14.4	7.0	13.0	0.6	0.65
Vanguard Equity-Income	VEIPX	–0.1	8.8	11.7	2.8	0.28

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Baron Emerging Markets	BEXFX	–26.0%	–3.0%	2.8%	0.0%	1.33%
Brown Cap Mgmt Intl Sm Co	BCSVX	–31.6	6.4	—	0.0	1.31
Fidelity International Growth	FIGFX	–23.2	4.2	6.6	0.2	0.99
Janus Henderson Glbl Eq Inc	HFQTX	–6.3	1.8	4.9	3.7	0.94

Specialized Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Fidelity Select Health Care	FSPHX	–12.8%	11.3%	15.4%	0.0%	0.68%
T. Rowe Price Global Technology	PRGTX	–55.5	0.9	13.1	0.0	0.86
TCW Enhanced Comm Strategy	TGABX	13.0	7.6	0.1	3.5	0.75

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Fidelity Interm Muni Income	FLTMX	–6.4%	1.5%	1.7%	3.1%	0.32%
Fidelity Strategic Income	FADMX	–9.7	1.6	2.6	5.7	0.66
Met West Total Return Bond	MWTRX	–14.9	–0.1	1.1	4.2	0.65
T. Rowe Price Floating Rate	PRFRX	–0.7	2.7	3.1	7.1	0.75
TIAA-CREF Core Impact Bond	TSBRX	–14.0	–0.1	1.3	4.1	0.64
Vanguard Emerg Mkts Bond	VEMBX	–13.2	2.8	—	7.1	0.55
Vanguard High-Yield Corporate	VWEHX	–9.1	2.2	3.6	6.9	0.23
Vanguard Short-Term Inv-Grade	VFSTX	–5.8	1.0	1.4	4.7	0.20

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500 INDEX	**–18.1%**	**9.4%**	**12.6%**	**1.8%**
RUSSELL 2000 INDEX*	**–20.4**	**4.1**	**9.0**	**1.5**
MSCI EAFE INDEX†	**–14.5**	**1.5**	**4.7**	**3.3**
MSCI EMERGING MARKETS INDEX	**–20.1**	**–1.4**	**1.4**	**3.4**
BLOOMBERG U.S. AGG BOND INDEX#	**–13.0**	**0.0**	**1.1**	**4.7**

As of December 31, 2022. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices. Yields listed for bond funds are SEC yields, which are net of fees; stock fund yields are the yield for the past 12 months. NA indicates not available.

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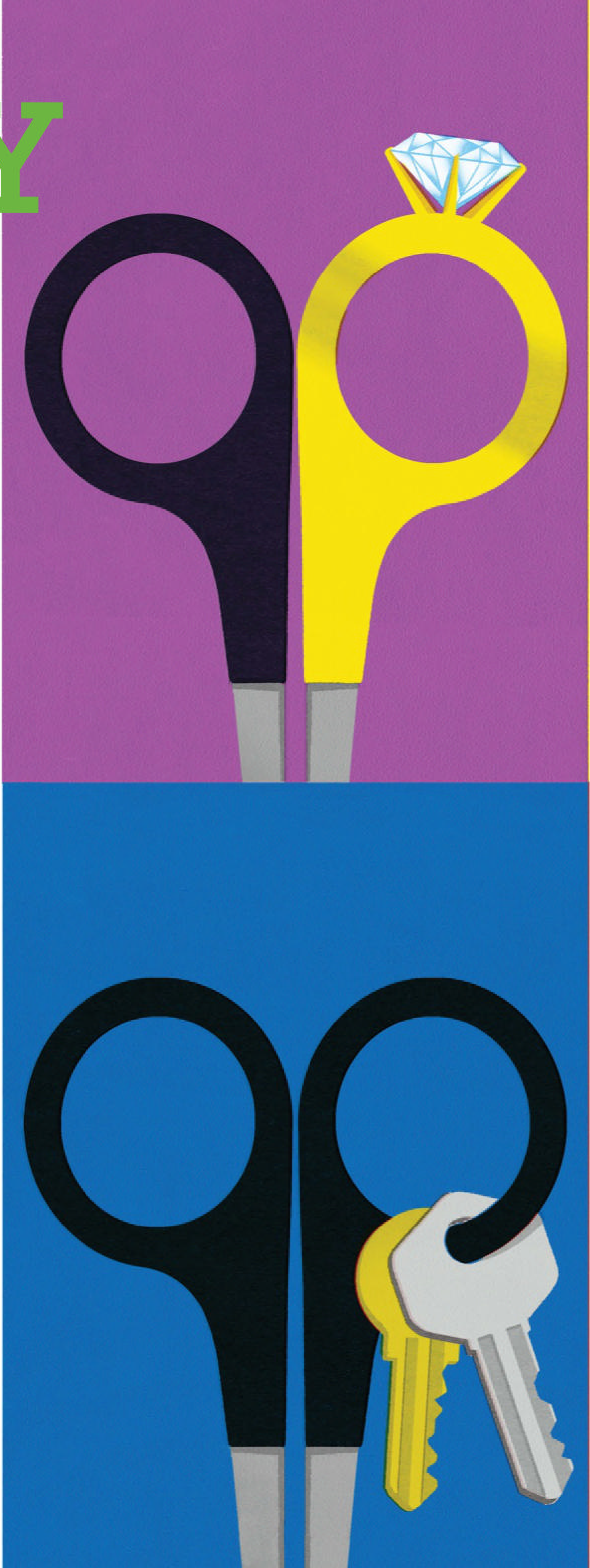

HOW TO TRIM YOUR TAX BILL

Life milestones, such as getting married, having kids and retiring, are usually taxable events. See how to minimize any tax bite—and maximize your refund.

BY SANDRA BLOCK

As you prepare to file your 2022 tax return, take inventory of how your life changed last year. If you experienced a major turning point, there's a good chance it was a taxable event.

In 2022, the average federal tax refund totaled $3,039, a 7.5% increase from $2,827 the year before. But the IRS recently warned taxpayers that their refunds could be smaller in 2023. After sending out billions of dollars in stimulus checks during the pandemic, the federal government turned off the tap last year. That means you'll no longer have an opportunity to file for unclaimed stimulus checks when you file your 2022 tax return.

In addition, Congress didn't extend a pandemic-related provision that allowed taxpayers to claim an above-the-line deduction for up to $600 in charitable contributions. Unless you itemize your deductions, you won't get a tax break for your philanthropic largesse in 2022.

That means it's more important than ever to take advantage of all of the tax credits and deductions available to you, even if you don't itemize. And as has been

ILLUSTRATIONS BY PETE RYAN

the case in the past, there are new wrinkles in the tax code that could increase your refund or lower your tax bill.

FAMILY

You got married. Following a pandemic pause, more than 2 million couples got married in 2022. If you're among the newly hitched, filing your first tax return as a married couple is a cold reminder that the honeymoon is over.

The first decision you'll need to make is which filing status to use. For the majority of couples, filing jointly will deliver the lowest tax bill. A long list of tax breaks are unavailable to couples that choose married filing separately, including money-saving credits to offset the cost of raising children and sending them to college. Thresholds for certain deductions are higher for couples who file jointly, which means you can earn more and still qualify for tax breaks. Joint filers also qualify for a much larger standard deduction for couples who file jointly—$25,900 in 2022, compared with $12,950 for couples who file separately.

There are a handful of circumstances in which filing separately will result in a lower tax bill. If one spouse had a serious medical condition that resulted in large out-of-pocket expenses, filing separately could enable that spouse to deduct those expenses. You can only deduct medical expenses that exceed 7.5% of your adjusted gross income, so you'll have a better shot at reaching that threshold if the spouse who incurred the expenses files separately.

Filing separately could also pay off if there's a large disparity between your income and your spouse's income. By filing separately, the lower-earning spouse could qualify for tax breaks that are only available to taxpayers in lower tax brackets.

Finally, you should consider filing separately if your spouse has unpaid child support, owes back taxes or has defaulted on federal student loans. By filing separately, your refund won't

be reduced by those liabilities. Similarly, you should file separately if you suspect your spouse has cheated on his or her taxes—although that's probably a conversation you should have had before you tied the knot.

If you and your spouse are both high earners, you could find yourself hit with the marriage penalty, which occurs when a couple filing a joint return pays a higher tax than they would pay if they remained single. The 2017 Tax Cuts and Jobs Act eliminated the penalty for most couples (and expanded the potential for marriage bonuses), although some couples in the top tax brackets may still pay the penalty.

When it comes to state taxes, though, marriage penalties are often alive and well. According to the Tax Foundation, 15 states have a marriage penalty. In some instances, you may be better off filing a joint federal tax return and a married-filing-separately state tax return, although not all states permit that.

You were divorced or widowed. Where divorce is concerned, your filing status is based on the year in which your divorce became final. If you were divorced as of December 31, 2022, your filing status is single or head of household (assuming you qualify). If you and your spouse have split but didn't finalize the divorce by the end of the year, you have the option of filing a joint return or married filing separately—whichever delivers the lowest tax bill.

The rules are different for taxpayers who lost a spouse. In that case, you can file jointly for the year your spouse died as long as you didn't remarry. This can often result in a larger refund (or lower tax bill) because you can claim the full standard deduction available for married couples, along with potentially lower tax rates for a joint return.

If you have a dependent child, you may be eligible to claim qualifying widow(er) status for two years after the death of your spouse. This status allows you to claim the same standard deduction available to married couples who file jointly.

You have children or dependents. Even before inflation drove up the price of diapers, formula and strained carrots—not to mention Robux and baseball and hockey uniforms—raising a child was a costly endeavor. The average family will spend $310,605 on a child born in 2022, and that doesn't include the cost of college, according to an analysis by the Brookings Institution. Fortunately, the tax code is pretty family-friendly, so it's critical to take advantage of all tax breaks available to parents.

In 2021, the American Rescue Plan increased the size of the child tax credit, allowed older children to qualify, made the credit fully refundable, and provided parents with monthly advance payments. However, those provisions weren't extended to 2022.

For 2022, you'll still be able to claim a child tax credit, but it won't be as generous. The credit is worth up to $2,000 for each dependent child younger than 17. The credit phases out once your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $400,000 for married couples who file jointly.

If you adopted a child last year, you may be eligible for a tax credit to offset your costs, which can be significant. In 2022, the credit is worth up to $14,890. The credit phases out once your MAGI exceeds $223,410. Unless you adopt a special-needs child, the credit is limited to the amount of your eligible adoption expenses—so, for example, if you only spent $10,000, that's the maximum amount you can claim. Families who adopt a special-needs child can claim the full credit in the year the adoption is finalized, even if it exceeds the amount of your expenses.

The credit is nonrefundable, so you won't get a check if it exceeds the amount of tax you owe. However, you can carry over the remaining amount for up to five years.

The American Rescue Plan expanded the Child and Dependent Care Credit in 2021, but that, too, reverts to the previous level for tax year 2022. The maximum credit you can claim for eligible child care expenses is $1,050 (35% of $3,000) if you have just one child in your family and $2,100 (35% of $6,000) for two or more children. In addition, you need to have very low income—below $15,000—to qualify for the 35% maximum credit. It starts to phase out once your income exceeds $15,000, falling to 20% ($600 for one child; $1,200 for two or more) once your household income exceeds $45,000.

REAL ESTATE

Rising interest rates cooled the housing market in 2022, but millions of people still moved last year. Here's what you need to know if you bought or sold a home.

You sold a home. If you owned and lived in your main home for at least two out of the five years leading up to the sale, up to $250,000 ($500,000 for couples filing a joint tax return) of your gain is tax-free. That means most home sales are tax-free, but as home values have skyrocketed in many parts of the U.S., some sellers have netted a profit that exceeds those thresholds. In that case, your excess gains are taxed at long-term capital gains rates, which range from 0% to 23.8%, depending on your taxable income. (Losses from sales of primary homes are not deductible.)

But even if your profits exceeded the tax-free threshold, there's a good chance you can reduce taxes on the excess gain or eliminate them entirely. You can add the cost of significant capital improvements to your home, such as renovations, roofing, landscaping and other improvements, to the basis (the amount you spent to buy your home). Depending on how much money you've spent on upgrades (repairs don't count), you could wipe out your excess gains.

You bought a home (or have a mortgage). At the end of 2022, home mortgage rates averaged 6.42%, up from 3.11% a year earlier. That has made buying a home more expensive, but you may be able to recoup some of that money when you file your tax return.

If you itemize, you can deduct interest on up to $750,000 of debt ($375,000 if married filing separately) used to buy or build your primary home or a single second home. Since the Tax Cuts and Jobs Act substantially increased the standard deduction, the majority of taxpayers no longer itemize, but interest on your new mortgage could push you over the threshold.

You should receive a Form 1098 from your lender listing the mortgage interest you paid during the previous year, which you'll use to deduct interest on Schedule A. If you bought a home in 2022, make sure the form includes any interest you paid from the date you closed to the end of that month, which is listed on your settlement sheet for the home purchase. You can deduct it even if the lender doesn't include it on the Form 1098.

As home values have risen, so have state and local property taxes. As long as you itemize, you can deduct up to

KIPTIP

Last-Minute Tax Savers

Before you press the button (or seal the envelope) to file your 2022 tax return, make sure you haven't overlooked some steps you can take to lower your tax bill between now and the April 18 tax-filing deadline. Bonus: These strategies provide a tax-efficient way to save for retirement and health care.

Contribute to a retirement account. If you're not enrolled in a workplace retirement plan, you can deduct a contribution to an IRA of up to $6,000, or $7,000 if you were 50 or older in 2022. Contributions to a traditional IRA will reduce your adjusted gross income on a dollar-for-dollar basis, which could also make you eligible for other tax breaks tied to your AGI.

Workers who have a company retirement plan but earn less than a certain amount may qualify to deduct all or part of their IRA contributions. For 2022, this deduction phases out for single taxpayers with AGI of between $68,000 and $78,000 and for married couples who file jointly with AGI of between $109,000 and $129,000. If one spouse is covered by a workplace plan but the other is not, the spouse who isn't covered can deduct the maximum contribution, as long as the couple's joint AGI doesn't exceed $204,000. A partial deduction is available if the couple's AGI is between $204,000 and $214,000.

Put funds aside for health care costs. You have until April 18 to set up and fund a health savings account for 2022. To qualify, you must have had an HSA-eligible insurance policy at least since December 1. The policy must have had a deductible of at least $1,400 for individual coverage or $2,800 for family coverage. You can contribute up to $3,650 to an HSA if you had single coverage or $7,300 if you had family coverage. You can contribute an additional $1,000 if you were 55 or older in 2022. Contributions reduce your adjusted gross income. The money in your account will grow tax-free, and withdrawals to pay medical expenses are also tax-free.

$10,000 ($5,000 if you're married but filing a separate return) on the combined amount of state and local income, sales and property taxes. Any amount over $10,000 isn't deductible.

WORK

You were self-employed. The pandemic led to an increase in entrepreneurship, as more Americans were inspired to pursue careers that offered more flexibility and economic opportunities. Some who kept their day jobs embarked on side hustles, a trend that will likely continue if an economic downturn leads to layoffs.

Whichever path you chose, it's important to understand the tax implications of self-employment. Self-employed taxpayers must pay income taxes on their profits as well as 15.3% in Medicare and Social Security taxes. (When you work for someone else, your employer picks up 50% of that amount.) However, you can deduct half of that amount on your tax return. And that's just one of a long list of expenses you can deduct, from health care premiums for yourself and your family to the cost of your home office.

There is some good news for self-employed workers, as well as part-time dog walkers and people who sell old vinyl records on eBay. Late last year, the IRS announced that it would delay for one year a new tax reporting requirement that will require third-party payment apps, such as Venmo, PayPal or Square, to report payments of $600 or more to the IRS. Previously, payment networks weren't required to provide a 1099-K unless a user was paid more than $20,000 and had more than 200 business transactions during the year.

The new requirement is designed to ensure that gig workers and others report all of their taxable income to the IRS. But there was widespread concern that many individuals would receive a Form 1099-K for personal transactions, such as payments between family and friends. The requirement is still scheduled to take effect in 2024, so if you use third-party apps,

ADVANCE PLANNING

What's Ahead for Your 2023 Taxes

If you weren't eligible for an energy-efficient tax credit in 2022, don't sweat it. The 2022 Inflation Reduction Act includes a raft of tax breaks for taxpayers who want to go green and save money on gas and electricity bills.

Expanded credits for electric vehicles (with caveats). Starting in 2023, you'll be eligible for a tax credit of up to $7,500 on the purchase of an electric vehicle, and the 200,000-vehicle cap on manufacturers' EVs will disappear. Eliminating the cap means that EVs made by Tesla, General Motors and Toyota may qualify for the credit. The law also provides a credit of up to $4,000 for purchases of used EVs.

However, the law contains a new restriction that could limit the types of EVs eligible for the credit, at least initially. To qualify, the EV must have been assembled in North America, and battery components must have also been primarily sourced in North America. You can find a list of qualifying EVs at http://afdc.energy.gov/laws/electric-vehicles-for-tax-credit, but the types of EVs that qualify are likely to change as manufacturers seek to comply with the new rule.

The new tax credit, which expires in 2032, also contains income and price restrictions. To qualify for the tax credit in 2023, you must have modified adjusted gross income of less than $150,000 if you're single, or $300,000 if you're married and file jointly.

Price matters, too. Vans, pickup trucks and SUVs with a manufacturer's suggested retail price (MSRP) of more than $80,000 won't qualify for the credit. For clean cars to qualify for the EV tax credit, the MSRP can't be more than $55,000. For clean used vehicles, the cut-off is $25,000.

EVs won't go anywhere without a charge, and the Inflation Reduction also includes a tax break for taxpayers who install their own charging station. The law provides a tax credit of up to 30% of the cost of a home charging station, up to $1,000.

New credits for home energy-efficiency improvements. If you exhausted the old tax credits for home energy-efficiency upgrades (or maxed out on the lifetime limit), the Inflation Reduction Act offers new tax-saving opportunities to tighten up your home.

Starting in 2023, homeowners will be able to claim a tax credit for 30% of the cost for eligible home improvements, up to $1,200 a year. The $1,200 annual limit replaces the $500 lifetime limit, so if you spread out your qualifying home projects, you can claim the maximum credit each year. In addition, the old annual limits for specific types of qualifying improvements will be modified—and for the better. Here's a rundown on the limits:

- $150 for home energy audits.
- $250 for an exterior door ($500 total for all exterior doors).
- $600 for exterior windows and skylights; central air conditioners; electric panels and related equipment; natural gas, propane or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers.
- $2,000 for electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and boilers. (For this one category, the $1,200 annual limit may be exceeded.)

For more ambitious projects, such as systems that use solar, wind, geothermal, biomass or fuel-cell power to produce electricity, heat water or regulate your home temperature, you may be eligible for a tax credit of up to 30% of the cost.

it's a good idea to make sure you designate noncommercial payments as personal and ask people who send you payments to do the same.

"The postponement should provide taxpayers additional time to familiarize themselves with the rules and, more importantly, to properly identify personal versus business payments to prevent misidentified payments being reported on a Form 1099-K at year-end," says National Taxpayer Advocate Erin M. Collins.

You were unemployed. While the unemployment rate remained low in 2022, layoffs in some industries—mainly technology and media—spiked at the end of the year. And if the economy heads into recession, job losses could increase in 2023.

If you collected unemployment benefits last year, keep in mind that they're taxable unless you arranged to have taxes withheld when you filed a claim. (The American Rescue Plan exempted some unemployment benefits from taxes in 2020, but that relief wasn't extended.)

Taxpayers who received unemployment benefits should receive a Form 1099-G, which will show the amount you received. Most states also tax unemployment benefits.

RETIREMENT

In 2022, taxpayers 65 and older can claim a standard deduction of $14,350 (compared with $12,950 for younger taxpayers). If you're married and both spouses are 65 or older, your total standard deduction for 2022 is $28,700.

For that reason, most retirees are better off claiming the standard deduction than itemizing, particularly if you've paid off your mortgage. That means you won't get a tax deduction for your charitable gifts. However, retirees who are 70½ or older can donate up to $100,000 a year from their IRAs to charity via a qualified charitable distribution. A QCD isn't deductible, but it will reduce your adjusted gross income. If you made a QCD last year, make sure you won't be taxed on the distribution. You—or your tax preparer—should report it

HELP WANTED

Do You Need to Hire a Pro?

Although tax software can handle most tax returns, sometimes the prudent course of action is to hire help. You may need professional help if you're self-employed, have a large amount of investment income, retired recently, own rental property, or simply don't have the time to hunker down with your W-2s and 1099s.

A qualified tax professional can make sure you claim all of the tax breaks available to you and prevent you from running afoul of the IRS. But *qualified* is the key word here, because the IRS doesn't have the authority to regulate tax preparers or mandate minimum competency requirements. In 2021, lawmakers introduced legislation that would allow the IRS to regulate tax preparers and mandate that they meet minimum competency standards, but that hasn't gone anywhere. For now, anyone can buy tax software and go into the tax-preparation business. For that reason, you need to practice due diligence when searching for a tax preparer.

Check credentials. Start by looking for a preparer who is credentialed, which includes certified public accountants, enrolled agents and attorneys. CPAs are licensed by state boards of accountancy, studied accounting at a college or university, and have passed a rigorous exam. You can get a list of local certified public accountants from your state's CPA society. Enrolled agents, who are licensed to appear before the IRS, must pass a rigorous test and meet annual continuing-education requirements. To locate an enrolled agent in your area, go to www.naea.org. Attorneys are licensed and regulated by state courts and/or state bar associations. They must take continuing-education classes and satisfy professional ethics requirements.

The IRS also runs a voluntary program that recognizes the efforts of tax preparers who are not CPAs, enrolled agents or attorneys. You can use the IRS's Directory of Federal Tax Return Preparers with Credentials and Select Qualifications (https://irs.treasury.gov/rpo/rpo.jsf) to search for a tax preparer in your area who has credentials or has completed the IRS program.

Check for complaints. Once you've narrowed your search, check to see whether there have been any complaints filed against the preparer at the Better Business Bureau (www.bbb.org). For CPAs and attorneys, check with the state regulatory board in charge of licensing. If you want to verify that a tax preparer is an enrolled agent, contact the IRS at www.irs.gov/tax-professionals/verify-the-status-of-an-enrolled-agent.

Ask about fees. A potential preparer should be willing to give you a range of fees, based on the complexity of your return. Never hire a preparer who bases fees on a percentage of your refund.

After the preparer quotes a price, make sure you understand what it covers, such as preparation of a state return, e-filing or office visits, and any type of audit protection if the IRS flags your return. Don't give a prospective tax preparer personal information, such as Social Security numbers, if you're simply inquiring about services and fees. Some fraudulent preparers have used such information to improperly file returns without the taxpayer's permission.

Finally, make sure the preparer doesn't plan to close shop after April 18. If there's a problem with your tax return, you'll want the preparer to help resolve any issues with the IRS.

under "tax withdrawals" on the line for IRA distributions. On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. Tax software will walk you through this process.

GOING GREEN

The Inflation Reduction Act of 2022 contains a raft of tax breaks for environmentally friendly and energy-efficient activities, from installing solar panels to buying an electric vehicle (see the box on page 46 for more details on what's available in 2023). But the law also extended some old tax breaks that could lower your 2022 tax bill.

You made home improvements. The Nonbusiness Energy Property Credit, which expired at the end of 2021, was extended through December 31, 2022. The credit is worth 10% of the cost of installing certain energy-efficient insulation, windows, doors and roofing and making similar energy-saving improvements in your home. However, there's a lifetime limit of $500 for this credit, along with smaller credits for specific projects, such as windows ($200) or a furnace or boiler ($150), so if you've already claimed it, you're out of luck.

If you were more ambitious last year and installed qualifying new systems that use solar, wind, geothermal, biomass or fuel-cell power, you can claim a credit for up to 30% of the cost.

You bought an electric vehicle. Supply-chain disruptions and rising prices dampened car and truck sales in 2022, but if you purchased an electric vehicle, you may be eligible for a tax credit of up to $7,500.

But eligibility for the credit depends on the type of EV you bought and when you bought it. EVs purchased after August 16, 2022, must have been assembled in North America to qualify for the credit, says Lisa Greene-Lewis, a certified public accountant and tax expert for TurboTax. In addition, minerals and other key components (that

is, battery components) used to manufacture the EV must have been primarily sourced in North America. (You can find a list of qualifying EVs at http://afdc.energy.gov/laws/electric-vehicles-for-tax-credit.) For example, if you purchased an EV before August 16, or signed a contract to deliver an EV before that date, you're subject to the old rules for the credit, which didn't require that the vehicle must be assembled in the U.S.

However, taxpayers who purchased their EVs in 2022—whether before August 16 or after that date—are ineligible for the credit if the manufacturer has sold more than 200,000 qualifying vehicles, which include EVs sold by Toyota, Tesla and General Motors. That cap will go away in 2023, but there will be limits on the prices of EVs that qualify for the credit, along with income limits on EV buyers.

Finally, keep in mind that even if you manage to qualify for the full $7,500 credit, the credit isn't refundable. If the credit exceeds the amount you owe in taxes, you won't get a check for the balance.

INVESTING

You lost money on your investments. If you lost money in the stock or bond market last year, take heart: You're not alone, and you may be able to use your losses to lower your tax bill.

If you gave up on some of your investments and sold them at a loss, you can use those losses to offset any capital gains from your investments. Short-term losses are first deducted against short-term gains, and long-term losses are deducted against long-term gains. After that, net losses of either type can be deducted against the other type of gain. If you go through those steps and still have losses, you can deduct up to $3,000 against other income, such as your salary. Losses that exceed that amount can be carried over to future years.

Cryptocurrency—such as bitcoin and ethereum—is treated the same as other capital assets for tax purposes. That means if you sold some of your cryptocurrency at a loss—and after the collapse of cryptocurrency exchange FTX, a lot of investors saw the value of their cryptocurrency decline—you can use the losses to offset gains in stocks or other assets.

However, if you bailed out at the first sign of trouble and still made a profit, you'll owe taxes on your gains. Capital gains on assets held for one year or less are taxed at your ordinary income tax rate, which currently ranges from 10% to 37%. You'll also owe taxes if you received cryptocurrency for payment of services or earned cryptocurrency by mining it, says Jeff Spivack, vice president of financial planning operations at Citizens Securities.

Some cryptocurrency platforms are sending investors statements that provide a record of their transactions. But even if you didn't receive a statement, you're responsible for paying taxes on your cryptocurrency gains. To make sure this requirement isn't overlooked, the IRS has added a line to Form 1040 asking whether you've bought or sold cryptocurrency. The IRS has also subpoenaed some cryptocurrency exchanges in an effort to obtain information about transactions, says Mark Luscombe, federal tax analyst with Wolters Kluwer. "If the IRS found out, even a couple of years later, that you didn't report transactions, that could get you in trouble," he says. ■

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MONEY SMART WOMEN | Janet Bodnar

Get Your Spending Under Control

RECENTLY I WAS ASKED TO TEACH a class on how to get your spending under control and start saving as part of a life-skills program for young single mothers. I came up with a presentation that I titled "Savings Tips and Tricks, or How to Make a Million Dollars One Dollar at a Time."

After I'd finished, I read about a survey conducted by Edelman Financial Engines showing that 85% of parents emphasize the value of financial independence with their kids, yet 40% are still supporting their adult children financially. It seems to me that a lot of young people could benefit from those tips and tricks to get on top of their spending and build a savings stash so they can make it on their own.

Know your money personality. Figure out where you fit in among three basic categories: people who like to hang on to money, people who like to spend it and people who don't want anything to do with it. These personalities are typical of everyone, regardless of income or age, And if you know how you relate to money, you can make the most of your strengths and learn to overcome your weaknesses. Remember, money itself is neither good nor bad. It's a tool you can use to build financial success and security.

ONCE YOU KNOW WHERE YOUR MONEY IS COMING FROM AND WHERE IT'S GOING, YOU CAN DEVELOP A PLAN FOR GETTING ON TOP OF IT.

Write down where your money comes from and where it goes. Even if you think you know this in your head, writing it down with pencil and paper, on a computer screen or in your cell phone notes makes it more concrete and helps you spot hidden surprises. It's like making a to-do list: If you write it down, it's more likely to get done and you can check it off.

Record your expenses for a month or two. That should be enough to identify the things you have to pay for, such as rent and groceries, and the fun things you'd like to buy, such as clothing and travel. You don't have to track every nickel. You could make a guess as to what you're spending and then compare it with your bills, receipts, and credit and debit card statements to see what's out of whack.

Keep those paper receipts. Toss them into a fun container or a jar as a reminder of how much you're spending.

Come up with a spending plan that suits you. Once you know where your money is coming from and where it's going, you can develop a plan for getting on top of it. Think of this as a way to control small expenses now so that you can buy bigger stuff—and have more fun—in the future.

Spending plans are personal; what works for your friends won't necessarily work for you. One example of a simple, low-tech strategy that many people still swear by is the envelope system. Once you know your weekly or monthly expenses, stash the money for each category into its own envelope. And include an envelope for savings.

This is a powerful tool because you can actually see where the money is going and how much is going there. If you're spending a lot in one category, you can cut back on that expense and put the money into another envelope that comes up short—or into savings. (You'll find an array of envelope budgeting systems at www.etsy.com; also see "Millennial Money," Feb.)

If you prefer to go digital, use online budgeting tools or apps such as www.youneedabudget.com.

Enlist a budget buddy. Share your goals, and if you're tempted to fall off the wagon, ask your friend to help you stay on track.

Next: How to make that million. ■

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POON WATCHARA-AMPHAIWAN

SAVING

MONEY FUND YIELDS ARE ON THE RISE

THE PAST YEAR HAS BEEN a boon for savers in money market mutual funds. According to money-fund research company Crane Data, average yields rose from near 0% to about 4% in 2022, thanks to the Federal Reserve's actions to fight inflation by pushing up short-term interest rates. The Fed expects to increase rates further in 2023—likely at a more moderate pace than in 2022—which should cause money-fund yields to continue rising, too. Top-yielding funds may hit 5% by the end of the first quarter, says Peter Crane, president and CEO of Crane Data.

RATE UPDATES

For the latest savings yields and loan rates, visit **kiplinger.com/links/rates.** For top rewards cards, go to **kiplinger.com/kpf/rewardscards.**

How money funds work. Money funds carry little risk because they invest in high-quality, short-term securities. U.S. Treasuries, government-agency securities, and repurchase agreements backed by Treasuries and agency securities make up 87% of all money-fund investments, says Crane. Unlike bank accounts, money funds do not have deposit insurance against institutional failure. That's an important distinction between money funds, which are provided by brokers or other investment companies, and money market deposit accounts, which are offered by banks and credit unions. MMDAs come with deposit insurance from the Federal Deposit Insurance Corp. or National Credit Union Share Insurance Fund.

In the table at right, we list top-yielding money funds. Taxable money funds generally offer higher yields than tax-free municipal money funds. But investors in high federal tax brackets or in high-tax states may come out ahead with tax-free funds. Check the taxable-equivalent yield—the yield you'd need to earn on a comparable taxable fund after paying taxes to match the yield of the tax-free fund.

If you're looking for a safe place to stash an emergency fund or other savings goal, a money market account or savings account usually makes the most sense. You can move funds to your checking account or tap them directly, depending on the account's capabilities. Money funds are often best reserved as a holding spot for cash in a linked brokerage account. **LISA GERSTNER**
Lisa_Gerstner@kiplinger.com

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Jan. 3	Minimum investment	Website
USAA MMF (USAXX)	4.08%	$1,000	vcm.com
Fidelity MMF (SPRXX)*	4.06	1	fidelity.com
Putnam MMF (PDDXX)	4.04	500	putnam.com
Gabelli U.S. Treasury MMF (GABXX)	4.04	10,000	gabelli.com

Tax-Free Money Market Mutual Funds	30-day yield as of Jan. 2	Tax eq. yield 24%/35% bracket	Minimum investment	Website
Morgan Stanley T-F Daily (DSTXX)*	2.79%	3.67%/4.29%	$5,000	morganstanley.com
American Cent T-F MMF (BNTXX)	2.78	3.66/4.28	2,500	americancentury.com
BNY Mellon Ntl Muni (MOMXX)	2.76	3.63/4.25	10,000	im.bnymellon.com
Fidelity Muni MMF (FTEXX)*	2.69	3.54/4.14	1	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of Jan. 6	Minimum amount	Website
MySavingsDirect (N.Y.)†	4.35%	$0	mysavingsdirect.com
Redneck Bank (Okla.)†#	4.25	500	redneck.bank
Republic Bank of Chicago (Ill.)†#	4.25	2,500	republicebank.com
Popular Direct (N.Y.)†	4.16	5,000	populardirect.com

Certificates of Deposit 1-Year	Annual yield as of Jan. 6	Minimum amount	Website
Merchants Bank of Indiana (Ind.)†	4.86%	$1,000	merchantsbankofindiana.com
Insbank Online (Tenn.)†	4.85	2,500	online.insbank.com
CFG Bank (Md.)	4.75	500	cfg.bank
First Internet Bank (Ind.)†^	4.75	1,000	firstib.com

Certificates of Deposit 5-Year	Annual yield as of Jan. 6	Minimum amount	Website
Lafayette FCU (Md.)&	4.63%	$500	lfcu.org
CFG Bank (Md.)	4.60	500	cfg.bank
GTE Financial CU (Fla.)&	4.54	500	gtefinancial.org
Seattle Bank (Wash.)§	4.50	1,000	seattlebank.com

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ^Colorado Federal Savings Bank and Popular Direct offer a similar yield. &Must be a member; to become a member, see website or call. §Bread Financial offers a similar yield.
SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of Jan. 6	Balance range^	Website
Pelican State CU (La.)&	5.11%	$0–$10,000	pelicanstatecu.com
Consumers Credit Union (Ill.)&	5.00#	0–10,000	myconsumers.org
All America Bank (Okla.)†	4.50	0–15,000	allamerica.bank
Redneck Bank (Okla.)†	4.50	0–15,000	redneck.bank

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. ^Portion of the balance higher than the listed range earns a lower rate or no interest. &Must be a member; to become a member, see website. #Requires spending $1,000 or more monthly in CCU Visa credit card purchases. †Internet only. SOURCE: DepositAccounts.

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	2.10%	2.10%	0.10%
U.S. Series I savings bonds	6.89	6.89	7.12
Six-month Treasury bills	4.79	4.74	0.23
Five-year Treasury notes	3.69	3.73	1.47
Ten-year Treasury notes	3.55	3.51	1.73

As of January 6, 2023.
- 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.

RETIREMENT

WELCOME
LAS VEGAS
STATE TAX KEY
MOST TAX-FRIENDLY
TAX-FRIENDLY
MIXED
NOT TAX-FRIENDLY
LEAST TAX-FRIENDLY

MOVING? *DON'T OVERLOOK STATE TAXES*

The amount you'll pay will vary dramatically depending on where you live.

BY ROCKY MENGLE

ILLUSTRATIONS BY ADRIAN BAUER

When it comes to choosing a place to live, cost of living is top of mind for many retirees. But as you consider the usual expenses—housing, groceries, health care—don't overlook state taxes.

Depending on your situation, state and local taxes could cost you thousands of dollars more in one state than in another. That's particularly the case with property taxes: You could pay up to three times more in some states for a home with the same value. Some states exclude all or a significant portion of income from retirement savings, while others tax nearly all of your retirement income, including Social Security.

To help seniors avoid a state tax bombshell, Kiplinger has created a state-by-state guide to taxes on retirees (we also included Washington, D.C.). Our results are based on the estimated state and local tax burden in each state for two hypothetical retired couples with a mixture of income from wages, Social Security, traditional IRAs, Roth IRAs, private pensions, 401(k) plans, interest, dividends and capital gains. (For more on our methodology, see the box on page 60.)

We've included details on the 10 most-friendly and 10 least-friendly states for retiree taxes. For details on taxes in every state, including estate and inheritance taxes, go to kiplinger.com/kpf/retireetaxmap.

All of the states among the most tax-friendly for retirees exempt Social Security benefits from state income taxes. Most also allow an exemption for at least a portion of our hypothetical couples' other retirement income, such as private pensions or IRA withdrawals. They tend to have low property tax rates and/or reasonable sales tax rates, too.

MOST TAX-FRIENDLY

1. DELAWARE

State Income Tax Range: 2.2% (on taxable income from $2,001 to $5,000) to 6.6% (on taxable income over $60,000)
Average Combined State and Local Sales Tax Rate: 0%
Median Property Tax Rate: $533 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

You'll have more disposable income in your golden years if you live in the First State because you'll pay no state or local sales tax on your in-state purchases and because property taxes are so low. The estimated annual property tax bill in Delaware for our first hypothetical retired couple is just $1,333 on their $250,000 home. It's just $1,866 for our second couple's $350,000 home. Those property tax totals are the ninth-lowest amounts in the nation for homes at those prices.

Income tax rates are reasonable, and residents age 60 and older can exclude up to $12,500 of pension and other retirement income (including dividends and interest, capital gains, and IRA and 401(k) distributions). Social Security benefits are also exempt.

2. HAWAII

State Income Tax Range: 1.4% (on taxable income up to $2,400 for single filers; up to $4,800 for joint filers) to 11% (on taxable income over $200,000 for single filers; over $400,000 for joint filers)
Average Combined State and Local Sales Tax Rate: 4.44%
Median Property Tax Rate: $273 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

While notorious for its high costs for just about everything else, Hawaii has one of the lowest average state and local tax burdens in the U.S. for retirees. Higher-income seniors may get caught in the Aloha State's top 11% tax rate, but most people won't pay nearly that much. Social Security benefits are tax-free. Employer contributions to other forms of retirement income, such as pensions and contributions to 401(k) plans, are also tax-free.

Although housing prices are high in Hawaii, the statewide median property tax rate is the lowest in the U.S. The average combined state and local sales tax rate is 4.44%, which is the seventh-lowest rate in the nation. However, most things are taxable in Hawaii—including groceries and clothing—so residents typically end up paying more than the low rate suggests.

Hawaii also imposes an estate tax on estates worth $5.49 million or more at rates ranging from 10% to 20%.

3. COLORADO

State Income Tax Range: 4.4% (flat rate)
Average Combined State and Local Sales Tax Rate: 7.77%
Median Property Tax Rate: $485 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Colorado's median property tax rate is the fourth-lowest in the nation. For our hypothetical retired couple with a $250,000 house, that comes to an estimated $1,213 annual property tax bill. It's only $1,698 per year for our other couple's $350,000 residence. Property tax exemptions, rebates and deferrals are also available for qualified seniors.

Income taxes are reasonable in the Centennial State, too. For the 2022 tax year, the state applies a 4.4% flat income tax rate to taxable income.

If you're at least 65 years old, you can deduct all Social Security benefits that were subject to federal taxes when you file your Colorado income tax return.

Although the state sales tax rate is low—only 2.9%—local governments can tack on as much as 8.3%. As a result, the 7.77% combined state and local sales tax rate is above the national average.

4. WYOMING

State Income Tax Range: None
Average Combined State and Local Sales Tax Rate: 5.36%
Median Property Tax Rate: $545 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

The Equality State's favorable tax climate for seniors starts with zero income, estate or inheritance taxes. Sales taxes are low in Wyoming, too. The average combined state and local sales tax rate is only 5.36%, which is the eighth-lowest combined sales tax rate in the country.

For a $250,000 home in Wyoming, the statewide average annual property tax bill comes to just $1,363. It's only $1,908 for a $350,000 home. Those amounts are the 10th-lowest tax totals in the nation for each price point.

5. NEVADA

State Income Tax Range: None
Average Combined State and Local Sales Tax Rate: 8.23%
Median Property Tax Rate: $484 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

There's no income tax in the Silver State, so you can cash in your retirement plans and collect your Social Security checks without worrying about a big state tax bill. Nevada also has the third-lowest median property tax rate in the U.S. If our first hypothetical couple retired to Nevada and bought a $250,000 home, they should expect to pay around $1,210 per year in property taxes. Our second couple would only pay about $1,694 annually on their $350,000 home.

Sales taxes are on the high side, though. The average combined state and local sales tax rate is 8.23%, the 13th-highest combined rate in the country.

6. SOUTH CAROLINA

State Income Tax Range: 3% (on taxable income from $3,200 to $16,039) to 6.5% (on taxable income over $16,039)
Average Combined State and Local Sales Tax Rate: 7.44%
Median Property Tax Rate: $518 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

South Carolina taxpayers age 65 or older can exclude up to $10,000 of retirement income (up to $3,000 for taxpayers younger than 65). Seniors can also deduct $15,000 of other taxable income ($30,000 for joint filers). Beginning with the 2022 tax year, veterans can exclude 100% of their military pension. Social Security benefits are exempt from state taxes. Plus, the top income tax rate dropped from 7% to 6.5% in 2022 and will continue to fall annually until it equals 6%.

The statewide average property tax on a $250,000 home is only $1,295; it's $1,813 for a $350,000 residence. Those amounts are the seventh-lowest in the country for houses at those price points. Eligible seniors can claim a homestead exemption for the first $50,000 of fair market value.

7. WASHINGTON, DC

State Income Tax Range: 4% (on taxable income up to $10,000) to 10.75% (on taxable income over $1 million)
Average Combined State and Local Sales Tax Rate: 6%
Median Property Tax Rate: $552 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

Although the general cost of living in the nation's capital is high, the average tax burden for retirees isn't. The city doesn't tax Social Security payments, but it does tax most other common forms of retirement income. However, qualifying for the city's income tax credit for property taxes paid can make a huge difference in the amount of tax you owe.

This refundable credit is worth up to $1,250 for the 2022 tax year (because the credit is refundable, if it's worth more than the tax you owe, the city will send you a refund check for the difference). For 2022, residents age 70 and older are eligible for the credit if their federal adjusted gross income is $78,600 or less; the threshold is $57,600 or less for younger residents.

D.C.'s median property tax rate is tied for the 12th-lowest when measured against comparable data from all 50 states. For our hypothetical retired couples, the estimated annual property tax bills would be $1,380 for a $250,000 home and $1,932 for a $350,000 home. Homeowners 65 and older may qualify for a 50% property tax reduction, deferral of property tax payments and a cap on property tax increases.

Washington, D.C., imposes a 6% sales tax on purchases, but there are no extra "local" taxes to worry about.

D.C. is less friendly to wealthy retirees. Residents with taxable income of more than $1 million pay the city's top income tax rate of 10.75%. And for 2023, estates worth $4,528,800 or more are subject to a city estate tax..

8. ARIZONA

State Income Tax Range: 2.55% (on taxable income up to $28,653 for single filers; up to $57,305 for joint filers) to 2.98% (on taxable income over $28,653 for single filers; over $57,305 for joint filers)
Average Combined State and Local Sales Tax Rate: 8.37%

Median Property Tax Rate: $508 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

The Grand Canyon State exempts Social Security benefits from state income taxes, plus up to $2,500 of income from federal and Arizona government retirement plans. Military retirement income is tax-free in Arizona, too.

Income tax rates are also relatively low for most retirees. A two-bracket tax rate structure was in place for 2022 (2.55% and 2.98%), but the state adopted a flat 2.5% rate beginning in 2023.

The estimated property tax on our first hypothetical retired couple's $250,000 home in Arizona is $1,270 per year. For our second couple's $350,000 residence, the estimated annual tax is $1,778. Both those amounts are significantly below the national average. In addition, homeowners age 65 and older can "freeze" the value of their property for real estate tax purposes for three years if they have lived in the home for at least two years and their annual income is less than $43,872 (one owner) or $54,840 (multiple owners). (The dollar figures shown are for the 2023 program.)

Sales taxes in Arizona are above average. The average combined (state and local) sales tax rate is 8.37%, which is the 11th-highest in the nation.

9. IDAHO

State Income Tax Range: 1% (on taxable income up to $1,662 for single filers; up to $3,324 for joint filers) to 6% (on taxable income over $8,311 for single filers; over $16,622 for joint filers).
Average Combined State and Local Sales Tax Rate: 6.02%
Median Property Tax Rate: $492 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

At first blush, the Gem State might not seem that tax-friendly for retirees. Idaho taxes all income, except Social Security and Railroad Retirement benefits, and its top income tax rate of 6% kicks in at a relatively low level. Although the state offers a generous retirement-benefits deduction, it's only available to retirees with qualifying government retirement plan income.

But if you dig a little deeper, you'll find some good news. Idaho has the 15th-lowest average combined state and local sales tax rate in the country, at 6.02%.

The state's median property tax rate is the fifth-lowest in the country. Owners of a $250,000 home would pay $1,230 in tax; it would be $1,722 for a $350,000 home. And homeowners age 65 or older with income under certain amounts may qualify for a property tax reduction and/or deferral.

10. TENNESSEE

State Income Tax Range: None
Average Combined State and Local Sales Tax Rate: 9.547%
Median Property Tax Rate: $560 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Tennessee is one of a handful of states without an income tax, so retirees pay no taxes on Social Security benefits, pensions or distributions from their retirement plans.

Property taxes in Tennessee aren't bad, either. Our hypothetical couple with a $250,000 home would pay about $1,400 per year in property taxes; it would be $1,960 for the couple with a $350,000 home. Those figures are well below the national average. Watch out for sales taxes, though. The state's 9.547% average combined state and local sales tax rate is the second-highest in the country. Tennessee is also one of the few states with a sales tax on groceries (the rate is 4%).

LEAST TAX-FRIENDLY

1. NEW JERSEY

State Income Tax Range: 1.4% (on taxable income up to $20,000) to 10.75% (on taxable income over $1 million)
Average Combined State and Local Sales Tax Rate: 6.6%
Median Property Tax Rate: $2,257 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Inheritance tax

New Jersey earns this dubious distinction primarily because it has the highest median property tax rate in the country. If our first hypothetical couple bought a $250,000 home in the Garden State, they would pay an estimated $5,643 in property taxes each year. Our second couple would pay $7,900 on their $350,000 home. The state does offer some property tax relief for seniors: Homeowners age 65 or older can claim either a tax deduction for up to $15,000 or a $50 refundable credit for property taxes paid for a primary resident in New Jersey. There's also a program that reimburses eligible seniors for property tax increases.

On the plus side, income taxes are comparatively low for retirees, thanks in large part to a generous exemption for retirement income. Married seniors filing a joint return can exclude up to $100,000 of income from a pension, annuity, IRA or other retirement plan if their New Jersey income is $100,000 or less. Single taxpayers and married taxpayers filing a separate return can exclude up to $75,000 and $50,000, respectively, if their income doesn't exceed $100,000.

New Jersey's average state and local combined sales tax rate is 6.6%, which is a little below average.

Although New Jersey recently eliminated its estate tax, the state still imposes an inheritance tax. Tax rates range from 11% to 16%. The amount of tax due is based on who receives the property and the value of the property.

2. ILLINOIS

State Income Tax Range: 4.95% (flat rate)
Average Combined State and Local Sales Tax Rate: 8.73%
Median Property Tax Rate: $2,073 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

Social Security benefits and income from most retirement plans are exempt from state taxes, and the 4.95% flat income tax rate won't take too big of a bite out of your retirement income.

However, the statewide median property tax rate is the second-highest in the nation, after New Jersey—$5,183 per year on a $250,000 home and $7,256 on a $350,000 home.

There's some relief for qualifying seniors in the form of a homestead exemption of up to $5,000 ($8,000 in Cook County and, starting in 2023, bordering counties), the ability to "freeze" a home's assessed value, and a tax-deferral program.

Sales tax rates are high in Illinois, too. The state has the eighth-highest average combined state and local sales tax rate, at 8.73%. In some locations, the rate can be as high as 11%. Groceries and clothing are taxable, too.

Illinois also has an estate tax that applies to estates worth $4 million or more.

3. KANSAS

State Income Tax Range: 3.1% (on taxable income from $2,501 to $15,000 for single filers; from $5,001 to $30,000 for joint filers) to 5.7% (on taxable income over $30,000 for single filers; over $60,000 for joint filers)
Average Combined State and Local Sales Tax Rate: 8.71%
Median Property Tax Rate: $1,330 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Distributions from private retirement plans, including IRAs and 401(k) plans, as well as out-of-state public pensions are fully taxed in Kansas. The Sunflower State also taxes Social Security benefits received by residents with federal adjusted gross income of $75,000 or more. Military, federal government and in-state public pensions are exempt from state income taxes.

The state's average combined state and local sales tax rate is the ninth-highest in the U.S., at 8.71%. Groceries and clothing are subject to state and local sales taxes, too. However, the state sales tax on groceries fell from 6.5% to 4% in 2023, and it will drop to 2% in 2024 and 0% in 2025 and thereafter, although local taxes on groceries will still apply.

Property taxes are above the national average as well. The statewide average property tax bill for our first hypothetical retired couple with a $250,000 home in Kansas comes to about $3,325. The bill for our second imaginary couple, with a $350,000 home, is estimated to be $4,655. Those amounts are the 13th-highest in the U.S.

4. VERMONT

State Income Tax Range: 3.35% (on taxable income up to $42,150 for single filers; up to $70,450 for joint filers) to 8.75% (on taxable income over $213,150 for single filers; over $259,500 for joint filers)
Average Combined State and Local Sales Tax Rate: 6.24%
Median Property Tax Rate: $1,730 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

The Green Mountain State has a steep top income tax rate, and most retirement income is taxed. Vermont also taxes all or part of Social Security benefits for single residents with federal adjusted gross income over $50,000 (over $65,000 for married couples filing a joint return).

If our first couple owned a $250,000 home in Vermont, they'd pay about $4,325 in property taxes each year. Our second couple, with a $350,000 home, would pay around $6,055 annually. These property tax amounts are the fifth-highest in the U.S. for those home values.

The average combined state and local sales tax rate is 6.24%, which is below the national average.

Vermont taxes estates that exceed $5 million in value at a flat 16% rate.

5. CONNECTICUT

State Income Tax Range: 3% (on taxable income up to $10,000 for single filers; up to $20,000 for joint filers) to 6.99% (on taxable income over $500,000 for single filers; over $1 million for joint filers)
Average Combined State and Local Sales Tax Rate: 6.35%
Median Property Tax Rate: $1,957 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

The Constitution State taxes 25% of Social Security payments that are taxed at the federal level if you have federal adjusted gross income over $75,000 ($100,000 for joint filers). But beginning with the 2022 tax year, income from a pension or annuity is tax-exempt for joint filers with less than $100,000 of federal adjusted gross income and other taxpayers with less than $75,000 of federal AGI. Starting in 2023, 25% of any distribution from a traditional IRA is exempt for joint filers with less than $100,000 of federal adjusted gross income and other taxpayers with less than $75,000 of federal AGI. The exemption is increased to 50% in 2024, 75% in 2025, and 100% in 2026 and thereafter. Military pensions are excluded from state taxes.

The estimated property tax for our hypothetical couple's $250,000 home is $4,893 per year; $6,850 for a $350,000 home. That's the third-highest rate in the U.S.

There are no local sales taxes in Connecticut, so you'll pay only the statewide sales tax rate of 6.35% on your purchases—slightly below average.

For 2023, Connecticut imposes an estate tax on estates valued at $12.92 million or more. Connecticut is also the only state with a gift tax, which applies to real and tangible personal property in Connecticut and intangible personal property anywhere for permanent residents. Only the amount given since 2005 that exceeds $12.92 million is taxed.

6. NEW YORK

State Income Tax Range: 4% (on taxable income up to $8,500 for single filers; up to $17,150 for joint filers) to 10.9% (on tax-

able income over $25 million)
Average Combined State and Local Sales Tax Rate: 8.52%
Median Property Tax Rate: $1,620 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

The Empire State imposes a heavy tax burden on retirees, especially when it comes to property taxes. Based on New York's statewide median tax rate, our first hypothetical retired couple would pay about $4,050 each year in property taxes on their $250,000 home, while our second couple would pay $5,670 for their $350,000 home. Those figures are the sixth-highest amounts in the country for those home values. Seniors can find some tax breaks: Local governments and public-school districts can reduce the assessed value of a senior's home by 50%.

New York has high sales taxes, too. At 8.52%, New York's average combined state and local sales tax rate is the 10th-highest in the nation.

When it comes to income taxes, New York's tax bite is less severe for ordinary retirees when compared with other states. Social Security benefits, federal and New York government pensions, and military retirement pay are tax-exempt. However, anything over $20,000 from a private retirement plan (including pensions, IRAs and 401(k) plans) or an out-of-state government plan is taxed. And for ultra-wealthy retirees, New York's income tax rate is a steep 10.9%.

New York also has an estate tax—with an unusual "cliff tax" kicker. Generally, for deaths in 2023, the tax is imposed only on the portion of an estate that exceeds the $6.58 million exemption. However, if the value of the estate is more than 105% of the exemption amount, the entire estate will be subject to New York estate tax.

7. IOWA

State Income Tax Range: 0.33% (on taxable income up to $1,743) to 8.53% (on taxable income over $78,435)
Average Combined State and Local Sales Tax Rate: 6.94%
Median Property Tax Rate: $1,501 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Inheritance tax

The statewide median property tax rate in Iowa is the 10th-highest in the U.S. Our hypothetical couple with a $250,000 home in the state would fork over about $3,753 per year in property taxes. The couple with a $350,000 home would pay about $5,254 annually.

On the income tax front, Social Security benefits are tax-free. There's also a $6,000 exclusion ($12,000 for joint filers) for most types of federally taxed retirement income for people who are 55 or older.

Starting in 2023, the state's income tax rates will begin a gradual decline until a 3.9% flat rate takes effect in 2026, and 100% of retirement income will be exempt for taxpayers who are at least 55 years old. The average combined state and local sales tax rate is 6.94%. That puts Iowa in the middle of the pack when it comes to overall sales tax rates.

In 2021, the Hawkeye State started phasing out its inheritance tax over a five-year period by reducing the rate of tax by 20% each year (the base rates range from 5% to 15%). For 2023, Iowa's inheritance tax ranges from 2% to 6%, depending on the amount of the inheritance and the relationship of the recipients to the decedent.

8. NEBRASKA

State Income Tax Range: 2.46% (on taxable income up to $3,440 for single filers; up to $6,860 for joint filers) to 6.84% (on taxable income over $33,180 for single filers; over $66,360 for joint filers).
Average Combined State and Local Sales Tax Rate: 6.94%
Median Property Tax Rate: $1,509 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Inheritance tax

Nebraska is one of the least-tax-friendly states in the nation for retirees primarily because of steep income and property taxes. The Cornhusker State taxes some Social Security benefits, although taxpayers can choose to deduct 40% of Social Security benefits included in federal AGI for the 2022 tax year (the percentage will gradually rise to 100% by 2025). Most other retirement income is also taxed, although military pensions are fully exempt. Plus, the top income tax rate kicks in pretty quickly: For 2022, it applies to taxable income above $33,180 for single filers and $66,360 for married couples filing jointly. However, the top rate is reduced to 6.64% in 2023, 6.44% in 2024, 6.24% in 2025, 6% in 2026, and 5.84% in 2027 and thereafter.

The median property tax rate in Nebraska is pretty high. For a $250,000 home, the average tax is $3,773 per year; for a $350,000 home, it's $5,282. Those totals are the ninth-highest property tax amounts in the country for homes at those values.

The average combined state and local sales tax rate is 6.94%, which is in the middle of the pack when compared with other states.

For 2023, Nebraska's inheritance tax ranges from 1% to 15%. The rate depends on the value of property and relationship of the heirs to the decedent.

9. WISCONSIN

State Income Tax Range: 3.54% (on taxable income up to $12,760 for single filers; up to $17,010 for joint filers) to 7.65% (on taxable income over $280,950 for single filers; over $374,600 for joint filers)
Average Combined State and Local Sales Tax Rate: 5.43%
Median Property Tax Rate: $1,510 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

While Wisconsin doesn't tax Social Security benefits, income from pensions and annuities, along with distributions from IRAs and 401(k) plans, are generally taxable.

Property taxes are the eighth-highest in the U.S. For our hypothetical couple with a $250,000 home, estimated property taxes would be about $3,775 per year. The couple with a $350,000 home would pay about $5,285 each year for taxes.

On the plus side, Wisconsin has the ninth-lowest combined average state and local sales tax rate in the nation.

10. TEXAS

State Income Tax Range: None
Average Combined State and Local Sales Tax Rate: 8.2%
Median Property Tax Rate: $1,599 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

You might be surprised to see the Lone Star State on the list of least-tax-friendly states for retirees, since Texas is one of the handful of states with no income tax.

Texas's main problem is its property taxes. The state's median property tax rate is the seventh-highest in the country. For our hypothetical retired couples, that means an estimated annual property tax bill of $3,998 for the couple with the $250,000 home and $5,597 for the couple with the $350,000 home. Seniors may be able to get a $10,000 property tax exemption, have their tax bill "frozen" or delay payment of taxes.

Sales taxes are on the high end in Texas, too. The average state and local sales tax rate in Texas is 8.2%, the 14th-highest combined rate in the country. ■

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METHODOLOGY

HOW WE RANKED THE STATES

To gauge the "tax-friendliness" of a state, we calculated the sum of income, sales and property tax paid by two hypothetical retired couples with a mixture of income from wages, Social Security, traditional IRAs, Roth IRAs, private pensions, 401(k) plans, interest, dividends and capital gains. One couple had $50,000 in total income and a $250,000 home, while the other had $100,000 in income and a $350,000 home.

We prepared tax returns for each state and the District of Columbia for both couples. The first couple had $15,000 in earned income (wages), $20,500 in Social Security benefits, $4,500 in 401(k) plan distributions, $4,000 in traditional IRA withdrawals, $3,000 in Roth IRA withdrawals, $200 of taxable interest, $1,000 in dividend income and $1,800 in long-term capital gains, for a total income of $50,000 for the year. They also had $10,000 in medical expenses, paid $2,500 in real estate taxes, paid $1,200 in mortgage interest and donated $1,900 (cash and property) to charity.

The second couple had $37,500 in Social Security benefits, $26,100 in 401(k) plan distributions, $18,200 in private pension money, $6,000 in traditional IRA withdrawals, $2,000 in Roth IRA withdrawals, $2,000 of taxable interest, $4,000 in dividend income and $4,200 in long-term capital gains, for a total income of $100,000 for the year. They also had $10,000 in medical expenses, paid $3,200 in real estate taxes, paid $1,500 in mortgage interest, and donated $4,300 (cash and property) to charity.

The median property tax rate is based on the median property taxes paid and the median home value in each state for 2021 (the most recent year available). The data comes from the U.S. Census Bureau. By using data on taxes actually paid and median home values, differences between the cost of housing from one state to another are factored into the equation (although the median property tax rate is still a statewide figure).

We calculated these 2021 returns using tax software from Cash App (adjustments were made to account for certain 2022 tax law changes).

PRACTICAL PORTFOLIO

Choosing Between Look-Alike ETFs and Mutual Funds

Consider how you trade and the type of account you plan to use, among other factors. BY NELLIE S. HUANG

EXCHANGE-TRADED FUNDS CONTINUE to gain in popularity, but the divide between ETFs and mutual funds is becoming a little murky. In recent years, for instance, several fund companies, including T. Rowe Price and Fidelity, have launched actively managed ETFs that are modeled after their best actively managed mutual funds. ETF index strategies, meanwhile, have been around for decades. The oldest, SPDR S&P 500 Trust, known as SPY (for its symbol), is 30 years old and has $362 billion in assets—not far behind the biggest index mutual fund, Vanguard 500 Index, which holds $392 billion.

When faced with a choice between buying shares in an ETF and buying shares in a mutual fund that follows a similar strategy, which is the better option for you? "The choice isn't always black and white," says Charles Rotblut, a vice president and financial analyst at AAII, a nonprofit organization that helps individual investors. The answer may depend on several factors, including how you typically trade investments and in what type of account you plan to hold the asset, among other things. In certain cases, it may come down to a matter of personal preference.

Similar but not the same. ETFs and mutual funds have much in common. "There are many more similarities than differences," says Molly Concannon, head of equity products at Vanguard. Both are easy to trade and offer diversified exposure to a swath of the market in one go. They both pool assets from shareholders and invest in diversified baskets of stocks, bonds or other assets. There are actively managed and index-based strategies in both ETF and mutual fund structures. And both ETFs and mutual funds charge an annual fee, known as an expense ratio.

But these types of funds differ in key ways, too. When you buy or sell mutual fund shares, trades are executed once a day, after the market close. In some cases, you may pay a transaction fee to buy shares in a mutual fund. But you can buy or sell ETFs throughout the trading day just as you would a stock, and they trade commission-free at most brokerage firms. ETF share prices fluctuate throughout the day, and there is a bid-ask spread—the difference between the highest price a buyer is willing to pay for an asset and the lowest price that a seller is willing to accept. What's more, an ETF's share price may deviate from its net asset value—the actual value per share of its underlying holdings—during the trading day.

Many certified financial planners prefer ETFs over mutual funds. "I exclusively place my clients in ETFs as opposed to mutual funds," says Alexis Hongamen, a certified financial planner in Orlando, Fla. And Vanguard's Concannon says ETFs are where most of the firm's individual investors have been putting their money in recent years.

But it doesn't have to be an either-or decision. "ETFs are better in most situations because they are more tax efficient and generally less costly—there are no transaction fees," says Thomas Stapp, a CFP in Olympia, Wash. But he invests in mutual funds, too, particularly when he finds a strategy that is "notably better than any ETF option" or when a strategy isn't available in an ETF.

Consider the investing scenarios below to see which fund structure works best in certain circumstances.

You want to make regular, automated investments. A mutual fund works better if you want to set up regular contributions to a brokerage account, says Vanguard's Concannon. You can't get that service with ETFs, she says. "It's limited to mutual funds."

You have less than $1,000 to invest. A workplace retirement plan, such as a 401(k) or 403(b), makes it easy to set aside small contributions from your paycheck to your investment account. But outside of a retirement plan—you're investing on your own at a brokerage firm, say—you're better off with an ETF if you only have small sums to invest. That's because the minimum investment for most retail mutual funds is more than $1,000, but you can buy ETFs for as little as the price of one share. A single share of iShares Core S&P 500, one of the biggest U.S. stock ETFs in the country, cost just over $383 in late 2022.

A couple of brokerage firms, Fidelity and Interactive Brokers, will even let you buy just a fraction of an ETF. Vanguard brokerage customers can buy fractional shares of Vanguard ETFs for as little as $1.

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But there may be workarounds to mutual fund minimums, too. At Charles Schwab, brokerage customers can make an initial investment of $100 in any of the thousands of mutual funds on its OneSource network of no-transaction-fee mutual funds.

You want to invest in a broad-based index fund. Either an ETF or mutual fund works here. "It's largely a matter of preference," says AAII's Rotblut. That's because both are low cost and inherently tax efficient. (Index funds tend to buy and hold stocks, distributing fewer capital gains than more actively traded funds do.)

You're investing in a taxable account and you're tax wary. Go with an ETF. "My basic rule of thumb is to use ETFs in taxable brokerage accounts," says Keith Spencer, a certified financial planner in Spokane. Tax efficiency has long been a draw for investors to ETFs. It has to do with the way that ETFs are structured compared with mutual funds.

ETFs don't actually buy and sell the underlying securities in their portfolios. Instead, third parties called authorized participants do it for them. Because the ETF itself isn't making any cash transactions, it is less likely to make a capital gains distribution to shareholders. (You still owe capital gains taxes when you sell shares.) In contrast, mutual funds buy and sell the actual securities in their portfolios. If a mutual fund pockets a profit when it sells a holding, it is required to pass on those gains to shareholders at least once a year, triggering a surprise capital gains tax bill. That's why holding an ETF in a taxable account will likely generate less tax liability than a mutual fund with a similar strategy.

You're investing in a tax-deferred account. Opt for whichever is cheaper—the ETF or the mutual fund—in annual expense ratio plus any transaction fees you may pay to buy and sell shares. In a retirement account such as an IRA or 401(k), capital gains distributions don't create any sort of taxable event because these accounts are shielded from tax until you withdraw the money from the account.

You're an active trader. ETFs are nimbler than mutual funds because they trade intraday. Mutual fund trades settle once a day, after the market closes. You can also sell shares short (a bet on falling prices) or buy or sell options on an ETF.

But be forewarned: When markets get volatile, the difference between an ETF's share price and its net asset value may widen, as will the bid-ask spread. That means the cost of buying or selling ETF shares may rise during choppy trading days, a recent State Street Global Advisers report says. In 2010 and 2015, for instance, ETF prices fell well below the net asset value of their underlying assets during flash crashes, which occur when market prices plunge and then recover almost immediately.

During rough market periods, consider limiting your trades to the largest and most widely traded ETFs, such as the SPY ETF. Other U.S. stock ETFs with high average daily trading volumes are Invesco QQQ Trust and iShares Russell 2000 ETF. At the very least, set limit orders on your transactions, which allow you to trade shares at a specific price. ■

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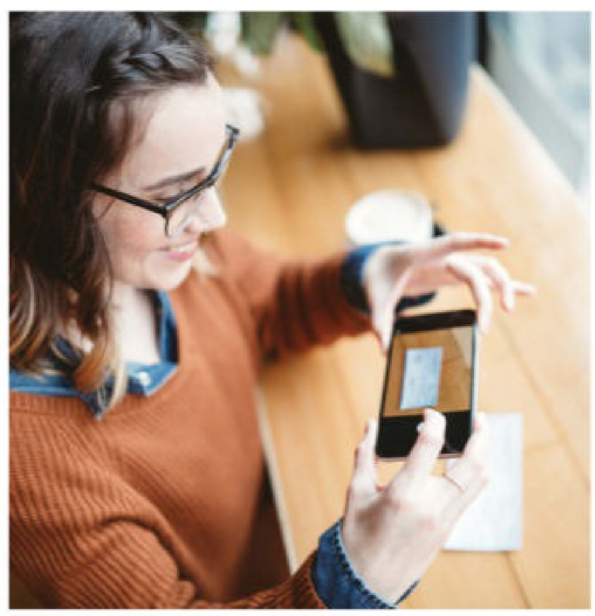
BASICS

Find a Bank Account With a Better Yield

Switching to a high-rate savings or checking account could boost what you earn by hundreds of dollars. BY EMMA PATCH



WHEN BETTER INTEREST RATES MAY be available elsewhere, half of consumers with checking or savings accounts report switching banks, while the other half let their money sit still, according to a December 2022 study by DepositAccounts, a bank-account comparison site. When interest rates rise—as they have over the past year—the outlook for savers improves. But where you keep your cash matters.

Shopping around for a higher annual percentage yield (APY) on your savings or checking account can pay off. If you switch from a savings account yielding 0.01% to one with a 3.5% rate, interest earnings could boost your balance by up to 3.6% in a year and 41.7% in 10 years, according to DepositAccounts. And switching to a new savings account is fairly simple; you may need to look up the routing number and account number of the checking account or other account that will fund the savings account, but otherwise the setup process can be completed online in minutes.

The APY on your savings account changes over time at the bank's discretion, so it's important to keep tabs on what your account is earning compared with other top-yielding accounts. Instead of increasing rates on existing savings accounts, some online banks are creating new savings accounts with higher rates. Unless they open new accounts, existing customers with the old savings accounts earn the lower rates.

"The ability to move your savings and get a higher return but not have to take on investment risk to get it is the only free lunch in finance," says Greg McBride, chief financial analyst for Bankrate.com. Having money in a federally insured savings account means it's there when needed and accessible without penalty; you might as well get the best return possible.

Online banks often provide the best savings yields. The Interest Savings Account from Bask Bank, for example, recently required no minimum balance and had an APY of about 4%. American Express, Barclays, Capital One and Synchrony all offer savings accounts with APYs upward of 3.3% and no minimum-balance requirement.

Changing checking accounts. Switching a checking account can be more of a headache than switching a savings account. Typically, regular bill payments, paychecks and other accounts are tied to a checking account, so switching is often a time-consuming process. But moving from a checking account with an APY of 0.01% to one yielding 5%—the highest checking rate DepositAccounts found in its study—could mean a balance boost as high as 5.1% in a year and 64.5% in 10 years. And a better APY may not be the only compelling reason to switch a checking account. "If you're moving from a checking account that's charging you fees every month to one that's free, it's worth the investment of time," says McBride. Fees on checking accounts go beyond overdraft penalties; many also charge monthly service fees to customers who fail to meet a certain minimum balance.

Financial-technology company SoFi offers a checking account with no fees, no required minimum balance and an APY of 2.5%. But most checking accounts have substantially lower APYs than savings accounts, as well as various minimum-balance requirements. For example, TD Bank offers an account with a 0.01% APY, and it charges a $25 monthly fee unless the account has a balance of $2,500 or more or you meet other requirements.

Rather than use an online bank, savers might turn to smaller, local brick-and-mortar banks that offer rewards checking accounts, which provide higher interest rates up to a certain balance. The catch with these, says Ken Tumin, senior industry analyst at LendingTree and founder of DepositAccounts, is that you have to make a minimum number of debit card purchases monthly to qualify for the high rate. This, in addition to the time-consuming nature of switching checking accounts, is a good reason you might choose to focus on savings accounts at online banks to take advantage of higher interest rates, Tumin says. The tables on page 51 list the highest-yielding savings accounts and rewards checking accounts. ■

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MILLENNIAL MONEY | EMMA PATCH

Get a Handle on Subscription Costs

We're all creatures of habit, so much so that research shows nearly half of everything we do in a day is habitual. Subscriptions cater to that behavior, seamlessly charging us monthly or annually for an ongoing product or service.

Most likely you're no stranger to the subscription model. From music, TV and audiobook streaming to your monthly toilet paper delivery, you can subscribe to more today than ever before. While some subscriptions provide real value, there's a good chance that you have at least a couple of subscriptions you no longer use on a regular basis.

RYAN KETTERMAN

The pandemic drove a surge in popularity for subscriptions, especially for stay-at-home services, such as grocery delivery, and some of it stuck. For example, meal kit orders were up 36% as of June 2022 compared with January 2020, according to a recent study in the Columbia Business Journal.

Many businesses automatically renew your subscription if you don't cancel before the next billing cycle, sometimes without notifying you. That can take a toll on your finances, especially at a time when providers are raising prices.

One cost-saving strategy is to share subscription services. I've hardly paid for any subscriptions since I qualified for college student deals, but I piggyback on my family's shared streaming services for TV, audiobooks and news subscriptions. Most services are amenable to sharing; they often offer various profiles on a single account. But piggybackers beware: Some services, such as Netflix, have signaled an imminent crackdown on account sharing.

IN 2020, MILLENNIALS SPENT, ON AVERAGE, MORE THAN $300 A MONTH ON SUBSCRIPTIONS—THE MOST OF ALL AGE GROUPS.

Here are other strategies to stay on top of your subscriptions:

Monitor your subscriptions. Find out how much you pay per month for subscriptions by reviewing your credit card charges, with a focus on recurring payments. Alternatively, use a free budgeting app that offers subscription monitoring, such as Mint (https://mint.intuit.com) or PocketGuard (https://pocketguard.com). There are also apps designed specifically to help you monitor subscriptions, such as RocketMoney (www.rocketmoney.com), formerly known as TrueBill; Trim (www.asktrim.com); and Bobby (https://bobbyapp.co). These platforms will also help you calculate how much you're paying—which could come as a surprise. Although Americans spend an average of $219 per month on subscriptions, when asked how much they believe they spend, the average estimate was $86, according to a study by C+R Research. In 2020, when the pandemic led to a spike in subscription spending, millennials spent, on average, more than $300 a month on subscriptions—the most of all age groups—according to a survey by LendingTree.

Weigh cost and value. As you review your subscriptions, consider ranking them by how much you value the service. If you divide the monthly or annual cost of each subscription by the number of times you use it, what's the cost per use? If that number seems high, consider switching to an ad-supported version of the service or paying an annual rather than a monthly fee (which sometimes costs less). Or simply unsubscribe.

Unlike some long-term contracts (such as the one you may have with your cable provider), subscription services are usually easy to cancel. There's usually no penalty, and you can sometimes "pause" a subscription, which means you can keep your account without being charged. ■

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REIN IN THE COST OF PETS

We love our pets—and we aren't afraid to pull out our wallets for them. Here are ways to save.

BY DANIEL BORTZ

PHOTOS BY GETTY IMAGES

SEVEN OUT OF 10 AMERICAN households own a pet, according to the American Pet Products Association. For many, pet expenses consume a significant portion of their budget. Dog and cat owners, for example, spend an average of $111 each month on their animal, according to a recent AskVet survey. Some surveys suggest pet costs may be even higher. According to a 2022 Lemonade poll, pet owners spend $276 on their animals each month, on average.

Multiply the monthly cost by the typical lifespan of your pet, and you're talking serious money. However, many

people "underestimate the lifetime cost of owning a pet," says Brandi Hunter Munden, a spokeswoman for the American Kennel Club. "From emergency vet visits to food to doggy bags, these costs add up." And 26% of pet owners said they were struggling to afford their pet due to inflation, an August LendingTree survey found.

The good news is there are smart ways to trim your pet's expenses. These strategies will help keep your pet healthy and happy for less money.

FOOD AND TREATS

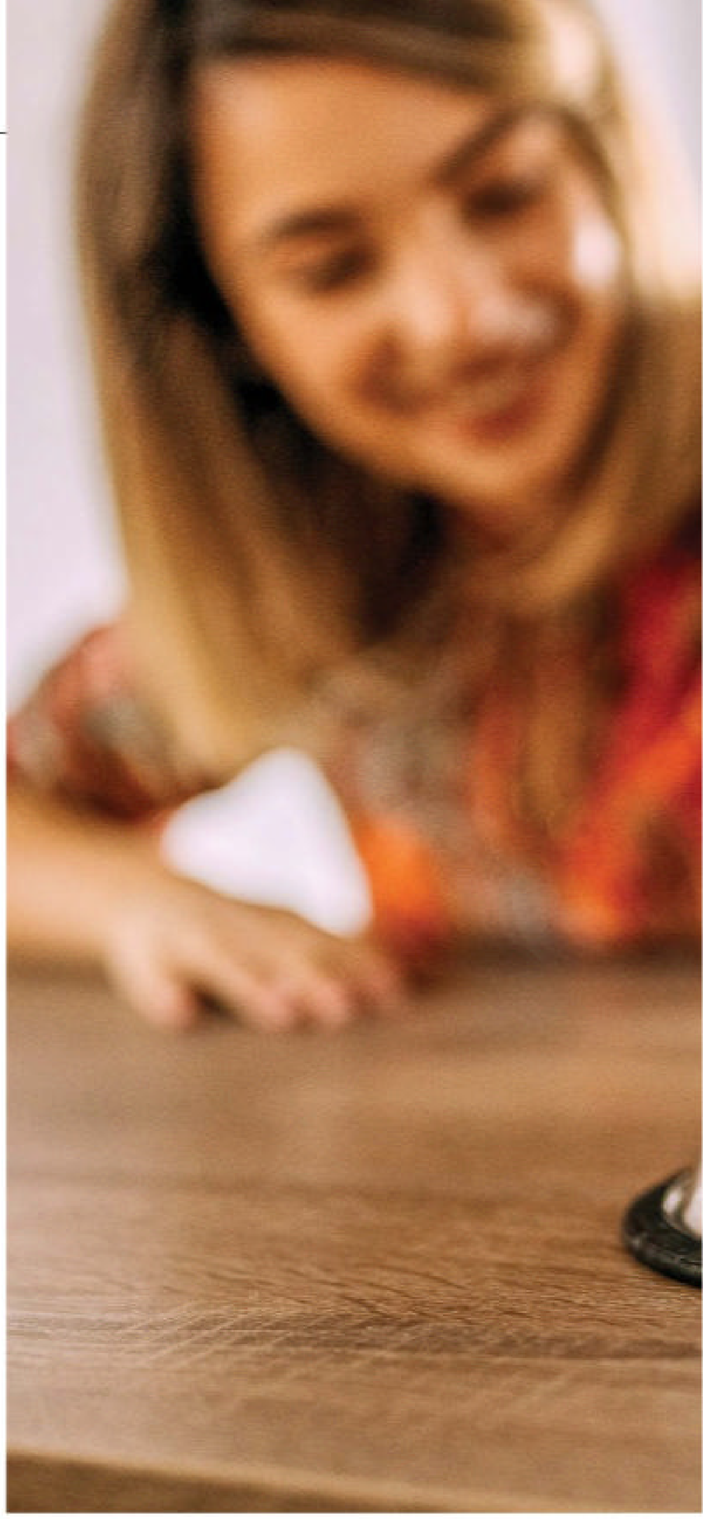
Dog owners spend an average of $368 a year on food and treats, while cat owners spend an average of $326 a year, the APPA says.

Buy food in bulk. Purchasing pet food in large quantities can help cut food costs. The important thing when buying in bulk, though, is to keep the food fresh, says Munden. That means storing pet food in sealed containers and in room-temperature spaces or keeping it refrigerated, depending on the type of food.

Get a food subscription. "Major marketplaces like Amazon and Chewy will offer around 5% off if you subscribe to receive the food on a regular basis," says Daniel Caughill, cofounder of The Dog Tale, an online resource for dog owners. Of course, not all pets—even animals of the same breed—eat the same amount of food, but "you can typically pause, skip or cancel [subscription] shipments at any time," Caughill says.

Join pet store loyalty clubs. You can earn points for purchases at major pet retailers, including PetSmart, Petco and Pet Supplies Plus, by signing up for their free loyalty memberships. Points can be redeemed for store credit. Some stores also offer their members exclusive sales, coupons and other perks.

Consider generic brands. When it comes to pet food, *generic* doesn't necessarily mean *lower quality,* says Jenna Stregowski, pet health and behavior editor at Daily Paws, a lifestyle and advice website for pet owners. Some generic brands contain the same high-



KIPTIP

How to Save on Pet Insurance

Veterinary care—especially emergency care—can be expensive. Overnight hospitalization for a pet costs between $600 and $1,700 on average, according to Emergency Vets USA, a national database of emergency veterinarians. That doesn't include emergency surgery, which can set you back as much as $5,000, the site says, though even higher emergency bills aren't unheard of. (A friend of this writer recently spent $16,000 on emergency veterinary surgery after her dog swallowed a large stick.)

"If the cost of an emergency veterinary visit or serious illness would be a financial strain, consider investing in pet health insurance while your pet is healthy," says Lori Bierbrier, senior medical director at the ASPCA.

Pet insurance can help offset emergency veterinary bills, with some insurance plans also covering routine care. There are three main types of pet insurance policies: accident-only, accident and illness, and wellness. The average monthly premium for an accident-and-illness plan is $49 for dogs and $29 for cats, according to 2021 data collected by the North American Pet Health Insurance Association. Wellness plans cost more because they tend to cover preventive care that keeps your pet healthy, such as vaccinations; you can buy one as a stand-alone policy or as an add-on to an accident-and-illness policy.

Use these tips to help nab a lower pet insurance premium.

Get an accident-only plan. The average premium for an accident-only plan is $20 a month for dogs and $11 a month for cats—less than half the cost of an accident-and-illness plan. Accident-only policies typically cover "poisonings, snake bites, lacerations, dog bites, and when dogs and cats eat something they shouldn't," says Wendy Hauser, a veterinarian and president of Denver-based Peak Veterinary Consulting.

Choose a higher deductible. Before your pet insurance coverage kicks in, you'll have to meet your plan's deductible, "just like with other insurance policies," says Colin Lalley, an insurance expert at Policygenius, an insurance marketplace. Generally, a higher deductible equals a lower premium. But be aware: Some pet insurance policies have annual deductibles, while others have per-incident deductibles, Lalley points out.

Purchase insurance early. Pet insurance premiums are less expensive when you enroll your pet at a young age, says Jenna Stregowski, pet health and behavior editor at Daily Paws, an advice website for pet owners. Another reason to enroll early on: Older pets with preexisting

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conditions may not be able to get coverage, Stregowski says.

Comparison shop. Get quotes from multiple providers to find the best rate. You can use a comparison tool such as Pawlicy Advisor, Policygenius or Pet Insurance Quotes to get offers from a number of providers. Check out ratings and reviews from customers, and pay particularly close attention to how well a provider processes claims.

Look for discounts. Some pet insurance providers offer lower rates for military, seniors and people who adopted a pet. And you may qualify for a lower rate by insuring more than one pet with the same company or by bundling pet insurance with your home or car insurance. Nationwide and Progressive, for example, offer existing customers a 5% discount on pet insurance.

quality ingredients as pricier name-brand products, Stregowski says. But before buying any food, run the product by your veterinarian to ensure your pet will be receiving the right nutrients.

Make your own treats. Treats can be expensive. “They also tend to be loaded with unhealthy fillers and preservatives,” Caughill says. Instead of buying treats, create your own. You can keep things simple: “Single-ingredient treats like sweet potato bites are both cheap and healthy,” says Caughill. “You just cut up a couple into cubes and bake them for 2½ hours at 250 degrees.” Or you can make more-elaborate treats by using other pet-friendly ingredients, such as peanut butter (buy one that’s free of artificial sweeteners like xylitol), bacon, cheese, pureed pumpkin and carrots. You’ll find no shortage of recipes online.

TOYS, BEDS AND BOWLS

Cat owners and dog owners spend on average $41 and $56 per year, respectively, on toys, the APPA reports.

Shop at discount retailers. Stregowski says Marshalls, HomeGoods and dollar stores often sell pet bowls, beds, toys and other supplies at a fraction of the price of major retailers.

Make your own toys and beds. Have an old T-shirt and a pair of socks you’re willing to part with? Knot them together to create a tug-of-war rope for your dog, Caughill suggests. “It’s free, and your pet will love that they finally get to play with your socks,” he says. Another DIY project: Build a dog bed by repurposing a suitcase, wine crate or picnic basket, lining the makeshift crate with padding or pillows.

Buy the most durable toys. No dog toy is indestructible. That said, there are brands that manufacture relatively long-lasting toys, such as KONG. Both Caughill and Stregowski like the Super Chewer toy line from BarkBox, a dog toy and treat subscription service that starts at $20 a month.

VETERINARY CARE AND MEDICATIONS

Brace yourself: Nearly half (45%) of pet owners spend at least as much on their animal’s health care as they spend on their own health care, according to a LendEDU survey. Pet insurance can make these bills more manageable. But pet insurance isn’t right for everyone, says Janet Ruiz, director of strategic communications at the Insurance Information Institute. (For ways to save on pet insurance premiums, see the box at left.)

Keep up with preventive oral care. “Dental disease can lead to heart and kidney problems and expensive procedures,” warns Lori Bierbrier, a veterinarian and senior medical director of the ASPCA. Brushing your dog’s or cat’s teeth daily using a pet-friendly toothpaste can keep their gums and teeth healthy and help prevent costly surgery, says Wendy Hauser, a veterinarian and president of Denver-based Peak Veterinary Consulting. The Veterinary Oral Health Council's website (http://vohc.org/all_accepted_products) publishes a list of vetted dental products for dogs and cats, including toothpaste, dental chews and water additives.

Prevent diseases. Heartworm, intestinal parasites and tick-borne diseases can be costly to treat—and in some cases fatal. Protect your pet by making sure they receive an annual vet exam, vaccines, and pills for tick, heartworm and flea prevention. And stay up to date on their booster shots, says Zac Pilossoph, a consulting veterinarian at Healthy Paws Pet Insurance.

Keep your pet at a healthy weight. Proper diet and exercise can help keep your pet healthy and out of the hospital—and keep hospital bills at bay. "When a pet is overweight, it can lead to an increased risk of diabetes, osteoarthritis, ligament and bone injuries, cancer, and kidney, heart and respiratory disease," Pilossoph says.

Shop for medications online. Your veterinarian can prescribe and provide medications for your pet, but many charge top dollar for them. Online pharmacies, such as 1800PetMeds, VetRxDirect and PetCareRx, tend to offer discounted prices.

CATS AND DOGS

WHAT PET OWNERS PAY

Cats have a reputation for being more independent than dogs, and they are also cheaper to own. Here are average annual expenses for each pet.

	DOGS	CATS
Surgical vet visits	$458	$201
Routine vet visits	242	178
Food	287	254
Food treats	81	72
Kennel boarding	228	78
Vitamins	81	47
Grooming aids/brushes	47	31
Toys	56	41

SOURCE: American Pet Products Association's 2021-2022 National Pet Owners Survey

Check for discounts on spay or neuter surgery. Some nonprofits, including Friends of Animals and the Humane Society of the United States, offer discount vouchers for spaying or neutering. But check with your vet to make sure their clinic participates in the program, Caughill says.

GROOMING

Cats usually don't need grooming. Meanwhile, a basic dog grooming session, which includes a bath, blow dry, nail trim, ear cleaning and oftentimes anal gland expression, typically costs between $30 and $90, depending on a dog's size and the length and thickness of their coat, among other factors, according to Daily Paws. But costs can be significantly higher for haircuts.

Go DIY. One way to save money on pet grooming is to learn how to do it yourself. April Chillari, the owner of Core Canine, a dog training business in Northern Virginia, suggests starting by learning how to trim your dog's nails. "There are a lot of great videos on YouTube that demonstrate how to condition your dog to nail trims," she says.

Shop around. If you don't want to do pet grooming yourself—or your animal requires professional grooming (some dog breeds do, the American Kennel Club's Munden says)—get a few groomer recommendations from your vet, friends and family, and then compare rates.

Brush your pet. Some groomers charge extra for detangling mats, Chillari says. So if you have a long-haired dog or cat, it's a good idea to invest in a high-quality hairbrush and regularly brush their fur to prevent their coat from matting.

DAY CARE AND BOARDING

Dog kennels typically charge $20 to $50 per night, reports Rover, a peer-to-peer dog walking and pet boarding mobile app, while doggy day care starts at about $40. Cat boarding fees tend to be lower, about $15 to $20 per night, PetCareRx says.

Find a local pet sitter. If you're going to need someone to watch or walk your dog, Chillari recommends using Rover. Rover pet sitters and dog walkers are "usually cheaper than the larger facilities and offer more one-on-one attention to your dog," she says. Rover providers set their own rates, with prices based on date and location, the company says.

Form a pet sitting co-op. Band together a group of neighbors with pets who are willing to provide free pet sitting for each other as needed. Pro tip: Create a rotating schedule if you go into the office on opposite days of someone else.

Purchase a day care package. If you prefer to take your pet to a day care center, many offer multiday packages at reduced rates. For example, one Northern Virginia day care center charges $44 per day but also sells five-day packages that bring the rate down to $41 a day.

TRAINING

The average cost to hire a private dog trainer is $140 per session, according to Thumbtack.

Take advantage of group classes. Group classes "tend to get you more bang for your buck," Chillari says. PetSmart, Petco and many independent trainers offer group training sessions.

Go virtual. Many trainers charge less for virtual sessions than in-person training. A number of retailers also offer virtual training; PetSmart, for instance, provides a one-hour, one-on-one virtual training session for $35.

Become your own pet trainer. There's no shortage of pet training tutorials on YouTube. For example, dog trainer Zak George's YouTube videos help you house train your dog and limit barking.

TRAVEL

Love vacationing with your pet? You're in good company: Six out of 10 dog and cat owners take their four-legged companions with them when traveling at least some of the time, a recent Wag survey found. You can find dog-friendly activities at your destination at www.bringfido.com/attraction.

Stay at pet-friendly hotels and home-stays. Research your lodging options to find accommodations with low to no fees for pets. You can search for pet-friendly hotels around the world at www.bringfido.com/lodging and www.petswelcome.com. But always read the fine print—some hotels and Airbnbs restrict certain animals, breeds or sizes.

Compare airline pet fees. If you need to fly to reach your destination, take time to survey your options because pet fees can vary by carrier. Airlines usually charge a $100 to $150 one-way fee to bring a dog or cat in the cabin. You can find a list of airline fees at www.gopetfriendly.com/blog/airline-pet-policies. ■

FOR QUESTIONS OR COMMENTS ABOUT THIS ARTICLE, E-MAIL FEEDBACK@KIPLINGER.COM.

Three Financial Lessons Learned While Raising a Goldendoodle

My wife, Alex, and I adore our 2-year-old mini goldendoodle, Penny. Like many other families stuck at home during the pandemic shutdown, we decided the time was right to get a pet, and we got Penny in July 2020. We love her snuggles, playfulness and boundless energy. But we've learned a few key financial lessons.

LESSON ONE: Choose your pet insurance provider very carefully. We went with our breeder's recommendation when selecting a pet insurance provider. But I wish we had done more research.

It's not that we're unhappy with our insurance company. We pay a reasonable $33 per month, and we've already received $345 in reimbursements for treatments. But when Penny turned 1, I decided to shop around for a new insurance policy to make sure we were getting the best rate. That's when I learned we're essentially stuck with our insurance provider.

Why? Because once a pet has been treated for an illness or injury, that illness or injury would be classified as a pre-existing condition by a future insurance company—and, most likely, would not be eligible for coverage. So now that Penny has been seen by our vet for potential hip dysplasia—a serious condition that could require surgery in the future—the only way for us to receive coverage for hip dysplasia exams, medication and surgery is to stay with our current insurance provider.

LESSON TWO: Shop around for surgeries. When it came time for Penny to get spayed, our vet quoted us an eye-popping $730. Unfortunately, most pet insurance plans don't cover routine surgeries like this one, and ours was no exception. To save money, we found a reputable veterinarian that offered discounted spay fees in partnership with the SPCA of Northern Virginia's Spay Inc. program. Ultimately, we paid just $268 for the surgery, and Penny received excellent care.

LESSON THREE: There *is* such a thing as too many dog toys. Dog owners spend, on average, $56 each year on toys. Our household? More like $200 a year. Penny now has a toy for virtually every holiday, to the point that her toy bin is overflowing. Our goal for this year: Add only tennis balls to her toy collection. **D.B.**

PAYING IT FORWARD

A Different Kind of Tax Relief

This volunteer makes tax time less intimidating for hundreds of seniors every year.

PROFILE

WHO: **Alan Siegel, age 61**

WHAT: **Tax-Aide Volunteer**

WHERE: **Rancho Palos Verdes, Calif.**

How did you get involved as a tax-preparation volunteer? I come from a family of volunteers. I met a family friend roughly 12 years ago who said that he had been preparing taxes with AARP Foundation's Tax-Aide program as a volunteer. So I just tucked it away, thinking *That might be interesting when I'm retired and I have more time.* I retired four years ago, and I'm in my fifth year now as a volunteer.

Did you have any relevant professional background? I have a degree in mathematics and an MBA in finance. But it's not absolutely necessary to have a background like that; just having an ability to work with numbers and use basic tax software is really all that's necessary. Good communication helps, too—asking open-ended questions, ensuring people are understanding those questions, and if they don't, asking in another way. Having a basic understanding of certain tax concepts, particularly pertaining to retirement, has also proved useful. The U.S. tax code is complicated. But for the most part, for the people that we're working with, there's a relatively small set of areas that we're concerned about.

Who are Tax-Aide's clientele? Our target audience is low- to moderate-income seniors. In our district here in Southern California, the profile is generally single people in their mid sixties—primarily women, often with a pension, some interest income and Social Security, with an average income of roughly $33,000. But we will prepare tax returns for almost anybody who makes an appointment. They don't have to be an AARP member or over a certain age, and there's no fee or income requirement. We'll do it for college students, drivers, restaurant servers—anybody.

What kind of training do you get? AARP Tax-Aide has training that's set up to meet the IRS certification requirements, and it's quite extensive. We do self-paced training at home every year to learn about the relevant portions of the U.S. tax code and become facile with the tax software. We use Tax Slayer Pro, which paid preparers might also use to prepare taxes. We also have to pass certification tests and attend in-person training.

How much time do you devote to it? During tax season, from February 1 through mid April, I'm volunteering at a site two days a week. But you could do up to five days a week, depending on what you like. Then from October through December, I spend maybe five to 10 hours a week training and reading.

Where do the people you work with have the biggest problems? The biggest problem is that people are intimidated by their tax return. Some want to put it off until the last minute or even not file for years. Our role is to show them that for their particular situation, it really isn't all that complex. We can't give financial advice, but we can ask leading questions and point them in the right direction. For example, if somebody owes a lot of money at the end of the year and might be subject to a penalty from the IRS for underwithholding, we'll make sure that they understand how they can have money taken out of their pension, Social Security or retirement distributions so that they don't owe so much. But with somebody who has a huge refund at the end of the year who is maybe withholding too much out of their pension, we might ask them, "Would you like to have that money earlier?" In recent years, the average refund has been about $450.

What do you do when a client presents a complex tax question? We have great relationships with more-experienced preparers with whom we work collaboratively, and they answer questions for us.

What appeals to you about doing it? I suppose it's about getting out of yourself and helping other people, which broadens your experiences in life, and meeting other people from different backgrounds. I enjoy talking to people, and they're so appreciative. People bring us doughnuts, cookies and flowers, and it all just gives you a good feeling. **EMMA PATCH**

PHOTO BY JOEY IKEMOTO