The Super Savers Redefining Retirement p36

PROTECT YOUR PORTFOLIO

Our timely strategies will help you hold on to your bull market gains and prepare for the bear. p48

PLUS

How to find the best health plan for you p26

Snowbirding done right p66

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[1]Brookings Institute, "The Unprecedented Expansion of the Global Middle Class."

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CONTENTS

KIPLINGER'S PERSONAL FINANCE
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VOL. 72 NO. 11

JAMEY GUY

AHEAD

9 **TOPIC A** What the midterms mean to you . . . Secrets of the 401(k) millionaires.

16 **YOUR MIND AND YOUR MONEY** You've got it. Why not spend it? by ANNE KATES SMITH.

18 **OPENING SHOT** Lunch with Ariel's John Rogers, by JAMES K. GLASSMAN.

22 **MILLENNIAL MONEY** Talk to your parents about caregiving, by KAITLIN PITSKER.

24 **MONEY SMART WOMEN** My best investment advice, by JANET BODNAR.

MONEY

26 **SPECIAL REPORT**
PICK A BETTER HEALTH INSURANCE POLICY Whether you get your health insurance from your employer or on your own, our strategies can help you get the best coverage at the best price.

36 **RACING TO RETIREMENT** Financial Independence, Retire Early advocates aim to leave the daily grind as soon as possible by saving 50% or more of their income annually. FIRE devotees are a driven bunch.

44 **TRIM YOUR HOME INSURANCE PREMIUM** Switching insurers can save money, but you can also lower your rate with your current carrier.

42 **ASK KIM** A risk for buy-and-hold investors, by KIMBERLY LANKFORD.

47 **LOYALTY REWARDS** Best ways to give miles and points.

INVESTING

48 **COVER STORY**
WHAT'S YOUR NEXT MOVE? After a nine-year bull market in stocks, it's time to think about the next bear market. Some strategic adjustments now can cut the risk in your portfolio and keep it aligned with your goals.

59 **HOW TO NAVIGATE EMERGING MARKETS** Rising interest rates and a stronger dollar have been tough on emerging-markets stocks. But if you are patient and can ride out the ups and downs, this could be a good buying opportunity.

61 **INCOME INVESTING** The case for keeping some cash, by JEFFREY R. KOSNETT.

62 **MORE ABOUT INVESTING** News of the Kiplinger 25 (62). Betting on housing bonds (64).

LIVING

66 **FLIGHT OF THE SNOWBIRDS** Migrating to where the weather is warm in winter takes some preparation. Finding a place to stay and ensuring your primary home is secure until you return are only the first steps.

71 **TECH** Peace of mind for a dollar a day, by KAITLIN PITSKER.

IN EVERY ISSUE

4 **FROM THE EDITOR** Being Mustachian.

6 **LETTERS** Hold on to your bonds?

72 **TAKEAWAY** Test your bear market I.Q.

ON THE COVER: Photo-illustration by Ryan Etter

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RECESSION LESSONS

Retirees and pre-retirees reveal the retirement-planning strengths and weaknesses that were exposed by last decade's Great Recession.

kiplinger.com/links/lessons

QUIZ FOR BOND INVESTORS

Kiplinger's Investing for Income editor Jeff Kosnett cooks up a new quiz to test the bond-buying savvy of income investors.

kiplinger.com/links/bondquiz

NOT-SO-SAFE DEPOSIT BOX

Resist the temptation to lock these nine items away at the bank, where they may be inaccessible when you need them most—or even at risk of loss.

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FROM THE EDITOR

Mark Solheim

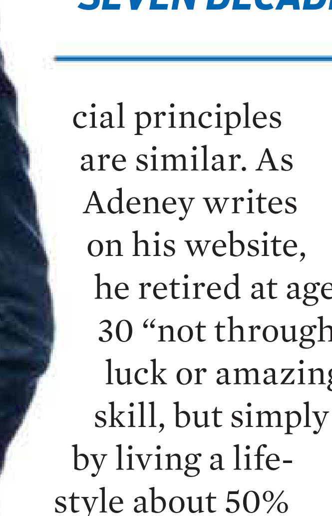
Being Mustachian

About a year ago, I got an e-mail from a reader with a suggestion for reaching younger readers. He was barely 40 himself, he said, and had been reading *Kiplinger's* since he was a teenager. He credited this magazine with much of his financial success—starting a business when he was 18, buying a farm when he was 22, putting away 20% to 30% of his gross pay each year and paying off his mortgage early. But he said younger people these days are searching for ways to pay their student loans and mortgages more quickly and save more, often with profits from a side business.

"If you were to include an article or two about FIRE—financial independence, retire early—each month," he wrote, "it would appeal to more people in their twenties to forties." He said he loved reading the FIRE blogs and that many of the reader comments were from people in their forties to sixties who wish they had found out about the FIRE movement earlier.

This month we take a look at FIRE (see page 36). As senior editor Eileen Ambrose explains, FIRE traces its roots to publication of the book *Your Money or Your Life,* by Vicki Robin and Joe Dominguez, back in 1992. Sometime in between the tech bust and the financial crisis a decade ago, FIRE ignited, mostly among millennials who didn't want to spend decades with their nose to the grindstone at jobs that didn't reflect their values.

Financial freedom. But it's the FIRE blogs that have given the movement legs. And the most famous one is penned by Mr. Money Mustache, a.k.a. Pete Adeney, who has become something of a spiritual leader of the FIRE movement. "Maximum Mustache" is a brand of FIRE delivered with an ironic, muscular attitude that disdains consumerism and waste, but the financial principles are similar. As Adeney writes on his website, he retired at age 30 "not through luck or amazing skill, but simply by living a lifestyle about 50% less expensive than most of our peers and investing the surplus in very boring conservative Vanguard index funds and a rental house or two."



WHAT I LIKE ABOUT FIRE AND MR. MONEY MUSTACHE IS THAT MANY OF THE FINANCIAL-FREEDOM TENETS SOUND A LOT LIKE THE ADVICE KIPLINGER HAS DISPENSED FOR SEVEN DECADES.

What I like about FIRE is that many of the financial-freedom tenets sound a lot like the advice Kiplinger has dispensed for seven decades: Cut excess spending. Never spend more than you earn and (its corollary) avoid debt. Invest in low-cost index funds. Cultivate sources of side income, such as real estate investing. Follow the 4% rule for retirement withdrawals. Many of the FIRE success stories sound similar to stories I've heard from you, although retiring before age 40 is rare.

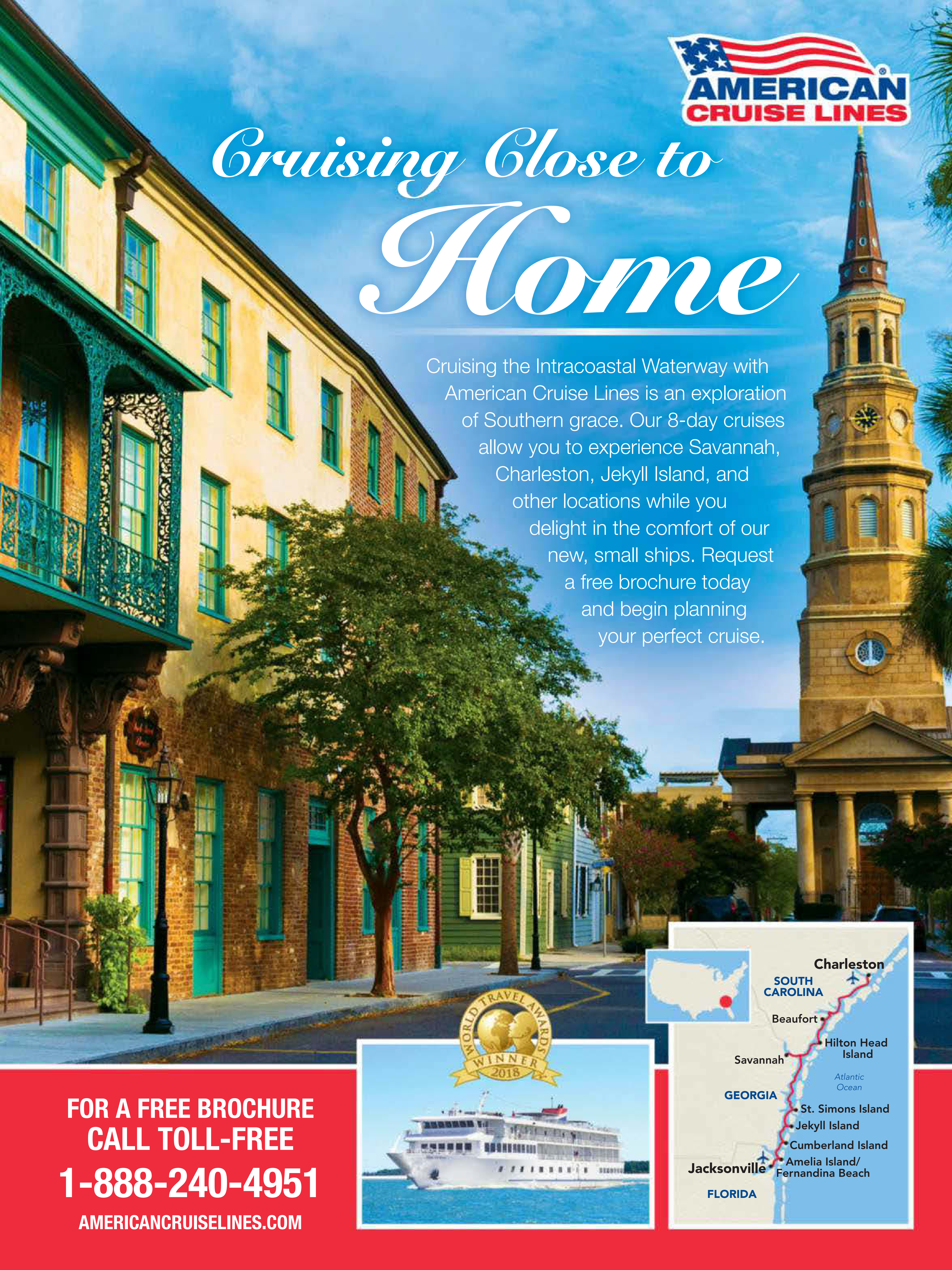
But *retiring* doesn't mean what it used to. We sent contributing editor Lisa Gerstner to MMM headquarters to meet Adeney and talk to some Mustachian disciples, and she had this observation: "For nearly everyone I spoke to, FIRE isn't so much about 'retiring' as it is having the freedom to spend their days doing the work or activities that they enjoy, without being beholden to a rigid schedule."

Update: Thanks to all of you who responded to my column in the September issue with article suggestions. I mentioned that we were still looking for an investing writer, and some of you generously offered to contribute. But soon after the issue went to press, we hired a new writer: John Waggoner. You may know John from his columns in *USA Today,* where he had a 25-year career, or through his freelance work for *Money,* Morningstar and the *Wall Street Journal*. I'm certain he will help make our investing coverage even better. ■

Mark Solheim

MARK SOLHEIM, EDITOR
MSOLHEIM@KIPLINGER.COM
TWITTER: @MARKSOLHEIM

POON WATCHARA-AMPHAIWAN



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Hold On to Your Bonds?

Staying in bonds while they lose value is not a positive strategy ("Income Investing," Sept.). Why not move such funds to tax-free money market funds until bonds recover? Earning something positive that's untaxed by your state and federal government is better than gaining taxable income yet losing overall value.

RICHARD L. GONGWER
MARION, IND.

EDITOR'S NOTE: Market timing in bonds is no more effective or achievable than it is in stocks, real estate or any other asset class. Bonds are a point or two in the red for 2018, but we don't expect intermediate- and long-term interest rates to advance much from current levels, meaning bonds are unlikely to lose more value. That said, yields on cash are ticking up, and putting new cash in the bank is reasonable (see "Income Investing," on page 61). And if you have enough capital to last forever locked away risk-free, by all means, put it all in money funds, Treasury bills or CDs.

SOURCE: POLL SURVEYED 204 *KIPLINGER'S* READERS.

Tax me if you can. I already pay a sales tax on online purchases for companies with a presence in my state of Minnesota ("Ahead," Sept.). My gripe has been that these companies apply the state tax on every item, taxable or not. Minnesota, for example, doesn't have a sales tax on food and clothing, yet many companies try to charge tax on such items. I've called companies on it, but some of them remove the sales tax and replace it with a handling fee.

KENNETH B. JAROSCH
ST. PAUL

Remodeling rewards. I thought I'd share one project you may have missed: a front porch redo ("10 Small Projects With Big Rewards," Sept.). Our battered concrete foundation and rusting railings presented us with not only a safety concern but also a financial one. "Nobody has a redwood front porch," my wife said. I replied, "Then we'll be the first." We accomplished the task for less than half the cost of replacing the concrete (about $5,500 total). Now that's a Big Reward!

M.M.
SALT LAKE CITY

The art of money. I appreciate *Kiplinger's* writers, but how about a shout-out to the illustrators, layout contributors, photographers and whoever did the imaginative graphics for "50 Quick & Easy Money Tips" (Sept.)? These visual components are so important in enticing the reader, clarifying and highlighting important aspects of the written content, and increasing the readability of the magazine.

BOB DRIES
WAUWATOSA, WIS.

UPDATE

After "Best Online Brokers" (Oct.) went to press, Firstrade announced it would offer free online trading for stocks, ETFs, options and mutual funds (down from $2.95 per trade). Also, Ally Invest announced it would offer more than 100 ETFs commission-free (with no sales charge to buy or sell shares) to customers on its online trading platform.

CORRECTION

Brokerage firms E-Trade, Merrill Edge and TD Ameritrade offer tools that map out one's dividends for the next 12 months. Charles Schwab does not ("50 Quick & Easy Money Tips," Sept.).

LETTERS TO THE EDITOR

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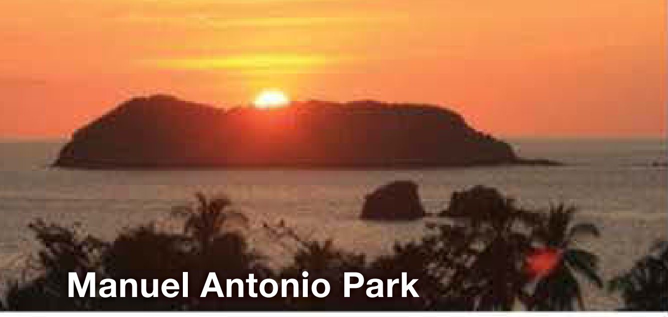

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TOPIC A

WHAT THE MIDTERMS MEAN TO YOU

Regardless of the results of the election, putting an end to the uncertainty is likely to be a plus for your portfolio. BY ANNE KATES SMITH

AS AMERICANS HEAD TO THE polls this month, it's probably safe to say that the outcome of the 2018 midterm elections will be among the most closely watched in memory. But, politics aside, what should investors be on the lookout for?

If history is a guide, Americans can expect a power shift in Congress. But history also shows that whether your party is victorious or not, your portfolio is likely to survive the midterms unscathed—and maybe a little ahead. "There's so much focus on the midterms because of the polarized nature of the electorate," says Mike Ryan, chief investment officer for the Americas at UBS Global Wealth Management. "Elections matter, but they're not the only thing and not the most important thing" for stocks, Ryan says.

Incumbent parties tend to lose ground in midterm elections. Since 1910, the party in the White House has lost 31 seats, on average, in the House of Representatives and four seats in the Senate, according to UBS. The Democrats need to flip 23 Republican seats to gain control of the House—and they're likely to gain a modest majority there, predict UBS and other political handicappers. The Senate, however, will likely remain in Republican control. Just nine GOP seats are up for grabs, compared with 26 for Democrats and left-leaning Independents.

In that divided-Congress scenario, to which UBS assigns the highest probability (60%), expect some gridlock when it comes to passing legislation but continued deregulation by means of executive action, as well as further use of tariffs to pressure trading partners. Democratic control of key House committees means the potential launch of investigations against the Trump administration that could roil markets from time to time. The bigger risk for investors is if mild gridlock turns into extreme gridlock. The current government spending agreement expires in September 2019, and Congress will need to act to avoid a repeat of the fiscal-cliff stalemate that sent Standard & Poor's 500-stock

ILLUSTRATION BY BRIAN STAUFFER

index tumbling 18% in 2011.

What is likely off the table with a Democratic House and Republican Senate is tax reform 2.0, which would make certain provisions of the 2017 tax law permanent, locking in individual and small business tax cuts. Social Security and Medicare reforms, which might have helped offset the effect of the tax cuts, are also likely off the table.

There are a couple of areas of likely agreement or at least compromise between the parties, UBS says. One is spending for infrastructure, which would benefit industrial firms. The other is drug price controls, which could pressure pharmaceutical stocks. A united Congress under a president of the same party is the best outcome for stocks historically. But even following elections in which majority rule changes in Congress, the market tends to do just fine, according to research firm CFRA.

In those instances, going back to 1946, the S&P 500 has gained an average of nearly 6% in the final quarter of a midterm election year and 13% in the year following the election.

Whatever you do, don't let a fixation on politics distract you from matters more important to the market, such as the pace of earnings and economic growth, say strategists at Morgan Stanley. In a midterm election analysis, they write: "We think investors will fare better focusing on fundamentals and the Fed instead of the ballot box."

THE SEVEN FIGURES CLUB

SECRETS OF THE 401(K) MILLIONAIRES

The bull market helped boost balances, but these workers also save more and avoid loans.

The number of 401(k) accounts with a balance of $1 million or more rose to a record 168,000 in the second quarter, an increase of 41% from a year earlier, according to Fidelity Investments, the nation's largest plan administrator. Although that's only a small percentage of 401(k) participants, there were other positive developments. The average 401(k) account balance rose 6% from a year earlier, to $104,000, and the average balance in individual retirement plans, which allow workers to save even if they don't have a workplace plan, rose to $106,900, up nearly 7%.

The bull market contributed to the growth, but it wasn't the only factor, says Meghan Murphy, a vice president at Fidelity Investments. Contributions are up, too. The average savings rate, which includes employee savings and company matching funds, was recently 13%, up from 12.5% in 2008. The 401(k) millionaires save even more, says Murphy. The average savings rate for those workers is 17%, and some millionaires save up to 25%, she says. Other characteristics of 401(k) millionaires:

They're in it for the long haul. Most 401(k) millionaires have been contributing to their plans for 28 to 30 years, even if they've changed jobs.

They're big on stocks. The 401(k) millionaires typically have 75% to 80% of their savings in stocks, Murphy says. Stocks have historically outperformed other types of investments.

They avoid taking out loans. While most companies allow workers to borrow from their 401(k) plans, loans can put a serious dent in your nest egg. Many plans bar workers from contributing to their accounts until they have repaid the loan. If you leave your job, you're usually required to pay off the balance in as little as 60 days; otherwise, it will be treated as a taxable withdrawal. The money you borrow isn't invested, which means your account won't grow as much as it would have if you hadn't taken out a loan. Fidelity says 20.5% of plan participants had an outstanding loan in the second quarter, compared with a high of 23% in the third quarter of 2013. SANDRA BLOCK

Who wants to be a 401(k) millionaire?

Here's how much you need to save each month, including the match from your employer (if you get one), to accumulate $1 million in your retirement savings plan by age 65.

Age	Average balance	Monthly savings to reach $1 million
AGE 25	$14,400	$320
AGE 35	$54,700	$500
AGE 45	$118,600	$1,060
AGE 55	$193,500	$3,600*

*Because of limits on contributions, most workers with this average balance would need to make additional contributions to an IRA and a taxable account. Note: Based on average 401(k) balances for participants in plans managed by Fidelity Investments. Assumes a 7% annual return.

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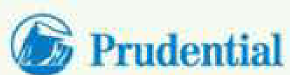

Sample Term Life Monthly Rates

Female Monthly Rates				
Age	**$100,000**	**$250,000**	**$500,000**	**$1,000,000**
21-35	$7	$9	$12	$19
40	$8	$11	$16	$25
45	$10	$15	$25	$42
50	$13	$20	$34	$61
55	$17	$29	$52	$95
60	$23	$42	$76	$140
65	$33	$67	$124	$230

Male Monthly Rates				
Age	**$100,000**	**$250,000**	**$500,000**	**$1,000,000**
21-35	$7	$9	$14	$22
40	$8	$12	$18	$29
45	$11	$17	$28	$48
50	$14	$24	$42	$74
55	$20	$38	$70	$129
60	$29	$60	$113	$214
65	$53	$105	$198	$373

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INTERVIEW

THE PROBLEM WITH QUARTERLY REPORTS

Requiring companies to post results too often may discourage long-term investment.

Charles K. Whitehead is a professor at Cornell Law School who specializes in corporations, financial markets and business transactions.

President Trump recently asked the Securities and Exchange Commission to study whether publicly traded companies should report earnings on a six-month basis. What's the problem with quarterly reporting? You manage what you measure. When you're assessed on three-month results, you're going to focus on hitting three-month numbers. Company executives don't think about three years down the line; they think about the company three months down the line. That's not very healthy.

Would a move to six-month reporting reduce short-term thinking? It could help. Reviewing and signing off on the Form 10-Q, getting on the phone with reporters, dealing with the brouhaha of press reports and analyst commentary—all of that chews up time. Having to do that twice a year rather than four times frees up resources. And there is some historical evidence that investments by companies in longer-term projects (for example, research and development) dropped slightly when quarterly reporting was introduced in 1970.

What else contributes to the short-term thinking? When companies release forecasts of their upcoming quarterly earnings, which isn't required by the SEC, and then fail to hit that number, the result can be devastating for the company.

Another factor is the average tenure for CEOs is declining. If you're a CEO, are you thinking eight years out if your firm's average term is six years? Maybe not so much.

What would be the downside of less-frequent reporting? The cost is less information in the public marketplace, and that has ramifications. Giving investors less information to act on would likely increase speculation in the stock market. Executives, then, would face even greater pressure to avoid showing, say, a short-term decrease in profits, even if the company is spending for a future project.

What should investors take away from the President's message to the SEC? The White House, the SEC and even some prominent Democrats are interested in a longer-term approach to corporate management. But none of these factors, be it quarterly reporting or earnings guidance or CEO tenure, will solve the problem in isolation. All those things need to be wrestled with. It's going to be a long time coming. **RYAN ERMEY**

PHOTOGRAPH BY BRETT CARLSEN

NO DOUBLE DIPPING

NEW RULES FOR MOBILE DEPOSITS

When you use your bank or credit union's mobile app to deposit checks, you may have to start adding more-detailed wording below your signature to ensure that your check will be accepted. The change is designed to address concerns that customers may deposit a check via mobile app with one bank and later deposit the original check at a second institution. In a rule issued this summer, the Federal Reserve said the first bank can avoid taking a loss if the customer writes "for mobile deposit only" or similar phrasing on the check. The Fed hopes the rule will minimize fraud and accidental double deposits.

If your bank is updating its preferred language for endorsements, it may notify you by e-mail or post an announcement on its website. Or check its app—instructions may pop up as you are making a deposit.

If your endorsement doesn't match the bank's model, it may reject the deposit. But many banks will accept the check and later tell you how to write the endorsement, says Matt Kriegsfeld, of Mitek, a mobile-deposit software developer. **LISA GERSTNER**

SLEEP CHEAPER

ONLINE TRAVEL SITES ROLL OUT REWARDS

Travelers can score deep discounts or cash back on hotel rooms.

IN AN EFFORT TO COMPETE with hotel loyalty programs, online travel sites are enhancing their own rewards programs. If you're not committed to a particular brand, they're worth a look.

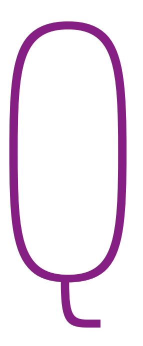
Expedia's new rewards feature, Add-On Advantage, lets customers add a discounted hotel stay to their itinerary if they've booked a flight, car or vacation package through Expedia. You receive up to 43% off the room and can wait until the day of your trip to snag a bed.

Today's Daily Drop from Hotel Tonight, available on its mobile app, is similar to Add-On Advantage but with a catch: Once you swipe to take the offer, you have 15 minutes to seal the deal. You can choose dates within a 100-day window. The feature is available in 300 markets so far, and you can swipe only once per day. If you don't see a price drop, it could mean there are no deals in that location that day.

Other travel sites are offering cash-back offers and credit card rewards. With Ebates Travel Thursdays, you can receive 10% cash back on hotels booked through Ebates' hotel portal. Meanwhile, Capital One has partnered with Hotels.com to offer 10 miles per dollar to Capital One Venture Rewards and Capital One VentureOne Rewards cardholders. You must book through www.hotels.com/venture. **RIVAN STINSON**

MONEY & ETHICS // KNIGHT KIPLINGER

Should all student debt be forgiven?



I'm hearing proposals for the forgiveness of all student debt—an estimated $1.5 trillion—to stimulate retail spending, marriage, homeownership and entrepreneurship among the 44 million people (many of them millennials) now burdened with having to make college-loan payments. What do you think of this idea?

A | Not much. There are many things wrong with how we've been financing higher education in recent decades—and there are much better ways to do it—but the wholesale transfer of all this debt to the U.S. taxpayer, without regard for a borrower's ability to repay, would be morally wrong. It would be an affront to the majority of borrowers who either have already paid off their loans or are managing them okay. And it would disproportionately benefit higher-earning borrowers.

Yes, many students over-borrowed to attend more-expensive colleges than they needed to, or to major in fields without good employment prospects—in each case, their own choices. Yes, many colleges took advantage of excessively easy student credit to jack up their tuitions and expand operating budgets.

And, yes, many for-profit colleges (some later closed by regulators) grew fat on government-guaranteed loans they arranged for unqualified applicants who got an inferior education and often didn't graduate. This last group of borrowers can and should get their debts discharged through the classic borrower defense that they were misled and defrauded by the school.

But canceling *all* student debt isn't the answer. My favorite reform would be making the repayment of all student loans proportional to the borrower's future earnings. Monthly loan payments would be capped at, say, 10% of earnings and deducted from one's paycheck, like income taxes and Social Security. After 25 years, the unpaid balance would be forgiven.

We should also overhaul the many public-service loan-forgiveness programs now in place. These are supposed to allow borrowers who choose certain nonprofit and/or governmental occupations, such as the military, teaching and social work, to discharge their debts, typically after 10 years of timely loan repayment. But the rules are bizarrely complex and the outcomes often uncertain.

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

POON WATCHARA-AMPHAIWAN

THESE PRICES ARE INSANE

INVESTING FEES KEEP FALLING

JPMorgan Chase drops some stock and ETF commissions.

WITH THE LAUNCH OF ITS NEW MOBILE trading platform, JPMorgan Chase became the most recent entrant in the investing world's battle to offer the lowest fees. The investing service, called You Invest, comes with no investment minimum and gives users 100 commission-free stock and exchange-traded fund trades in the year after opening an account. Investors can earn more free trading if they hold sufficient assets in certain Chase accounts.

The rollout comes shortly after Fidelity slashed its fees and began introducing mutual funds with a 0% expense ratio and online brokerage Firstrade announced that it will offer free trading on all stocks, ETFs and options. The brokerage firms' goal is to attract new customers, says Michael Venuto of investing firm Toroso Asset Management. Once you're a customer, firms will likely try to sell you more-expensive products, he says.

Cathy Seifert, an analyst at investment research firm CFRA, expects more firms to slash commissions. Beyond costs, investors should consider the tools and resources a brokerage platform offers. (For our take, see "The Best Online Brokers," Oct.) "JPMorgan has a great reputation, but they're a late entrant" in the mobile brokerage business, Seifert says. **RYAN ERMEY**

CALENDAR
11/2018

▲ SATURDAY, NOVEMBER 10
Now is a great time to sign up for a community-supported agriculture program for next year. These programs allow participants to buy a weekly box of produce, known as a share, from a regional farmer. Some offer winter veggies, too. Go to www.localharvest.org to find one near you.

WEDNESDAY, NOVEMBER 14
During National Family Caregivers Month, think about future caregiving arrangements for aging family members—including financial care. This isn't just a challenge for baby boomers; millennials need to have the conversation with parents, too (see "Millennial Money," on page 22).

TUESDAY, NOVEMBER 27
It's Giving Tuesday. If you're 70½ or older, consider giving your required minimum distribution to charity this year. You can transfer up to $100,000 tax-free, and the money isn't included as part of your adjusted gross income. Younger philanthropists may want to contribute to a donor-advised fund, which allows you to contribute cash or appreciated securities, claim the tax deduction on your 2018 return (if you itemize) and dole out the money to charities later.

FRIDAY, NOVEMBER 30
If you're paid biweekly, you could be getting a "bonus" check in the mail today. Use the money to add to an emergency fund or make extra payments on your credit card or student-loan debt. **RIVAN STINSON**

DEAL OF THE MONTH
Look for big price cuts on smartphones and video games on November 23, better known as Black Friday. Expect up to $200 off the latest iPhones, and they may be bundled with up to $200 in gift cards at Target, Best Buy and other stores. Discounts on video games will range from 25% to 50%, says Ashley Dull at CardRates.com.

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YOUR MIND AND YOUR MONEY | Anne Kates Smith

You've Got It. Why Not Spend It?

It's no secret that many Americans have not saved enough for retirement. But here's the flip side of the coin: retirees who don't spend enough of their savings.

A recent study by the Employee Benefit Research Institute found that the majority of retirees are spending down their assets surprisingly slowly during the first two decades of retirement. People who retired with $200,000 to $500,000 in savings, not including their homes, had spent a bit more than one-fourth of their assets, EBRI found. Those with more assets—$500,000 or more—had parted with even less, spending down less than 12% of savings over a 20-year span. And about one-third of the retirees in the study *increased* their savings over the period.

EBRI theorizes that retirees might spend at slow rates because they're uncertain about how much money they'll need, how long it will have to last or what a safe rate of spending might be. But conversations with financial planners and behavioral finance experts suggest that another of EBRI's theories is more relevant than you might think: Some people have a behavioral roadblock that simply makes it hard to spend their money.

Nature and nurture. People are reluctant spenders due to both personality and habit, says Meir Statman, a professor at Santa Clara University, in Santa Clara, Calif. Successful savers have prospered by living below their means, and over time, that frugality becomes a matter of preference—hardwired, sometimes to an excessive degree. "Tightwads are usually disciplined in many other areas of their life," says certified financial planner Ann Reilley Gugle of Charlotte, N.C. "Spending can be associated with weakness or recklessness." Frugality can also develop into a competitive pastime, she says. Picture a millionaire many times over who obsessively clips coupons.

Planners report that inherited money can pose a challenge if heirs feel that they don't deserve to spend money they didn't earn. Those who have always lived modestly may fear that a more lavish lifestyle will change their relationships with neighbors and friends.

SUCCESSFUL SAVERS HAVE PROSPERED BY LIVING BELOW THEIR MEANS. FRUGALITY OFTEN BECOMES A PREFERENCE—SOMETIMES TO AN EXCESSIVE DEGREE.

Some folks just need to adjust to a new phase of life. "I work with a lot of people who have trouble turning their saving plan into a spending plan," says CFP Benjamin Rickey of Yakima, Wash. "Occasionally, they're hoarding money. But most just have a hard time rewiring themselves."

The first step is to find appealing spending options. "I can afford a $300 meal, but it makes me feel stupid—like the chef is in the back laughing uproariously," says Statman. You may have zero interest in fancy restaurants or luxury cruises. But like Statman, you might discover that flying business class is worth every penny. Or you may gain the confidence to continue driving by upgrading to a car with the latest safety features.

People unaccustomed to and uninterested in spending on themselves often find it more palatable to help children or grandchildren, or to donate to charity. Gifford Lehman, a CFP in Monterey, Calif., has a client who is a retired teacher, whose modest appearance belies a hefty inheritance. "Her passion is philanthropy, which is a form of consumption for her," Lehman says. A charitable remainder trust will eventually benefit a charity she has selected. It generates income in the meantime, allowing her to make other donations, mostly anonymously.

It helps to set up a spending strategy. See "Make Your Money Last" (Oct.) for ways to make your income last a lifetime. If you're more than set but spending still troubles you, consider the alternative, says Rickey: "Clients are acutely aware of the risk of running out of money. There's also the risk of dying on a large pile of beans that never got put to good use." ■

ANNE KATES SMITH IS EXECUTIVE EDITOR OF *KIPLINGER'S PERSONAL FINANCE* MAGAZINE. YOU CAN CONTACT HER AT ASMITH@KIPLINGER.COM.

POON WATCHARA-AMPHAIWAN

Special Report from *The Independent Adviser for Vanguard Investors*

Only ONE of these Vanguard funds currently gets top expert's BUY rating.

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Total Stock Market Index
Total Bond Market Index
Short-Term Bond Index
Selected Value
Wellesley Income
SmallCap Index
MidCap Index
500 Index
Value Index
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Windsor II

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- Is your Vanguard portfolio up 2,050%? This one is—learn how.
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- Avoid these 5 COSTLY MISTAKES.
- BEWARE of "lookalike" funds—one's a superstar, the other's a dog. Can you guess which is which?
- Vanguard award winners—find out which Vanguard funds are positioned to skyrocket in the coming months… And which will likely plummet.

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- Jeff 's market views and opinions have appeared in such publications as *USA Today*, *Forbes*, *The Wall Street Journal*, *Barron's*, *InvestmentNews* and *Kiplinger*.

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OPENING SHOT | James K. Glassman

Lunch With Ariel's John Rogers

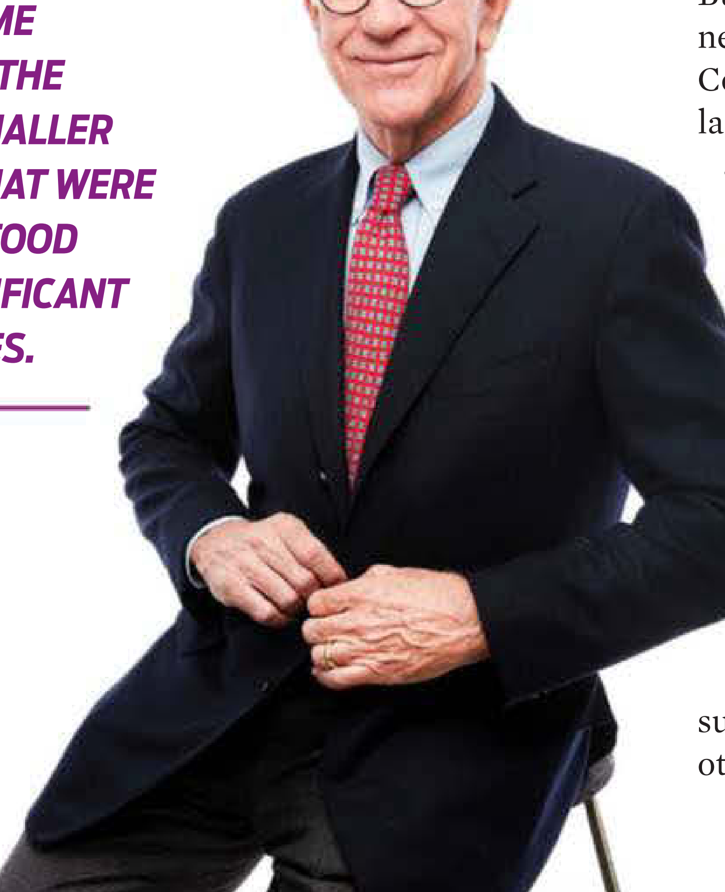
John Rogers is a double anomaly. At a time when investors are increasingly turning to index funds, he picks individual stocks. And at a time when the market prefers growth-oriented companies, he buys value-priced shares. A former basketball star at Princeton, he launched Chicago-based Ariel Investments in 1983, at age 25. The firm's flagship public fund, **ARIEL FUND** (SYMBOL ARGFX), opened three years later. He's still lead manager of Ariel, which has returned an annualized 11.6% over the past decade, beating the Russell 2500 Value index by an average of 1.7 percentage points a year. (Returns and other data are as of September 14.)

I interviewed Rogers over lunch in Washington, D.C., at the Hay-Adams Hotel, across from the White House. Rogers was co-chair of President Obama's inaugural committee, and the Rogers family is steeped in politics and public service. His mother was the first African-American woman to graduate from the University of Chicago law school. A Republican, she gave a seconding speech for Richard Nixon at the nominating convention in 1960 and later became a deputy solicitor general and an ambassador. Rogers's father, a Democrat, was one of the original Tuskegee Airmen (the pioneer African-American aviation squadron during World War II) and served as a juvenile court judge in Cook County for 21 years.

Hooked at an early age. John's father got him interested in the market by giving him shares of stock as birthday presents. At Princeton, John majored in economics. One of his professors was Burton Malkiel, author of the 1973 classic *A Random Walk Down Wall Street*. Malkiel is still active today and a fierce advocate of the efficient market hypothesis—the idea that stocks reflect all available information about them, so they are correctly, or efficiently, priced. The logical conclusion for investors, then, is to buy index funds with low expenses.

Rogers, however, became convinced that *some* stocks—especially smaller companies that are less followed and less understood—can offer significant opportunities. He was especially influenced by two books, now classics, that were published in 1980, the year he graduated from college. One was David Dreman's *Contrarian Investment Strategy*, which popularized value investing—that is, purchasing stocks that are out of favor and have low valuation measures, such as price-earnings ratios, compared with the broader market. The other was John Train's *The Money Masters*, which profiled great investors, including Benjamin Graham, the founding father of bargain hunting.

ROGERS BECAME CONVINCED IN THE 1980s THAT SMALLER COMPANIES THAT WERE LESS UNDERSTOOD OFFERED SIGNIFICANT OPPORTUNITIES.



Part of the appeal of value investing for Rogers is that it's intellectually challenging. "It's fun to be different," he says. "Betting against the crowd is awfully satisfying when it pays off." For many young investment professionals when Rogers was beginning his career, value managers became heroes: John Neff, of Vanguard Windsor Fund; Ralph Wanger, of Columbia Acorn; the late Sir John Templeton, of Templeton Growth Fund; and Warren Buffett, of Berkshire Hathaway, who was Graham's disciple. Rogers decided early on, "We're going to be true-blue Buffett value investors."

But Rogers channels Buffett with a twist. Berkshire has become so large ($534 billion in market value) that Buffett has to invest in giant businesses, such as American Express and Coca-Cola. Rogers, on the other hand, largely focuses Ariel ($2.3 billion in assets) on midsize companies, where market inefficiency is at play.

Still, like Buffett, Rogers invests within his firm's own "circle of competence," which includes consumer products, finance, media and industrials. Outside the circle are the tech stocks that in recent years have spelled success for other funds. According to its latest report, Ariel's 39-stock portfolio eschews market darlings such as Netflix, Amazon.com or any other hot internet stock.

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Like Buffett, Rogers holds his stocks for a long time. Ariel first purchased J.M. Smucker Co. (SJM)—whose brands include not just the eponymous jam but also Carnation, Crisco, Folgers and Jif—back in September 2002. Since then, the stock, now Ariel's 10th-largest holding, has roughly quintupled in price. Smucker remains a solid, relatively unloved stock, with a P/E of 13, based on analysts' earnings estimates for the fiscal year ending April 30, 2019. The company has hiked its dividend from an annual payout of 72 cents in 2002 to $3.26 this year. The current yield is a generous 3.1%.

I asked Rogers whether there were many opportunities like Smucker. "Oh, there's no shortage of value stocks," he said. He particularly likes media and information firms. Rogers remains faithful to such companies as Nielsen Holdings (NLSN), the marketing and media firm, despite a dismal showing this year, and he is holding on to Viacom (VIA), owner of Paramount and MTV, whose shares are trading about where they were a decade ago.

"IT'S FUN TO BE DIFFERENT," ROGERS SAYS. "BETTING AGAINST THE CROWD IS AWFULLY SATISFYING WHEN IT PAYS OFF."

Ariel is well diversified, with its largest holding, KKR & Co. (KKR), representing only 5.0% of assets. Shares of KKR, a private-equity firm, have been rising this year after KKR converted from a partnership to a corporation, mainly for tax reasons. The stock trades at a P/E of 15, based on 2019 earnings estimates.

Scouting new stocks. Rogers and his fellow analysts at Ariel look for new ideas the way most of us do: by reading and talking to people they trust. When an idea surfaces that seems to have merit, Rogers says, he assigns someone to do a preliminary report—and someone else to be "devil's advocate," warning of the pitfalls of the purchase. The next step is to visit the site, a trek often made by senior members of the team, including Rogers himself.

■ EVEN AFTER A LONG BULL MARKET, JOHN ROGERS SEES "NO SHORTAGE" OF VALUE STOCKS.

The analysts rank their holdings according to a proprietary formula based on cash flow. When the difference between what the team thinks a stock is worth and what it costs becomes too narrow, it's time to sell. The forward P/E and price-to-book-value ratio of the average Ariel stock is one-fourth lower than those of the average stock in the S&P 500.

Growth and value tend to be cyclical investing styles. Growth has beaten value in eight of the past 10 years (including so far in 2018). As a result, many funds whose past style was value have shifted toward growth.

But, in addition to Ariel, some value stalwarts remain. **VANGUARD WINDSOR (VWNDX)**, the fund Neff ran for 31 years, has returned an annual average of 10.3% over the past 10 years and carries an expense ratio of just 0.31%, compared with Ariel's 1.01%. Top holdings in its broadly diversified portfolio are Bank of America (BAC) and insurer American International Group (AIG). Another good choice is **FIDELITY MID CAP VALUE (FSMVX)**, with an average annual 10-year return of 10.1% and an expense ratio of 0.69%. Fidelity brought in a new manager, Kevin Walenta, last year, and he has made big changes in the portfolio. Among his largest recent investments are Huntsman (HUN), a chemical company, and Lear (LEA), an automotive seating manufacturer. Each carries a P/E of just 8.

Rogers says he has a feeling "the tide might be turning" in favor of a new value cycle. But cycles are not really the point. Nor is the economy. Rogers is optimistic about economic growth, but he doesn't buy stocks based on it. He hunts bargains, period. Over the long term, value is where the performance is. Market return data from Ibbotson Associates, a unit of Morningstar, show that since 1926, a value orientation has beaten a focus on growth across companies of all sizes. The reason, almost certainly, is that value stocks are irrationally rejected by investors. Or, as Rogers puts it, "There are still inefficiencies in markets. I thought that 35 years ago, and I still believe it." ■

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MILLENNIAL MONEY | Kaitlin Pitsker

Talk to Your Parents About Caregiving

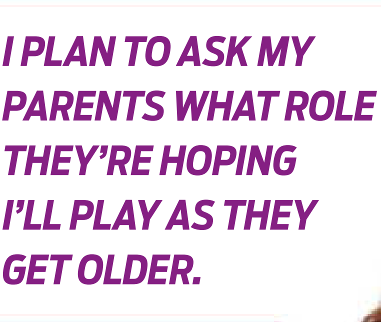
Even if your parents are active and healthy, there comes a time when you realize they may need a little help as they age.

While I'm hopeful that my parents, who are in their early sixties and in good health, won't need much assistance from me for another 10 or 15 years, I've already started asking about their retirement plans and what they'll expect of me in the years to come. Growing up, I saw my mother and her siblings care for my grandmother for decades, which was both rewarding and challenging. And as an only child, I can't help but think how much harder those tasks could be without siblings to consult with and share responsibilities.

An estimated 10 million millennials are already acting as caregivers for a parent, in-law, grandparent or other adult, according to a recent report by AARP's Public Policy Institute. In time, more of us will step into this role. "Economic factors, including the student loan crisis, stagnant wages and the rising cost of elder care, are combining in a dangerous way that makes caring for aging parents different for millennials than it was for previous generations," says Grace Whiting, president of the National Caregiving Alliance. The AARP report found that millennial caregivers spend an average of 21 hours a week caring for older adults, and those with out-of-pocket caregiving expenses spend nearly $7,000 a year on caregiving-related transportation, home modifications, legal fees and medical costs, which can put a significant strain on your career and financial goals.

Have the talk. Even if your parents are still relatively young, it isn't too early to ask them what they might need and what they expect of you as they age. Start with their retirement goals and finances—when they hope to retire (or cut back on work) and where they want to live. There's no need for them to divulge every detail of their finances and plans. Instead, aim to get a sense of both their financial and physical health, says Jeremy Torgerson, founder of nVest Advisors, in Brighton, Colo. Also ask your parents what their expectations are for later in retirement, when they may need help on a daily or weekly basis—who they hope will provide that assistance and how they'll pay for it.

The cost of paid long-term care adds up quickly. Medicare typically won't cover home health care, adult day care or nursing homes. The median cost of a home health aide nationwide is $22 per hour, or almost $46,000 a year for 40 hours a week, and a private room at a nursing home averages $267 a day, according to Genworth Financial. Do your parents have a long-term-care insurance policy to cover at least some of these expenses? Or do they plan to rely on other sources, such as savings or the sale of their home, to cover the costs? Find out whether they expect to live near you or one of your siblings—perhaps they would move to a retirement community in your city. Or they may be counting on you to visit frequently, or even hope to move in with you.



To avoid legal and financial problems if an illness or accident occurs, ask your parents where they keep estate-planning documents, including a will and powers of attorney for finances and health care.

Such topics aren't easy to discuss, and families often need to start small, says Carol Craigie, a certified financial planner in Denver who runs online classes for adult children and their parents. Talk about general concerns at first and get more specific over time.

As for my family, we have penciled in a time to chat during my visit with them next month. We'll pour some wine and talk about their recent trips to potential retirement destinations. I also plan to ask how their retirement savings are shaping up and what role they're hoping I'll play as they get older. With any luck, there will be good news, a few laughs and a general agreement about plans that I hope we won't need to use anytime soon. ■

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MONEY SMART WOMEN | Janet Bodnar

My Best Investment Advice

As the author of this column, I'm frequently asked what advice I would give to women who are just starting out as investors. So this month I thought it would be useful to condense my top tips with a set of FAQs that crop up most often.

How do I know when I'll have enough money to invest? It's not the amount that counts. Successful investing hinges on just three steps: Start soon, start small, and keep it simple. It's critical to start saving as soon as possible to take advantage of the power of compounding, which over time can have a bigger effect than how much you invest and where you put the money.

Consider the case of two young women, Teri and Toni. At age 25, Teri begins contributing $2,000 a year to an IRA. She makes annual contributions for 10 years and then stops. Toni, on the other hand, waits until age 35 to start funding an IRA but makes regular $2,000 contributions for the next 30 years. If they both earn a similar return, who will have more money at age 65? Incredibly, Teri—a stunning illustration of compound interest working its magic.

How do I know where to invest? That's where "keep it simple" comes in. You can own shares in the entire U.S. stock market with a single investment in Vanguard's Total Stock Market Index fund (VTSMX). If you also invest in Vanguard's Total International Stock Index fund (VGTSX), you can literally own the world. Funds like these also make sense as core, long-term holdings for experienced investors. You can branch out into other investments as your interest and comfort level grow.

Another option is to invest in a single target-date fund, which is designed to divvy up assets among bonds as well as stocks in an age-appropriate mix until you need the money at some date in the future—usually at retirement. You're likely to have access to a target-date fund through your retirement plan at work. *Kiplinger's* likes target funds managed by Fidelity, T. Rowe Price and Vanguard.

THESE ARE THE THREE STEPS TO INVESTING SUCCESS: START SOON, START SMALL, AND KEEP IT SIMPLE.

But I never have any money left at the end of the month to save, let alone invest. No matter how much you make, it always seems to disappear by the end of the month. Which is why I'll add step number four: Invest steadily by having money taken right off the top of each paycheck. You can do that with an automatic contribution to your retirement account, or with a regular deposit to a bank account for a short-term goal, such as next year's vacation. You can't spend it if you don't see it.

How do I balance saving for retirement with saving for my kids' college education? Retirement should always come first, especially for women, who tend to amass less in savings than men over the course of their careers. If you have a limited amount to devote to savings, your top priorities should be to build an emergency fund—aim to cover six to 12 months of expenses—and to put at least enough money into a retirement account to take advantage of any employer match.

Can't do that right away? Start smaller and work up to it. Once you have an emergency cushion, you can shift those payments to college savings. And don't be afraid to tap the grandparents. Instead of letting them shower your kids with stuff, encourage them to open state-sponsored 529 college-savings accounts, for which they're also likely to get a state tax break. (My husband and I are funding 529 accounts for all three of our grandchildren.)

What are some saving and investing strategies that have worked for you? I never skipped a contribution to my 401(k) account, even when the stock market tanked during the financial crisis a decade ago. Outside of my retirement savings, I've made automatic monthly investments in a total market index fund. And having cash in an online bank paying 1.9% helps me sleep at night. ■

JANET BODNAR IS EDITOR AT LARGE OF *KIPLINGER'S PERSONAL FINANCE* MAGAZINE. YOU CAN CONTACT HER AT JBODNAR@KIPLINGER.COM.

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SPECIAL REPORT

PICK A BETTER HEALTH INSURANCE POLICY

Use our strategies during open enrollment to get the best coverage at the best price. **BY KIMBERLY LANKFORD**

PHOTOGRAPH BY JAMEY GUY

For years, health care costs have been marching steadily upward, and insurers have been raising premiums to keep pace. You can expect more of the same in 2019. The average cost of employer-provided medical and drug benefits is expected to rise 5% next year, according to the National Business Group on Health's survey of large employers—the sixth consecutive year of 5% increases. But your choices during open enrollment may look a little less bleak because many employers are offering more coverage choices, larger contributions to health savings accounts and new tools to help you reduce your costs. // If you buy coverage on your own, you may have been pummeled by massive rate hikes for several years. But premiums are finally stabilizing and even dropping in some states. In several states, you may have more insurers to choose from as new companies enter—or return to—the health care exchanges. If you earn too much to qualify for a subsidy, you have several new plan options that carry lower premiums—but also extra risks. // Whether you get your health insurance from your employer or on your own, the following strategies can help you get the best coverage at the best price.

PAUL AND NANCY MELQUIST OF SHOREVIEW, MINN., BUY THEIR OWN COVERAGE. THEY HOPE NEW INSURANCE OPTIONS WILL LOWER THEIR COSTS.

EMPLOYER COVERAGE

Most people get their health insurance through their employer, and even though the options are usually better and the premiums more stable than for people who buy their own coverage, their premiums and deductibles have been rising steadily. But if you follow a few simple strategies, you may be able to increase your coverage and decrease your costs.

It's likely that a high-deductible plan paired with a health savings account will be on your employer's menu in 2019, although fewer companies will offer a high-deductible plan as the only option. You may also be able to choose a lower-deductible preferred-provider organization (PPO) plan—which charges higher co-payments if you use out-of-network providers—or a health maintenance organization (HMO) plan, which may have lower premiums but usually only covers out-of-network care in emergencies.

Compare your options. If you don't anticipate having many medical expenses, you may come out ahead with the lower-premium, high-deductible plan. But do the math as you compare your options. When calculating your costs, find out exactly what is subject to the deductible—some plans have one deductible for the whole family, and others have a separate deductible for each insured person.

"The conventional wisdom is that if you're young and healthy, a high-deductible plan is a good fit, and if you have chronic health care needs, you'll want a higher-premium, low-deductible plan. But that is not always the case," says Ryan McCostlin, head of individual health care planning for Bernard Health, a benefits advisory firm. With a high-deductible policy, he says, you can sometimes pay for out-of-pocket costs with premium savings.

After changing jobs earlier this year, Cameron Phillips, 34, discovered that his health insurance options were fewer than in years past. Still, the plan he chose through his job as a sales director for a clothing retailer is hundreds of dollars less each month than the coverage available to his wife, Emilie, through her job as a teacher at a small school for children with autism. Under the new plan, Cameron pays about $500 a month in premiums for a policy that covers him, Emilie

CAMERON PHILLIPS PAYS $500 A MONTH WITH A $6,000 DEDUCTIBLE FOR EMPLOYER-PROVIDED COVERAGE FOR HIMSELF, HIS WIFE, EMILIE, AND THEIR SON, THOMAS.

and their 1-year-old son, Thomas. The monthly premiums match what the family paid in the past—but the plan's $6,000 deductible is nearly double that of their policy at his former job.

So far, the coverage has worked for the Phillipses, who live in Raleigh, N.C. Still, Cameron and Emilie will be reviewing their options this fall—and hoping for a wider variety of plans. "I would rather pay a little less in premiums each month, even if we'll pay a little more out of pocket when we use the coverage," he says.

An added benefit of choosing a high-deductible plan is that it usually makes you eligible to contribute to a health savings account. An HSA provides a triple tax benefit, and you can use HSA money to pay medical expenses at any time—you can even build up a tax-free stash of savings in the account to cover health care costs in retirement (see the box on page 30). To qualify for an HSA, your health plan must have a deductible of at least $1,350 for single coverage or $2,700 for family coverage in 2019.

Most employers pay you to choose the high-deductible plan; 85% of the employers in the NBGH survey expect to contribute to employees' HSAs in 2019, with an average contribution of $500 for employee-only coverage and $1,000 for family coverage. Some

PHOTOGRAPH BY JILLIAN CLARK

employers offer matching contributions, but most give a fixed amount to everyone who signs up for the high-deductible health plan. Those lump-sum contributions tend to happen early in the year because "employers are looking to help people overcome the fear that they won't have money in the account if something happens," says Eric Dowley, senior vice president of HSAs for Fidelity Investments.

Check the policy limits. Also compare the most you could pay out of pocket under each type of plan if you have major medical expenses. The maximum out-of-pocket spending limit (which includes co-payments and deductibles but not premiums) averaged $3,500 for employee-only PPOs ($7,000 for family plans) and $3,600 for employee-only high-deductible plans ($7,200 for family plans), according to the NBGH study. Find out what is included in this calculation for your plan choices. For example, those limits usually only cover in-network care; they may be double those levels if you use out-of-network providers.

Are the doctors and hospitals you'd like to use included in the plan's network? What happens if you go out of network? (Some plans charge higher co-payments and deductibles for out-of-network providers, but others don't cover out-of-network care at all except for emergencies.)

Also check whether the plan has "centers of excellence," where you can pay in-network rates at major out-of-state hospitals that specialize in certain treatments. Your plan may even pay your travel expenses to use one of these nationally recognized hospitals, such as the Cleveland Clinic or Mayo Clinic. Nearly 80% of the plans in the NBGH study cover a center of excellence for transplants and 46% cover one for orthopedics (for knees, hips and spine). Many plans also offer centers of excellence for cancer treatments, fertility treatments, cardiovascular care and bariatric surgery.

Compare coverage for any drugs you take. Make sure your drugs are on the plan's formulary (the list of drugs the plan covers), and find out what your co-payments will be. Most plans have four or five tiers of drug co-payments—with co-pays as little as $0 to $5 for preferred generics and as much as 40% to 50% of the cost for non-preferred brand-name drugs.

Take advantage of any resources your employer offers to help you manage your health care costs, such as decision-making tools, second-opinion programs and concierge services. "They're offering more resources to help consumers maximize their health care benefits," says Brian Marcotte, president and CEO of the NBGH. "They help people understand their treatment options and where they can go for care."

If both spouses have access to employer health insurance, compare the costs and coverage for all of the options. Each of you could stay on your own plan and add the kids to the plan with the lowest costs, or it might make sense to put the whole family on one plan. However, about one-third of employers in the NBGH survey assess a surcharge if your spouse could get coverage from his or her workplace but chooses to be covered by your plan instead; the average surcharge was $1,200 in 2019, according to the NBGH.

INDIVIDUAL COVERAGE

The options are very different if you are buying insurance on your own. After a tumultuous few years—when many insurers stopped selling individual health insurance or repeatedly boosted premiums by double digits—the market is turning around. More insurers are selling individual policies again or expanding into new counties and states, and now fewer areas are left with only one insurance option.

"It hit bottom last year, when we had a lot of exits from big insurers," says Katherine Hempstead, senior policy adviser with the Robert Wood Johnson Foundation, which studies the health insurance market. "But the carriers who stayed in the market have figured out how to make money and develop different provider networks, and they understand the customer better." For example, many counties in Ohio and Pennsylvania had only one insurer in 2018, but more areas will have two or three insurers selling individual coverage in 2019, she says. (See the box on page 34 for a snapshot of what states are doing to keep costs down.)

Paul and Nancy Melquist of Shoreview, Minn., started buying their own coverage in 2017, after Paul retired at age 58 from a career in the defense industry. Because the Melquists don't have many regular medical expenses, they chose the plan that had the lowest premium but also a $6,600 deductible for each person. Even so, the Melquists paid $1,250 per month in premiums. Their only medical expense for the year ended up being their annual physicals. "We paid $15,000 for two physicals, which was not a satisfying financial transaction," Paul says. They did contribute money to an HSA. Their premiums went down slightly in 2018, to about $1,165 per month, and they're hoping they'll have some lower-cost options for 2019.

The average rise in premiums for individual policies is expected to slow in 2019, to about 5%—and average premiums are even going down in a few states, such as Tennessee, says Hempstead. You may have more insurers to choose from and more low-cost options during open enrollment this year, which runs from November 1 to December 15 (although a few states have extended the deadline).

Strategies for people with higher incomes. People who earn too much to qualify for a subsidy to purchase a policy on a state exchange may face sticker shock—especially if they're in their fifties or early sixties and have to

KipTip

Make the Most of an HSA

Higher health insurance deductibles have a silver lining: You can contribute to a health savings account. To qualify, you must have an HSA-eligible health insurance policy with a deductible of at least $1,350 for individual coverage or $2,700 for family coverage—whether you get insurance through your employer or on your own. You can contribute up to $3,500 to an HSA in 2019 if you have individual coverage and up to $7,000 if you have family coverage, plus an extra $1,000 if you're 55 or older.

This powerful account provides a triple tax benefit: Your contributions are tax-deductible (or pretax if made through your employer), your money grows tax-deferred, and you can use the money tax-free to pay deductibles, co-payments, prescription drug costs, out-of-pocket dental and vision costs, and other eligible expenses.

You can't contribute to an HSA after you're on Medicare, but you can use money in the account to pay premiums for Medicare Part B, Part D and Medicare Advantage (but not medigap) after age 65. You can even withdraw money tax-free from the account to reimburse yourself for Medicare premiums that are paid automatically from your Social Security benefits.

Lori Verni-Fogarsi, 47, an author in Holly Springs, N.C., and her husband, Mark Fogarsi, 56, have been contributing to an HSA for years, and Fogarsi's former employer contributed about $2,000 to the account each year. They have maxed out their contributions to other tax-advantaged retirement accounts and use the HSA to supplement their savings. "I usually pay cash for the out-of-pocket costs instead of using the HSA so we can leave it in there to grow," Verni-Fogarsi says.

pay up to three times what a younger person might pay. You qualify for a subsidy if your income is below 400% of the federal poverty level (which is $48,560 for singles, $65,840 for couples and $100,400 for a family of four). In that case, you should generally buy insurance on your state's health insurance exchange; go to www.healthcare.gov for links.

Policies are still pricey, but fortunately, most buyers have more options in 2019 than before. The best strategy is to "leave no stone unturned when it comes to evaluating all of the plans available in your zip code," says Bernard Health's McCostlin. You can shop for policies on your state exchange even if you don't get a subsidy. Or you can go through a Web broker, such as eHealthInsurance.com, or buy directly from the insurer. You can also work with a health insurance agent (find one in your area at www.nahu.org).

It's best to buy coverage through your state's health insurance exchange if there's any chance that your income could qualify you for a subsidy. But you may have some options off the exchange that aren't eligible for a subsidy but still meet the Affordable Care Act standards (which specify 10 essential health benefits, no maximum coverage limit and no preexisting-condition exclusions). Some insurers may offer off-exchange policies with different premiums, cost-sharing or provider networks than their on-exchange versions.

It's particularly important to look at off-exchange options if you're interested in a silver-level policy. The plans sold on the state insurance exchanges fall into four different levels based on the amount of coverage they provide, with bronze policies generally having the highest deductibles (and lowest premiums), silver policies providing slightly lower deductibles and co-payments, and gold and platinum providing even more coverage.

Most insurers continue to "silver load" their premiums—that is, they charge a lot more for silver plans on the exchanges now that the government no longer reimburses them for cost-sharing subsidies, which help pay deductibles and co-payments for lower-income people. But a few insurers, including Kaiser Permanente, offer an off-exchange version of the silver plan with a much lower premium.

If you're retiring early or leaving your job, check out the cost of continuing your current coverage under COBRA, a federal law that lets you keep your employer's coverage for up to 18 months after you leave your job. You have to pay the employer's and employee's share of the costs, but that could be your best deal, says Wayne Sakamoto, a health insurance agent in Naples, Fla.

The federal penalty for not having insurance will disappear in 2019 (although some states have their own penalty), and new rules are expanding some types of coverage that don't meet the ACA standards. Such policies may have lower premiums, but they also shift more risk to you. "I would look at these alternative options very cautiously. It's very much a buyer-beware market," says Sabrina Corlette, research professor at the Georgetown University Center on Health Insurance Reforms.

For example, starting in October, insurers may offer short-term plans that last for up to 12 months (short-term plans had been limited to three months) and may be renewed for up to three years at the insurer's discretion. "But the insurer can look at your health status and decide whether or not to renew it," says Corlette. Some states have imposed stricter rules.

The premiums for short-term policies can be a lot less than they are for ACA-compliant policies, but they don't have to cover the ACA's 10 essential health benefits (such as maternity care), and they can exclude preexisting conditions or reject you because of your health. Short-term policies generally don't cover prescription drugs, but they may provide a

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drug discount card, says Paul Rooney, of eHealthInsurance.com, which sells both short-term and ACA-compliant policies. They can also have annual or lifetime caps on coverage, such as $500,000 or $1 million, says Sakamoto, who generally only recommends them for a few months.

Strategies to qualify for the subsidy. If your income is close to the cutoff, you may be able to lower your income to qualify for a subsidy. Contributions to a 401(k), a health savings account, or a health care or dependent care flexible spending account can help reduce your modified adjusted gross income, which is used in the subsidy calculation. Early retirees—who pay some of the steepest premiums without a subsidy—often have flexibility to reduce withdrawals from tax-deferred retirement savings.

Leanne and Carl Bryson have been buying health insurance on their own since Carl retired from Apple four years ago, at age 59. When the Sacramento couple looked at eHealth Insurance.com to compare rates for policies with and without a subsidy, they decided it was worthwhile to tighten their belts to qualify for the subsidy until they are old enough for Medicare. They are withdrawing less money from their 401(k)s and IRAs in order to keep their modified adjusted gross income below the $65,840 cutoff. They also cut back on travel and gifts to their grandkids.

Even with the subsidy, their coverage was becoming unaffordable. The full price for their policy was set to rise to $3,200 per month in 2018, which would still cost them $1,800 with the subsidy. They went back to eHealthInsurance.com during open enrollment last fall and looked into alternatives. “In California, we’re lucky that we have a lot of options, but they can be pricey,” Leanne says. The couple switched to an HMO that cost them $850 per month after the subsidy, in exchange for a smaller provider network.

AFTER SHOPPING FOR A NEW POLICY ON HIS STATE’S INSURANCE EXCHANGE, ROSS VOLPE FOUND A PLAN THAT COSTS HIM JUST $60 A MONTH.

Use the calculators at www.healthcare.gov to compare the after-subsidy costs of policies you’re shopping for. Estimate your income carefully. If you end up earning more than the cutoff, you’ll have to pay back the subsidy when you file your taxes; if you earn less, you’ll get extra money back at tax time.

In addition to comparing post-subsidy premiums, estimate your out-of-pocket costs for the type of care you use and prescription drugs you take, and compare the plan’s maximum out-of-pocket spending limits and provider networks. Don’t assume your doctors will still be covered by the plan’s network in 2019. “In our survey, 36% of carriers said they’re planning to restrict their networks next year,” says Rooney, of eHealthInsurance.com, which has a provider search tool to look up which plans your doctors belong to.

You may be able to lower your premiums by switching to a plan with a smaller network, but you’ll have to pay a lot more if you go out of network—and a growing number of plans don’t provide out-of-network coverage at all, except for emergencies. Check to see whether the hospitals you want to use are still included.

Ross Volpe, 34, a professional disc jockey who lives in Arlington, Va., has income from a variety of sources: DJ gigs (he just won a national competition), private lessons, and teaching classes and camps at the Beat Refinery in Bethesda, Md. Even though he qualifies for a subsidy, his share of the premiums after the subsidy have still increased steadily every year—from $45 per month for a CareFirst Blue Cross Blue Shield PPO plan in 2014, to $212 per month in 2017. His premiums were about to go up to $320 per month in 2018—after a $200 subsidy. “I couldn’t do that anymore,” he says. He shopped around for other options during open enrollment last year and found a Kaiser Permanente HMO plan that cost him just $60 per month with the subsidy.

PHOTOGRAPH BY RYAN DONNELL

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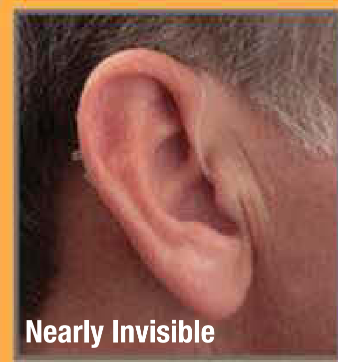

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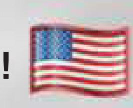

Filling the Gaps

What States Are Doing

As the federal government rolls back sections of the Affordable Care Act, the type of coverage you can buy and how much it will cost are increasingly determined by where you live. Some states have introduced legislation to bolster their insurance marketplace, while others have embraced Congress's moves to weaken the ACA. For a better sense of the trends playing out around the country, consider how the health insurance marketplace is changing in these four states.

California. The state has worked with insurers to maintain as much stability in its individual health insurance marketplace as possible, says Rabah Kamal, a policy analyst with the Kaiser Family Foundation. State lawmakers are currently considering a bill to limit the sale of short-term insurance policies and association health plans that lack robust consumer protections. Blue Shield of California and Kaiser Permanente control the largest slice of the market, but most shoppers have other options, with 11 companies selling policies on the exchange. Still, people in some rural areas of northern California have a slimmer menu—or in some cases, a single plan. Premiums for policies on the exchange are expected to rise by less than 9% on average for 2019.

Iowa. The Hawkeye State has used changes at the federal level as an opportunity to weaken the ACA and deregulate its individual health insurance marketplace, says Sabrina Corlette, research professor at the Georgetown University Center on Health Insurance Reforms. The state has given the green light to a controversial Iowa Farm Bureau Federation plan to sell policies that don't comply with ACA regulations. The plans offer limited benefits, do not meet benchmarks required by the ACA, and can deny coverage to people with preexisting conditions or charge premiums based on a person's health.

Those who buy their own health insurance in Iowa will have three choices of carriers for 2019, after having only one option this year. After sitting out 2018, WellMark Blue Cross and Blue Shield will return to the individual marketplace for 2019. Medica continues to offer individual coverage and will expand its coverage to include a broader network of health care providers. Premiums, after increasing 57% last year, are expected to remain flat or decrease up to 5%.

Minnesota. After large rate decreases in 2018, people who buy health insurance from the state's individual marketplace will likely see premiums fall an additional 3% to 12% for 2019. What's driving the decrease? The state's reinsurance program, which pays insurers who sell plans to people with high medical costs. But that program is scheduled to expire at the end of 2019, which would cause rates to spike again. All four of the state's carriers that sell insurance on the exchange primarily offer narrow-network plans, but two companies, UCare and Medica, have plans with a broader network of providers.

New Jersey. Before the Affordable Care Act, New Jersey had among the most robust insurance regulations in the country, but the state largely rejected the ACA in recent years, says Corlette. Now, with a new governor at the helm, the state has added a state-level mandate requiring residents to have health insurance or pay a penalty (after the penalty to enforce the individual insurance mandate was repealed at the federal level). In 2019, the state will charge residents without health insurance 2.5% of their annual household income, or a per-person fee of up to $2,085, whichever is higher. KAITLIN PITSKER

When shopping for coverage, he looked not only at the premiums but also at the deductibles, co-payments and the insurer. A few plans with lower premiums were with companies he didn't know and had much higher deductibles and co-payments.

Volpe picked a silver plan because of the balance between cost and coverage. He has to use a limited provider network with Kaiser, but he doesn't go the doctor much, and he had Kaiser insurance when he was a kid, so he was used to it. "It's in the building I went to when growing up," he says.

There's an added bonus for picking a silver plan if you earn less than 250% of the federal poverty level ($30,350 for singles, $41,150 for a couple and $62,750 for a family of four). Below that income level, you qualify for an additional "cost-sharing subsidy," which helps reduce your deductible and co-payments—but only for silver policies. The cost-sharing "might drop the deductible to $200 per year, more like a gold or platinum policy," says Karen Pollitz, senior fellow with the Kaiser Family Foundation. The typical silver plan has a deductible of about $3,500 per person, she says.

Even though the federal government stopped reimbursing insurers for providing this cost-sharing subsidy, insurers are still required to offer it to consumers. As a result, many insurers increased their premiums for silver-level policies a lot more than they did for the other levels in 2018 and are expected to do so again in 2019. But higher silver premiums mean that policyholders get a larger subsidy, so most people getting a subsidy haven't been affected by the increase. The size of the subsidy is based on the silver plan premiums, but you can use the subsidy on any type of plan. "It significantly increased the number of people who were eligible for zero-premium bronze plans," says Pollitz. ■

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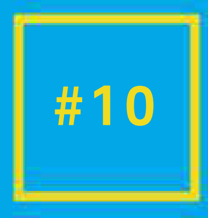

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EXTREME SAVERS

Racing to Retirement

The Financial Independence, Retire Early (FIRE) movement is catching on with a new generation that is redefining what it means to be retired. BY EILEEN AMBROSE

SHORTLY AFTER MATT OWEN GRADUATED from college, he consulted with his parents' financial planner, who told him he would be lucky to retire at age 50. Matt, now 29, and his wife, Alli, 28, had other plans.

Starting four years ago, the Owens slashed their living expenses. They cut back on dining out and expensive trips. They rented out the spare rooms in their Bakersfield, Calif., home, generating enough income to cover their housing expenses. Each year, they increased their savings rate until they were salting away as much as 70% of their $250,000 annual income. In April, the Owens quit their engineering jobs, hit the road in a 2006 Dodge Sprinter with 395,000 miles on it and now blog—at www.owenyourfuture.com—about their experiment to live on $40,000 a year.

In their blog, the Owens post their monthly expenses, which so far average just under $2,500—well below their target budget. And they haven't completely quit working. The Owens offer financial coaching to other couples for a fee via video conferences, and in November they will launch courses to help people get their financial life in order. They also have a side hustle selling healthy baked goods online. They are still six years from reaching their financial independence number of $1.2 million. "We launched early, knowing that we were going to make more money," Matt says.

A HOT MOVEMENT

The Owens are on FIRE. That is, they are part of the Financial Independence, Retire Early movement that has taken off in recent years, mostly among millennials. The goal is to reach financial independence by socking away 50% or more of annual income over, say, 10 to 15 years. Some race to achieve FI much earlier. FI is usually defined as achieving savings equal to 25 times annual living expenses—which allows you to follow the 4% withdrawal rule for the duration of a decades-long retirement.

The "retire early" part of FIRE often raises eyebrows—and skepticism. Like the Owens, many "FIRE walkers" are refugees from high-paid professional or tech careers, and most have no plans to completely stop working. But FIRE acolytes say they're redefining retirement. "Retire early" for many of them means having the financial freedom to leave the "hamster wheel" for work or pursuits that give them more control over their time.

"I define *retirement* as never planning to go back to a 9-to-5 job," Alli says. "We plan to work for another 30 years, but on our own terms, creating work that provides value to the world and aligns with our values."

Many FIRE practitioners have an

ALLI AND MATT OWEN QUIT THEIR JOBS AND ARE TRAVELING ACROSS THE COUNTRY WHILE BLOGGING ABOUT LIVING ON $40,000 A YEAR.

entrepreneurial streak that makes them well suited for a life outside the traditional, corporate mold. One popular source of income is blogging about their path to financial independence. The more-successful bloggers pull in a nice paycheck and may even snag book deals. Perhaps the best-known FIRE blog—and the one that introduced thousands to the movement—is the one by Pete Adeney, also known as Mr. Money Mustache. Adeney, a former software engineer, started the blog in 2011 after he "retired" at age 30, through frugal living and smart investing, to Longmont, Colo. He and his family live on about $34,000 a year (see "A Visit With Mr. Money Mustache," on page 40).

DIFFERENT FLAVORS

FIRE isn't one size fits all. There is "lean FIRE," which emphasizes a goal of living on less than $40,000 a year in retirement. "Barista FIREs" are those who are nearly financially independent but still need a part-time job to make ends meet. And "fat FIRE" followers aim to accrue enough savings to generate annual retirement income of $100,000 or more.

Leif Dahleen, a 42-year-old anesthesiologist from Brainerd, Minn., counts himself among the last group, and he has been edging toward retirement. Naturally frugal, Dahleen says he started his Physician on FIRE blog a couple of years ago because he didn't see much written for high-income professionals like him. (This year the blog will earn six figures, half of which Dahleen donates to charity.) He cut his hours and his $400,000 salary by about 40% a year ago. He expects to quit work next year and spend several years traveling the world with his wife and two sons, ages 8 and 10.

"There are certain things I will miss about the profession," he says. "But in general I don't think I will miss the stress, the late nights, the calls, the 72-hour shifts once a month." The Dahleens plan to "roadschool" their children (that is, homeschool them while on the road).

John and Bethany Bush of Rockford, Mich., are part of the lean FIRE crowd. John, 28, is a financial adviser and Bethany, 26, processes public-assistance paperwork for the state of Michigan. Their combined income is $85,000, but the couple and their two children live on $3,800 a month, with a big chunk of that going toward a mortgage that will be paid off in five years. John figures they will be financially independent in seven years.

"We know every penny we spend and monitor it closely," says John, adding that he and Bethany are thrifty by nature. "Some of the clothes I wear at home are from middle school," he says. The couple buy food on sale, get hand-me-down clothes for the kids, and find free toys and other items on Craigslist and Facebook. They wait to make nonessential repairs on the house, and they weigh each purchase decision longer than most people do, John says. They

PHOTOGRAPH BY LOGAN ZILLMER

THE BUSH FAMILY FIGURE THEIR THRIFTY LIFESTYLE WILL MAKE THEM FINANCIALLY INDEPENDENT IN SEVEN YEARS.

have started a 529 college-savings plan for each child and expect that, along with financial aid, they'll be able to cover college bills.

Bethany says her family makes fun of their "cheapness," but some members are now on board. Within their first year of marriage, the Bushes wiped out about $18,000 in car and student loans. When one of Bethany's sisters heard that, she, too, eliminated her student debt, and then another sister paid off her debt. "It's a trickle-down effect," Bethany says.

Unfortunately, many workers don't earn enough to save 50% or 70% of their income, says Michael Kitces, director of wealth management for Pinnacle Advisory Group in Columbia, Md. The median U.S. household income is only about $60,000. And much depends on geography. FIRE is easier if you're earning, say, $100,000 a year in Kansas City or some other place with a low cost of living, Kitces says.

Even if you have an above-average income, you must be very disciplined and goal-oriented, says Ashley Foster, a certified financial planner in Houston. "It really is financial dieting if you're saving 50% or more of your income," Foster says. "For a lot of people, dieting is very difficult."

The FIRE movement has also gained traction during a record-long bull market. It's unclear how the inevitable bear market will affect it. Some FIRE devotees say they are prepared to cut spending further, or work to bring in extra money and avoid tapping investments in a down market.

The go-to investment for many in FIRE is low-cost index funds (Vanguard is a favorite for its offerings). FIRE investors also take advantage of tax-favored accounts—401(k)s, IRAs and health savings accounts—and sometimes buy rental properties (often a duplex or three- or four-unit building) where they can live and use rental income to pay the mortgage.

WHAT GOES AROUND...

One of the bibles of the FIRE movement is the 1992 bestseller *Your Money or Your Life,* by Vicki Robin and Joe Dominguez. Robin was an advocate of a simple, sustainable lifestyle who gained financial independence in her mid twenties. Dominguez was a Wall Street stock analyst who retired at 31. For the authors, financial independence meant having enough money not to be tied to a job for its paycheck and free to pursue work or interests that reflect your values.

Perhaps no one was more surprised by the popularity of her book than Robin herself, now 73 and living in Whidbey Island, Wash. In early 2017, Robin started to work on an update of her classic to reach a new generation—only to find that an online community on Reddit was discussing the book and that it was a top seller on Amazon. "I felt like I was sort of stumbling out of the jungle and being discovered by another generation," she says.

Robin's new edition was published earlier this year with a foreword by Mr. Money Mustache. She rewrote the chapter on investing, adding information on index funds. When Robin was investing in the 1980s, she was able to

PHOTOGRAPH BY LOGAN ZILLMER

buy 30-year U.S. Treasuries that paid from 8% to as much as 15%. That's no longer an option for today's FIREs, with long-term Treasuries now yielding 3%.

This time around, too, there is social media to help spread the word. Instead of feeling as if they're the only ones being frugal, those living the FIRE life can now reach thousands of others in the movement who will share advice and offer support. For instance, the r/financial independence online community on Reddit now has 426,000 subscribers and is growing quickly. ChooseFI, a website launched in January 2017, also helps connect those in FIRE. ChooseFI has created Facebook groups for people with specific interests, such as members of the military, FIRE singles who want to meet other like-minded singles, and even people who want to swap recipes. ChooseFI also helped set up groups in 150 cities in more than 20 countries where people can meet up or trade tips with FIRE followers in their area, says cofounder Brad Barrett.

Why have millennials flocked to the movement? Robin says millennials with steep student loan debt and uncertain job prospects have concluded that they need to take control of their own future. And the internet—along with a laptop—gives workers today more employment opportunities that don't involve a 9-to-5 job, she says.

"It's an anti-consumer movement to an extent," says Bush, the Michigan FIRE walker, adding that some millennials are less inclined to be loyal to a company after seeing how their parents were pink-slipped by employers during the last recession. Bush's father, for example, was in his peak earning years at age 57 when he was laid off by the company where he had worked for more than 20 years. He found other work, but "he never made it back to where he was," Bush says.

TRADE-OFFS AND CHALLENGES

One of the big trade-offs of workers abandoning careers early is that they will miss out on some of their peak earning years—which will also lead to a lower Social Security benefit later, says Roger Ma, a certified financial planner in New York City.

And health care is a major challenge. Most workers get health insurance through an employer that typically picks up 70% of the cost. If workers leave an employer, they need to find coverage until they are eligible for Medicare at age 65. "In the mind of early retirees, that is probably the biggest issue," says Jonathan Mendonsa, cofounder of ChooseFI.

For some, the answer is to keep income low enough to qualify for a subsidy when they purchase insurance on the health care exchange. Some seek part-time work that comes with health benefits. Still others have medical procedures done in other countries for a fraction of the cost in the U.S., Mendonsa says.

Some FIRE followers join a Christian-based health care sharing ministry that assesses a payment lower than conventional premiums and goes toward paying members' medical bills. The ministry's arrangement is not insurance and generally doesn't cover preexisting conditions, Mendonsa says. Members share religious beliefs and generally must attend church regularly, drink in moderation and abstain from smoking and illegal drugs.

Another major challenge for those who achieve FIRE: what to do for the rest of their lives. Robin says she worries that some people in the FIRE movement are too focused on the number crunching. "They are so focused on the mechanics," she says. "They will wake up and realize there is something more to life."

Finding the next act that gives your life purpose is a question facing all retirees—early and traditional, says J.D. Roth, founder of GetRichSlowly .org. Roth launched his site in 2006 as he worked his way out of debt and learned about personal finance. He sold the blog three years later, although he continued to write and edit for it for a time and then traveled. He repurchased the site last year.

"In my case, after I achieved financial independence and retired, I drifted for a while," says Roth, 49. "In my talks, I joke that I sat around in my underwear playing video games all day. Even though I say that as a joke, it's true." The main reason he bought his site back is to gain a sense of purpose and to bring some value to the world, he says. "Financial independence shouldn't be your goal in and of itself," says Roth. "You have to know why you want to achieve it." ■

CONTACT THE AUTHOR AT EAMBROSE@KIPLINGER.COM.

KipTip

Building a FIRE

To get on the road to Financial Independence, Retire Early, proponents recommend these nine steps:

1. Determine why you want to achieve FIRE, and envision what you will do once you get there. (This will keep you motivated.)
2. Calculate your net worth (total assets minus liabilities) to see where you stand.
3. Track every dollar spent so you know where your money goes.
4. Slash expenses. To reach a savings rate of 50% or more, you'll need to cut major expenses, including housing and transportation.
5. Pay off high-cost debt, such as credit cards.
6. Build an emergency fund so you don't resort to credit cards in a pinch.
7. Take advantage of tax-friendly accounts: 401(k)s, IRAs and a health savings account.
8. Use index funds to keep investing costs low.
9. Find a side hustle to bring in extra income and boost savings.

A Visit With Mr. Money Mustache

Pete Adeney "retired" at age 30 and has been working hard ever since to inspire his FIRE followers.

BY LISA GERSTNER

ON A SUNNY SEPTEMBER morning in downtown Longmont, Colo., 80 or so people are packed into the Mr. Money Mustache headquarters. Pete Adeney, the man behind the blog that helped ignite the FIRE movement, owns the venue, and today, students are cramming in for the "PopUp Business School," a free, 10-day course on how to start a business with minimal costs and develop the skills necessary for success. The vibe is Colorado casual—T-shirts, shorts and sneakers—but energy crackles among the attendees, many of them FIRE devotees with dreams of launching their own ventures.

Adeney makes introductory remarks. He has full-coverage stubble rather than a mustache, although he sported a handlebar in the blog's earlier days. But true to the bold persona he's developed for Mr. Money Mustache, he uses the word *badass* a couple of times. (The blog's logo bears the slogan "Financial Freedom Through Badassity.") The edge that he injects into his musings about frugal living and financial independence is one ingredient in the secret sauce that draws a cultlike following to the blog. Dedicated readers form meet-up groups all over the country, and road-tripping fans stop by the headquarters daily (Adeney discourages such unannounced visits).

Despite his celebrity status in the world of FIRE and his blog's brazen tone, Adeney is modest and mellow when we talk later. He believes that his blog resonates because he peppers it with personal, relatable stories about his own journey. "It appeals to people's sense of aspiration and the life they want," he says.

Now 43, he left behind his career as a software engineer 13 years ago with $600,000 in savings and investments and a paid-off house worth $200,000. At this point, his family—he's married with a 12-year-old son—could comfortably spend more than their current rate of about $34,000 yearly on living expenses (more than one-third of that is for health insurance, although he intends to switch to a plan with premiums that are half the price for next year). His blog generated about $400,000 last year, thanks to commissions collected from banks, investment services and other financial products he recommends, and his investment returns exceed personal spending, too. But "I get an emotional satisfaction out of being efficient," he says. "Waste hurts my soul."

PETE ADENEY'S BLOG ADVOCATES "FINANCIAL FREEDOM THROUGH BADASSITY."

The extra money isn't sitting idle. Adeney puts a chunk of his earnings toward philanthropy—he has given about $100,000 to charity each year for the past couple of years—and business undertakings. He recently purchased a house in Longmont to rent out on Airbnb, and he expects that the challenges and financials behind the venture will provide good fodder for his blog. He and his wife split the $225,000 price for the headquarters with another couple, and the other half of the building is a soap and ceramics shop. Adeney says the decision to buy was easy financially because of his high income, and "it doesn't matter if it makes money. It's good for furthering the cause, and it's fun," he says.

The lure of entrepreneurship. The ability to chase a business idea without worrying much about the financial side is a strong

PHOTOGRAPHY BY JASON INNES

inducement for those who have achieved financial independence. And running a business "addresses a lot of what people need to be happy," says Adeney. "It gives you access to people and a daily challenge."

Alan Donegan, cofounder of the PopUp school, has traveled to Longmont from his home base in England for the second year to present the business crash course.

MANY FIRE FOLLOWERS HAVE DREAMS OF LAUNCHING THEIR OWN VENTURES.

Most PopUp presentations are for people in areas with low incomes and high unemployment, to foster entrepreneurship in those communities, but the course also appeals to a frugal FIRE audience.

Sarah Pritchett, a PopUp school student, drew inspiration from the Mr. Money Mustache blog when she came across it in 2014. Pritchett, now 31, was serving as an Air Force officer at the time—a career that she found rewarding but exhausting. She began purchasing investment properties to generate income— financing them with mortgages and a home-equity line of credit—and in 2016, she reached her goal of pulling in $50,000 annually from the properties. That's roughly the amount she and her husband put toward living expenses before they became "fully Mustachian" and trimmed their expenditures (now, they spend about $40,000 annually).

Last year, she left the Air Force, and she considers herself retired. She pursues her lifelong passion for dance, teaching up to 15 hours of classes per week and performing with dance companies. She'd also like to start a business focused on dance education for people of modest means. "It may not make money, but it would be well worth my time," she says.

Sean McHugh, 42, is at the PopUp school to get guidance and feedback on his plan to have a monthlong beach retreat in Gulf Shores, Ala., for people who want to turn a skill into a business or a course they could teach. Like Pritchett, McHugh gained financial independence through real estate investing, a common theme among the FIRE crowd. He once owned several rental properties but now has two rentals that pull in about $2,500 a month—more than enough to cover his basic monthly living expenses of about $1,200.

"I don't make as much money as I used to, but my quality of life has gone way up, and my stress has gone way down," he says. McHugh fills his days with a mix of leisure and work that he does for enjoyment rather than out of necessity—he's a CrossFit and nutrition coach, and he works on his business idea an hour or two a day. "I don't think I'll ever be retired," at least by the conventional definition, says McHugh.

The Mustachian lifestyle. Nor does Adeney subscribe to the "TV and golf" conventional definition of retirement. He believes that social interaction and mental stimulation are crucial, and echoes of that philosophy permeate the headquarters. After he purchased the building last year, he busied himself with remodeling the run-down structure into a sleek, modern space. Now, he calls it a "friend-harvesting machine" for its visitors, including the 50 or so people who are members of a co-working collective (they pay $50 a month for membership, and the fees cover the building's operating expenses). He also hosts free events at the headquarters, such as movie and live-music nights and classes on subjects ranging from weight training to computer games, and he occasionally travels for FIRE gatherings. For the past five years, for instance, a group of Seattle blog readers have organized "Camp Mustache" over Memorial Day weekend, a retreat for Mustachian disciples to learn and share ideas.

Adeney also espouses physical fitness. Longmont, situated north of Denver and boasting the Rocky Mountains as a backdrop, offers abundant access to outdoor activities, such as hiking and skiing. Adeney's home, a 1,500-square-foot, mid-century modern house that he purchased and extensively remodeled a few years ago, is just a mile from the headquarters, and he makes the commute on foot or by bicycle. (At last count, he had spent just $105 on gas in an entire year.) Adeney encourages the PopUp staff and students to do the same, as evidenced by more than a dozen bikes rimming the outdoor area behind the building, where the students relax and mingle during downtime. Workout equipment is also scattered about; one student fits in a few pumps on the bench press during a break.

Adeney's active lifestyle and thrift go hand in hand with his commitment to conserving the environment and reducing waste. "My blog is secretly an environmental blog," he says. A few years ago, he wrote about the top SUVs for families—with a disclaimer at the end that the post was an April Fool's Day prank and that the best mode of transportation for a family is a pair of bikes with trailers for the kids. For this year's business school, the PopUp team focused first on inviting Coloradans to the event to reduce fossil-fuel consumption (and to help locals form relationships with one another), although about half of the attendees are visiting from outside the state.

Whatever form of FIRE a follower finds suitable, Adeney emphasizes that seeking joy, and directing your money accordingly, is a central tenet. "The whole Mustachian lifestyle is not about living a terrible life of deprivation. It's about understanding what makes you happy and cutting down your spending on what doesn't make you happy." ■

CONTACT THE AUTHOR AT LGERSTNER@KIPLINGER.COM.

ASK KIM | Kimberly Lankford

A Risk for Buy-and-Hold Investors

MY MUTUAL FUND COMPANY SENT A letter saying that if it doesn't hear from me soon, it will turn over my account assets to the state. My address hasn't changed. How could this happen?

G.P., BALTIMORE

Many states changed their abandoned-property laws and now take over accounts much earlier than they used to. This is a growing problem for buy-and-hold investors.

In the past, financial institutions would turn over accounts to the state as abandoned if they hadn't heard from you for seven years after mail to you had been returned as undeliverable. Now, many states can take over your account if a financial institution hasn't heard from you for three or five years, even if your address hasn't changed, says Tamara Salmon, associate general counsel for the Investment Company Institute, a mutual fund trade association (see www.ici.org/lost_property for details).

You can file an abandoned-property claim and get your money, but you may miss out on any gains or dividends after it was sold because the state can liquidate your assets. (Search your state's database at www.unclaimed.org or www.missingmoney.com.)

Salmon advises contacting your financial institutions at least every three years to let them know an account is active. Even logging into your account online can count as activity at some firms. And respond to any letter like the one you received—after verifying that it's legitimate.

IF YOU HAVEN'T BEEN IN CONTACT WITH YOUR INVESTMENT FIRM, YOUR STATE MAY BE QUICKER TO SEIZE YOUR ACCOUNT AS ABANDONED PROPERTY.

Required minimum distributions on autopilot. **I've arranged for my IRA administrator to take out RMDs for me automatically, but how does it determine which investments to sell?**

G.C., SANTA CLARA, CALIF.

The rules vary by company. At Fidelity, you can have the money withdrawn proportionately from each of your IRA investments (the most common option). Or you can elect a fixed percentage from a few investments or have 100% taken from cash. Vanguard has similar options.

Charles Schwab takes automatic RMDs only from cash, and the firm sends an alert two weeks beforehand in case you need to sell shares to raise the money.

Legal documents for college students. **My son will be starting college next year. He'll be 18. Can we still get his grades and health-related information?**

M.L., FARMVILLE, VA.

When your son turns 18, you lose many parental rights unless you have special legal documents. A HIPAA authorization form signed by him will permit you to receive information from health care providers. A health care power of attorney naming you as his "medical agent" will allow you to make medical decisions for him if he is unable to do so. A Family Educational Rights and Privacy Act (FERPA) waiver, usually available from the college, lets you see his grades.

New rules on capital gains. **What are the long-term capital gains rates under the new tax law?**

C.C., WILLIAMSBURG, VA.

The rates didn't change, but they're pegged to your income instead of your tax bracket. For 2018, you'll pay 0% on long-term capital gains (investments held longer than a year) if your taxable income is below $38,600 for single filers, $51,700 for heads of household or $77,200 for joint filers. You'll pay the 15% rate for taxable income up to $425,800 for singles, $452,400 for heads of household or $479,000 for joint filers. Above those income levels, the rate is 20%. You may owe state taxes, too, and high earners may also have a 3.8% net investment income tax, says Mark Luscombe of Wolters Kluwer Tax & Accounting. ■

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

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FAMILY FINANCES

Trim Your Home Insurance Premium

Whether you stay with your current insurer or switch, you can lower your rate without sacrificing coverage. BY MIRIAM CROSS

CAR INSURANCE COMPANIES ARE FALLING all over themselves to grab your attention with clever TV ads, giving the impression that lowering your premium is as easy as picking up the phone. But when it comes to homeowners insurance? Crickets.

Yes, it's pretty quiet on the home insurance front. For years, insurance companies have played a game of chicken with policyholders who dare to use their insurance. They've threatened to raise premiums—or refuse to renew your policy—when you make too many claims. Just one claim can raise your premium if it's the "wrong" kind—say, for plumbing leaks. Even many homeowners with no claims on their record are too intimidated to shop for a new carrier.

Homeowners insurance rates typically rise a bit each year to keep up with inflation. When you file a claim—especially for an event unrelated to a widespread catastrophe, such as a hurricane or wildfire—you can expect your rate to go up even more for several years. Having one claim unrelated to a widespread catastrophe within the past three years on your record can knock you out of the running for many insurers; two claims in that time frame make it nearly impossible to switch, says Spencer Houldin, president of Ericson Insurance Advisors, in Washington Depot, Conn.

File multiple claims and you risk having your current insurer drop you when your policy comes up for renewal. In that case, you'll have to find coverage through a more expensive "surplus lines carrier," such as Lloyd's of London, which specializes in higher risks that standard insurers won't touch.

A slew of factors can affect your rate, many of which are out of your control. In the past, insurers considered building construction, protective features and claims history, among other factors, to set your premium, says Bill Wilson, CEO of InsuranceCommentary.com, an insurance-information website. They still consider those, but increasingly, "insurers are relying on big data, meaning there can be potentially hundreds of rating factors," he says. For example, your "insurance score" could blend your credit score with your claims history, your home's construction, its safety features and other considerations. Or a natural disaster that stretches an insurer's resources in one state can have an impact on the premiums of policyholders in unaffected states.

Shopping around for a new homeowners policy is one way to save money. But a better deal on the surface may come at the cost of important coverages or useful perks. Before making the jump, explore other ways to lower your rate with your current insurer.

SAVE WITHOUT SWITCHING

If you're happy with your current insurer, there are ways to trim your premium without switching to a new company. Start by choosing a deductible of at least $1,000, or a higher one if you can afford it. Raising your deductible from $500 to $1,000 often cuts your premium by up to 15%.

Ask your agent or insurer if you are getting every discount you are eligible for. For example, some insurance companies will reward you for retiring, living smoke-free, installing storm shutters or an impact-resistant roof, renovating your plumbing or electrical system, residing in a gated community, or holding a college degree. One of the most worthwhile credits you can get is for installing a central alarm system; the money you save on premiums often pays for the monthly monitoring costs, says Wilson. Some companies reward loyalty or the length of time you remain claims-free.

Bundling your auto and home policies

ILLUSTRATION BY MAI LY DEGNAN

BUILDING A SOLID POLICY

Use this graphic as a guide to what's in your homeowners policy and what your limits should be. In addition to the coverages listed here, all policies have a **loss of use** provision that will typically pay up to 20% of your dwelling limit for you to live elsewhere while your home is being repaired (you might want to increase this amount if you live in an expensive area). It's a good idea to take stock of your possessions with a **home inventory tool**, such as the free app or spreadsheet offered by advocacy group United Policyholders (www.uphelp.org/pubs/how-create-home-inventory).

DWELLING Your **dwelling limit** is based on the estimated cost to rebuild your home, not its market value (or the value of your land). You can ask your agent to estimate this cost for you, or you can hire an independent appraiser or ask a local builder what it costs to build a comparable home. Your dwelling limit should be at least 80% of the estimated cost to rebuild. Rather than regular replacement cost, which will pay up to your dwelling limit, choose **guaranteed replacement cost**, which will pay the full cost of rebuilding your home to the same level of construction and quality as before (it will add about $50 to $100 to your premium), or **extended replacement cost**, which typically caps payments at 25% or 50% above your limits. Choosing an **open perils** policy rather than one with specific named perils means you'll be covered for a broader array of issues, such as water damage caused by rain entering an open window. It will likely cost an additional 15%. **Ordinance or law coverage** pays the extra amount needed to rebuild your home to comply with new building codes.

PERSONAL PROPERTY
The limit on personal property, or contents, will typically be up to 50% or 75% of your dwelling coverage limit. **Replacement cost** is preferable to actual cash value, which pays only the depreciated value. It costs about 15% more. A **scheduled personal property endorsement** can add extra coverage for expensive items, such as jewelry, art, musical instruments or antiques, which are usually covered for less than their actual value and may have other limitations.

OTHER STRUCTURES
Detached structures, such as a garage, shed, fence or pool, are typically covered for up to 10% of your dwelling limit.

LIABILITY This will cover your financial loss if you're sued and found at fault for personal injury to others or for damages (worldwide, not just on your home premises). Buy at least $500,000 worth (it should add $40 or less to your premium). Check whether your insurer imposes lower limits for a pool, trampoline or certain breeds of dog (or excludes them altogether). For liability coverage beyond what your policy provides, consider an **umbrella policy** (see kiplinger.com/links/umbrella).

with the same insurer is usually a good way to save about 15%—and sometimes more. But shop the policies separately as well, because sometimes a company will offer a lower rate on home than on auto, or vice versa, and the difference will outweigh the credit you get by bundling, says Cheryl Crews, director of operations at Turner & Associates Insurance, in Brunswick, Ga.

Inflation guards are typically built into insurance policies, meaning your dwelling limit (the estimated cost to rebuild your home) will inch up about 2% to 4% each year to keep pace with building costs. Houldin recommends reevaluating this number every six years or so—sometimes homes end up *over*insured, especially for those with a high dwelling limit to start, and you have room to trim your coverage. On the flip side, inform your insurer about any major renovation, in case that boosts the cost to rebuild and leaves you underinsured.

Staying loyal to one insurer—and to one agent—for the long haul has its perks. "If you have two unexpected claims in one year after being claims-free for 10 years, the insurer will be a lot more lenient and likely to keep you as a client," says Melanie Loiselle-Mongeon, vice president of Loiselle Insurance Agency, in Pawtucket, R.I. And if you have "guaranteed replacement cost" coverage with your current insurer, you may not be able to replicate it with another company (see the graphic on the previous page). This coverage can come in handy in the face of rising construction costs—say, if your original estimates were off, or if a natural disaster destroys a swath of homes in your area and the cost to rebuild shoots up.

Agents may also go to bat for longtime clients to argue for repairs that go above and beyond the minimum needed to get your house back in shape. For example, if a tree falls on your roof and cracks some of your old, faded shingles, your agent can more easily argue that a loyal client should get a new set of shingles across the entire roof for a uniform look.

WHEN TO SWITCH

A sharp jump in premiums—say, 15% or more—is one good reason to start shopping around, says Loiselle-Mongeon (see the box below for advice on how to shop). It's also worth looking around after you've made substantial upgrades to your home, such as installing new safety features, or when you've undergone a major life change. Retiring or starting a new career, for example, could trigger discounts. Or maybe you live in an area prone to natural disasters and want better coverage, such as eliminating a high hurricane deductible.

Even if you've made claims within the past three years, you may be able to lower your premium with some insurers (an independent agent can assess your chances). But be sure you are shopping for the same coverage. A lower premium could mean you are losing valuable riders or coverages embedded in your current policy, such as for tree removal or sewage backup, that aren't costing you that much.

If you find a policy that offers similar or better coverage at a lower price, check that your new insurer has at least a B+ rating with rating agency A.M. Best (you will need to register at www.ambest.com) before you switch. Also look up the insurer's complaint record at the National Association of Insurance Commissioners' Consumer Information Source (www.naic.org/cis). Type in the company's name and choose "property/casualty" in the drop-down menu, then click on "closed complaints" for the company whose five-digit NAIC code matches the one on your policy. Select "closed complaint ratio report" and then "homeowner." You'll see a ratio of the insurer's market share of resolved complaints to the share of homeowner premiums. The national median is 1.00; the lower the ratio, the better the insurer's track record. ■

CONTACT THE AUTHOR AT MCROSS@KIPLINGER.COM.

KipTip

How to Comparison Shop

You can start your research process online by gathering quotes from comparison sites, such as www.insurancequotes.com. A handful of states offer sample rates and price-comparison tools on their department of insurance websites. But the results will be limited and may assume lower limits than you want or need.

The best method is to contact an independent agent who works with multiple insurers. An agent can interpret jargon in policies and steer you toward appropriate coverage levels. A good agent will also reach out to you if your premium increases significantly and shop around for alternatives.

To find an independent agent, visit www.trustedchoice.com. Bill Wilson, CEO of InsuranceCommentary.com, suggests asking your current or prospective agent how he or she determines your coverage levels (the agent should have a detailed list of questions), how you can fill gaps in your coverage for catastrophic events and how the agent finds competitive rates while making apples-to-apples comparisons.

Some insurers, such as Amica Mutual Insurance, State Farm and USAA, sell directly to the public or exclusively through their own agents. Bob Hunter, director of insurance for the Consumer Federation of America, suggests calling these companies separately to compare quotes. The National Association of Insurance Commissioners' "A Shopping Tool for Homeowners Insurance" (find a link at www.naic.org/cipr_topics/topic_homeowners_insurance.htm) contains a comparison worksheet and questions to guide conversations with your insurer or agent.

REWARDS

Best Ways to Give Miles and Points

SHARING AIRLINE MILES that you've accumulated through your credit card or frequent-flier program may sound like a great way to give the gift of travel this holiday season. But transferring miles is usually pricey. The major U.S. airlines levy fees of about 1 cent to 1.5 cents per mile transferred, and most also charge a flat fee of $15 to $30 per transfer. Plus, the programs often impose caps on the number of miles you can move. With United MileagePlus, for example, you can transfer a maximum of 25,000 miles per transaction (with a 100,000-mile limit per year). At a rate of 1.5 cents per mile plus a $30 fee, transferring 25,000 United miles would set you back $405—or what you might pay to simply buy a ticket.

Alternatively, you could buy miles from the airline and give them to someone else. But you'll pay up to 3.5 cents per mile with the big domestic carriers. "In general, I don't recommend either option," says Tiffany Funk, managing editor for travel site One Mile at a Time.

Your best bet is to use your miles to book a ticket in the recipient's name. Most airlines allow you to do so, and you won't have to pay extra fees. Or, if you know that the recipient regularly flies with a certain carrier, you could buy him or her its gift card, if it offers one. (But you still may want to pay cash rather than redeem miles to buy the gift card—you'll likely squeeze more value from miles by using them for flights.)

Want to share hotel points? Hotels typically don't let you book a room for someone else with your points, says Funk. But their policies for transferring or pooling points are often more generous. For example, with the Hilton Honors program, you can transfer points to another member or pool your points with up to 10 other members free. World of Hyatt lets you share points or other awards, such as free nights and select room upgrades, at no extra charge. And you can transfer Marriott Rewards points for a $10 fee (or no fee if you have a status of Gold Elite or higher). **LISA GERSTNER**

lgerstner@kiplinger.com

RATE UPDATES

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

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Sept. 4	Minimum investment	Website (www.)
Vanguard Prime MMF Inv (VMMXX)	2.09%	$3,000	vanguard.com
Invesco Premier Port Inv (IMRXX)*	2.07	1,000	invesco.com
Northern MMF (NORXX)*†	1.93	2,500	northerntrust.com
Vanguard Federal MMF (VMFXX)†	1.93	3,000	vanguard.com

Tax-Free Money Market Mutual Funds	30-day yield as of Sept. 3	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
Vanguard Muni Inv (VMSXX)	1.37%	1.80%/2.11%	$3,000	vanguard.com
BNY Mellon Ntl Muni M (MOMXX)	1.18	1.55/1.82	10,000	bnymellon.com
Northern Municipal (NOMXX)*	1.18	1.55/1.82	2,500	northerntrust.com
Fidelity Municipal (FTEXX)	1.17	1.54/1.80	5,000	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of Sept. 18	Minimum amount	Website (www.)
BankPurely (N.Y.)#‡§	2.25%	$25,000	bankpurely.com
Customers Bank (Pa.)#‡§	2.25	25,000	customersbank.com
iGObanking (N.Y.)#‡§	2.25	25,000	igobanking.com
MySavingsDirect (N.Y.)#§	2.25	none	mysavingsdirect.com

Certificates of Deposit 1-Year	Annual yield as of Sept. 18	Minimum amount	Website (www.)
BankPurely (N.Y.)#	2.65%	$1,000	bankpurely.com
iGObanking (N.Y.)#	2.65	1,000	igobanking.com
North America Savings Bank (Mo.)#	2.63	none	nasb.com
Limelight Bank (Utah)#¶	2.61	1,000	limelightbank.com

Certificates of Deposit 5-Year	Annual yield as of Sept. 18	Minimum amount	Website (www.)
United States Senate FCU (D.C.)&	3.47%	$20,000	ussfcu.org
KS State Bank (Kan.)	3.37	500	ksstate.bank
Communitywide FCU (Ind.)&	3.30	2,000	comwide.com
State Department FCU (D.C.)&	3.29	500	sdfcu.org

*Fund is waiving all or a portion of its expenses. †Gabelli US Treasury MMF AAA offers a similar yield. #Internet only. ‡Money market deposit account. §Northfield Bank offers a similar yield. ¶TIAA Bank offers a similar yield. &Must be a member; to become a member, see website. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of Sept. 18	Balance range†	Website (www.)
America's Credit Union (Wash.)#	5.00%	$0–$1,000	youracu.org
First Financial Credit Union (Ill.)#	5.00	0–2,500	firstfcu.org
Consumers Credit Union (Ill.)#	4.59	0–20,000	myconsumers.org
La Capital FCU (La.)#	4.25	0–3,000	lacapfcu.org

*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. SOURCES: Bankrate, DepositAccounts.

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	0.10%	0.10%	0.10%
U.S. Series I savings bonds	2.52	2.52	1.96
Six-month Treasury bills	2.36	2.24	1.18
Five-year Treasury notes	2.94	2.75	1.83
Ten-year Treasury notes	3.05	2.87	2.23

SOURCE FOR TREASURIES: U.S. Treasury

As of September 18, 2018.
- EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
- Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.
- Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.

What's Your Next Move?

Now is the time to dial back risk in your portfolio and protect your bull market gains.

BY TOM PETRUNO

"Set it and forget it" has been an elegantly simple—and lucrative—investment plan for the past nine years. The U.S. economy has rolled along, the stock market has soared, and interest rates, though rising since 2015, remain historically low. Just sitting still with a well-diversified portfolio has worked very well for many investors. // But nothing lasts forever, least of all economic and market trends. Although the timing and severity are unknown, the next recession and the next bear market in stocks are out there somewhere. A little planning today could sharply reduce the risk of heartache later on—especially if the markets take a sudden, serious hit from something unforeseen. // Let's be clear: We'd never recommend trying to time the markets with

 ILLUSTRATIONS BY NIGEL BUCHANAN

all-or-nothing bets. Even with Standard & Poor's 500-stock index up 329% from its 2009 low, not including dividends, there are plenty of good reasons to stay bullish on stocks: The global economy is expanding, U.S. consumer confidence is high, and robust corporate profits underpin share prices. And even if you managed to call the market top, you'd also have to call the bottom to get back in. "You have two decisions to get right," says Liz Ann Sonders, chief investment strategist at Charles Schwab. "That's a really, really difficult thing to do." (Prices and other data in this story are as of September 14.)

The logical strategy now is to fine-tune your portfolio: Make sure your investment mix matches your tolerance for risk and that it will meet your objectives over the next few years, such as providing needed income if you're retired. If your portfolio has been on autopilot for the past 10 years, it may simply be out of whack with your needs—especially if they've changed. Imagine if all of your clothing were a decade old. How much would still fit you? Here's what you need to think about now.

YOUR TIME HORIZON

Investors in their twenties, thirties and even forties have time on their side. If you're fairly certain you won't need to tap your investments for income for 30 or 40 years, you can afford to ride out whatever rough periods inevitably lie ahead for stocks. "For people in their prime earning years, the day-to-day in markets doesn't matter," says certified financial planner Robert Wander, of Wander Financial Services. "We tell clients the only thing that matters is saving as much as you can."

It's a different story for people in their fifties and older. The day when you'll need to draw down your nest egg to live on is coming into focus, though it may still be years away. You may not be able to risk a substantial drop in your portfolio's value because you have less time to wait for it to recover, compared with younger investors. Say you'd bought the S&P 500 at its peak in 2007. You would have been in the hole for more than five years.

From 1929 through 2009, the S&P 500 experienced 13 bear markets, defined as declines of 20% or more. The average loss was just a tick less than 40%—but the drops ranged from 20% to 86% (see the chart on page 56). "You need to ask, *What would a big market decline do to me?*" says Christine Benz, personal finance director at Morningstar. There are two aspects to that question. The first is how a plunge in your portfolio's value would affect your finances. The other is how it would affect you psychologically. Your risk *capacity*—the ability to absorb losses without significant harm to your lifestyle—could be high, depending on your age and the size of your nest egg. If your risk *tolerance* is low, even modest market losses could cause you to panic and make disastrous moves, such as selling everything.

RETUNE YOUR PORTFOLIO

Reconciling risk capacity and risk tolerance is how you get to the most important investing decision: your asset allocation, or how you divide your portfolio among stocks, bonds, cash savings and other investments. Stocks, of course, are among the riskiest and most volatile financial assets. But that also means they often offer the greatest potential returns in the long run. Interest-paying, high-quality bonds have much less risk of drastic short-term losses than stocks; the trade-off is that they offer much lower potential returns. Cash savings, such as bank accounts, have little or no risk, but they offer even lower returns.

Classic asset allocation rules call for young people to keep 80% to 100% of their nest egg in stocks. As you age, the percentage in stocks should decrease, and bond and cash percentages should rise. At age 60, a typical allocation might be 45% stocks, 45% bonds and 10% cash. But your individual mix should depend on your goals and your ability and willingness to handle risk. If you chose a particular mix years ago, it's important that you review your portfolio now to see whether the allocations have shifted markedly. Given the stock market's nine-year climb, "an investor who had a stock-to-bond target mix of 65%-35% years ago could now be 80%-20%," says Wander. That means the portfolio is at much greater risk of loss when stocks eventually stumble.

Fidelity Investments looked at the biggest 12-month losses

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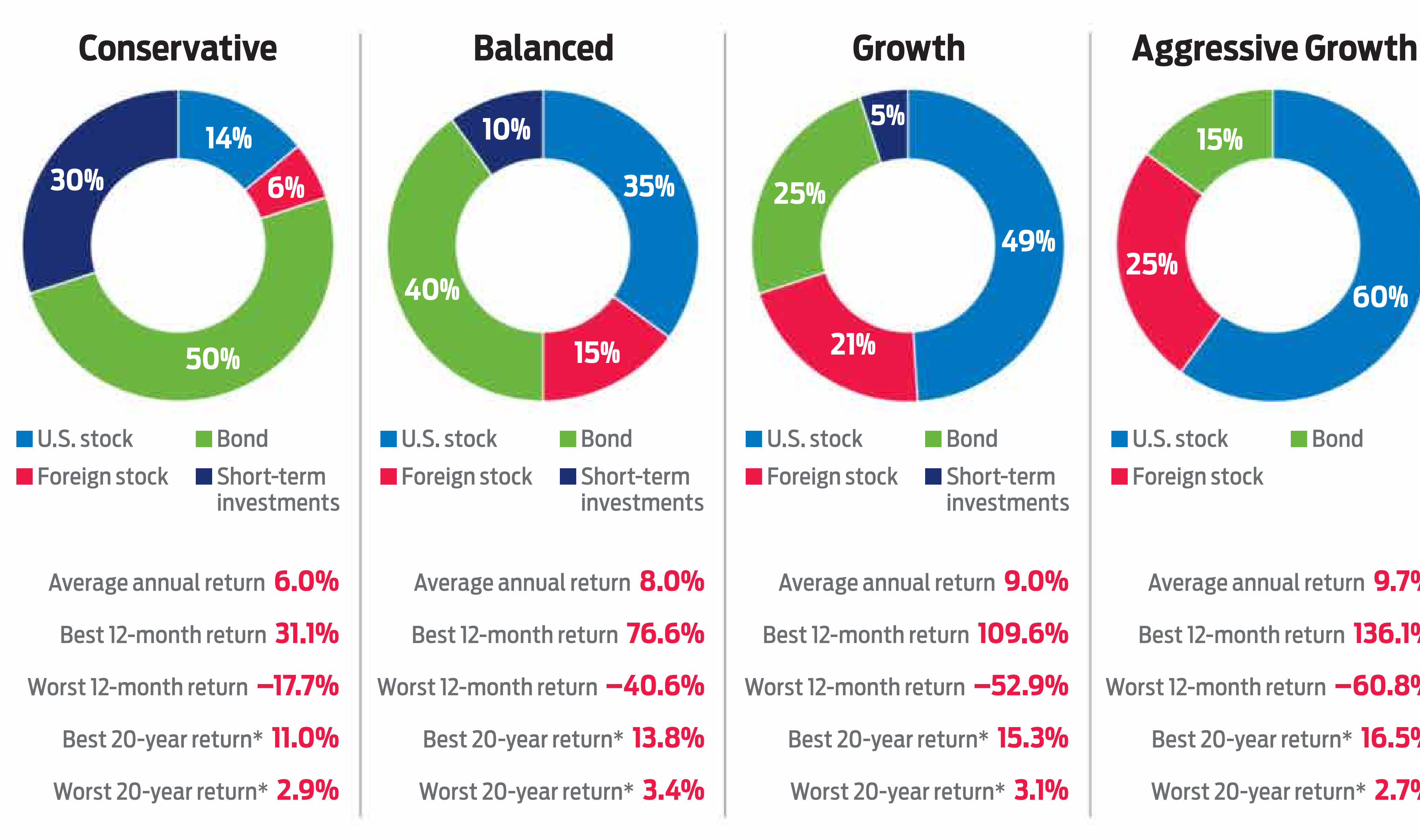
History Lesson

Match Your Portfolio to Your Risk Tolerance

The portfolios below show various combinations of stocks, bonds and short-term investments (such as cash) and how they've performed from 1926 through 2017. The more stocks you own relative to other assets, the more risk you take but the higher your potential for long-term gains.



*Annualized return; includes reinvested dividends. SOURCES: Fidelity, Morningstar Inc.

suffered by different portfolio allocations from 1926 through 2017 (see the chart above). The firm found that a portfolio with 85% of assets invested in U.S. and foreign stocks and 15% in bonds lost 61% in its worst 12-month period. If you change the mix to 50% stocks and 50% bonds and cash, the worst-ever loss shrank to 41%.

To keep investment allocations at desired levels, financial advisers say investors should rebalance their portfolios at set intervals, such as once a year, if assets have shifted significantly—say, 5% or more—from the desired target. Trimming assets that have appreciated and reinvesting money in assets that have lost value or risen little is a great way to meet a basic investing goal: to sell high and buy low (see the box on page 53).

THE RISK IN STOCKS

The fastest way to cut risk in a portfolio is to reduce stock holdings. The question is, which stocks to reduce? Stock market risk isn't evenly distributed; some shares are much riskier than others.

Since the market's low in 2009, the two S&P 500 stock sectors that have risen the most are consumer discretionary (firms that provide nonessential consumer goods or services), which was up 639% through August, and technology, up 565%. Consumer discretionary companies benefit from strong consumer spending—think retailers, homebuilders and entertainment firms. The sector has been powered by household names such as Amazon.com (symbol AMZN), Home Depot (HD), Netflix (NFLX) and Nike (NKE). The tech sector has also been led by giants, including Apple (AAPL), Facebook (FB) and Google's parent, Alphabet (GOOGL).

After a long bull run, many of these stocks are highly valued relative to earnings and other fundamental measures. Market research firm CFRA in September calculated that the average stock in the S&P 500 was priced at 17 times estimated 2019 earnings per

share. But the estimated price-earnings ratio was 22 for consumer discretionary stocks and 19 for technology shares. The higher the valuations, the greater the risk if earnings growth disappoints. Recall that both Facebook and Netflix plunged close to 20% this past summer on concerns about their growth prospects. "It was a good reminder of what can happen" when market stars disappoint, says Wander.

Some market veterans say it's simply prudent to take profits in the stocks that have racked up the biggest gains. Jim Paulsen, chief investment strategist at research firm Leuthold Group, suggests trimming Alphabet, Amazon, Facebook and Netflix, among others. "Congratulate yourself and let someone else have them," Paulsen says.

Strategists at Morgan Stanley are warning clients that global economic growth could slow heading into 2019 because of rising interest rates, mounting business costs—such as for raw materials—and trade tensions. The firm sees the tech industry as a likely victim of weaker growth and advises clients to lighten up on the stocks.

But selling winners is one of the hardest decisions for investors, especially when a company's long-term prospects still seem bright. Bulls say the high prices of tech stocks relative to earnings are justified by their long-term growth outlooks. Yet that was the same argument put forth before the 2000–02 tech-stock crash. After that collapse, Microsoft (MSFT) shares took almost 17 years to get back to their 1999 peak—even though the firm was highly profitable for the entire period. It's understandable if you can't bear to part completely with your winners. But at least consider selling a portion of the shares.

Investors whose stock holdings are entirely in exchange-traded funds or conventional mutual funds need to look at what's in those portfolios to judge how much risk they're taking and which funds may be ripe for pruning. One surprise may be just how heavily invested you are in technology

Portfolio Checkup

REGAIN YOUR BALANCE

The long bull market has left many investors with a nice problem: a lot of unrealized profits in stocks. Over the past three years alone, through August, Standard & Poor's 500-stock index gained an average of 16.1% a year, compared with 9.5% annually over the past 15 years. The hot streak means the portion of your assets in stocks, compared with other investments, may exceed your risk tolerance. The solution is to rebalance your portfolio by selling an amount of stock necessary to bring your stock portion down to a comfortable level.

Many financial pros advise rebalancing once a year. Start by totaling up all of your stocks, bonds, cash and other securities. Include assets in retirement accounts and in taxable accounts. If you own mutual funds that hold a mix of stocks and bonds (such as target-date funds), check the most recent fund report to see the breakdown of assets. Once all assets are accounted for, calculate the percentages in each asset type. (You can also use online services such as those offered by financial advisory firms Personal Capital and Betterment for this.)

Run the numbers. Say your calculations show you with 70% in stocks, and you want to bring that down to 60%. You'll have to decide how best to pare the equity portion. If your assets are mostly in mutual funds held in a retirement account, such as a 401(k), it's relatively simple to shift a portion of your stock holdings into either bond investments or cash accounts, or both. The great advantage of rebalancing in a retirement account is that you won't trigger a tax hit. If the stock investments you want to trim are in taxable accounts, you may owe Uncle Sam a piece of your capital gains. Remember, though, that mutual funds must pay out realized gains yearly, so in a taxable account you've been taxed all along. That may mean your tax hit from rebalancing won't be huge.

Rebalancing is also useful among different types of stocks. For example, most foreign stock markets have been weak performers over the past nine years compared with U.S. shares. If you think foreign issues may be relative bargains now, shifting some money from U.S. to foreign stocks makes sense (see "How to Navigate Emerging Markets," on page 59). The goal of rebalancing is to lower your risk of severe loss by keeping your nest egg well diversified. "We know we're supposed to buy low and sell high," says Liz Ann Sonders, chief investment strategist at Charles Schwab. "Rebalancing doesn't require you to time the market. You're just trimming strength and buying into weakness."

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Start planning today for how you'll enjoy life more!

Make the Most of Every Day in Retirement

For his 60th birthday, Danuta McCall bought her husband of 30 years a motorcycle. Was it a gift for a late midlife crisis? No. Instead, it was part of the couple's pre-retirement planning. The McCalls are currently trying out a post-career lifestyle by taking short trips while still working for the software company they own in Santa Barbara, California. So far, they've found they enjoy traveling tandem by motorcycle, and they're planning to take many longer road trips together once they retire.

When people prepare for retirement, they often focus solely on financial planning. But it's also important to think carefully about the daily activities and routines that will bring enrichment and enjoyment to your life. In fact, many experts suggest taking time before you actually retire—like the McCalls—to take those pursuits for a trial run.

Practice Makes Perfect

"People shouldn't wait until the first Monday morning when the alarm clock doesn't go off to begin thinking about how to fill their days," says Dave Hughes, author of *Smooth Sailing into Retirement: How to Navigate the Transition from Work to Leisure*. "Be intentional," he advises. "Design how you want your days, and your life, to be."

Whether retirement is two, five or 10 years away, begin investigating (and practicing) the places, relationships and activities that could be key to your future happiness. Try these steps.

- **CHECK OUT NEW PLACES TO LIVE.** If relocation in retirement is on your wish list, take advantage of any banked vacation time to more fully explore and research the pluses and minuses of new locations. Try to spend several weeks and opt for rental houses or Airbnb accommodations instead of hotels. That way you can "live like a local," whether it's visiting a coffee shop every morning, attending events or talking with residents about real estate prices and health care access.

- **EXPAND YOUR SOCIAL NETWORK.** Work often drives people's social lives, so friendships can lapse in retirement. To make new friends outside of a career, consider your interests and then find people who share those passions. One place to look is **Meetup.com**, a collection of special interest groups around the world.

- **LEARN NEW THINGS.** Many universities and colleges will allow retirees to audit courses for no or low cost. You can also check out educational offerings at museums and community organizations. And make sure to explore the Osher Lifelong Learning Institute (OLLI), which is a network of 121 colleges offering programs in 363 cities. OLLI provides noncredit courses, lectures, study groups and travel specifically designed for people "50 and better." Check out the national resource center at **Osher.net** for more information.

- **BECOME A VOLUNTEER.** When the Society of Actuaries asked pre-retirees to identify what they expect to miss most after they retire, a majority said having a sense of purpose. Volunteering is a great way to continue contributing. For example, if you're an entrepreneur or executive, you might share your knowledge through **SCORE.org**, a mentoring program sponsored by the U.S. Small Business Administration. And websites like **VolunteerMatch.org** can help you find other opportunities.

You can achieve the retirement life you envision. Talk to your financial professional today to discover how a guaranteed income strategy can help.

WHAT'S YOUR MORE?

Not sure exactly what retirement lifestyle will make you happy?

Take the Athene Retirement Personality Quiz at ATHENE.COM/QUIZ.

This material is provided by Athene Annuity and Life Company (61689) headquartered in West Des Moines, Iowa, which issues annuities in 49 states (including MA) and D.C., and Athene Annuity & Life Assurance Company of New York (68039) headquartered in Pearl River, New York, which issues annuities only in New York.

shares, in both actively managed funds and passive (index) funds, says CFP Wes Shannon at SJK Financial Planning. In the S&P 500, the top four stocks by market value—Apple, Microsoft, Amazon and Alphabet—account for an outsize 13% of the entire value of the index. Morningstar's premium membership ($199 yearly) includes an "x-ray" tool that will tell you the largest holdings in any fund and show your total exposure to any stock across your entire portfolio.

PLAYING DEFENSE

In Wall Street lingo, *defensive* stocks are ones that are expected to hold up better than the average stock in a broad market sell-off. Those tend to be stocks in slower-growing industries—think utilities, energy firms, financials, drug makers and companies that make consumer staples, such as detergent, toothpaste and packaged foods. Many are considered value stocks because they trade for low prices relative to earnings and other fundamental business measures. Because the shares usually offer fairly modest appreciation potential, they often pay above-average dividends, which increases their appeal to investors when the market slumps.

What's key to remember, though, is that "in a bear market, there is no place to hide," says Sam Stovall, chief investment strategist at CFRA. "Defensive stocks don't go up in price in a bear market. They just lose less."

CFRA looked at stock price moves of major industry sectors in the S&P 500 during the 11 bear markets since 1946. It used month-end prices for sector indexes, which didn't capture the exact bull market peaks or bear market lows but came close. Using that data, CFRA calculated an average post–World War II bear market loss of 25%. The most defensive sector in those 11 bear periods was consumer staples, which averaged a loss of just 10%. The second-most-defensive sector was health care, with a 13% average loss. Third was utilities, down 20%. Industrial stocks were the biggest losers, down 32% on average. Next was consumer discretionary, down 30%. Tech was off 28%.

Betting on specific industries as a portfolio hedge is easy enough, given the proliferation of low-cost sector index funds. If you like the prospects for banks as interest rates rise, consider **FINANCIAL SELECT SECTOR SPDR ETF** (XLF, $28). Another idea: **INVESCO S&P 500 EQUAL-WEIGHT HEALTH CARE ETF** (RYH, $201) is a way to focus on medical-related shares. Both funds are in the Kiplinger ETF 20, the list of our favorite ETFs.

Another defensive option is to add a diversified value-oriented stock fund to your asset mix. Two low-cost, actively managed value funds to consider from the Kiplinger 25, the list of our favorite no-load mutual funds, are **DODGE & COX STOCK** (DODGX) and **T. ROWE PRICE VALUE** (TRVLX). Indexing fans might look at **VANGUARD VALUE ETF** (VTV, $112). It owns all the stocks considered value names in the S&P 500.

You might also consider a fund that invests in big-name, dividend-paying stocks. But rather than focusing on current yield, choose a fund that targets companies that raise their dividends every year. The idea is to have a rising income stream over time, even if stock appreciation slows. That could be particularly useful for retirees who will need cash to live on. **VANGUARD DIVIDEND APPRECIATION** (VIG, $111), a Kip ETF 20 member, targets stocks that have increased dividends every year for at least 10 years. The fund has a current yield of 2.0%. Another good choice is **PROSHARES S&P 500 DIVIDEND ARISTOCRATS** (NOBL, $68), which invests only in stocks that have raised payouts annually for a minimum of 25 consecutive years. Its current yield is also 2.0%.

A word of caution for dividend fans: Additional Federal Reserve interest rate hikes may push dividend stock prices lower—and their yields higher—because the stocks must compete with rising bond yields. That's good for yield hunters but painful for share prices in the short run.

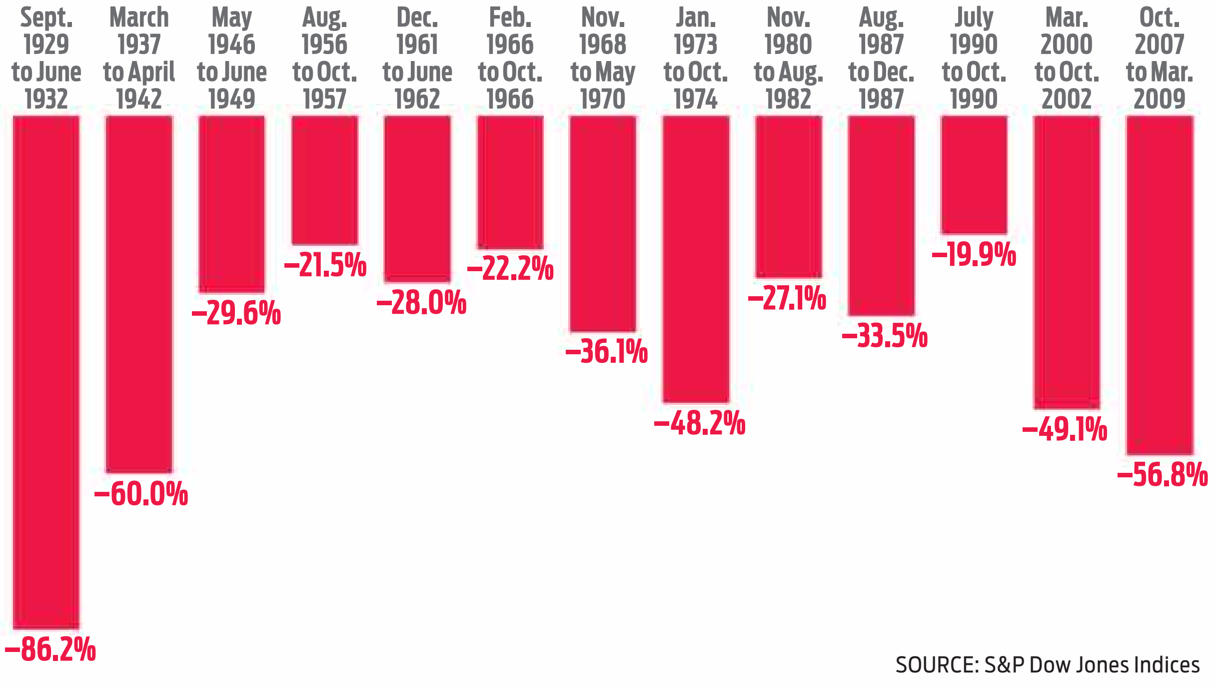
TWEAKING YOUR BOND MIX

It's a frustrating time for bond investors. Measured by total returns—interest earnings plus or minus any

Bad News

Bear Markets Since 1929

The average bear market price decline for Standard & Poor's 500-stock index is 39.9%. But losses vary widely, as does the duration of the downturn.



SOURCE: S&P Dow Jones Indices

change in principal value—most types of bond funds are either in the red or barely positive for the year so far. The culprit, of course, is the Fed. As it raises short-term interest rates in the strong economy, it drives down the principal value of older fixed-rate bonds and pushes up their yields. That's part of the logic of rebalancing your portfolio by trimming stocks and buying bonds: You're taking profits in stocks to pick up higher yields on fixed-income assets. Still, it can be hard to trade a winning investment for one that's almost certain to come under price pressure.

With the Fed planning more rate hikes in 2019, there are defensive moves you can make with bonds. One is to keep most of your bond allocation in short- or intermediate-term, high-quality bonds rather than in longer-term issues. If market interest rates continue to rise, the shorter a bond's time to maturity, the smaller the decline in principal value caused by higher rates. The trade-off is that you'll earn a lower current yield on shorter-term bonds than on longer-term issues. Funds that focus on intermediate-term bonds, which mature in five to 10 years, are a good compromise, and among these it's hard to beat **DODGE & COX INCOME** (DODIX, YIELD 3.2%). The actively managed fund's total return has trounced the average intermediate-term bond fund over the past three, five, 10 and 15 years.

Another defensive move is to shift part of your bond allocation to cash accounts, such as money market mutual funds, which have very low risk of principal loss. The average money fund was recently yielding 1.6%; we like **VANGUARD PRIME MONEY MARKET FUND** (VMMXX), yielding 2.1%.

But nervous investors should fight the urge to hunker down in too much cash. The argument for holding bonds instead of going entirely into greenbacks is twofold. First, if it's income you need, bonds provide more of it than cash accounts, with the yield on a five-year Treasury note recently 2.9%.

The second argument for holding bonds is for insurance: If some calamity were to suddenly rock the economy and the stock market, it's likely that money would pour into the relative safety of high-quality bonds, pushing prices up and yields down. In the midst of the financial crisis a decade ago, high-quality bonds bucked the downtrend. The Bloomberg Barclays U.S. Aggregate Bond index returned 5.2% in 2008, compared with a negative 37% total return for the S&P 500.

The greatest danger to bonds and stocks alike would be a sudden acceleration in inflation that would force the Fed to hike rates aggressively, says Bob Doll, chief stock strategist at Nuveen Asset Management. For years, "Low inflation has been financial assets' best friend," Doll says. If markets sense that that era is over, "you'd want to own fewer bonds and stocks both."

One exception: Treasury inflation-protected securities, or TIPS. The principal value of these bonds is guaranteed to rise with inflation. If you don't own TIPS, this is a good time to buy them, as inflation creeps higher. TIPS are best owned in tax-deferred accounts. Buy them directly from Uncle Sam at www.treasurydirect.gov, or check out **VANGUARD INFLATION-PROTECTED SECURITIES** (VIPSX).

AN ALTERNATIVE HEDGE

Investors looking for a buffer in a rough stock market might consider alternative funds. These funds use often-complex strategies aimed at generating returns unrelated to moves in stock and bond markets overall.

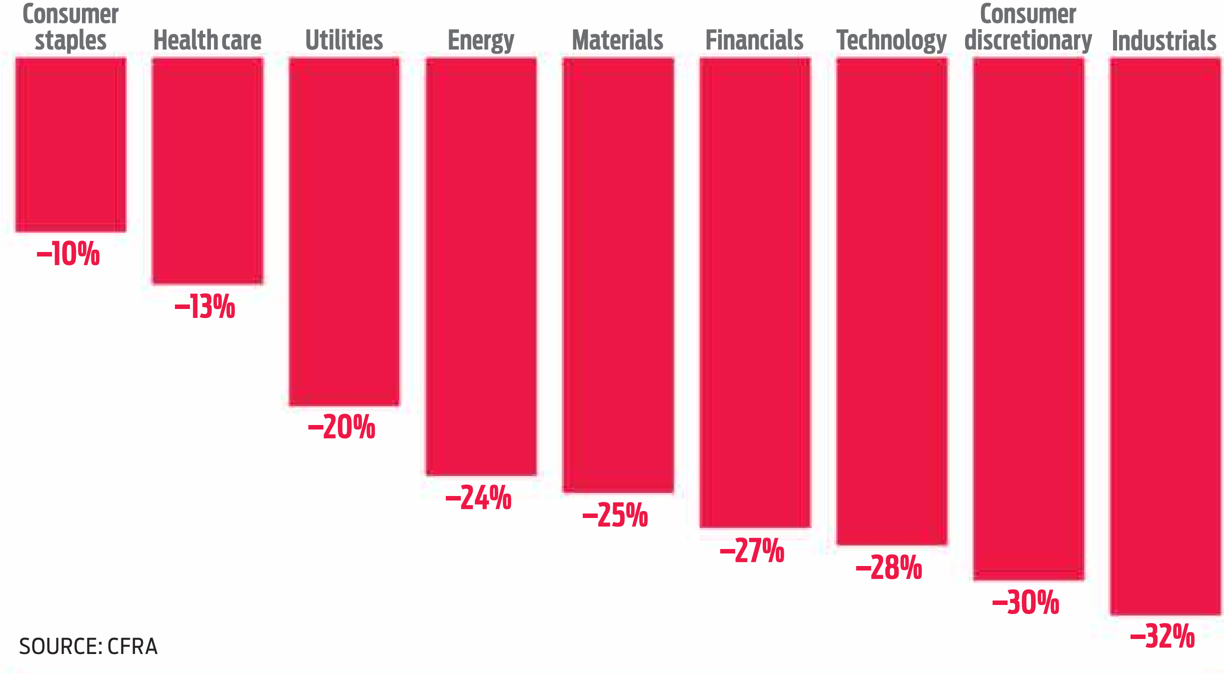
In general, investors should think of alt funds as a potential portfolio cushion, not a huge moneymaker. Laura Tarbox, a CFP at Tarbox Family Office, uses alternative funds for about 15% of clients' assets. She doesn't expect the alt funds to shoot the lights out. "We're looking for 6% to 8% annual returns, completely uncorrelated" to the stock market, she says.

There are plenty of caveats with these complex investments, including typically high management fees. Some alt funds charge 2% or more annually. Nonetheless, we think some funds are worth considering now. **SCHWAB HEDGED**

Playing Defense

Not All Stock Sectors Get Mauled

In a bear market, nearly all stocks fall. But some hold up much better than others. Here are average bear market declines for Standard & Poor's 500 index industry sectors since 1946:



EQUITY (SWHEX), launched in 2002, follows a long/short strategy of buying attractive stocks for gains while also selling unattractive stocks short (selling borrowed shares with the expectation of replacing them at lower prices). Over the past 10 years, the fund has gained 6.2% annualized, compared with 4.7% for the average fund in its category, according to Morningstar.

Options-focused funds seek to profit in part by collecting premiums on stock "put" and "call" option contracts. A *put* is the right to *sell* a stock at a preset price by a future date. A *call* is the right to *buy* a stock at a preset price by a future date. Investors pay premiums for those rights to investors on the other side of the trades. **GLENMEDE SECURED OPTIONS** (GTSOX) has gained 7.1% a year over the past five years, on average, and has beaten its average peer fund over the past one, three and five years, with a five-year average volatility, or beta, that is less than half that of the stock market overall. ■

SEND QUESTIONS OR COMMENTS TO FEEDBACK@KIPLINGER.COM.

Stress Relief

CUT YOUR INVESTING RISK AT EVERY AGE

Nobody likes to pay for insurance. But we do it to protect ourselves from unforeseen disaster. Likewise, reducing risk in your portfolio after a long bull market in stocks can ensure you'll keep more of the gains you've racked up, while giving you more confidence to stay calm when the next bear market arrives. Here's a look at financial de-risking strategies for three age cohorts:

TWENTIES, THIRTIES, EARLY FORTIES. You have little reason to cut investment risk by selling stocks. You have decades until retirement, which means decades to recover from temporary market losses. The exception might be younger people who expect to tap their nest egg for a major outlay, such as a house. Whatever your goal, the only safe place for money needed in a few years is a cash account.

Young investors may have better ways to cut risk than by trimming stocks. Reducing debt is one; reining in spending to boost savings is another. And for forty-somethings, hiring a fee-only adviser to do a full review of your finances might be an insurance policy well worth the cost.

LATE FORTIES, FIFTIES, EARLY SIXTIES. These should be your peak earning years and also your peak investing years. But the more assets you accumulate, the more fearful you may become about losing a large chunk of what you've saved if markets slump. Depending on your risk tolerance, that may call for a gradual reduction of high-risk assets, such as stocks.

Laura Tarbox, a certified financial planner who heads up Tarbox Family Office, models most clients' portfolios on one of four basic asset mixes. Foreign and U.S. stocks account for more than 80% of assets in her aggressive-growth portfolio, then dwindle to 64%, 48% and finally, to 30% of assets in the most conservative mix. The rest of the assets are in bonds, cash and alternative investments. For a client who feels the need to be more defensive, "we might dial the whole portfolio down" to the next rung, she says.

Setting stop-loss sell orders on stocks in your brokerage account can limit losses in a market downturn. Such orders trigger a sale once a stock falls to a price that you preset. Or consider put options, which grant the owner the right to sell a stock or an exchange-traded fund at a preset price to another investor, up until the option expires.

Advisers say couples in this age group should make sure they're on the same page when it comes to investment risk-taking. CFP Robert Wander, of Wander Financial Services, says it's natural that "one spouse will have a different risk tolerance than the other." But both should agree on financial goals and the plan to reach them.

EARLY SIXTIES AND OLDER. If you are in this age group, capital preservation and income generation (from bond interest or stock dividends) become increasingly paramount because retirement is in view and you'll eventually need to make regular withdrawals of assets to pay living costs. You'll need to consider how much income you'll have from Social Security and pensions, how much you can reasonably withdraw from investments each year, and the most tax-savvy sequence of withdrawals from retirement accounts versus taxable accounts.

Given the potential to live beyond 90, you'll still need some growth stocks to provide long-term appreciation. But for retirees, it's also important to build up a year or two of living expenses in cash accounts (see "Make Your Money Last," Oct.). The idea is to avoid having to sell stocks at a low if a bear market hits, depleting more of your nest egg than you otherwise would and leaving less to grow over time. With the cash cushion, you can ride out a bear market until stocks begin to recover. Considering how strong the stock market has been, if you're already expecting to trim stocks in 2019 to fund living expenses, "consider peeling some off now," says Christine Benz, personal finance director at Morningstar. "By doing so, you're reducing portfolio risk, raising needed cash and rebalancing to a better comfort level."

ISTOCKPHOTO.COM (3)

GLOBAL INVESTING

How to Navigate Emerging Markets

Currency woes and runaway inflation in some countries mask long-term opportunities. BY NELLIE S. HUANG

IF YOU'VE BEEN INVESTING IN EMERGING-markets stocks, you probably have a bad case of whiplash. After a rip-roaring run in 2017, the MSCI Emerging Markets index fell 17.7% from its peak in late January 2018 through mid September. "There's certainly a lot of volatility out there," says Arjun Jayaraman, a manager of Causeway Emerging Markets fund. "And yes, there will be more."

That's no reason to run from emerging-markets stocks, though. In fact, it may be a good time to dip in, especially if your portfolio is out of line with your long-term investment plan. Even a moderately risk-tolerant U.S. investor with a 10-year time horizon should have 30% of his or her stock portfolio in foreign shares, and of that, 6% should be devoted to emerging-markets stocks, says Joe Martel, a portfolio specialist at T. Rowe Price.

But you need to understand the dynamics at play in these far-flung, volatile and, yes, risky markets.

Rising interest rates and a stronger dollar are a drag on emerging-markets stocks. The Federal Reserve has hiked rates three times since late 2017, with more to come. That makes U.S. assets more attractive, pulling investments away from emerging markets—money that those countries need to fuel economic growth. "The U.S. threw a stone in the water," says Philip Lawlor, managing director of global markets research at FTSE Russell. "And the ripples are in emerging markets."

A stronger dollar is a natural outcome of the rise in interest rates. The greenback has gained 7.2% against a basket of foreign currencies since early February. That spells trouble for the many emerging-markets countries that have significant chunks of debt denominated in U.S. dollars. A stronger dollar means they must fork over more of their home currency to buy dollars to pay their debts. Countries that seek new loans face heftier borrowing costs, too. Dollar-denominated debt owed by emerging-markets countries has more than doubled since 2009 and is at a record high.

Tough choices. Emerging nations are in a pickle these days, with a stronger dollar not only pushing emerging-markets currencies lower but also nudging inflation higher. Many countries haven't implemented the traditional fix—a hike in interest rates to defend their currency—because to do so could crimp economic growth at home. Turkey finally did so in mid September, after the lira had lost nearly half of its value since the start of 2018. The move boosted the currency from its August low, but it is still down 38.6% for the year.

It was just a matter of time before the most vulnerable emerging economies, including Turkey and Argentina, teetered. Turkey has foreign-currency-denominated debt worth 82% of its gross domestic product; Argentina, 54%. Since the start of the year, Turkish stocks have lost 50.4% and Argentine shares have plunged 54.3%.

But not all emerging-markets countries fell into the same debt trap. "Some countries learned their lesson in the Asian currency crisis in the late 1990s," says Lawlor. China, India, Taiwan, Thailand, Indonesia and Korea owe foreign-currency-denominated debt that amounts to roughly 30% or less of their GDP, according to BlackRock Investment Institute. The stock markets in those countries are down, too, but not as much; only China and Indonesia are in bear-market territory.

To further muddy the waters, an escalating row over tariffs threatens markets and economies all over the world. The U.S. has had trade disputes with six of its top seven export markets. The U.S. has imposed duties on $250 billion of Chinese goods—nearly half the value of all goods that China exported to the U.S. last year. That could be another drag on China's already slowing economy. Continued

ILLUSTRATION BY OLI WINWARD

slowdown in China, a driver of global growth since the financial crisis, would particularly hurt emerging markets.

Investors should fight the tendency to approach the developing world as a single asset class, says Andrey Kutuzov, a portfolio manager at Wasatch Advisors. "It's really a collection of different countries with little in common."

What to do now. Expect continued volatility and possibly more losses. But for investors with five- to 10-year time horizons who can stay the course, this could be a good buying opportunity, says Jim Paulsen, chief investment strategist at the Leuthold Group. Shares in emerging markets trade at 11 times expected earnings for 2019. In the U.S., by contrast, stocks trade at 17 times expected earnings. And though growth has slowed, many emerging economies are still expanding at healthy rates. On average, analysts expect more than 5% GDP growth in emerging countries in each of the next three calendar years, beating the 1.7% to 2.2% annual rate expected for developed countries.

The long bull market in U.S. stocks has left investors with a "too U.S.–centric investment mindset," says Paulsen. If emerging-markets stocks are underrepresented in your portfolio, consider gradually shifting some of the assets tied to your biggest U.S. stock winners to foreign shares. It's a simple sell-high, buy-low strategy. (For more on rebalancing, see "What's Your Next Move?" on page 48.)

Index fans can choose a low-cost portfolio, such as **SCHWAB EMERGING MARKETS EQUITY ETF** (SYMBOL SCHE, 0.13% EXPENSE RATIO), **ISHARES CORE MSCI EMERGING MARKETS ETF** (IEMG, 0.14%) or **VANGUARD FTSE EMERGING MARKETS ETF** (VWO, 0.14%). But navigating emerging markets will be tricky in the near term, and if you go the index-fund route, at least pair it with a good actively managed fund. You'll want a pro who can focus on the better-positioned countries, such as South Korea, Taiwan, India and China, while also snapping up bargains that have been unfairly punished in troubled nations. The funds below are worthy choices.

► **BARON EMERGING MARKETS** (BEXFX). This fund—a member of the Kiplinger 25, the list of our favorite no-load funds—doesn't own any stocks in Turkey. Instead, manager Michael Kass has invested more than half of the fund's assets in China, India and South Korea. At the end of 2017, a good year for emerging-markets stocks, Kass had expected 2018 to be underwhelming and volatile, and it has been—although perhaps more than he had anticipated. But, he says, "We are beginning to see value and opportunity in certain countries, such as Brazil, Mexico, Indonesia and Thailand." Over the past five years, Kass has outpaced the MSCI EM index by an average of one percentage point per year.

► **AMERICAN FUNDS NEW WORLD** (NWFFX). This fund is a good choice for investors in search of a way into emerging markets that offers a little less volatility. About half of the fund is invested in emerging-markets stocks; the other half is invested in big developed-country multinationals that have significant sales or assets in emerging markets. "It's a global approach to investing in emerging markets," says David Polak, an investment director with the fund. "To cash in on Chinese consumers who are buying luxury goods, you have to invest in European companies. But if you want to invest in the growth of the internet in China, you buy shares in Chinese companies." The fund's five-year annualized return of 4.4% beats the MSCI EM index, with more than 25% less volatility.

► **MATTHEWS ASIA INNOVATORS** (MATFX). In our search for good emerging-markets funds, we sought portfolios that held up better than similar funds during downturns and outpaced them during good periods. This fund has one of the best records on those fronts. Lead manager Michael Oh can invest in developed and emerging Asian countries, but most of the fund's assets—67% currently—are invested in emerging countries. Oh focuses on firms with cutting-edge products or technology, but this isn't a tech-only fund. Financial services and consumer stocks—two traditionally important emerging-markets sectors—each make up more of the portfolio than tech companies. ■

CONTACT THE AUTHOR AT NHUANG@KIPLINGER.COM.

Solid Picks

FUNDS FOR A DICEY MARKET

We like actively managed funds for emerging markets because managers can pick their countries. Pair an active fund with a low-cost ETF if you prefer.

Mutual funds	Symbol	Annualized total return 1 year	5 years	Expense ratio	Top three countries
American Funds New World F1	NWFFX	–0.4%	4.4%	1.02%	China, U.S., India
Baron Emerging Markets Retail	BEXFX	–8.6	4.2	1.36	China, India, South Korea
Matthews Asia Innovators Inv.	MATFX	–3.6	10.2	1.24	China, India, South Korea
Exchange-traded funds					
iShares Core MSCI Emrg Mkts ETF	IEMG	–4.8%	3.0%	0.14%	China, South Korea, Taiwan
Schwab Emrg Mkts Equity ETF	SCHE	–5.8	2.8	0.13	China, Taiwan, India
Vanguard FTSE Emrg Mkts ETF	VWO	–6.7	2.5	0.14	China, Taiwan, India
Index					
MSCI EMERGING MARKETS INDEX		**–4.3%**	**3.2%**		

As of September 14. SOURCE: © 2018 Morningstar Inc.

INCOME INVESTING | Jeffrey R. Kosnett

The Case for Keeping Some Cash

Two issues ago, I urged everybody to suspend all inclination to brood about gathering risks or missed opportunities and let one's portfolio snooze. I obeyed my own counsel, not only by skipping this column for a month, but by ignoring my IRA and 401(k) and other investment accounts. In August, I sold a house I'd owned for 27 years, but so far, the proceeds are in the bank while my wife and I decide what comes next. (We'll probably zero out the mortgage on our vacation—and our eventual retirement—home.) Whether it's advisable for others to grab some capital gains, pay off debt or make other moves is a personal, life-stage decision rather than a blanket financial strategy.

Besides, anyone who forswore buying and selling securities since June, not counting autopilot transactions, has done just fine. Stocks advanced a little, bond yields and returns barely budged, and real estate investment trusts kept rallying. And although economic and monetary stress is spreading, investor harm has so far been limited to suffering or unstable places such as Argentina, Brazil and Turkey (for more, see "How to Navigate Emerging Markets," on page 59). Such iffy markets deserve only the lightest presence anyway in a low-risk, income-driven investment plan. The super-strong dollar, a lead cause of emerging-markets troubles, isn't without drawbacks, but it supports the value of U.S. bonds and real estate. It also restrains American inflation.

Darker skies. But I don't feel comfortable telling anyone, including myself, to extend portfolio abstinence indefinitely. Kiplinger is not alone in sensing that financial markets will eventually get rattled by trade discord or something else and stumble toward higher inflation and a near or actual recession. The scolds that scoffed at the prospect of Alphabet trading at $1,200 a share or Amazon.com at $2,000 have long been wrong—as they were about year after year of solid returns in bonds and real estate.

FOR THE FIRST TIME IN YEARS, CASH ACCOUNTS ARE COMPETITIVE WITH YIELDS ON MANY CLASSES OF BONDS AND BLUE-CHIP STOCKS.

But no investment is powerful enough to avoid losses forever. For the first time in years, cash accounts paying 2% are competitive with many classes of bonds and with the dividend yield on blue-chip stocks. That's an incentive, or at least not a disincentive, to park some or all of the money from a house sale or a lump-sum retirement or insurance distribution.

I asked some veteran financial advisers and money managers for fresh thoughts about asset allocation and de-risking. I must say that their arguments for caution resonate more than they did six months ago. "U.S. fixed income is more challenged now because it's hard to see how the Federal Reserve stops tightening," says Krishna Memani, the chief investment officer of OppenheimerFunds. He adds that "cash is definitely more valuable" than before. He recommends a fixed-income mix of 50% floating-rate bank-loan funds (a kind of juiced-up cash with yields that rise as rates climb) and 50% short-to-intermediate-term investment-grade bonds (which lose less than longer-dated issues as rates rise). For 2018, this pairing has returned about 3%.

As for stocks, advisers are concerned that you may have too much in your portfolio after another year of good gains. AMG Funds' Kevin Cooper, a point man between fund investors and financial advisers, says an investor with 65% U.S. stocks at the start of the bull market is now crowding 80%, which he thinks is too high. I agree. To downsize from 80% stocks to 60% doesn't mean you're expecting a crash or that a bear market is imminent. But if you've made a pile of money in a long-running bull market, you have a chance now to trim the winners and patiently await the next opportunities. (For more, see "What's Your Next Move?" on page 48.) ■

JEFF KOSNETT IS EDITOR OF *KIPLINGER'S INVESTING FOR INCOME*. YOU CAN CONTACT HIM AT JKOSNETT@KIPLINGER.COM.

POON WATCHARA-AMPHAIWAN

THE KIPLINGER 25 UPDATE

We Pick a New Fund

WE DON'T REMOVE FUNDS from the Kiplinger 25 lightly. But after struggling since late 2014, Homestead Small Company Stock is out. To be fair, shares in small firms were lackluster for part of that period. But even as small-cap stocks have recovered, Small Company Stock has lagged its peers. It's time for a change.

In its place, we're adding **WASATCH SMALL CAP VALUE**. Manager Jim Larkins has been with the fund since it launched in 1997, first as an analyst and as the manager since 1999. (The fund, in fact, was partly his idea.) Since he was named manager, Small Company Value has returned an annualized 12.5%. The Russell 2000 index, which tracks small-company stocks, has returned 8.7% annualized over the same period.

Small Cap Value is a departure for Wasatch, best known for investing in fast-growing firms rather than in firms with bargain-priced shares. Larkins piggybacks on the firm's detailed research on high-quality growth stocks. When a good one falters, he swoops in and buys it at a discount. "Even the best firms spend some time in the value woodshed," he says. Larkins calls Small Cap Value a "fallen angel" fund.

Roughly 50 stocks fill the portfolio. Some names have been in the fund for years, though the number of shares may change as stock prices rise or fall.

Knight Transportation, for instance, is a 20-year holding. Last year, Larkins sold some shares as excitement grew about the trucking company's merger with Swift, a competitor. This year, Larkins added to his holdings in the new firm, Knight-Swift Transportation Holdings, after its shares tumbled. Revenues had dropped because the firm is having problems hiring enough drivers. Wall Street, says Larkins, "is overly concerned about a temporary bump in the road."

Lately, Larkins has been getting a little more defensive. He added to existing holdings in Arbor Realty Trust and National Storage Affiliates Trust, two real estate investment trusts that he calls "income proxies" because they typically pay out at least 90% of their earnings as dividends. REITs, which tend to suffer when interest rates rise, have been shunned by many investors this year. "We're kissing some frogs to find a handsome prince that can deliver some stability in volatile times," says Larkins. **NELLIE S. HUANG**

nhuang@kiplinger.com

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.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Dodge & Cox Stock	DODGX	17.2%	16.1%	12.7%	10.7%	May 2008
Fidelity New Millennium	FMILX	18.7	15.0	11.5	11.9	May 2014
Mairs & Power Growth	MPGFX	18.1	15.2	11.3	10.7	Jan. 2013
Parnassus Mid Cap	PARMX	12.0	13.7	11.4	11.2	Aug. 2014
T. Rowe Price Blue Chip Growth	TRBCX	26.4	19.8	17.7	14.2	May 2016
T. Rowe Price Dividend Growth	PRDGX	16.2	15.5	12.8	10.6	Oct. 2016
T. Rowe Price QM US Sm-Cp Gro	PRDSX	26.8	16.3	13.9	14.0	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	19.3	17.8	11.6	10.5	May 2009
T. Rowe Price Value	TRVLX	9.0	12.0	10.5	10.0	May 2015
Primecap Odyssey Growth	POGRX	29.7	20.2	16.3	14.5	May 2017
Vanguard Equity-Income	VEIPX	12.2	14.9	11.5	10.5	Jan. 2017
Wasatch Small Cap Value	WMCVX	22.7	15.3	13.0	11.6	Nov. 2018

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
AMG TimesSquare Intl Sm-Cap	TCMPX	0.3%	11.4%	10.5%	—	May 2018
Baron Emerging Markets	BEXFX	–8.6	8.9	4.2	—	Oct. 2016
Fidelity International Growth	FIGFX	4.8	8.9	6.6	7.3%	Feb. 2016
Oakmark International‡	OAKIX	–7.6	7.9	3.7	8.0	July 2017

Specialized/Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Vanguard Health Care	VGHCX	12.4%	7.4%	14.2%	13.7%	May 2016
Vanguard Wellington‡	VWELX	9.2	10.7	9.0	8.7	May 2016

Bond Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
DoubleLine Total Return N	DLTNX	–0.3%	1.7%	3.0%	—	May 2011
Fidelity Intermed Muni	FLTMX	–0.1	2.1	2.9	3.3%	May 2004
Fidelity New Markets Income	FNMIX	–6.7	5.5	4.6	7.0	May 2012
Fidelity Strategic Income	FADMX	0.2	4.3	3.9	5.8	May 2018
Met West Total Return Bond M	MWTRX	–1.3	1.2	2.4	5.2	May 2016
Vanguard High-Yield Corporate	VWEHX	2.1	5.3	5.3	7.2	May 2016
Vanguard Sh-Tm Inv-Grade	VFSTX	–0.1	1.6	1.8	2.8	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	18.7%	16.5%	13.8%	11.2%
RUSSELL 2000 INDEX*	22.4	15.9	11.8	10.6
MSCI EAFE INDEX†	1.7	7.4	4.4	4.2
MSCI EMERGING MARKETS INDEX	–4.3	10.9	3.2	4.3
BLOOMBERG BARCLAYS AGG BND IDX#	–1.4	1.5	2.5	3.6

As of September 14. ‡New investors must purchase directly from the fund company. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCE: © 2018 Morningstar Inc.

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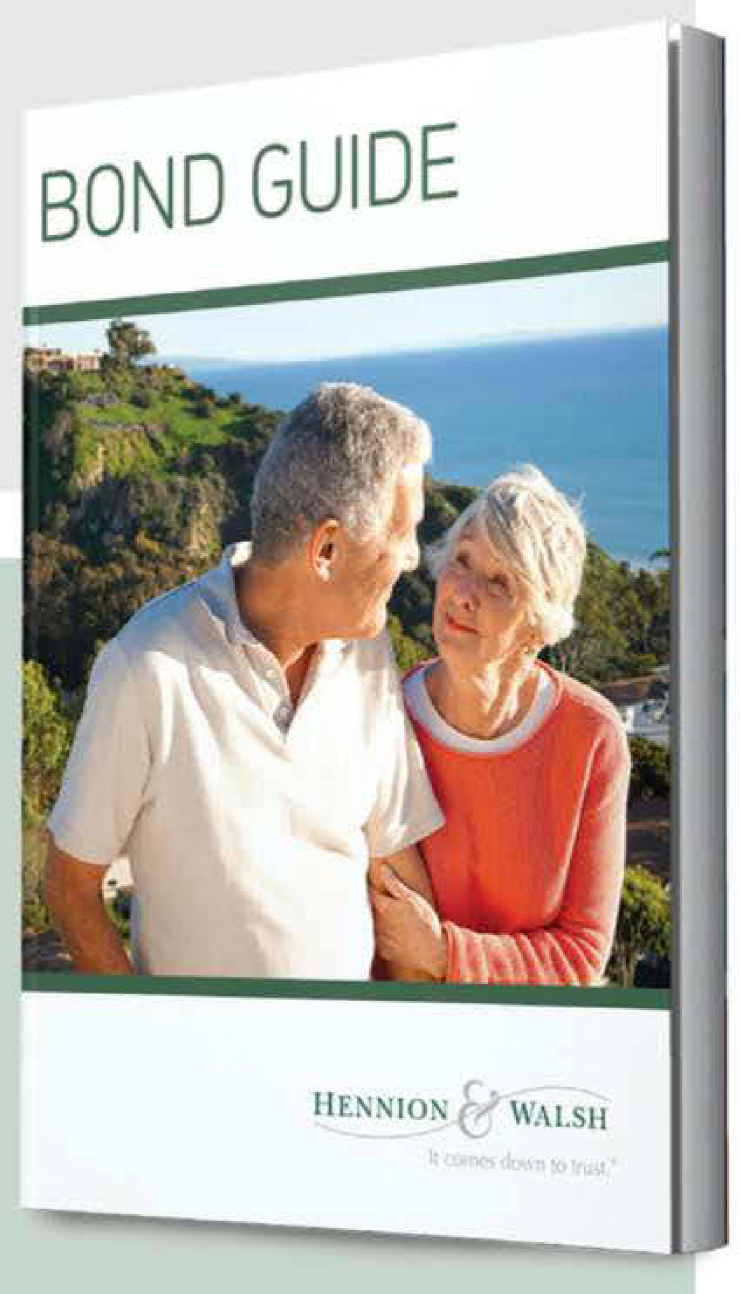

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SPOTLIGHT: INTERMEDIATE NATIONAL MUNI FUNDS

Betting on Housing Bonds

This fund looks for undervalued corners of the muni market.

IT'S EASY TO SEE THE APPEAL of municipal bonds for investors in the highest tax brackets. These IOUs, issued by state and local governments, are typically exempt from federal taxes as well as from most state and local taxes for hometown buyers. So investors who hold munis in taxable accounts enjoy higher effective yields than they'd get on comparable taxable debt. And now may be a good time to buy. Although demand for the bonds remains relatively constant from year to year, so far in 2018 muni bond issuance is running 15% below levels for the same period last year. A shortage of new supply boosts the value of existing bonds, and the current supply-and-demand imbalance should continue for now.

Like taxable bonds, munis come with varying maturities, credit ratings, sources of revenue and guarantees. Many investors prefer to leave those decisions to the pros. The managers at **SIT TAX-FREE INCOME** scour the muni market for bonds with robust yields in undervalued sectors. The fund yields 2.7%—equivalent to a 4.5% yield for a taxpayer in the highest, 40.8% federal income tax bracket.

Sit has loaded up on housing bonds. The bonds raise money to develop affordable single- and multi-family housing and are backed by mortgage revenue. These issues offer juicy yields, the managers say, but they come with a risk that homeowners will pay off their loans early, which would curtail future interest income. Such bonds constitute 48% of the fund's assets, compared with 1.9% for the average muni fund.

Some 20% of the fund's bond holdings aren't scored by credit agencies, compared with 6.4% in the average muni fund. Most of the nonrated issues are comparable to bonds rated BB or BB+ (the highest ratings for non-investment-grade debt), and the fund's overall credit quality equates to single-A, says senior portfolio manager Paul Jungquist.

The portfolio's duration (a measure of interest rate sensitivity) is currently 4.0, implying that the fund's share price would drop by roughly 4% if rates were to rise by one percentage point. The fund has lagged its benchmark, the Bloomberg Barclays Municipal 5-Year index, in just two calendar years out of the past 10, including so far in 2018. **RYAN ERMEY**

rermey@kiplinger.com

INTERMEDIATE-MATURITY NATIONAL MUNICIPAL BOND FUNDS

Ranked by one-year return

Rank/Name	Symbol	1-year total return	Current yield	Max. sales charge	Exp. ratio
1. Sit Tax-Free Income@	SNTIX	3.0%	2.7%	none	0.80%
2. Goldman Sachs Dynamic Mun Inc A	GSMIX	2.9	2.4	3.75%	0.76
3. BlackRock Strategic Muni Opps A	MEMTX	2.9	2.6	4.25	0.96
4. BNY Mellon Municipal Opps A	MOTIX	2.6	2.4	none	0.99
5. Segall Bryant & Hamill Mun Opps Ret	WTTAX	2.1	2.9	none	0.65
6. Brown Advisory Tax Exempt Bd Inv	BIAEX	2.0	2.8	1.00[r]	0.49
7. USAA Tax Ex Intermediate-Term@	USATX	0.8	2.4	none	0.51
8. Nuveen Inflation Protected Muni Bd A	NITAX	0.8	2.0	3.00	0.94
9. Principal Tax-Exempt Bond A	PTEAX	0.8	3.1	3.75	0.79
10. Nuveen Interm Duration Muni Bond A	NMBAX	0.7	2.4	3.00	0.68
CATEGORY AVERAGE		−0.2%	2.0%		

20 LARGEST STOCK AND BOND MUTUAL FUNDS

Ranked by size. See returns for thousands of funds at kiplinger.com/tools/fundfinder.

STOCK MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	Annualized total return 5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Inv	VTSMX	$643.4	19.1%	13.3%	none
2. Vanguard 500 Index Inv	VFINX	349.5	18.5	13.6	none
3. Vanguard Total Intl Stock Idx Inv	VGTSX	343.0	0.0	4.3	none
4. American Growth Fund of America A	AGTHX	197.3	21.6	14.5	5.75%
5. Fidelity 500 Index Inv	FUSEX	165.1	18.6	13.7	none
6. American EuroPacific Growth A	AEPGX	160.6	−0.1	5.9	5.75
7. Fidelity Contrafund	FCNTX	135.4	24.9	15.7	none
8. American Balanced A	ABALX	131.1	9.0	9.3	5.75
9. American Washington Mutual A	AWSHX	109.7	15.7	12.2	5.75
10. American Income Fund of America A	AMECX	109.2	5.5	7.7	5.75
S&P 500-STOCK INDEX			18.7%	13.8%	
MSCI EAFE INDEX			1.7	4.4	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Index Inv	VBMFX	$162.9	−1.6%	3.1%	none
2. Pimco Income A	PONAX	113.3	0.3	3.5	3.75%
3. Vanguard Total Intl Bd Idx Inv	VTIBX	98.8	2.2	0.9	none
4. Metropolitan West Total Return Bd M	MWTRX	73.4	−1.3	2.7	none
5. Pimco Total Return A	PTTAX	70.0	−2.6	2.2	3.75
6. Vanguard Short-Term Inv-Grade Inv	VFSTX	59.5	−0.1	3.1	none
7. Vanguard Interm-Term Tax-Ex Inv	VWITX	58.9	−0.5	2.5	none
8. Dodge & Cox Income@	DODIX	57.1	−0.1	3.2	none
9. DoubleLine Total Return Bond N	DLTNX	48.9	−0.3	3.5	none
10. Lord Abbett Short Duration Income A	LALDX	40.2	0.9	2.9	2.25
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			−1.4%	3.4%	
B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX			0.1	2.7	

As of September 14. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. [r]Maximum redemption fee. †For all share classes combined. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Bank of America Merrill Lynch, Morningstar Inc., Vanguard.

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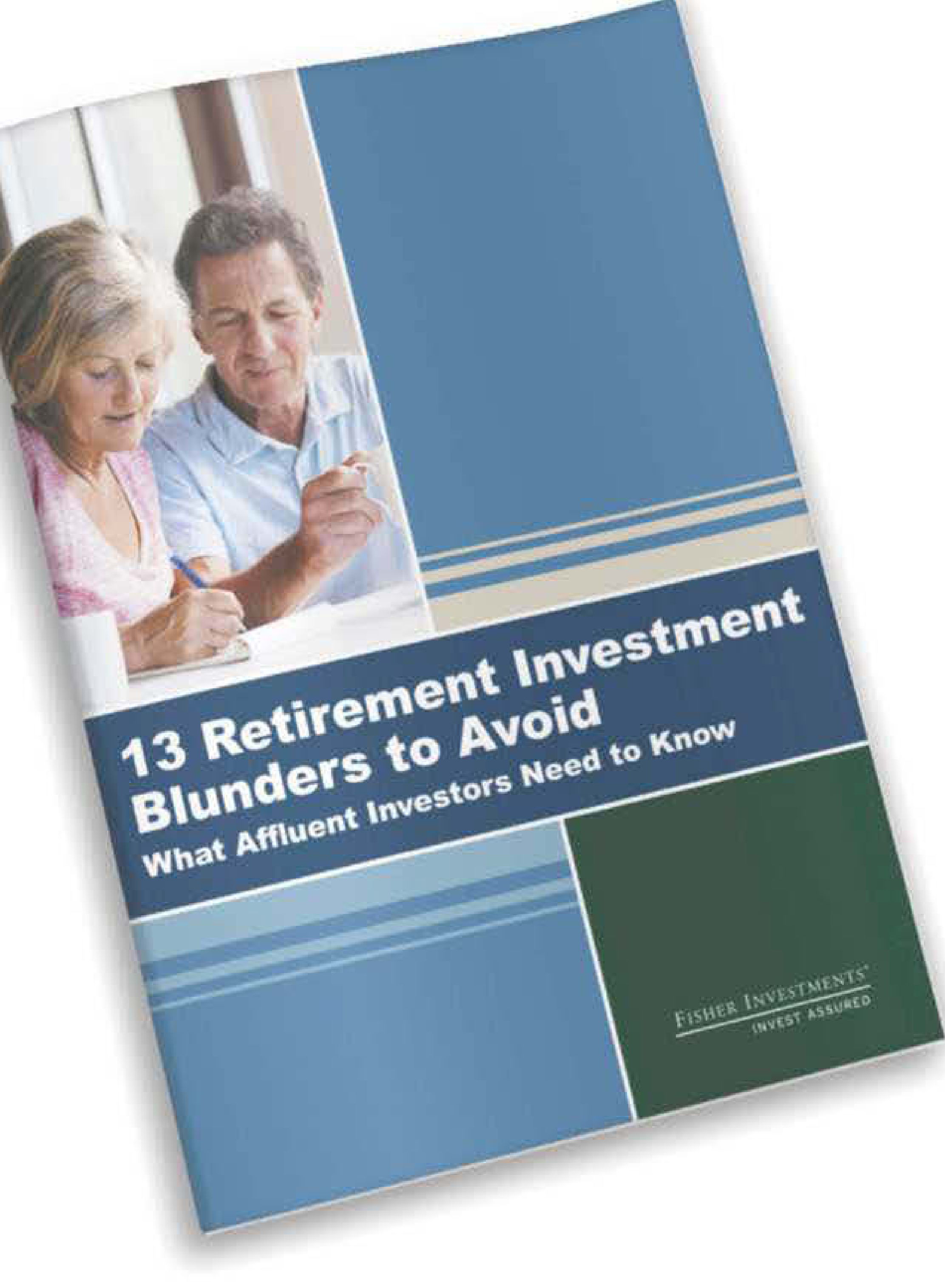

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FLIGHT of the SNOW

If you're planning to head south to escape

BY PATRICIA MERTZ ESSWEIN

 ILLUSTRATIONS BY PUSHART

PAT AND PETE ENGEL of Glendale, N.Y., are seasoned snowbirds, having spent every winter since 1995 in Florida. "After two bad blizzards within two years, I realized I never wanted to see another snowflake after we retired," says Pat, 79. The Engels rented a place near Cape Canaveral for the first few years, then bought a condo in nearby West Melbourne. Each January, they secure their home in New York and head to Florida until April. Pete, 81, plays golf, and the couple take advantage of outdoor festivals and other warm-weather activities with snowbird friends from all over the U.S. and Canada. **//** Many snowbirds follow family and friends south, while others experiment until

they find the right location and community. Some rent the same place for years; others buy a second home that may become their primary residence in retirement. Whatever your migratory path, successful snowbirding takes preparation and smart planning—beyond finding temporary digs and ensuring your primary home is safe and sound until you return.

RESERVE A RENTAL—EARLY

In most places, January through March or April is peak snowbird season. Migrators often book the same place for the coming year before they leave in the spring, and others begin booking their rental as early as August. Early birds get the biggest blocks of time and the most-desirable properties, with features such as an extra bedroom and bath, a good view, updated furnishings and plenty of amenities (such as a clubhouse, pool, gym, tennis courts and golf course).

At Vacasa.com, which lists and manages vacation rentals in 23 states and 16 countries, snowbirds often book properties in Alabama, Arizona, Florida and Texas. Shaun Greer, senior director of real estate, says snowbird rentals tend to be budget-friendlier along the Gulf Coast of Texas, Alabama and northwestern Florida, where winter is a bit chillier than in the central and southern regions of Arizona or Florida. (See the table on page 70 for the range of monthly rents during snowbird season in popular destinations.)

Sindy Ready, a real estate agent in Scottsdale, Ariz., says that most property owners prefer a rental contract of at least a month (also the minimum required by many homeowners associations) or as many as three to four months to reduce wear and tear on their homes.

To expand your search, contact a locally based vacation-rental property manager or a real estate agent, who can help you match communities with your budget and interests, and search sites such as Airbnb.com, HomeAway.com and TripAdvisor.com. Besides rent, you may pay fees—say, for booking or cleaning—as well as local and state taxes. Local vacation-rental property managers may be less likely to charge renters a booking fee.

In most cases, homes are fully furnished. Before you sign a rental agreement, find out whether cable and internet service are provided. Do you get an allowance for utilities? What breeds and sizes of pets are allowed, if any? Is any cleaning included? What's the parking situation? Will you have free access to all amenities?

MOTHBALL YOUR HOME

The Engels have preparation for their departure down to a science. It takes them about two days as they work through Pete's comprehensive preflight checklist. You'll develop your own, but here are points to consider.

► **Prevent water damage.** To keep your homeowners coverage for water damage in force while you're away, most insurers require you either to maintain adequate heat (55 to 65 degrees) or to shut off the water and drain the pipes, says Ana Robic, chief operating officer for Chubb Personal Risk Services. (Call your insurer to see what it requires.)

To shut off the water, close the main shut-off valve, then open the faucets on the highest and lowest fixtures in the house until no more water runs from them. In lieu of turning off the water and draining pipes, you could have a plumber install an automatic water shut-off valve, which will detect an abnormal rate of flow and shut off the water before much damage can occur. The Water Hero Leak Detection and Automatic Water Shut-Off system, for example, costs $695 plus an hour or so of labor (www.waterheroinc.com). You can monitor it from your smartphone. In most states, Chubb offers a premium discount when policyholders in single-family homes install an automatic water shut-off valve.

► **Unplug electronics and appliances.** You'll prevent "vampire" usage (electricity drained when a device is turned off but still plugged in), reduce fire risk and avoid damage from power surges. Empty your refrigerator's automatic ice maker and turn it off. If you want to unplug the fridge, completely empty it, clean it and prop open the door to avoid mold. Turn down the water heater to low.

► **Suspend services.** Ask your newspaper for a vacation hold to suspend delivery. Cable and internet providers generally allow you to suspend service from one to nine months during the year for a small monthly fee—about $6 to $10. You needn't turn in equipment, and your phone number and e-mail address will stay the same. On the date you set, service will be automatically restored without a service visit.

► **Forward mail and calls.** Instead of asking the post office to forward their mail, the Engels have their son send them a package of mail every few weeks. If you have a landline, set it to forward your calls. With remote call forwarding, if it's available, your home phone won't even ring—which is good for security. The Engels use the Verizon Home Phone Unlimited service ($30 for equipment plus $20 per month for service with a two-year contract). They've eliminated the expense of three landlines, kept their phone number and receive phone calls via a wireless adapter they take with them. If you'll have access to high-speed internet service, you can use a voice over internet (VoIP) service such as Vonage (recently $15 per month for the first six months).

► **Have someone keep an eye on your home.** Notify police that you'll be away. If you aren't going to have a family member, neighbor or friend regularly visit your home, you could hire a home-watch service, which will periodically inspect your house, give you updates and provide routine maintenance (from replacing lightbulbs to removing snow). The price varies with the location and size of your home but generally runs about $50 per visit. To find one, visit www.nationalhomewatchassociation.org (all members are bonded and insured), or search the web for "home watch service" in your location, and verify the contractor's credentials.

For an extra layer of security, you can install a network of smart components (including door locks, thermostats, moisture and motion sensors, cameras, and alarms) that you can control from your smartphone (see "Peace of Mind for a Dollar a Day," on page 71). Or you can hire a monitored smart-home system, such as ADT's Pulse (starting at $99 for installation plus $53 per month for monitoring), which may earn you a premium discount from your home insurer.

PLAN FOR HEALTH CARE

Insurer United Healthcare offers these tips for snowbirds: Discuss your health plan with your doctors for any care you may need while you're away. Make sure your prescriptions are current and, if possible, written for 90 days. Double-check with your insurer that you can refill your prescriptions at a pharmacy wherever you are or that you can mail-order them with delivery to your seasonal address. Take along contact information for your physicians and a copy of your medical records.

Traditional Medicare covers care from participating providers anywhere in the U.S. (search for doctors at www.medicare.gov/physiciancompare/). With a Medicare Advantage HMO plan, you're limited to care from in-network providers within specific regions or even one county, except in emergencies. A Medicare Advantage PPO, however, usually allows you to go out of network, but you'll bear more of the cost-sharing. (Or check whether your plan offers a travel benefit that can maintain your coverage for no extra cost for a limited time while you're in another state.) If you decide to return to the same place annually, consider whether you want or need to change your health plan.

CONTACT FINANCIAL INSTITUTIONS

Mobile banking and online or automatic bill pay make it easy to stay on top of finances while away. To make sure your bank or credit card issuer won't decline use of your debit or credit card when you're out of state, call or go online to file a travel notification (American Express and Capital One no longer require one).

► **Check your car insurance.** Depending on how long you stay, you may have to register your car in your temporary state and insure it to the state's minimums of liability coverage. If you don't, and you're involved in a traffic stop or accident, you could face penalties or your insurer could refuse to pay your claim. In Florida, for example, you need to register if you stay 90 days or more per year, and those days needn't be consecutive. In Arizona, you must register after seven months. State requirements for liability coverage are modest, and your coverage should already exceed them (Kiplinger recommends injury coverage of at least $100,000 per person and $300,000 per accident, and property-damage coverage of $50,000, or a minimum of $300,000 on a single-limit policy). Ask your auto insurer what's required where you're going.

DON'T RUSH TO BUY A HOME

Some snowbirds decide to buy rather than rent but only after they've found the ideal spot to winter. That was the case for Carol and Phil White of Bend, Ore. The couple had tried wintering in Hawaii, southern California and Texas before settling on Phoenix. In 2014,

after looking at more than 30 communities, they found a home in Sun City Grand, on the west side of Phoenix. It had everything they wanted: friendly people, good home values, a reasonable homeowners association fee, four golf courses, and lots of amenities and activities.

The Whites paid $184,000 for a 1,580-square-foot home with two bedrooms, two baths and a den, and they pay an annual HOA fee of $1,480. They split their time between Bend and Phoenix. Many of their friends from Bend winter nearby, too. "We have a whole 'nother life down there that we totally love," says Carol, 71.

The best time for snowbirds to buy is usually in the late spring, when much of the competition has gone home. In summer and fall, you'll have fewer options to look at, but the remaining sellers may be more motivated and willing to negotiate. It's helpful to have an agent on the ground who can search for what you want and may learn of prospects before they're listed for sale, says Dawn Rae, an exclusive buyer's agent in Tampa.

The farther from the beach, the less expensive the homes and the less likely you'll be in a Federal Emergency Management Agency flood zone, which will reduce the cost of flood insurance from thousands of dollars a year to just a few hundred, says Rae. She advises her clients to buy the insurance even if the home isn't in a flood zone—something to consider in any hurricane-prone location.

Across the South and Southwest, home prices have soared and supply is limited. Buyers must move quickly to make a winning offer, agents say. Sellers love full-price, cash offers that will close quickly. If you need a mortgage, get fully preapproved with a lender. In mid September, the average 30-year fixed rate nationally was 4.5%, according to Freddie Mac. Plan to pay cash if you want to buy the furniture, too, because lenders won't finance it.

Some home insurers add a premium surcharge if you occupy the residence only seasonally. (Be aware that before returning north, you'll need to secure your southern home, this time with a focus on avoiding damage from excessive heat and dryness or humidity.)

TRIM YOUR TAX BILL

With the new tax law limiting deductions on state and local taxes, more retirees are moving to lower-tax states, or if they already have a second home in one, they're establishing residency there, says Terry LaBant, director of wealth strategy services for RMB Capital Management, in Chicago. For example, Oregon's top income-tax rate is 9.9%, whereas Arizona's is 4.5%. So earlier this year, the Whites decided to establish residency in Arizona. (To compare state taxes, go to kiplinger.com/links/retireetaxmap.)

To prove that the lower-tax state is your permanent home, you must show that you live there for at least half the year, or 183 days. The days needn't be consecutive, but time spent traveling from one place to another or doing business out of state doesn't count.

The high-tax states that retirees are leaving—notably Minnesota, New Jersey, New York, Wisconsin and the New England states—are losing a lot of revenue, so they're aggressively auditing retirees with homes in two states—even checking their purchase activity on debit and credit cards, LaBant says.

As proof of residency, keep a diary or log. You'll need to get a new driver's license or other state ID and register to vote. You must take steps to show that your new home is "where your heart is," says LaBant. Move family photos, financial records and anything else you would take out of a burning house or wish you had. Create a new network, including financial advisers, doctors, banks, house of worship and country club. Give up any lower-cost benefits of your former state, such as a homestead exemption or an in-state fishing or hunting license.

PLAN FOR THE WORST

Whenever you live somewhere for an extended time, it's smart to get a durable power of attorney, a living will and a durable health care power of attorney written for the new state. Even with legal reciprocity between the states, the people receiving those documents at a medical or financial institution may not recognize the form used by the other state, which will slow things down, says LaBant. ■

CONTACT THE AUTHOR AT PESSWEIN@KIPLINGER.COM.

Hot Spots

What You'll Pay in Rent

Here is the range of average monthly rent (excluding fees and taxes) from January through March in four states popular among snowbirds.

State	Condos*	Single-family homes†
Arizona	$2,500–$5,000	$3,000–$9,000
Alabama	800–1,500	1,000–2,500
Texas	900–2,000	1,400–2,500
Florida (Central)	1,500–6,000	2,500–10,000
Florida (East Central Coast)	2,800–6,000	3,200–9,000
Florida (Panhandle)	800–2,200	1,100–3,500
Florida (South)	2,500–8,000	5,000–12,000

*Two bedrooms and two bathrooms. †Three bedrooms and two bathrooms. SOURCE: Vacasa

SIMPLISAFE MONITORING IS $25 A MONTH AND DOESN'T REQUIRE A LONG-TERM CONTRACT.

COURTESY SIMPLISAFE

TECH

Peace of Mind for a Dollar a Day

New home security systems are affordable, versatile and easy to install.

NOT SO LONG AGO, HOME security systems were the domain of deep-pocketed homeowners in upscale neighborhoods. But you no longer have to spend a lot of money to protect your property and belongings.

New wireless home security systems are less expensive, easier to install and more portable than their hardwired, landline-based predecessors. In addition to notifying authorities about a break-in or other emergency, these systems can alert you to all sorts of threats, from a carbon monoxide leak to a furnace on the fritz. They can also help you keep track of the comings and goings of people in your home—a teenager or your dog walker, for example—and advise you when someone opens, say, a drawer with valuables or the liquor cabinet.

Most systems use your Wi-Fi network to communicate with devices inside your home, but they use a more reliable and tamper-resistant cellular network to send alerts. Most are also connected to a professional service that will contact the authorities about an emergency, such as a break-in or fire. You can expect to pay $25 to $60 a month for that service, but, unlike in the past, many companies don't require a long-term contract. And some home security companies allow you to forgo professional monitoring. That will reduce your monthly cost, but you'll be on your own when it comes to acting on alerts.

Smarter systems. Many of the new security systems still come with a wall-mounted keypad, but they can also be controlled using an app on your smartphone. Most can also communicate with Alexa or Google Home devices as well as other smart-home technologies, such as smart locks, lights and thermostats. Once everything's connected, you can instruct your security system to complete several tasks at once, such as lowering the temperature and turning off lights when you go to bed.

Before buying a system, check how the equipment is installed, the type of technology it uses to communicate with you or the service provider, and the monitoring plans that are available to keep an eye on your home. Many companies will send a technician to install the system, but you may be able to install today's wireless systems yourself in less than an hour. You'll generally place sensors on doors and windows and other areas of your home and connect the system's hub—which controls and communicates with those sensors—to an electrical outlet and your home's Wi-Fi network.

With a professionally monitored system, you may qualify for a 5% to 20% discount on your homeowners insurance premium. Some insurers offer a small discount to homeowners with a self-monitoring system.

If you're looking for a reliable but flexible setup that you can install yourself, your best bets are **SIMPLISAFE**, which starts at $230 for the Foundation kit, and the essential kit from **ABODE**, which also starts at $230. In both cases, you select a kit that includes window and door sensors, motion detectors and a hub to control the system. From there, you can select additional components, such as a security camera or water sensors to detect a leak or flood.

Neither company requires you to have your system monitored, but both offer the service for an additional cost. Abode's round-the-clock monitoring plan costs $30 a month, and SimpliSafe's full-fledged plan costs $25 a month. With both plans, you can control the system with your smartphone and receive video recordings from security cameras in your home. Both systems pair with Amazon's Alexa, Google Home and other smart-home devices.

KAITLIN PITSKER
kpitsker@kiplinger.com

Test Your Bear Market I.Q.

Sooner or later, this bull market will run out of steam. Down markets are a fact of life. But because the long-term trend of stocks is upward, investors with time and patience on their side can usually wait out a bear market—or use it to their advantage. Test your knowledge of the darker side of stocks with our quiz.

1. Why do they call it a bear market, anyway?

A. The term originates with early bearskin traders.

B. Bears sneak up on their prey and attack suddenly, in the same way that bear markets feast on investors.

C. Bears are notorious for ransacking campsites and stealing provisions, in the same way bear markets can destroy your financial well-being.

2. Stocks are officially in a bear market when:

A. At least two major business publications proclaim a bear market.

B. A broad market index, such as Standard & Poor's 500-stock index, falls 20% or more from its peak.

C. Stock prices end lower in the majority of trading days within a 90-day period.

3. Bear markets tend to occur:

A. Once per decade.

B. Every seven years.

C. Every three to four years.

4. Which of the following is LEAST likely to cause a bear market?

A. Military conflict or geopolitical crisis.

B. Higher interest rates.

C. Rising inflation.

5. You'll know a bear market is coming once an economic recession starts:

A. True.

B. False.

6. The worst bear market on record was:

A. In 2007–09, when the financial crisis ushered in the Great Recession.

B. In 1973–74, when the Arab oil embargo sent oil prices soaring and Richard Nixon resigned the presidency.

C. The one that began just ahead of Black Monday, which precipitated the Crash of 1929.

7. How long do bear markets last, on average?

A. 11 months.

B. 21 months.

C. 30 months.

8. Which of the following is NOT a good investment for getting through a bear market?

A. U.S. Treasury bonds.

B. High-growth stocks with a broad following.

C. Classically defensive plays, including utilities, consumer staples companies and health care companies.

ANSWERS

1. A. Early bearskin traders would sell skins they'd not yet received—or paid for. Because the traders hoped to buy the fur from trappers at a lower price than what they'd sold it for, "bears" became synonymous with a declining market.

2. B. A 20% drop makes it official. Since 1929, the average bear-market drop in the S&P 500 is 39.9%.

3. C. Since 1932, bear markets have occurred, on average, every three years and nine months, according to market research firm InvesTech Research.

4. A. Military shocks to the market have mostly been fleeting. The longest downturns followed the attack on Pearl Harbor in 1941 (308 days) and Iraq's invasion of Kuwait in 1990 (189 days).

5. B. Bear markets usually come first. Since 1948, eight of 11 bear markets have been followed by recessions.

6. C. The bear market from September 1929 to June 1932 resulted in an 86.2% loss for the S&P 500. The others aren't even close.

7. B. The average since 1929 is 21 months, according to S&P Dow Jones Indices.

8. B. When stocks are in free fall, a "flight to quality" often leads to gains in U.S. Treasury bonds. Defensive stocks will lose ground in a bear market, but they tend to lose less than average.

ILLUSTRATION BY JOEY GUIDONE

ROOSEVELT'S GOLD

The $20 Saint-Gaudens double eagle is frequently acclaimed as the single most beautiful coin in American history. A case can be made that two smaller United States coins from that same historical period are really much more innovative and daring. At the time they made their appearance, they were also a bit more controversial. These two coins are the $2.50 Indian Head quarter eagles and the $5 Indian Head half eagles.

At the start of the 20th century, the life expectancy of the average American was less than fifty years. The four gold coins then being issued by the United States had all been around without a major design change for more than half century, the Coronet Liberty, depicting a portrait of the head of Miss Liberty wearing a coronet. It was clearly time for a change!

In 1901, the groundwork was laid for that change when the restless and dynamic President Theodore Roosevelt, took personal interest, stamping his imprint upon the entire gamut of national life, including U.S. coinage. It was in 1907, President Theodore Roosevelt prevailed upon the prominent sculptor, Bela Lyon Pratt, of the fashioning of the two smaller U.S. gold coins, the $2.50 and $5 Indian Head gold coins.

The $2.50 and $5 Indian Head gold coins stand out from all the rest of United States gold coinage because their designs and lettering are sunken in a plane that is uniformly flat. The design is known today as being "incuse." The highest points of the relief are level with the coin's fields and having no protective rims to protect them from wear. Although Bela Lyon Pratt provided identical portraits for both smaller coins, their dignity and strength amply justify this added exposure.

Pratt's obverse depicts a realistic looking Indian brave in a war bonnet, with the date, thirteen stars, and the motto, LIBERTY, forming a circle around the central device. The reverse shows an eagle in repose, perched upon faces and an olive branch, the intertwined symbols of preparedness and peace. Through judicious sizing and placement, Pratt succeeded in incorporating four different inscriptions on the side, UNITED STATES OF AMERICA, E PLURIBUS UNIM, the motto IN GOD WE TRUST, and its denomination without causing the coin to seem unbalanced and cluttered.

In 1908, the public received the coins with mixed feelings. Although many appreciated the design's artistic merits, the majority questioned their ability to stack, but furthermore, the incusing design elements stirred tremendous criticism. A Philadelphia coin dealer, Samuel H. Chapman, found it particularly objectionable, warning President Roosevelt that the "sunken design" would lead to a multitude of problems from counterfeiting, and most of all, he believed that the recessed areas of the coins would get packed with filth and diseases. President Roosevelt remained unshaken in his support for the coins.

The $2.50 and $5 Indian Head gold coins may not have been as magnificent as the $20 Saint-Gaudens double eagle during their time, but today, it has its fair share of admirers and has long overcome its early criticism. President Franklin Roosevelt's gold recall of 1933 is responsible for the destruction of over 95% of these iconic issues. Without illegal hoarding, it's certain the $2.50 and $5 Indian Heads would be nearly extinct due to their seeming design flaws back then. Their controversial history has made them some of the rarest and most triggered areas of collecting and investing in U.S. coinage history.

Paramount Rare Coin just acquired a small private collection of these coveted legal tender $2.50 and $5 Indian Head gold coins in an amazing AU (Almost Uncirculated) condition. Each coin is guaranteed authentic and pure 22k fine gold backed by the full faith of the U.S. Government. Very limited supply, so call now and reserve yours today!

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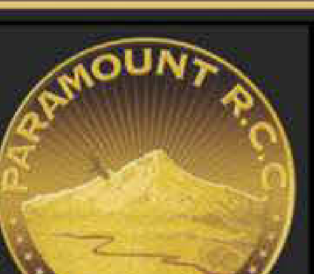
$2.50 Indian

$259.00



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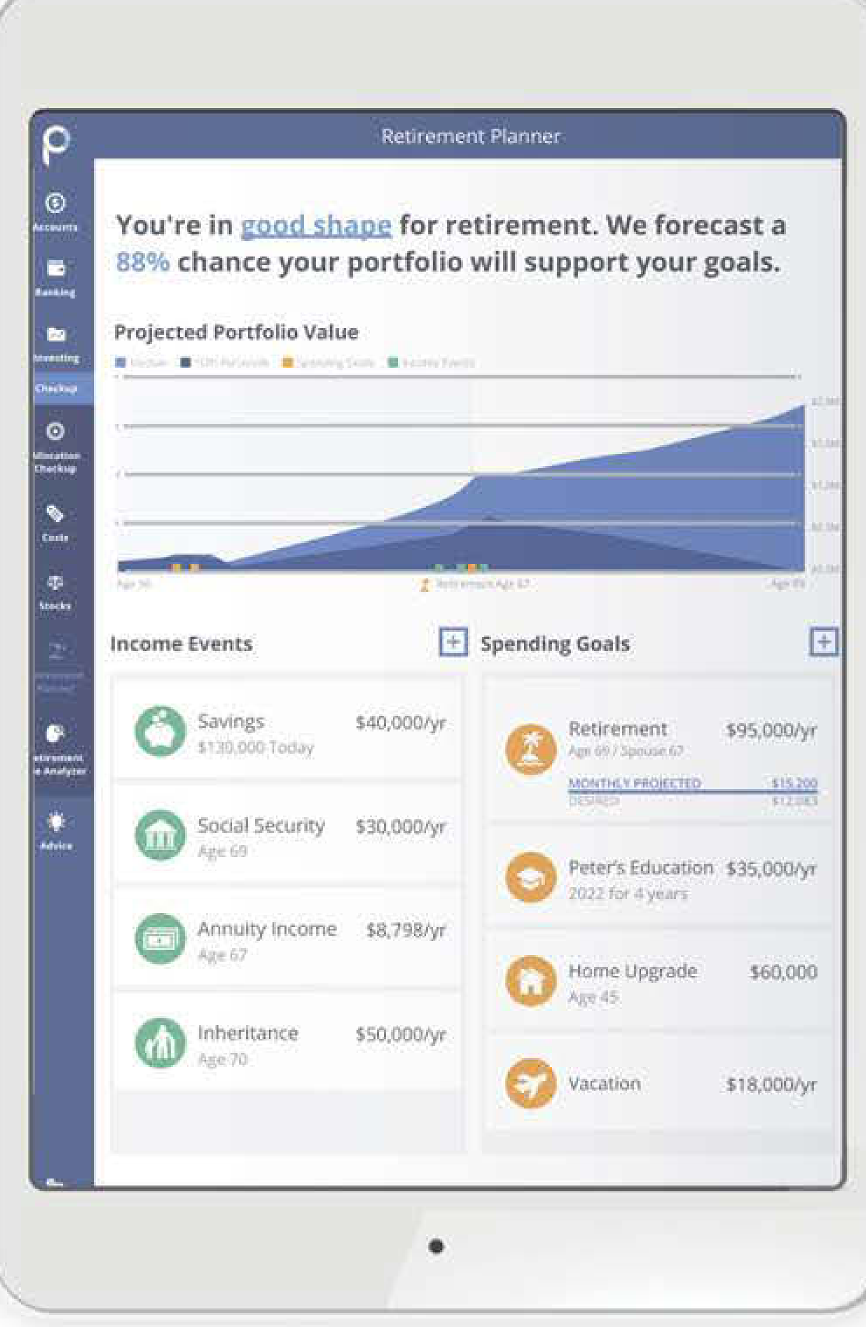

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Find out how different scenarios play out

5
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Make sure you have enough

6
Can I afford that splurge?
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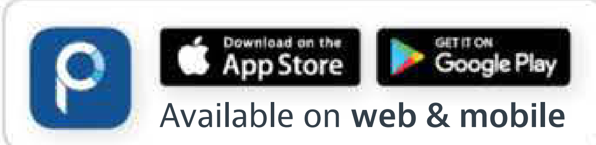

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