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APRIL 2019


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BENJAMIN RASMUSSEN

AHEAD

MONEY

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IN EVERY ISSUE

ON THE COVER: Photo-Illustration by Justin Metz

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FROM THE EDITOR

Mark Solheim

My Beef With My Broker

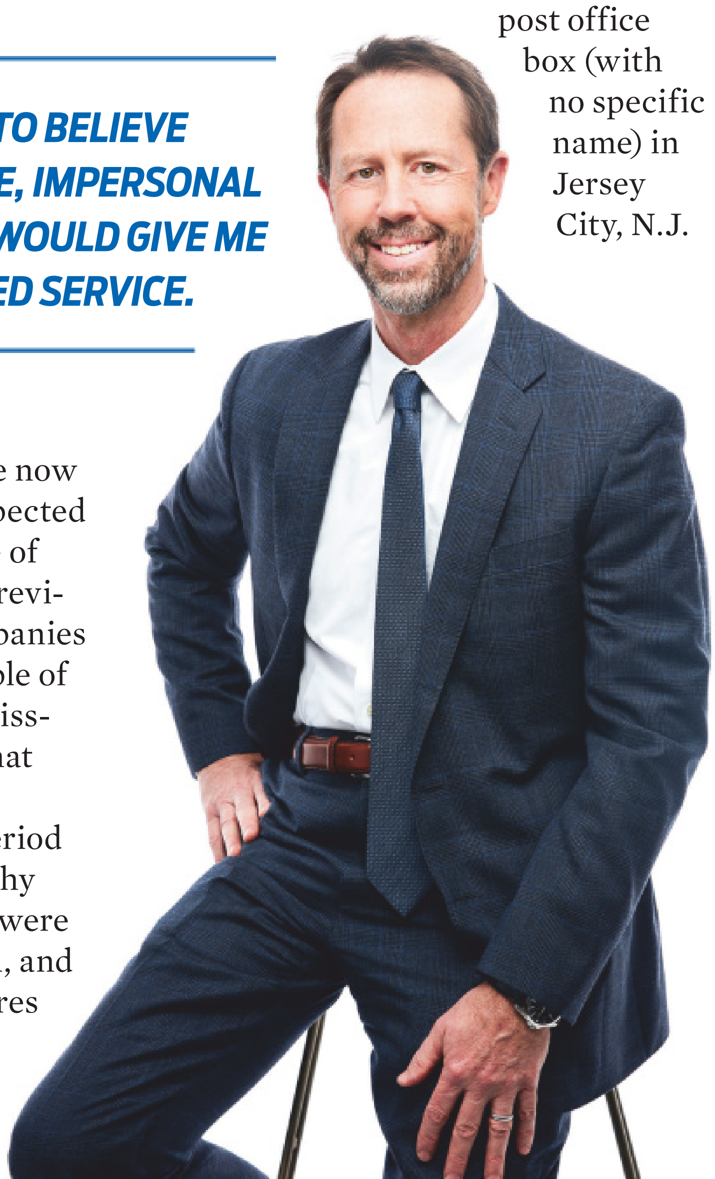
This month, I'm sharing the story of how more than $32,000 disappeared from my E*Trade brokerage account last May and made its way to the Dutch Ministry of Finance in the Netherlands. It's a cautionary tale about the perils of investing in a foreign stock and the frustrations of dealing with a fully automated online broker. I'll share some blame, too, for not delving into the fine print about stock tenders.

A tender tale. In 2015, I bought 500 shares of Mobileye, an Israeli company that developed camera-based driver-assistance technology. We highlighted the stock in our April 2015 issue in "Cash In on the Future" (see page 46 for an updated version of stock picks that will benefit from long-term trends). In March 2017, Intel offered to acquire Mobileye at a nice premium, and the share price shot up. I decided to sit on my shares and wait for the buyout money.

In May 2018, I noticed a sizable drop in the value of my account. I logged on and saw a placeholder CUSIP number for the now missing Mobileye shares, but I expected the cash to appear within a couple of days. That's what had happened previously with shares I owned in companies that had been acquired. But a couple of weeks later, the money was still missing. I contacted E*Trade to see what was happening.

As it turned out, I missed the period to tender my shares (I'll explain why below). All my untendered shares were transferred to a subsidiary of Intel, and the money representing those shares was transferred to an escrow account in the Netherlands. To claim my money, I had to submit a long form that, among other things, stated that I was not subject to Israeli taxes. That was last August. Over the next several months, I e-mailed E*Trade several times for updates. No money yet, I was told each time.

I WAS NAÏVE TO BELIEVE THAT A LARGE, IMPERSONAL BROKERAGE WOULD GIVE ME PERSONALIZED SERVICE.



The letter. Fast-forward to late January. This time I decided to call. The rep on my "dedicated elite team" transferred me to the corporate action department. The employee who picked up there said he didn't have any information. He did not offer to investigate further. He seemed indifferent and unresponsive. When I asked where I could write to lodge a complaint, he gave me the general e-mail address. No dice, I said, I want to write a letter. He gave me a post office box (with no specific name) in Jersey City, N.J.

If you ever want to complain, write a letter to the company's CEO or president (or take to Twitter). I checked the E*Trade website for the name of the CEO and found his e-mail address in an online search. In my two-page letter to CEO Karl Roessner, I pointed out that the sensitive and urgent Mobileye tender information was delivered only via "Smart Alerts," which seemed to be a tool to help evaluate securities. Why not send these messages to my e-mail address, where I get my statements, or (gasp) send me a notice via snail mail?

I e-mailed the letter at 4 o'clock on a Wednesday afternoon. At 4:20, I got a call from a "corporate support manager," who assured me Mr. Roessner had received the letter and wanted him to investigate. In follow-up calls, I learned that other E*Trade customers who had not tendered shares were just starting to see the money hit their accounts. (I never mentioned my position as editor of this magazine, nor used Kiplinger letterhead or my company e-mail address.)

What I learned from my merry-go-round ride is that investing in foreign securities can be a pain. I will not owe Israeli taxes on my Mobileye profits, but there's a good chance that if you invest in an international fund or stock that pays dividends, you will pay foreign taxes (we explain on page 52 how to recoup those taxes). I also learned that I was naïve to believe that a large, impersonal brokerage would give me personalized service, and I think that's true for an entire industry that has replaced human brokers with cheap, automated trades. (I now have alerts forwarded to my e-mail address.) Finally, strategic complaining works. Over the past few weeks, the updates have continued. The last one confirmed that my money will soon be heading back to the U.S. ■

Mark Solheim

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Look Beyond Retiree Taxes

I have friends who left Connecticut, one of your "least tax-friendly" states, to move to "most tax-friendly" Florida ("Countdown to Retirement," Feb.). But the reality of living in their newly adopted state has set in. What they save on taxes goes to pay higher home insurance premiums because of the threat of hurricanes. Their housing costs now include a monthly exterminator, a pool person and a person who checks for mildew. Perhaps they'll save on inheritance taxes. I hope their kids appreciate the sacrifice.

TEDD LEVY
OLD SAYBROOK, CONN.

Q READER POLL

Could your finances weather a job loss or significant emergency expense?

Yes, I have plenty set aside. 82%

I have about a month's worth of expenses. 17%

No 2%

For ideas on how to shore up your finances before a financial emergency hits, turn to page 22.

SOURCE: POLL SURVEYED 330 *KIPLINGER'S* READERS. FIGURES DO NOT ADD UP TO 100% DUE TO ROUNDING.

Tax-friendly Tennessee? In your retiree tax map, you omitted Tennessee as a very tax-friendly state. Yet Tennessee levies no income tax on IRAs, 401(k)s, Social Security and pensions. The only tax in which Tennessee is a "loser" is sales tax.

PAUL ALBRIGHT
LOUDON, TENN.

EDITOR'S NOTE: Tennessee is tax-friendly, but not among the top 10 friendliest states based on our formula.

Umbrella premiums. You quoted the cost of umbrella insurance at "about $150 per year for each $1 million of coverage" ("How Big an Umbrella?" Feb.). I pulled my most recent invoice and found that I am paying $248 per year per $1 million of coverage, through the American Institute of CPAs, which normally has very competitive rates. I know that rates have been increasing over the past several years, so I asked my home insurer to provide me with a comparable quote. It would charge me $401 per year per $1 million of coverage.

WAYNE MARTIN
BATON ROUGE, LA.

EDITOR'S NOTE: We understated the cost. Most people pay $150 to $350 a year for the first $1 million of coverage. Rates vary by state and how many homes, cars and boats you're insuring.

Investing in pot stocks. I was disappointed that 41% of Kiplinger readers would not invest in a cannabis stock ("Reader Poll," Feb.). As a practicing pharmacist since 1972, I see this industry as one that holds a huge potential to benefit patients suffering from a myriad of health issues. If those same individuals had the opportunity to double their money in a coal or brewing company, would they hesitate?

LARRY TALLEY
HOMER, LA.

Deducting alimony. In "Our Guide to Saving on Your Taxes" (March), referring to the deductibility of alimony payments, you say "assuming you still itemize." I am under the impression that itemizing has nothing to do with deducting alimony.

THOMAS LASCO
ANTIOCH, ILL.

EDITOR'S NOTE: Mr. Lasco is correct.

CORRECTIONS

If you enrolled in a Medicare Advantage plan for 2019 and don't like your choice, you can switch to another plan or to original Medicare (either with or without Part D prescription drug coverage) between January 1 and March 31 ("Calendar," March).

T. Rowe Price New Horizons Fund (PRNHX) is closed to new investors ("A Tough Year for Investors," March). ■

LETTERS TO THE EDITOR

Letters to the editor may be edited for clarity and space, and initials will be used on request only if you include your name. Mail to Letters Editor, Kiplinger's Personal Finance, 1100 13th St., N.W., Washington, DC 20005, fax to 202-778-8976 or e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.

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TOPIC A

EXPECT AFTERSHOCKS FROM THE SHUTDOWN

Economists worry that lawmakers will fail to reach a debt-ceiling deal. BY EILEEN AMBROSE

THE LONGEST GOVERNMENT shutdown in history is now history—but its impact on the economy may linger well into the year.

According to estimates by the Congressional Budget Office, the 35-day partial shutdown that ended January 25 will ding the U.S. economy by about $3 billion. But Tony Roth, chief investment officer at Wilmington Trust, says the actual damage could be two to three times higher than the CBO's $3 billion figure. That's because the CBO looked at only the direct costs of the shutdown, not the harder-to-measure indirect costs, such as travel plans that were called off or executives who delayed or canceled spending to maintain or expand their businesses.

Roth says he still has a positive view of the economy and the U.S. stock market, although he reduced his outlook for gross domestic product growth by 0.2 percentage point, to a range of 2% to 2.25% for 2019. That revised GDP forecast, which is below Kiplinger's 2.45% forecast, takes into account not only the shutdown but other issues, such as China's slowing economy and the impact of tariffs.

A more worrisome effect of the shutdown is that it foreshadows more dysfunction in Washington that could affect trade pacts and Uncle Sam's borrowing power. The Treasury Department is expected to have enough money to pay the bills only until mid to late summer. If lawmakers don't raise the debt ceiling at that point, the country will default on its obligations, which would be "near catastrophic for the global economy," Roth says.

But Mark Zandi, chief economist at Moody's Analytics, doesn't think that will happen. "This experience with the shutdown and the political fallout make it less likely they'll play brinkmanship around the debt limit," Zandi says.

A hit to consumer confidence. As the shutdown dragged on for weeks, consumers were made acutely aware of how entwined their lives

ILLUSTRATION BY MITCH BLUNT

are with the federal government. The shutdown threatened to delay tax refunds and mortgage closings, stopped food safety inspections, and disrupted travel, leading to long airport security lines and causing a brief halt in flights at LaGuardia because the airport didn't have enough air traffic controllers.

Those events, on top of stories about federal workers and contractors at risk of losing their homes as they struggled to get by without paychecks, likely contributed to a plunge in consumer confidence. The Conference Board reported a much larger than expected drop in consumer confidence in January, the third monthly decline in a row.

Consumer confidence is key to a healthy economy because consumer spending accounts for 70% of the U.S. economy. Economists say the shutdown may lead to increased savings and reduced spending among some of the 800,000 federal workers whose paychecks were delayed, as well as the hundreds of thousands of federal contractors and service providers who won't get back pay. And it may cause others to prepare for a financial shock, too (see "De-Risk Your Finances," on page 22). But the shutdown is unlikely to dampen consumer spending overall, economists say.

There is one silver lining to the shutdown: Democrats and Republicans in Congress have introduced legislation to ban shutdowns.

INTERVIEW

HOW MUCH CASH IS IN YOUR WALLET?

Electronic payments are increasing, but a cashless economy has drawbacks.

Joseph Bailey is associate research professor at the Robert H. Smith School of Business at the University of Maryland.

According to a recent Pew Research Center survey, nearly 30% of Americans say they make no cash purchases during a typical week. How does the use of electronic payments in the U.S. compare with other countries? The U.S. is moving quickly toward more cashless transactions, but it still lags some European countries, such as Sweden, Denmark and Norway. Sweden has reached a tipping point at which only about 2% of transactions are conducted in cash. In part, that's because the Swedes are technologically savvy, they have a relatively small market, and the government encourages electronic payments of its currency. Chinese cities are also embracing the cashless life, with a mobile-phone system that uses encrypted codes for transactions. In India, some 255 million people are making everyday purchases using the Paytm virtual wallet system backed by China's Alibaba.

Will the U.S. catch up with the other countries? If you want a picture of how we'll handle money in the future, look at how college students manage their money. And then just imagine a world in which they are the majority, and not the rest of us who grew up in a world where we carried around wallets with paper money and maybe coins in our pockets.

What are the trade-offs for consumers as we move toward more cashless transactions? Consumers give up anonymity when they don't use cash. For example, let's say you go grocery shopping and your payment shows whether you got a discount for using a reusable bag or paid for a plastic store bag. Marketing could be tailored to you, based on how you're perceived to feel about the environment. Or if you use electronic payments to buy a lot of fruits and vegetables, you could be pitched a gym membership because a marketer thinks you're getting fit. Some consumers may not be comfortable with this type of marketing because they think it's an invasion of privacy.

Are there any other drawbacks to a cashless society? Cashless businesses could hurt low-income consumers who mostly use cash. In addition, we eventually could see a surcharge for using cash. Theft could also become a bigger problem. You may be less likely to be pickpocketed because you're not carrying cash, but you might face a greater financial threat from a remote hacker or data thief who manages to hack into your smartphone. **RIVAN STINSON**

PHOTOGRAPH BY RYAN DONNELL

STICKER SHOCK

YOU MAY PAY MORE FOR YOUR DRUGS

If your health insurance plan dropped your prescriptions, you still have options.

IF YOUR INSURANCE PLAN covers prescription drugs, you may be in for sticker shock the next time you go to the pharmacy. Express Scripts and CVS Caremark, two large pharmacy benefit managers that provide drug coverage for many health plans, dropped about 90 drugs from their preferred formularies (the list of drugs they cover) in 2019.

These changes can affect people who have coverage through their employer, as well as people who buy an individual policy. Specifics vary, but many insurers adopt the pharmacy benefit managers' preferred formularies for their own coverage. (The drug lists can be different for Medicare Part D. The Trump administration has proposed new rules for Medicare plans that would require PBMs that receive rebates from drug companies to pass on the savings to consumers.)

If several drugs are deemed effective at treating a specific disease, the pharmacy benefit manager typically negotiates with drug manufacturers and chooses the option that costs it the least. That could cause a drug you're using to be dropped from its formulary. If your drug is dropped, ask your doctor if you can switch to an alternative. For example, Pradaxa, a blood thinner that was dropped from Express Scripts' formulary, costs about $500 for a 30-day supply without insurance. But you may be able to switch to warfarin, a generic version of a different blood thinner, which may be covered by your insurance with a small co-pay.

Some drugs may be difficult to substitute if you're in the middle of treatment, says Dan Johnson, of ScriptSave WellRX, which provides price comparisons and a discount card. In that case, your best option may be to work with your doctor to file an appeal with the plan. **KIMBERLY LANKFORD**

What to Do If Your Insurer Stops Covering Your Prescription

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FIRST ALERT

BANKS BATTLE ELDER FRAUD

The new year brought old news for older Americans: Financial fraud targeting senior citizens is still climbing, with a 12% uptick in 2018, according to the U.S. Treasury. But there's a silver lining: Financial institutions are now doing more to stop elder fraud.

That's due in part to the federal Senior Safe Act of 2018, which protects professionals from lawsuits after they've taken training to recognize red flags, such as sudden wire transfers, among older customers. "One of the first signs of cognitive decline is in your ability to manage finances," says Michael Pieciak, president of the North American Securities Administrators Association.

States have been making their own moves to combat elder fraud, often with stronger protections than at the federal level. Since 2015, at least 19 states have enacted legislation to bolster senior fraud protections, and another four—Florida, Missouri, New Hampshire and Virginia—have similar legislation pending.

To ward off fraud in your family, start by discussing common warning signs, such as being asked for money up front by urgent callers. "Research shows that older Americans are less susceptible to fraud if they hear about the fraud beforehand or recognize its tactics," says Pieciak. **BRENDAN PEDERSEN**

WE BUY HOUSES

HOME SALES GO HIGH-TECH

Corporate buyers will sell your home in a hurry, and you don't need to lift a finger.

SELLING A HOME IS A HASSLE. SMART sellers spend time and money to clean, repaint and stage it, and the final sale price and date are uncertain. But a growing number of companies are offering a high-tech and more sophisticated version of "ugly home" flippers. They could make selling your home easier, faster and more predictable—for a price.

Opendoor, which operates in 19 cities, and Offerpad, in 13 cities, are the leading so-called iBuyers. Redfin Now and Zillow Offers launched in 2018. Coldwell Banker, ERA and Keller Williams are testing programs, too.

Convenience comes at a cost: iBuyers charge a service fee of 6% to 13% of the price. That's higher than the 4% to 6% commission for a traditional real estate agent, but sellers don't have to pay carrying costs and the expense of fixing up the home for sale. If you're interested, go to one of the iBuyers and provide your address and other information about your property.

If your home meets the iBuyer's criteria, it will provide a free, no-obligation purchase offer and make a home visit. If you accept the iBuyer's offer, you can close for cash within as little as a week. **PATRICIA MERTZ ESSWEIN**

CALENDAR
04/2019

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TUESDAY, APRIL 2
It's National Social Security Month. If you don't already have an online account with the Social Security Administration, set one up at www.ssa.gov/myaccount, even if you're not receiving benefits. You'll be able to check your earnings records to make sure there are no gaps and estimate how much you'll receive when you retire. In addition, setting up your own account will make it more difficult for fraudsters to claim benefits in your name.

▲ FRIDAY, APRIL 12
Mastercard launches its new "free trial" policy. Mastercard will require a merchant to get permission from cardholders before it converts a free trial for a product, such as BarkBox, into a monthly subscription. The merchants must also provide cardholders with cancellation instructions.

MONDAY, APRIL 15
Today is the last day to file your income tax return unless you request an extension. An extension gives you until October 15 to file, but it doesn't give you more time to pay. If you owe the IRS, go to www.irs.gov for information about how to set up an installment plan. The IRS is waiving the underpayment penalty if you paid 85% of your 2018 tax liability. The threshold is usually 90%.

TUESDAY, APRIL 22
Celebrate Financial Literacy Month by improving your financial savvy. Learn about the fundamentals of investing, saving for retirement and more at Kiplinger.com's Personal Finance Basics section. Go to kiplinger.com/links/basics. **RIVAN STINSON**

DEAL OF THE MONTH
Procrastinators who've waited until the last minute to file their tax return can expect discounts of 20% to 50% off tax filing software. These same discounts also apply to other office supplies, including paper, printers and ink.

OPENING SHOT | James K. Glassman

The Power of Indexing

John Bogle used to joke that investing in managed mutual funds was like a second marriage: "It's the triumph of hope over experience." Bogle, an investment industry legend who died in January at 89, could have said the same about his own life. He survived at least six heart attacks and lived long enough to see the low-cost index fund—which he championed for 43 years at Vanguard, the firm he founded—go from an obscurity to a sensation. Moody's predicts that index funds will claim more than half of the assets in the investment-management business in the next two to four years. All by itself, **VANGUARD 500 INDEX** (SYMBOL VFIAX), which is linked to Standard & Poor's 500-stock index, has a portfolio valued at $335 billion. (For more on Bogle's legacy, see page 56.)

The rationale for the stock market index fund rests in the efficient-market hypothesis, the notion that the value of a stock reflects everything that's known about it at the time. Under this theory, the future course of a stock's price cannot be predicted. Rather, it moves in what Princeton economics professor emeritus Burton Malkiel called a "random walk," which was the subject of his influential book *A Random Walk Down Wall Street,* first published in 1973. If markets are efficient, it is a waste of time and money to invest in a mutual fund run by a human being who picks stocks and bonds and charges you a significant fee for the effort. In the long term, a fund that reflects the whole market will beat managed funds because of two advantages: lower fees and immunity to the panic buying and selling of crowds.

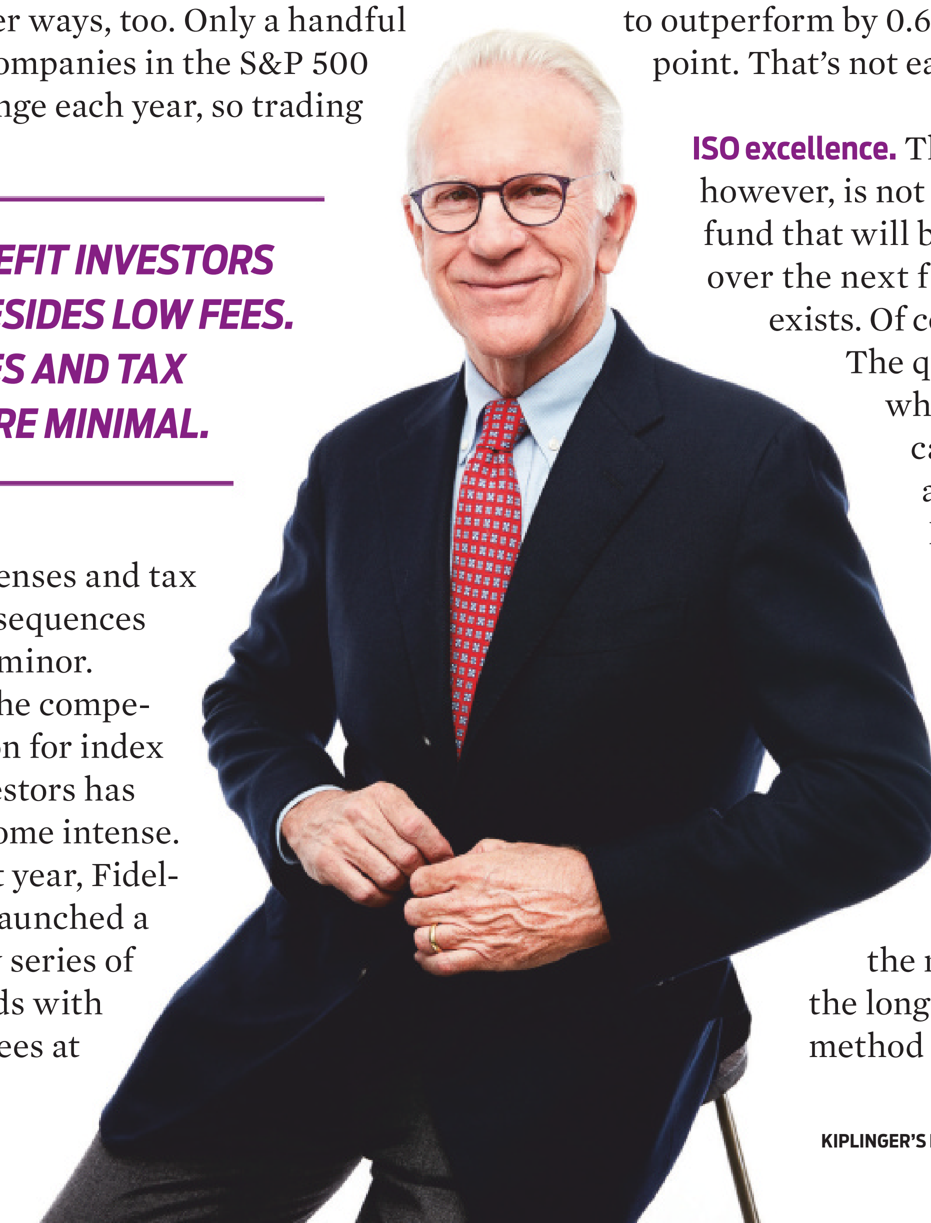
Indexing works. The record of index funds validates this theory. In the 15-year period through June 30, 2018, Standard & Poor's found that its S&P 500 index, composed of roughly the 500 largest companies on U.S. exchanges, beat 92.4% of large-cap funds. According to Morningstar, Vanguard 500 Index has done better than the majority of funds in its category (large-cap blend, a mix of growth and value stocks) in *each* of the nine calendar years through 2018. In the five years ending February 15, Vanguard 500 Index returned an annual average of 10.8%, nearly two percentage points a year more than large-cap blend funds, which returned an annualized 9.1%.

Index funds benefit investors in other ways, too. Only a handful of companies in the S&P 500 change each year, so trading expenses and tax consequences are minor.

INDEX FUNDS BENEFIT INVESTORS IN OTHER WAYS BESIDES LOW FEES. TRADING EXPENSES AND TAX CONSEQUENCES ARE MINIMAL.

The competition for index investors has become intense. Last year, Fidelity launched a new series of funds with no fees at all, including **ZERO LARGE CAP INDEX** (FNILX), which is linked to Fidelity's own index of 504 stocks that are nearly the same as those in the S&P 500. Vanguard charges just 0.04% for its 500 Index fund. (The firm recently closed the more expensive Investor share class of the fund to new investors, allowing Investor share class owners to convert to Admiral shares with just a $3,000 minimum investment.) Expenses are also 0.04% for shares of **VANGUARD S&P 500** (VOO), the firm's exchange-traded fund, and 0.09% for **SPDR S&P 500** (SPY), the most popular index ETF. A growing number of ETFs now trade commission-free.

The average managed large-cap fund has an expense ratio of 0.65%, according to Morningstar, so to beat an index fund that charges 0.04%, a typical active manager would need to outperform by 0.61 percentage point. That's not easy.



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ISO excellence. The question, however, is not whether a fund that will beat the index over the next five years exists. Of course it does. The question is whether you can find it. As analyst Mark Hulbert has written, "I'm not aware of any way of identifying in advance the select funds that will be able to beat the market over the long term." One method that seems

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continued from page 13

bound to fail is betting on funds that are doing well *today*. A study by S&P found that "out of 550 domestic equity funds that were in the top quartile [that is, the best-performing 25% of funds] as of September 2016, only 7.1% managed to stay in the top quartile at the end of September 2018."

Still, some active managers seem to have a golden touch. **FIDELITY CONTRAFUND** (FCNTX), run by Will Danoff since 1990 and carrying an expense ratio of 0.74%, has returned an annual average of 10.5% for the past 15 years, compared with 8.3% for Vanguard 500 Index—and with similar risk. And there's Warren Buffett, of course. The chairman of Berkshire Hathaway (BRK.A) has had enormous success by finding inefficiencies in the pricing of individual companies. "I'd be a bum on the street with a tin cup if the markets were always efficient," he once said.

Trying to find funds—or putting together your own portfolio of individual stocks, for that matter—that can beat the indexes can be exciting, an intellectual challenge. And you certainly won't beat the index with an index fund. But even Buffett is an index fund advocate. In the 2013 Berkshire Hathaway annual report, he said he would give this advice to a trustee for his own children: "Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors—whether pension funds, institutions or individuals—who employ high-fee managers."

The S&P 500 is not the only index that reflects the stock market as a whole. You can get even broader exposure through funds such as **VANGUARD TOTAL STOCK MARKET INDEX** (VTSAX), which reflects the performance of every

Index Giants

TWO WAYS TO BUY "THE MARKET"

Returns of these two indexes track each other closely, but Vanguard's Total Stock Market Index provides exposure to companies of all sizes.

	Vanguard S&P 500 Index (VFIAX)	Vanguard Total Stock Market Index (VTSAX)
Assets	$335.1 billion	$627.9 billion
Expense ratio	0.04%	0.04%
Yield	2.1%	2.0%
Number of stocks	508	3,514
Total returns*		
1 year	3.6%	3.9%
3 years	16.5%	17.0%
5 years	10.8%	10.4%
10 years	15.3%	15.5%

As of February 15. *Annualized for three, five and 10 years. SOURCES: Morningstar, Vanguard.

exchange-listed U.S. stock and charges 0.04%. Although the S&P 500 index itself has about 10% of its assets in mid-cap stocks, the Total Stock Market fund has 17% in mid-cap stocks and 6% in small caps. Like the 500 Index fund, Total Stock Market is capitalization weighted, so the smallest companies have little impact on the price of the fund and the largest dominate—but not quite as much as with an S&P 500 fund. The three top holdings at the end of 2018 for the two funds were, naturally, the same—Microsoft (MSFT), Apple (AAPL) and Amazon.com (AMZN)—but they represented 10% of the assets of 500 Index and 8.3% of Total Stock Market.

Over the past 15 years, Total Stock Market has beaten Vanguard 500 Index by an annual average of three-tenths of a percentage point. The broader fund, with its mid and small caps, is slightly riskier—and more risk should yield greater rewards.

YOU CAN GET BROAD MARKET EXPOSURE THROUGH FUNDS SUCH AS VANGUARD TOTAL STOCK MARKET INDEX, WHICH REFLECTS THE PERFORMANCE OF EVERY LISTED U.S. STOCK.

With about 2,500 holdings (Vanguard Total Stock Market has 3,500), **FIDELITY ZERO TOTAL MARKET INDEX** (FZROX) does the same job and charges no expenses. The only catch with these zero-fee funds is that you have to open a Fidelity brokerage account. If you prefer an ETF, good choices are **VANGUARD TOTAL STOCK MARKET** (VTI), charging 0.04%, and **ISHARES CORE S&P TOTAL U.S. STOCK MARKET** (ITOT), holding about 3,400 stocks and charging 0.03%.

How do you choose between an S&P 500 and a total-market fund? Over the past 10 years, the widest annual variance between the two Vanguard funds has been just two percentage points. But last year, in an attempt at streamlining, Vanguard removed the 500 fund as a selection for its employees' 401(k) plan. "We believe the Total Stock Market Index fund is the best proxy for the U.S. market, offering exposure to large-, mid- and small-cap stocks," said a spokesperson. My own view is that it makes no difference. Just bear in mind Bogle's bon mot (attributed originally to Samuel Johnson), and pick experience over hope. ■

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YOUR MIND AND YOUR MONEY | Anne Kates Smith

Why We're Better Buyers Than Sellers

You no doubt think long and hard—and do plenty of research—before you buy a stock. But a new study shows that investors tend to put far less effort into sell decisions, and that can hurt you.

The finding comes from a preliminary study published in January by researchers at the University of Chicago, Carnegie Mellon University, the Massachusetts Institute of Technology and data analysis firm Inalytics. They looked at 4.4 million trades for 783 portfolios run by professional money managers between 2000 and 2016. These were cream-of-the-crop managers, with portfolios averaging $573 million, but make no mistake: The findings apply to you, too.

And the findings are striking. The stocks that the managers added to their portfolios did well, outperforming the portfolios' benchmarks. The managers' selling decisions, however, failed by a wide margin to beat even a zero-skill strategy of selling different, randomly chosen stocks in the portfolio. The managers trailed the random, no-skill portfolio by an average of one-half to one percentage point over one year. In other words, they consistently cut their winners loose too early or gave up too soon on laggards. "Simply adopting a random selling strategy would generate substantially greater earnings than the average management fees charged to clients," the study concludes.

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Decision-making shortcuts. The problem, say the study's authors, is that the managers simply didn't put the same time and brain power into their sell calls that they put into their buys. Instead, they turned to a decision-making shortcut, known in the behavioral sciences as a heuristic. The heuristic in this case? The past performance of the securities.

Rather than focus on, say, the outlook for profits or other fundamental measures of a company's prospects, the managers tended to sell their biggest losers or their biggest gainers. Portfolio managers who sold stocks with the most extreme returns fared the worst, with overall returns trailing the random-sale benchmark by as much as two percentage points a year.

WHEN PORTFOLIO MANAGERS ARE BUYING, THEY THINK LIKE BUSINESS OWNERS. BUT WHEN THEY SELL, THEY TOO OFTEN DEVOLVE INTO STOCK JOCKEYS.

It's easy to rationalize sales based on past returns. Many heuristics carry a kernel of truth that explains why they become rules of thumb. Assets with extreme gains might have already realized their upside potential; assets with extreme losses imply a change for the worse in the original investment thesis. But information about prior returns is also ubiquitous and easy to seize on without much thought or effort. Portfolio managers "are looking at a terminal all day," says study coauthor Alex Imas, of Carnegie Mellon. "The stocks that underperform and outperform are top of mind." That probably goes for you, too, if you check your account balance constantly or stay glued to the day's financial news.

What's frustrating to me about the study's findings is that when managers did focus on fundamentals—when sales were correlated with a company's earnings announcement, for example—they made better sell decisions. That tells me that when portfolio managers are buying, they think like business owners. But when they sell, they too often devolve into stock jockeys and, worse, practice rearview-mirror investing. They forget that past performance is no guarantee—nor is it the best predictor—of future results. Maybe they should read their own boilerplate more often.

What should you take away from this study? If you can, spend time doing the same kind of forward-looking analysis of a stock when you sell it as you do before you buy it. And if you can't do that, says Imas, "shave assets across the board, or pick something to sell randomly" when you need to raise some cash. ■

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LIVING IN RETIREMENT | Janet Bodnar

Retire in Sync With Your Spouse

The prize for inspiring my column this month goes to reader Michael Hagedorn. In his first year of retirement, Hagedorn is struggling to reconcile the goals of his wife, Caranell, who has her sights set on travel—encouraged by HGTV and the Travel Channel—with his desire for "a little breathing room" to get their finances settled. "Perhaps if I canceled our cable subscription, I could better manage both expectations," he quips.

Spending more time with a spouse or partner can be one of the high points of retirement. In a study by Age Wave and Bank of America Merrill Lynch, 48% of retirees said their marriage has become more fulfilling, compared with 11% who said it is more contentious.

Still, each person has his or her own vision of retirement, and they're not always compatible. "Retirement is usually portrayed as a solo project, but it's not," says Ken Dychtwald, CEO of Age Wave, a think tank focused on aging. For example, the Age Wave/Merrill Lynch study found that two-thirds of retirees who have a spouse or partner haven't discussed or agreed on how much leisure time to spend together, and two-thirds haven't budgeted for travel.

Sometimes the source of friction is simply spending more time together—especially if one spouse, often the wife, has already established a busy at-home routine. "My wife told me, 'I married you for better or worse, but not from 9 to 5,' " writes reader Paul Wallick, who joined a gym, volunteers at church and is a part-time consultant, among other activities. "Joining my wife of 41 years on a full-time basis was a bigger adjustment than expected, and I'm sure the same applies to her," says Greg Miles. "I still feel the need for structure and routine." ("Get In on a Stellar Second Act," Aug. 2018, takes a look at how *Kiplinger's* readers are spending time in retirement.)

Some couples have come up with creative solutions. "Spouses don't have to do everything together, and my wife and I take separate trips," writes Thomas King. "But the three weeks I was gone on a trip to New Zealand was too long to be apart." To avoid being underfoot, Tom Morris adjusted his retirement activities to mimic his previous work schedule—leaving the house early in the morning, taking care of chores and projects, exercising, and returning home as if he were ending his workday.

The situation is trickier if, as in the Hagedorns' case, you disagree about fundamental roles or goals. Ali Hutchinson,

TO AVOID CONFLICTS, EACH OF YOU SHOULD VISUALIZE WHAT A DAY IN RETIREMENT MIGHT LOOK LIKE.

senior vice president of private wealth management at Brown Brothers Harriman, tells of a client who was a corporate CEO while his wife managed the household bills. When he retired and began taking more of an interest in household finances, she balked. "She told him, 'Just because you were CEO of a company doesn't mean you become CEO of the household,' " says Hutchinson. They're still negotiating their roles.

Get on the same page. It's critical to talk with your spouse before you retire to pinpoint and address any conflicts. "Each of you should visualize what a day in retirement might look like," says Judith Ward, senior financial planner at T. Rowe Price. "Ask yourself a series of questions: When, where, and why do you want to retire? What will you be doing, and with whom?" Write down your answers separately and then compare them.

Sometimes it makes sense to stagger retirement dates or shift roles. Reader Bill Smith's wife kept working after he retired, so he made her breakfast, packed her lunch, cleaned the house and made dinner. Another reader writes: "My wife became bored and went back to work at REI. As an avid hiker, I enjoy the spousal discount."

The key, says Dan Tindell, is "adjusting to changing circumstances," as Michael and Caranell Hagedorn have discovered. "It's likely best that Caranell pushes me to do more, and I try to get her to consider more of the costs," writes Michael. "We have attained a certain balance that seems to work for us both." ■

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MILLENNIAL MONEY | Rivan Stinson

Don’t Be Afraid to Do Your Own Taxes

Last year my mother told me it was time to start doing my own taxes. I panicked at this thrust into adulthood. But, with a beer in hand, I persevered and learned two things: Freelancing and moving across the country make filing your taxes more complicated—and more expensive.

Software with strings attached. Many millennials can file their taxes free. The IRS’s Free File program partners with tax software giants such as H&R Block and TurboTax to offer free online tax preparation for taxpayers who made less than $66,000 in 2018. (The big tax software providers also offer their own free versions for taxpayers with straightforward returns.)

However, even if you meet the income requirement, you may be disqualified from free filing if, say, you made (or lost) money trading stocks or you contributed to a health savings account. For example, H&R Block’s Free File program lets users file a federal tax return and up to three state returns at no cost. But if you made money from a side gig or have investment income, you’ll be prompted to use the Premium version, which can cost between $50 and $70 to prepare and e-file a federal return and $36.99 for each state return. Before you start plugging in numbers, read the fine print and disclaimers for the software.

Overlooked write-offs. The new tax law nearly doubled the standard deduction for single filers, to $12,000 (it’s $24,000 for married couples who file a joint return). Even if you take the standard deduction, you could still qualify for money-saving tax breaks.

For instance, if you’re paying off student loans, you may be able to deduct up to $2,500 a year in interest. The interest deduction is phased out as you climb the income ladder, and single filers are locked out of this break if their adjusted gross income (AGI) is $80,000 or more.

If you had a ton of unreimbursed medical expenses last year because of, say, a catastrophic illness, you may be able to deduct them, but you’ll have to itemize. And you can only deduct expenses that exceed 7.5% of your AGI (that will rise to 10% in 2019).

The tax overhaul eliminated a great tax break for millennials and others who relocate for a new job—and one I neglected to claim in 2016. You can no longer deduct your moving expenses unless you’re an active member of the military. If you made the same mistake I did in 2016 (or moved in 2017 and failed to claim the deduction), you could file Form 1040X with the IRS to claim the moving expenses. You’ll need your original tax return and accompanying documents, plus the receipts for your moving costs. The deadline to file an amended return is three years after your original filing deadline.

Don’t overlook tax breaks from your state or city. In the District of Columbia, some of my colleagues are eligible for a tax credit of up to $1,025 for residents who made less than $51,000 in 2018 and lived in D.C. for the whole year. Minnesota offers a tax credit of up to $2,150 for single renters who made less than $61,320 in 2018.

If you’re feeling overwhelmed and don’t qualify for the free programs, it’s probably worth it to pay for tax software. The programs also generally have live chat boxes and explanations that will guide you through the process. If you’d rather entrust your taxes to a human, you could hire a tax preparer, but the average cost for preparing a tax return is $216, according to a survey by the National Association of Tax Professionals.

I’m filing with H&R Block Premium again (for a total cost of $124) because I earned a little bit of freelance income in 2018 and need to file a federal and two state returns. I don’t qualify for the Maryland renter’s tax credit, and I have no interest to deduct on any student loans. I have until Tax Day 2020 to file an amended 2016 return to claim the now-defunct moving deduction, but I’m not sure it’s worth trying to recreate the return and find all my documents. That was three years ago, and I didn’t keep the receipts. ■

EVEN IF YOU HAVE TO PAY FOR TAX SOFTWARE, IT’S CHEAPER THAN HIRING A TAX PREPARER.

POON WATCHARA-AMPHAIWAN

TO SHARE THIS COLUMN, PLEASE GO TO KIPLINGER.COM/LINKS/MILLENNIALS. YOU CAN CONTACT THE AUTHOR AT RSTINSON@KIPLINGER.COM.

DE-RISK YOUR FINAN

If you lose your job or face a large, unforeseen expense, are you prepared?

The 35-day partial government shutdown that kicked off 2019 created a moment of truth for the 800,000 employees and contractors who had to figure out how to cover their bills until their paychecks kicked in again. Many did just fine, thanks to savings and, often, the added safety net of a working spouse. But for others, the sudden interruption in cash flow created a crisis. // The episode was a reminder of how many Americans live paycheck to paycheck. According to the results of a Federal Reserve study released last year, 40% of Americans did not have enough savings to cover a $400 emergency expense. Plus, debt has

PHOTOGRAPH BY BENJAMIN RASMUSSEN

CES

A Furlough Is No Vacation

The government shutdown in January wasn't the first time Sherrie Kinard hit turbulence during her 20-year career at the Environmental Protection Agency. Kinard, 47, of Highlands Ranch, Colo., rode out the two-week shutdown in 2013—while she was in the midst of a contentious divorce. Afterward, she beefed up her savings and became allergic to credit card debt. "This furlough was way more scary because we had no idea when it would end," she says. Plus, when she remarried last fall, she drew down her savings to pay for the wedding and to make a down payment on a new home.

When the furlough was announced, the family stopped eating out, and Kinard returned an expensive Christmas gift from her husband. Kinard immediately reached out to creditors. Her mortgage lender agreed to let her postpone her January payment without charging a late fee. Other creditors allowed her to postpone payments.

Kinard has two sons, Evan, 14, and Zachary, 12. Both are on the autism spectrum and need therapy and medications. Kinard pays about $400 a month in out-of-pocket expenses for Evan. (Zachary qualifies for support from Medicaid.) During the shutdown, Kinard had to cancel Evan's therapy.

Kinard missed two paychecks during the five-week shutdown, and she received back pay two weeks after it ended. If another shutdown had occurred, she would have taken a loan from her Thrift Savings Plan retirement account. At least, she says, she would be paying herself back. PATRICIA MERTZ ESSWEIN made a comeback since 2013 and now exceeds the previous peak reached in 2008, driven in part by a rise in student and auto loans. We're handling the payments pretty well, thanks to a strong economy with historically low unemployment. But one day the stock market will cycle into a bear market and the economy will cycle into a recession. That will put pressure on your retirement and other savings, and some unlucky workers will lose their jobs.

If you faced a financial crisis—job loss, a catastrophic illness, divorce—how well would you weather the storm? Use our guide to shock-proof your finances, and keep our strategies for dealing with a crisis in your back pocket, just in case.

PREPARE

CREATE A BUDGET

Yes, budgeting can be tedious. But with a budget in place, you'll have a picture of your income and expenses in case you need to tighten your purse strings later, and you'll be better equipped to build a bigger savings cushion. To get started, you'll need to track your expenses. Use an online budgeting tool or app that links to your bank, investment, credit card and other accounts and automatically tracks and categorizes expenses. **CLARITY MONEY**, **MINT** and **PERSONAL CAPITAL** offer free trackers plus other handy features. Clarity Money and Mint, for example, provide free credit scores. Personal Capital will run a checkup on your investment portfolio's asset allocation.

A simple budget breakdown follows the 50-20-30 rule: Up to 50% of your take-home pay is for essential expenses, such as rent or mortgage payments, utility bills, transportation to work, groceries, and insurance premiums; at least 20% goes toward saving for retirement, an emergency fund and other goals, and paying down debt; and up to 30% is designated for nonessentials, which may include restaurant meals and travel and entertainment spending. To map out a more detailed budget, use our tool at **KIPLINGER.COM/LINKS/BUDGET.**

TIGHTEN YOUR BELT

Your spending may not have to go under the knife yet, but you can get a good idea now of areas that could be trimmed. Look at the nonessentials in your budget first. Memberships and subscriptions that you don't use to their full potential are prime candidates for removal, says Ken Mahoney, CEO of Mahoney Asset Management, in Chestnut Ridge, N.Y. If you pay a membership fee to a gym you hardly visit, try working out at home instead. Rather than fork over extra money for a bloated package of cable channels, consider switching to a streamlined plan or to a couple of video-streaming services, such as Sling TV and Netflix. By connecting your bank and credit card accounts to **TRUEBILL**, an online money-management tool and app, you can see a listing of recurring fees and get information on how to cancel service for each. Among essential expenses, you can probably reshop your wireless plan to nab a better deal.

SET UP AN EMERGENCY (AND RAINY-DAY) FUND

Instead of maintaining one fund for large, unexpected expenses, create two. Your true emergency fund is meant for catastrophes that may result

PHOTOGRAPH BY RYAN DONNELL

Don't Skimp On Your Emergency Fund

Prarthana Appaiah, 29, started seeding her emergency fund when she took her first job as a substitute teacher in Loudoun County, Va., a position that was originally set up as a six-month contract. Living at home enabled her to save two-thirds of her paycheck each month, which she set aside in a savings account and put toward her emergency fund, as well as her student loans and buying a car. "Both of my parents started their emergency funds and investments much later in their careers, so they always encouraged me to start early," she says.

Appaiah settled on $15,000 to $20,000 as the target amount she wants to hold in her emergency fund. As long as her emergency fund holds that amount, she focuses on investing rather than saving more. Now a full-time fourth-grade teacher and living with a roommate, Appaiah aims to save at least one-third of her paycheck each month. She doesn't automate transfers between her checking and savings account, but she keeps an eye on her bank account to make sure her savings are on track.

Her emergency fund came in handy recently when a series of misfortunes befell her 10-year-old car, including a hit-and-run while parked and unexpected repairs. But otherwise, "I don't touch it," she says. She's currently replenishing the last couple of hundred dollars she needs to return to her optimum $20,000 target. MIRIAM CROSS in a total loss of income, such as divorce, job loss, or medical or mental disability that keeps you out of work, says Lori Atwood, a certified financial planner in Washington, D.C. She tells clients to also set aside "rainy day" funds for urgent but less-catastrophic needs, such as car and home repairs, medical and vet bills, and short-notice travel to be with an ill relative. Pam Horack, a CFP in Lake Wylie, S.C., has a similar approach but a more colorful description of the two funds: The emergency fund she calls the "oh my God I lost my job" fund and the other she calls the "oh crap I need new tires" fund.

How much should you put in each? For the rainy-day fund, Atwood recommends about $1,500 for young, single renters and between $3,000 and $5,000 for homeowners, depending on how much upkeep your home needs. Your emergency fund should have enough to cover three to six months (or more) of expenses. If you have a stable job (and your spouse does as well) and no dependents, you may feel safe saving on the lower end; if you are self-employed or work irregular hours, care for dependents, or experience a chronic health condition, you'll need at least six months.

Keep your emergency fund in a high-yield online savings account or money market deposit account with no monthly fees. (For example, **SYNCHRONY BANK**'s online savings account yields 2.25% and provides an ATM card for ready access to cash.) Atwood recommends keeping your rainy-day account at the bank where you have your checking account, to make withdrawals less of a hassle.

PAY DOWN DEBT

Get your rainy-day fund topped up and at least one month of emergency savings under your belt (on your way to saving more) before bolstering your retirement savings. Then you can tackle credit card debt. You'll save the most by paying off debts in order of highest to lowest interest rate. But eliminating the debt with the smallest balance first—even if it doesn't carry the highest rate—may give you the momentum you need to stick with the plan.

You may be able to consolidate your debts into a lower-rate credit card or loan. The **AMEX EVERYDAY** card, for example, offers a 0% rate on balance transfers for 15 months (with a variable rate of 15.24% to 26.24% thereafter) and charges no transfer fee as long as you request the transfer within 60 days of opening the card. Make sure you can pay off enough of the balance to make the transfer worthwhile during the 0% window. Alternatively, search for a debt-consolidation personal loan. Check with local banks and credit unions as well as online lenders.

ENLIST A PRO

Even if you don't feel a strong need for a financial adviser now, you'll be glad to have one in your corner if a crisis erupts. Plus, a planner can give you the motivation to trim the fat from your budget and sock away more in savings—and discourage you from making rash investment decisions in a stock market downturn. Interview a few advisers to find a good fit, and make sure you understand how they're paid, what certifications they hold, and their overall philosophy and approach to financial planning. You can search for fee-only planners, who do not accept commissions for selling financial products to clients, at www.napfa.org. To find a certified financial planner—who must pass a series of exams and have substantial advisory experience under her belt—go to www.letsmakeaplan.org.

At **WWW.SUPERMONEY.COM**, you enter details about yourself (such as education level, income and employment status), the type of debt you've incurred and how much you'd like to borrow. The site generates offers from various partner lenders, including LendingClub, LightStream and SoFi.

MANAGE STUDENT LOANS

If student loan payments are draining your budget, consolidating or refinancing may help. If you have several federal student loans, consolidating them through the Department of Education's Direct Consolidation Loan program won't save you money over the life of the loan, but you will be able to pick a new repayment plan that better fits your budget. Most borrowers are placed on a 10-year repayment plan and pay the same amount each month until the loan is paid off. Other plans stretch repayment over a longer period, gradually increase your monthly payment amount or base your monthly payment on your income. To see what your monthly payment and loan terms would look like under different repayment plans, go to StudentLoans.gov and use the Repayment Estimator.

Unlike the federal government, private lenders will refinance both private and federal student loans into one loan. Assuming you've established a good credit history, you'll likely be able to score a lower interest rate on your private loan than you did in college—and borrowers with stellar credit profiles may snag a reduced rate for their federal loans, too. Keep in mind, though, that if you refinance your federal loans with a private lender, you'll typically lose valuable benefits.

PRIME YOUR CREDIT

In case you need to fall back on credit in the future, consider opening a home equity line of credit now. "The best

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#31

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1. Competitor operating expense ratios obtained from prospectuses reflect OERs as of 9/30/17. Expenses subject to change. SCHK OER as of launch date, October 11, 2017.

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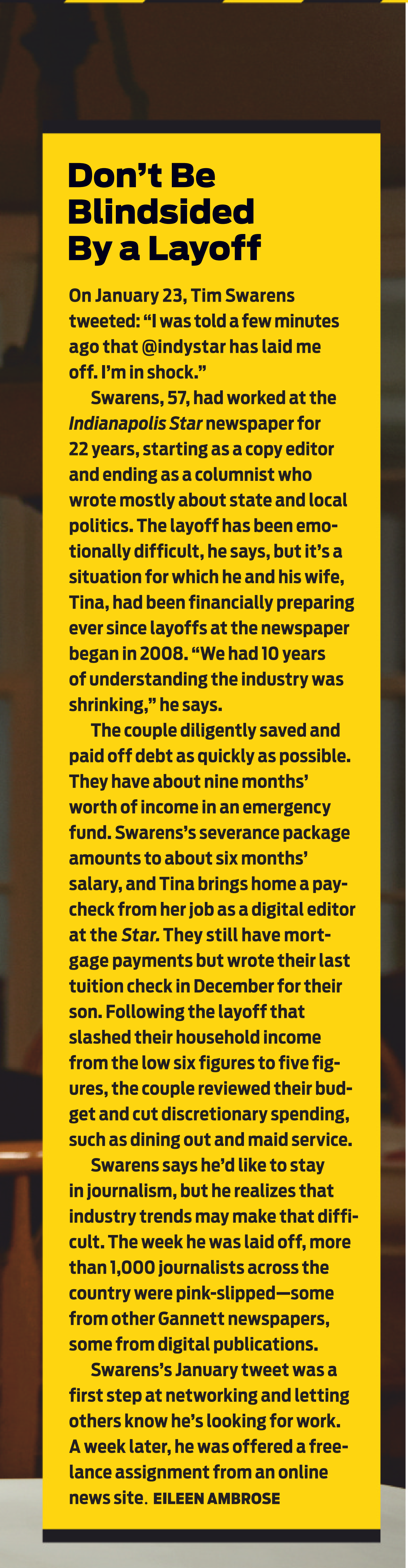


Don't Be Blindsided By a Layoff

On January 23, Tim Swarens tweeted: "I was told a few minutes ago that @indystar has laid me off. I'm in shock."

Swarens, 57, had worked at the *Indianapolis Star* newspaper for 22 years, starting as a copy editor and ending as a columnist who wrote mostly about state and local politics. The layoff has been emotionally difficult, he says, but it's a situation for which he and his wife, Tina, had been financially preparing ever since layoffs at the newspaper began in 2008. "We had 10 years of understanding the industry was shrinking," he says.

The couple diligently saved and paid off debt as quickly as possible. They have about nine months' worth of income in an emergency fund. Swarens's severance package amounts to about six months' salary, and Tina brings home a paycheck from her job as a digital editor at the *Star*. They still have mortgage payments but wrote their last tuition check in December for their son. Following the layoff that slashed their household income from the low six figures to five figures, the couple reviewed their budget and cut discretionary spending, such as dining out and maid service.

Swarens says he'd like to stay in journalism, but he realizes that industry trends may make that difficult. The week he was laid off, more than 1,000 journalists across the country were pink-slipped—some from other Gannett newspapers, some from digital publications.

Swarens's January tweet was a first step at networking and letting others know he's looking for work. A week later, he was offered a freelance assignment from an online news site. EILEEN AMBROSE

time to get approved for a line of credit is before you need one," says David Almonte, a member of the American Institute of CPAs' Financial Literacy Commission. Ask your credit card issuer to raise your credit limit, too. That will not only help you lower the amount of available credit you use (and lift your credit score) but also put more credit at your disposal in a pinch. Consumers are 50% more likely to receive a credit-line increase between January and May, according to a study by the credit bureau TransUnion.

To maintain a healthy credit profile, keep the balance on each credit card to less than 30% of the limit. Check your free yearly credit reports from each of the major credit agencies—Equifax, Experian and TransUnion—at www.annualcreditreport.com. Comb each report for errors or signs of fraud, such as the appearance of a credit-card or loan account that you never opened or a collection account for a debt you don't owe.

PUMP UP YOUR PAYCHECK

The tax overhaul lowered taxes for millions of Americans, but only 19% of taxpayers updated their withholding in response to the new law, according to a survey by H&R Block. If you received a large tax refund this year, adjust your withholding and give yourself a raise. You can use the extra money to pay off high-interest debt, build up your emergency fund or increase contributions to retirement savings plans.

Use the IRS tool (go to www.irs.gov and search for "withholding calculator") to figure out how to reduce the amount withheld from your paycheck. Once you've crunched the numbers, file a new Form W-4 with your employer. If you ended up *owing* the IRS for 2018, the calculator can help you increase the amount withheld so that you won't have to worry about a budget-busting tax bill next April.

DO AN INSURANCE CHECKUP

One of the best ways to protect yourself against financial risks is to make sure you have enough insurance.

► **Life.** If anyone is depending on you financially, you usually need life insurance. A simple rule of thumb is to have enough life insurance to cover eight to 10 times your annual income. But someone whose income supports a spouse and young children may need more coverage than someone with a working spouse and grown kids. A life insurance calculator, such as the one at www.lifehappens.org, can help you come up with a more precise figure. Term insurance is the cheapest form of life insurance.

► **Disability.** Make sure you have enough disability insurance so that you and your family could continue to pay the bills if your income were to stop. Disability insurance through work is a good start. But group disability insurance generally covers only 60% of your income (not counting commissions and bonuses), and monthly benefits may be capped at $5,000. Plus, payouts are taxable if your employer pays the premiums. You may need to buy extra coverage on your own.

► **Long-term care.** Consider the potential costs of long-term care when planning for retirement (go to www.genworth.com/costofcare for median costs in your area). You may decide to cover some of the costs from your savings, perhaps in addition to a long-term-care insurance policy. You could also protect against this risk with a life insurance policy that provides extra coverage for long-term care or lets you access the death benefit early with a chronic care rider. Or you could buy a deferred-income annuity that pays out lifetime income starting in your eighties, when you're likely to need care (see "How to Afford Long-Term Care," March).

PHOTOGRAPH BY HAROLD LEE MILLER

Portfolio Protection

DE-RISK YOUR INVESTMENTS

If you're facing financial difficulties, a major hit to your portfolio could sink you even more, especially if you need the money now or in a few years. Just as a job loss threatens your human capital, a sizable market downdraft threatens your investment capital—and we'll remind you that it's been a decade since the last official bear market. That makes now a good time to examine your portfolio and consider some adjustments to tamp down risk. (For ways to dial down risk in a bond portfolio, see "Income Investing," on page 60.)

Re-allocate your assets. Conventional wisdom holds that young people, who have time to withstand temporary declines in the market, should invest nearly all of their nest egg in stocks. People closer to retirement age should ramp up their holdings in bonds and cash, which offer lower potential returns than stocks but less volatility. An aggressive mix might be something along the lines of 85% stocks and 15% bonds; a conservative approach might be 50% stocks, 40% bonds and 10% cash.

The asset allocation that's right for you depends on both your *capacity* and *tolerance* for risk. The former gauges how a downturn might impact your lifestyle or derail your goals. The latter is how much of a loss you could stand before you abandon your plan. "If you could stomach a big loss without panicking and selling your long-term investments, your portfolio is likely in line with your risk tolerance," says Joshua Mungavin, a certified financial planner in Coral Gables, Fla. Rebalance your holdings periodically to make sure they're in line with your target mix.

A balanced mutual fund divvies assets between stocks and bonds and regularly rebalances to a set allocation. Such funds tend to lag during bull runs but hold up better during downturns. **VANGUARD WELLINGTON** (SYMBOL VWELX), a member of the Kiplinger 25 (see page 63), holds 66% of assets in stocks and the rest in bonds and cash. The fund's 15-year annualized return of 7.8% bests 95% of its peers.

Play defense. Look for stock funds that lose less than the broad market during downswings. Over the past 10 years, **FIDELITY CONTRAFUND** (FCNTX) has lost 89 cents for every $1 decline in Standard & Poor's 500-stock index. Value stocks—those that trade inexpensively compared with corporate measures such as sales or earnings—have lagged behind growth-oriented stocks for years but historically have tended to make up ground during market downturns. Value-oriented mutual funds in the Kiplinger 25 include **DODGE & COX STOCK** (DODGX) and **T. ROWE PRICE VALUE** (TRVLX).

Meteoric growers tend to fall the farthest during downturns, and they may make up a significant portion of your portfolio, with 15.5% of the S&P 500 belonging to Apple, Microsoft and so-called FANG stocks (Facebook, Amazon.com, Netflix and Google parent company Alphabet). Sectors that tend to lose less in market slides include consumer staples (companies that produce necessities such as toilet paper and toothpaste), energy, health care and utilities. Consider a low-cost index exchange-traded fund, such as **CONSUMER STAPLES SELECT SECTOR SPDR ETF** (XLP, $54).

Look for quality companies. If you invest in individual stocks, seek out high-quality companies—those with strong free cash flow (cash profits after capital outlays), little debt, solid management teams and market-leading positions within their industries. **JOHNSON & JOHNSON** (JNJ, $136), a member of the Kiplinger Dividend 15 list of our favorite dividend stocks, boasts a 56-year history of dividend hikes. (For more on the Kiplinger Dividend 15, see page 62; prices and returns are as of February 15.) **UNITED HEALTHCARE** (UNH, $271) stands apart for its leading market position, seasoned executives and strong free cash flow.

► **Health.** Make sure the doctors and hospitals you'd like to use are covered when choosing a plan during open enrollment. Also check coverage for your prescription drugs, and understand the appeals process if your claim is denied. If you have a policy with a deductible of at least $1,350 for single coverage or $2,700 for family coverage, you can contribute up to $3,500 to a health savings account for single coverage or $7,000 for family coverage in 2019, plus $1,000 if you're 55 or older. Contributions are tax-deductible (or pretax if through your employer) and can be withdrawn tax-free for eligible medical expenses in any year.

► **Car.** Even more important than covering your car if you're in an accident, car insurance provides liability coverage if you injure someone else or damage their car. State liability limits are way too small—consider getting at least $250,000 per person and $500,000 per accident in liability coverage. Also make sure you have underinsured-motorist coverage (usually at the same level as your own coverage), which pays for damages to your car as well as medical expenses and lost wages in case an at-fault driver's liability limits are too low.

► **Home.** Work with your insurance company or agent to make sure you have enough homeowners insurance to rebuild your house if it is totally destroyed. Let your insurer know about any additions, home improvements or upgraded materials. Get extended replacement cost coverage, which adds 25% to 50% to the coverage amount if the cost of labor or materials rises. Keep an updated home inventory so you can get credit for all of your possessions and speed up the claims process (make a video of each room with your smartphone, making sure to open closets and drawers). Coverage for jewelry and other valuables is often limited under home insurance policies, but you

can add coverage up to an item's appraised value.

If you don't own a home, renters insurance is an inexpensive way to cover your possessions and protect against liability claims if, for example, someone gets hurt in your apartment. It typically costs $150 to $250 per year for $20,000 to $30,000 in contents coverage and $100,000 to $300,000 in liability coverage.

► **Umbrella.** If someone sues you, an umbrella policy pays for a judgment or settlement and legal fees beyond the limits of your car or home insurance. You can usually add $1 million in extra coverage for about $150 to $350 per year. (You generally need to have at least $300,000 in liability coverage on your home insurance, and $250,000 per person and $500,000 per accident of bodily injury coverage on your car insurance first.) See our umbrella insurance calculator to estimate how much coverage you need **KIPLINGER.COM/LINKS/PLUP**).

BOLSTER YOUR CAREER

No matter how stable your job, things can change quickly. Brush the dust off your résumé, LinkedIn profile and networking skills so that you're ready to re-enter the job market at a moment's notice. Enrolling in a certificate or degree program might help you hang on to your current job or land a new one. Online and in-person certificate programs through community colleges, four-year schools and industry-specific professional organizations can help you beef up your résumé in a few weeks or months. And going back to school may be easier than you expect. Colleges and universities are revising class schedules and making other changes to better accommodate working adults who want to graduate quickly.

IN A CRISIS

CALL YOUR CREDITORS

If you're facing a financial crisis, your mortgage lender, bank and credit card issuer may let you pause or lower your payments. Wells Fargo and Bank of America offer forbearance plans that allow customers facing a temporary financial hardship, such as a layoff, to suspend or reduce their mortgage payment. American Express and Discover offer payment-assistance programs tailored to individual situations that could temporarily lower the interest rate, waive late-payment fees or lower the monthly payment on credit cards. During the government shutdown, JPMorgan Chase contacted furloughed customers to offer help and automatically refunded overdraft and service fees on checking accounts. The company also launched a "special care" hotline for furloughed customers, where they could receive 90-day mortgage-payment relief and suspension of credit-card payments.

If you know you'll be late or miss a payment on your student loans, contact the servicer. You may be able to stop or reduce federal student loan payments temporarily if you're unemployed or experiencing an economic hardship. Deferment allows you to stop monthly payments, usually for a year at a time, for a total of up to three years (the feds will pay the interest on some loans but not other loans). Forbearance pauses payments in year-long increments. Interest accrues on all the loans, including subsidized Stafford loans. Many private lenders offer short-term relief in the form of interest-only payments, and some offer forbearance.

CASH IN ON SKILLS AND ASSETS

When life throws you curveballs, get creative to keep the game going. The empty guestroom or finished basement in your house is rentable lodging on Airbnb (go to **KIPLINGER .COM/LINKS/HOMERENTAL** for more information). Driving for ridesharing platforms such as Uber or Lyft can help with cash flow in a pinch, but remember to check your auto insurance's policy on such gigs to make sure you're fully covered in case of an accident. Also consider freelance and consulting work that uses your skills and experience. Marguerita Cheng, a certified financial planner in Gaithersburg, Md., says one of her clients parlayed his public relations and communication skills into winning two long-term contracts to help local nonprofits with their marketing efforts. And don't forget to browse the classified ads and retailers looking for part-time workers.

APPLY FOR SOCIAL SECURITY

You're eligible to file for Social Security as early as age 62. But if you do, your benefits will be permanently reduced by 25% compared with claiming at full retirement age—66 for most baby boomers. It's usually best to wait until then so you'll receive 100% of the benefits you've earned. If you continue to postpone filing for benefits after you reach full retirement age, your payouts will grow by 8% a year until you reach age 70.

But delaying benefits may not be an option of you're forced into early retirement because of layoffs or health problems. Claiming benefits early beats going into debt or losing your home.

If you're married, consider having the lower-earning spouse file for benefits at age 62. That spouse will see a 25% reduction in benefits, but you can use the money to pay expenses while the higher-earning spouse's benefits continue to grow. To get an estimate of how much you'll receive in benefits, go to www.ssa.gov/benefits/retirement/estimator.html.

PROTECT COLLEGE SAVINGS

As your child ages, ratchet down the risk in your 529 college-savings plan. If the stock market stumbles shortly before the tuition bills are due, it will leave you scrambling. By the time your child is in high school, most accounts should have a roughly even split between stocks and bonds or cash. Or opt for an age-based portfolio, which automatically shifts the investments as the student approaches college.

BOOST FINANCIAL AID

Have a son or daughter in college? The Free Application for Federal Student Aid now uses older tax data, so your family's financial situation may have changed since the information was reported. If you've stopped working or had a financial calamity since the tax year used in the form (2016 for the 2018–19 academic year), contact the financial aid office at your child's school to explain what has changed and ask about their appeals process.

Families having trouble covering expenses during the semester should contact the financial aid office, too. A growing group of colleges offer small emergency grants and loans, usually about $500 to $1,500, to help students fill the gap during an emergency, or to pay for books, groceries or other basics during the semester. ■

SANDRA BLOCK, RYAN ERMEY, LISA GERSTNER, KIMBERLY LANKFORD, KAITLIN PITSKER AND RIVAN STINSON ALSO CONTRIBUTED TO THIS ARTICLE. SEND YOUR QUESTIONS OR COMMENTS TO FEEDBACK@KIPLINGER.COM.

TAP THESE AS A LAST RESORT

If you don't have an emergency fund—or you've had to deplete it—you have a few other options.

Home-equity line of credit. Using a home-equity line of credit is a quick, hassle-free way to raise cash. But remember that your home is on the line if you default on the loan. The average rate for a $30,000 HELOC was recently 6.8%, according to Bankrate.com.

401(k) loan. You can generally borrow up to 50% of your 401(k) balance, up to $50,000, for any reason without taxes or penalty, and you have five years to repay the loan (or longer if you borrow to buy a primary residence). The good news is that you borrow your own money and pay the interest back into your account. Most 401(k) plans charge the prime rate plus one percentage point. You'll minimize the impact on your retirement savings if you continue to contribute to your 401(k) while repaying your loan, assuming your employer allows it. The new tax law extended the time you have to pay back a 401(k) loan after you leave your job: You now have until the due date of your tax return for the year you leave your job to repay the loan and avoid taxes and a 10% early-withdrawal penalty if you left your job before age 55.

Roth contributions. You can withdraw contributions to your Roth IRA at any time without penalty or taxes—but by raiding your retirement savings, you do lose the ability for that money to grow tax-free for the future.

Cash value from life insurance. If you have a permanent life insurance policy, you can access a portion of your cash value through a withdrawal or policy loan. You have to pay interest on a policy loan, but there is no repayment schedule. If you die with a loan outstanding, the amount is subtracted from the death benefit but is not taxable. If the policy lapses while you're alive, however, the loan becomes a withdrawal, and any money you received beyond the premiums you paid is taxable.

HSA withdrawals. If you have a health savings account in conjunction with a high-deductible health insurance policy, you can make tax-deductible contributions and withdraw the money tax-free for qualified medical expenses. But if you have used other cash to cover your current medical expenses, you can save the money you contribute to the HSA and use it like a backup emergency fund, as long as you match withdrawals with eligible medical expenses you incurred since you opened the account, even if it was years ago. Keep a stash of receipts for expenses you paid for eligible medical expenses in your records.

FAMILY FINANCES

Smart Ways to Handle an Inheritance

A bequest could change your life, but don't quit your day job. BY SANDRA BLOCK

WE'VE ALL HEARD STORIES ABOUT individuals who passed away quietly after a life of frugality, leaving a fortune to their unsuspecting heirs or, occasionally, a beloved pet.

The reality is a lot less riveting. Although two-thirds of baby boomers are expected to receive an inheritance—mostly from parents—longer life spans and the rising cost of health care can shrink the size of their parents' assets or wipe them out altogether. According to a 2013 study by the Federal Reserve Board, the average bequest for the wealthiest 5% of U.S. households was $1.1 million; for the next 45%, it was $183,000; and for the bottom 50%, it was $68,000.

Complicating matters is the fact that many estates contain a smorgasbord of items, including real estate, investments, cash, retirement savings accounts and life insurance plans. It could take months to track down these assets and divide them among the estate's heirs, and you could incur significant legal fees—particularly if the estate was large or your relative died without a will. There are also different rules for different heirs: Spouses, for example, enjoy some tax breaks and exemptions that aren't available for adult children or other heirs.

Brian Lee, 44, of Tacoma, Wash., got a crash course in estate law after his late father's brother and sister died almost within a year of each other, in late 2015 and 2017. Neither of his father's siblings had children when they died, so their estates were divided among their nieces, nephews and other surviving relatives. Lee ended up with a six-figure inheritance, but because his uncle died without a will, settling the estate took months and cost thousands of dollars in legal fees. Lee's aunt had a will, with Lee as the executor, which made "all the difference in the world in terms of the process," Lee says.

WHAT YOU'LL OWE IN TAXES

Unless your parents were fabulously wealthy, you won't have to worry about federal estate taxes (see the box on the next page), but that doesn't mean Uncle Sam has no interest in your inheritance.

If you inherited stocks, mutual funds or other investments in a taxable account, you'll be able to take advantage of a generous tax break known as a step-up in basis. The cost basis for taxable assets, such as stocks and mutual funds, is "stepped up" to the investment's value on the day of the original owner's death. For example, if your father paid $50 for a share of stock and it was worth $250 on the day he died, your basis would be $250. If you sell the stock immediately, you won't owe any taxes; if you hold on to it, you'll only owe taxes (or be eligible to claim a loss) on the difference between $250 and the sale price. It's a good idea to notify the investment-account custodian of the date of death to ensure that you get the step-up, says Annette Clearwaters, a certified financial planner in Mount Kisco, N.Y.

Because of this favorable tax treatment, a taxable-account inheritance could be a good source of cash for a short-term goal, such as paying off high-interest debt or making a down payment on a house, says Jayson Owens, a certified financial planner in Anchorage, Alaska.

If you'd rather keep the money invested, review your inherited investments to see whether they are appropriate for your portfolio. For example, you could sell individual stocks and invest the money in a diversified mutual fund without triggering a big tax bill.

Retirement accounts. If you inherited a tax-deferred retirement plan, such as a traditional IRA, you'll have to pay taxes on the money. But you can make the tax hit less onerous.

Spouses can roll the money into their own IRAs and postpone distributions—and taxes—until they're 70½. All other beneficiaries who want to continue to benefit from tax-deferred growth must roll the money into a separate account known as an inherited IRA. Make sure the IRA is rolled directly into your inherited IRA. If you take a check, you won't be allowed to deposit the money. Rather, the IRS will treat it as a distribution and you'll owe taxes on the entire amount.

Once you've rolled the money into an inherited IRA, you must take required minimum distributions every year—and pay taxes on the money—based on your age and life expectancy. Deadlines are critical: You must take your first RMD by December 31 of the year following the death of your parent (or whoever left you the account). Otherwise, you'll be required to deplete the entire account within five years after the year following your parent's death.

The December 31 deadline is also important if you are one of several beneficiaries of an inherited IRA. If you fail to split the IRA among the beneficiaries by that date, your RMDs will be based on the life expectancy of the oldest beneficiary, which may force you to take larger distributions than if the RMDs were based on your age and life expectancy.

You can take out more than the RMD, but setting up an inherited IRA gives you more control over your tax liabilities. You can, for example, take the minimum amount required while you're working, then increase withdrawals when you're retired and in a lower tax bracket.

Did you inherit a Roth IRA? As long as the original owner funded the Roth at least five years before he or she died, you don't have to pay taxes on the money. You can't, however, let it grow tax-free forever. If you don't need the money, you can transfer it to an inherited Roth IRA and take RMDs under the same rules governing a traditional inherited IRA. But with a Roth, your RMDs won't be taxed.

Real estate. When you inherit a relative's home (or other real estate), the value of the property will also be stepped up to its value on the date of the owner's death. That can result

BRIAN LEE, SHOWN HERE WITH HIS WIFE, JOANNE, AND DAUGHTERS MADELEINE AND DOMINIQUE, USED HIS INHERITANCE TO PAY OFF JOANNE'S STUDENT LOANS AND SAVE FOR RETIREMENT.

PHOTOGRAPH BY BROOKE FITTS

in a large lump sum if the home is in a part of the country that has seen real estate prices skyrocket. Selling a home, however, is considerably more complex than unloading stocks. You'll need to maintain the home, along with paying the mortgage, taxes, insurance and utilities, until it's sold.

Life insurance. Proceeds from a life insurance policy aren't taxable as income. However, the money may be included in your estate for purposes of determining whether you must pay federal or state estate taxes.

SPENDING YOUR WINDFALL

Even a small inheritance can represent more money than you've ever received at one time. Go ahead and treat yourself to a modest splurge—a special vacation, for example—but avoid making costly changes in your lifestyle.

Brian Lee used his inheritance to pay off his wife's student loans and a small credit card debt; the rest went into retirement savings. Lee says he wanted to honor the legacy of his uncle, a dedicated investor who worked for IBM in the custodial department for 30 years. Lee's uncle spent most of his life in the same small house in Austin, Texas, and drove a 1967 Ford truck, but he was a wealthy man, with an estate valued at more than $3 million when he died. "There's no way I would blow money someone spent a lifetime saving," Lee says.

Many people overestimate how long their newfound wealth will last. An estimated 70% of people who suddenly receive a large amount of money go through it all in just a few years, according to the National Endowment for Financial Education.

Consider stashing your inheritance in a money market or bank savings account for six months to a year. You won't earn much interest, but your money will be safe while you assemble a team of professionals, which typically should include a fee-only planner, a tax professional and an attorney.

Your team can help you look for ways to fortify your finances. Paying off credit cards and student loans will relieve you of high-interest debt and free up cash for other purposes. If you haven't saved enough to cover several months' worth of expenses, use your windfall to beef up your emergency fund (see "De-Risk Your Finances," on page 22). Once you've got that covered, consider using your inheritance to increase retirement savings. Finally, if you don't have an estate plan of your own, use some of the money to create one, including powers of attorney, health care directives, a will and, if necessary, a living trust. Your own heirs will thank you. ■

CONTACT THE AUTHOR AT SBLOCK@KIPLINGER.COM.

Basics

Your State May Take a Bite

Only the ultrarich need concern themselves with federal estate taxes, but state estate taxes are another story. The federal tax overhaul enacted in 2017 raised the exemption from federal estate taxes to $11.18 million per person, or $22.36 million per couple. But 12 states and the District of Columbia have their own estate taxes, some with much lower thresholds. In recent years, several states have increased their estate-tax exemptions to dissuade well-off retirees from moving to friendlier jurisdictions, but a few still tax much smaller estates than the federal government taxes. Among the dozen states that have estate taxes, the seven states below have the lowest exemptions.

In addition, six states—Iowa, Kentucky, Maryland, Nebraska, New Jersey and Pennsylvania—impose an inheritance tax, at rates ranging from 1% to 20% of the value of your inheritance. An inheritance tax is calculated separately for each beneficiary, and the beneficiaries are responsible for paying the tax. But spouses are exempt from inheritance taxes, and some states also grant a full or partial exemption for children and other members of the immediate family.

STATE	EXEMPTION LEVEL	ESTATE TAX RATES
OREGON	$1 MILLION	10% – 16%
MASSACHUSETTS	$1 MILLION	0.8% – 16%
RHODE ISLAND	$1.54 MILLION	0.8% – 16%
WASHINGTON	$2.2 MILLION	10% – 20%
MINNESOTA	$2.4 MILLION	13% – 16%
CONNECTICUT	$2.6 MILLION	7.2% – 12%
VERMONT	$2.75 MILLION	16%

For more details on state estate and inheritance taxes, see Kiplinger's State-by-State Guide to Taxes on Retirees at kiplinger.com/links/retireetaxmap.

RETIREMENT

10 Strategies for IRA Withdrawals

You're required to take money out of retirement accounts when you turn 70½, but you can minimize the tax bite. BY KIMBERLY LANKFORD

STOCKSY.COM

WHEN YOU INVEST IN AN IRA, 401(k) or other tax-deferred plan, you make a deal with Uncle Sam: You get years of tax-deferred growth, but you have to start taking money out—and give a cut to the IRS—after you turn age 70½. The calculations can be complicated, and the penalties for missteps are steep: If you don't take the required minimum distribution by the deadline each year, you'll pay a penalty of 50% of the amount you should have withdrawn.

The prospect of taking RMDs and facing the tax bill can be daunting, but there are a number of strategies you can use to minimize taxes, make the most of your investments and avoid costly mistakes.

1 Calculate the amount of your withdrawals. 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). If your spouse is more than 10 years younger than you and is your sole beneficiary, use Table II, the Joint Life and Last Survivor table, for the life expectancy factor.

Your IRA or 401(k) administrator can usually help with the calculations, or you can use our RMD calculator at Kiplinger.com to determine the amount.

2 Time it right. You usually have to take your annual RMD by December 31, but you have until April 1 of the year after you turn 70½ to take your first required withdrawal. However, delaying that first withdrawal means you'll have to take two RMDs in one year, which could have a ripple effect on other areas of your finances. The extra income could bump you into a higher tax bracket, make you subject to the Medicare high-income surcharge or cause more of your Social Security benefits to be taxable.

3 Pick the best accounts for RMDs. You have to calculate the RMD from each of your traditional IRAs (not Roths), including rollover IRAs and any SEP or SIMPLE IRAs. But you can add the total required withdrawals from all of those IRAs and take the money from any one or more of the IRAs.

When choosing which account to tap first, "pick the one you like the least," says Mari Adam, a certified financial planner in Boca Raton, Fla. You could start with withdrawals from the IRA that has the highest fees, limited investing choices or a concentration in one stock, she says.

IRAs are owned individually, even if you're married and file a joint tax return, so you and your spouse have to take your RMDs from your own accounts.

4 Understand how 401(k) rules are different. If you have several 401(k) accounts with former employers, you have to calculate and withdraw RMDs separately for each 401(k). You even have to take RMDs from Roth 401(k)s, although those withdrawals are not taxable. You can't take 401(k) account RMDs from your IRAs or vice versa.

If you're still working at 70½, you may be able to delay taking your RMD from your current employer's 401(k) until April 1 of the

PROFESSIONAL INSIGHTS FROM PERSONAL CAPITAL

You May Want an Expert's Help With 4 Tricky Financial Scenarios

Michelle Brownstein, Vice President of Private Client Services, CFP®

When it comes to managing their investments, many people choose to work with a professional. In fact, almost two-thirds (61%) of people with a long-term financial plan sought an expert's help to create it, according to a November 2018 poll by *Kiplinger's Personal Finance* and Personal Capital. This is good news because almost everyone can benefit from working with an advisor.

Think about it like this: Most people regularly take care of their cars, pumping their own gas and putting air in their tires. But for more complex tasks—such as checking brakes or changing spark plugs—a lot of us leave the heavy lifting to an expert.

The same holds true for handling your financial life. While there may be times when going it alone makes sense, there are many instances where getting professional advice is a smart move.

"There's a big difference between tax prep and tax planning."

❶ Minimizing taxes

Some taxpayers work with a CPA each year to help prepare and file their income taxes, while others choose to use online DIY tax preparation software. But there's a big difference between tax prep and tax planning.

For example, a financial professional can help identify ways to optimize your tax bill for the long term. Say you're a successful entrepreneur weighing whether to sell your business or go public. When you have a major liquidity event on the horizon, advance planning for the tax implications is critical.

Even everyday investing decisions can have big tax consequences. Tax-sheltered accounts are good for investments that pay dividends and interest because no tax is owed until the money is withdrawn (if it's a Roth, you never have to pay taxes on that income). Taxable accounts, on the other hand, are better suited for investments such as growth stocks. That's because those gains, when held in taxable accounts, are only taxed 15% or 20% for most people.

A professional can help you sort through these choices.

❷ Managing healthcare costs

In the *Kiplinger's*/Personal Capital poll, respondents identify high healthcare costs as the number one worry about their future retirement. It's also the top reason they're not saving as much as they would like to now.

Just as an advisor and client collaborate to make investment decisions, they can also work together to manage the cost of healthcare. For example, perhaps you and your spouse both have access to health insurance through an employer. An advisor can help determine which plan is the better option to meet your needs. He or she can also offer guidance on funding tax-advantaged Health Savings Accounts or evaluate the pros and cons of purchasing long-term care insurance.

❸ Monitoring your investments

Smart investors know that most investment portfolios need ongoing care and attention. Say you and your advisor decide it makes sense (given your personal goals) to invest 60% of your portfolio in stocks, and that the rest will go in a mix of bonds and cash. But if the value of your stocks falls by 20% over the course of a year, while your bonds increase, you will need to rebalance your portfolio to course-correct.

A professional advisor (especially a fiduciary who is legally obligated to act in your best interests at all times) will check in with you regularly and monitor your investments to help keep your plan on track.

❹ Making your money last

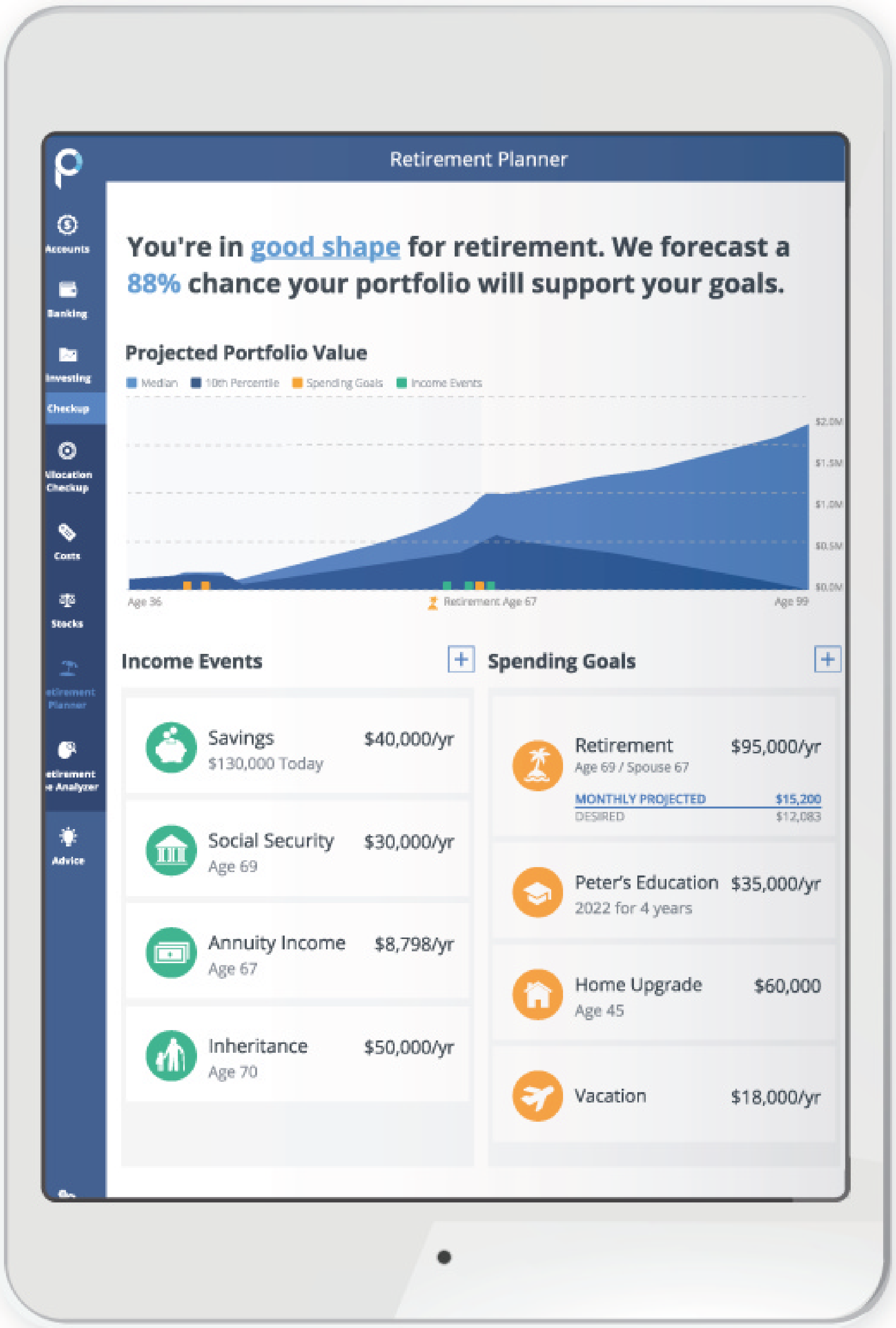
How you withdraw and spend money in retirement can make a big difference to the longevity of your portfolio. An advisor can help you determine which accounts—and in what order—you should withdraw from to minimize taxes on your retirement income.

Even better: Investors who work with a Personal Capital fiduciary professional now have access to a tool called ***Smart Withdrawal***. This client-only feature uses advanced tax forecasting to predict your optimal account withdrawal in retirement. The tool provides year-by-year guidance; all you have to do is provide a few financial data points, your state of residence, and your retirement spending goals. ■

Personal Capital offers free online financial tools, a mobile app and personal wealth management services. Learn more at **www.personalcapital.com**.

Free Retirement Planner

“How far will $1,000,000 get me when I retire?”



1
When can I retire comfortably?
Assess your readiness here

2
What impact will Social Security have?
Add income events to explore answers

3
What if something unexpected happens?
You can prepare for that too

4
What if I retire earlier?
Find out how different scenarios play out

5
How much money will I have to spend each month?
Make sure you have enough

6
Can I afford that splurge?
Plan for big expenses

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START NOW WITH **Free Tools** personalcapital.com/KP49 year after you stop working (unless you own more than 5% of the company). But you still have to take RMDs from traditional IRAs and former employers' 401(k)s.

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. But those rules vary by plan, says Joe Gaynor, director of retirement and income solutions at Fidelity Investments.

5 Choose the right investments to withdraw. Some IRA or 401(k) administrators automatically withdraw RMDs proportionately from each of your investments, unless you specify otherwise, and they could end up selling stocks or funds at a loss to make your payment. If you'd like to prevent that from happening, you can usually elect to take a fixed percentage from each of your investments or have 100% taken from cash. If you choose the cash option, the IRA administrator may send you an alert beforehand in case you need to sell shares to raise the cash.

Adam generally likes using pro rata withdrawals because it lets you keep your investment allocation the same, although sometimes she will withdraw more from one investment to rebalance the account.

6 Automate your RMDs. If you want to simplify the process and not worry about missing deadlines, most IRA administrators will let you automate your RMDs. You can usually sign up to have the money withdrawn every month or quarter, or by a certain date each year. Make sure you understand how the IRA administrator chooses which investments to sell.

7 Donate to charity and get a tax break. After you turn 70½, you can transfer up to $100,000 directly from your IRA to charity each year (called a qualified charitable distribution), which counts toward your RMD but isn't included in your adjusted gross income. This strategy can be particularly helpful now that fewer people itemize their deductions and otherwise wouldn't get a tax break for their charitable gifts.

You can make the transfer to one or more tax-qualified charities (but not to a donor-advised fund). The transfer must be made directly from your IRA to the charity to count as a QCD; you can't withdraw the money first. Ask your IRA administrator about its procedure. Most send the money directly from your account. A few let you write a check to the charity if you have check-writing privileges on your IRA. Let the charity know the money is coming so they can send you a confirmation, which you'll need to keep with your records (see below).

8 Roll money over to a Roth. You don't have to take RMDs from Roth IRAs, so any money you've rolled over from a traditional IRA to a Roth avoids future RMDs. However, you'll have to pay taxes on the rollover, and if you do it after age 70½, you'll have to take that year's RMD before rolling over the money.

9 Consider a QLAC. Money you invest in a deferred-income annuity known as a qualified longevity annuity contract is removed from your RMD calculation. 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 (most people do this in their fifties or sixties). You pick the age when you'd like to start receiving annual lifetime income, usually in your seventies or eighties (no later than age 85).

For example, a 60-year-old man who invests $130,000 in a QLAC could receive about $37,000 per year starting at age 80. That removes $130,000 from future RMD calculations, and he won't have to pay taxes on that money until he starts to receive the $37,000 annual payouts at age 80. If he dies before age 80, he won't receive anything—although he could get a version with smaller payouts that will give his heirs the difference if he dies before his payouts equal his investment.

10 Don't pay more in taxes than you have to. If all of your IRA contributions were made with pretax or tax-deductible money, your RMDs will be fully taxable. But if you made any nondeductible contributions, a portion of each withdrawal will be tax-free. Keep track of your tax basis on Form 8606 so you don't pay more in taxes than you owe. For more information, see the instructions for Form 8606 at IRS.gov. ■

CONTACT THE AUTHOR AT KLANKFORD@KIPLINGER.COM.

Tax Tip

How to Report Your Generosity

If you made a tax-free transfer of your RMD to charity (called a qualified charitable distribution), you might be confused when you receive Form 1099-R from your IRA administrator. This form reports how much money was distributed from your IRA for the year, but it doesn't specify whether it was a withdrawal or a tax-free transfer to charity. It's up to you to keep track of the QCD amount and to let your tax preparer know. (Most tax software programs will walk you through the process.)

When you file your income tax return, you report the total distributions on line 4a of Form 1040. Then subtract any portion that was a QCD and report the remaining amount on line 4b, writing "QCD" to indicate why the full amount is not taxable. (If you gave your full RMD to charity and didn't have other distributions, you'd write "$0" and "QCD" on line 4b.) Keep an acknowledgement from the charity with your tax records.

ASK KIM | Kimberly Lankford

Credit Freezes Aren’t Foolproof

MY WIFE AND I BOTH FROZE OUR CREDIT reports to prevent identity theft. With the freeze in place, is it safe to stop checking our credit reports periodically?

G.W., CHANTILLY, VA.

A credit freeze is not a foolproof mechanism to protect against ID theft, and it’s still a good idea to check your credit reports regularly. You can get a free copy of your report from each of the three credit bureaus every 12 months at www.annualcreditreport.com. (The freeze doesn’t affect your ability to check your report.)

A freeze prevents new creditors from accessing your credit report, making it more difficult for ID thieves to take out new credit in your name. But “a freeze does not prevent someone from using an existing account to make fraudulent charges, which is far more common,” says Rod Griffin, director of public education for credit bureau Experian. When you check your report, “you may also find evidence of fraud, such as variation in your name spelling, Social Security number or other identification,” he says. Report any suspicious information or errors to the credit bureau. Go to Experian.com, Equifax.com and TransUnion.com to place a temporary fraud alert for suspicious activity or to dispute information on a report.

Medigap policies. **Do you have any advice to help me choose which type of Medicare supplement plan to buy?**

M.R., FOLSOM, CALIF.

Medicare supplement policies (medigap plans), which pay out-of-pocket costs not covered by Medicare, come in 10 letter designations (A through D; F; G; and K through N). All plans with the same letter have the same coverage, but prices can vary by company. Plan F has been the most popular. It covers the Medicare Part A hospital deductible and co-payments, the Part B deductible, and some emergency care outside the U.S. Plan F will be discontinued for new Medicare enrollees in 2020 (but people who already have Plan F can keep it). Plan G provides the same coverage except for the $185 Part B deductible. If you don’t anticipate having many doctors’ visits, consider Plan N, which usually has lower premiums in return for some cost sharing.

Most state insurance departments describe the types of medigap policies and list the premiums for plans in their area. Find your state’s insurance department at www.naic.org/map.

POON WATCHARA-AMPHAIWAN

Tapping a 529 plan for high school. **What are the rules for withdrawing money from a 529 college-savings plan to pay for high school expenses?**

E.L., OAKLAND, CALIF.

Federal law now allows you to withdraw up to $10,000 tax-free from a 529 plan each year to pay tuition for kindergarten through 12th grade. Most states follow the federal law, but a few have different rules. California, for example, charges a 2.5% state penalty tax on earnings used for K-12 tuition. Oregon residents may have to repay any tax deduction they received for 529 plan contributions if they use the money for K-12 expenses. Check with your state and plan before making the withdrawal. See www.collegesavings.org for links to state plans.

Note to readers. *I just updated* Kiplinger’s Financial Field Manual, *which helps military families make the most of their benefits. Developed in partnership with the Investor Protection Trust and the Investor Protection Institute, the updated, 2019 edition offers plain-language explanations about how to make the most of the new blended retirement system, as well as strategies for a secure retirement if you’re covered by the traditional retirement system. It also discusses special tax breaks, low-cost investments, legal protections, educational opportunities, insurance programs and more. The free guide is available at www.investorprotection.org under “Learn About Investing.”* ■

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

COLLEGE

How to Decipher a Financial Aid Letter

Some colleges blur the lines between loans and grants. BY KAITLIN PITSKER

FIGURING OUT HOW MUCH college will cost can be complicated. College websites and promotional materials publish sticker prices, which can easily top $65,000 a year at a private college or $25,000 a year for an in-state public school. But most families will pay far less. Need-based financial aid awards often cut a school's sticker price in half for families who qualify. And non-need-based aid further reduces the costs for stellar students.

Still, how much any financial aid award will shave off your bill remains a mystery until after your child has been accepted. Then, within about two weeks, you'll receive a letter summarizing the types, sources and amount of financial aid being offered. Many of the letters, however, are missing important information or make financial aid awards appear more generous than they are.

Lawmakers are considering proposals that would standardize the letters and require schools to show cost and aid information in a more consumer-friendly way. Legislation that includes new rules for financial aid letters is likely to pass this year, says Mark Kantrowitz, publisher of SavingforCollege.com. But even if that happens, changes to the award letters won't reach families for another one to three years. The sample letter at right helps decipher a typical—and typically confusing—award offer.

Examine the costs. Start by calculating the full annual cost of attendance for each school that has accepted your student. You can't always take the listed costs at face value because colleges often exclude from award letters some expenses or underestimate how much students will spend on things such as textbooks and transportation. Use the highest estimated book expense. You should also adjust transportation expenses for each school to reflect how far—and how often—your student will likely travel for school breaks. Then add up the cost of tuition, fees, room and board, books and supplies, and transportation to determine the sticker price for one year.

Decipher the aid. Most colleges group different types of financial aid under the same umbrella. It can be difficult to tell which items are scholarships and grants and which are loans. Ask the financial aid office if the award is likely to shrink in future years, or visit www.collegenavigator.gov to see how the average awards for first-year students compare with those of all undergraduates.

Calculate and compare. To see how much each school will cost your family, subtract the gift aid your student was awarded from the estimated cost of attendance. This is the amount your family is expected to contribute from savings, income or loans to cover costs for one year. If your student has been accepted at more than one school, make your own chart to compare each school's costs and offers, or use the tool at www.consumerfinance.gov. ■

CONTACT THE AUTHOR AT KPITSKER@KIPLINGER.COM.

1. You'll usually need to work with the financial aid office to accept each part of the financial aid award.

2. Most colleges list all types of financial aid—scholarships, grants, loans and work study—together.

3. Scholarships and grants (also known as gift aid) may come from the federal government, your state, the college or a private organization.

4. Work-study won't directly reduce your tuition, fees and other costs. Students who get this award will receive a paycheck for a work-study job on campus, based on the number of hours they work.

5. Financial aid awards often include federal loans and may also suggest parent PLUS or private loans as an option, but few include details about interest rates or other loan terms. Families should generally max out federal loans awarded to the student, which come with flexible payment options and other protections, before considering parent PLUS loans or private debt.

6. Many award letters don't include detailed cost of attendance information or omit some expenses.

7. This letter subtracts all types of financial aid—including more than $15,000 in loans—from the school's sticker price, which makes the school appear to be more affordable.

ELITE COLLEGE

Dear Student,

Congratulations on your admission to Elite College. We have reviewed your application and the information that you provided on the Free Application for Federal Student Aid and are pleased to make the following financial aid offer for the 2019-2020 academic year.

Please review the award below carefully and feel free to contact our office if you have any questions. The deadline to confirm which portions of this award you plan to accept is May 1. 1

Sincerely,
Financial Aid Director

Financial Aid Awards 2	Fall	Spring	Total
Elite College Academic Scholarship 3	$4,500	$4,500	$9,000
Elite College Award	$2,500	$2,500	$5,000
State Grant	$1,025	$1,025	$2,050
Federal Work-Study 4	$1,000	$1,000	$2,000
Federal Direct Subsidized Ln 5	$1,750	$1,750	$3,500
Federal Direct Unsubsidized Ln	$1,000	$1,000	$2,000
Parent PLUS Loan	$5,000	$5,000	$10,000
	$16,775	$16,775	$33,550

Estimated cost of attendance	$62,800 6
Total Grants, Scholarships and Loans	- $33,550
	$29,250 7

CREDIT

A NEW WAY TO TAP AND PAY

FOR YEARS, APPLE PAY AND other mobile wallets have offered customers the ability to "tap to pay" at the register. Now, U.S. credit- and debit-card issuers are hopping on the bandwagon. Contactless payments are typically speedier than transactions in which you insert a card into a chip reader. To use a contactless card, you hold it within a few inches of any terminal that accepts near-field communication (NFC) payments—look for a symbol with four vertical curves.

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**.

All newly issued and renewed Chase Visa consumer credit cards now have contactless-payment capability. Chase Visa debit cards will carry the technology starting in the second half of 2019. Capital One added contactless technology to its Quicksilver, Savor and Venture credit cards last year. American Express is actively issuing some credit cards—including the Hilton Honors and Gold cards—with contactless capability, and you can request a contactless-enabled version of any Amex consumer card. Pentagon Federal Credit Union is also issuing contactless Visa credit and debit cards.

Among U.S. merchants that accept Visa payments, 78 of the top 100 (ranked by number of transactions) can now handle contactless transactions. Target recently announced that it would soon take contactless payments; other merchants accepting them include Costco Wholesale, CVS Pharmacy and McDonald's.

More secure. A contactless card transfers unique, encrypted data when you tap to pay—just as it does when you insert it into a chip reader—so that thieves can't glean enough useful information in a breach to create counterfeit cards. Fraudsters could use a skimming device to steal data from your card by coming in close proximity to it. But that's not a valid concern because crooks still can't gather enough viable data to make counterfeit cards, says Randy Vanderhoof, director of the U.S. Payments Forum.

You could buy an "RFID blocking" wallet or sleeve to play it safe, but it may not be worthwhile. Wrapping your card in foil will obstruct the signal, says Vanderhoof.

LISA GERSTNER
lgerstner@kiplinger.com

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Feb. 5	Minimum investment	Website (www.)
Vanguard Prime Inv (VMMXX)	2.50%	$3,000	vanguard.com
Gabelli US Treas AAA (GABXX)	2.36	10,000	gabelli.com
Northern MMF (NORXX)*	2.36	2,500	northerntrust.com
Vanguard Federal (VMFXX)	2.34	3,000	vanguard.com

Tax-Free Money Market Mutual Funds	30-day yield as of Feb. 4	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
Vanguard Muni Inv (VMSXX)	1.38%	1.82%/2.12%	$3,000	vanguard.com
M. Stanley T-F Daily Inc (DSTXX)*	1.22	1.61/1.88	5,000	morganstanley.com
Fidelity Municipal (FTEXX)	1.18	1.55/1.82	5,000	fidelity.com
Fidelity Tax-Exempt (FMOXX)*	1.08	1.42/1.66	5,000	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of Feb. 19	Minimum amount	Website (www.)
All America Bank (Okla.)† #	2.50%	none	allamerica.bank
Western State Bank (N.D.)† #	2.50	none	westernbanks.com
CIT Bank (Calif.)†	2.45	$25,000	cit.com
Rising Bank (Mo.)†	2.45	1,000	risingbank.com

Certificates of Deposit 1-Year	Annual yield as of Feb. 19	Minimum amount	Website (www.)
Banesco USA (Fla.)†	2.85%	$1,500	banescousa.com
Citizens Access (R.I.)†	2.85	5,000	citizensaccess.com
Limelight Bank (Utah)†	2.85	1,000	limelightbank.com
Live Oak Bank (N.C.)†	2.85	2,500	liveoakbank.com

Certificates of Deposit 5-Year	Annual yield as of Feb. 19	Minimum amount	Website (www.)
Utah First FCU (Utah)‡	3.50%	$500	utahfirst.com
Connexus Credit Union (Wis.)‡	3.40	5,000	connexuscu.org
State Department FCU (D.C.)‡	3.34	500	sdfcu.org
First Internet Bank of Indiana (Ind.)†§	3.30	1,000	firstib.com

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ‡Must be a member; to become a member, see website. §Popular Direct offers a similar yield. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of Feb. 19	Balance range†	Website (www.)
Consumers Credit Union (Ill.)#	5.09%‡	$0–$10,000	myconsumers.org
America's Credit Union (Wash.)#	5.00	0-1,000	youracu.org
La Capital FCU (La.)#	4.25	0-3,000	lacapfcu.org
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. §Premier Members Credit Union offers a similar yield. 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	2.83	2.83	2.58
Six-month Treasury bills	2.52	2.50	1.83
Five-year Treasury notes	2.47	2.62	2.63
Ten-year Treasury notes	2.65	2.79	2.87

SOURCE FOR TREASURIES: U.S. Treasury

As of February 19, 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.

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CASH IN ON THE FUTURE

These 13 companies are set to benefit from trends that will shape our world.

BY NELLIE S. HUANG

IT TAKES GUTS TO INVEST IN THE FUTURE. Thirty years ago, an investment in Amazon.com might have been met with derision. That it was not yet profitable was just one knock against it. Would people really prefer to buy a book online and wait for it to be delivered to their door, rather than visit the neighborhood bookstore to buy it? We all know the answer to that now. // Indeed, investing in innovation takes not only courage, but also foresight and even a little faith. But it can pay off big time. The not-so-simple trick, says David Eiswert, who manages the T. Rowe Price Global Stock fund, "is to invest on the right side of change." // The 13 stocks highlighted here stand to benefit from one of five sweeping trends that will be catalysts for long-term growth: climate change, human longevity, cloud computing, artificial intelligence and 5G technology (we'll explain more about each of these trends below). Some of the companies we highlight

ILLUSTRATIONS BY JAMES GILLEARD - FOLIO ART are juggernauts you know well. Others are midsize firms, and a few are under-the-radar small companies.

Despite their promise, however, most of these stocks aren't for the faint of heart. Most aren't bargains, either. Consider them long-term holdings that you might have to turn a blind eye to once in a while before you eventually reap the rewards. Change, after all, takes time. "The world moves in little, incremental steps that lead to giant changes," says Shelly Palmer, chief executive of the Palmer Group, a tech-focused consulting firm. If you've got plenty of patience and a yen to embrace the future, consider the trendsetters below. Unless otherwise noted, prices and other data are as of February 15.

CLIMATE CHANGE

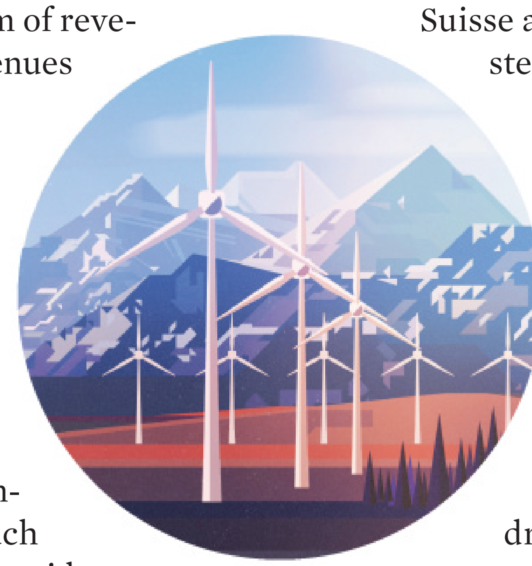
In its fourth national climate assessment, a coalition of 13 U.S. government agencies, drawing on the research of more than 300 scientists and policy experts, concluded that climate change will cause extreme weather, such as droughts, floods and heat waves; increase the spread of infectious diseases; and negatively impact the quality and safety of air, food and water. Signs of environmental distress are everywhere. Over the past year, the country has suffered intense hurricanes and devastating wildfires.

Many cities and states have responded, believing that the storms are the result of excess carbon dioxide emissions and global warming. Nearly 100 U.S. cities have committed to switching from coal, oil and gas to the use of only renewable energy sources, such as solar and wind, to power their electricity. California, Hawaii and New York have said they'll ditch fossil fuels for renewable energy and have committed to doing so over the coming 20 to 25 years.

Companies have decided that being ecologically proactive is good for business. Starbucks is switching to paper from plastic straws, Nike incorporates recycled material in 75% of its shoes, and a legion of firms, including Adobe Systems and PNC Bank, are following green construction guidelines for some offices. "If a company doesn't have a good environmental track record, a number of reports show that consumers will stop buying its products," says Lori Keith, comanager at Parnassus Mid Cap, a Kiplinger 25 fund.

Concern about climate change has heightened awareness of how we use our natural resources, with the supply and quality of water near the top of the list. **XYLEM**, which takes its name from a Greek term for the tissue that transports water in plants, is a water equipment and technology company that enables public utilities and commercial and industrial customers to transport, treat, test and efficiently use water. Xylem's know-how makes water safer and more accessible.

It is a steady business that's growing. Xylem customers tend to stick with the company because costs to switch to another water services provider can be high, and that creates an "annuity-like" stream of revenue, says Keith. Revenues over the past three years have increased by 13% annualized. A string of recent acquisitions has added a number of smart meters, pressure sensors, and diagnostic and analytics tools to the company's lineup. One such tool is a sensor that can identify leaks in water pipes—a necessity these days, given the many municipalities with aging infrastructure.



Analysts expect earnings at Xylem to increase by 18% a year, on average, over the next three years. Parnassus Mid Cap added more shares in Xylem when prices dropped in late 2018. At $74 a share recently, the stock trades at 22 times estimated earnings for 2019, just a tad higher than its 10-year median price-earnings ratio of 20.

Electric utilities aren't your typical climate-change bet. In fact, they're often cast as part of the problem. But some utilities, such as **NEXTERA ENERGY**, are also big players in renewable energy production and storage. NextEra, which owns the largest Florida electric utility, is one of the world's leading producers of clean energy, mostly through wind, solar and nuclear power, which it sells to other power companies for distribution.

NextEra's renewable energy division isn't a side hustle. In 2018, the unit accounted for 40% of the firm's net income, and the division is growing faster than the firm's electric utility business. The company has solar energy centers in states across the country, including Alabama, California, Florida and New Mexico. NextEra also has more than 100 wind farms scattered across the western U.S., in California, Iowa, North Dakota and Texas, among other states. Demand for renewable energy is expected to increase as costs fall for renewable energy and energy storage. Credit Suisse analyst Michael Weinstein expects an "explosion" in wind and solar power usage over the next decade.

NextEra's earnings should increase between 7% and 9% annually over the next three years, according to analysts' estimates, driven mostly by the company's renewable energy business. That's better than the 6% annualized earnings growth expected for the electric utility sector overall.

Waste management may not relate directly to climate change, but it's a pressing world problem that affects the health of the planet. According to the World Bank, the world's cities generated 2.2 billion tons of solid waste in 2016. By 2050, that figure is expected to increase 70%, to 3.7 billion tons. Americans are among the biggest generators of trash. We create 4.5 pounds of trash per person a day, and the amount creeps up every year. The rest of the world clocks in closer to 3.1 pounds per person—or less.

That makes managing waste a high-growth business. How our trash is picked up, sorted and recycled, and where it ends up, is what **WASTE MANAGEMENT** is all about. It is the country's biggest provider of waste-management services, a recession-proof, necessary job that throws off "compelling" amounts of free cash flow (cash left over after necessary expenses to run the business), says Stifel analyst Michael Hoffman. Analysts expect annualized earnings growth of 12% over the next three years.

The company has also invested in projects with an eye to the future. Many of Waste Management's landfills, for instance, capture methane gas, which is produced naturally as waste decomposes, for use as a clean, renewable energy alternative to fossil fuels. In some cases, the gas is used to fuel the company's fleet of trucks. It also fuels electricity generators, which produce energy that is then sold to public and municipal utilities and power cooperatives. "It's a closed-loop waste management strategy," says Keith, a win-win for the environment.

LONGEVITY

People everywhere are living longer. A baby born in the U.S. today has a life expectancy of 78 years. In 1900, it was just 50 years. Meanwhile, the number of people worldwide age 60 and older is expected to double, to 2.1 billion, by the middle of this century.

But even though we are living longer, we're not living healthier, more active lives, according to the World Health Organization, a United Nations agency concerned with public health. To better manage health problems in old age, says WHO, early detection is key. That's where genomic science comes in.

ILLUMINA, the leading maker of DNA sequencing tools and instruments, is at the center of the genomics revolution. So far, 2.4 million human genomes have been sequenced, says Cathie Wood, CEO of ARK Invest, a money management firm that focuses on innovative companies. By the end of 2023, the number of sequenced genomes will hit 70 million. Last year, Illumina reported that more than 90% of all gene sequencing performed so far has used the company's technology.

DNA sequencing may become more routine as the cost to sequence falls further—from $1,000 today to as little as $100 in two to three years. Someday, says Wood, doctors may have patients get their DNA sequenced every three years to identify which genes, if any, have mutated in that time. Gene mutations are precursors of diseases, not a sign that a person has the actual disease itself. But sequencing may be a way to catch cancer in an early or even precancerous stage.

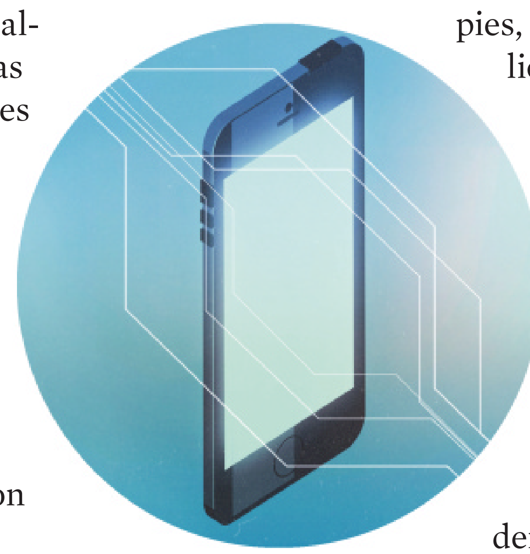
Illumina booked a record $3 billion in revenues in 2018. Over the next three years, analysts expect annual revenue growth in the double-digit percentages and earnings growth of 22% or better. That's close to 1.5 times better than analysts' earnings growth expectations for the biomedical-genetics subindustry as a whole, which includes 105 companies.

The more genes and gene mutations we identify, the more companies spring up to address specific maladies. **EXACT SCIENCES**, a company with $266 million in annual revenues, is known for Cologuard, its at-home, noninvasive colon-cancer screening test. Cologuard identifies DNA mutations in your stool sample (sorry, there's no delicate way to say it) that can be associated with the presence of colon cancer or precancerous lesions. "Exact Sciences is a stellar example of how unlocking genetic markers can be life-changing," says Eiswert, of T. Rowe Price Global Stock. More advertising, a beefier in-house sales staff and a new deal with Pfizer to promote the prescription-ordered, mail-delivered Cologuard kit could boost sales by 58% in 2019 and 48% in 2020.

Exact Sciences isn't profitable yet, but losses are shrinking. Analysts expect a loss of $1.18 per share in 2019 and a loss of $0.25 per share in 2020. UBS analyst Dan Brennan rates the stock a "buy" and recently raised his 12-month target price from $100 to $109.

Even more cutting edge—and thus riskier for investors—is the field of gene-editing therapy. In this experimental technique, mutated genes are tackled in one of three ways: They are knocked out entirely; they're replaced with a copy of a healthy gene; or a new gene is introduced into the body to help fight a disease.

Three companies have patents on the knock-out type of gene therapy, using a technique known by the acronym CRISPR, which is arguably the most revolutionary technology of the three gene therapies. The companies tackle monogenic diseases, or illnesses caused by one mutated gene, says Wood. Monogenic disease therapies, she adds, are a $75 billion market for drug firms, and the three patent-holding companies stand to capture roughly 10% of that.



But only one company, **CRISPR THERAPEUTICS**, has a therapy in clinical trials—for blood disorders. CRISPR, founded in

2013, has little in revenue and no profits. That makes it a risky bet—good for your mad money, not your college or retirement fund.

CLOUD COMPUTING

The cloud has been forming for years, but there's a lot of growth left. Companies that migrate to the cloud use a network of remote services hosted on the internet to store, manage and process data, instead of doing so on their own servers located on site. It turns out that many enterprises haven't yet fully shifted to the cloud. The consulting firm McKinsey estimates that only 20% of companies have done so.

And yet, firms that do make a complete transition can offer better services and save money. After a major database breakdown in 2008, for instance, Netflix shifted its databases to Amazon Web Services, a division of **AMAZON.COM**. Over the next seven years, Netflix migrated all of its business to the cloud, from billing to customer and employee data management. The timing was good: Netflix started to grow exponentially and now streams video content in 190 countries to 139 million subscribers.

Considering Amazon.com a play on cloud computing has heretofore been a tricky call, because the firm's e-commerce business dwarfed everything else. But AWS is finally moving the needle at Amazon. Though AWS accounted for just 11% of overall sales in 2018 at Amazon, it represented 59% of operating profits. And AWS dominates cloud computing with a 34% market share—more than double the share of its closest competitor (more on that company below). Analysts expect AWS to maintain its top spot for years to come.

Still, there's room for more than one winner in the cloud. With a 15% share of the market, **MICROSOFT**'s Azure service is growing faster than AWS. Sales rose 76% in the second quarter of Microsoft's 2019 fiscal year, compared with the same quarter a year earlier, making Azure Microsoft's fastest-growing business. By contrast, AWS grew 45% year-over-year in the most recent quarter.

Someday, Microsoft may be better known for Azure than for its Windows operating system. Analysts at KeyBanc Capital Markets predict that Azure will generate more sales than Windows by 2021.

As firms such as Amazon and Microsoft provide the hosting, other companies are prospering by producing cloud-based software applications. **SALESFORCE.COM** sells customer relationship management applications. Its software helps 150,000 large and small companies keep track of sales, services and marketing, among other tasks. Customers include sportswear apparel firm Adidas as well as Yeti, the maker of coolers and drinkware.

Salesforce.com has had a cult-like following since it began trading publicly in 2004. It is still outpacing its peers, though. Revenues are expected to increase by 26% in 2019 and 21% in 2020—a slowdown from an annualized growth rate over the past 10 years of 28%, but double the expected growth rate of companies in the computer software services industry overall. Profits are expected to increase 24% annualized over the next three years, better than the 15% pace expected for similar firms.

ARTIFICIAL INTELLIGENCE

You can see every day how artificial intelligence shapes our lives. Milliseconds after you click your Netflix user profile, for example, an algorithm has picked TV shows and movies especially for you, based on what you've watched as well as on the viewing histories of 100 million subscribers. Now, a higher tier of artificial intelligence—machine learning and a subset of that called deep learning—is emerging that will enable machines to do things that humans do, only better.

For instance, an international study found that an AI machine—essentially a specialized computer network—could more accurately diagnose skin cancer than a group of human dermatologists. Scientists taught the network how to identify skin lesions by introducing more than 100,000 images marked with a diagnosis. The

Key Data

Future Stocks to Consider Now

Our picks include companies of all sizes and span a wide range of industries. A few are blue chips, but some are high-risk bets.

Company	Symbol	Recent price	Market value (billions)	Earnings growth rate*	Price-earnings ratio†
Amazon.com	AMZN	$1,608	$789.8	26.9%	61
CRISPR Therapeutics	CRSP	32	1.6	NA	NA
Ericsson	ERIC	9	30.7	41.7	23
Exact Sciences	EXAS	89	10.9	NA	NA
Illumina	ILMN	300	44.1	21.5	46
LivePerson	LPSN	26	1.7	35.0	NM
Microsoft	MSFT	108	830.3	12.4	24
NextEra Energy	NEE	184	88.0	7.7	22
Nvidia	NVDA	157	96.0	10.7	30
Qualcomm	QCOM	52	62.9	9.8	13
Salesforce.com	CRM	159	121.7	24.2	62
Waste Management	WM	99	42.0	12.3	23
Xylem	XYL	74	13.3	17.5	22

As of February 15. *Estimated for the next three-to-five years. †Based on estimated earnings for the next four quarters. NA Not available. NM Not meaningful.
SOURCES: Yahoo Finance, Zacks Investment Research.

AI network correctly diagnosed malignant cases 95% of the time; a team of 58 dermatologists were only 87% accurate. That's deep learning.

An abundance of data is required for deep learning, which makes the big tech companies, including Google parent Alphabet, Amazon.com and Facebook, fearsome competitors in artificial intelligence. But AI represents a fraction of overall revenue at those firms, so investing in them is not a focused bet on AI. "It's difficult to find a pure-play AI company," says Chris Lin, manager of Fidelity OTC Portfolio. Many are still privately held.

Semiconductor firm **NVIDIA** might be an exception. It is the biggest player in the "brains" that enable deep learning. Its graphics processing units, or GPUs, can process images at lightning speed, finding patterns and producing insights. The more data there are, the more accurate the insights. When it comes to training devices to recognize patterns from mountains of data and predict things accurately, it's essential to use GPUs, says ARK Invest's Wood.

AI chips fueled 133% growth in sales at Nvidia's data-center business in the company's 2018 fiscal year, which ended in January. CFRA analyst Angelo Zino expects continued significant growth in this business. An oversupply in the market for another Nvidia product—cryptocurrency mining chips—is weighing on the firm's results. But at $157 a share, the stock trades at just over half its 52-week high. Take advantage of any further price dips to build a stake in the company over time.

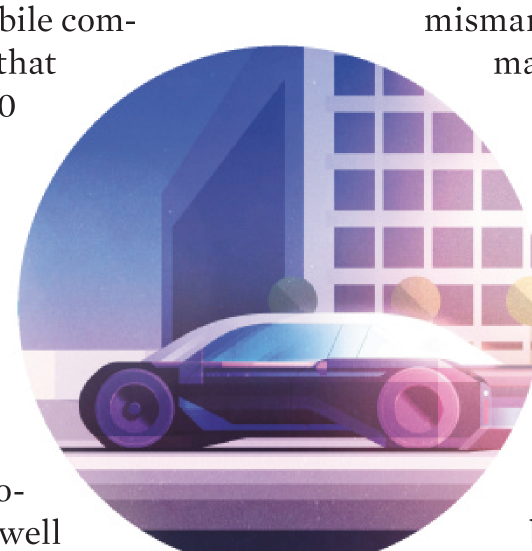
These days, many people of all ages—not just millennials—prefer to communicate through text or e-mail rather than converse live. That's what the ironically named **LIVEPERSON** is hoping to cash in on, along with better customer service. LivePerson combines AI with a customer-service software platform that allows consumers to connect with their favorite brands in a high-tech way.

Adobe, Citibank and Home Depot, among others, use the AI-backed messaging and chatbot solutions from LivePerson to interact with their customers. Instead of calling a toll-free number, consumers can communicate when they want through text, by chat or even with a smart-home device such as Google Home. Such communication often (but not always) lacks the human touch, but it's real-time and personalized. LivePerson's sales have grown 13% over the past 10 years, annualized, and analysts expect an average 14% increase over each of the next three years.

5G

Artificial intelligence may be powering innovation, but 5G wireless technology provides the connections for us to take advantage of it. For autonomous vehicles to take over the streets, for instance, thousands of bits of data have to move across the web instantaneously. That's a load the current 4G mobile communications system just can't handle.

Therein lies the promise of 5G, the next-generation mobile communication system that will be as much as 10 times faster than current connections. With 5G technology, self-driving vehicles will be able to communicate with each other in real time as they move together in traffic, as well as pick up signals from sensors as they approach traffic lights or a pedestrian. Sensors on grocery store shelves will signal to robots that the paper goods aisle needs restocking. Movies will download in seconds, not minutes. The technology will revolutionize industries ranging from transportation to health care, retail and manufacturing.



5G isn't here in a big way yet, no matter how much the mobile carriers tout it. AT&T, T-Mobile and Verizon launched the technology in only a handful of cities last year. But most carriers promise nationwide service by 2020, and 5G-enabled laptops and mobile phones are coming.

When we're living in a 5G world, we'll want seamless connections as we walk around town, enter buildings or ride in elevators. **ERICSSON** makes devices that are crucial to making that possible. The devices, called small cells, act like hotspots to connect pockets of the 5G world.

Ericsson's 4G small cells, which are upgradable to 5G, line some Los Angeles streets. In 2015, the city installed dozens of so-called SmartPoles in the Hollywood area, which combine Philips LED street lights with an Ericsson mini cell to help areas with poor cell phone reception. In other locations, Ericsson's small-cell devices are attached to electricity cables. Interior versions look like smoke detectors.

The Swedish company is still in turnaround mode. CEO Borje Ekholm arrived in early 2017 after the previous CEO was ousted amid claims of mismanagement. Ekholm has made 5G a priority at Ericsson. Analysts expect earnings over the next three years to grow by 42% annualized, reflecting a reversal of the recent declines.

Telecommunications equipment maker **QUALCOMM** might be a more obvious beneficiary of 5G. From smartphones to small cells, Qualcomm is involved in just about every facet of 5G, and it holds 13% of all 5G patents—more than most of its semiconductor and telecom equipment peers. "Qualcomm will lead the transition to 5G," says Stifel analyst Kevin Cassidy. At $52 a share, the stock trades at 13 times estimated earnings for the year ahead, close to its 10-year P/E low of 12. ■

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TAXES

A Tax Guide for Investors

Confused about K-1s or capital gains? Here's what you need to know. BY JOHN WAGGONER

FOR MOST PEOPLE, TAX TIME IS ABOUT as much fun as taking a bath with an electric eel, and taxes on your investments can be particularly confusing and irksome. Nevertheless, if you make wise use of capital losses and gains, you may find that you owe less in taxes than you thought.

Here's what you need to know to be tax-wise about the investments you own, or those you might be considering adding to your portfolio.

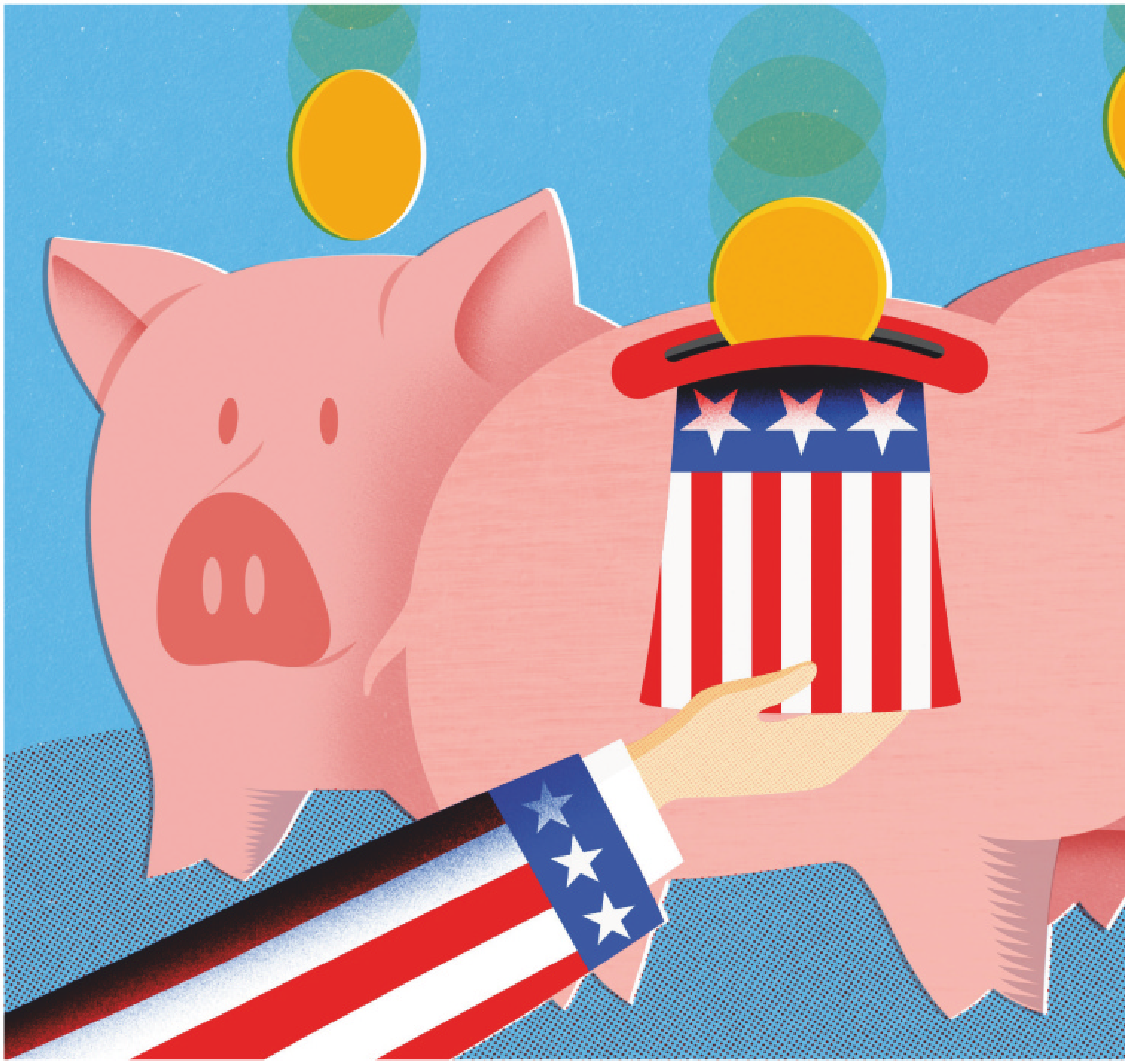
TIMING IS EVERYTHING

If you realize a gain on an investment, you will have to pay taxes on that gain, unless it is in a tax-favored retirement account. Just how much you pay will depend on your income, your purchase price, your sale price and how long you held the investment.

Timing is crucial. Suppose you invest in SnapTat, a phone app that lets users share and compare their cool tattoos. You buy 1,000 shares at $10 apiece, for a total cost of $10,000. SnapTat stock goes up and you sell the shares for $12,000, six months after your purchase. Because you bought and sold your shares less than 12 months apart, you now have a short-term capital gain, which will be taxed at your maximum income tax rate. If you're in the top 40.8% tax bracket, which includes a 3.8% Medicare surtax, you'll owe Uncle Sam $816 on your gain—40.8% times $2,000.

Let's say you wait more than a full year between your purchase and sale. Now you qualify for a more favorable long-term capital gains rate, which is determined by your taxable income. High earners whose modified adjusted gross income puts them in the top 23.8% capital gains bracket (which includes a 3.8% surtax) would owe $476 on their SnapTat gain. If your income is low enough, you won't owe any capital gains tax (see the table on page 54).

At tax time, you match up all of your long-term gains against your long-term losses, and your short-term gains against your short-term losses. Then you match any remaining gains against remaining losses to figure your capital gains tax. Let's say you have $10,000 in long-term gains and $6,000 in long-term losses, and you have $1,000 in short-term gains and $7,000 in short-term losses. You'll be left with $4,000 in long-term gains to match against $6,000 in short-term losses, leaving you with $2,000 in



short-term losses in the end. If you wind up with losses, you can deduct up to $3,000 worth from your income. Losses greater than $3,000 can be carried over into the next tax year and future years, until they are used up.

Qualified stock dividends are also taxed at capital gains rates. What makes a dividend qualified? Again, timing. You must hold your stock for more than 60 days sometime within the window that extends from 60 days prior to 60 days after the ex-dividend date—that is, the day the company declares a dividend payment. Non-qualified dividends are taxed at your ordinary income rate. If you're investing via a mutual fund, your fund company will spell out how much of its dividend payout is qualified.

THE BASIS OF COST BASIS

To figure gains, you need to calculate your cost basis: the purchase price adjusted for tax purposes. It's important to adjust your cost basis for reinvested dividends. You pay tax on dividends that you reinvest as though you've pocketed the cash. But you won't be taxed twice—once when the dividend is paid and again when you sell—because your cost basis is adjusted upward by the amount of the dividend.

Say you invest $10,000 in Amalgamated Hat Rack and receive $300 in dividend payments while you hold the stock. Then you sell your shares for $12,000. To calculate your cost basis, add the $300 in dividends to your $10,000 initial investment. Your new basis is $10,300, and your gain is $1,700. Investment expenses, such as commissions, will also increase your cost basis and reduce your taxes.

Keep good records. Brokerage firms must keep records of all purchases and sales of securities for at least six years, and many keep them longer. Vanguard, for example, keeps trade confirmations back to 2008.

LIFO OR FIFO?

If you sell a portion of your stocks or funds, you have four choices: You can sell shares in the order you bought them—first in, first out, or FIFO. This will increase the odds that you'll pay the lower long-term capital gains rate. But you may have reason to sell the shares you bought most recently—last in, first out, or LIFO—if you just bought shares and the stock tumbled, allowing you to take a capital loss, for example. You can also specify certain shares to sell, or just assume you'll use the average cost per share when figuring your basis.

Mutual fund companies will generally give you information on your fund's average cost per share. If you use the average cost per share to account for part of a position that you've sold, you'll have to use the same method when you sell the rest.

For sales of individual stocks, the IRS will usually assume you sold the shares using FIFO. If you choose another method, you must tell your broker in writing, and keep a record of that order in case the IRS asks about it. Switching too often among different cost methods could mean that a brokerage would be reluctant to guarantee accuracy if the IRS inquires, warns certified public accountant Michael Landsberg, a member of the American Institute of CPAs' Personal Financial Planning Executive Committee.

KipTip

Tax-Wise Strategies

Never let the tax tail wag the investment dog. Maximizing gains should be your priority. Still, it never hurts to reduce your tax bill. Sometime in the fall, check your portfolio to see whether you have some big losers you can sell to generate capital losses that will reduce the tax bill on your gains. If you still love the stock or fund, you can repurchase it after 30 days. (Note that if you don't wait that long, you'll have what's termed a wash sale, and the IRS will disallow your capital loss.)

You may receive a capital gains distribution from your mutual fund, reflecting securities it sold over the year (even though you didn't sell anything). If you own a fund that consistently doles out big capital gains payouts, consider investing in an index fund. Vanguard 500 Index (symbol VFIAX), for one, hasn't paid a cent in capital gains since 1999 (it has paid dividend distributions).

You might also consider a tax-efficient fund, which attempts to limit both capital gains distributions and dividend distributions. T. Rowe Price Tax-Efficient Equity Fund (PREFX) strives for above-average after-tax returns—and gets them. The fund has averaged a 16.87% annual gain over the 10 years that ended February 15, beating 80% of large-company growth funds.

ILLUSTRATION BY MITCH BLUNT

MUNIs, MLPs AND REITs

Taxes on income from bonds (or bond funds) vary by bond type. Corporate bond income is taxed at ordinary income rates; Treasury bond interest is subject to federal taxes, but not state taxes. Municipal bonds, however, are catnip for tax-averse investors. Munis are free from federal taxes. And if you live in the state that issued the bond, you've hit the tax-free trifecta: Interest is typically free from federal, state and local taxes. If you own a muni fund that buys bonds from all states, your fund company will let you know what percentage of your interest is free from state and local taxes.

Despite today's low yields, a muni bond or fund could well be a better choice than a comparable taxable I.O.U. Before you can decide, however, you'll need to compare the muni yield to a tax-equivalent yield. For example, Vanguard Intermediate-Term Tax-Exempt (symbol VWITX) has a yield of 2.26%. In order to get the same yield after taxes, a person in the 37% tax bracket would have to earn 3.59% from a taxable alternative and would likely take on much more risk to do so. To figure the tax-equivalent yield, first, subtract your tax bracket as a decimal from 1. Then divide the tax-free yield by that result. In this case, you'd divide 2.26 by 0.63 (or 1 minus 0.37) to get 3.59%.

In a single-state tax-free fund, the rewards can be even richer. Vanguard California Intermediate-Term Tax-Exempt (VCAIX), for instance, yields 2.09%. If you pay the maximum 13.3% California state tax rate and the 37% federal tax rate, your combined tax rate is 50.3%. In this case, your tax-equivalent yield would be 4.24%.

Savers don't have many good tax-free options. Yields on municipal money market funds are so low that you could be better off in a taxable fund. Vanguard Municipal Money Market Fund (VMSXX) currently yields 1.33%, equivalent to a 2.11% taxable yield for those in the 37% tax bracket. The 100 largest taxable money market funds yield an average 2.24%, according to Crane Data.

Most of the dividends paid by real estate investment trusts and master limited partnerships are taxed at ordinary income tax rates. Unlike many corporations, REITs and MLPs generally pass their cash flow directly to investors. Because the money is not taxed at the corporate level, it doesn't qualify for the more favorable qualified dividend tax treatment.

Under the new tax law, however, investors can deduct 20% of their REIT and MLP income as a qualified business income deduction. To qualify for the full deduction, among other requirements you need taxable income below $315,000 if you file a joint return ($157,500 for all other taxpayers). You can take the deduction even if you don't itemize. Not all MLP payouts are taxable: You may get payments that are a return of capital, which you don't owe taxes on. Your MLP's K-1 tax form will let you know how much of your MLP's payout is taxable and what tax treatment it ultimately gets.

FOREIGN HOLDINGS

Many countries withhold taxes on dividends paid to foreigners. If you invest in an international fund, an international stock or an American depositary receipt, the odds are good that box 7 of your 1099-DIV form will include an amount indicating the foreign taxes paid. The Foreign Tax Credit lets you recoup some or all of those taxes.

Every year, you have the choice of taking a deduction for foreign taxes, which reduces your taxable income, or a credit, which reduces your taxes dollar for dollar. The IRS says it's generally better to take the credit. Use Form 1116 to figure the tax or credit, and enter it on Schedule 3 of Form 1040.

Uncle Sam's Cut

Long-Term Capital Gains Rates

Taxpayers with modified adjusted gross incomes above $200,000 for single filers and $250,000 for married couples filing jointly pay a 3.8% net investment income tax, bumping their capital gains rate to 18.8% or 23.8%.

Long-term capital gains tax rate	Taxable income: Single	Taxable income: Married, filing jointly
0%	$0–$38,599	$0–$77,199
15%*	$38,600–$425,800	$77,200–$479,000
20%*	Above $425,800	Above $479,000

*May owe an additional 3.8%. SOURCE: Tax Policy Center

ALTERNATIVE INVESTMENTS

As investments get more complex, so does their tax treatment. Profits from futures trading are generally taxed as 60% long-term capital gains and 40% short-term gains, no matter how long you've held the contract (and in futures trading a few days is a long time).

When you buy or sell option contracts on an exchange, the tax rules are the same as for stocks. Profits on options held less than a year, which covers most options, are typically taxed as short-term gains (the same as ordinary income) and losses are short-term capital losses. Income you pocket for selling (called writing) an option to another investor—to buy a stock that you own, say, or to sell you a stock—gets taxed as a short-term gain. Options aren't easy, tax-wise; if you wade into options, take an adviser with you.

Gold bugs get less-than-golden tax treatment. The IRS treats gold bullion (and silver, platinum and palladium) as a collectible—the same as baseball cards—rather than as an investment, such as stocks or bonds. Long-term gains on collectibles are taxed at 28%. If you invest in an exchange-traded fund that buys and sells precious metals, your gains will also be taxed at the 28% rate. Funds and ETFs that invest in gold-mining stocks, however, get the same capital gains treatment as any stock fund. ■

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DISRUPTER

The Legacy of John Bogle

The champion of low-cost index investing changed mutual funds forever. **BY JOHN WAGGONER**

THE ANCIENT GREEK POET Archilochus wrote, “The fox knows many things, but the hedgehog one great thing.” The fable tells the story of a wily, hedgehog-stalking fox, repeatedly defeated by the hedgehog’s prickly spines, which proved to be an impenetrable defense. Jack Bogle did, in fact, know many things, but he never forgot the one important thing, which he defended until the end, sometimes in a prickly fashion: Costs matter in investing.

Bogle, founder of the Vanguard Group and creator of the first retail index fund, stuck by the conclusion of his senior thesis at Princeton. The mutual fund industry’s growth was best maximized by cutting sales loads and management fees, argued the young Bogle.

To a modern investor, this is just common sense. The less money you give to your fund (or your broker), the more money you keep.

How Big Is Vanguard?

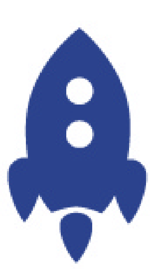
Its **$5.3 trillion** in assets under management is:

- Equal to the GDP of Japan, with $200 billion to spare.

- Enough to pay the combined debts that Australia, Belgium, Norway, Singapore, Sweden and the UAE owe to other countries.

- Enough to buy a Samsung Galaxy S8+ (with 64 GB) for nearly everyone in the world.

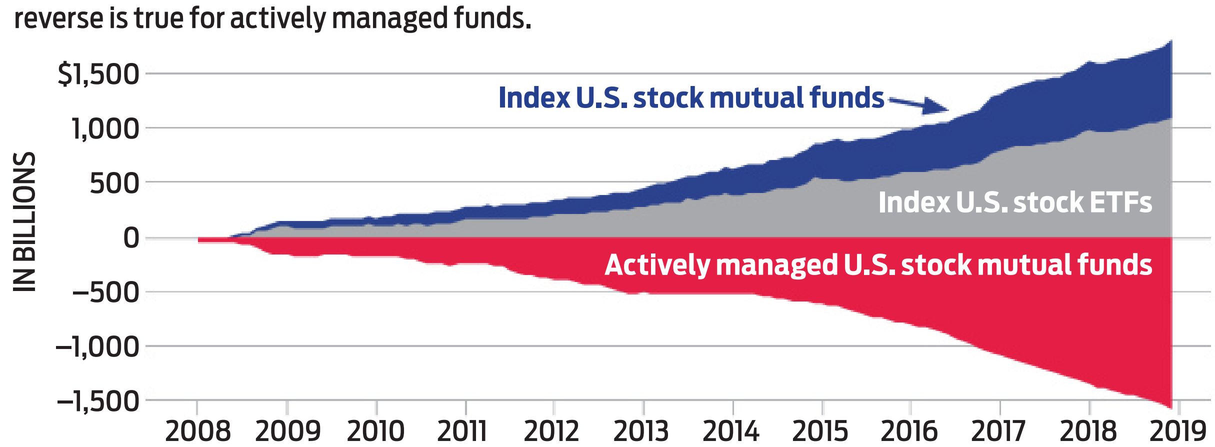
- Enough to hurtle almost everyone living in Florida into space (and back to Earth) on a 90-minute ride on *Virgin Galactic*.



SOURCES: CIA WORLD FACTBOOK, IEEE, IMF, U.S. CENSUS BUREAU.

Where the Money Is Going

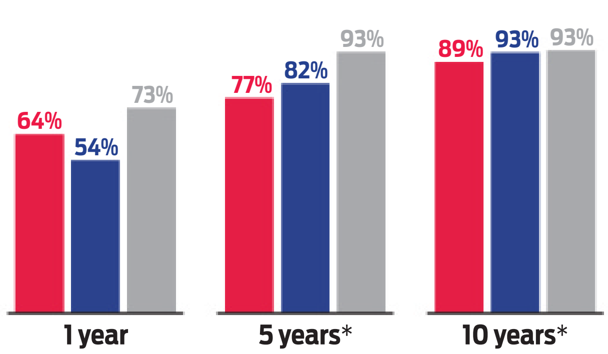
More money is going into index mutual funds and exchange-traded funds than is coming out. The reverse is true for actively managed funds.



As of December 31, 2018. Stock mutual funds include net new cash flow and reinvested dividends. SOURCE: Investment Company Institute

Managers vs. Benchmarks

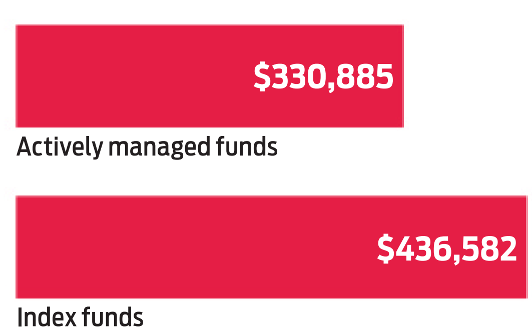
Although performance is improving, the majority of actively managed stock funds fail to beat their benchmarks, with small-company managers performing the worst.



As of June 30, 2018. *Annualized. SOURCE: S&P Dow Jones Indices.

Expenses Matter

Assuming a return of 10%, the long-term average for large-company stocks, you’d have $105,697 more over a 40-year investing lifetime by investing $10,000 at the average U.S. stock index fund expense ratio of 0.09% than by investing $10,000 at 0.78%, charged by the average actively managed U.S. stock fund.



SOURCES: Bankrate, Investment Company Institute.

But to people in the pre-Vanguard world—especially those in the mutual fund industry—it was heresy. The commissions you paid for stocks and mutual funds were the entrance fee to the magic kingdom of Wall Street. Ads extolled listening to E.F. Hutton's brokers, and the business press lionized active fund managers.

Bogle didn't buy it, especially since fat commissions and fees kept investors from beating the returns of an index, such as Standard & Poor's 500-stock index.

Bogle didn't endear himself to the industry that he worked in his entire life, thanks to frequent—and frequently blunt—criticisms. "I have a lover's quarrel with the industry," he said. In his best-selling *Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor*, first published in 1999, he wrote, "The mutual fund industry has been built, in a sense, on witchcraft."

Bogle helped break the spell. Actively managed funds were 85% of the industry's assets in 2007; that share is 65% today. Expense ratios, pressured by low-cost index investing, have fallen from an average of 1.04% for all U.S. stock funds in 1996 to 0.59%, on average. And the low-fee bandwagon he set into motion rolls on. Charles Schwab & Co. and Fidelity Investments now offer exchange-traded funds with an expense ratio of zero. In February, both companies eliminated commissions on nearly 500 ETFs.

John Clifton Bogle died on January 16, 2019, but his legacy lives on. ■

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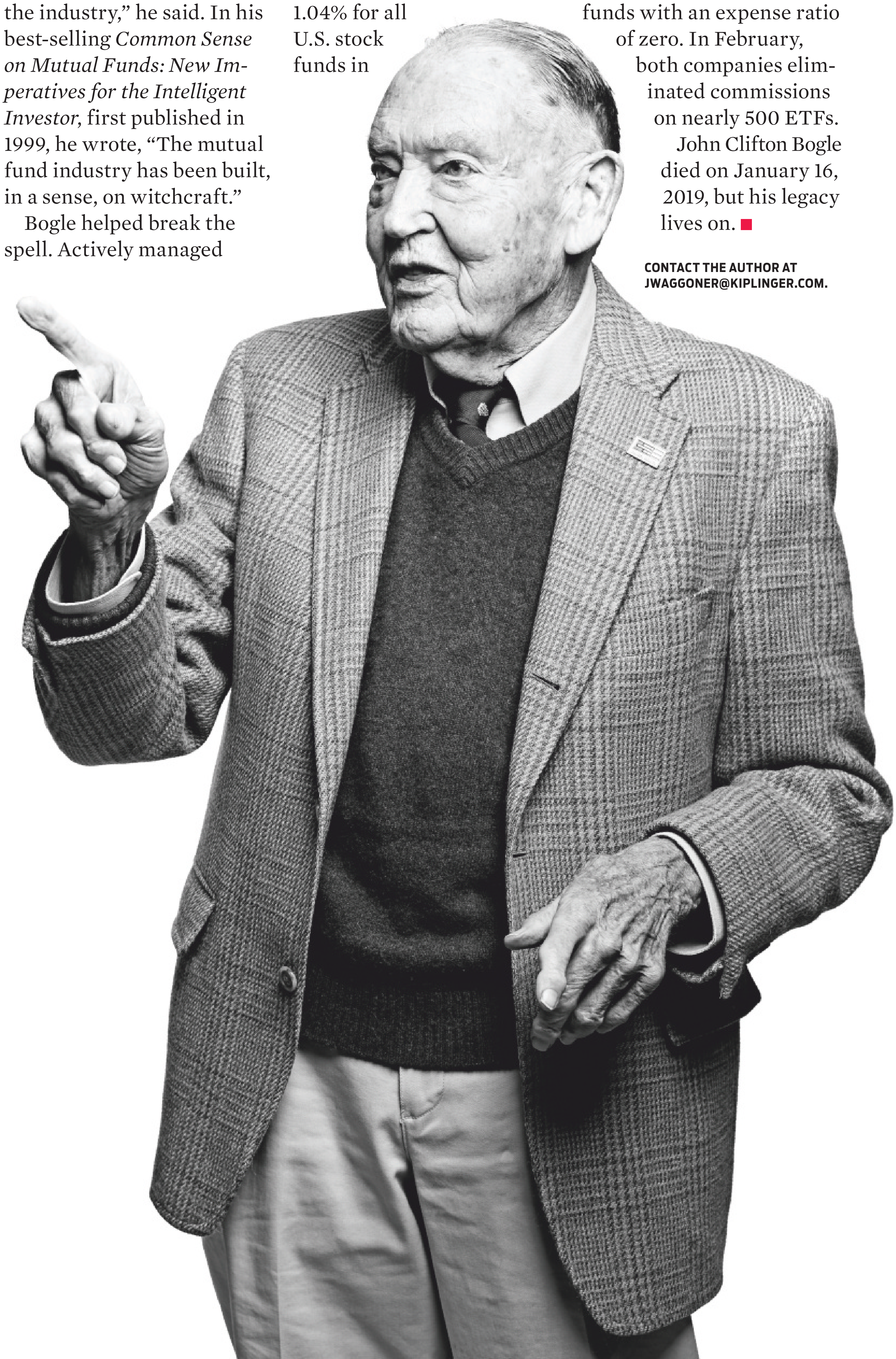

Vanguard's Stake

Vanguard is the largest institutional shareholder in the four biggest stocks in the S&P 500, by market value.

amazon
6.0%
$50.9 billion

Microsoft
7.5%
$60.3 billion

Apple
7.2%
$56.3 billion

Alphabet
6.2%
$48.3 billion

As of January 31.
SOURCES: Morningstar Inc., S&P Global.

PHOTO BY MATT FURMAN/FORBES COLLECTION/CORBIS VIA GETTY IMAGES

PRACTICAL INVESTING | Kathy Kristof

Goodbye, Kiplinger Readers

When I first saw the Disney movie *The Little Mermaid,* I was captured by a line uttered by the villainous sea witch, who taunted the heroine to give up her prized possession (her voice) in exchange for the legs she yearned for. "Life's full of tough choices, isn't it?" she said.

I recently found myself at just such a crossroads. I love writing Practical Investing. We launched this column in 2011 as an experiment in whether a buy-and-hold investor (me) could meet or beat the performance of the market by buying individual stocks. The answer: no. Since inception, I'm way behind the market, despite performing better in most years. My undoing: 2015, when my portfolio lost 20% and the market held steady.

Readers seemed to love the reality, humility and hard lessons you learn when investing real money and comparing your returns against a tough benchmark: the Vanguard Total Market ETF (symbol VTI). The column has always felt like a candid discussion with a friend.

But a couple of years ago, I started researching the burgeoning gig economy. I wanted to find out what kind of opportunity (or lack thereof) this marketplace offered to freelancers. The project turned into a website, SideHusl.com, that is doing well enough to demand an increasing amount of my time and attention.

Why did I choose to focus on SideHusl? Because you're already well taken care of by the wonderful editors at *Kiplinger's*. The people I write for at SideHusl have few journalists looking out for them. The crusader in me says this underserved market is where I need to spend my time.

To explain: Companies such as Uber and Lyft are thriving and creating a host of founder billionaires in a fast-growing marketplace that depends on independent contractors. But the fortunes at the top of many gig-economy companies are sometimes made at the expense of line workers, who are frequently given misleading information about their jobs. SideHusl is meant to be a *Consumer Reports*–like service to help people vet these companies before they risk their time or assets.

As I retire the Practical Investing column, I'd like to reiterate a few truths about investing:

• Quality is key. Look for companies with great products, good earnings and strong balance sheets. My 2015 debacle was caused by trying to invest in "hot" stocks, including oil-and-gas producer Stone Energy, that didn't have staying power.

YOU SEEMED TO LOVE THE REALITY, HUMILITY AND HARD LESSONS I LEARNED WHEN INVESTING REAL MONEY.

• Be patient. Stocks are for the long term. Buy shares in companies you want to own, and hold them for decades. I've regretted almost every sale, as great stocks such as Lockheed and Microsoft continued to soar after I sold.

• Trust yourselves. The many e-mails I've received from *Kiplinger's* readers tell me that you're smart and thoughtful and do your research. Don't let pundits convince you to abandon your reasoned strategy. Most claims about beating the market are based on faulty analysis, short or cleverly managed time frames—or lies.

• "Average" returns are awesome. The average annual return of big-company stocks, from 1926 to the present, is roughly 10%—about three times the average rate of inflation. You don't need to swing for the fences when market-meeting returns are this great. The Practical Investing portfolio has doubled in value over its 7.5 years, for an annualized return of 10.28%. (See the final update of the portfolio at kiplinger.com/links/practicalportfolio.) It's not market-beating, but it's not too shabby, either.

I'm not yet sure whether I'll continue to manage this portfolio or use the money to finance growth at SideHusl. What I do know is that it has been a true pleasure sharing highs and lows with you. If you'd like to keep in touch, you can e-mail me at KathyKristof@sidehusl.com. ■

KATHY KRISTOF IS EDITOR OF SIDEHUSL.COM.

POON WATCHARA-AMPHAIWAN

INCOME INVESTING | Jeffrey R. Kosnett

Dial Down Risk in Your Bond Portfolio

Federal Reserve chief Jerome Powell removed a primary peril to bonds recently when he renounced additional credit tightening. His pledge rewards both long-standing bond investors and prescient traders who expected the recent, sharp rally. Powell also embarrassed the crowd of fixed-income bears, including bond big fella Jeffrey Gundlach. Gundlach recently foresaw the 10-year Treasury yield stepping on an elevator to 6% in a year or two, leading to possible double-digit percentage losses of principal. Rather, the 10-year yield is down from 3.25% in late 2018 to 2.66% as of February 15. I predict it will hover at or below 3% for the time being.

Powell's retreat rests partly on the evidence that inflation will stay low despite accelerating growth in wages and salaries. Drastic price drops in copper, corn, gasoline, lumber and sugar over the past year are counterinflationary. So are the weakness in housing and car sales.

Two of my favorite funds, **LOOMIS SAYLES BOND** (SYMBOL LSBRX) and **FIDELITY CAPITAL & INCOME** (FAGIX), have more than regained last year's losses. Gibson Smith, who once headed fixed income for Janus Funds and now has his own firm, says the market's tone has swung "from what could go wrong to all the things that could go right."

Let's not get overconfident. It may appear untimely to discuss de-risking now. But it's possible to become overconfident in bonds, just as you can in stocks when the indexes set record after record. Gundlach's predictions have a habit of coming true, after all. The thoughtful team at TCW Funds is sounding alarms about the credit quality of medium- and lower-grade corporate bonds. Plus, let's face it: If in the coming months the President and Congress fail to reach a compromise on the government's borrowing power, the specter of a default could loom. That would kneecap U.S. government securities and crush corporate and municipal issues, whose prices and yields reflect a gap, or spread, over the rate on presumably ironclad Treasury obligations.

Eaton Vance lists 28 risks in the prospectus for its multisector bond fund. "Interest-rate risk," or the chance that the value of your bonds or bond fund shares will fall because rates move higher, is just one. I'd be equally attentive to these other hazards:

• **Currency risk.** Bonds denominated in foreign currencies lose value when the dollar rises. Yes, foreign bond funds are a portfolio diversifier and are doing well in early 2019, but I'd go easy on these assets.

THE FED MIGHT HAVE TAKEN INTEREST RATE RISK OFF THE TABLE, BUT OTHER PERILS LURK.

• **Default risk.** It's not out of the question that either the U.S. government or a struggling state or locality will refuse, or be unable, to pay principal and interest on time. You can't avoid all exposure to Uncle Sam, and I'm not suggesting defaults are nigh. But if you own corporate or municipal bonds from poor or struggling issuers, you might be happier cashing them in.

• **Ratings risk.** Worries that a bunch of investment-grade corporate debt will be downgraded to junk (rated BB or below) seem overdone. Still, I would not overcommit to near-junk or junk bonds (or funds).

• **Supply risk.** The high federal deficit means huge increases in Treasury debt issuance. For now, there are enough buyers at current interest rates. But if the government borrows far more heavily in the years ahead, long-term investors will insist on higher yields. I don't see the point in buying a 30-year government bond at the low yield of 3.0%.

• **Yield-curve risk.** This is tying up money long term without enough yield to compensate. If you don't get much extra income from owning a 30-year bond instead of a five- or 10-year note (or a fund with a comparable average maturity), then avoid the longer-term holding. ■

POON WATCHARA-AMPHAIWAN

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

MUTUAL FUND SPOTLIGHT

This Foreign Fund Shines

Hedging against currency swings has served FMI International well.

IT'S BEEN A ROUGH HALF-decade for international stocks. Over the past five years, the MSCI EAFE index, a proxy for stocks in developed foreign countries, has returned an annualized 2.1%. That return reflects stock returns as well as currency movements–specifically, a rising dollar that has sapped the returns of U.S. investors in foreign firms. (A stronger dollar means that overseas earnings translate into fewer greenbacks here.) Account for those currency swings (funds typically try to hedge them by trading derivatives), and the index's return jumps to 6.6%.

FMI INTERNATIONAL, which employs a currency hedge, has therefore trounced the unhedged EAFE in recent years. But the fund, classified as a mix of growth and value stocks, also has an excellent track record against the hedged version of the benchmark. Since International's 2011 inception, its 8.3% annualized return beats the MSCI EAFE 100% Hedged index by more than a percentage point per year, with 23% less volatility.

The managers favor firms with competitive advantages in their industries; experienced, shareholder-friendly management teams; little debt; and robust returns on invested capital (a measure of profitability). Preferring to take deep dives into companies' finances, the managers avoid firms that may not adhere to strict financial disclosure or accounting practices. To be considered, a stock must trade at a discount relative to its own price history as well as to its peers. Plus, the managers must be convinced that the discount is due to a temporary problem that the firm can overcome.

Safran, the French maker of jet engines, is an example of such a firm. FMI added the stock to the portfolio in early 2018, after Safran acquired aerospace firm Zodiac. Trepidation about the deal had unfairly deflated Safran's stock price, as had investor concerns over narrowing profit margins, says FMI research director Jonathan Bloom. Safran has returned nearly 31% since the fund purchased it.

FMI International lags when foreign stocks are going gangbusters but makes up ground when stocks slide. In 2011, when the MSCI 100% Hedged index surrendered 12.1%, the fund lost only 1.8%. **RYAN ERMEY**

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FOREIGN LARGE-COMPANY BLEND FUNDS

Ranked by five-year returns

Rank/Name	Symbol	Annualized total return 1 yr.	5 yrs.	Max. sales charge	Exp. ratio
1. MFS International Value**	MGIAX	–1.8%	7.1%	5.75%	0.97%
2. Pimco StocksPLUS Intl (USD-Hdg)	PIPAX	1.1	6.1	3.75	1.12
3. FMI International	FMIJX	–1.5	6.0	none	0.90
4. MFS Intl Diversification A	MDIDX	–4.9	4.6	5.75	1.12
5. UBS Intl Sustainable Equity A	BNIEX	–11.6	4.0	5.50	1.25
6. Goldman Sachs Intl Eq Insights A	GCIAX	–10.6	3.5	5.50	1.14
7. Parametric International Equity Inv	EAISX	–5.6	3.4	none	0.75
8. USAA International	USIFX	–7.6	3.4	none	1.08
9. Artisan Value Inv	ARTLX	–8.2	3.4	none	1.02
10. AdvisorOne CLS Intl Equity N	CLHAX	–10.5	3.2	none	1.15
CATEGORY AVERAGE		**–8.6%**	**2.0%**		

20 LARGEST STOCK AND BOND MUTUAL FUNDS

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

STOCK MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Adm	VTSAX	$627.9	3.9%	10.4%	none
2. Vanguard Total Intl Stock Idx Adm	VTIAX	343.1	–9.1	2.8	none
3. Vanguard S&P 500 Index Adm	VFIAX	335.1	3.6	10.8	none
4. American Growth Fund of America A	AGTHX	185.6	2.8	11.0	5.75%
5. Fidelity 500 Index Inv	FUSEX	170.8	3.6	10.8	none
6. American EuroPacific Growth A	AEPGX	151.5	–10.5	3.4	5.75
7. American Balanced A	ABALX	133.2	3.1	7.6	5.75
8. Fidelity Contrafund	FCNTX	116.8	2.5	11.4	none
9. American Washington Mutual A	AWSHX	111.3	3.8	10.0	5.75
10. American Income Fund of America A	AMECX	106.1	0.4	5.9	5.75
S&P 500-STOCK INDEX			**3.7%**	**10.8%**	
MSCI EAFE INDEX			**–8.1%**	**2.0%**	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Idx Adm	VBTLX	$169.7	3.4%	3.2%	none
2. Pimco Income A	PONAX	111.7	2.9	3.4	3.75%
3. Vanguard Total Intl Bd Idx Adm	VTABX	99.6	5.1	0.9	none
4. Metropolitan West Total Return Bd M	MWTRX	70.3	3.5	3.0	none
5. Pimco Total Return A	PTTAX	64.9	2.5	2.8	3.75
6. Vanguard Interm-Term Tax-Ex Inv	VWITX	60.7	0.3	2.3	none
7. Vanguard Short-Term Inv-Grade Inv	VFSTX	58.0	2.6	3.1	none
8. Dodge & Cox Income@	DODIX	55.5	2.7	3.7	none
9. DoubleLine Total Return Bond N	DLTNX	49.0	3.5	3.6	none
10. Lord Abbett Short Duration Income A	LALDX	43.4	2.8	3.1	2.25
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			**3.4%**	**3.2%**	
B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX			**3.7%**	**2.7%**	

As of February 15. **Closed to new investors. @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.

THE KIPLINGER DIVIDEND 15 UPDATE

Our Income Picks Are on a Roll

THE KIPLINGER DIVIDEND 15, OUR favorite stocks for dividend income, have bounced back nicely from the 2018 correction. The 15 stocks have an average dividend yield of 3.7%, compared with 2.0% for Standard & Poor's 500-stock index. Since we last visited the Dividend 15 in our December issue, the stocks have returned an average 4.9%, while the S&P 500 eked out 1.0%. Our dividend darlings have slightly outperformed the S&P 500 for the past 12 months as well. (Prices and returns are as of February 15.)

It's nice to beat the S&P 500, but the main reason to invest in any of the Kiplinger Dividend 15 is for a reliable income stream that will grow over time. All 15 stocks have raised their dividends over the past 12 months.

Among our stars, Realty Income is up 27.3% over the past four months and 47.2% over the past 12 months. The real estate investment trust is the landlord for Walgreens and 7-Eleven, among others. The soaring share price has pushed Realty Income's yield below our 4% threshold for high-yield dividend stocks. This is a nice problem to have, but we're keeping an eye on the payout to see if the yield climbs back above 4%. The company has raised its dividend 100 times since its listing on the New York Stock Exchange in 1994. It still sports a respectable yield of 3.9%.

Cleaning up. Procter & Gamble has gained 26.7% since we last checked in four months ago. The maker of Gillette razors and Tide detergent has trimmed its brands from 100 to 65 and kept a laser focus on costs. The company beat analysts' sales and earnings expectations in its fiscal second quarter, which ended in December.

Our biggest loser was pharmaceutical giant AbbVie, down 9.7% since mid October. The firm's latest earnings report revealed soft international sales of Humira, its rheumatoid arthritis drug. But AbbVie has a strong pipeline of new drugs. And the shares now trade at nine times estimated earnings for the year ahead.

Lower oil prices have taken a toll on ExxonMobil, which is down 2.5% over the past four months. The firm tends to moderate the size of its dividend hikes when oil is under pressure—but it has raised its dividend for 36 years in a row, averaging about 6% annually.

We divide the Dividend 15 into three groups. Dividend stalwarts have raised their payouts each year for at least 20 years. There are no guarantees, but Walmart, for one, has raised its annual dividend from 5 cents a share in March 1974 to $2.12 per share today. Our dividend growth category includes companies that can continue to deliver generous dividend hikes, fueled by strong growth in sales and profits. Home Depot has beaten Wall Street's earnings expectations for the past five years. High yields can be a danger sign if they result from a sinking stock price. But our four high-yielders have a long history of generous dividends and the cash flow to keep paying them. **JOHN WAGGONER**
jwaggoner@kiplinger.com

THE KIP DIVIDEND 15: BY THE NUMBERS

Picking some stocks from each of the groups below will give you a mix of dividend income and growth.

Company (symbol)	Share price	Dividend yield	Annual dividend*	Consecutive years of increases	5-year dividend growth rate†	1-year total return
DIVIDEND STALWARTS Companies in this category have raised dividends for at least 20 straight years.						
3M (MMM)	$209	2.8%	$5.76	60	11.0%	–8.7%
Air Products & Chemicals (APD)	174	2.7	4.64	37	10.3	9.1
Emerson Electric (EMR)	68	2.9	1.96	62	2.6	–1.7
ExxonMobil (XOM)	78	4.2	3.28	36	5.4	6.3
Johnson & Johnson (JNJ)	136	2.6	3.60	56	6.4	6.6
Procter & Gamble (PG)	98	2.9	2.87	62	3.6	23.0
Walmart (WMT)	100	2.1	2.12	45	2.0	–1.1
DIVIDEND GROWTH Companies in this category should continue a history of robust dividend increases.						
AbbVie (ABBV)	$81	5.3%	$4.28	6	21.7%	–26.2%
Home Depot (HD)	192	2.1	4.12	10	21.4	6.1
Lockheed Martin (LMT)	307	2.9	8.80	17	10.6	–12.6
Texas Instruments (TXN)	108	2.9	3.08	15	20.7	4.8
HIGH YIELD Companies in this category yield 4% or more.						
Blackstone Group (BX)	$33	7.0%	$2.32	0	9.9%	2.5%
Enterprise Products Ptnrs (EPD)	28	6.2	1.74	20	4.4	11.7
Realty Income (O)	70	3.9	2.71	21	4.4	47.2
Verizon Communications (VZ)	55	4.4	2.41	12	2.6	15.7
INDEX						
S&P 500-STOCK INDEX		**2.0%**	**$56.76**	**11**	**8.3%**	**3.7%**

As of February 15. *Annualized based on the most recent quarterly dividend. †Annualized. SOURCES: Company websites, Morningstar, S&P Dow Jones Indices, Yahoo Finance.

THE KIPLINGER 25 UPDATE

Changes at Our Muni Fund

A CHANGING OF THE GUARD took place at **FIDELITY INTERMEDIATE MUNICIPAL INCOME FUND** recently. After nearly 13 years as lead manager, Fidelity veteran Mark Sommer retired in 2018. "It has been a wonderful job. But life is short. I have other things I'd like to do," said Sommer, who is in his late fifties.

Shareholders need not worry about an abrupt transition at Intermediate Muni Income. Kevin Ramundo, a comanager of the fund since mid 2010, is stepping up as lead manager. He'll have help from Cormac Cullen, a comanager since 2016, and newly named comanager Elizah McLaughlin.

Overall, the past 12 months have been good for municipal bonds, which pay interest that is exempt from federal and sometimes state income taxes. One boost came from the new tax law, which helped to crimp the supply of muni bonds, putting upward pressure on prices. At the same time, new caps on state and local tax deductions made munis more attractive to investors who live in high-tax states.

Muni bonds have done well, on average, compared with other sectors of the bond market. The typical intermediate-term bond fund, for instance, gained 2.8% over the past 12 months; high-yield bond funds climbed 2.7%. Intermediate Muni Income returned 3.6%, beating the 3.3% gain of the typical medium-maturity muni fund.

Fidelity's muni-bond pickers work in Merrimack, N.H., rather than in the firm's Boston headquarters, and the structure of the space complements the collaborative culture of the team. Ramundo, Cullen and McLaughlin favor reasonably priced bonds with stable finances. Managing risk is a priority, and the team uses a proprietary tool to monitor the portfolio.

Over time, that has helped the fund hold up better in down markets. Though Intermediate Muni Income's 10-year annualized return lags its peer group a smidge—an average of 0.4 percentage points per year—the fund has done a better job over the past decade of delivering more return for the risk it takes on than its peers or its benchmark, the Bloomberg Barclays Municipal index.

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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.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Dodge & Cox Stock	DODGX	1.0%	19.0%	9.5%	15.6%	May 2008
Fidelity New Millennium	FMILX	0.8	16.9	7.6	15.8	May 2014
Mairs & Power Growth	MPGFX	7.2	14.0	8.6	14.9	Jan. 2013
Parnassus Mid Cap	PARMX	5.2	14.9	9.5	15.3	Aug. 2014
T. Rowe Price Blue Chip Growth	TRBCX	7.3	23.1	13.8	18.6	May 2016
T. Rowe Price Dividend Growth	PRDGX	7.5	15.9	10.9	14.7	Oct. 2016
T. Rowe Price QM US Sm-Cp Gro	PRDSX	6.2	19.7	9.9	17.8	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	3.1	17.8	7.6	14.6	May 2009
T. Rowe Price Value	TRVLX	–1.5	13.3	7.8	15.2	May 2015
Primecap Odyssey Growth	POGRX	1.1	22.6	12.5	17.6	May 2017
Vanguard Equity-Income	VEIPX	2.9	13.9	9.7	14.8	Jan. 2017
Wasatch Small Cap Value	WMCVX	4.7	20.2	9.9	17.4	Nov. 2018

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
AMG TimesSquare Intl Sm-Cap	TCMPX	–21.4%	8.8%	5.4%	—	May 2018
Baron Emerging Markets	BEXFX	–14.4	12.6	3.5	—	Oct. 2016
Fidelity International Growth	FIGFX	–5.1	10.8	4.5	11.0%	Feb. 2016
Oakmark International	OAKIX	–20.1	11.4	1.2	11.6	July 2017

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Vanguard Health Care	VGHCX	9.4%	11.9%	10.7%	15.3%	May 2016
Vanguard Wellington‡	VWELX	3.0	11.2	7.5	11.1	May 2016

Bond Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
DoubleLine Total Return N	DLTNX	3.5%	1.9%	2.8%	—	May 2011
Fidelity Intermed Muni	FLTMX	3.6	1.8	2.8	3.5%	May 2004
Fidelity New Markets Income	FNMIX	–0.5	8.2	5.2	9.5	May 2012
Fidelity Strategic Income	FADMX	1.4	6.4	3.5	7.1	May 2018
Met West Total Return Bond M	MWTRX	3.5	1.8	2.2	5.6	May 2016
Vanguard High-Yield Corporate	VWEHX	3.8	8.2	4.4	9.0	May 2016
Vanguard Sh-Tm Inv-Grade	VFSTX	2.6	2.0	1.8	3.3	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	**3.7%**	**16.5%**	**10.8%**	**15.3%**
RUSSELL 2000 INDEX*	**3.5**	**18.9**	**7.9**	**14.9**
MSCI EAFE INDEX†	**–8.1**	**9.1**	**2.1**	**8.3**
MSCI EMERGING MARKETS INDEX	**–12.2**	**15.0**	**3.9**	**9.0**
BLOOMBERG BARCLAYS AGG BND IDX#	**3.4**	**1.8**	**2.5**	**3.7**

Through February 15. ‡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. SOURCE: © 2019 Morningstar Inc.


MESHON

GREAT IDEAS FOR $1,000

HOME, TRAVEL, GIFTS & FITNESS

Maybe you received a bonus at work, got lucky on a scratch-off lottery ticket or—unlike many disappointed taxpayers this season—you scored a sizable tax refund. If you have a grand to spare, we have recommendations on ways to spend it, including buying travel upgrades, creating a smarter home, making a difference for local schoolkids and much more.

ILLUSTRATIONS BY AARON MESHON

HOME

Get organized. If Netflix's *Tidying Up With Marie Kondo* inspired you to cull your possessions, consider hiring a KonMari consultant to teach you how to determine which items "spark joy" and are worth keeping. A professional organizer can also help you set up a filing system or prepare you to move or sell your home. You can find a professional organizer at Napo.net or a certified KonMari consultant at Konmari.com. The cost will vary based on your location, the organizer's experience and the scope of your project, but most organizers charge $30 to $80 an hour, according to Costhelper.com. They may also charge by the day or project. KonMari consultants generally charge $60 to $150 an hour, but some offer discounts for multi-session packages.

Make your home smarter. Control your home—from the front door to the temperature—with a tap of your smartphone or a voice command by installing smart-home devices. Start with a smart speaker such as Amazon Echo ($100) or Google Home ($130) and a smart thermostat. For the thermostat, we like Ecobee 3 Lite ($170) for Amazon Echo users and Nest Learning thermostat ($250) for Google Home users. For either system, smart plugs, such as the Belkin Wemo Mini ($35 each), turn household items that plug into electrical outlets into smarter versions that can be controlled with your smartphone, tablet or smart speaker. The Philips Hue White Starter Kit ($100 for a kit with four bulbs and a bridge that acts as a translator between the bulbs and your Wi-Fi network) will allow you to turn lights on and off using your voice or a smart device. Extra bulbs usually run $15 to $40 each. To control access to your home and monitor what's going on outside your door, add a smart lock and video camera, such as the August Smart Lock Pro + Connect ($279) with the company's Doorbell Cam Pro ($199).

Buy a 3D printer. With a 3D printer, you can make household items (from vases to cell-phone cases), create replacement parts or just get crafty. Models for home use have come down in price (they start at about $200) and are now easier to use. For higher print quality and more features, a serious user should expect to spend $700 to $1,000. Most models in this price range build objects out of layers of molten plastic using a process called fused filament fabrication. (Depending on the quality, plastic runs $20 to $70 per kilogram—enough to make at least 100 chess pieces.) Some 3D printers also work with other materials, such as wood, bronze or copper-based filament. Among them: The FlashForge 3D Printer Creator Pro ($899) prints layers with precision inside a chamber that protects your work. If you like assembling things, consider a 3D printer kit instead. Kit printers usually take three to eight hours to build and cost $200 to $300 less than comparable ready-made models.

Barbecue like an Egg-head. The Big Green Egg, a modern take on an ancient Japanese cooker, enjoys a cult following. Egg-heads grill, roast, bake and smoke over wood or charcoal in the domed ceramic cooker, and they swear by the juicy, tasty results. For about $1,000, you can get an Egg in the most-popular large size, big enough to grill up to eight steaks or about a dozen burgers at once. Depending on the package from the dealer (find one at www.biggreenegg.com),

A BOND-WORTHY BAR

I've spent years (and I shudder to think how much money) building and restocking a home bar fit for a James Bond movie villain. But you don't need evil-lair money to impress at your next boozy get-together. By my count, you'll need 10 bottles: vodka, gin, rum, tequila, American whiskey (I favor rye over bourbon), Scotch, triple sec, some sort of aperitif (I like Campari), and sweet and dry vermouth. Spend $50 on each, pick up a couple of bottles of bitters, some fresh fruit and a decent recipe book and—*voila!*—you can make a tasty version of just about any cocktail. Total cost: around $550. Use your remaining $450 to stock up on barware (your friends—or nemeses—might want their martinis shaken, not stirred, after all), glassware (no more serving Manhattans in Solo cups), and maybe even a special place to put all of this stuff; a bar cart or even a giant globe bar will run you less than $200. Installing a trap door over your shark pit will run you quite a bit more. **RYAN ERMEY**

you'll also get a metal frame, called a "nest," for your egg, as well as side extensions for working or serving, a gripper to lift the grill in and out, and an ash tool. You can customize your Egg by choosing from a panoply of cooking islands and tables, grid and rack options and cooking accessories. Egg-heads share advice and recipes on the Egg-head forum on the company's website and on social media.

Upgrade your toilet seat. Kohler's C3-230 is the Lamborghini of cleansing toilet seats. The seat is ergonomically designed and heated. A built-in stainless-steel wand sprays warm water and adjusts for front or rear wash and oscillating (wider wash area) or pulsating spray (for a cleaner clean). A warm-air dryer finishes the job. You can adjust temperature and pressure settings and preset them for two people on the touch-screen remote. LED lighting illuminates the toilet bowl to serve as a night light. The seat will fit most elongated-style toilets. Recently, Kohler was selling it for $974, or 25% off the suggested retail price of $1,300 (model K-4108-0). And FaucetDepot.com was offering it for $652 with free shipping. Installation requires a GFCI circuit nearby and a water supply. Bonus: You'll save on toilet paper.

Plant a tree. "The best tree is the one you planted 20 years ago," goes the adage, so don't delay. As it grows, a tree will add to your property's value and cut your summer cooling bills (especially if it shades an exterior air conditioning unit). What you can get for $1,000 depends on the location, tree type and size, and time of year, according to Davey Tree Expert Co., a tree-service company in Kent, Ohio. In the Midwest, a 5-foot Norway spruce may cost $100 versus $250 for a 10-foot one, and an 8- or 9-foot red oak may run $200 versus $600 for an 18- to 20-foot one. In Atlanta, an 8- or 9-foot willow oak would cost about $330, and an 18- to 20-foot one would be about $850. If a landscaper delivers and plants the tree, add about $300 to $1,500 to the cost. If you can be patient, choose a medium-size tree with a trunk that's about 2 inches in diameter—it will catch up in size to tall trees within three to five years, says R.J. Laverne, at Davey. Check out the Arbor Day Foundation's guide, "Choosing the Right Tree" (www.arborday.org).

TRAVEL

Treat your grandkid to Disney. Disneyland raised ticket prices for 2019, but you can lower costs by keeping the trip short and being selective about where you stay. A three-day ticket with admission to one park per day costs $300 for an adult and $280 for kids between the ages of 3 and 9. One-day ticket prices vary by date. (Disney World ticket prices vary based on your arrival date and length of stay.) The three hotels in the Disneyland resort will set you back at least $400 per night if, say, you stay during the last weekend in April, but you can save money by staying at a nearby "Good Neighbor" hotel. For example, for that same weekend, a two-night stay at the Castle Inn and Suites, across the street from Disneyland, will total about $300, including taxes. With the remainder of your budget, splurge on breakfast with Disney characters at the theme park.

For a more relaxing Disney vacation that doesn't require running around massive parks, consider a Disney cruise, says Chris Gray Faust, managing editor of CruiseCritic.com. A three-night Bahamas cruise on the *Disney Dream* costs as little as $684 per person in 2019; a two-night Halloween-themed cruise to Baja California on the *Disney Wonder* starts at $582 per person (taxes and fees are about $75 extra).

Upgrade yourself. Because demand is higher for economy seats than for premium seats during the peak of summer travel, premium fares can be inexpensive when compared with other times of the year, says Scott Keyes of Scott's Cheap Flights e-newsletter. He recently found round-trip fares from New York City to Paris in premium economy for $956 and to Munich from several U.S. cities, such as Boston and Los Angeles, for $947. Heading south? Recently, you could find round-trip business-class flights in the spring or summer to Costa Rica from New York City for $577, and to Guatemala from Portland, Ore., for $760.

ADOPT A FUR BABY

The one thing I promised myself when I moved out on my own was to become a pet owner eventually. (My parents never bought my argument that a dog would make a great Christmas present.) Three years later, I'm finally taking the plunge, and, man, there are a lot of costs to adding another member to my household. However, with an extra windfall (thank you, tax refund), I can afford to adopt a cat this year.

The tab for a tabby starts with an adoption fee, which can range from free to nearly $200. Other up-front costs can include neutering or spaying, vaccines, a litter box and a scratching post, for a total of $365, according to the American Society for the Prevention of Cruelty to Animals (ASPCA). (I'm considering paying $175 to adopt from a rescue group, where animals have already received their shots and other medical care.) And, of course, there are recurring expenses: food, litter, preventive health care, toys and treats, for about $570 a year. Some apartment complexes charge an extra deposit of $200 or more to pet owners, as well as "pet rent" that can run as high as $100 per month. Thankfully, I won't have either of those two charges. But I'll likely invest in a pet insurance policy, which costs as little as $10 a month for cats (see "Trim the Cost of Pet Care," May 2018; kiplinger.com/links/petcare). **RIVAN STINSON**

Bundle your travel. Nabbing a vacation package that includes flights, accommodations and more simplifies travel planning and delivers serious value for places that are normally expensive to reach or pricey to explore. The experts at Travelzoo, a deal-finding website, expect excellent deals to Hawaii to pop up through 2019. Recently, a couple could get round-trip flights from Los Angeles or San Francisco to Maui, three nights at the Grand Wailea resort, a three-day car rental and more for $880 per person. The hotel alone can top $600 per night. Further afield, the site found a 13-night guided tour of Japan and China for $999, including accommodations and round-trip flights from Los Angeles, New York City or San Francisco.

Or browse flight-and-accommodation deals pieced together by deals website TravelPirates. For example, you could recently book a six-night getaway at a five-star resort in Siem Reap, Cambodia, for $745 per person, or five nights at a four-star hotel in Panama City for $478 per person. Both deals include round-trip flights from New York City.

Watch baseball in the Dominican Republic. David Ortiz, Pedro Martinez, Sammy Sosa, Robinson Cano, Vladimir Guerrero—those are just a few of the big-name Major League Baseball players who honed their skills in the Dominican Republic. Travel to the baseball lovers' paradise to see future (and some current) stars of the MLB play in the Dominican Winter League. The league, called LIDOM (www.lidom.com), includes six teams that play from mid October to the end of January. Fly into Santo Domingo and see rivals Tigres del Licey and Leones del Escogido play in the nearly 14,400-seat Estadio Quisqueya. Or travel about 50 miles east along the Caribbean coast to see this season's champions, Estrellas Orientales, play in San Pedro de Macoris, known as the "cradle of shortstops" for its prolific production of shortstops. Round-trip flights from Chicago to Santo Domingo in the baseball season recently cost $400 to $600, and major hotels in Santo Domingo run less than $200 a night. You can often get tickets to Winter League games for less than $30.

Immerse yourself in a foreign language. Instead of memorizing a few words from your guidebook, enrich your travels by spending a week or two learning the language and conversing with locals. Lingua Service Worldwide connects students to private foreign language schools. For $938, you could spend two weeks taking an intensive Italian course with up to 11 other students in Florence, Milan, Rome or

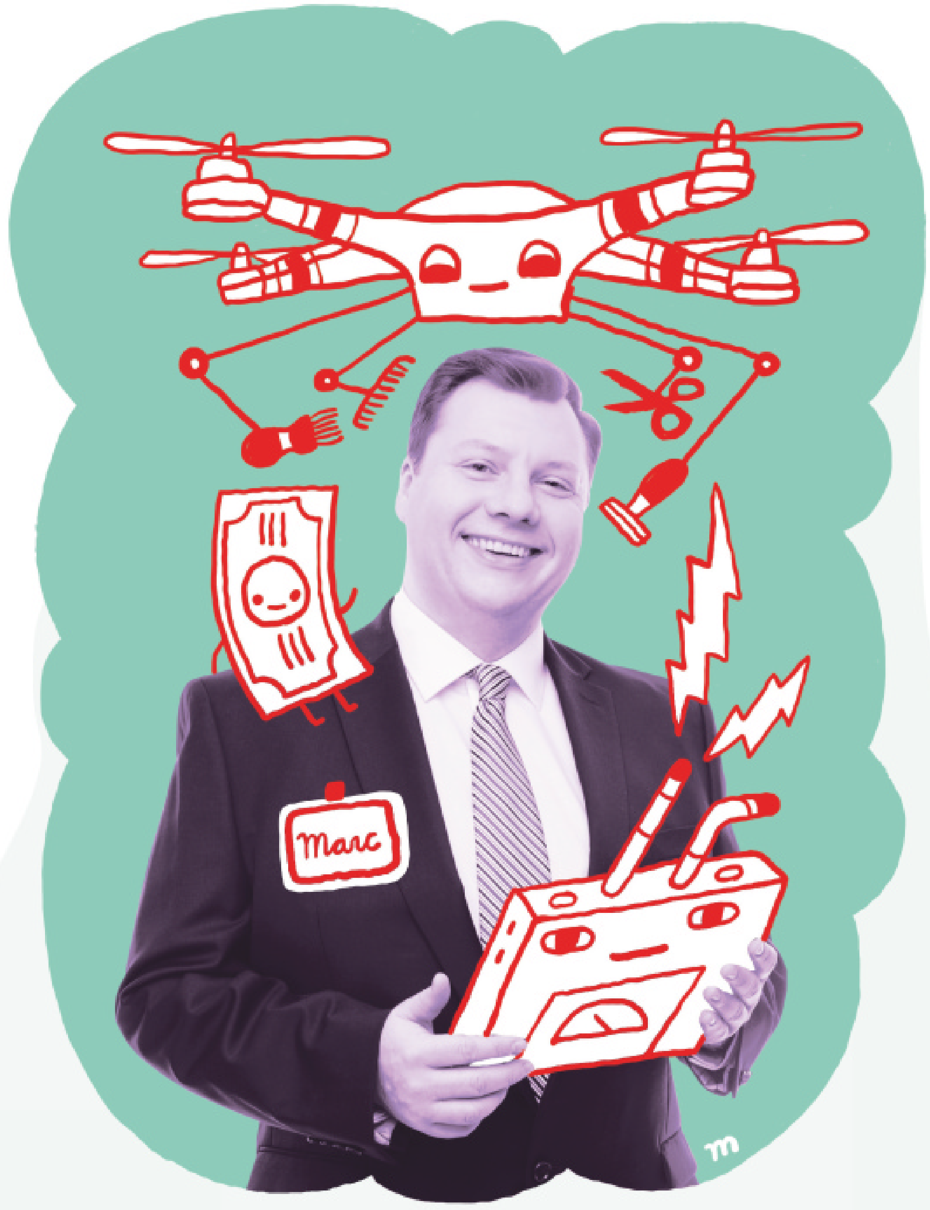
Siena, while staying in a private room in the home of a host family. Or for $548 ($1,096 for two weeks), you could spend a week at the oldest language school in Portugal with branches in Lisbon and Faro, studying with no more than five other students and staying in a private room with a host family. For something more intimate, a pair of travelers could take Spanish lessons in Cuernavaca, Mexico (a 90-minute drive from Mexico City), through Anders Languages' ForTWO+ program. The cost, $986 per person, includes five days of two-on-one classes, outside activities where you can practice Spanish, three meals a day and accommodations in a private room.

Go to camp. Many fantasy camps cost under $1,000. Nascar fans can get behind the wheel with "King's Experience" from the Richard Petty Driving Experience at any of 16 speedways (usually $1,100, but look for sales; www.drivepetty.com). The package includes training, after which you'll drive a race car by yourself for two eight-minute sessions—passing allowed—with a pit stop. Radio communication with a personal spotter is included.

If you never made it to Starfleet Academy, you can still spend three days at Adult Space Academy at the U.S. Space & Rocket Center in Huntsville, Ala. ($549 per person for three days; www.spacecamp.com). Trainees assume roles in hands-on, interactive space missions and learn what it takes to be an astronaut, including a tumble on a multi-axis trainer that simulates a bumpy ride.

Hone your chef chops at a two-day boot camp with the Culinary Institute of America in Hyde Park, N.Y., Napa, Calif., or San Antonio ($925). Offerings include grilling and barbecue, and the flavors of the Hudson Valley or Texas. You'll get a chef's jacket and eat what you cook.

Get away to the lake, woods or mountains at a YMCA conference and retreat center that offers programs and activities for adults and families. For example, the YMCA of the Rocky Mountains has three camps in Colorado that offer year-round programming, as well as a five-day camp in August for "kids ages 50 and up" ($325 to $345, including meals). Or dust off your ukulele, trombone or other instrument to make music at an adult band camp. One week of band camp, including meals and lodging, costs $755 at Allegheny College in Meadville, Pa., and $905 at the New England Adult Music Camp in Sidney, Maine.



TAKE TO THE SKIES

I've put off buying a drone because of the controversies over their safety and privacy violations. But in January, the U.S. Department of Transportation said it's revising its safety guidelines and expanding civilian drone flights while increasing security measures. So I made the leap, and I'm now developing my pitch, roll and yaw skills with my new **YUNEEC MANTIS Q** ($499). Not since my preteen days, when I built and launched model rockets, have I had this much fun in the air.

With a camera capable of photographing stills and video of up to 4k resolution, along with voice-command capability and the ability to return home and land automatically, my Mantis Q is fine for a novice. (It also has a long flight time of 33 minutes.) Spend closer to $1,000 and you can get a model that's smarter and loaded with more cool features. The **DJI MAVIC AIR** ($799), for example, has nearly all the Mantis Q features plus camera stabilization and sensors to prevent it from crashing into people or objects. My only gripe is its shorter, 21-minute flight time.

Before your maiden flight, register your drone with the Federal Aviation Administration. I paid a $5 registration fee to fly recreationally (good for three years). Visit www.knowbeforeyoufly.org and download the FAA's free B4UFLY mobile app that tells you where you can and can't fly. It may seem like a hassle, but if you follow the rules, the sky's the limit. **MARC A. WOJNO**

INVEST IN OTHERS

Enrich a child's future. Contribute to a 529 college-savings plan and you may get a tax break, too (see www.savingforcollege.com). If the child has qualifying special needs, you can contribute money to an ABLE account, which can be used tax-free for expenses to benefit the child without jeopardizing his or her government benefits (see www.ablenrc.org).

Or help young workers earning a paycheck get a jump on saving for retirement by giving them money to invest in a tax-friendly Roth IRA. (Workers can contribute the amount they earn from a job, up to $6,000 in 2019.)

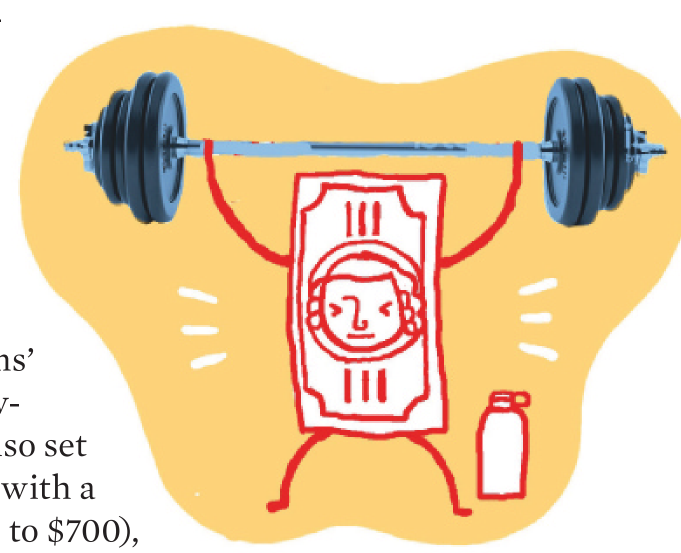
Help a kid learn about investing with a gift card from Stockpile .com, an online brokerage that offers more than 1,000 stocks plus a kid-friendly app to track their performance. Or put a young adult on a good financial path by paying for a session with a financial planner. Find fee-only planners through the Garrett Planning Network (www.garrettplanningnetwork.com) or the XY Planning Network (www.xyplanningnetwork.com). Garrett planners usually charge $180 to $300 per hour; fees for XY planners run $150 to $200 an hour.

Give locally. For local nonprofits, such as your area animal shelter or food bank, $1,000 can make a big difference. Smaller charities often aren't rated by groups such as Charity Navigator and Charity Watch, so look on the organization's website for financial information and insights about the impact it has on your community. Or look up the group's Form 990 (an annual report charities file with the IRS) on www.guidestar.org. Don't have an organization in mind? Check out Donorschoose.org, which posts funding requests from public school teachers nationwide. Many of the projects are looking for a few hundred dollars to, say, create a reading corner or to buy books, crayons and small musical instruments—so $1,000 can fund projects for several classrooms.

SELF-IMPROVEMENT

Dress to impress. Take the opportunity to upgrade your look and dress for the job you want, even if it's not the job you have. Classic white shirts, a blazer and tailored trousers or a skirt—along with a good pair of pumps or, for men, dress shoes—never go out of style. Men, for instance, can send their measurements to Indochino.com and get a custom suit for as little as $400. Indochino also sells custom dress shirts—three for $199. Men and women can cobble together some classic looks (and make their clothing budget go further) at luxury online consignment shops such as The RealReal (www.therealreal.com) and Tradesy (www.tradesy.com.). We recently found a pair of black patent leather Prada pumps for $125 on The RealReal. Leather pumps on Prada's site start at $675 a pair. Or grab an $89 monthly subscription to Renttherunway.com. You can pick four designer items to be shipped to you each month, and you can swap them out (or buy them at a discount) when you're finished.

Supercharge your fitness routine... A gym membership averages $58 a month nationally, or $696 a year. Or add $1,000 to your existing gym budget and treat yourself to a real upgrade. "Luxury" gyms often offer unlimited fitness classes, discounted personal training and other perks. (Expect to pay $150 to $200 a month—not cheap, but neither are the gyms' "eucalyptus towels.") You can also set up a home gym with a treadmill ($500 to $700), door-frame pull-up bar ($30 to $60), adjustable dumbbell weights ($300) and a sit-up bench ($100 to $250).



...or bring in reinforcements. Personal trainers aren't just for celebrities looking to round out their entourage. Recruiting a professional to design a fitness routine around your interests, needs and schedule can make it easier to get into the habit of health. Plus, you'll likely have a harder time blowing off the gym when you're paying a trainer with a name, face and set of expectations. An hourlong session typically costs $70 to $150, depending on the trainer's expertise, where you train and if you can get a discount through a gym membership.

Give your home office a health makeover. If eight hours at your desk aren't helping your lower back pain, sink your grand into office-related upgrades. Consider an adjustable standing desk ($500 to $1,000), ergonomic desk chair ($230 to $500), foot rest ($30 to $70), adjustable lighting ($30 to $75), an insulated thermos for water, coffee or tea ($30 to $60), and an ergonomic keyboard ($80 to $200). ■

TAKEAWAY

Should You Believe These 5 Market Truisms?

Most market sayings have a statistical basis—but some are more wacky than useful. **BY RYAN ERMEY**

Presidential Cycle

The stock market follows distinguishable patterns depending on the year of a president's term.

TRACK RECORD: Between 1949 and 2017, the Dow Jones industrial average returned an average of 15.8% in preelection years, as incumbent administrations did what they could to goose the economy.

LOOKING AHEAD: The indicator suggests that 2019 will be a good year for stocks.

Hemline Theory

Women wear shorter skirt styles during periods of positive market returns and economic prosperity.

TRACK RECORD: Believers point to short skirt styles in the economically prosperous 1920s and 1980s, each of which saw dress styles lengthen around market crashes late in the decade. But serious market-watchers dismiss the indicator as pure superstition.

LOOKING AHEAD: For what it's worth, plenty of lengthy skirts graced the runways at the latest New York Fashion Week, a potential bearish signal.

Sell in May and Go Away

The stock market posts its weakest returns from May through October, suggesting that investors should lighten up on stocks during that six-month period.

TRACK RECORD: Since 1945, the S&P 500 has averaged a 1.4% return in the May-through-October period. November-through-April returns average 6.6%.

LOOKING AHEAD: Though the data are compelling, market-timing is rarely the best strategy, especially if you'll incur transaction costs and tax consequences.

As Goes January, So Goes the Year

Stock market performance in January tends to predict calendar-year performance.

TRACK RECORD: Since 1946, a positive January return in the S&P 500 has resulted in an 11.1% average gain over the next 11 months. A January loss has resulted in a 1.3% average gain.

LOOKING AHEAD: The S&P 500 gained 7.9% in January, presaging an upward trajectory for stocks for 2019.

The Super Bowl Indicator

The stock market tends to perform better when an NFC team wins the Super Bowl as opposed to an AFC team.

TRACK RECORD: Through Super Bowl 52, the S&P 500 produced a positive calendar-year return 79% of the time following an NFC winner and 63% of the time after an AFC winner.

LOOKING AHEAD: The Patriots' victory should presage a poor year for the market, but not everyone's a fan of this indicator: InvesTech Research president James Stack calls it "a discovered and invented coincidence."

ILLUSTRATIONS BY DAVE URBAN


GEICO
COMBINE
HOME & AUTO
insurance and you could save.