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Kiplinger's PERSONAL FINANCE
MONEY SMART LIVING

The 7 Secrets of Highly Successful Investors*

*No matter what the market does p 18

NOVEMBER 2019

DNA TESTS: WHAT YOU NEED TO KNOW p 64 STOCKS WITH STAYING POWER p 34

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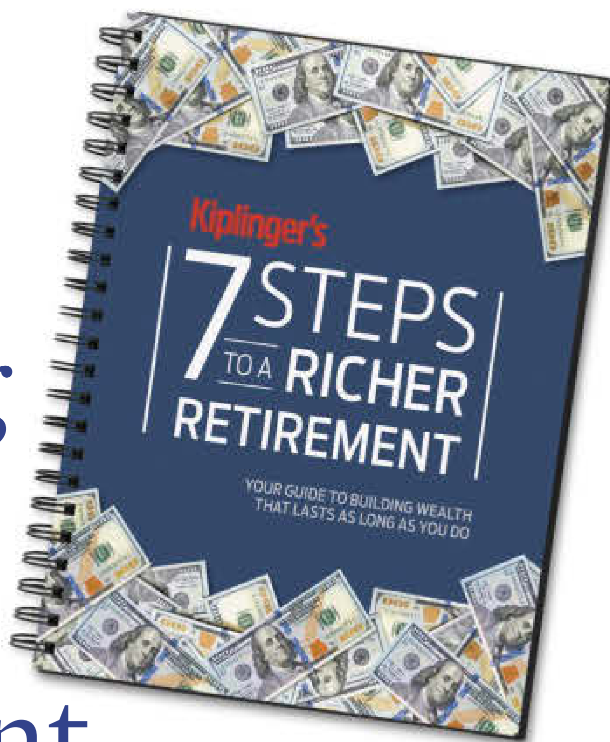

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RV REGRETS

You might have a few. Kiplinger's Bob Niedt checked in with retired RV owners and discovered a list of 13 common concerns.

kiplinger.com/links/rv

GUIDE TO STATE TAXES

Updated for 2019, the Kiplinger Tax Map reveals how each state taxes your income and property and everything you buy.

kiplinger.com/links/taxmap

BEST VANGUARD FUNDS FOR 401(K)S

Kiplinger's Nellie Huang assesses the Vanguard actively managed funds that are most popular among 401(k) retirement-plan investors.

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FROM THE EDITOR

Mark Solheim

Affordable Health Care

As open enrollment rolls around again, our special report, starting on page 42, has advice on picking the best group, individual or Medicare plan, plus tips on how to save money on health care providers and prescription drugs throughout the year. The very fact that we publish a guide to navigating the complexities of choosing health care each year is evidence that our system needs fixing—which is exactly what voters on both sides of the political spectrum are saying as we close in on the 2020 elections.

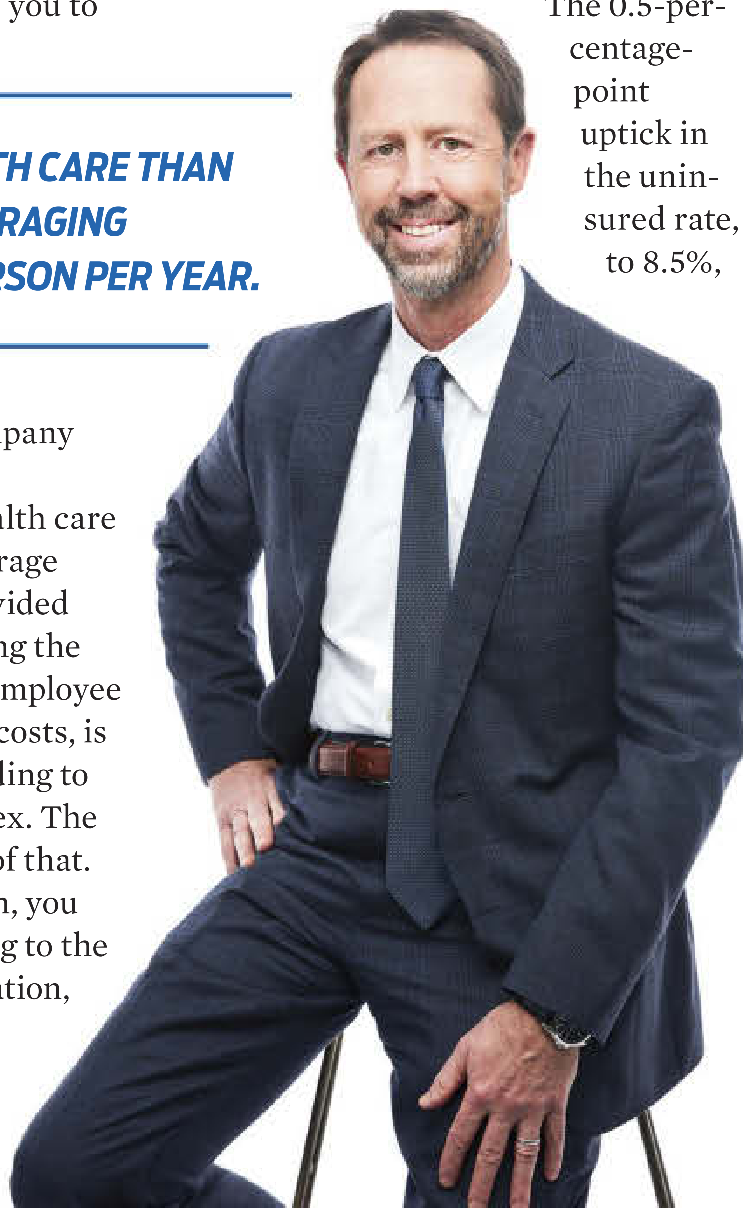
The U.S. health insurance system is a confusing patchwork of employer-provided group and individual coverage, as well as Medicaid and Medicare. No matter what plan you're on, the rules are complex, and it's up to you to appeal when the insurance company denies coverage.

WE PAY MORE FOR HEALTH CARE THAN ANY OTHER NATION, AVERAGING NEARLY $10,800 PER PERSON PER YEAR.

That wouldn't be so bad if health care didn't cost so much. For the average U.S. worker with employer-provided coverage, the total cost, including the employer-paid portion and the employee contribution and out-of-pocket costs, is $6,348 a year per person, according to the 2019 Milliman Medical Index. The employee pays more than 40% of that. If you buy coverage on your own, you may spend even more. According to the nonprofit Kaiser Family Foundation, individuals who purchased a bronze-level policy sold on the state health insurance exchanges in 2018 had an average deductible of $5,938 before most benefits kicked in.

Pocketbook pain. Half of Americans who have coverage through an employer say that in the past year, they or close family members have put off going to the doctor or filling a prescription because of cost, according to a survey conducted by the *LA Times* and the Kaiser Family Foundation. Unpaid health care bills are a leading cause of bankruptcy, as hospitals sue patients, garnish wages and seize tax refunds.

The Census Bureau reported in mid September that 27.5 million Americans were without health insurance last year. The 0.5-percentage-point uptick in the uninsured rate, to 8.5%, was the first increase in a decade (despite the good economy). Much of that gap occurs because, for most working-age Americans, health insurance is provided by employers. For people who are self-employed or work for small employers, finding affordable health care is a challenge.



I am grateful for the Affordable Care Act provision that allowed my daughter—who has several health conditions and has had only part-time or short-term full-time jobs in between working on her college degree—to stay on our health insurance until age 26. Now she has coverage under COBRA, but when that runs out in less than a year, I'm not sure what her options will be.

The U.S. pays more for health care than any other nation. The total annual cost, including government, insurer and patient outlays, is nearly $10,800 per person—more than twice what the Netherlands, Canada, France and the United Kingdom spend. And yet U.S. life expectancy is shorter, and our rates of obesity and maternal and infant death are higher, according to a study recently published in the *Journal of the American Medical Association*. Based on the experiences of these and other wealthy nations, a big part of the health care affordability solution may be legislation that caps out-of-pocket expenditures and tightens regulation of prices.

Elsewhere in this issue, our cover story, written by senior associate editor John Waggoner, has strategies that should help you keep calm and carry on if you're unsettled by the stock market's roller coaster ride (see page 18). And if you've been tempted to buy a DNA test kit, read "Discover Your Roots," by associate editor Pat Esswein, on page 64. As Pat points out, genetic testing truly is a brave new world, with a slew of unintended consequences. ■

MARK SOLHEIM, EDITOR
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[1]Lowest cost claim based on fund expense ratios only. FCOM expense ratio, .084%. Expense ratio is the total annual fund operating expense ratio from the fund's most recent prospectus.

[2]Expense ratio data as of 3/29/2019. Based on a comparison of total expense ratios for U.S. communication services sector-level ETFs with similar holdings and investment objectives, within the universe of 12 U.S. ETFs in the Morningstar Communications category.

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As of 11/30/2018, this fund changed its name from Fidelity Select Telecommunication Services Portfolio.

[3]Source: Standard & Poor's, FactSet, as of June 30, 2018.

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Social Security: When?

Single, never-married individuals need not worry so much about the best time to start Social Security benefits. If one needs the money, take it. If not, bank it ("Rethinking Retirement," Sept.). Since benefits are based on actuarial tables, the government expects to pay you the same amount whether you start claiming at age 62, age 70 or any age in between, program solvency aside. The real question is, How likely are you to outlive the actuarial tables? Most of the time it's a coin toss. Things get more complicated when other people are involved, especially when age and wage differences are substantial. However, no matter one's circumstances, those confounded tables still loom.

TONY BOUFFARD
ANTIOCH, CALIF.

Health care sticker shock. It is simply ridiculous that a standard blood test can cost as little as $20 in Milwaukee, while the same blood test costs $443 in Beaumont, Texas ("Ahead," Sept.). It is obvious that "price transparency" is sorely lacking throughout the medical industry. Perhaps your article makes the case for why Americans need Medicare for All, under which medical tests and procedures and drug prices can be standardized and more affordable.

JOHN BELMONT
DES PLAINES, ILL.

Suze fan mail. As a dad of three responsible, hard-working but lower-paid millennials, I can both agree and disagree with the premise offered up in your analysis of Suze Orman's diatribe scolding those young individuals who dare to purchase morning coffees ("From the Editor," Sept.). While I am not naive enough to believe that these purchases sink their retirement plans, I have been an eyewitness to my kids' purchases of $5 coffees, $8 avocado toast, and $20 margaritas, which indeed can turn into real money over time.

KENT HOLDEN
CHARLESTON, S.C.

While maybe you don't agree with everything that Suze Orman recommends, you must admit that she has used her celebrity and fame to educate the general public on financial responsibility. We don't learn this in school and need all the direction we can get. I don't think putting her down in your editor's column was appropriate, considering that your magazine—I hope—has a similar mission to hers.

LAURA DRIES
MADISON, WIS.

I've never been a follower of Suze Orman, preferring to get more practical and thorough financial advice through other channels, of which Kiplinger is an important one. Regarding that Starbucks latte—not for me. I'm from the generation that drinks coffee straight black at low cost and with free refills. I even read newspapers, magazines and books, *in print*.

KEN CRANDALL
CARMEL, IND.

Filling the bucket. In "Harvest the Fruits of Your Savings" (Oct.), you describe the bucket system. But you say bucket two is made up of money you *won't* need for the next 10 years. Surely you mean *will* need. Bucket one covers the first two years. Which bucket covers years two to 10? Surely bucket two!

THOMAS E. DECOURSEY
CHICAGO

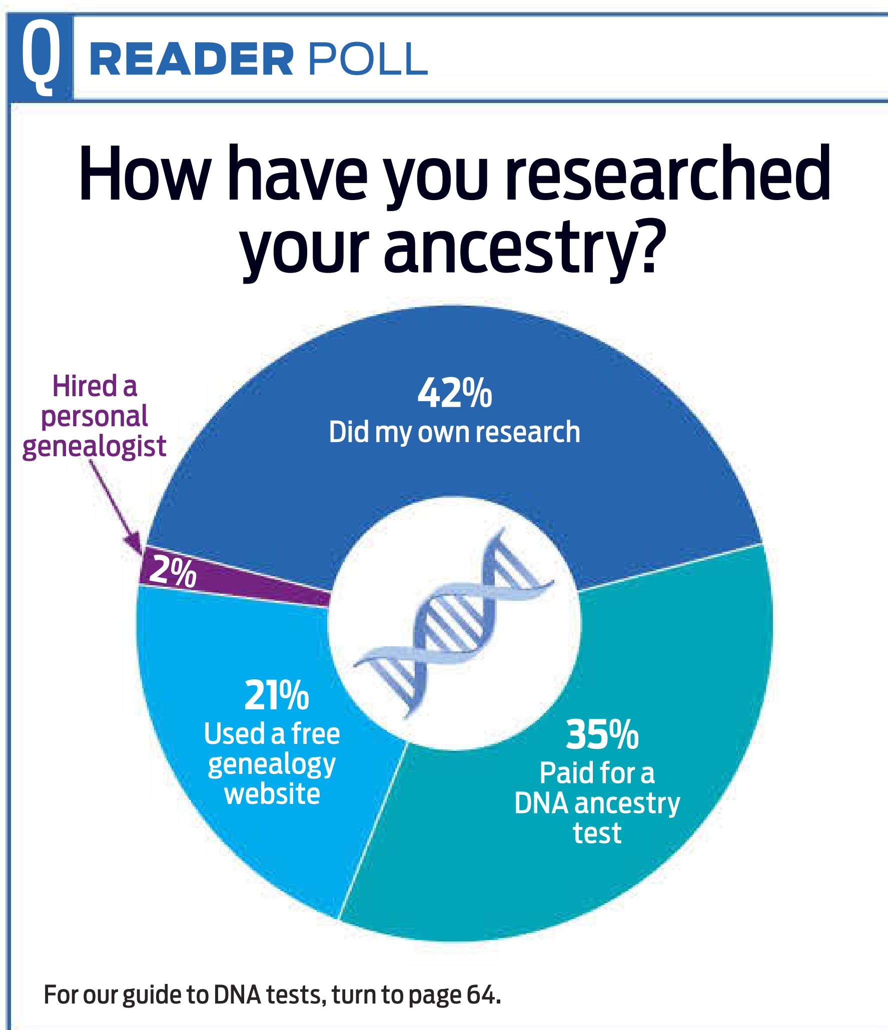
EDITOR'S NOTE: Mr. DeCoursey is right. We goofed.

CORRECTIONS *TradeZero America offers commission-free limit and market orders on stocks and exchange-traded funds, provided they trade for at least $1 per share ("We Rank the Online Brokers," Oct.). Also, on a bundle of 20 bonds trading at $142.94 apiece, Interactive Brokers would charge a commission of $14.65.*

The five-year rule regarding early-withdrawal penalties on Roth IRA conversions applies only to people younger than age 59½ ("Ask Kip," Sept.). ■

Q READER POLL

How have you researched your ancestry?



For our guide to DNA tests, turn to page 64.

SOURCE: POLL SURVEYED 91 *KIPLINGER'S* READERS.

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AHEAD

TOPIC A

THE CENSUS GEARS UP

The 2020 count will determine everything from congressional districts in your state to funds for roads and bridges. BY MIRIAM CROSS

DEBATE OVER THE CITIZENSHIP question is no longer looming over the 2020 census. But other developments are shaking up this once-a-decade count of the entire U.S. population, which starts in January in remote Alaska and continues well into the spring.

ILLUSTRATION BY RICHARD FAUST

The biggest change for 2020: digitization. Invitations to take the census will start arriving in the mail at most homes in mid March. But for the first time, households will be encouraged to answer the questionnaire online (or by phone) rather than by mail. You'll be asked several questions about the ages, genders, races and ethnic origins of people in your household.

You'll also be able to supply new answers to some questions. For example, people can identify as same-sex spouses or partners. Uncle Sam will hire fewer temp workers to go door-to-door to follow up and verify addresses.

Why the census matters. The decennial census, which is required by the U.S. Constitution, determines how many seats each state gets in Congress for the next decade, as well as how many electoral college votes are counted per state. "The biggest question mark is California," says William Frey, senior fellow at the Brookings Institution. "There is a possibility that it could lose a seat for the first time in its history." Other states on the cusp of losing seats include New York, Pennsylvania and Ohio. Florida and Texas are expected to gain seats. Census counts are also used to redraw congressional, state legislative, municipal and school districts, based on how populations have shifted.

The population and demographic data gathered from the decennial census is rarely used on its own for other purposes because it quickly becomes outdated. But the data it collects serves as a basis for more-frequent surveys, such as the annual American Community Survey, which influences everything from new highway construction to eligibility for tax credits.

About 310 federal programs rely on data sourced from the census to distribute $1.5 trillion per year, according to current findings from the George Washington University Institute of Public Policy's Counting for Dollars Project. The money goes to programs such as Medicare, Medicaid and Title I grants for disadvantaged schoolchildren. Undercounts can skew the balance of how much funding a state or community receives.

"The census-derived data doesn't determine how big the pie is, but who gets what slice of the pie," says Andrew Reamer, research professor at the GW Institute of Public Policy. Private businesses will analyze census-derived data to decide where to open stores and what to sell.

Challenges ahead. Moving the census online may be more efficient, but it opens up the data to new security risks. The Government Accountability Office recently reported that the Census Bureau remains vulnerable to cyberattacks. "To its credit, the Census Bureau has indicated it will encrypt the data and use two-factor authentication, but that's the floor, not the ceiling, of modern cybersecurity protections," says Joshua Geltzer, executive director of Georgetown University's Institute for Constitutional Advocacy and Protection. Despite these concerns, he says, everyone should participate to ensure that their interests are represented for the decade to come.

The Census Timeline

On or between:	You'll receive:
MARCH 12–20	An invitation to respond online to the 2020 Census. (Some households will also receive paper questionnaires.)
MARCH 16–24	A reminder letter.
	If you haven't responded yet:
MARCH 26–APRIL 3	A reminder postcard.
APRIL 8–16	A reminder letter and paper questionnaire.
APRIL 20–27	A final reminder postcard before an in-person follow-up.

DATA HACKS

YAHOO MAKES AMENDS

Remember the massive Yahoo data breaches? More than 3 billion Yahoo account holders were affected by the data hacks, which occurred between 2012 and 2016 and are believed to be the largest breaches to date. Now a settlement is finally at hand. Yahoo, which is now part of Verizon Communications, has proposed a $117.5 million settlement.

If you received a notice that your account was compromised, or you simply had a Yahoo account between January 1, 2012, and December 31, 2016, you may be eligible for two years of free credit monitoring or a payment of $100 if you've already signed up for a credit-monitoring service. You can also apply for reimbursement if you spent money on a credit freeze (which is now free but wasn't at the time of the breach) or incurred other expenses associated with ID theft, such as attorney's fees. Be prepared to document those costs, says Charity Lacey, of the Identity Theft Resource Center.

The deadline to file a claim is July 20, 2020. If you want to reserve the right to sue Yahoo individually, the deadline to exclude yourself from the settlement is March 6. This is not a case in which filing early will increase your shot at compensation (as with the Equifax deal), so take all the time you need to gather supporting documents, Lacey says. The more documents you provide, the better your chances of receiving compensation. For more information, go to https://yahoodatabreachsettlement.com. **SANDRA BLOCK**

INTERVIEW

WILL RATES IN THE U.S. GO NEGATIVE?

It's unlikely we'll follow Europe and Japan, but interest rates will stay low for a while.

President Trump recently suggested that the Federal Reserve lower short-term interest rates to zero or even go negative. When interest rates are negative, commercial banks pay to keep extra reserves in central banks, such as the Fed or the European Central Bank, instead of earning interest. We asked Ed Yardeni, an economist, market strategist and president of investment research firm Yardeni Research, to weigh in about how this affects investors, savers and the economy.

Why is the President calling for negative interest rates? He'd love to refinance the country's outstanding debt at a negative interest rate. That would eliminate the net interest component of the debt, which has been mounting as interest rates have climbed.

We've seen a number of prominent developed countries move to negative interest rates. Why is that? The stage was set by the European Central Bank and the Bank of Japan. They've had negative interest for the past few years, and that has led to big declines in bond yields in Europe and in Japan. Those low yields have spilled over into the rest of the world. More fundamentally, the global economy has been weak. Some of that may be attributable to recent trade wars, but I think there are some other structural forces at play that are keeping a lid on inflation and pushing interest rates lower, such as aging global populations and a mad dash by investors to lock in yields out of fear that interest rates could turn negative.

Why would any bond investor accept a negative rate? The only rational answer in my mind is if you're expecting deflation. The assumption is, whatever the borrower bought would be cheaper, that the price would go down, whether it be a house or any other asset or durable good. Wherever you're seeing negative bond yields, you're seeing investors pessimistic about the future.

Could we have negative interest rates in the U.S.? There was some discussion of negative interest rates at the Fed in 2010, when its models were saying that the federal funds rate (the rate at which financial institutions lend money to each other) had to be −0.75% to boost economic growth. The Fed decided against it. Even though the European Central Bank and Bank of Japan went negative, I expect the Fed would recognize that so far, attempts by the other central banks to stimulate their economies with negative interest rates are not working and may actually be counterproductive.

What's your outlook for U.S. interest rates in the near to medium term? I think we're probably going to see the 10-year bond yield remain south of 2% and north of 1%. If I had to pinpoint it, it would be at the middle, where we are now. I expect that will last through the end of next year.

With interest rates so low, will the Fed have ammunition to fight a potential recession? Not really. The Fed was trying to replenish the ammo stockpiles late last year, but it backed off on its plans to continue to raise rates at the beginning of the year, and then completely reversed course and started to use some of that ammo in July, when it cut the fed funds rate by 0.25 percentage point, followed by another 0.25 percentage point cut in September. That leaves much less ammo when we have the next recession.

What do negative—or, in the case of the U.S., very low—interest rates mean for investors and savers? Corporate earnings and revenues have been growing. And in environments with very low interest rates, valuations have moved higher. There's a lot of stock market volatility around those basic trends—but we're not that far off from the record highs in the stock market. However, it's definitely a tax on savers. The only way negative rates make sense for a saver is if you have outright deflation. **RYAN ERMEY**

PHOTOGRAPH BY POON WATCHARA-AMPHAIWAN

BAD TRIPS

NEW RIGHTS FOR FLIERS

Travel delays and other mishaps will become less aggravating for fliers in Canada and the European Union, thanks to new rules, and the changes could compel the U.S. to provide more protection for airline travelers.

This summer, the Canadian Transportation Agency issued new rules designed to compensate passengers who are bumped or whose flights are delayed. The first phase requires airlines to give compensation of up to $2,400 to passengers who are denied boarding or up to $2,100 if their luggage is lost or damaged. The second phase, which takes effect December 15, requires airlines to provide compensation of up to $1,000 for passengers delayed for more than three hours.

Separately, the EU ruled last summer that its flight-delay compensation rules—which are similar to those adopted in Canada—extend to connecting flights on the same reservation, including flights on non-EU airlines.

"Hopefully, this will add a bit of pressure on the U.S., the only major developed country that doesn't have strong passenger rights," says Christian Nielsen, of AirHelp, a company that files compensation claims. **SABRINA MEDLER**

BORROWERS' MARKET

MORTGAGE LENDING: MORE RELAXED

Lenders are making it easier to get loans, but a repeat of the housing crisis isn't in the cards.

IN 2018, THE NUMBER OF unconventional mortgages increased to the highest level since the mortgage meltdown in 2008. Unconventional mortgages include subprime loans, which are made to borrowers with blemished credit; loans made to borrowers without a Form W-2 or other standard documents; and other loans that don't meet the standards set by the Consumer Financial Protection Bureau.

Does that mean we're headed back to the bad old days that led to the housing meltdown? Probably not, although if there's a rise in delinquencies, it could signal trouble ahead, says Guy Cecala, publisher of *Inside Mortgage Finance*.

While the number of unconventional mortgages has grown, they were still less than 3% of loans made in 2018, compared with 39% in 2006, right before the housing bust began. In addition, many of the loans are only slightly unconventional, says Cecala. For starters, most lenders must, by law, make a good-faith effort to determine that a borrower has the "ability to repay," he says. And lenders that underwrite these mortgages usually look for ways to offset risk. For example, they'll use a high credit score and a large down payment to offset the risk of a high debt-to-income ratio, limited documentation or an interest-only loan.

Most of the bad-apple loans that contributed to the housing crisis are long gone. Loans that result in negative amortization—the loan balance grows rather than shrinks—have disappeared. Interest-only loans have returned to their traditional role as short-term loans for wealthy people buying expensive homes with a down payment of, say, 50%, says Cecala.

The primary reasons that borrowers took unconventional loans in 2018 were that they had limited or alternative documentation, they had a debt-to-income ratio above 43%, or they wanted an interest-only loan, according to CoreLogic, a financial data and analytics company. Borrowers who are self-employed or earn commissions may have a harder time verifying their income, so lenders may rely on bank statements rather than tax returns. Qualifying with a higher debt-to-income ratio is common among younger borrowers, who may have student loans, and retirees with fixed incomes, who spend a higher portion of their income on housing.

Before the mortgage meltdown, a large percentage of questionable loans were securitized and sold to investors. In 2018, about $100 billion in non-agency mortgage securities were created (that is, mortgages that weren't backed by Fannie Mae, Freddie Mac, the Federal Housing Administration or Veterans Affairs). That's the most since 2007, but it's still just 10% of what it was during the boom. Lenders may be more willing to loosen underwriting to drum up business, especially if it would distinguish them from competitors, Cecala says. But in the worst case, only a handful of lenders or investors will fail, he says. **PATRICIA MERTZ ESSWEIN**

ISTOCKPHOTO.COM (3)

SCAM WATCH

DON'T EXPECT AN END TO ROBOCALLS

A new pact will reduce but not eliminate incessant phone calls.

AN AGREEMENT REACHED BETWEEN STATE attorneys general and the major telecommunications companies to thwart robocalls is good news for anyone who has a phone. But don't expect those ubiquitous calls from people claiming to be from the IRS or wanting to sell you low-cost health insurance to disappear.

Under the agreement, telecom companies will provide customers with free call-blocking tools and help attorneys general prosecute robocall offenders. But the pact is voluntary, there is no deadline, and it doesn't include many small telecom providers. "Any bad guy with a computer can make a boatload of calls," says Alex Quilici, CEO of YouMail, an app that helps block robocalls. "This will help shut them down, but it will not be instantaneous."

In the interim, consider adopting a belt-and-suspenders approach to deter unwelcome callers. Start by signing up for services your provider has already rolled out. In addition to those tools, consider downloading a third-party app, such as YouMail or RoboKiller. These apps reject calls from dodgy numbers.

Quilici predicts that over time, the new call-blocking tools, combined with efforts to prosecute offenders, "should make the problem become more of a nuisance as opposed to the catastrophe it is now." **SANDRA BLOCK**

CALENDAR
11/2019

TUESDAY, NOVEMBER 5
It's National Diabetes Awareness Month. If you're taking insulin for diabetes, you may want to consider signing up for a high-deductible health plan with a health savings account during open enrollment (see "Plan for Future Health Costs," on page 48). Recently, 14 treatments for chronic illnesses, including insulin, became eligible as preventive-care benefits for those who have a high-deductible plan with an HSA. That means you may not have to meet the deductible before receiving coverage for those items.

▲ MONDAY, NOVEMBER 11
America observes Veterans Day. If you're a veteran, be sure to take advantage of financial benefits, free college tuition, federal and state tax breaks, and legal protections that can make a huge difference in your family's personal finances. For more information, go to kiplinger.com/links/militarybenefits.

WEDNESDAY, NOVEMBER 13
Health insurance open enrollment is in full swing, and the decisions you make will affect your medical care and expenses in 2020. This is also a good time to review your Medicare coverage to make sure it fits your health care needs. Turn to page 42 for our guide on trends in employee benefits and tips on how to cut costs.

FRIDAY, NOVEMBER 29
Now that Turkey Day is over, keep an eye out for Black Friday deals. If your kids have been begging for a new phone, you can expect discounts on smartphones and smart watches of up to 20%. Discounts on third-generation Apple Watches could be as high as 50%.
RIVAN STINSON

DEAL OF THE MONTH
Throughout November, prices on smart speakers from Amazon, Google and Facebook will be reduced by $100 to $200, according to experts at Slickdeals.com.

ASK KIP

Save on Rental Car Coverage

Here are your options if you don't have your own auto insurance policy.

I need to rent a car several times a year, but I don't have my own auto insurance because I don't own a car. Are there alternatives to the high-price coverage that the rental car companies offer?
G.K., GREEN COVE SPRINGS, FLA.

Cheaper alternatives are out there, but cobbling together sufficient coverage from other sources is tricky and requires more research. It also means more hassle after an accident, if you must coordinate claims among multiple providers.

Even though it's expensive, "buying from the rental agency is a safe bet if you don't have coverage elsewhere," says Penny Gusner, of Insurance.com. But you don't have to buy everything the rental agent pitches. The two most important types of coverage are supplemental liability, which typically costs $10 to $15 per day, and the collision damage waiver (CDW), which will add $10 to $20 per day to your rate. Supplemental liability covers you for bodily injury and property damage you cause to others, typically up to $1 million. The CDW covers damage to the car and charges by the rental company for loss of use (the income the rental company loses while the car is being repaired) and diminished value (the difference in resale value for a car before and after an accident).

The alternatives to your rental agency's insurance may be cheaper but not as comprehensive. Your credit card might cover theft and physical damage to the rental car at no additional charge if you pay for the rental with that card and decline the CDW—but diminished value is typically not covered. There are also independent car-rental insurance providers that offer CDWs for a few dollars less than you'd pay through the car rental agency. If you go that route, Gusner recommends checking the financial ratings of each company's insurance underwriter through A.M. Best (you'll find them at www.ambest.com) and searching online for the name of the company and "complaints."

Global funds. **Is it a good idea to have global stock funds in a diversified portfolio? I'm thinking of selling mine.**
M.W., ROCKVILLE, MD.

Global stock funds hold a mix of U.S. and international stocks, including shares in emerging-markets companies. Typically, the funds hold roughly 50% of assets in U.S. stocks and 50% in foreign stocks in developed and emerging-markets countries.

Whether you should ditch your global stock funds depends on several issues. First, do the funds' allocation to U.S. and international stocks fit with your overall allocation plan? A moderate-risk portfolio for a 45- to 50-year-old investor with roughly two decades to go before retirement should devote more than 50% to U.S. stocks, as much as 30% to foreign stocks and a little less than 20% to bonds and cash.

But let's assume the global stock funds work with your target allocation. The next question is, are they good funds? Some global stock funds are standouts, including **VANGUARD GLOBAL MINIMUM VOLATILITY** (SYMBOL VMVFX), which we featured in "How to Navigate Overseas Investing" (Oct.). If they're poor performers, then you should feel free to sell in exchange for a better option. Just be aware of the tax consequences if your fund is in a taxable account.

Roths for young workers. **My grandson earned more than $1,000 working this past summer, and he now wants to open a Roth IRA. How does he get started?**
M.C., CHICAGO

If your grandson is younger than 18, either you or one of his parents will have to open what is known as a custodial IRA. These accounts are managed by you or his parents until he is no longer a minor—typically at age 18. Most large investment firms offer custodial IRAs (see "We Rank the Online Brokers," Oct.).

In the IRA, your grandson will be able to invest in a variety of stocks, bonds, exchange-traded funds and mutual funds. Fidelity, Schwab and TD Ameritrade offer Roth IRA custodial accounts that have no minimum investment requirements and no maintenance fees, making them good options for young workers with small sums to invest. ■

HAVE A QUESTION? SEND IT TO ASKKIP@KIPLINGER.COM.

PATRICK GEORGE

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7 Steps to a Better Portfolio

Prosper in this volatile market (or any other) by focusing on fundamentals.

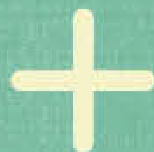
BY JOHN WAGGONER

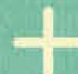
IN INVESTING, IT'S AS IMPORTANT TO PRACTICE GOOD HABITS as it is to avoid bad ones, and the stakes have rarely been higher. The longest bull market on record is in its 11th year, volatility is sky-high, the economy is uncertain and market sentiment is skittish. But long-term investors should rise above the fray and focus on the fundamentals. You already know you shouldn't buy stock on a tip from your Uncle Fred. But it's even more important to set appropriate goals, save regularly and monitor your progress. Don't beat yourself up for the occasional mistake. But if you follow the seven steps below, you're likely to feel good about your portfolio over the course of a long investing career.

HAVE A PLAN

"I want to make money" isn't a plan. No one invests to lose money. Serious investors set goals and create an investment plan to meet them. Goals can be short-term or long-term. A short-term goal might be a new car. Long-term goals could be sending kids

ILLUSTRATIONS BY BENEDETTO CRISTOFANI





to college, retiring comfortably or leaving a legacy to your heirs.

It helps if you write down your goals. "If you don't write them down, they disappear into thin air," said Ray Ferrara, a certified financial planner in Clearwater, Fla. And review your goals regularly (preferably annually) to see how you're doing and whether your goals, or your plans for meeting them, need to be revised. A vacation home in the Rockies might seem a little less important when you start learning about grizzly bears. And a consistently poor-performing mutual fund might need to get the boot.

INVEST ON AUTOPILOT

Setting goals is important because time is a crucial element in investing. Use long-term investments, such as stocks and bonds, to achieve long-term goals. Use cash and other safe, interest-bearing investments for short-term goals. "Investors are most successful when they know what their goals are and what their time horizon is," says Rob Williams, vice president of financial planning at the Schwab Center for Financial Research.

Say you decide that you want to buy a boat in two years for $10,000. You have $5,000 saved. If you think stocks will double your money in a couple of years, you're facing very long odds. It's more likely that aggressive investing over a short time will lead to a big loss (your $5,000 would have shrunk by $1,000 in last year's stock market correction).

You'd be better off saving a little more than $200 a month and putting that cash in a money market mutual fund. You won't earn much money, but you won't lose any, either, and you'll get the boat you want. But if you're 30, you'd be foolish to put all your money in a money fund. Treasury bills, a good proxy for money fund returns, have yielded an average 3.33% a year since 1926, according to investment research from Morningstar. At that rate, your money will double every 22 years. By contrast, the long-term annualized return on large-company stocks is more than 10%. Even a modest amount of stocks will increase your returns over the long haul.

You can keep a separate account if you want to speculate and swing for the fences (or act on Uncle Fred's stock tip). Just keep it small. Otherwise, set realistic goals and keep most of your investments aimed at achieving them.

SAVE EARLY AND OFTEN

Time is on your side when you invest. The earlier you start, the easier saving will be. If you invest $10,000 in large-company stocks and earn the average annual return since 1926—10.4%—you'll have $26,896 after 10 years. After 30 years, you'll have $194,568. That's the magic of compounding.

And no, there's no guarantee that you'll earn 10.4% a year. But even if you averaged 7% a year, you'd have $76,123 in your account after 30 years. "Recognize that returns will be what they will be," says Rob Arnott, chairman of the board of Research Affiliates. You can't control that. But you can control the amount you save. "Save assiduously and invest with gusto," Arnott says. "You can't invest what you have spent."

If you're not young, just start saving as much as you can, and take advantage of catch-up contributions if you're 50 or older and investing in a retirement account. You can contribute an additional $6,000 over the $19,000 cap on annual contributions to a 401(k) or similar plan in 2019, and an additional $1,000 over the $6,000 IRA limit. A 50-year-old man can expect to live, on average, another 30 years, according to the Social Security Administration. A woman can expect to live another 33 years. Half of 50-year-olds can expect to live even longer.

Your kids or grandkids can get a terrific boost if you help them along. Consider giving a grandchild or child a leg up on his or her own retirement. Say the child is 15 years old and has $2,000 in employment income from a part-time job. You could match that sum, and he or she could invest it in a Roth IRA, where returns will compound tax-free for decades. For example, a 15-year-old who invests $2,000 a year for just five years, then ceases contributions, would have close to $1 million at retirement age, assuming a 10% annualized return. Someone who doesn't start investing until age 30 and puts in $2,000 every year until age 65 would wind up with just $596,254.

INVEST ON AUTOPILOT

Make investing automatic. The best way to do that is to invest a fixed

dollar amount regularly, as you might do already in an employer's retirement plan. The practice, known as dollar-cost averaging, ensures that you buy more shares when they are cheap and fewer when they are expensive. "Don't underestimate the impact of dollar-cost averaging," says Regina Saio, a financial planner in Lake Grove, N.Y.

Consider an investor who put $200 a month into **VANGUARD 500 INDEX FUND (SYMBOL VFIAX)** in 2008, a snake-bitten year for stock investors. On January 1, 2008, $200 would have bought 1.5 shares of the fund. By January 1, 2009, close to the bottom of the bear market, the same $200 would have bought 2.33 shares of the fund.

Dollar-cost averaging has a psychological advantage, too. If you invest a little every month, you can't put all your money in at the top of the stock market, which every investor dreads. Furthermore, if your money never hits your bank account and goes directly to savings, you're less likely to tinker with it—and that's a good thing.

Of course, your firm may match your 401(k) contributions; the average match is 4.7% of your salary, according to Fidelity. Companies have caught on to the power of automatic investing, and many now offer auto-escalation plans, which increase your contribution each year until you hit the maximum annual contribution.

KEEP COSTS LOW

Wall Street has long cultivated the notion that you have to pay premium prices for good performance. Thanks to people like the late John Bogle, founder of Vanguard, we know that's horse pucky. "A bad investor with low costs can do better than a good investor with high costs," says Gary Schatsky, a financial planner in New York City.

The math is simple. Consider two funds, both of which have a 10% return before expenses. The Whizbang Fund charges 1.5% a year, while the Vanilla Fund charges 0.5%. A $10,000 investment in the Whizbang fund would be worth $115,583 after 30 years. The same investment in the Vanilla fund would be worth $152,203, or 32% more than the Whizbang fund.

These days, even a 0.5% expense ratio can seem high. Morningstar lists 1,560 exchange-traded funds with expense ratios of 0.5% or less; 520 have expenses of 0.2% or less. Fidelity Investments offers four mutual funds with a zero expense ratio.

Moreover, there's no need to pay any fees to buy a mutual fund. Charles Schwab, for example, offers more than 3,900 mutual funds that you can buy with no sales fee or fee to trade. So do E*Trade, Fidelity, Interactive Brokers and TD Ameritrade. Brokerages often run special cash or free-trade offers for new customers, so if you're looking for a new brokerage, it can pay to move (see "We Rank the Online Brokers," Oct.).

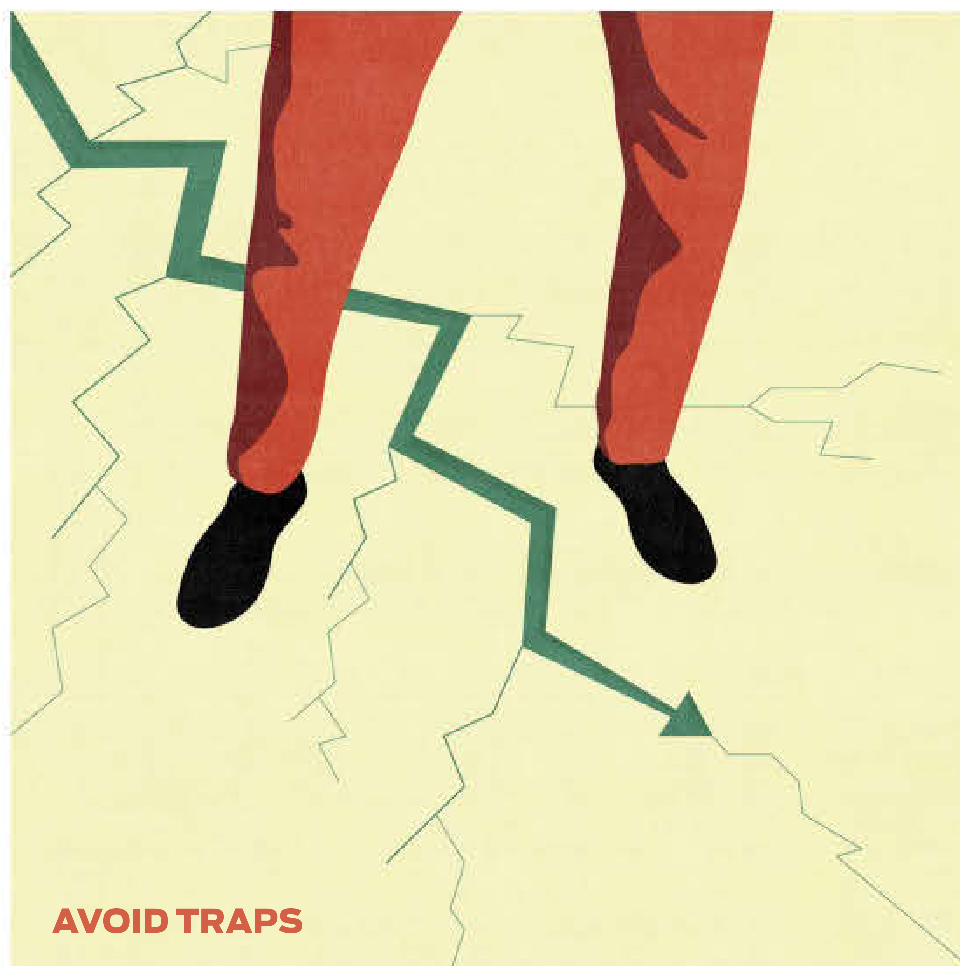
Minimizing brokerage charges is just one way to save. Lowering your investment taxes can save tens of thousands of dollars over the long term. For many investors, it's a no-brainer to contribute regularly to a tax-deferred retirement plan, such as a 401(k) plan or an IRA. Traditional retirement plans merely postpone taxes until you retire at age 59½ or older, but tax-free compounding still gives your savings a tremendous boost.

For example, **FIDELITY CONTRAFUND (FCNTX)** gained an average 15.4% a year the past 10 years before taxes through the end of June, according to Fidelity. If you had paid taxes on distributions, you'd have gained 14.3%. True, you'll have to pay taxes on money that you withdraw from your retirement account eventually, but many people are in a lower tax bracket in retirement than they are during their working years.

Investing in a tax-deferred account also makes saving more affordable because your contributions aren't taxed until you start taking withdrawals. If you make $50,000 a year and contribute 6% of your salary to a 401(k)—assuming you live in a state with no income tax—you'd sock away $250 a month in your retirement plan. But your paycheck would fall by just $188.

If you're using after-tax contributions to save for retirement in a Roth IRA, your withdrawals will be free from taxes, and you'll be able to withdraw your contributions tax-free at any time. If you take a distribution of Roth IRA earnings before you reach age 59½ and before the account is five years old, however, the earnings may be subject to taxes and penalties.

Investors who trade relatively frequently shouldn't



AVOID TRAPS

overlook the main benefit of a taxable account, which is the ability to offset gains with losses. You can use your net capital losses to offset gains, and you can deduct an additional $3,000 of losses from your income. Losses above that can be carried forward into the next taxable year.

An added bonus is that your heirs' cost basis is based on the stock's price the day you die (or your estate's settlement date), rather than the price you paid for the stock. If someone bought Amazon at $307 per share on August 1, 2014, and died on August 1, 2019, for example, the heirs would calculate their gain based on the stock's $1,855 share price that day.

DIVERSIFY

Some of the world's wealthiest people got that way by owning company stock. Think Amazon.com CEO Jeff Bezos, for instance, or Microsoft founder Bill Gates. For every Jeff Bezos, however, there are dozens of people like those who invested in Enron, the defunct energy giant. They lost everything by putting all their money in the stock of the company they worked for.

Investing in a single stock not only carries market risk—the possibility that the stock market as a whole will fall and take your stock with it—but a host of other risks. There's industry risk, which investors in energy stocks have suffered because of oil-patch woes in recent years. There's management risk, which shareholders in General Electric can tell you all about. And there's the risk of outright fraud, as was the case with Enron.

That's why financial planners always urge investors not to fall in love with their employer's stock, particularly if you hold it in a retirement plan. "When people own too much company stock, we always say, 'We're glad you love your company, but let's not put it all there,' " says Mark Bass, a financial planner in Lubbock, Texas.

The main reason to invest in a mutual fund is to diversify away some of the risks of single stocks. True, actively managed funds carry the risk that the manager is an idiot, although that's reasonably rare. And even a diversified idiot is better than a non-diversified one. In a low-cost diversified ETF or index fund, such as **VANGUARD TOTAL STOCK MARKET INDEX** (VTSAX), which charges 0.04% in annual expenses, your only real worry is market risk.

Unfortunately, market risk can be a big worry. In the 2007–09 bear market, the Vanguard Total Stock Market Index fund lost a cumulative 55.3%. You'd need a 124% gain just to get back to even after that kind of loss. To ameliorate stock risk, you need something that doesn't move in lockstep with the stock market—such as bonds. During that bear market, **VANGUARD TOTAL BOND MARKET INDEX FUND** (VBTLX), which carries an expense ratio of 0.05%, returned 7.4%. **VANGUARD BALANCED INDEX FUND** (VBIAX), which charges 0.07% and invests 60% in stocks and 40% in bonds, lost 36%—not great, but better than Total Stock Market Index.

You can further diversify by investing internationally. This year, the top-performing developed stock market—in U.S. dollars—is New Zealand, up 25.5%, according to MSCI. **SCHWAB INTERNATIONAL INDEX** (SWISX) will give you broad exposure to developed foreign markets for just 0.06% in annual expenses. For emerging markets, try **BARON EMERGING MARKETS** (BEXFX), charging 1.36%. It is a member of the Kiplinger 25, the list of our favorite actively managed, no-load funds.

Although U.S. stock market performance has beaten all other developed markets over the past decade, international stock performance runs in cycles. From 2003 through 2007, for example, the S&P 500 delivered an average 12.8% return, while the MSCI Europe, Australasia and Far East index gained 21.6% and the MSCI Emerging Markets index soared 37.0%.

Being diversified means that your portfolio will lag the latest hot stock, or even the S&P 500 when it's on a tear. On the other hand, you won't lose as much when hot stocks or hot markets go cold. In the long run, that's just as important as riding markets up—and it will help you sleep at night, too.

AVOID TRAPS

If you want to see your biggest enemy when you're investing, look in the mirror. Our minds are often wired to do exactly the wrong thing. Consider recency bias, which is a nice way to say "chasing performance." People flock to funds that are up 30% when the stock market is up 20% because we all love a winner.

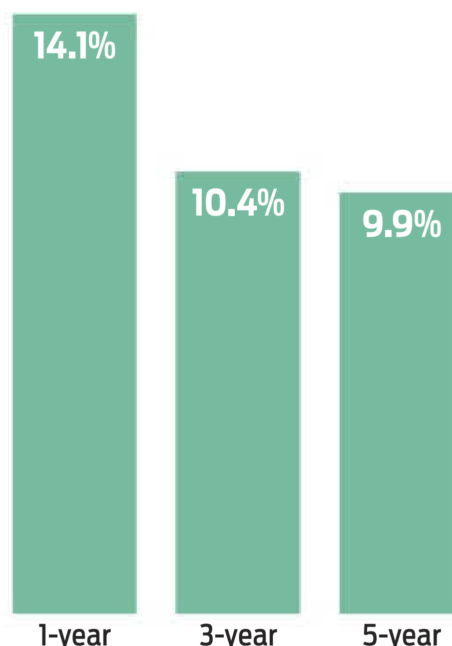
But you're supposed to buy investments when they are cheap and sell them when they are expensive, and a fund that's up 30% probably isn't

Jump In

The Best Time to Invest in the Market Is Now

Don't bother trying to time the stock market; invest when you can. Even after hitting new highs, the market can continue to deliver generous returns.

Average annualized returns after market peaks from January 1926 to December 2018



As of September 6. SOURCES: Ibbotson Associates, a Morningstar company; S&P Dow Jones Indices.

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[1] Investment professionals as of 12/31/18.

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sitting on a bunch of cheap stocks. It's more likely that the fund's future performance will return to average over time—a phenomenon known as reversion to the mean.

Another trap is thinking that you can time the market, jumping in for bull markets and out for bear markets. It just doesn't work, and trying to do it hurts your performance. A recent study by Morningstar found that the average investor lost nearly half a percentage point in returns by moving in and out. That performance gap gets worse around major market turning points, because investors tend to panic and sell near market bottoms, missing out on rebounds. "To make the most of your mutual funds, you need a good plan and the willingness to stick with it amid all the drama in the markets," says Russel Kinnel, director of manager research for Morningstar and one of the authors of the study. As the chart on the previous page makes clear, patient investors with a long-term view will do well even after investing at an inopportune time.

You may think you're smarter than everyone else in the market, but the odds are good that you're not. And that misconception can lead to a myriad of mistakes. The first is hanging on to a losing investment for too long. Suppose you'd bought General Electric in September 2014 at $24.90. By July 2016, it hit $31.66. Great! But the stock slid to $16.78 by the end of 2017.

A loss of that magnitude means you should reevaluate your thinking. "Forget about what I expect will happen," says Arnott. "Ask, 'What does the market expect, and is there more likelihood of a positive or a negative surprise?'" As it turned out for GE, the market expected worse. GE slashed its dividend to a penny a share in October 2018, and the stock hit a low of $6.45 in December of that year.

By that point, you had lost 74% of your investment—perhaps permanently. Being unwilling to admit

Advice From the Pros: What To Do Now

People should be less worried about owning stocks and more concerned about what part of the stock market they own. Focus on financials and energy, two sectors we view as defensive because they will be less sensitive to economic cycles. U.S. shale oil has transformed energy into a less volatile industry. And financial firms are much more stable today than people realize.

David Kelly, JPMorgan Chief Global Strategist

Take advantage of market swings to rebalance your portfolio. With recession risks rising, now is not the time to make aggressive bets in any major asset class. Focus on shares in large U.S. companies, not small ones. We favor health care stocks because they offer good growth at a reasonable price. When picking stocks, it's important to focus on firms with stable earnings, steady dividend growth and low volatility.

Liz Ann Sonders, Schwab Chief Investment Strategist

International value stocks are so cheap, we think a recession is already priced in. We like banks, industrials and insurers. Many European banks are run by competent managers who have repaired their balance sheets. Volkswagen is better run than it has ever been. And many European value stocks, such as French oil giant Total and German shipper Deustche Post DHL, pay hefty dividends.

Sarah Ketterer Portfolio Manager, Causeway International Value fund

DAVE LAURIDSEN

mistakes is one of the most common investor traps. Set an amount you're willing to lose and start selling when you hit that level, no matter how much you love the stock.

With mutual funds, check to see how the fund is doing compared with similar funds. If your fund is lagging by 10 percentage points a year, see if something has changed. Is there a new, less-competent manager or a change in management style?

WITHDRAW SENSIBLY

The point of investing money is to spend it eventually. Sometimes, that's an easy decision. If you saved $10,000 to buy a boat, spend $10,000 to buy a boat. When it comes to retirement, the decision is less straightforward. It's an equation in which one variable equals the money you have, and the two most important variables—how much you'll earn and how long you'll live—are unknowable.

A rough rule of thumb is that you can make an initial withdrawal of 4% of your portfolio and adjust that for inflation each year. If you have a $1 million portfolio composed of 50% stocks and 50% bonds, you could withdraw $40,000 in the first year and adjust it upward for inflation, which has averaged 2.88% since 1926, according to Morningstar. In most cases, this will work just fine for 30 years.

One case in which it didn't work was the decade starting in 1999, when two vicious bear markets would have sent your savings on the road to Palookaville. Taking withdrawals during a bear market simply depletes your account faster and further. And withdrawals during subsequent bull market years reduce the size of your gains.

You can adjust your withdrawal rate up or down—modestly—as you become accustomed to your retirement budget. Financial planners say you can live on 70% to 85% of your preretirement income, but many people find that travel and other activities mean they spend about as much, or more (at least initially), than they did before they retired.

To combat the possibility of running out of money, many planners suggest keeping a year or two of your living expenses in bank certificates of deposit or money market accounts, or in money market funds, and using that bucket of cash for withdrawals when stocks or bonds are falling. "You need to make sure you have enough sleep-at-night money," says planner Mark Bass. You can replenish your cash bucket in subsequent years when the stock market recovers.

Smart investors also rebalance their portfolios as they withdraw. Say that when you retire, you have one-third of your money in stocks, one-third in bonds and one-third in cash. This allocation will go awry immediately as you withdraw money and as markets move up or down. Once a year, you'll need to get your portfolio back in line with your planned allocation (see the box on page 26).

Rebalancing means you're selling high and buying low, which is what you're supposed to do. More important, it will keep your portfolio's overall risk at the levels you want. In that way, rebalancing will help you sleep at night—and enjoy the fruits of a lifetime of saving. ■

FOR QUESTIONS OR COMMENTS CONTACT FEEDBACK@KIPLINGER.COM.

Now is the not the time to be aggressive with your investment strategy. Instead, do a portfolio health check and set aside some cash as dry powder, because if we do go into a downturn, there could be a lot of opportunities. When things are at their worst, it's often the best time to buy companies that are sensitive to the economic cycle. We see opportunities in chemical companies, paper companies and financials—that's where we're concentrating our firepower now.

John Linehan Portfolio Manager, T. Rowe Price Equity-Income

REED YOUNG

Control what you can control. Lower the risk in your bond portfolio by trimming stakes in high-yield debt and bank loans. Invest in a high-quality short-term bond fund that you can sell quickly at a reasonable price. You'll get a yield north of 2% in a diversified portfolio with low interest-rate volatility. High-income investors with taxable accounts should look at munis. They offer compelling tax-adjusted yields.

Mary Ellen Stanek Chief Investment Officer, Baird Funds

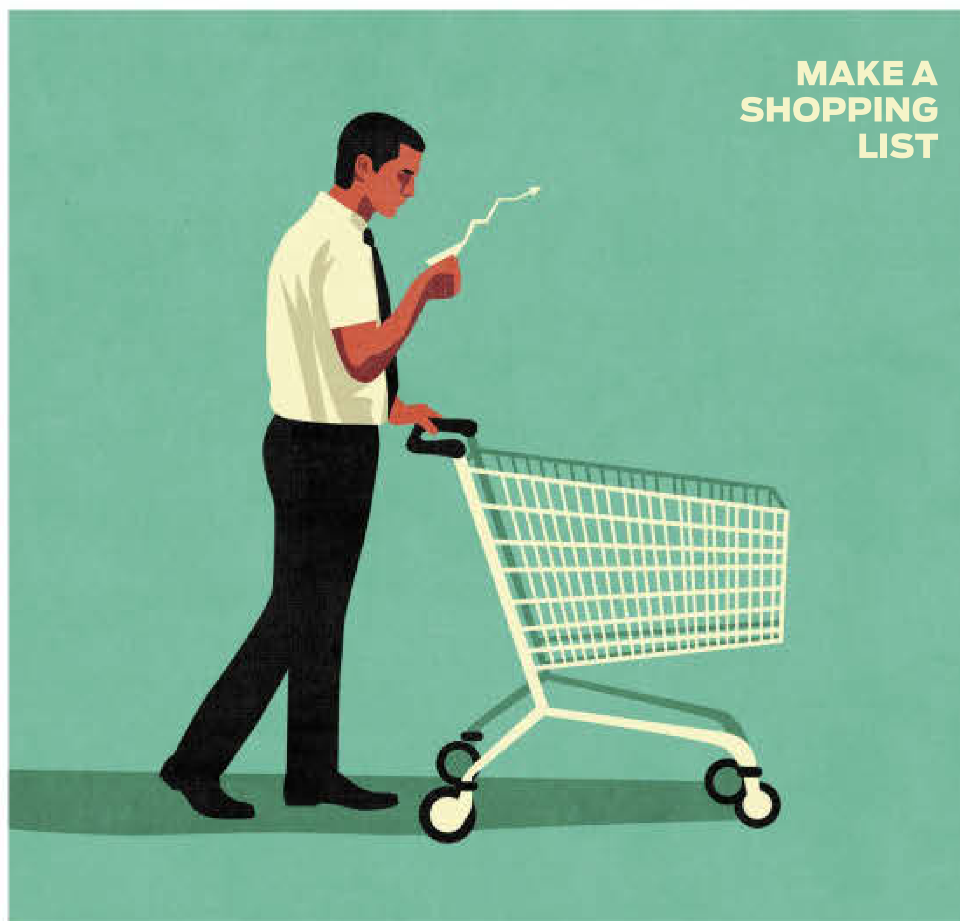
KEVIN MIYAZAKI/REDUX

Disaster Manual

How to Make the Most of a Down Market

You may never learn to love bear markets, but you can learn how to make them more bearable. A bear market rips your portfolio for at least a 20% loss. (Smaller downturns of at least 10%, even the 19.8% price drop in the fourth quarter of 2018, are corrections.) Since World War II, the average bear market has clawed 33% from Standard & Poor's 500-stock index and lasted 14 months.

It typically takes 25 months to get back to the level where the bear market started. The worst bear market in the period was the 2007–09 bear, which sacked the S&P 500 for a 57% loss in price alone (not including dividends). Investors had to wait 49 months to get back to even. Like economic recessions, bear markets are mostly recognized in hindsight. With the bull market in its 11th year, now is a good time to prepare.



Make a shopping list. Bear markets give you a chance to buy stocks on the cheap. Let's say you have money to invest but think the market is on the expensive side. The S&P 500 recently traded at roughly 17 times projected earnings of nearly $172 a share for the next four quarters for the companies in the index. That's above the 10-year average P/E of 14.8, according to FactSet Research. If the market were to suffer the average bear market loss of 33%, then the P/E on the S&P 500 would drop to a bargain-basement level of less than 12 times earnings.

If you invest for income, buy high-quality dividend stocks when their yields hit 4% or better, says Sam Stovall, chief investment strategist for CFRA. (Yields rise when prices fall.) Of the stocks in the S&P 500 that pay a dividend (not all do), the average yield is 2.45%. Income-seeking investors can begin their search with the Dividend Aristocrats, stocks which have increased dividends every year for 25 years. Or consider **S&P 500 DIVIDEND ARISTOCRATS ETF** (SYMBOL NOBL, $71), which invests in all the Aristocrats and yields 2%. (See what the pros advise now on page 24.)

Dollar-cost average—with a twist. Most people dollar-cost average through their workplace retirement plans. When you invest a set amount each paycheck, you buy more shares as the market falls, lowering your average cost over time.

Take even more advantage of bargains by boosting your contribution rate—say, by a percentage point when the market is down 20% from its most recent high, and another percentage point every time the market posts an additional 10% loss. If you were contributing 6% of your salary before a bear market, you'd increase your contribution to 7% when the stock market is down 20% and 8% after it falls 30%.

Rebalance. Consider rebalancing your portfolio when the market is down 20% or more. When you rebalance, you reset your portfolio to your preferred asset allocation. Say you'd decided to keep 60% of your portfolio in stocks and 40% in bonds, but thanks to a bear market, you now have 50% in bonds and 50% in stocks. In this case you'd move money from bonds into your stocks until you got back to your 60%-40% mix. You'll be selling your winning investments—bonds—when they are high, and buying stocks when prices are low.

Know your risk tolerance. Most people feel pretty comfortable with risk—when the stock market is rising. When the market is falling, however, it's a different matter. It's best to take a hard look at your risk tolerance before the market falls, not after. Bear in mind, for instance, that you'll need a 50% gain to erase a 33% loss. Do you have the extra time to make up for that loss, or would it force you to postpone important goals, such as retirement?

Ignore the noise. The market often exhibits short-termism, says Rob Arnott, chairman of the board of Research Affiliates. But you should be a long-term investor. When the market is in a tizzy about this or that, ask yourself: Will what is happening now matter in 10 years? If not, learn to ignore it. For example, we most likely won't be talking about Brexit in 10 years. Instead, focus on things that will matter in the next decade, such as the likelihood that corporate earnings will be higher in 2029 than they are now. J.W.

STREET SMART | James K. Glassman

Dine Out on Restaurant Stocks

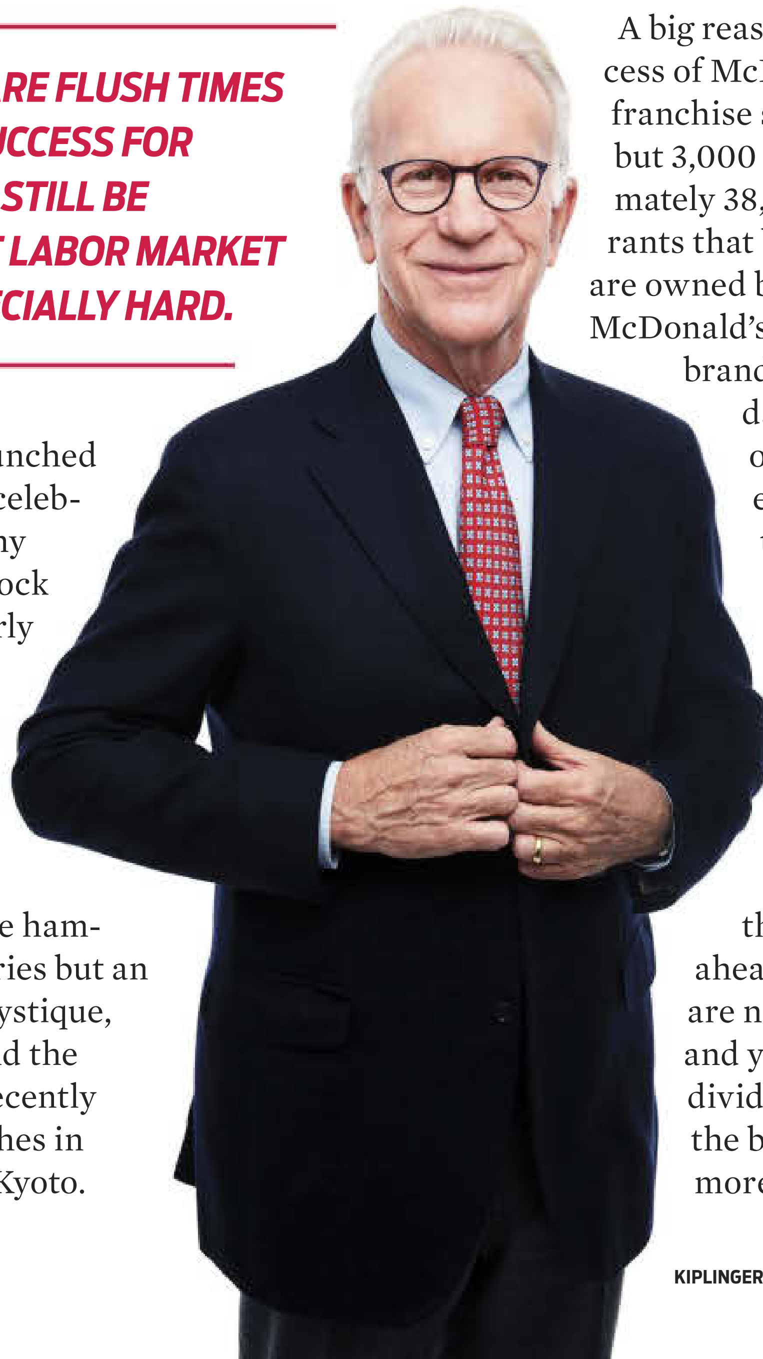
Forget the kitchen. We're eating out tonight. That is the message from the Census Bureau, which reports that Americans spent more this past June in "restaurants and other eating places" than they did in "supermarkets and other grocery stores." The National Restaurant Association expects sales for its industry to increase this year to $863 billion—more than double the 2000 figure. The average U.S. family now spends $6,700 a year eating out. With brick-and-mortar retailers under pressure from online merchants, restaurants are moving into empty storefronts. In Georgia, eating establishments make up 84% of planned new chain retail stores.

Although these are flush times for dining out, success for restaurants can still be elusive. The tight labor market has hit them especially hard. Some 40% of the industry's workers are between ages 16 and 24, a group that will shrink by 1.3 million over the next 10 years. Stricter immigration enforcement has also hurt employers. The *New York Times* recently reported that restaurants face a difficult choice: "Let go of trusted employees or risk criminal prosecution." Plus, the rising minimum wage in many cities and states has boosted costs. In Washington, D.C., for example, the base minimum for tipped restaurant workers will rise 29% in July 2020 compared with two years earlier.

Many seats, fewer butts. The biggest danger restaurants face, however, was expressed to me inelegantly by the founder of a firm that finances them: too many seats and not enough butts. With Wall Street's support, more and more restaurant groups have sprouted and grown, triggering severe competition. Many of these chains have unlikely names, niches and prospects. For example, Chanticleer Holdings (symbol BURG) owns eight Hooters restaurants, 18 Little Big Burger outlets and a few other scattered eateries. The stock traded at $35 as recently as 2015, but, after a string of losing years, you can buy a share now for 55 cents. Then there's Bagger Dave's Burger Tavern (BDBT), which went public in 2017 and trades at just 4 cents today, losing $800,000 on revenues of $5 million in the first half of 2019.

Investors fell in love with hamburgers in part because of **SHAKE SHACK (SHAK, $103)**, launched by New York celebrity chef Danny Meyer. The stock debuted in early 2015 at $21 a share. Today, more than 200 Shake Shacks, with what I consider mediocre hamburgers and fries but an undeniable mystique, operate around the world, with recently opened branches in Moscow and Kyoto.

ALTHOUGH THESE ARE FLUSH TIMES FOR EATING OUT, SUCCESS FOR RESTAURANTS CAN STILL BE ELUSIVE. THE TIGHT LABOR MARKET HAS HIT THEM ESPECIALLY HARD.



Profits are minimal but rising. With shares trading at a price-earnings ratio well over 100, based on earnings estimates for 2020, this is one best bought on dips. (Stocks I like are in bold; prices are as of September 6.)

The king of hamburgers remains **McDONALD'S (MCD, $220)**, whose shares have doubled in the past four years. McDonald's has consistently proved it has the brand, the strategy, the flexibility and the management to dominate. There are few blue-chip companies of *any* sort that beat its combination of growth and stability. Global comparable-store sales rose 6.5% in the most recent quarter, and McDonald's carries a top rating from Value Line for financial strength.

A big reason for the success of McDonald's is its franchise structure. All but 3,000 of the approximately 38,000 restaurants that bear its name are owned by other people. McDonald's provides the brand and the standards, and it owns the real estate under the restaurants, charging a rental and service fee of about one-fifth of sales. At 26 times projected earnings for the 12 months ahead, the shares are not overpriced, and you get a 2.1% dividend yield in the bargain. (That's more than the

POON WATCHARA-AMPHAIWAN

McDONALD'S HAS THE BRAND, THE STRATEGY AND THE MANAGEMENT TO DOMINATE. FEW BLUE-CHIP COMPANIES OF ANY SORT EXCEED ITS COMBINATION OF GROWTH AND STABILITY.

yield on a 10-year Treasury bond.)

In this environment, with not just the restaurant sector but the U.S. economy itself showing signs of peaking, tried-and-true restaurants such as McDonald's are the place to be. Consider **STARBUCKS** (SBUX, $96), a longtime favorite of mine. Yes, the stock has doubled since June 2018, but earnings keep growing briskly, and there's room for even more expansion. The company still has far fewer outlets than McDonald's, for example, and (in my epicurean opinion) if it would only start offering better pastries and sandwiches, it could boost its revenues like crazy. According to a trade publication, Starbucks is one of the few restaurant chains that has "cracked the code on employee retention," with such perks as tuition reimbursement, health benefits and paid time off.

Multiple choices. The best choices among the established companies with multiple brands are **BRINKER INTERNATIONAL** (EAT, $39), with Chili's and Maggiano's; **DARDEN RESTAURANTS** (DRI, $125), with Red Lobster, Olive Garden and Eddie V's; and **RESTAURANT BRANDS INTERNATIONAL** (QSR, $76), with Popeye's, Burger King and Tim Hortons, the popular Canadian coffee-and-doughnut chain.

Brinker carries a P/E based on projected earnings of less than 10 and a dividend yield approaching 4%. It is riskier than the other two, with a debt-heavy balance sheet and revenues that barely budged in the last quarter. But the firm sees significant gains in 2020. Shares of Darden, which yields 2.8%, and Restaurant Brands, which yields 2.6%, have each roughly doubled in three years. They are well-run companies, built for the long haul.

In a class of its own is **YUM BRANDS** (YUM, $119), with a market cap of $36 billion. It has more than 48,000 KFC, Pizza Hut and Taco Bell restaurants in more than 140 countries. Yum recently invested $200 million in Grubhub (GRUB), the delivery service whose stock has tumbled from $146 in September 2018 to $59 in a super-competitive, so far profitless sector that I would avoid.

Yum Brands is, well, yummy, but I like **YUM CHINA HOLDINGS** (YUMC, $46), a sister company with 8,600 outlets in more than 1,000 Chinese cities, even more. The stock appears to have suffered unnecessarily from the trade scuffles of late between the U.S and China, presenting a buying opportunity. Another Chinese firm that bears consideration is **LUCKIN COFFEE** (LK, $21), a chain of 3,000 small mainland coffee shops that mainly take online orders, a model that could go worldwide.

Appealing among smaller, more volatile stocks is **DINE BRANDS GLOBAL** (DIN, $72), owner of Applebee's and International House of Pancakes, which recently introduced a line of (you guessed it) hamburgers. Nearly all of the restaurants are franchised, and the stock is attractively priced at a P/E of 10 and a yield of 3.8%.

Finally, the hottest restaurant stock owns no restaurants. It's Beyond Meat (BYND), which went public in May at $25 and now trades at $155. Beyond Meat sells its vegan versions of meat in grocery stores and restaurants, including breakfast sausage for Dunkin' (DNKN), hamburgers for Carl's Jr. and chicken for KFC. Another company, Impossible Foods, which is not yet publicly traded, provides the non-meat burger for the Impossible Whopper, from Burger King.

Watch out for fads. Only 5% of Americans say they are vegetarian (a figure that has actually declined since 1999). Certainly, be on the lookout for the next great chain. But for now, invest in companies with strong track records and delicious dividends. ■

JAMES K. GLASSMAN CHAIRS GLASSMAN ADVISORY, A PUBLIC-AFFAIRS CONSULTING FIRM. HE DOES NOT WRITE ABOUT HIS CLIENTS. HE OWNS NONE OF THE STOCKS RECOMMENDED IN THIS COLUMN. HIS MOST RECENT BOOK IS *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE.*

Tasty Menu

APPETIZING PICKS

The restaurant companies below are well positioned to capitalize on an increasing preference for eating out, here and abroad.

Company	Symbol	Share price	Market value (billions)	Price-earnings ratio*	Yield
Brinker International	EAT	$39	$1.5	9	3.9%
Darden Restaurants	DRI	125	15.4	20	2.8
Dine Brands Global	DIN	72	1.2	10	3.8
Luckin Coffee	LK	21	4.9	10	0.0
McDonald's	MCD	220	167.1	26	2.1
Restaurant Brands Intl.	QSR	76	19.3	27	2.6
Shake Shack	SHAK	103	3.4	147	0.0
Starbucks	SBUX	96	114.9	32	1.5
Yum Brands	YUM	119	36.3	30	1.4
Yum China Holdings	YUMC	46	17.3	26	1.0

As of September 6. *Based on estimated earnings for the next four quarters. SOURCES: Yahoo Finance, Zacks Investment Research.

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[1] Annual Percentage Yield valid as of 9/18/2019. No minimum deposit required to open; no minimum balance required. Fees could reduce earnings on the account. A penalty may be charged for early withdrawal.
[2] Annual Percentage Yield valid as of 9/18/2019. No minimum deposit required to open. Fees could reduce the earnings on the account. Rate may change before or after account is opened.
[3] National savings average rate courtesy of the FDIC's Weekly National Rates and Rate Caps, as of 9/18/2019; average rate used is for deposits under $100,000.
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CONTRARIAN FUNDS

Charting Their Own Path

Funds that go against the flow have struggled lately but are due for a turnaround. BY NELLIE S. HUANG

WARREN BUFFETT BEST DESCRIBED HOW to be a contrarian investor: "Be fearful when others are greedy, and greedy when others are fearful." In other words, move counter to the crowd. Investors like Buffett are proof that a contrarian approach can reap big rewards. But in recent years, most contrarians have underperformed as a small group of popular, fast-growing tech companies have fueled stock market gains.

Consider: Standard & Poor's 500-stock index climbed 13.7% annualized over the past 10 years, while Amazon .com, for example, returned 37.0% and Netflix returned a whopping 47.8%. The lengthy economic recovery and the persistent growth of trends such as cloud computing and streaming video have "pulled all the indexes up, making a high hurdle for contrarians to overcome," says Bruce Kaser, head of stock research at the *Turnaround Letter*, a contrarian investment newsletter. (Returns and other data are as of September 6.)

That said, a smart investor would do well to give stock funds with a contrarian approach a closer look, given their recent underperformance. There's reason to believe this investment style will see better days ahead. Volatility is higher, for one thing, which bodes well for contrarian investors. "It leads to more opportunities," says Kaser.

Contrarians buy what others shun, whether it's an individual stock (say, Boeing or General Electric), an industry sector (these days, energy or health care) or a significant slice of an entire asset class (emerging-markets stocks or small-company stocks, for instance). Because out-of-favor assets tend to be cheap, the strategy of contrarian investing is similar to value investing, which focuses on assets that are underpriced based on certain measures. But not all contrarian stocks are value stocks. A fast-growing tech firm can be a contrarian choice at times. For example, gaming-chip maker Nvidia was deeply out of favor in 2012, but even at its nadir no one would have mistaken it for a value play. And Amazon had its share of haters in 2014.

Good stock pickers with a contrarian tilt start with underpriced shares that the market has spurned, but they only buy if they can identify a catalyst or good strategic plan to turn things around. As Charles Pohl, chairman and chief investment officer of fund firm Dodge & Cox, says, "Many of the companies we're invested in could be described as contrarian, but they are really value investments based on in-depth research. We're not knee-jerk contrarians. We don't just buy stuff because everybody else hates it."

You have to hunt for contrarian funds. A handful of funds have the word *contrarian* in their name, but there isn't a fund category for this strategy. We found four that we think qualify for the designation, though not all of the managers who run them would call themselves strict contrarians. Recent performance may not impress, but that's in part what makes them intriguing opportunities today.

Bear in mind that contrarian investing requires patience. "It can take time for the herd mentality to reverse," says Kaser. That's why contrarian bets should be only a portion of a diverse portfolio. If you're thinking about buying shares in any of the funds below (or making a bet on an out-of-favor sector or individual stock), make sure your portfolio has a strong mix of assets and investment approaches for balance.

► **DODGE & COX STOCK** (SYMBOL DODGX). This member of the Kiplinger 25, the list of our favorite actively managed

ILLUSTRATION BY BEADY EYES

no-load funds, boasts the lowest annual expense ratio of our contrarian picks: 0.52%. The 10 value-oriented managers at this large-company U.S. stock fund invest with a three-to-five-year holding period in mind and will wait even longer for troubled firms to turn around.

Some of their investments are controversial. "I can give you countless examples of times people thought I was out of my mind with various stocks we bought," says Pohl, who is also a comanager of Stock. "We were heavily criticized" for an early 2000s bet on computer maker Hewlett-Packard, he says. The stock languished, for the most part, until 2013. "You've got to have a lot of patience and persistence, and you've got to have a thick skin," says Pohl. In late 2015, Hewlett-Packard split into two companies—HP and Hewlett Packard Enterprise—and each stock has since beaten the S&P 500, with better than 12% annualized returns. The fund continues to hold both stocks.

In recent months, the managers have been adding to their stakes in two beaten-down health care companies, Cigna and Bristol-Myers Squibb, even as those shares sink further.

The fund's strategy tends to result in streaky returns. With a 1.6% loss for the past 12 months, it trails 72% of its peers—funds that focus on large-company, value-priced stocks. But investors who stick with the fund have been richly rewarded. Over the past 10 years, for instance, Stock outpaced the S&P 500 and ranked among the top 20% of its peers.

► **HEARTLAND VALUE PLUS (HRVIX)**. Bradford Evans says he and Andrew Fleming, his comanager at Heartland Value Plus, are "dyed-in-the-wool contrarians." They look for unloved, underfollowed and undervalued small-cap stocks with strong balance sheets. Dividends are a plus, too. On top of that, Evans and Fleming want to see a solid plan to improve revenues and earnings and a management team that makes shareholder-friendly moves, such as paying down debt or buying back shares. The portfolio holds 43 stocks, with an average market value of $1.7 billion. The fund currently yields 0.59%.

The managers are particular about selling, too. If a balance sheet turns "upside down"—liabilities exceed assets—or a catalyst for change fails, they sell immediately. They'll also sell if a firm does everything right and its stock reaches what the managers deem is its full value. "We don't want to get too greedy," says Evans. He and Fleming are finding the current wobbly market a "good stock-picking environment," however, and are finding opportunities in every sector.

Evans and Fleming have run the fund together since 2016, and they beat the fund's benchmark, the Russell 2000 Value index, and its competition (funds that focus on small-company stocks trading at a value price) with an 11.0% annualized return over that time. The fund's expense ratio is 1.18%, which is about average for small-company stock funds.

► **JANUS HENDERSON CONTRARIAN (JSVAX)**. Manager Nick Schommer has only two years under his belt at Janus Henderson Contrarian. We'd prefer a longer track record, but so far, so good. Since Schommer took over in mid 2017, the fund has returned 12.2% annualized, which narrowly beats its benchmark, the S&P 500. Expenses are a low 0.74%.

Schommer, who calls himself an opportunistic contrarian, has been busy. He has overhauled the portfolio, winding up with 39 stocks that fit into one of three categories: what he calls misunderstood businesses; undervalued companies whose parts are separately worth more than the whole; and firms whose earnings and revenue growth rates are underappreciated.

Ball Corp., the aluminum-can maker, was misunderstood in 2017. "Two years ago, it was all about plastic bottles," he says. "No one understood there would be a backlash and a focus on recyclable products." And shares of French media conglomerate Vivendi were undervalued in late 2017, when Schommer bought shares because, he says, few recognized the digital streaming value of its music business, Universal Music Group. PagSeguro Digital, a Brazilian mobile payment company, falls in the underappreciated growth-stock category. The stock was sagging in early 2018 because of overblown competition fears, says Schommer. But Brazil is a decade behind the U.S. in digital penetration, and PagSeguro has a "long runway to grow," he says. (About 9% of the fund's assets are invested in foreign stocks.)

The blend of contrarian picks helps to smooth the fund's returns, says Schommer. "It creates different opportunity sets so the portfolio can perform throughout different parts of the [market and economic] cycle and not just when value is in favor," he says. "I didn't want to build a portfolio that was always waiting for next year to realize the value of the companies."

Schommer has been finding "ample" opportunities these days, he says, especially in misunderstood businesses. He recently picked up shares in private-equity powerhouse Apollo Global Management, which owns a number of businesses, including the gaming hotel and casino company Caesars Entertainment and the parent company of cruise line Regent Seven Seas.

► **MERIDIAN CONTRARIAN (MFCAX).** You've got to take the good with the bad with this fund. The A shares of Meridian Contrarian charge a 5.75% load, but you can buy shares for no fee through Schwab. The high, 1.60% annual expense ratio is a turnoff, too, but in the past, the fund's performance has made up for it. Over the past five years, it returned 8.1% annualized. That beats its benchmark—the Russell 2500 index, which tracks small and midsize companies—and 86% of its peers, or funds that invest in midsize companies with growth and value characteristics. (Contrarian has an Investor share class, whose symbol is MFCIX, with a 1.35% expense ratio, but the initial minimum investment is $99,999, which could be prohibitive.)

Manager James England favors small and midsize companies, but he can invest in firms of any size. The fund's 60-odd holdings have an average market value of $5.5 billion (squarely in the midsize range). But nearly 13% of the fund's assets are invested in large-company stocks, including the giant insurer American International Group and chip maker Advanced Micro Devices.

England's ideal stock trades at a discount, but a cheap price isn't enough. The business has to have a problem that can be fixed and a good strategy to fix it. "Having a catalyst that can improve long-term earnings growth helps us avoid value traps," he says, referring to discount stocks that fail to recover in price. He avoided the electronic game store GameStop, for instance, because its industry is moving increasingly online. "If there's no prospect for the business to actually turn around," says England, a cheap stock price doesn't really matter.

He holds on to winners long after they've earned back admirers, unlike some contrarians. Nvidia is one example. England first bought shares in 2012. The stock was depressed because of an acquisition in a mobile-phone chip maker that many viewed as a misstep. But England saw other prospects for the firm's chips—in cars, among other things. The stock climbed from roughly $13 a share in 2013 to $280 in 2018. The fund still holds shares of Nvidia, which is currently undergoing another "pause" in its business, England says. ■

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Our Picks

WHERE OTHERS FEAR TO TREAD

The managers behind these funds tilt toward out-of-favor stocks, but they buy only if the company has a good plan to turn things around.

Fund (symbol)	Category	Annualized total return: 1 year	Annualized total return: 5 years	Expense ratio
Dodge & Cox Stock (DODGX)	Large-cap value	–1.6%	7.5%	0.52%
Heartland Value Plus (HRVIX)	Small-cap value	–11.3	1.7	1.18
Janus Henderson Contrarian (JSVAX)	Mid-cap blend	11.1	5.4	0.74
Meridian Contrarian (MFCAX)	Mid-cap blend	–8.0	8.1	1.60
Indexes				
STANDARD & POOR'S 500-STOCK INDEX	Large-cap US stocks	**5.6%**	**10.5%**	
RUSSELL MID CAP INDEX	Mid-cap US stocks	**2.9**	**8.3**	
RUSSELL 2000 INDEX	Small-cap US stocks	**–10.9**	**6.6**	

As of September 6. SOURCES: Fund companies, Morningstar Inc., FTSE Russell, S&P Dow Jones Indices.

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STALWARTS

Stock Market Undisruptables

Their industries have been upended, but these companies will carry on. BY RYAN ERMEY

WHEN EASTMAN KODAK FILED for bankruptcy protection in 2012, it was hard to be surprised. By then, film cameras were an analog product in a digital world. And when the same day of reckoning came for Blockbuster Video and for Borders bookstores, the nostalgic among us may have felt a twinge of regret, despite having seen it coming. Of the three, only Kodak still exists or trades publicly, at a penny-stock price of $2 a share.

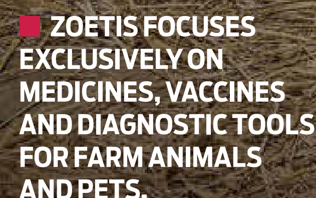
These companies were disrupted—unseated by forces that made their products or services obsolete. As we've grown more technologically advanced, this sort of disruption has become more common. In 1964, the average tenure for a company in Standard & Poor's 500-stock index—which represents 500 large U.S. firms—was 33 years, according to consulting firm Innosight. By 2016, it was 24 years, and the firm projects it will shrink to 12 years by 2027.

It behooves the long-term investor, then, to choose stocks that are unlikely to crumble in the face of persistent challenges. The stocks below are equipped to deliver long-term performance despite current or potential disruption within their industries. Some trade at lofty valuations, and all could be adversely affected by a bear market or recession. But if you're willing to hold for the long term, these firms should deliver healthy returns. Prices and other data are as of September 6.

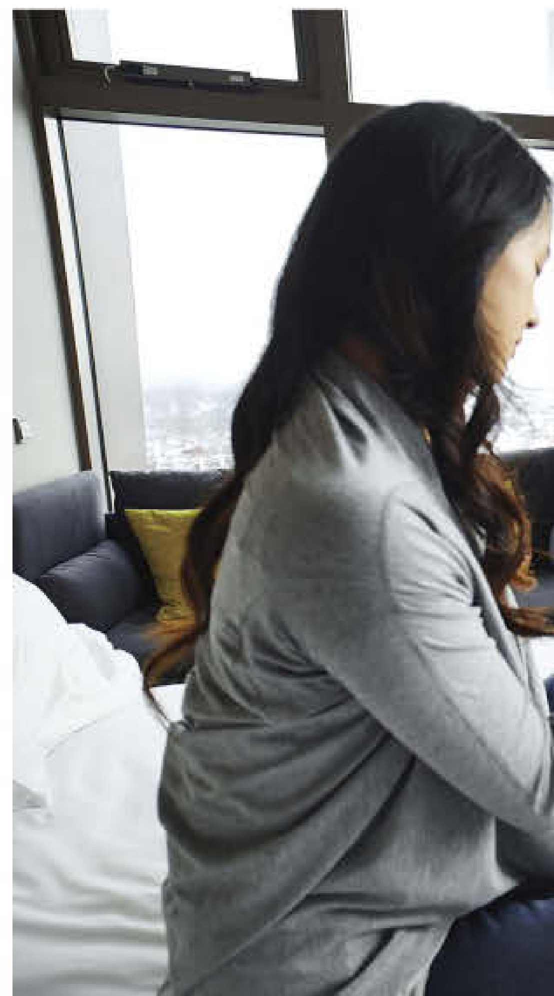
Equinix (symbol EQIX, $554)
Equinix has already proved it can thrive despite technological disruption. Equinix began as a "colocation" firm, renting out space in physical centers for companies' data storage and computer network equipment. "It essentially served as an on-and-off ramp to the internet," says Mike Lippert, portfolio manager at Baron Opportunity fund.

Then came the cloud, and widespread concern among investors that businesses would route their computing work through the data centers of major public cloud providers, such as Amazon Web Services and Microsoft Azure, making colocation centers like Equinix's obsolete. Instead, says Lippert, Equinix adapted, partnering with the major cloud players so that Equinix centers could function as clearinghouses where clients access numerous public cloud services. For example, an Equinix business client might access different public clouds, such as AWS and Azure, as well as cloud-based software applications, such as Salesforce and Workday, in one place.

Equinix's centers boast four times as many interconnections as its next-biggest competitor, and the company should steadily boost sales as it expands its capacity to meet strong demand for its business, says Keith Snyder, an analyst at investment research firm CFRA. Equinix, which is structured as a real estate investment trust, no longer comes cheap after returning 60% so far this year. But Lippert sees it as a solid long-term holding that can



ZOETIS FOCUSES EXCLUSIVELY ON MEDICINES, VACCINES AND DIAGNOSTIC TOOLS FOR FARM ANIMALS AND PETS.



MARRIOTT PLANS TO ADD UP TO 295,000 NEW HOTEL ROOMS BY 2021, WHICH SHOULD BOOST EARNINGS PER SHARE.

generate annual growth in funds from operations (a measure of REIT profitability) at a rate in the high-single-digit percentages over the next decade.

Marriott International **(MAR, $129)** Home-sharing websites are a growing problem for hotels. Airbnb lists more than 6 million properties on its site (up from 300,000 in early 2014)—a formidable figure, considering that there are 17 million rooms offered at hotels worldwide.

The intrusion has limited hotels' pricing power, says Becky Baker, portfolio manager at Fidelity Select Leisure. So far in 2019, revenue per available room, a measure of hotel profitability, has grown by only 1%, and Baker doesn't see growth picking up much anytime soon. But amid the hotel doldrums, Marriott is well positioned, with brighter growth prospects than its competitors, she says.

Helping matters is that Marriott owns practically none of its industry-leading 1.3 million rooms; 97% of them are either managed by the company or operated as a franchise. Such agreements allow Marriott to collect recurring fees from the hotels' owners and franchisees. The model requires practically no capital from Marriott to open a new hotel, Baker says, and the firm is boosting its supply of rooms more than twice as quickly as the rest of the industry. Marriott plans to add up to 295,000 new rooms by 2021, a move the firm expects to boost earnings per share by as much as an annualized 15% from 2018 levels.

O'Reilly Automotive **(ORLY, $400)** When Amazon entered the car-parts business in 2017, shares of auto-parts seller O'Reilly dropped precipitously. O'Reilly wouldn't have been the first store to be put out of business by the mega retailer's fast shipping, low prices and vast inventory. But O'Reilly's stock bounced back as the company showed that it has one of the rare business models that is insulated from the ubiquitous threat of e-commerce.

O'Reilly sells aftermarket parts and tools to professional mechanics and do-it-yourselfers. With about 5,300 stores, almost all located within 300 miles of a distribution center, O'Reilly can ship quickly to mechanics who need specific parts on short notice. "If you can't ship a part in 30 to 45 minutes, you won't remain a preferred distributor for long. Amazon has same-day shipping, but they can't move that fast," says Hennessy Focus portfolio manager Ira Rothberg. And O'Reilly's retail staff offer guidance and expertise for the DIY crowd that is harder to find at a large online retailer, he says.

O'Reilly will likely outpace its competitors in growth of store space, sales and earnings over the next few years, and it should benefit from the increasing age of vehicles on the road, which should create demand for more repairs, says CFRA analyst Garrett Nelson.

COURTESY ZOETIS; MARRIOTT

He sees earnings rising by 8.7% in 2019, followed by a 15.7% increase in 2020. He rates the stock a "strong buy."

Visa (V, $186) Essentially the world's largest toll collector on electronic payments, Visa has benefited from a decades-long shift away from cash. But the firm is first to admit that innovations in mobile commerce and peer-to-peer payments, along with advancing technology (including the growth of internet-connected devices), will continue to drastically expand and change the way people and businesses exchange money. Visa has estimated that the number of devices used to make payments and the number of ways to accept them will increase 10-fold by 2022.

Analysts at financial services firm William Blair say Visa has remained ahead of the curve, investing in and partnering with financial technology firms to ensure that the electronic payments of the future "occur over Visa's rails."

Visa has benefited from the emergence of electronic payment platforms such as PayPal and its subsidiary Venmo, whose customers largely fund payments through credit and debit cards, says Brandon Ladoff, co-manager of Polen Growth fund.

Trading at 31 times estimated earnings for the 12 months ahead, Visa shares are not bargain-priced. But Ladoff sees plenty of room for long-term growth, especially considering that 85% of the world's transactions are still executed in cash. He expects Visa to boost earnings at an annual percentage rate in the high teens over the next half-decade.

Survivors

ROLLING WITH THE PUNCHES

The companies below have found a way to thrive in industries under assault.

Company	Symbol	Share price	Market capitalization (billions)	1-year total return	Price-earnings ratio*
Equinix	EQIX	$554	$47.0	31.1%	26
Marriott International	MAR	129	42.6	5.1	20
O'Reilly Automotive	ORLY	400	30.6	16.0	22
Visa	V	186	416.1	29.4	31
Walmart	WMT	115	326.3	21.5	23
Zoetis	ZTS	128	61.3	44.0	35

As of September 6. *Based on estimated earnings for the next four quarters.
SOURCES: Morningstar Inc., Yahoo Finance, Zacks Investment Research.

Walmart (WMT, $115) When it comes to retail disruption, Walmart is "the only American retailer that can compete comprehensively with Amazon's retail offering," says Morningstar analyst Zain Akbari.

Walmart's grocery business gives the company an advantage over Amazon. Groceries account for more than half of sales at Walmart's U.S. stores. Walmart's ample facilities and parking lots are optimized for so-called "click and pick" (order online and pick up in-store) shopping models, which will be more difficult for Amazon to execute at its Whole Foods stores, says T. Rowe Price Value fund manager Mark Finn. Walmart's grocery offerings drive customers to more-profitable merchandise in the rest of the store, says Akbari.

Walmart is boosting its nascent e-commerce business, which accounts for just 4.7% of the U.S. division's net sales, says CFRA's Nelson. He says Walmart is well positioned to loosen Amazon's e-commerce stranglehold, having introduced in May free next-day shipping on orders over $35 (without a fee akin to the annual membership cost of Amazon Prime). He projects e-commerce sales growth of 35% in the fiscal year that ends in January, compared with the previous year. That should help Walmart (trading at 23 times year-ahead earnings) close the valuation gap on Amazon (trading at 71 times earnings), says Nelson. He rates Walmart stock a "buy."

Zoetis (ZTS, $128) The bad news for drugmakers is that lowering prescription drug prices is a bipartisan goal, promising disruption of old pricing models and volatile share prices. The Trump administration is mulling a plan that would base Medicare payments for certain drugs on the lower prices paid for those drugs in other countries. And analysts say a single-payer system, such as the one proposed under Medicare for All plans, could drastically reduce pharmaceutical firms' pricing power.

Zoetis, which makes medicines, vaccines and diagnostics for farm animals and pets, needn't worry about any of that. As Morningstar analyst Debbie Wang notes, the animal health industry "lacks large players like Medicare, single-payer governments or large insurance companies" that could potentially affect drugmakers' pricing. Additionally, Zoetis faces little competition from generics, and pet and large-scale livestock owners alike will pay a premium for prescriptions from a company they trust, says fund manager Ladoff.

Unlike many of its competitors—animal health divisions of human-pharma companies—Zoetis can focus on developing treatments targeting animal illnesses exclusively. Analysts at Credit Suisse are bullish on the firm's pipeline of treatments, and they believe Zoetis will boost earnings by 14% in 2019 followed by an 11% uptick in 2020. Though the shares earn an "outperform" rating from Credit Suisse, it's worth noting that they currently trade at 35 times year-ahead earnings, compared with an average forward P/E of 25 over the past five years. ■

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INCOME INVESTING | Jeffrey R. Kosnett

The Never-Ending Hunt for Yield

Higher-yielding corners of the bond market got slammed over the summer as skittish investors flocked to safe-haven alternatives. But as rates fall on basic fixed-income investments, such as bank deposits and Treasury debt, income investors will continue their quest for extra yield.

Brace for some wide swings in the principal value of your higher-income-paying securities over the rest of 2019, as trading turns more unpredictable. But until and unless the U.S. economy tanks—note that projected growth of roughly 2% with low inflation is a sweet spot for income investors, not a letdown—you'll get paid in full and on time with most investments.

I therefore see no reason for a massive, defensive response to Federal Reserve rate cuts, volatile oil prices or the explosive Treasury bond rally, which saw 10-year T-bond yields plunge from 2.02% to 1.71% in a single week, sparked by increasing trade tensions with China. There is no need to raise cash and stuff it into three-month CDs or safe deposit boxes because the return on cash is falling. Online banks have already decreased saving rates and will probably take rates lower still. Money market fund yields track the Fed's rate actions, and the Fed may cut rates further.

Thriving amid chaos. The current backdrop is good for bonds and dividends. Those who interpret the financial markets' late-summer disarray as a prompt to trim risk will likely do it by unloading richly priced tech stocks and other shares sensitive to global trade issues and recession, including construction and farm machinery. Oil-related investments will remain uncertain; so will emerging markets. But "credit sectors look more appealing [than stocks], and the reach for yield will continue," says Yung-Yu Ma, chief strategist for BMO Wealth Management. That bodes well for non-government-backed, yield-focused investments, such as high-grade corporate bonds, commercial mortgage pools, bank-loan and credit card receivables, and the shares of nonbank lenders.

Ma and other big-picture thinkers know that as the yield on long-term Treasuries collapsed last summer, yields on some risky sectors such as junk bonds rose (meaning prices fell)—a traditional indicator of economic uncertainty. I believe, however, that junk and some other, similar assets were already expensive, so an adjustment was overdue. I still like funds such as **NORTHERN HIGH-YIELD FIXED INCOME** (SYMBOL NHFIX), yielding 6.8%, and **RIVERPARK STRATEGIC INCOME** (RSIVX), yielding 4.6%. They lost less than 2% of their net asset values during investors' recent, manic flight to the full faith and credit of the U.S. Treasury. NHFIX has a return of 11.9% for the year, and RSIVX, a short-duration high-yield fund, 3.0%. (Prices and returns are through September 6.)

THE PROSPECTS ARE GOOD FOR CORPORATE BONDS, REAL ESTATE INVESTMENT TRUSTS AND UTILITIES.

You may be wondering how to recapture the 0.25 percentage point and more in yield that cash and new short-term investments no longer provide. Corporate bonds rated A and BBB are sound choices. Real estate investment trusts and utilities are also fine. Their prospects for growth and higher dividends have less to do with Federal Reserve activity than with the economy, especially jobs, payrolls and consumer spending. One of my favorite high-yield ideas, the consumer-focused conglomerate **COMPASS DIVERSIFIED INCOME** (CODI, $19), is typical. It started 2019 at $13, clambered up to $20 in late July, lost a buck and change during the summer swoon, and started climbing again. It yields a whopping 7.6%.

Warren Pierson, a senior bond manager for Baird Funds, says he would be surprised if interest rates completely reversed their recent fall, so your capital gains (paper profits, if you will) in bonds and bondlike investments won't disappear. The market can certainly overreact to headlines.

But the case for doing nothing or sticking with what's working is persuasive. ■

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

POON WATCHARA-AMPHAIWAN

THE KIPLINGER 25 UPDATE

Tepid Gains in a Hot Bond Rally

THE STRATEGY BEHIND DOUBLELINE TOTAL RETURN BOND fund is simple. The fund's managers, led by Jeffrey Gundlach, invest in a blend of government-agency mortgage-backed securities and non-agency mortgage-backed bonds. The two types of bonds balance each other in terms of risk: Government mortgage debt carries no default risk but a lot of interest rate risk (interest rates and bond prices tend to move in opposite directions); non-agency mortgage-backed bonds have little interest rate risk but higher default risk. Since it launched in April 2010, the fund has outpaced all but four of its peers—funds that focus on intermediate-term bonds—with lower volatility.

The past year has been business as usual for the fund, with one small change. Gundlach and his comanager, Philip Barach, promoted analyst Andrew Hsu to comanager. Hsu has been a member of Gundlach's team for years. "Andrew knows the portfolio inside and out," says Gundlach.

But the bond market has been a bit unusual. High-quality corporate bonds, a sector Total Return Bond doesn't own, gained 13.7% through the first eight months of 2019, nearly as much as the broad U.S. stock market. "That's interesting and also weird," says Gundlach. Corporate debt makes up 25% of both the Bloomberg Barclays U.S. Aggregate Bond index and the typical intermediate-term bond fund. As a result, Total Return Bond's respectable 7.5% gain over the past 12 months lags the 10.1% gain in the Agg index and trails 88% of its peers.

Falling interest rates in 2019 posed another problem for Total Return Bond. By early September, the 10-year Treasury yield had dropped a whopping 1.14 percentage points. Falling rates have pushed bond prices higher—good news for bond investors, especially holders of government debt. But Gundlach likes to keep Total Return Bond's duration, a measure of interest-rate sensitivity, below that of the Agg index. In late summer, the fund had a 3.5-year duration; the Agg, by contrast, had a 5.3-year duration. "Given the Total Return construct, I think we've performed quite well," Gundlach says.

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KEY DATA FOR OUR MUTUAL FUND PICKS

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

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
D.F. Dent Midcap Growth	DFDMX	13.7%	13.8%	—	0.0%	0.98%
Dodge & Cox Stock	DODGX	–1.6	7.5	12.5%	1.8	0.52
Mairs & Power Growth	MPGFX	4.5	8.6	12.9	1.3	0.64
Parnassus Mid Cap	PARMX	10.4	10.0	13.8	0.6	0.99
T. Rowe Price Blue Chip Growth	TRBCX	7.4	14.3	16.7	0.0	0.70
T. Rowe Price Dividend Growth	PRDGX	12.9	11.8	13.6	0.0	0.64
T. Rowe Price QM US Sm-Cp Gro	PRDSX	0.2	10.6	15.9	0.0	0.80
T. Rowe Price Sm-Cap Value	PRSVX	–6.7	7.5	11.8	0.0	0.85
T. Rowe Price Value	TRVLX	7.4	7.5	12.5	0.0	0.78
Primecap Odyssey Growth	POGRX	–8.4	10.6	14.0	0.3	0.65
Vanguard Equity-Income	VEIPX	4.9	8.8	13.0	2.9	0.27
Wasatch Small Cap Value	WMCVX	–5.2	8.1	12.9	0.0	1.20

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
AMG TimesSquare Intl Sm-Cap	TCMPX	–7.3%	5.5%	—	0.7%	1.23%
Baron Emerging Markets	BEXFX	3.5	1.6	—	0.1	1.36
Fidelity International Growth	FIGFX	9.5	6.3	9.1%	0.7	0.95
Oakmark International	OAKIX	–4.9	1.7	7.1	1.9	0.96

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Vanguard Health Care	VGHCX	–3.5%	7.3%	13.7%	1.3%	0.34%
Vanguard Wellington‡	VWELX	8.6	7.7	10.1	2.4	0.25

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DoubleLine Total Return N	DLTNX	7.5%	3.3%	—	3.4%	0.73%
Fidelity Intermed Muni	FLTMX	7.8	3.1	3.6%	1.3	0.37
Fidelity New Markets Income	FNMIX	8.1	3.6	6.6	5.4	0.84
Fidelity Strategic Income	FADMX	7.0	3.6	5.7	3.4	0.69
Met West Total Return Bond M	MWTRX	10.2	3.1	5.3	2.1	0.67
Vanguard High-Yield Corporate	VWEHX	8.5	5.0	7.8	4.8	0.23
Vanguard Sh-Tm Inv-Grade	VFSTX	5.7	2.3	2.8	2.2	0.20

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500-STOCK INDEX	**5.6%**	**10.5%**	**13.7%**	**2.0%**
RUSSELL 2000 INDEX*	**–10.9**	**6.6**	**11.7**	**1.5**
MSCI EAFE INDEX†	**1.3**	**2.3**	**5.4**	**3.5**
MSCI EMERGING MARKETS INDEX	**1.5**	**0.7**	**4.2**	**2.9**
BLOOMBERG BARCLAYS AGG BND IDX#	**10.1**	**3.4**	**3.9**	**2.3**

As of September 6. ‡Open to new investors if purchased directly through the fund company. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices.

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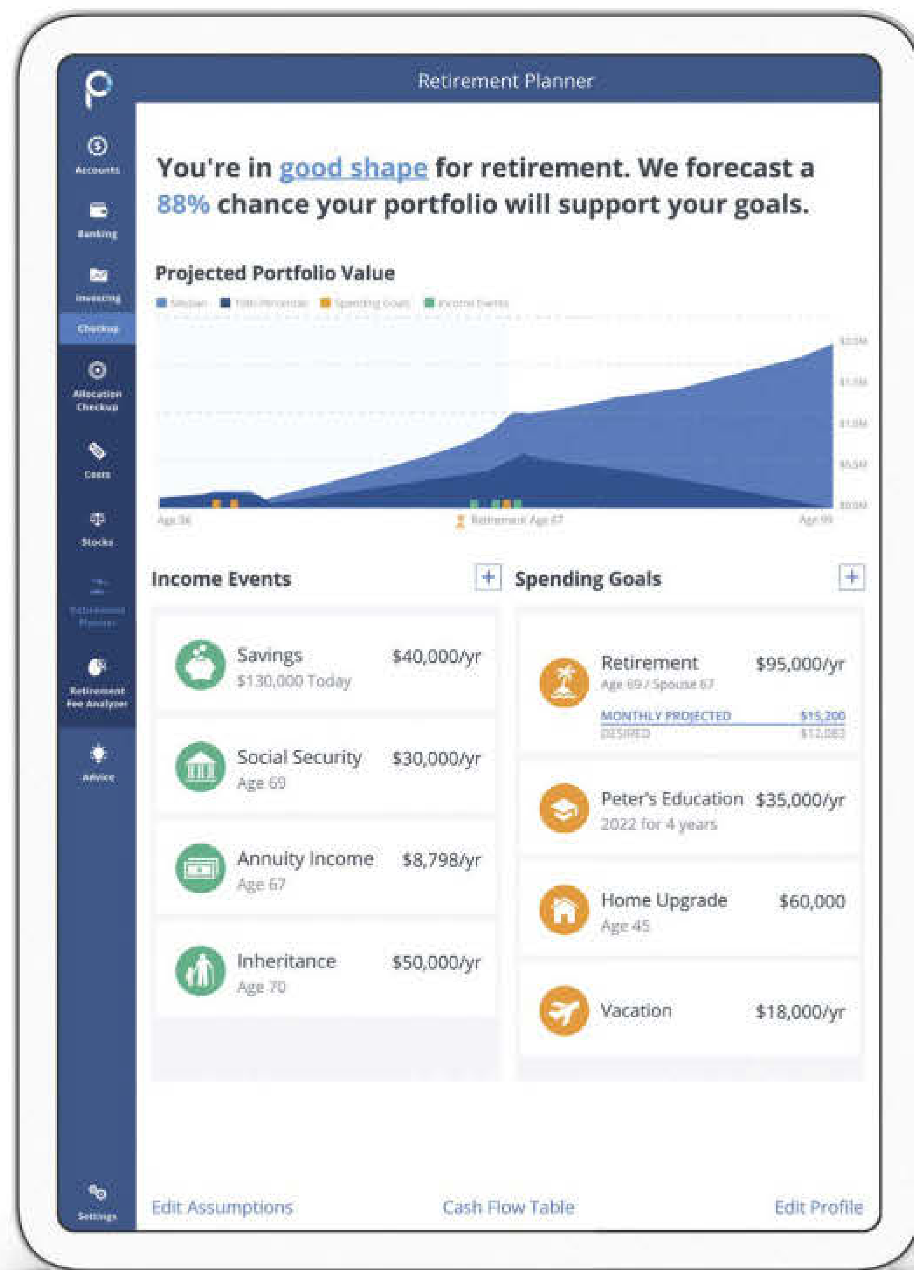

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MUTUAL FUND SPOTLIGHT

A Focused Approach Pays Off

This young fund has bet big on tech and industrial companies.

TCW NEW AMERICA PREMIER Equities has been white-hot since its 2016 launch. The large-company stock fund's 25% annualized return since February of that year blitzed Standard & Poor's 500-stock index by an average of more than 10 percentage points annually. New America outpaced more than 90% of its peers in each of the past three calendar years, including so far in 2019.

New America uses environmental, social and governance factors to choose stocks. But fund manager Joseph Shaposhnik says he isn't out to save the world. Rather, he believes the ESG screen he employs helps him find high-quality, excellently managed businesses worth examining further. The screen looks at traditional sustainability factors, such as carbon emissions, but it skews toward governance criteria, such as gender and ethnic diversity among members of the management team, and sensible executive compensation. Only 200 to 300 companies make the initial cut.

From there, Shaposhnik hunts for reasonably priced firms that log hefty amounts of recurring revenue and that operate in industries unlikely to be affected by economic cycles. The most important attribute for stocks in Shaposhnik's portfolio is robust free cash flow—cash profits after expenses and long-term outlays to improve the business—that is increasing at an accelerating rate. How a firm spends its excess cash matters, too. Shaposhnik wants to see excess capital devoted to acquisitions or in-house growth projects. "I'm not looking for firms that pay dividends or repurchase shares. Those are less efficient uses of capital," he says. Top holdings in the fund include software maker Constellation Software, tech behemoth Microsoft and data analytics firm IHS Markit.

New America's portfolio comprises only 33 stocks and is heavily focused. Technology and industrial firms account for 68% of the portfolio, and 50% of assets are invested in the top 10 holdings. Shaposhnik says the most stable stocks get the heaviest weightings in the portfolio, so despite its big bets on a few names, the fund hasn't been especially volatile. Since the fund's inception, New America has been only 4% more volatile than the S&P 500.

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LARGE-COMPANY STOCK GROWTH FUNDS

Ranked by one-year returns

Rank/Name	Symbol	Annualized total return 1 yr.	5 yrs.	Max. sales charge	Exp. ratio
1. Akre Focus Retail	AKREX	23.6%	16.2%	1.00%[r]	1.32%
2. Eaton Vance Atlanta Cap Foc Gr A	EAALX	23.1	14.8	5.75	1.05
3. Calvert Equity A	CSIEX	23.0	14.2	4.75	0.99
4. TCW New America Premier Eq N	TGUNX	20.8	—	none	1.00
5. Eaton Vance Atlanta Cap Sel Eq A	ESEAX	20.2	12.9	5.75	1.05
6. Marshfield Concentrated Opp@	MRFOX	19.1	—	2.00[r]	1.11
7. Artisan Thematic Investor	ARTTX	17.7	—	none	1.52
8. Meridian Enhanced Equity A	MRAEX	16.8	13.7	5.75[s]	1.84
9. MFS Massachusetts Inv Gr Stk A	MIGFX	16.7	13.3	5.75	0.73
10. Principal Blue Chip A	PBLAX	15.9	14.9	5.50	0.99
CATEGORY AVERAGE		6.2%	11.2%		

20 LARGEST STOCK AND BOND MUTUAL FUNDS

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

STOCK MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Adm	VTSAX	$695.1	3.9%	9.9%	none
2. Vanguard 500 Index Adm	VFIAX	367.5	5.6	10.4	none
3. Vanguard Total Intl Stock Idx Adm	VTIAX	359.2	0.6	1.9	none
4. Fidelity 500 Index Inv	FUSEX	202.6	5.6	10.5	none
5. American Growth Fund of America A	AGTHX	189.7	2.1	10.5	5.75%
6. American EuroPacific Growth A	AEPGX	159.0	3.4	4.0	5.75
7. American Balanced A	ABALX	150.1	6.0	7.3	5.75
8. American Washington Mutual A	AWSHX	120.5	7.0	9.5	5.75
9. Fidelity Contrafund	FCNTX	117.5	3.3	11.8	none
10. American Income Fund of America A	AMECX	111.2	5.9	5.7	5.75
S&P 500-STOCK INDEX			5.6%	10.5%	
MSCI EAFE INDEX			1.3%	2.3%	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Index Adm	VBTLX	$195.5	10.3%	2.2%	none
2. Pimco Income A	PONAX	129.3	5.8	3.0	3.75%
3. Vanguard Total Intl Bd Idx Adm	VTABX	117.3	11.0	0.3	none
4. Metropolitan West Total Return Bd M	MWTRX	79.4	10.2	2.1	none
5. Vanguard Interm-Term Tax-Ex Inv	VWITX	70.7	8.1	1.4	none
6. Pimco Total Return A	PTTAX	69.0	10.0	2.2	3.75
7. Dodge & Cox Income@	DODIX	61.9	9.0	3.7	none
8. Vanguard Short-Term Inv-Grade Inv	VFSTX	60.8	5.7	2.2	none
9. DoubleLine Total Return Bond N	DLTNX	54.4	7.5	3.2	none
10. Lord Abbett Short Duration Income A	LALDX	52.9	5.1	2.7	2.25
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			10.1%	2.3%	
B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX			8.7%	1.7%	

As of September 6. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. †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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2. Potential Tax-Free Income
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SPECIAL REPORT

Your Guide to Open Enrollment

You may have more health insurance options for 2020. But you'll need to work harder to find the one that's right for you. **BY LISA GERSTNER**

When your employer rolls out its menu of health insurance benefits this fall, don't be surprised if you have more options than you did last year. As companies try to cater to workers' diverse needs, they're dishing out a broader selection of plans. Employers say that offering or expanding benefit choices is their highest priority over the next three years, according to a survey from consultant Willis Towers Watson. To help keep your premiums and their own costs down, companies have been adding high-deductible plans linked to a health savings account—or even dropping traditional plans from their menu and making a high-deductible plan the only option. But among large employers, the number of organizations offering only a high-deductible plan will fall to 25% in 2020, according to a survey by the National Business Group on Health, compared with 30% in 2019 and 39% in 2018.

 PHOTOGRAPH BY BOB STEFKO

MATTHEW AND LORI MURPHY ARE DECIDING WHETHER TO STAY WITH THEIR HIGH-DEDUCTIBLE HEALTH INSURANCE PLAN.

WEIGH THE CHOICES

Greater choice is a good thing—but you'll have to study up to ensure that your plan meets your medical needs at the lowest cost. In 2020, employers expect the cost of health care benefits to rise by 5%, according to the NBGH survey. The projected total cost per employee (including any family members on the plan) next year is $15,375, compared with $14,642 in 2019. The NBGH didn't estimate average premiums and out-of-pocket expenses for 2020, but in 2019, workers at large companies picked up nearly $4,500 of the tab in premiums and out-of-pocket expenses, and employers shouldered the rest.

More than half of employers offer tools, such as online calculators, to help workers decide which plan to pick. And within the next three years, 75% of employers will make it a priority to provide such tools, according to Willis Towers Watson. Using a benefits calculator led Chicagoans Lori and Matthew Murphy to reconsider whether a high-deductible health plan paired with a health savings account is still the best option for them and their two daughters. Lori works for a technology company that was recently bought out.

Under the previous owner, the high-deductible plan "was a slam-dunk decision," says Matthew, who is self-employed. With the new owner's policy offerings, the Murphy family's total for premiums and out-of-pocket expenses would be nearly the same for basic preventive care whether they choose a high-deductible plan or a standard preferred provider organization (PPO) policy. When they factor in possible visits to a specialist or the emergency room, the PPO option would be about $700 less for the year. But they're also weighing the advantages of building long-term savings in an HSA. "We're on the fence, but it's likely we will go with the PPO," says Matthew.

Employers are further incorporating technology—and cutting costs—with virtual health services. Plans are providing remote care for everything from management of diabetes, high blood pressure and other chronic conditions to problems such as arthritis and back pain. You may attend a physical therapy session through a videoconference, for example. Colds, flu and dermatological issues, such as acne or a rash, may be treated virtually, too, at a typical price of $10 to $40 per "visit," says Tracy Watts, senior partner at benefits consultant Mercer.

PICK YOUR PLAN

If you and your family members are healthy, a high-deductible policy may be the least-expensive option because it typically comes with a lower premium than other plans. If it's your first time considering such a plan, review the explanation of benefits or ask your medical providers for the full cost of office visits, says Cassandra Weaver, director of human resources for Benefit Resource. Check prices for your prescription drugs, too.

Make sure you have enough cash saved to meet a high deductible, which will be at least $1,400 for an individual and $2,800 for a family in 2020. Take advantage of an HSA if it's available. You'll get a triple tax benefit: Contributions are pretax (or tax-deductible, if your HSA is not from an employer),

KipTip

How to Get Individual Coverage

Good news if you'll be shopping for a health insurance plan in the individual market: Premiums continue to stabilize after years of steep increases, and some insurers are offering their Affordable Care Act plans in more states.

Laura Davis, a financial planner who lives in Decatur, Ga., expects to see more options when she looks to the health insurance exchange this fall for a policy to cover herself, her husband and their two kids. Davis is self-employed, and for years the family relied on her husband's employer plan. But since he became self-employed last year, they've been covered through COBRA, the federal law that allows workers to stay on their employer plan for up to 18 months after leaving a job. Their coverage will expire in December.

The premium for their high-deductible plan is currently less than $1,000 a month, and Davis expects to pay at least $1,700 monthly for a similar plan from the exchange, with a deductible of $7,000 or more and an out-of-pocket maximum of nearly $14,000 for in-network costs. But the new plan won't likely include vision and dental coverage, as her current one does. "We don't use much health care, and we've been able to build our HSA balance over the years," says Davis.

Lowering the cost. Davis says her family's income is too high to qualify for a government subsidy to lower their premiums. To be eligible, your income can't exceed 400% of the federal poverty level, which is $49,960 for an individual, $67,640 for a couple and $103,000 for a family of four. If you can get a subsidy, a plan from the exchange is your best bet. Select your state at www.healthcare.gov/get-coverage to see your options. You can also shop for policies at eHealthInsurance.com or through a broker; find one at www.nahu.org.

Short-term health policies that don't meet ACA standards are becoming more prevalent. Some may last up to 12 months and be renewed up to three years. Premiums for an individual may run about $125 monthly, compared with an average of $448 for an ACA plan with no subsidy, says Paul Rooney, of eHealthInsurance.com. But such short-term plans may exclude preexisting conditions and preventive or maternal care. If you're in good health, take few prescriptions and are looking for emergency protection at an affordable price, a short-term plan can make sense, say Adam Hyers, an insurance broker in Columbus, Ohio.

the funds grow tax-free, and withdrawals for qualified medical expenses aren't taxed. Plus, you can stack up savings for the future (for more on HSAs, see "Plan for Future Health Costs," on page 48). Your employer may help fund your account, too. Consider stashing in the account the extra money you would spend on premiums if you had a plan with a lower deductible.

A PPO plan with a lower deductible and higher premium may be a good choice if you have a condition that requires you to visit health care providers frequently. (Recently, however, 14 treatments and services for various chronic illnesses—such as statins for heart disease and insulin for diabetes—became eligible as preventive-care benefits for those who have a high-deductible plan with an HSA. So you may not have to meet the deductible before receiving coverage for those items.) A health maintenance organization (HMO) plan may have a lower premium, but you'll likely receive little to no coverage for out-of-network care or for specialists you visit without a referral from your primary doctor.

As you compare plans, review the premium, co-pays, deductible and out-of-pocket maximum. To estimate the most you'd pay for coverage, add your annual premium costs to your out-of-pocket maximum, says Myles Ma, health care expert for Policygenius. See whether your physicians are in the plan's network, and check how much you'll pay to see out-of-network providers. If you're offered vision or dental insurance, consider whether you anticipate using the benefits enough to make the premium worth paying. Account for any large expenses on the horizon, such as orthodontia for a child.

AND CHECK THESE ITEMS

Look over the formulary, which lists prescription drugs included in the plan. Find out what the co-payments are for your drugs—co-pays are often broken down into several tiers, with generic medicines receiving the most insurance coverage and non-preferred, brand-name drugs and new or specialty drugs getting less coverage. Currently, about one-fourth of employers delay coverage for drugs that are new to the market for some period (say, six months) while the benefits manager evaluates their safety and effectiveness, according to the NBGH survey.

If you have a flexible spending account, which may be available no matter what type of health plan you pick, brush up on eligible expenses at https://fsastore.com/fsa-eligibility-list.aspx. Some employers give you until March 15 after your plan year ends to spend the funds, or you may be able to roll over up to $500 to the next plan year. Even if you don't use all the money by your plan's deadline, you may still come out ahead because pretax dollars go into the account. Someone who is in the 24% federal tax bracket and puts $1,000 in an FSA may save about $300 to $350 for the year in federal and state income taxes and FICA tax, says Paul Fronstin, director of health research for the Employee Benefit Research Institute.

If you're thinking about adding your spouse to your plan, see whether it levies a spousal surcharge, which may apply if your spouse is eligible for health insurance through his or her own employer. Run the math to see whether it makes sense to put your entire family on one plan or to divvy it up—say, with only you on your employer plan and your children and spouse on your spouse's plan. "We're seeing more and more split coverage," says Watts.

Check for incentives that could trim your premium or result in a higher employer contribution to your HSA. Participating in biometric screening and filling out a health-risk questionnaire are ways you may be able to earn the discount or credit, says Watts. ■

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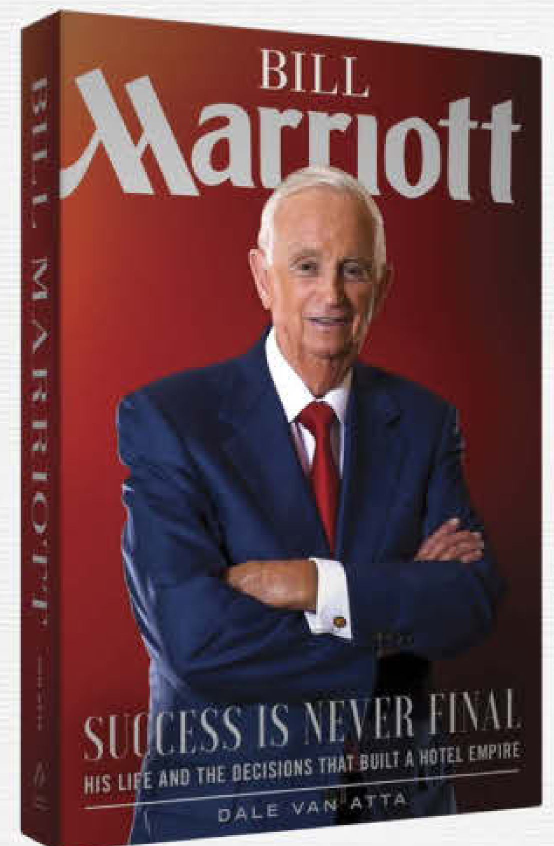

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SPECIAL REPORT

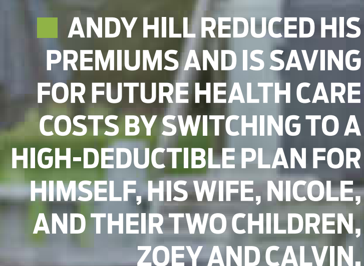
How to Lower Your Health Care Costs

Choosing the right insurance policy is key to managing higher deductibles and co-pays. BY KAITLIN PITSKER

AS THE COST OF HEALTH CARE CONTINUES its upward march, insurers continue to raise premiums and shift a larger share of the bill to consumers. Mounting costs have fueled the national conversation, and health care is shaping up to be a key issue in the 2020 presidential election.

Even with employer-provided insurance, your expenses—including premiums and out-of-pocket costs—will likely go up this year. But selecting the right plan for you and your family can help save money (see our guide to open enrollment on page 42). For example,

PHOTOGRAPH BY NICK HAGEN



ANDY HILL REDUCED HIS PREMIUMS AND IS SAVING FOR FUTURE HEALTH CARE COSTS BY SWITCHING TO A HIGH-DEDUCTIBLE PLAN FOR HIMSELF, HIS WIFE, NICOLE, AND THEIR TWO CHILDREN, ZOEY AND CALVIN.

if you don't anticipate having hefty medical expenses, you may come out ahead with a high-deductible health insurance plan paired with a health savings account. For Andy Hill, a corporate event sales director who lives in a suburb of Detroit with his wife, Nicole, and their two children, Zoey and Calvin, switching to a high-deductible plan has saved the family $200 to $300 a month in premiums and allowed them to save about $10,000 in their HSA for future medical expenses (see "Plan for Future Health Costs," on page 48).

Regardless of which health insurance plan you choose or whether you get coverage from your employer, through Medicare or on your own, some key strategies for smart shopping can save you hundreds or even thousands of dollars a year on out-of-pocket health care expenses.

Understand your coverage. Most plans are still required to provide several kinds of preventive care without any cost-sharing, regardless of your deductible. However, short-term health plans, which typically come with lower premiums than Affordable Care Act policies, aren't required to provide ACA-mandated benefits, such as no-cost preventive care. Depending on your age, this might apply to blood-pressure, diabetes and cholesterol tests; mammograms and colonoscopies; and flu shots and routine vaccines. For a full list of preventive care benefits, visit www.healthcare.gov/coverage/preventive-care-benefits.

While you're reviewing the plan, look for other features, such as access to a flexible spending or health savings account. Many employers offer savings and incentive programs that reward you for using high-quality, cost-effective providers. Such programs may reduce your out-of-pocket expenses or waive your deductible for that visit or procedure.

Pick the right provider. Before you schedule a doctor's visit or a medical procedure, use the tools on your insurer's website, and ask the provider to confirm that they're included in your plan's network. If you're scheduling a procedure, check whether everyone involved—from the doctor to the facility to the anesthesiologist—will be covered in-network. If you're unlikely to hit your plan's deductible for the year, or you're going to a doctor who is out of network, see if you can get a discount for paying cash. You may pay less out of pocket than if you use insurance, and you may still be able to file a claim with your insurer afterward so that the cost can count toward your deductible, says Bill Kampine, senior vice president of HealthcareBluebook.com.

Prices for medical tests and procedures can vary widely, even within the same city. And your doctor may practice at several hospitals or outpatient facilities. To see how costs for a specific procedure in your area vary, visit HealthcareBluebook.com. Most insurers also have tools to help you compare costs at in-network facilities.

Before scheduling a test or medical procedure, ask your doctor how much it will cost and where he or she will perform it. If the total charge is higher than the fair price, ask about less-expensive alternative facilities that will provide the same quality of care. The surgical fee will be the same, but the facility's charge can vary by thousands of dollars.

Where you go for lab work matters, too. Check to see if your health plan has a preferred lab with lower costs. Most doctors work with multiple lab companies, but you need to request that your blood or other test materials be sent to your insurer's preferred lab.

Research in advance nearby hospitals and urgent care centers that are in your plan's network, and check to see whether there are any special requirements for emergency care. For minor burns, cuts and sprains, flu symptoms, and minor infections, you'll probably save by avoiding the emergency room and going to an urgent care facility or convenience care clinic.

Many plans offer telemedicine services that can save you time and money if you need advice about a non-emergency complaint. You'll talk with a doctor or nurse via phone or video chat, and you can typically e-mail photos of a rash or other ailment. Doctors can prescribe medication if necessary. Costs for a telehealth consultation range from $10 to $40.

Save on drugs. Employers and insurers are offering more online tools and apps to help you look up drug costs, suggest generics and therapeutic

Health Savings Accounts

Plan for Future Health Costs

As you review your health insurance options for the upcoming year, you'll likely find a high-deductible health plan among the offerings. High-deductible plans come with two advantages: They can lower monthly health insurance premiums, and they provide access to a health savings account, which offers a tax-friendly way to manage your deductible and save for future health care expenses.

To qualify for a health savings account, you must have an HSA-eligible health insurance policy with an annual deductible of at least $1,400 for individual coverage or $2,800 for family coverage in 2020. You can contribute up to $3,500 to an HSA if you have individual coverage and up to $7,100 if you have family coverage, plus an extra $1,000 if you're 55 or older in 2020.

You can fund the account with pretax (or tax-deductible) dollars, and the money grows tax-deferred. You can take tax-free withdrawals to pay for qualified medical expenses, including deductibles, co-payments, prescription drug costs, and out-of-pocket dental and vision costs. If you withdraw the funds for non-qualified expenses before age 65, you'll pay a 20% penalty, plus income taxes on the amount you take out.

If you have access to an HSA through your employer, that plan is likely your best bet. Most employers who offer access to an HSA cover the administrative fees. Many also seed the account. If your employer doesn't offer an HSA, you don't like the HSA provider your employer uses or you're buying health insurance on your own, most banks and brokerage firms offer HSAs to anyone with an eligible policy. You can compare offerings at HSASearch.com.

Maximizing the benefits. You'll get the biggest bang from an HSA by using other cash for current medical expenses and leaving money in the account to grow tax-free. Unlike flexible spending accounts, which typically must be depleted by year-end (or March 15, depending on your employer), HSA funds don't have a use-it-or-lose-it rule. That means you can build up a stash of tax-free money for major medical expenses.

Andy Hill, a corporate event sales director who lives in a suburb of Detroit with his wife, Nicole, and their two children, Zoey and Calvin, switched to a high-deductible health plan with a health savings account two years ago. Andy and Nicole were maxing out their tax-advantaged retirement savings accounts and looking for other ways to lower the family's monthly expenses and save for retirement. "With two little kids at home, accidents and unexpected health expenses happen," Andy says. The Hills keep enough cash in an emergency fund and in the HSA's cash savings account to cover the deductible, he says. The family invests the rest of their HSA dollars for long-term expenses in a portfolio of exchange-traded funds. **K.P.**

alternatives, and show you how much you'll pay under your plan. Generic drugs cost up to 85% less than brand-name counterparts, according to the Food and Drug Administration. The co-insurance rates are usually lower, too.

You might save money by ordering your drugs through the mail or using a preferred pharmacy. Mail-order pharmacies often provide a three-month supply of drugs for the same price as a one- or two- month supply at a traditional pharmacy. And many plans, especially Medicare Part D prescription-drug plans, have preferred pharmacies that are less expensive than regular in-network pharmacies for members.

Coupons and patient assistance programs that offer free or low-cost medicine for eligible individuals can also help. To find out about drug manufacturers' co-pay assistance programs and private foundations' patient assistance programs, go to NeedyMeds.org. Or visit GoodRx.com (or download the mobile app) for coupons for thousands of drugs, as well as information about lower-cost alternatives.

Save on taxes, too. If your boss doesn't offer a high-deductible health plan that allows you to contribute to a health savings account, ask your employer if it offers a flexible spending account. As is the case with HSAs, you won't pay federal, Social Security and Medicare taxes on the money in an FSA, and in most cases, it will escape state and local taxes, too.

In 2019, you could contribute up to $2,700 to an FSA. You can use the funds to pay out-of-pocket medical expenses, including your deductible, co-payments, medical and prescription drug costs, and a wide variety of other items not covered by insurance, ranging from contact lenses to sunscreen. ■

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Comparison Shopping

Land a Better Medicare Plan

During Medicare's annual open enrollment period, which runs from October 15 through December 7, you can shop for coverage that better fits your needs and perhaps save a bundle on health and prescription-drug plans. New rules governing prescription-drug coverage, shifting out-of-pocket costs, Medigap changes for new enrollees and a slew of new benefits available in Medicare Advantage plans offered by private insurers are reshaping 2020 coverage options.

Medicare Plan Finder (www.medicare.gov/plan-compare), Medicare beneficiaries' primary tool for sizing up coverage options, has been completely redesigned. If you need help comparing plans, make an appointment with a state health insurance assistance program counselor or other Medicare counselor early (go to www.shiptacenter.org or call 877-839-2675).

Two basic options. During open enrollment, you can switch between two basic types of coverage: traditional government-run Medicare or a private Medicare Advantage plan. Traditional Medicare typically includes Part A hospital coverage and Part B for doctor visits and other outpatient services. You'll owe 20% coinsurance for Medicare-covered services after meeting your deductible. There's no annual limit on out-of-pocket spending, but enrollees can buy a Medigap policy to help cover those costs. Traditional Medicare beneficiaries can see any doctor who accepts Medicare and don't need referrals to see specialists.

Medicare Advantage plans must provide the same benefits as traditional Medicare but may have different rules and restrictions. Most Advantage plans include drug coverage, and many offer vision, dental and other benefits. Out-of-pocket costs vary from plan to plan and are subject to an annual cap. Enrollees can't buy Medigap policies. Typically, you'll have to stick with your plan's network of providers and will need referrals to see specialists.

When weighing these two options, remember that Advantage enrollees who later want to switch to traditional Medicare may hit a snag: With some limited exceptions, insurers in most states are only required to sell you a Medigap policy during the first six-month period when you are both 65 or older and enrolled in Part B. Beyond that period, you might be charged more for a Medigap policy based on your health conditions or denied Medigap coverage altogether.

Compare drug coverage. Yes, the Part D coverage gap known as the doughnut hole is closing in 2020, but that's not an excuse to skip drug-plan shopping this fall. Enrollees can still face hefty out-of-pocket costs that vary significantly from plan to plan. And people with high drug costs face an added challenge next year: The total out-of-pocket spending required to reach "catastrophic" coverage—in which beneficiaries typically pay 5% of the cost of a drug—jumps to $6,350, up from $5,100 in 2019.

Make a list of your medications and gather notices from your drug plan highlighting any changes in costs or benefits for 2020. When comparing your current drug plan against competing options, pay attention to deductibles, co-payments, preferred pharmacies and formularies. Watch for coverage restrictions such as prior authorization or "step therapy," meaning patients must try cheaper drugs before progressing to more-expensive treatments.

Advantage plan shoppers, meanwhile, must wade through a torrent of changes. As of 2019, Advantage plans have added flexibility to cover adult day care, in-home assistance, and other services. More changes are coming in 2020, when Advantage plans can offer chronically ill enrollees non-health-related benefits. That may include meal delivery, transportation for grocery shopping and other errands, indoor air-quality equipment, and services to address social needs, from marital counseling to park passes. **ELEANOR LAISE**

FROM *KIPLINGER'S RETIREMENT REPORT.* THE FULL ARTICLE IS AVAILABLE AT KIPLINGER.COM/LINKS/MEDICARE2020.

MONEY SMART WOMEN | Janet Bodnar

What Women Want in an Adviser

One way women can gain confidence as investors is to use a spouse, partner or trusted friend as a sounding board (see "Money Smart Women," Oct.). Add to that list a financial adviser. Reader Ann McCool writes that after being recently widowed, "The best thing I did was to find a good financial adviser. That person has helped me not only with investments but also with tax issues and estate planning."

But finding the right match can be a challenge. Reader Lynn Hood has immersed herself in copies of this magazine, among other sources, to get up to speed on self-directed investing. Still, "I would be just fine with a good financial planner who would advise me on an hourly basis," she writes. "But I have struggled to find that person."

As I told Ms. Hood, *Kiplinger's* generally recommends starting your search with two sources: the Garrett Planning Network (www.garrettplanningnetwork.com), members of which are willing to work on a fee-per-hour basis, and the National Association of Personal Financial Advisors (www.napfa.org), which lists a range of fee-only financial advisers. Beyond that, however, connecting with the right counselor is a very personal decision—especially for women.

When consulting firm Kantar asked women about the qualities they were looking for in a financial adviser, "they used a lot of terms that would be applicable to a romantic partner," says Kantar's Audrey Looker. "For example, they talk about the 'intimate' nature of the discussion and how 'vulnerable' they feel when laying out their financial mistakes." What they want in an adviser, she concludes, "is more of a partnership rather than a vendor or service relationship."

Women also differ from men in what they would like to get out of the partnership. "Men approach investing on a performance basis: How is my portfolio doing?" says Looker. "Women are interested in the end benefit: Will I be able to pay off my house, send my kids to college, retire when I want?"

WOMEN ARE PUT OFF BY AGGRESSIVE SALES TACTICS AND EXCESSIVE JARGON.

Comfort zones. Aside from aggressive sales tactics, women are put off by excessive jargon. "The financial industry has made investing seem overly complex," says Lorna Kapusta, head of women and investing for Fidelity. "Instead of talking about alpha and beta, you need to create a comfortable environment." For example, Fidelity has cut back on TVs and tickers to make its offices quieter and more relaxed, and it has developed purse-size pamphlets on financial topics that women can easily take with them.

Women don't necessarily prefer to work with female advisers, says Looker. "They just want someone they can connect with on a personal level." Nevertheless, the financial services industry is going all out to attract more women to make their offices less intimidating and offer clients a variety of perspectives (see "Money Smart Women," Sept. 2018).

Several years ago, Fidelity changed its job description for financial advisers to deemphasize things such as finance degrees and sales goals and shift the focus to traits such as building relationships and solving problems—"skills that women excel at," says Fidelity's Amy Philbrook. As a result, the firm has added more than 150 female advisers, who now make up 21% of the total, up from 16% in 2016.

What really turns women off are advisers who are condescending or dismissive, or who ignore them when they come in with their husbands or male partners. By some estimates, more than 60% of female investors change advisers as a result of poor service.

One of those women is my friend Loriann, who began taking a more active role in her family's finances when her husband developed Parkinson's disease. "I felt incredibly patronized when my husband's adviser began giving my husband and me mixed messages," she says. She has since begun working with a husband-and-wife team at the same firm, and that relationship appears more promising. Says Loriann, "It's important for me to have a seat at the table." ■

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POON WATCHARA-AMPHAIWAN

CREDIT

Get a Loan From Your Credit Card?

IF YOU HAVE A CREDIT CARD from Chase or Citi, you may be able to borrow against the unused portion of your credit line in the form of a loan. Both issuers are touting the loans to select customers as a quick and easy way to get cash—say, for an unexpected expense or home project.

The primary appeal is convenience. You don't have to apply for a separate loan or undergo a credit check, and loan payments are rolled in with your regular payment so that you have one bill each month. With the Citi Flex Loan, you can spread out payments for a term of up to 60 months. My Chase Loan, which Chase plans to launch late this year, will have a term of up to 24 months.

For both plans, the interest rate is fixed. Most credit cards have a variable rate, so taking the loan provides more predictability for a big purchase than charging it to your card. But variable card rates will fall further if the Federal Reserve continues to lower the federal funds rate; following September's decrease of one-fourth of a percentage point, Kiplinger expects another quarter-point cut in late October.

Shop around. The issuer will likely offer you a loan rate that's lower than your card rate (recent average card rate: 17.14%), but you may find an even better deal elsewhere. (Neither issuer was willing to provide a range of rates charged for the loans, but several Citi cardholders we spoke with said they had received offers ranging from 9.99% to 16.99%.)

If you switch to a card that offers a 0% rate for the first several months you have the account, you'll fare better as long as you pay off the balance before the no-interest window closes. The **WELLS FARGO PLATINUM VISA** and **U.S. BANK VISA PLATINUM** cards both recently charged zero interest on purchases for the first 18 months.

If you prefer a personal loan, review offers from lenders at www.lendingtree.com and www.supermoney.com. **LIGHTSTREAM**, a division of SunTrust Bank, recently offered rates as low as 3.99% on personal loans. As you compare loans, check for origination fees and prepayment penalties.

LISA GERSTNER
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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. 3	Minimum investment	Website (www.)
Vanguard Prime MMF (VMMXX)	2.16%	$3,000	vanguard.com
Vanguard Federal MMF (VMFXX)	2.13	3,000	vanguard.com
Gabelli US Treas AAA (GABXX)	2.12	10,000	gabelli.com
Meeder Prime MMF (FFMXX)*	2.07	2,500	meederinvestment.com

Tax-Free Money Market Mutual Funds	30-day yield as of Sept. 2	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
Vanguard Muni MMF (VMSXX)	1.33%	1.75%/2.05%	$3,000	vanguard.com
M Stanley T-F Daily Inc (DSTXX)*	1.20	1.58/1.85	5,000	morganstanley.com
BNY Mellon Natl Muni (MOMXX)	1.11	1.46/1.71	10,000	bnymellon.com
Northern Muni MMF (NOMXX)*	1.10	1.45/1.69	2,500	northerntrust.com

Savings and Money Market Deposit Accounts	Annual yield as of Sept. 13	Minimum amount	Website (www.)
Vio Bank (Okla.)†	2.52%	$100	viobank.com
BrioDirect (N.Y.)†	2.46	25	briodirectbanking.com
MySavingsDirect (N.Y.)†‡	2.40	none	mysavingsdirect.com
TAB Bank (Utah)†‡	2.40	1	tabbank.com

Certificates of Deposit 1-Year	Annual yield as of Sept. 13	Minimum amount	Website (www.)
BrioDirect (N.Y.)†	2.50%	$500	briodirectbanking.com
First Natl Bank of America (Mich.)†	2.50	1,000	fnba.com
TotalDirectBank (Fla.)†	2.50	25,000	totaldirectbank.com
Home Loan Investment Bank (R.I.)†	2.45	2,500	homeloanbank.com

Certificates of Deposit 5-Year	Annual yield as of Sept. 13	Minimum amount	Website (www.)
U.S. Senate FCU (D.C.)&	3.05%	$20,000	ussfcu.org
Affinity Plus FCU (Minn.)&^	3.00	500	affinityplus.org
Signature FCU (Va.)&^	3.00	500	signaturefcu.org
Hanscom FCU (Mass.)&^	3.00	1,000	hfcu.org

*Fund is waiving all or a portion of its expenses. †Internet only. ‡Popular Direct and Redneck Bank offer a similar yield. &Must be a member; to become a member, see website. ^Hiway FCU and Premier America Credit Union offer a similar yield. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of Sept. 13	Balance range†	Website (www.)
Consumers Credit Union (Ill.)#	5.09%‡	$0–$10,000	myconsumers.org
La Capitol FCU (La.)#	4.25	0–3,000	lacapfcu.org
TAB Bank (Utah)§	4.00	0–50,000	tabbank.com
Orion FCU (Tenn.)#§	4.00	0–30,000	orionfcu.com

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. †Portion of the balance higher than the listed range earns a lower rate or no interest. #Must be a member; to become a member, see website. ‡Requires spending $1,000 or more in CCU Visa credit card purchases. §T-Mobile Money offers a similar yield for wireless customers. SOURCE: 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	1.90	1.90	2.52
Six-month Treasury bills	1.92	1.96	2.33
Five-year Treasury notes	1.75	1.57	2.87
Ten-year Treasury notes	1.90	1.68	2.97

SOURCE: U.S. Treasury

As of September 13, 2019.

- 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.

How to Downsize Your RMDs

You must start taking required minimum distributions from your IRA at age 70½. But you can reduce the tax bill.

BY MIRIAM CROSS

After you've spent decades diverting a healthy stash of cash to your tax-advantaged retirement accounts, you need to start withdrawing a chunk of it each year once you turn 70½. But if you're fortunate enough to be living comfortably off a pension, Social Security or other savings, the income from your required minimum distribution—and the tax bill that follows—may be more hindrance than help.

Your RMDs are based on the balance in your accounts as of December 31 of the previous year, divided by a life expectancy factor based on your age. Most people use the Uniform Lifetime table, Table III, in Appendix B of IRS Publication 590-B, available at www.irs.gov. The deadline to take your annual RMD is usually December 31, but you have until April 1 of the year after you turn 70½ to take your first required withdrawal. (The Secure Act, currently pending in Congress, would increase the starting age to 72 for RMDs from retirement accounts.) You'll pay a hefty penalty—50% of the amount you should have withdrawn—if you forgo or delay your RMD past the deadline.

Bob Hite, of Asheville, N.C., turned 70 in May. Thanks to the pension he receives from his career as a petroleum engineer and Social Security benefits for him and his wife, Jane, the couple doesn't need income from the RMD he will withdraw from his traditional IRA in November. (Jane is still two years away from taking her first RMD.) After discussing strategies with Ann Gugle, a certified financial planner in Charlotte, N.C., they plan to shift some of their charitable donations from their donor-advised fund to money from his IRA, using qualified charitable distributions (keep reading for details on how these work). They might also convert the remainder of his IRA to a Roth over the next several years. They'll have to pay taxes on the money they convert, but once it's in a Roth, it will grow tax-free and won't be subject to RMDs.

ILLUSTRATION BY ILEANA SOON

PEANUT ALLERGIES

Percentage of peanut allergies that cannot be outgrown

78%

Which company will introduce the first allergy-free peanut?

Source: Allergy, Asthma & Clinical Immunology; Al-Ahmed, Alsowaidi and Vadas; 2008, 4:139. https://creativecommons.org/licenses/by/2.0/
T. Rowe Price Investment Services, Inc.

E-COMMERCE

Projected U.S. retail e-commerce sales in 2020

$561 BILLION

How will cardboard companies redesign boxes to minimize waste?

Source: Statista

continued from page 53

Your needs will likely evolve in your seventies, eighties and beyond, and your strategies will change, too. As the end of the year approaches, it's a good time to withdraw your 2019 RMD (if you haven't already) and start planning how to handle distributions in 2020 and beyond.

SEND IT STRAIGHT TO CHARITY

If charitable giving is a regular habit, a qualified charitable distribution, or QCD, is a tax-efficient way to meet your philanthropic goals. Those 70½ or older can transfer up to $100,000 from a traditional IRA to charity tax-free each year, which will count as your RMD without being added to your adjusted gross income. Your charitable gift won't be taxed, as it would be if you were to take a distribution and then donate the cash to charity. The donation isn't deductible, but it will lower your modified adjusted gross income, which could help you avoid the high-income surcharge for Medicare parts B and D, as well as lower the percentage of your Social Security benefits that is subject to taxes.

John Bohnsack, a CFP in College Station, Texas, says that between his mother's pension and the income his father draws from renting out his farm in Hillsboro, N.D., his parents earn more than when they were working, and their tax liability is increasing each year. His father, Brian, made his first QCD in 2018 as a way to give to his church without being taxed on the money as it went in or came out of his IRA.

With a QCD, the money needs to go directly from your IRA to the charity (or charities) that you select. Check with your IRA administrator about the procedure; you may need to use a distribution form, or you may be able to write a check from your IRA to the organization.

A QCD can't be a last-minute decision in the calendar year. If you take your RMD before planning for the QCD, it's too late for it to satisfy the required withdrawal. Mark Wilson, a CFP and president of Mile Wealth Management in Irvine, Calif., recommends completing the task by November, before your IRA custodian gets inundated with end-of-year requests.

Reporting your QCD correctly on your tax return is critical. Your IRA administrator will report the amount of money that was distributed on Form 1099-R, but the form doesn't specify whether it was a withdrawal or a tax-free transfer to a charity. When filing your tax return, report the total distribution on line 4a of your Form 1040. Then subtract any portion that was a QCD and report the remaining

amount on line 4b, writing "QCD" to explain why part of the distribution isn't taxable. If you gave your full RMD to charity and didn't have other distributions, you'd write $0 on line 4b and QCD next to it. Tax software should walk you through this; if you use a tax preparer, make sure he or she knows you did a QCD. Keep the records of the charitable transfer in case the IRS asks about the difference.

Despite its advantages, a QCD is not a catch-all solution for the charitably inclined. For one thing, you can't stash your QCD in a donor-advised fund, if that is your preferred way to give. It's wise to discuss your options and crunch the numbers with your financial planner.

REINVEST THE MONEY

After you withdraw money from your IRA, if you invest it in tax-efficient securities in a taxable account, your money can continue to grow without generating a lot of taxes.

Municipal bonds, which are issued by state and local governments and related agencies to finance general operations or public projects, produce competitive yields and tend to hold their own during tumultuous times. Their interest is generally exempt from federal income taxes, and interest from bonds issued in an investor's home state is usually exempt from state income taxes, too. Fidelity Intermediate Municipal Income (symbol FLTMX), a member of the Kiplinger 25—the list of our favorite no-load funds—focuses on intermediate-term bonds with dependable returns. The fund yields 1.3%, or a tax-equivalent yield of about 2.2% for those in the highest income tax bracket of 37%. Exchange-traded funds are another tax-efficient option. Because they don't always have to sell holdings when investors cash out, they don't distribute a lot of capital gains. (For a list of Kiplinger's favorite ETFs, see kiplinger.com/links/etf20.)

PAY YOUR ESTIMATED TAXES

Once you retire, you'll probably need to start making estimated tax payments four times a year. People living on retirement income can underwithhold because federal and state taxes aren't typically withheld from dividends and Social Security, says Kathleen Schnelle, a tax specialist at Truepoint Wealth Counsel. If you pay at least 90% of what you owe for the year, or 100% of what you owed for the previous year (110% if your AGI exceeded $150,000), you will be protected from an underpayment penalty.

To simplify the process, many taxpayers divide the previous year's tax bill by four and send 25% on each payment deadline. But depending on the

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source of your retirement income, you may be able to satisfy the IRS by having taxes withheld from that income.

For IRA distributions, the IRS requires that 10% be withheld unless you tell the custodian otherwise. If you don't need your RMD, wait until December to take it and ask the sponsor to withhold a large enough portion to cover your estimated tax on the IRA payout and all of your other taxable income for the year, assuming your RMD is large enough to cover your entire tax bill.

Although estimated tax payments are supposed to be paid every quarter, amounts withheld from the IRA distributions are considered paid evenly throughout the year, even if you make them in a lump sum payment at year-end. This saves you the hassle of making quarterly estimated payments and can help you avoid getting hit with underpayment penalties.

Another advantage to this strategy: By waiting until later in the year to take the RMD, you'll have a better estimate of your actual tax bill and can fine-tune how much to withhold.

HELP YOUR GRANDCHILD PAY FOR COLLEGE

Using your distribution to open and fund a 529 plan for your grandchild's college education costs can net you a state income tax deduction, depending on your state. (Most states that offer a tax break let any resident who contributes to a 529 take the deduction, but some limit the tax break to the account owner.) The deduction won't eliminate your tax bill, but it could reduce it, says Paul Winter, a CFP and president of Five Seasons Financial Planning in Salt Lake City.

However, your 529 plan could negatively impact your grandchild's financial aid eligibility. Money in a grandparent-owned 529 account is not reported as an asset on the Free Application for Federal Student Aid (FAFSA). But withdrawals from the account are reported as untaxed income to the student, reducing aid eligibility by as much as 50% of the distribution amount. (Students are allowed up to $6,600 in annual income before aid is reduced.) To get around that issue, grandparents can time their distributions. Distributions made after January 1 of the student's sophomore year won't show up on the FAFSA, assuming he or she graduates in four years.

Another option: Roll over a year's worth of funds at a time to a parent-owned 529 plan. If the rollover occurs after the FAFSA is filed and if the funds are spent before the next FAFSA is submitted, the money won't show up as an asset on the FAFSA, and distributions won't affect aid eligibility.

CONVERT TO A ROTH

You can't roll over your RMD to another IRA. But after you take your distribution for the year, you can convert some or all of your traditional IRA to a Roth, which will reduce the balance that's subject to RMDs in the future. Although this is normally done before age 70½ (see the box on the next page), converting after that age could still benefit you and your heirs.

You don't need to take RMDs from a Roth IRA, and you can tap the converted money tax- and penalty-free after you keep the money in the Roth for more than five years. Roth distributions don't count when calculating taxes on Social Security benefits and the Medicare premium surcharges for high-income taxpayers, as traditional IRA distributions do. Leaving a large Roth rather than a traditional IRA to your heirs is a plus for them as well because the income is tax-free (even though they will be subject to RMDs). If the Secure Act passes, Roth IRAs will become even more attractive, as one provision erases a non-spouse heir's ability to stretch out RMDs from inherited retirement accounts over his or her own life expectancy and instead mandates that the inherited assets be withdrawn within 10 years.

Use the excess cash flow from unneeded RMDs to pay the tax bill associated with Roth conversions, says Winter. You can also smooth out the tax bill by converting smaller amounts over a number of years. ■

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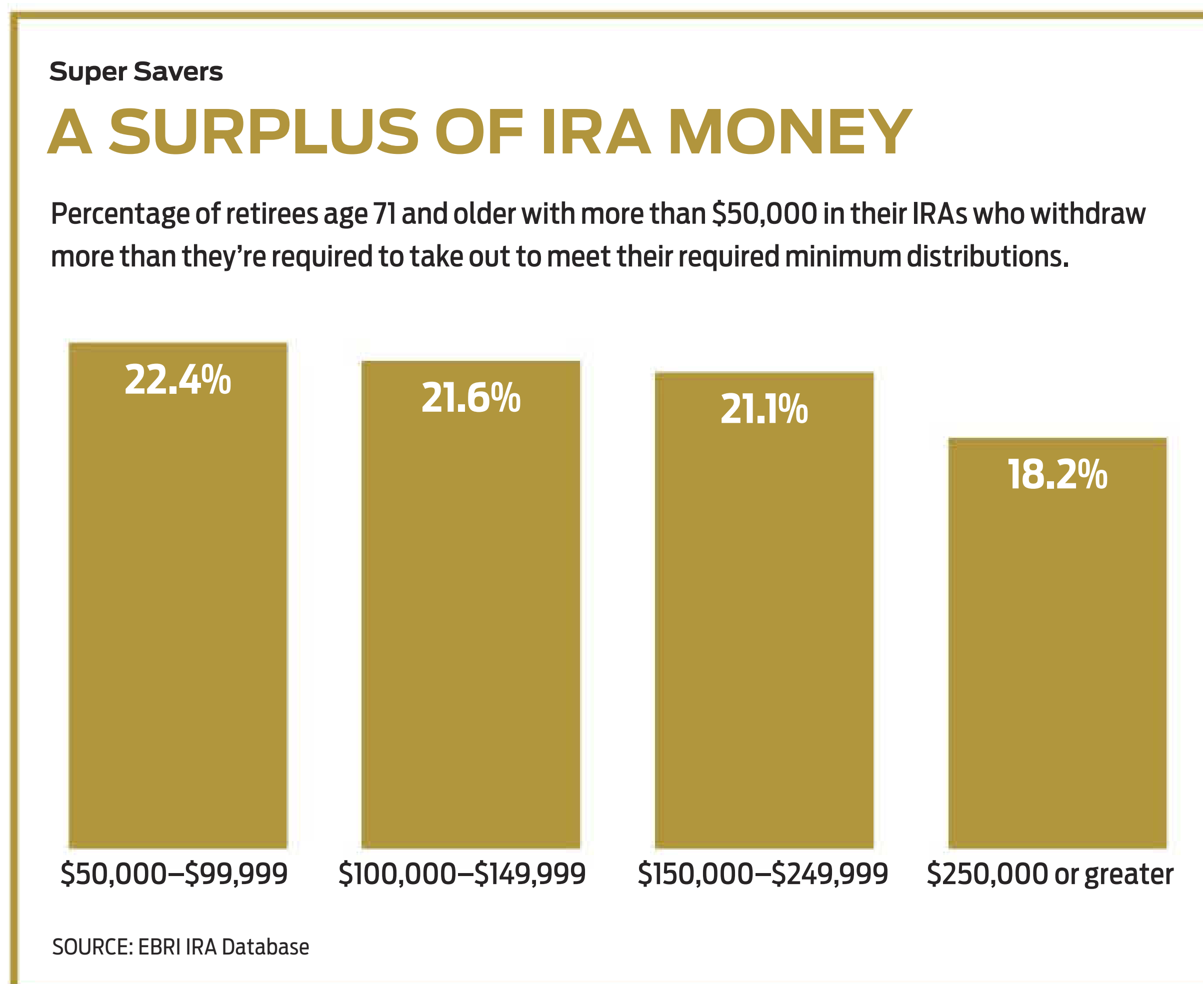

Plan Ahead

The Route to Lower Taxes

The decade before you turn 70½ is the "sweet spot" for RMD planning, says Maria Bruno, head of U.S. wealth planning research at Vanguard. If you expect that you won't need your RMD in full, or at all, after you turn 70½, you have time to take steps that will lower your required distributions.

Taking money out of your tax-advantaged retirement accounts after you retire but before you turn 70½ can be prudent, especially if you're in a lower tax bracket than you'll be in when your income includes RMDs, Social Security (assuming you delay benefits) and other sources. By lowering your account balance, you're reducing future RMDs, and the distributions may be taxed at a lower rate. "Investors are starting to plan more proactively, even if it does fly in the face of the 'defer, defer, defer' financial-planning tenet we preached for years," says Bruno.

Money invested in a Roth 401(k) is subject to RMDs, although it will not be taxed. But you can avoid taking RMDs altogether by rolling your Roth 401(k) into a Roth IRA.

If you're worried about running out of money over a long retirement or you want a steady stream of income later in life, when you may need it most, consider investing in a deferred-income annuity known as a qualified longevity annuity contract (QLAC). You can invest up to $130,000 from your IRA in a QLAC (or up to 25% of the balance in all of your traditional IRAs, whichever is less) at any age. You'll pick the age when you'd like to start receiving annual lifetime income (no later than age 85); the longer you wait, the more you'll get. A joint life contract will reduce payouts, but it guarantees that income will continue for as long as you or your spouse is alive. You can also decide whether you want a death benefit, which will also reduce your payout but will ensure that your beneficiaries recoup what you invested in the QLAC, minus any payments.

In the best-case scenario, "you will pull a lot more income off the amount you originally invested," says Keith Moeller, a wealth management adviser at Northwestern Mutual. By excluding as much as $130,000 from your IRA, you'll reduce the taxable income generated by your RMDs in the present, although you'll still need to pay taxes on the income when you start receiving payments.

Instead of delaying your payout as long as possible—and risking dying before you see your money—consider laddering your investment to start payouts at different ages, says Jerry Golden, founder of Go2Income.com. To test different scenarios and get quotes from QLAC providers, go to www.go2income.com.

Finally, if you plan to continue working past age 70½, you may be able to delay at least some RMDs. If you're still working at 70½, you can delay taking your RMD from your current employer's 401(k) (unless you own more than 5% of the company) until you retire. You will still be on the hook for RMDs from traditional IRAs and former employers' 401(k)s, but if your current employer allows it, you may be able to roll funds from other 401(k)s into your current plan and avoid taking RMDs on that money while you're still working. Some 401(k) plans even allow IRA rollovers, says Deva Panambur, a CFP and owner of Sarsi LLC in New York City. **M.C.**

Consider a Roth conversion. Your sixties are also a prime time to convert some or all of your traditional IRA to a Roth IRA, especially if your income dips right after you retire and you're in a lower tax bracket. Chris Pollard, a CFP and principal of Great Path Planning in Goshen, N.Y., finds that with some clients, their tax brackets when Social Security and RMDs kick in could be similar to when they were working. Although you will have to pay taxes on the money you convert to a Roth, the money will grow tax-free in retirement and is not subject to RMDs. "My general rule is if you don't plan to touch the money or don't think anyone would receive the benefit for 15 years, do the conversion," says Pollard.

Bob Hite, of Asheville, N.C., holds the bulk of his portfolio in a Roth IRA, which he converted from his 401(k) in 2010. "My timing on that was really sweet," he says. "My Roth has more than doubled." He and his wife consider the Roth their back-up in case of severe health issues.

For many people, the best strategy is to spread your Roth conversions over several years, rather than making large conversions that will ring up a bigger tax bill than the RMD itself. Engage in "tax bracket limbo" by converting enough money to fill up the highest bracket that is palatable to you now, especially if you predict your bracket will rise in future years, says Pollard. "Take advantage of the fact that the tax code is really flat for a good amount of income," says Paul Winter, president of Five Seasons Financial Planning in Salt Lake City.

RETHINKING RETIREMENT | Eileen Ambrose

The Benefits of Being FIRE-ish

You can adapt the Financial Independence, Retire Early movement to fit your lifestyle.

IT'S EASY TO DISMISS THE super savers who embrace the FIRE movement as starry-eyed dreamers or cultish extremists. Financial Independence, Retire Early followers—many of whom are millennials who consider working 9 to 5 to be drudgery—often save 50% to 70% of their annual income with the goal of retiring in 10 to 15 years. The aggressive "Lean FIRE" savers share tips online on how they manage on less than $40,000 a year—for example, by Dumpster diving, living in a van, not having children or living on a diet of rice and beans.

But FIRE is much more than that. FIRE followers track their money, invest in low-cost funds, avoid high-interest debt and focus their spending on what's important to them, rather than buying things because they can afford them. Adapting some of these FIRE principles to fit your less-austere lifestyle can go a long way toward helping you achieve your retirement goals.

If you're not ready to go full-blown FIRE, here's how to be FIRE-*ish*.

Supercharge your savings. Boosting savings gives you more money to invest. But more important, "every time you increase your savings rate, you are decreasing your lifestyle," says Whitney Morrison, principal financial planner with LegalZoom. That means you won't need to accumulate as much to maintain your lifestyle in retirement.

FIRE folks typically watch every penny. You don't have to be that precise, but you should have an idea of your cash flow so you can find extra dollars to put toward savings. Some expenses, such as a car loan or kids' extracurricular activities, disappear over time, freeing up money that you can redirect into investments, says Melissa Sotudeh, a certified financial planner in Rockville, Md. "If you're at the point that you've got the kids launched, that's a big pay raise there," she says.

Or boost savings by cutting expenses. "There is a lot of low-hanging fruit that won't force you into depriving yourself," says Brad Barrett, cofounder of the ChooseFI website. You don't have to give up your lattes. Look to housing and transportation, the largest expenses for consumers. If the kids are grown and you no longer need a four-bedroom house, consider downsizing.

Many FIRE folks also move to areas with a lower cost of living. Barrett moved from a one-bedroom co-op in East Northport, N.Y., to a four-bedroom home in Richmond, Va., and slashed his housing expenses in half.

Some FIRE advocates also ditch cars in favor of bikes, or they move closer to work so they can walk to their jobs. Barrett says he and his wife each have a car for convenience, but they drive older vehicles (his is a 2003 model; hers is a 2013).

Also look for ways to increase income. FIRE practitioners often find creative ways to generate income, such as blogging about their path to financial independence. Sotudeh says a pair of her clients pull in $30,000 a year by leasing their basement through Airbnb. Consider consulting on the side or finding ways to turn hobbies into cash, such as selling your crafts. "It can potentially help you retire earlier, but it can also help you create more income in retirement," says Katrina Soelter, a CFP in Los Angeles.

Review the investment fees you pay, which can significantly erode your returns over time. FIRE acolytes favor low-cost index funds, such as those offered by Vanguard, Schwab and Fidelity. ■

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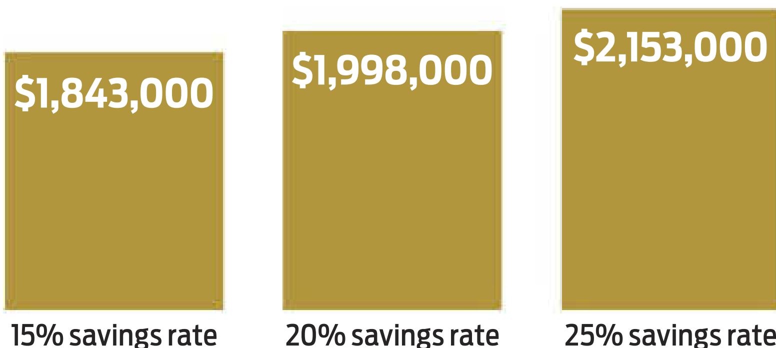
All FIREd Up

HOW SAVING MORE CAN BOOST YOUR NEST EGG

The table shows how much more you'll save after 15 years if you increase your savings rate from 15% to 20% or 25%. The final balance assumes that a 50-year-old starts with $500,000 in retirement assets, currently earns $100,000 and gets 3% annual raises, and earns an annual return of 7% on the savings until age 65.



SOURCE: T. Rowe Price

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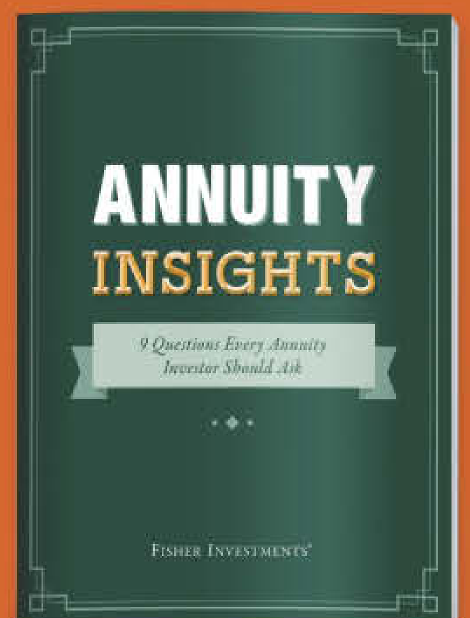

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How to Build a Credit History

Credit newbies can take advantage of both tried-and-true methods and new alternatives. **BY LISA GERSTNER**

■ NATE REISTETTER IS BUILDING CREDIT AS AN AUTHORIZED USER ON HIS MOTHER'S CREDIT CARD.

MOST LENDERS EXPECT YOU TO have a decent credit record to qualify for a loan or credit card. But if you've never had a credit card or taken out a loan, you don't have much of a credit history.

It's a conundrum that young people face as they begin their adult lives. And having no credit record (or a thin one) touches more than just your ability to borrow money. A landlord may check your credit report before offering you an apartment, and a wireless carrier may peek at your credit before offering you service or setting a price for a plan or device.

Fortunately, you can establish a credit history even without a track record. And if your credit report contains negative items, such as late payments or a bankruptcy, you can use some of the same strategies to rebuild credit.

Apply for a credit card. Using a credit card responsibly helps you get a foot in the door to good credit. To build a positive history, pay your bills by the due date and try to keep the balance to less than 20% to 30% of the card's limit. The percentage of available credit that you use on your cards is known as your credit utilization ratio, and the lower it is, the better for your credit score. As you learn the ropes, make just a few basic purchases monthly—say, to buy groceries—to help ensure that you can afford to pay the bill in full and avoid carrying a balance from month to month, which incurs interest.

Becoming an authorized user on a parent's credit card is a common way young people start out with credit. That's the route Nate Reistetter, 19, took after he heard some coworkers his age at a summer job talking about building credit. A sophomore at the University of Wisconsin–Madison, he charges some course materials to his mother's **AMAZON PRIME REWARDS VISA SIGNATURE** credit card (16.24% to 24.24% annual percentage rate). "It works well because my Amazon purchases are regular and small," says Reistetter. As long as the cardholder pays the bills on time and keeps the utilization ratio low, an authorized user should see a positive effect on his or her credit score.

Reistetter has also thought about applying for a student credit card. Our favorite one, **DISCOVER IT CHROME FOR STUDENTS** (0% for six months, then 14.99% to 23.99%), offers 2% cash back on up to $1,000 spent per quarter at gas stations and restaurants and 1% on other purchases. Plus, you get a $20 statement credit each academic year that your grade point average is at least 3.0.

Card issuers are usually more lenient in evaluating student-card applicants' income and credit history than in evaluating the finances of applicants for standard cards. Bank of America—which issues another student card that we like, **BANK OF AMERICA CASH REWARDS FOR STUDENTS MASTERCARD** (0% for 15 months, then 15.99% to 25.99%)—looks for an independent ability to pay the bills based on income, such as from a summer or part-time job, in applicants ages 18 to 20.

If you or your parents have been customers for a while, your bank or credit union may give you a chance. You'll have the best shot with smaller, local banks. Or open a store credit card. Retail credit cards often have less-strict eligibility requirements than standard cards from large issuers, but many store cards come with high interest rates and low limits.

Get an un-credit card. Another option is to open a secured credit card. Qualifying for a secured card is relatively easy because you

PHOTOGRAPH BY NARAYAN MAHON

make a deposit, often equal to the card's limit; if you fail to pay the bill, the issuer can dip into the deposit. Some secured cards even offer rewards. The **DISCOVER IT SECURED** card (24.99%), for example, offers the same cash-back structure as Discover's Chrome for Students card. After you've had the card for eight months, Discover will perform monthly reviews to determine whether you're managing credit well enough to convert to an unsecured account and receive your deposit back.

Some financial-technology companies are conjuring up cards that rely on alternative methods to evaluate creditworthiness. The **PETAL VISA** card (14.99% to 25.99%) focuses on people new to credit and charges no fees. Plus, you get 1% cash back right away, 1.25% after six on-time payments and 1.5% after 12 on-time payments. If your credit history isn't robust, you can link your bank account for Petal to review your cash flow. Depending on how healthy your credit and finances are, the credit limit runs up to $10,000—much higher than you can typically get with a secured card.

Consider a loan. Some community banks and credit unions offer credit-builder loans, which may be preferable if you'd rather avoid a credit card, says Beverly Harzog, credit expert for *U.S. News & World Report*. The lender puts the amount you borrow (typically $1,000 or less) into a deposit account, and you make payments of principal and interest on a predetermined schedule. After you pay off the loan, you get the money back, possibly with interest. Check that the lender reports your loan payments to the three major credit bureaus: Equifax, Experian and TransUnion.

If you have a student loan, making on-time payments can help beef up your credit history, too. Your mix of credit makes up 10% of your FICO credit score, so having both a loan and a credit card on your report may give your score a bit of a bump.

Leverage new alternatives. Experian Boost is a service that potentially increases your credit score by considering on-time payments of bills you owe to utility providers and phone or cable companies, which typically don't report customer payments to the credit bureaus. At www.experian.com/boost, link the bank account you use to pay bills. Experian will scan your account for positive payment information and include what it finds in your Experian credit file. Equifax plans to soon introduce a service through which lenders may consider payment information for utility, phone and cable bills, with the applicant's permission.

FICO has been testing an UltraFICO score with a handful of lenders and expects the score to become more widely available this fall. UltraFICO incorporates activity from your bank account, including how consistently you have cash available and whether you've overdrawn your account. If you can't qualify for credit with a traditional score, a lender may ask whether you'd like to link up to 20 active personal checking or savings accounts for evaluation with UltraFICO. ■

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Reap Some Rewards

The **APPLE CARD** (12.99% to 23.99%) is an attractive choice for newbies. Normally, you'd have trouble getting a rewards card with a score below about 670, says Ted Rossman of CreditCards.com. But, he says, "I'm hearing that a lot of people with credit scores in the 550 to 650 range are getting approved." The card offers cash-back rewards of 3% on Apple purchases, 2% on other purchases you make with Apple Pay, and 1% at stores or websites that don't accept Apple Pay.

MILLENNIAL MONEY | Lisa Gerstner

Should You Borrow From Your 401(k)?

For many millennials, a workplace 401(k) plan is their first venture into building a significant savings stash. According to Fidelity Investments, 401(k) savers age 20 to 29 whose plans are managed by the firm have an average balance of $12,200, and those 30 to 39 have an average of $43,400. But not all young employees leave the money untouched. One in four adults age 18 to 34 with a 401(k) have already made a withdrawal or borrowed against the account, according to a study from Merrill Lynch and Age Wave. The primary reason: Paying credit card debt.

When debt looms or a surprise expense arises, your 401(k) balance may look like the perfect solution. But you shouldn't tap your 401(k) until you've exhausted other sources of funds. The more you tuck away—and keep—in retirement accounts when you're young, the more you'll benefit from compounding investment returns over time.

Fidelity's research also reveals that among survey respondents who had a financial emergency within the past two years and did not have an emergency fund, 42% took a loan or withdrawal from their retirement plan. Work on socking away at least three to six months' worth of living expenses in a no-fee, high-yield savings account.

The 401(k) loan. If you can't come up with any other sources of cash, taking money from your 401(k) as a loan instead of a withdrawal will minimize the harm to your retirement security. You can generally borrow up to 50% of your vested account balance or $50,000, whichever is less. Or, if half of the vested balance is less than $10,000, you may still be able to borrow up to $10,000 of your total balance, if your employer allows it. Instead of forking over principal and interest to a lender, you pay it back to your own retirement account. Often, interest is the prime rate plus one percentage point, which recently added up to 6%. With the average credit card interest rate at about 17%, paying off card debt with a 401(k) loan can make sense.

Taking a 401(k) loan once and paying it back in full typically has little impact on retirement security, says Eliza Badeau, Fidelity's director of workplace investing thought leadership. The trouble, says Badeau, comes when employees take out multiple loans and stop or decrease contributions. To keep your savings on track, try to contribute at least enough to your 401(k) to capture any employer match, in addition to your loan payments. And take a hard look at why you needed to borrow in the first place. If you struggle to control your spending, you're at risk of continually relying on your 401(k) for backup.

YOU SHOULDN'T TAP YOUR RETIREMENT PLAN UNTIL YOU'VE EXHAUSTED OTHER SOURCES OF FUNDS.

Generally, you have five years to repay the loan, and you must make payments at least quarterly. If you don't, the outstanding balance is subject to income tax and a 10% early-distribution penalty. And if you change jobs, you have to pay off the loan by the tax-return deadline for the year you leave your job (including extensions) to avoid taxes and penalties on the balance.

If your situation is truly dire and you can't afford to repay a loan, your employer may allow a hardship distribution. These are typically permitted for specific circumstances, such as medical expenses. Once you take a hardship withdrawal, you can't put the money back, and you'll typically owe income taxes and the early-distribution penalty.

If you leave your job, you can cash out your 401(k) for any reason, and a striking 40% of workers younger than 30 do just that, according to Fidelity. Such distributions trigger taxes and penalties, and pulling the money from the stock market diminishes its earning power. When my status with Kiplinger went from employee to self-employed contractor five years ago, I could no longer contribute to my 401(k), and I decided to let it sit. Since then, the balance has grown by more than $16,000. ■

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POON WATCHARA-AMPHAIWAN

PRACTICAL PORTFOLIO | John Waggoner

Five Ways to Slice the S&P 500

What started as a plain-vanilla fund concept now comes in many flavors.

NOT SO LONG AGO, S&P 500 index funds came in one flavor: They simply tracked Standard & Poor's 500-stock index. Now, the fund industry offers almost as many types of S&P 500 index funds as Baskin Robbins does ice cream. You may be best off with the plain-vanilla version, but some other variations might be worth a taste test. Prices and returns are as of September 6.

VANGUARD 500 INDEX (SYMBOL VFIAX), the largest and oldest S&P 500 index fund, tracks the movement of the venerable stock index and weights each holding according to its market value, which is the number of shares outstanding multiplied by the share price. Using that methodology, the fund's top holdings are Microsoft, Apple and Amazon .com. The 10 largest stocks in the fund account for 23% of the fund's assets. The Vanguard fund simply weights its holdings the same way the index does. It follows the index's returns closely, and for many people it's a fine core holding. Exchange-traded-fund fans can consider the fund's ETF clone (VOO, $274).

You can weight the S&P 500 index in different ways and get different returns as a result. Consider **INVESCO S&P 500 EQUAL WEIGHT ETF** (RSP, $108). As its name implies, this exchange-traded fund gives each stock in the index an equal weight, so that Nektar Therapeutics, with a market value of $3 billion, gets the same weight in the fund as $1.1 trillion Microsoft. The ETF is rebalanced every quarter.

What's the advantage? Invesco S&P 500 Equal Weight ETF tends to beat the market-cap-weighted S&P 500 when small-company stocks are on a tear. In 2016, for example, the equal-weight ETF beat the S&P 500 by more than two percentage points. The past decade, however, has largely seen a large-company-stock rally, and the equal-weighted choice has lagged the S&P 500 by 0.16 percentage point annualized.

Investors who foresee a comeback for small- and mid-cap stocks can consider the **REVERSE CAP WEIGHTED U.S. LARGE CAP ETF** (RVRS, $16). The smallest stocks in the S&P 500 are the largest holdings in this fund, thereby turning the large-cap S&P 500 into a mid-cap index fund. The young fund, which has $9 million in assets, lagged the S&P 500 in 2018 and trails it so far this year. The fund has held up better against mid-cap yardsticks, losing 9.4% in 2018, compared with an 11.1% loss for the S&P MidCap 400, and essentially matching the mid-cap index's return so far in 2019.

There are plenty of other ways to slice and dice the S&P 500. The **PROSHARES DIVIDEND ARISTOCRATS ETF** (NOBL, $71) uses only those S&P 500 companies that have raised their dividends every year for the past 25 years and weights each issue equally. The fund fares best in times when investors are worried about the stock market, because dividends can cushion downturns. The fund has lagged the S&P 500 by nearly two percentage points so far this year.

SPDR S&P 500 BUYBACK ETF (SPYB, $66) does for buybacks what the previous ETF does for dividends. It looks for companies that have actually reduced the number of shares available over the previous 12 months. All other things being equal, a lower number of shares should give a company's stock a boost by dividing the corporate earnings pie among a smaller number of shares. The ETF has lagged the S&P 500 over the past year, but it has kept pace with an index tracking S&P 500 companies spending the most on buybacks in relation to their market value. ■

FOR QUESTIONS OR COMMENTS, CONTACT FEEDBACK@KIPLINGER.COM.

Index Mania

SAME INDEX, DIFFERENT FUNDS

All of the ETFs below track Standard & Poor's 500-stock index, each in its own way.

Exchange-traded fund	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	Expense ratio
Invesco S&P 500 Equal Weight	RSP	2.7%	10.3%	8.3%	0.20%
ProShares Dividend Aristocrats	NOBL	8.5	10.8	10.9	0.35
Reverse Cap Weighted U.S. Large Cap	RVRS	–1.4	N/A	N/A	0.29
SPDR S&P 500 Buyback	SPYB	0.5	11.7	N/A	0.35
Vanguard S&P 500	VOO	5.5	13.1	10.4	0.03
S&P 500-STOCK INDEX		**5.6%**	**13.1%**	**10.5%**	

As of September 6. N/A not available. SOURCE: © 2019 Morningstar Inc.

REWARDS

Discover Your Roots

DNA testing offers insights into your family tree, but watch out for unintended consequences.

BY PATRICIA MERTZ ESSWEIN

When people would ask Carrie Reynolds about her ethnicity, she didn't know the answer. Reynolds, of Ponte Vedra Beach, Fla., was born in 1975 and adopted. So, in early 2018, she bought a genetic testing kit from AncestryDNA, spit in a tube and sent her sample off for processing.

Reynolds's results surprised her in more ways than one. Because of her dark hair and hazel eyes, she figured she was Spanish, Italian or Cherokee. Turns out she is mostly English, a little Irish and Scottish, and a tad Swedish. And her genetic matches among other test-takers in Ancestry's database included two half-siblings. Reynolds messaged them through Ancestry's system, and one, Mark, also an adoptee, responded immediately. The pair decided to team up to find their biological parents. A couple of months

PHOTOGRAPHY BY RYAN KETTERMAN

later, they were notified of a third half-sibling in the system, a sister who filled them in about their biological father.

Reynolds and Mark met their biological dad, who received them warmly and told them about their mothers. Reynolds wrote to hers but never heard back. She was disappointed, she says, but focuses on the fact that the people who raised her *are* her parents. "My family is my family, no matter what the DNA says," she says.

More than 28.5 million consumers have purchased a genetic-testing kit from one of the four largest direct-to-consumer testing companies: AncestryDNA, FamilyTreeDNA, MyHeritage and 23andMe. The companies plan to ramp up their advertising and offer discounts during the holidays, and you may be enticed to sign up.

Most people who order a kit are curious about their roots and are looking for more details about where their ancestors are from. You may want to find living people with whom you share DNA, whether to break through a brick wall in your family tree or to identify your biological parents. Or you may want to find out if you are at risk of developing or passing along certain diseases (see the box on page 68).

At a minimum, it's all good fun, right? Sure, but you still need to know what you're signing up for, including possible unintended consequences and whether your privacy is at risk.

HOW IT WORKS

You'll pay $79 to $99 for a basic testing kit (see the box below for details on four popular kits). After you either spit into a tube or swab your cheek to provide a DNA sample, the testing company's in-house lab or lab partner will extract your DNA and translate it into data that is your genetic code. The company's algorithms will calculate your ethnicity estimate, determining which segments of your DNA originate from different regions of the world. You'll receive your results within four to eight weeks.

Your genetic code will be compared with that of everyone else who has taken the same test. "Matches" indicate a relationship of some degree, close or distant, based on the percentage of DNA you share with the other person. You and your match will receive notification if both of you have selected that option. So long as you're in the system, you'll be compared with new test-takers.

Matches will include a user name (it may not be the person's actual name), how you and the match are related, and (depending on the company) how much DNA you share in common, country of residence, ethnicity, and whether the match has opted to link a family tree to the data.

You can take three types of tests. Which ones you choose depend on your goals.

AUTOSOMAL testing, which analyzes DNA that you inherited from both parents, is described as having a broad but relatively shallow reach, according to Richard Hill, author of *The Guide to DNA Testing* (free at Amazon.com) and one of the first known adoptees to find his biological parents through genetic testing. You get half of your autosomal DNA from your mom and half from your dad, and they got the same from their parents, and so on. That means the DNA from any one ancestor gets cut in half every generation, so after about five generations, the DNA from any one generation may not be detectable with an autosomal test.

Two other tests have a narrow but deep reach, and they can help you trace your ancestry back 10 or 20 generations. The **Y-DNA** test can only be done on males, but women may recruit a male relative for the test. A man inherits Y-DNA from his father, who inherited it from his father, and so on. Because family surnames generally pass down the male line, you can use this test to find out if families with the same surname are related. **MITOCHONDRIAL DNA** is passed from mothers to all of their

Buyer's Guide

COMPARING THE DNA TEST KITS

All of the four major direct-to-consumer DNA testing companies provide prepaid return shipping of their test kits. The cost doesn't include shipping and taxes.

AncestryDNA (www.ancestry.com/dna) The company has a potential database of more than 15 million people. The test is $99. For another $20, you can get additional details about 26 personal traits. A monthly Ancestry subscription to access genealogical records (after a 14-day free trial) is $20 to $45; a six-month membership is $99 to $199.

Family Finder (www.familytreedna.com) Family Finder's database (as estimated by MIT Technology Review) is 1 million people. An autosomal DNA test (analyzing your DNA from both parents) is $79. For $89 to $199, you can get a DNA test for your maternal line; for your paternal line, it's $169 to $359. Test bundles range from $248 to $637.

MyHeritageDNA (www.myheritage.com) The company's database is potentially 2.5 million individuals. An ancestry test is $79; for $199, you can get the health and ancestry test. A complete ancestry plan is free for the first month and $149 for the first year, which is 50% off the annual fee. An annual subscription for health updates is $99, with the first year free.

23andMe (www.23andme.com) The company has, potentially, more than 10 million people in its database. Ancestry service is $99; for $199, you can get health and ancestry results, with a 10% discount for each additional kit. Add a health report to an ancestry report later for $125 (if you include it at the start, you save $25).

children, but only women pass it on, so you can use this test to identify your maternal line.

To find as many matches with relatives as possible with just one test, take an autosomal test from AncestryDNA, which has the largest database. FamilyTreeDNA is the only company that offers all three tests.

For the most comprehensive set of matches, "fish in all the ponds," says Hill. Because so many people take just one test, the companies' databases differ a lot, and you can't know in advance which test will produce your closest and most useful matches. (FamilyTreeDNA and MyHeritage accept uploads of your data from other services so you can get additional matches from them, but AncestryDNA and 23andMe don't.)

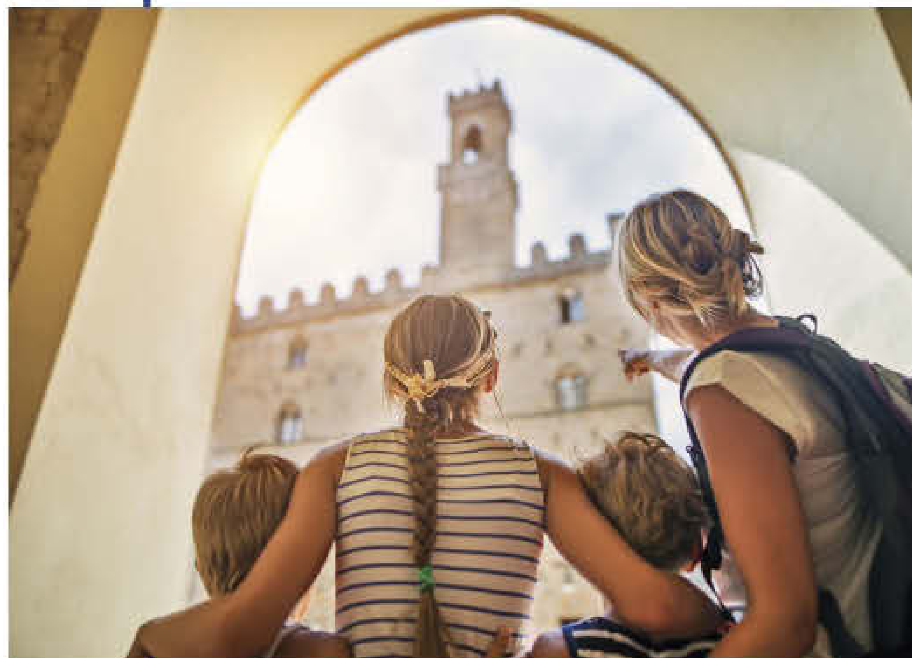
"If you test at Ancestry but not the other three, you may be missing your very best match, like the cousin who has family photos or a family Bible you never knew about," says Roberta J. Estes, a genetic genealogist and member of the International Society of Genetic Genealogy (https://isogg.org), a group of genealogists who have added DNA testing to their toolbox.

Hill says test takers often mistakenly imagine that they'll get a ready-made family tree. But even with matches and an idea of how closely those people are related to you, you must trade information with them and seek clues from other resources to figure out where and how those people fit into your family tree. With a paid membership at Ancestry.com and MyHeritage, you can see other members' family trees and search online archival resources.

Family Vacation

Explore Your Ancestral Homeland

Heritage travel companies offer group and individual tours to specific countries, or they'll create a custom itinerary so you can visit a village, see a family home or meet with living relatives you may have found through the matches from a DNA test. On a genealogical tour, you can visit archives, churches and other sources of family records and traditional genealogical research. We've highlighted several options here. For most tours, you have to contact the company for prices.



Ancestral Footsteps (www.ancestralfootsteps.com) Personalized tour packages with background research into one branch of your family with documentation, luxury travel arrangements and a researcher who will accompany you to meetings with experts and visits to archives. Two-day tours in England, Scotland and Wales run $9,200; they cost $11,050 for other parts of Europe. Three-day tours run $11,670 or $13,510; request pricing for four-day tours.

Ancestry ProGenealogists (www.progenealogists.com/heritage-tourism) Guided heritage tours include a five-hour, pre-trip family history review and travel with a group and a genealogist to Ireland, Italy or Germany. Prices start at $3,400. Or, create a personalized ancestral home visit for $2,000 and up.

My China Roots (www.mychinaroots.com) Ancestral research and travel with a tailored itinerary and expert guides.

My Ireland Family Heritage (https://myirelandheritage.com) Personalized research and one- to three-day genealogy tour packages.

Polin Travel Guide & Genealogy (www.jewish-guide.pl) Private guide and genealogy research services in Central Europe.

Spector Travel of Boston (www.spectortravel.com/roots-culture-tours) Roots and culture tours of various African destinations and custom itineraries.

JUST AN ESTIMATE

Genetic genealogists loathe the AncestryDNA TV ad in which a guy trades his Scottish kilt for German lederhosen after he gets his ethnicity results, says Estes, because it oversimplifies the process and misdirects consumer expectations.

The testing companies identify "reference panels" of living people with deep regional roots and known ancestry. Then they compare your data from an autosomal test to their reference panels' data to come up with your ethnic origins, expressed in percentages. Because each company's reference panels are proprietary, your results from each test will differ. Although you inherited half of your DNA from your mom and half from your dad, you will receive a different 50% from each parent than your siblings got, so you and your siblings' results may differ. And, because people migrate and national borders change over time, the results reliably place your ancestors only at the continental level—European, Asian, African or Native American (North and South America). Within Europe, the tests also reliably identify Ashkenazi Jewish ancestry.

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Medical History

The Health Connection

Bob Perkins of Stillwater, Okla., took a DNA test from 23andMe to explore his ancestry. When Perkins, 64, who was adopted, received updates, he learned that he was predisposed to hemochromatosis, a disorder in which the body stores too much iron, which can lead to joint and organ damage and, eventually, death. Perkins had been suffering from poor health for two years. Based on the 23andMe results, his doctor ordered a test that showed that Perkins had already developed the condition and started treating him. Perkins says the test saved his life.

Of the four major direct-to-consumer testing companies, 23andMe is the only one that currently offers health-related reports that have been approved for marketing by the U.S. Food and Drug Administration. It provides reports about your carrier status (Do you have genetic variants for a condition that you won't develop but may pass on to your children?), health predisposition to 10 diseases or conditions (What is your chance for developing certain conditions, such as breast cancer, late-onset Alzheimer's disease or Parkinson's disease?), wellness (How does your DNA influence, for example, your caffeine consumption, lactose digestion or muscle type?) and traits (How does your DNA make you unique, from your food preferences to your physical features?). AncestryDNA now offers information about traits. MyHeritage recently introduced health reports, but because it provides "physician oversight," it hasn't had to get approval from the FDA.

Having a variant that is known or suspected to be associated with a disease or trait doesn't necessarily mean you will develop the condition. It's possible to get a false positive result, and the reports don't cover all of the genetic variants, environmental factors or lifestyle choices that could influence your risk for the conditions. For example, more than 1,000 variations in each of the BRCA1 and BRCA2 genes have been associated with an increased risk of cancer, according to "Direct-to-Consumer Genetic Testing," published by the National Institutes of Health (https://ghr.nlm.nih.gov). But 23andMe's test analyzes only three of those variations, which are most common in people of Ashkenazi Jewish background. So, even if your test result is negative, it doesn't mean you will never get cancer, nor does a positive result mean you will develop cancer.

The testing can't be used to diagnose any disease or condition, so if you receive a positive result, you should consult your physician or a genetic counselor and get a confirmatory test prescribed by a physician.

Because a direct-to-consumer test is done without a referral from a health care provider and isn't considered diagnostic, health insurance companies generally don't pay for it. But if you share your results with your physician and he or she recommends additional testing or management, the follow-up care may be covered. The IRS recently issued a private letter ruling to 23andMe saying that purchasers of the 23andMe Health and Ancestry test kit could deduct part of the cost as a medical expense if they itemize on their federal return. Even if you don't itemize or haven't accumulated enough medical expenses to deduct them, the ruling allows HSA funds and flexible spending accounts to reimburse you for that amount.

As more people take a DNA test, the reference panels will improve, and the testing companies are working to improve their models and algorithms. You'll receive updated reports periodically, which could clarify your ancestry—or confuse you more. For example, Carrie Reynolds's first ethnicity estimate referenced the Iberian Peninsula—Spain and Portugal—but later results omitted it.

Genealogists say many Americans commonly believe they have a Native American ancestor. That may be true, but it's hard to prove, even with genetic testing. Although their genetic code is distinctive, Native Americans have been mixing with Europeans for centuries. So Native American ancestry may show up as a very small percentage of your ancestry—as Elizabeth Warren discovered when she took up President Trump's challenge to prove her Native American heritage. In the eastern U.S., the percentage of Native American ancestry may be between 0% and 1%, whereas in the western states, it can be as high as 3% to 4%, says Hill.

THE PRIVACY QUESTION

Sometimes, test takers learn that the people who raised them weren't their parents or that a parent was unfaithful. Fathers may not have known they were fathers. Biological mothers may not want to be found. Parents may not want to acknowledge that they gave up a child for adoption or were reproductive donors. The National Institutes of Health recommends that you think about what information will be reported to you, whether there is information you would rather not know,

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and whether you can decline to receive more specific information.

Before you buy a kit, the Federal Trade Commission recommends that you scrutinize the companies' websites and privacy policies for details about how the company secures, uses and shares the information it collects. When you sign up, choose your account *and* privacy settings carefully. When companies invite you to participate in research opportunities, make sure you understand what you're agreeing to. AncestryDNA, MyHeritage and 23andMe have aligned their privacy policies with best practices recommended by the Future of Privacy Forum, a think tank in Washington, D.C., for the collection, protection, sharing and use of genetic data generated by direct-to-consumer testing companies.

The privacy policies generally require informed consent for the companies to share your genetic information in aggregated and de-identified form—grouped with other people's data and without identifying personal information—with research partners. For example, AncestryDNA says their partners may include commercial or nonprofit organizations that conduct or support scientific research or the development of therapeutics, medical devices or related material to treat, diagnose or predict health conditions—"with no benefit to you."

"You're literally giving away the software of you that connects you to all your family members," says Joel Winston, a former deputy attorney general for the State of New Jersey whose legal practice focuses on consumer rights litigation, information privacy and data-protection law. Given emerging technologies, unanticipated issues will arise, and you must balance the risks of direct-to-consumer testing against the benefits, says Thomas May, a researcher with the HudsonAlpha Institute for Biotechnology. "Avoiding the potential violation of privacy comes at the expense of not getting the good stuff, either."

The companies test and store your biological sample and genetic data in-house, or they may use third parties for those purposes. You can ask them to destroy or return your sample and delete your DNA data from their system, usually within 30 days of your request. However, anecdotal evidence suggests that extraction of your data may be easier said than done, and privacy policies say your data can't be removed from research projects that have begun or have been completed. Privacy could be breached at any point, says Winston. "I thought Equifax would have protected its information, so you never know," he says.

OTHER RISKS

Direct-to-consumer genetic testing is big business and getting bigger. The global direct-to-consumer genetic-testing market will surpass $2.5 billion by 2024, according to Global Market Insights. "You think you're signing up for history, but it's really the commercialization of your DNA," says Winston. "They're running the tests at cost so they can acquire the haystack and find the needle in it," he says. The companies' goal is to find people who have the genetic variant to, say, avoid Alzheimer's or lower blood pressure.

People always worry, *What if an insurance company or employer surreptitiously tried to identify who is at high risk,* says May. There's also concern that anonymous data can be re-identified. If you think that a testing company has misused your data or you otherwise have a claim against it, the burden of proof is on you and the companies will require you to go to arbitration.

In certain circumstances, law enforcement can submit the DNA or upload the genetic code of an unknown suspect to seek familial matches in the companies' databases. In 2018, the notorious Golden State Killer, a serial murderer and rapist, was identified after FamilyTreeDNA cooperated with the FBI. Customers were outraged when they realized they had no advance warning, no notice afterward and no effective option if they objected, says Judy G. Russell, a genetic genealogist and lawyer (www.legalgenealogist.com).

Afterward, FamilyTreeDNA clarified that law enforcement agencies can submit DNA samples to get matches to try to identify the remains of a deceased individual or to identify the perpetrator of a homicide or sexual assault. But, without valid legal process (using court orders, subpoenas and warrants), law enforcement won't see any more than any other user sees. Users can opt out of law enforcement matching without losing the benefits of the test for which they've paid.

Should you fear losing your insurance coverage or being charged higher rates because of genetic testing? The Genetic Information Nondiscrimination Act of 2008 (GINA) protects Americans from discrimination in health insurance and employment based on genetic information. Health insurers can't use genetic information to make eligibility, coverage, underwriting or premium-setting decisions. Employers can't use genetic information in decisions such as hiring, firing, promotions, pay and job assignments. However, GINA doesn't apply to employers with fewer than 15 employees, nor to people covered by several forms of federal and military insurance (Federal Employees Health Benefits, the Veterans Health Administration, the U.S. Military Tricare and the Indian Health Service). It also doesn't cover long-term insurance, life insurance or disability insurance.

Your state may provide some protection. Seventeen states restrict the use of genetic information in determining coverage for life insurance and for disability insurance, and eight states restrict its use for long-term-care insurance, according to the National Human Genome Research Institute. ■

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TRAVEL

How to Get Rid of a Timeshare

It's not easy, and you will never get back what you paid for it. BY PATRICIA MERTZ ESSWEIN

MAYBE YOU'RE SUFFERING buyer's remorse after succumbing to high-pressure sales tactics. Or maybe you're not vacationing as you once did, and you are eager to excise the escalating annual maintenance fee from your budget. Whatever the reason, a healthy percentage of the estimated 9.2 million households that own timeshares are itching to ditch them.

Before you try to sell your timeshare, face one fact: You will never get back what you paid for it—a figure that can be substantial. In 2018, buyers paid an average of $21,455 per timeshare interval (a week or equivalent points) and an average annual maintenance fee of $1,000, according to the American Resort Development Association. Realistically, you can expect to recoup as little as 10 to 20 cents on the dollar—and in the worst case, you will have to pay out of pocket to get rid of it.

The desirability of your destination, the resort and the week of your stay will determine demand for your timeshare and its resale value. Brand-name resorts—for example, Disney, Hilton, Marriott and Wyndham—in Hawaii, Las Vegas, Orlando and New York City have wider appeal than independently owned resorts with limited, regional appeal, such as those on the Jersey Shore or in the Poconos. If you own a higher-demand "event week," such as Thanksgiving or Christmas week in New York City, you may be able to get 30 cents on the dollar, says Judi Kozlowski, a real estate agent in Orlando who specializes in timeshares.

Call the resort first. If a resort is actively reselling its own timeshares or is converting weeks into points, it may agree to buy back your week. No matter how valuable your week may be, the resort will offer less than you probably could sell it for elsewhere. If you want out super-fast, however, a buyback is the way to go. You'll usually have to pay your maintenance fee for the current year, as well as closing costs of about $500 to $750.

Go to ResponsibleExit.com and click on your resort developer's name to get contact information for a customer-service representative. And beware of timeshare exit companies, which often use come-ons and scare tactics in advertising and marketing (see kiplinger.com/links/time). The American Resort Developers Association (ARDA) launched ResponsibleExit.com to inform timeshare owners about their options.

You shouldn't be hit up by a salesperson trying to upsell you into another timeshare. If your resort isn't listed yet, contact the ARDA Resort Owners' Coalition Consumer Support Center at 800-515-3734 or responsibleexit@arda.org. Or call your resort's management company or homeowners association.

You may be able to give back your timeshare to the resort (charities generally do not accept them as gifts). It's cheaper for a resort to accept a deed back than to foreclose on you, says Brian Rogers, of the Timeshare Users Group. The resort may do so for free, especially if your week is valuable, or in exchange for next year's maintenance fee.

Sell it yourself. Even in the hottest markets, you must price your timeshare appropriately. See what others are charging for similar properties. For example, a week in high season for a two-bedroom, two-bath unit with an oceanfront view at the Hyatt Residence Club Maui at Ka'anapali Beach in Lahaina, Hawaii, was

ILLUSTRATION BY ILEANA SOON

recently listed on Redweek at prices ranging from $35,000 to $125,000.

A resort may charge a resale buyer various fees, such as a club activation fee and closing and transfer fees, which could easily add up to a couple of thousand dollars. A buyer may also want title insurance. Those costs are negotiable between seller and buyer. If you want to sell more quickly, offer to pay them for the buyer, says Rogers.

Two major online communities for timeshare owners offer current and historical for-sale listings, as well as advice and owner discussions. For closed listings, check out Redweek .com (www.redweek.com/whats-my-timeshare-worth; search by your resort's name and click on "Historical Resales"). To list your timeshare for sale, pay a $19 membership fee and choose among three plans: basic for $60, verified (for the buyer's benefit) for $80, or full service for $125, with a fee at closing of $399 or 3% of the resale price. The Timeshare Users Group (www.tug2.net) also lists closed sales, and you can list your timeshare with a $15 annual membership. To see closed sales, search by resort and click on "Resale/Rental History."

If you want help, hire a real estate agent who specializes in timeshares. Ask your resort if it can recommend a preferred agent, or look for a member of the Licensed Timeshare Resale Brokers Association (search by state or resort name at www.licensedtimeshare resalebrokers.org/members-all) or an agent who has obtained the Resort and Second-Home Property Specialist certification from the National Association of Realtors (go to www.realtor .com/realestateagents and add "RSPS" to your advanced search criteria).

At closing, agents may charge a flat fee or a percentage commission. For example, Kozlowski charges $1,000 on sales of less than $3,000; $1,500 on sales of $3,000 or more; and 15% on sales of $10,000 or more. Most agents charge 25%, she says.

Your resort may have the "right of first refusal." If a buyer makes an offer, you must submit it to the resort. It will either match the offer and buy back the timeshare itself, or it will allow you to close the deal with the outside buyer.

The usual cost to close a timeshare resale in the U.S. is $300 to $700. If you sell it yourself, contact a licensed timeshare closing company, such as Timeshare Escrow and Title (www .timeshareresaleclosings.com) or Timeshare Resale Closing Services Inc. (www.trcsinc.com). ■

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Get all the breaks you deserve. Some states and localities let you shield a portion of your primary home's value from taxes, or you may be eligible for credits based on your income or status as a senior, veteran or disabled person (contact your state's department of taxation or visit its website). You usually have to apply for the credits and show proof of eligibility.

Check for errors. Examine your property's record card, which you'll find at your tax assessor's office or on its website. If you see an outright error—indicating four bedrooms instead of two, for example—the assessor may reduce the assessed value.

Size up your neighbors. Even if you don't see errors on your property card, check the property cards of similar homes to see how their assessments line up with yours.

File an appeal. Send your appeal and your evidence—data on comparable properties, blueprints, photographs and/or repair estimates, for example—to the assessor for review. You should get a verdict within a couple of months. If you still think your assessment is too high, take your case to the appeals board.

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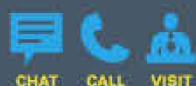

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