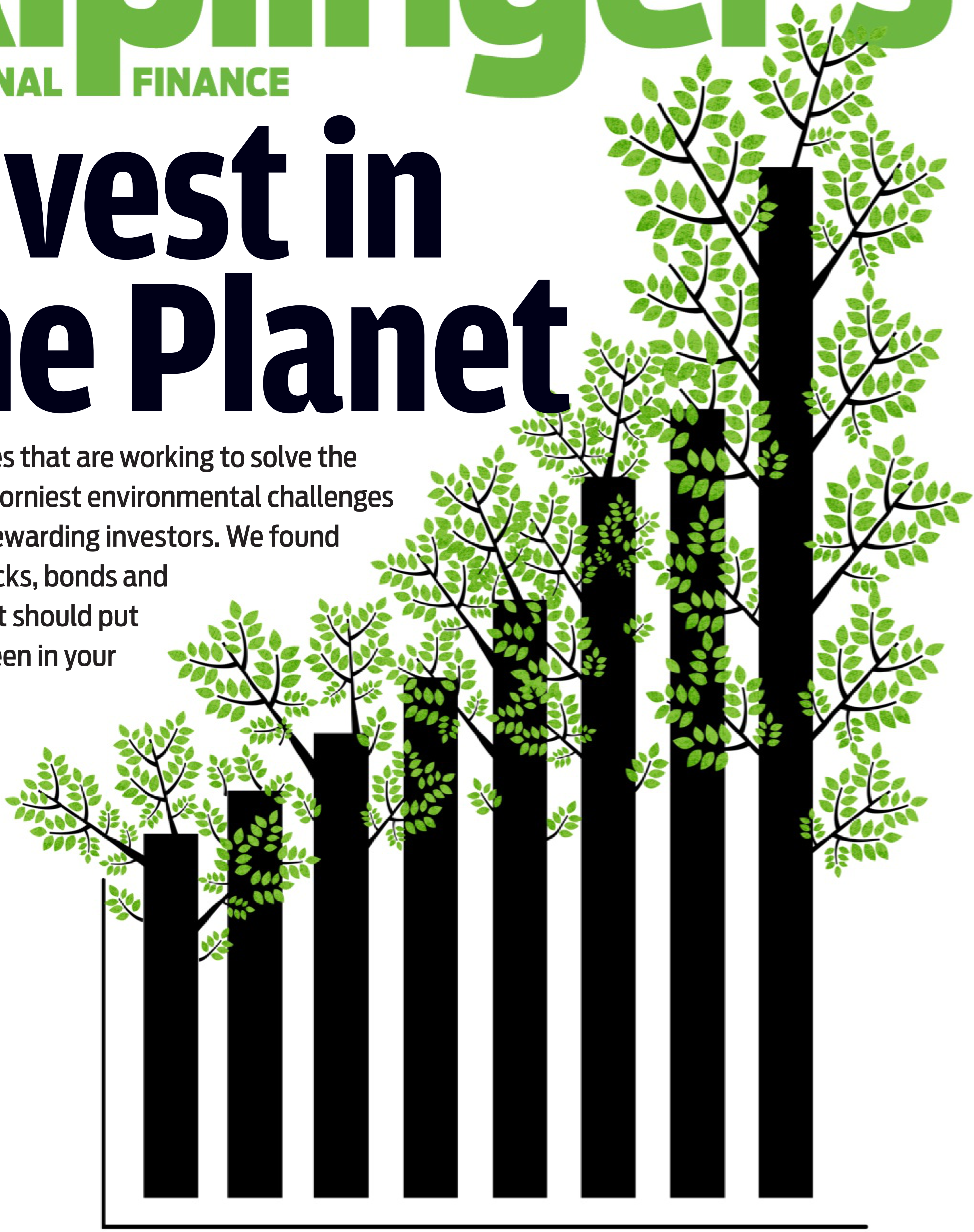
# Kiplinger's
PERSONAL FINANCE

# Invest in the Planet

Companies that are working to solve the world's thorniest environmental challenges are also rewarding investors. We found green stocks, bonds and funds that should put a little green in your portfolio, too. p 20



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VOL. 74 NO. 4


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ON THE COVER: Illustration by Mike Austin

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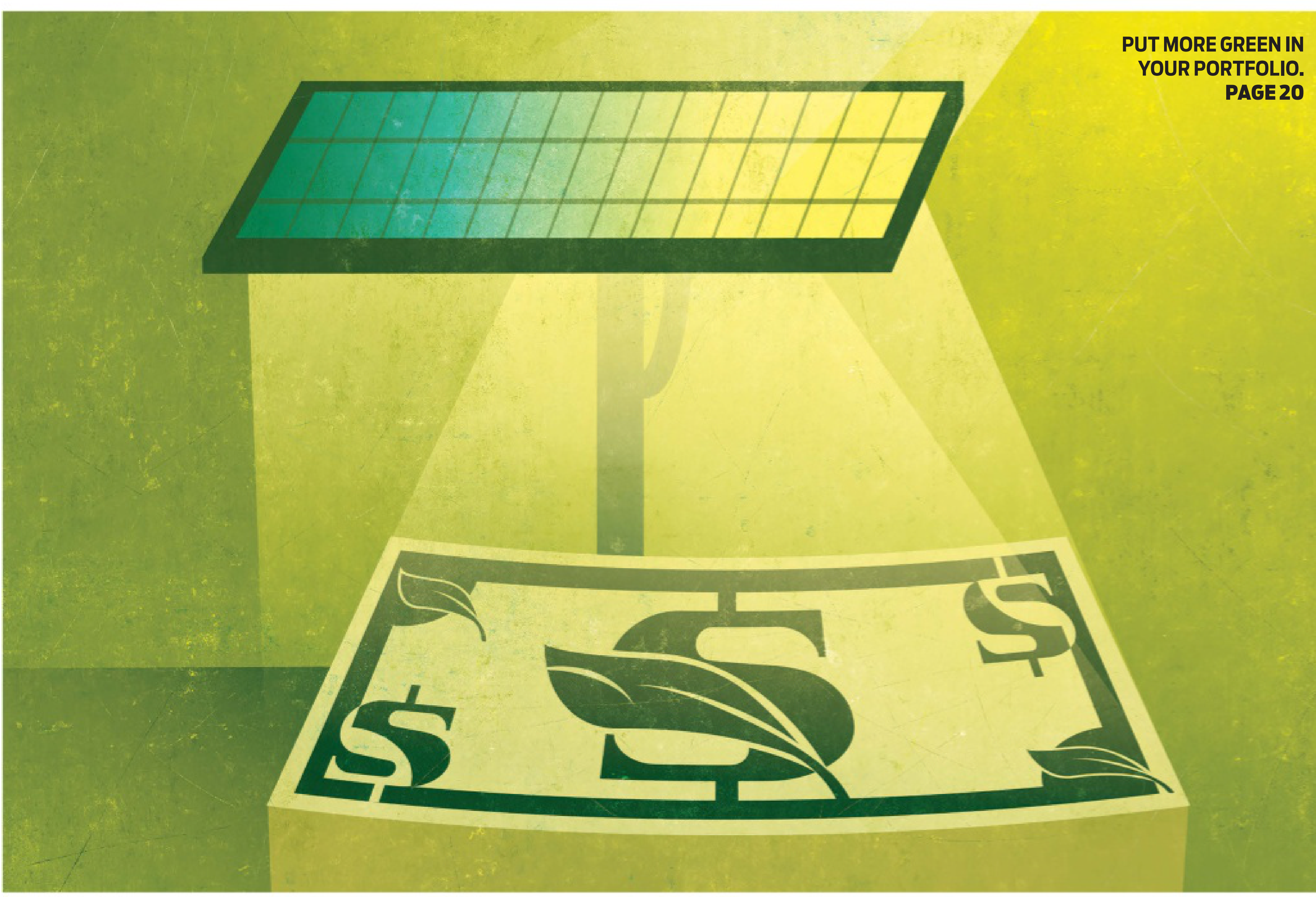


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## FREE COLLEGE FOR RETIREES

New to Kiplinger.com, our exhaustive guide to free or discounted college tuition for retirees reveals higher-learning bargains in every state.

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## ELECTORAL COLLEGE SHAKEUP

Following the 2020 census, 17 states are likely to lose or gain key electoral-college votes. See our forecasts.

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## YOUR 2020 TAX RETURN

Once you've filed your 2019 return this spring, take our crash course in 2020's new tax rules, rates and brackets.

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Mark Solheim

# Home Sweet Asset

We all know the well-worn truism that owning a home is a key part of the American dream. The belief has deep roots that hark back to one of the main reasons our forebears left the old country: to become property owners, which was the key to freedom and financial independence. My great-great grandfather left Ireland in 1847, traveled to Wisconsin and homesteaded 600 acres of land on which the melting glaciers had deposited rich, loamy soil. The land he farmed and wealth the family nurtured was passed down through the generations—and just a little of it trickled down to me and helped me buy the house my wife and I live in now.

**A powerful tool.** The home-as-American-dream mythology has a personal finance corollary: that your home is your biggest investment. That principle is being challenged in the 21st century, as shifts in the way many of us view homeownership and even how we save for retirement are changing the perception that owning a home is the ultimate financial goal. Millennials burdened by student loan debt and daunted by steep starter-home prices are losing interest in owning a home, studies show. And your biggest asset may well be your IRA or 401(k), not your home equity.

Even so, a home is likely to be the most expensive purchase you'll ever make, and it's a valuable and versatile financial tool that can help you increase your wealth. That's why every year Kiplinger reports on housing market and mortgage rate trends (see page 64). We also include a table of home prices in the 100 largest metro areas in the U.S.

Many Americans are still traumatized by the housing boom and bust, when home prices nationwide tumbled. (A number of markets still haven't returned to pre-crisis levels, as our table shows.) But investors and homeowners alike were guilty of excesses, and we have returned to more-realistic expectations—that is, over the long term, a home will likely appreciate slightly above the rate of inflation. Meanwhile, homeownership serves as a forced savings plan, as you first stash money for a down payment and then build equity with every mortgage payment you make. And a home is an excellent tax shelter for most of us, although the new tax law limits deductions for interest on mortgages.

**A HOME IS A VALUABLE AND VERSATILE FINANCIAL TOOL THAT CAN HELP YOU INCREASE YOUR WEALTH.**

In our house, after years of living with a tiny galley kitchen that I'm guessing was last updated in the '70s, my wife and I are finally renovating the kitchen, dining room and basement. To finance the work, we tapped our equity with a home equity line of credit. That will create cash flow while we wait to sell some stock, when the profits qualify for lower capital gains tax rates.

The renovations may ultimately help our home's resale value, but the main reason we're doing the work is to enjoy an updated, more energy-efficient home and make it more inviting for family and friends. And that is my interpretation of the American dream.

**Investing in the planet.** Our cover story this month (see page 20) is about buying stocks, bonds, and mutual and exchange-traded funds that take advantage of the hottest new Wall Street theme: sustainable investing. Big companies (Amazon, Google and Microsoft, to name just a few) and billionaires (Jeff Bezos, Bill Gates) have hopped on board the search for alternative energy, smart recycling technology and other ways to help the environment. For those of you who would like to do the same—and make some money, too—we found some good opportunities. ■

Mark Solheim

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# Tax Law Winners and Losers

**I know some of your readers have said they have seen a reduction in their federal income taxes because of the new tax law ("From the Editor," Feb.). However, I have experienced a significant jump in my federal taxes, and so have some of my acquaintances. In Georgia, the state income tax is 6%, and our tax deduction on state and property taxes is capped at $10,000. So for 2019, my wife and I had to donate an additional $35,000 to charity just to keep our federal tax at the same level as the year before. (We ordinarily donate 10% of our income to charitable organizations every year.) The new tax law created some winners but also some losers. And perhaps the losers don't want to advertise it.**

**A.L.**
ATLANTA.

**Entitlements are earned.** I wish everyone, including you, would stop referring to Social Security and Medicare as "entitlements" ("From the Editor," Feb.). There are plenty of real entitlement programs, such as government housing, food stamps, unemployment, child support, Medicaid and other welfare programs. Social Security and Medicare recipients have been contributing during their entire productive life and are therefore owed by the government. I do not consider those benefits to be handouts or freebies.

**R. KUSTER**
VIA E-MAIL

*Kiplinger staff economist David Payne responds: All non-401(k) direct benefit pensions are "entitlements," which include both Social Security and private pensions. The word means payments that the recipient is entitled to by virtue of having worked under an employment contract. Technically, all Social Security and Medicare payments are "earned," because recipients must qualify by working 10 years for pay.*

**Pesky fees.** You always hear that dividend reinvestment plans (DRIPs) are a good way to acquire and increase ownership of stock ("How to Beat Pesky Fees," Feb.). Recently, I sold my position in a stock I participated in for over 15 years. I was shocked that I had to pay an outlandish commission to liquidate it. There is a fee to sell, as well as a charge per share assessed to each share sold. The sales commissions and transfer fees (to a brokerage account) are unbelievably high, especially in today's zero-commission climate.

**RICK OCCHIALINO**
VIA E-MAIL

You failed to mention the site www.feex.com. It analyzes what you have and recommends lower fees and higher returns on similar investments. I have saved over $2,000 in fees over the past two years on a modest portfolio, and my friends have, too.

**STEVE RAMM**
PHILADELPHIA

**Robo rebalancing.** My concern with robo advisers is the constant monitoring and rebalancing of the investment mix ("The Right Robo for You," Feb.). Rebalancing would be fine in a normal market. What happens in a volatile market? If the market rises sharply, stocks increase and then are immediately sold to buy bonds. Future gain in stocks is curtailed. If the market drops, bonds are sold to buy stocks that are dropping, increasing the total loss by chasing losses with good money. There should be a way to stop or reduce this.

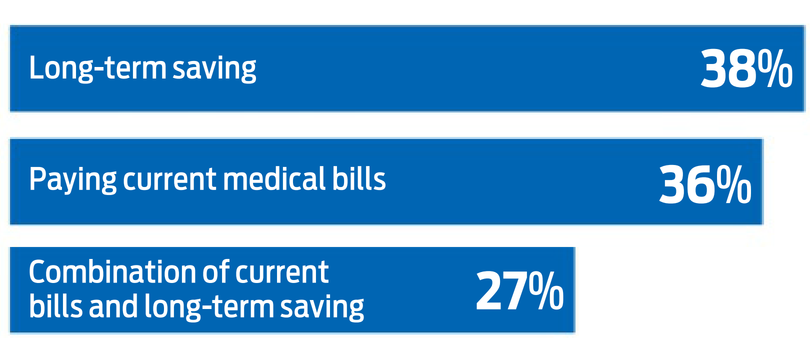
**MICHAEL PREZGAY**
EUPORA, MISS.

**Timeshare solution.** My husband and I have owned a timeshare given to us by a relative for many years ("How to Get Rid of a Timeshare," Nov.). We tried selling it, with no luck—and the timeshare exit company fees are very expensive. Our timeshare is with Shawnee in the Poconos, which is now owned by Wyndham, and the company has a program to take timeshares back into their inventory. It took a couple months from the initial phone call until we received the final letter indicating the completion of the transaction, but it worked, and we will no longer have to pay the annual maintenance fees.

**JUDY BOURQUE**
VALHALA, N.Y.

## Q READER POLL

### How do you use the funds in your health savings account?




**To learn more about health savings accounts, turn to page 43.**

SOURCE: POLL SURVEYED 57 *KIPLINGER'S* READERS. FIGURES DO NOT ADD UP TO 100% DUE TO ROUNDING.

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# AHEAD

TOPIC A

## STATES LOWER TAXES TO COURT RETIREES

The tax breaks range from property tax exemptions to tax-free retirement plan withdrawals. BY SANDRA BLOCK

**MARYLAND IS KNOWN AS THE** Free State, reflecting its tradition of political freedom and religious tolerance, along with its resistance to Prohibition. Talk to retirees, though, and they'll tell you the nickname is a misnomer, at least as far as taxes are concerned. While Maryland excludes from taxes up to $31,100 in income from pensions



ILLUSTRATION BY SJOERD VAN LEEUWEN

and 401(k) plans, state and local taxes on other types of income—including distributions from IRAs—can run as high as 9%.

Fortunately for Marylanders willing to relocate, a number of other states give retirees a break. For example, nearby Delaware and Virginia are both friendlier to tax-conscious seniors, according to Kiplinger's state-by-state guide to taxes on retirees. Alternatively, Marylanders can join the thousands of retirees that have stowed their snow shovels and moved to Florida, which has no income tax and is on Kiplinger's list of most-tax-friendly states.

Maryland Governor Larry Hogan says high tax rates are driving out lifelong Marylanders who still have much to offer the state besides a steady stream of tax revenue. Hogan, a Republican, has introduced legislation that would eliminate state taxes on the first $50,000 of income for retirees making up to $100,000 in federally adjusted gross income. Retirees with income of $50,000 or less would pay no state tax. Hogan also wants to exempt from tax all pension and retirement income paid to veterans and first responders. The tax cuts, which would cost an estimated $1 billion, would be phased in over five years, beginning in fiscal year 2022.

The legislation faces an uncertain future in the state's Democratic-controlled general assembly, where lawmakers have raised concerns about how the state would make up the revenue from the tax reductions.

Other states are also looking at ways to keep retirees from decamping to lower-tax states. Illinois Governor J.B. Pritzker recently signed legislation that will make it easier for seniors in Cook County—which includes Chicago and is the state's most populous jurisdiction—to apply for a property tax break of up to $8,000 a year. Kiplinger has designated Illinois as one of the least tax-friendly states for retirees, primarily because of its sky-high property taxes. West Virginia, which gets a "mixed" rating from Kiplinger for the way it taxes retirees, is phasing out taxes on Social Security benefits over three years, starting in 2020. In New Mexico, which also gets a "mixed" rating, lawmakers are considering several bills that would repeal or reduce taxes on Social Security.

Even states that already have low taxes are looking at ways to become more appealing to retirees. For example, Arizona Governor Doug Ducey's proposed budget for 2020 would eliminate state income taxes on military pensions. Arizona is one of Kiplinger's most tax-friendly states for retirees.

**Economic benefit or burden?** The independent research organization Think New Mexico contends that eliminating or reducing taxes on Social Security benefits would give retirees more money to spend, which would boost New Mexico's economy. Think New Mexico estimates that every dollar of Social Security income generates about $1.71 in spending on food, clothing, transportation and health care.

But reducing taxes on retirees could force states to make costly trade-offs, some tax analysts say. States with a large number of retirees could see a significant reduction in their tax base, forcing them to cut services or raise taxes on their younger residents, says Kim Rueben, Sol Price fellow at the Tax Policy Center.

"There are good reasons to want people who have spent their lives living and working in the state to stay there," says Jared Walczak, director of state tax policy for the Tax Foundation. But "as much as it's great to know that you're a state that retirees want to live in, it imposes a significant cost on the rest of the population."

It's also unclear how much state taxes influence retirees' decisions when it comes to choosing a retirement destination. Proximity to family, the quality of health care and the cost of housing also play roles. "People make decisions about where they're going to live for a whole host of reasons, and taxes are not the major one," Reuben says.

Whether you're planning to stay put when you retire or move somewhere else, it's important to include the cost of federal and state taxes when estimating your retirement budget. State taxes are all over the map: Some states exempt a significant amount of income from retirement plans and pensions, while others provide few breaks for retirees. Property taxes, sales taxes and gas can also take a bite out of your budget. Some states also have estate and/or inheritance taxes, which could reduce the amount of money you leave to your children.

You can get a detailed breakdown of each state's taxes, including taxes on retirement income, property and purchases, as well as estate and inheritance taxes, using Kiplinger's state-by-state guide to taxes on retirees, at kiplinger.com/links/retireetaxmap.

**Voting With Their Feet**

## The Gray Migration

States where the most retirees are moving, based on the number of people age 60 and older who moved into a state versus the number of people who moved out.

| State | Net Migration |
|---|---|
| Florida | 68,918 |
| Arizona | 31,201 |
| South Carolina | 12,001 |
| North Carolina | 9,209 |
| Nevada | 8,582 |
| Tennessee | 8,259 |
| Texas | 8,296 |
| Washington | 3,964 |
| Idaho | 2,966 |
| Delaware | 2,605 |

Source: SmartAsset analysis of 2017 census data.

INTERVIEW

# IS COLLEGE STILL A GOOD INVESTMENT?

## Rising college costs and heavy debt have raised doubts about the payoff from a college degree.

*Douglas Webber is an associate professor in the economics department at Temple University in Philadelphia, where he focuses on labor and the economics of higher education.*

**A recent study from the Federal Reserve Bank of St. Louis suggested that the value of a college education has declined. Is college still worth the cost?** For the average person, college is still overwhelmingly a good decision. But like any investment, there are risks. The potential negative consequences are greater now than they were for previous generations. Not only are you taking time out from the labor market, but you're paying more to attend college. Plus, many students are taking out debt that's nearly impossible to discharge in bankruptcy. But the biggest risk is not graduating, because you still have the debt but don't have a degree.

**Do workers who graduate with a bachelor's degree still outearn workers without a college degree?** Yes, but the price of attending college has gone up, so the net return of a college degree has gone down a little bit. Still, over a lifetime, college graduates earn about $900,000 more relative to high school graduates. Even if you discount that figure to take into account the types of students who go to college, the "opportunity cost" of not being in the labor force and other factors, the net value of a college degree is still about $350,000 over your lifetime compared with a high school degree.

**How does the major a student selects affect the outcome?** The choice of a major may be the single biggest financial decision people will ever make. If you list majors from top to bottom based on earnings, it's roughly a $2 million differential. But lifetime earnings shouldn't be in the top three things that you base your decision on, in part because job satisfaction matters. There's an economic reason, too. If you compare average earnings for an English major to, say, an accounting major's earnings, accounting looks a lot better. But frankly, if that person is not very good at accounting, they'll earn less than the average accounting major. In that case, you may maximize your earnings potential by choosing English.

**How does student borrowing factor into the equation?** Debt is a huge factor. If you take out a lot of debt for a low-earning major, the chances that it's going to pay off are less than 50-50. If you're an engineering major with a generous financial aid package, the chances it will pay off are virtually 100%.

And there are huge differences between federal student loans and private student loans. The protections that exist within the federal Stafford loan program are very strong and limit the consequences if you're unable to repay your debt. Private student loans don't have those protections. If you're attending a lower-cost school, you might be able to get most or all the way through college with only federal loans.

**What should students and families consider when choosing a school?** Finding a school that's right for you is a very personal decision. But it's important to look up a school's graduation rate, average earnings of graduates and other statistics on CollegeScorecard.gov to see if the school does a good job of getting students through to graduation and helping them find good jobs.

Students generally have a good sense of the value of different majors. They know that economics, engineering and finance are the high-earning majors and that music, humanities and the liberal arts are low-earning majors. But they have a really poor sense of the magnitude of the difference. Students should make a list of the majors they're considering and then look at the projected earnings for each. Understanding that won't change a lot of decisions, but they should be aware of the labor market they'll be going into.

**KAITLIN PITSKER**

PHOTOGRAPH BY JEFF WOJTASZEK

EXTRA CREDIT

# CHANGES ARE COMING TO YOUR CREDIT SCORE

FICO's newest model takes a long-term look at how you've managed credit.

**FICO, THE CREDIT-SCORING** giant, is adjusting how it calculates its three-digit key to your creditworthiness. Consumers who have rising levels of credit card and other debt could see their FICO scores take a hit. But if you already have an above-average score, it may get even healthier.

With its new FICO 10 T score, FICO incorporates "trended data," reviewing a consumer's account balances and payment activity on loans and credit cards over the past 24 months. If you steadily pay off debt over time, that has a positive effect on your 10 T score.

Paying the full balance on your credit card each month is also good for your score, says Ted Rossman, of CreditCards.com. Or, if you pay only the minimum amount due for a while and later bump up your monthly payments, that also helps your score, he says.

Plus, certain short-term changes in account activity may not hurt your score as much as they would have in the past. Say that you typically use a small percentage of the credit available to you on a credit card (a low credit-utilization ratio improves your credit score) and pay off the full balance monthly. But then you book a vacation with your card, racking up a big balance and carrying some of it to the following month. The 10 T score views that event as an anomaly, and it may not harm your score as much as it would under previous models. The use of trended data "creates a smoothing effect" over such blips, says Joanne Gaskin, vice president of scores and analytics at FICO.

On the flip side, paying off a big chunk of credit card debt to decrease your credit-utilization ratio—especially if you take out a personal loan to do it—won't likely give your score as quick of a boost as under previous models. And recent late payments may be more heavily penalized.

FICO says that credit card and auto lenders that require a minimum score of 680 (on a scale of 300 to 850) may approve about 6% more applicants under 10 T compared with FICO 8, a model that lenders commonly use now.

Lenders are usually slow to take on new scores, so it could be years until FICO 10 T is broadly adopted. And the fundamental advice to maintain a strong credit score hasn't changed: Pay your bills on time, keep your credit-utilization ratio low and apply for new credit sparingly. **LISA GERSTNER**

## How FICO Scores Have Evolved

Every five years or so, FICO updates its credit-score formula. Each version builds on the previous one. Here are the new features that FICO added to each of its three latest score models.

### FICO 8

- → Released in 2009 and commonly used by lenders today.
- → Using a high percentage of available credit on a credit card is more heavily penalized.
- → A single late payment isn't as detrimental to your score, but numerous delinquencies are more harmful.
- → Collection accounts with original balances of less than $100 are ignored.
- → Becoming an authorized user on a stranger's credit card through "tradeline renting" has little benefit.

### FICO 9

- → Released in 2014 and gaining wider adoption by lenders.
- → Paid-off collection accounts are ignored.
- → Unpaid collection accounts related to medical debt have less of a negative impact.
- → Rental-payment history is considered when included on a credit report.

### FICO 10 T

- → To be released mid to late 2020.
- → Incorporates "trended data," analyzing the past 24 months of balances and payment activity on credit cards and loans.
- → Recent late payments may be penalized more harshly.

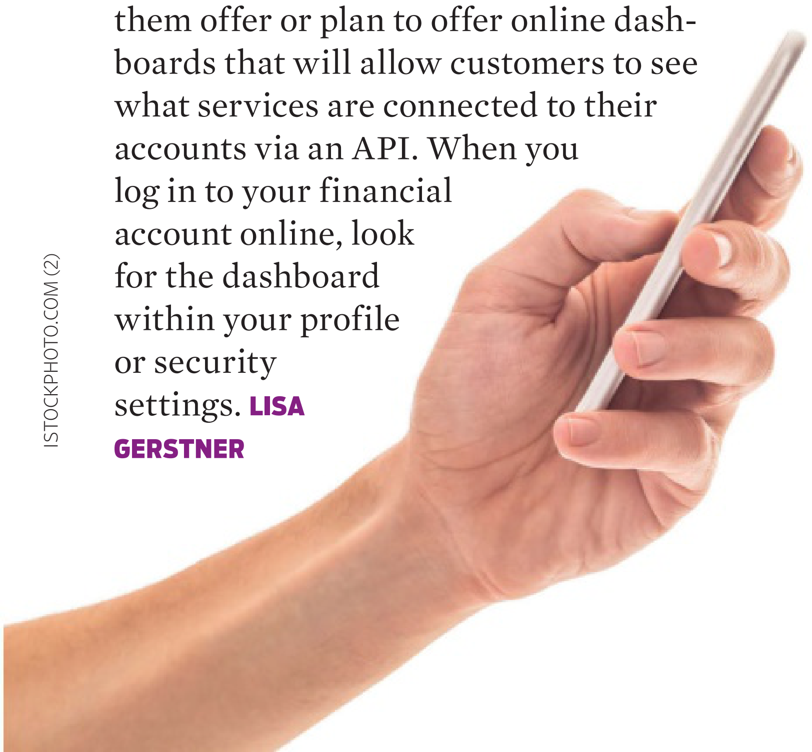
FINANCIAL APPS

# A SAFER WAY TO SHARE YOUR DATA

**WHEN YOU USE A BUDGETING APP, TAX** software or other service that relies on information about your bank and investment accounts, you can typically allow the service to retrieve automatic online updates. But some customers are hesitant to give such programs the user names and passwords to their sensitive financial accounts—and banks aren't keen on the practice, either.

To alleviate those concerns, financial institutions and third-party services are increasingly reaching agreements to share data with application programming interfaces, or APIs. APIs act as dedicated express lanes that allow information to flow more securely between financial entities, says Don Cardinal of industry group Financial Data Exchange. For example, suppose you want to link your Chase bank account to budgeting app Mint. Because Chase has an API relationship with Intuit, Mint's parent company, Mint will redirect you to Chase to enter your bank login credentials rather than have you supply them to Mint. You can also choose which Chase accounts Mint is able to access, which is useful if you want to share information about your credit card but not your savings account.

Other major banks, including Bank of America, U.S. Bank and Wells Fargo, are also developing API agreements. All of them offer or plan to offer online dashboards that will allow customers to see what services are connected to their accounts via an API. When you log in to your financial account online, look for the dashboard within your profile or security settings. **LISA GERSTNER**



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# CALENDAR
04/2020

## WEDNESDAY, APRIL 15
Today is the deadline to file your federal tax return, and the deadline for most states as well. If you need more time to file, you can request an extension until October 15. Just remember that an extension gives you more time to file but doesn't give you more time to pay. If you're racing toward the deadline and can't decide which tax software program to use, see our review of popular programs on page 51.

## SATURDAY, APRIL 18
The National Park Service kicks off National Park Week by waiving all entrance fees for all national parks for the day. To find a park near you and get the lowdown on other National Park Week events, go to www.nps.gov/subjects/npscelebrates/national-park-week.htm.

## ▲ SUNDAY, APRIL 19
Last year, U.S. adults went to public libraries more often than they went to the movies, according to a Gallup poll. Celebrate National Library Week by checking out all your local library has to offer, from coding classes to garden tools. Or peruse your library's offerings by downloading the Libby app, available for Apple and Android devices, or your library's own app.

## WEDNESDAY, APRIL 22
Today marks the 50th anniversary of Earth Day. Turn to page 20 to learn how to make your portfolio greener with our stock, bond and fund picks.

## DEAL OF THE MONTH
**It may still be chilly in some parts of the U.S., but it's not too early for spring clothing sales, according to Julie Ramhold, consumer analyst for DealNews.com. Participating stores will knock 50% to 70% off the price of select spring items, with some priced below $20. Look for the biggest discounts on shorts, dresses and sandals for adults.**

ISTOCKPHOTO.COM (2)

PROFESSIONAL INSIGHTS FROM PERSONAL CAPITAL

# Don't Let Politics and Volatility Distract You From Your Investing Goals

**By Craig Birk,** Chief Investment Officer

So much is going on to sidetrack investors and trigger volatility in the markets. In fact, in a recent *Kiplinger-Personal Capital* survey, respondents identified political deadlock, global trade/tariffs, and geo-political tensions as the top threats to the US economy in 2020.

Throw in an upcoming presidential election, and it's not surprising some investors are nervous despite overall positive trends in the market. According to the survey, they're stockpiling cash (an average of 17% of assets) and a good portion (nearly 4 out of 10) are checking investment accounts weekly or even daily.

But while many remain nervous, others are showing signs of euphoria. And the reality is that long bull markets typically don't end until there is near universal optimism. That is far from the case now.

So, while a downturn is inevitable (and we should never be surprised when one hits), we see no reason the party can't continue through 2020 and beyond. Historically, stocks rise in about 70% of calendar years. Those are tough odds to bet against.

### Staying focused now

That said, 10 years into a bull market is probably not a wise time to get greedy, and trying to predict its future course can lead to costly mistakes. A better step is to make sure you know what you own and to make reasonable assumptions about expected risk and return outcomes.

If nothing else, you should determine if you are on track for your retirement spending goals, how much of your portfolio is in stocks, and how much you have in any given sector. In the last two bear markets, the leading sectors heading in declined 80%. That is unlikely to repeat, but it highlights the risks of sector concentration which most people don't fully appreciate.

You'll also want to establish a checklist or review process for major portfolio changes. The idea is to understand if you are making a change for a rational reason or because something changed in your life versus making decisions based on emotions, such as fear of loss or fear of missing out.

Extreme portfolio changes — both in and out of the market — that are driven by emotion can be a big mistake. Selling in times of fear or piling in on top of a market rally may feel good in the short term but often times can lead to disaster.

For those worried about market declines, it is much better to be in a conservative, diversified portfolio with a lower equity allocation than to sit completely on the sidelines or make a few big bets on isolated stocks.

### And in the long term

A smart move to make is to take a step back and get a holistic view of your financial life. Know where you are in good shape and where you are not. Then identify an asset allocation you think makes sense for the next ten years and stick with it.

Also, at any point, smart investors manage the things over which they have some control. Taxes is one of these. Another is periodically rebalancing by taking profits from what has done best and reallocating them to asset classes that are lagging. This kind of rebalancing has proven to add value over time.

Many times, financial planning actions are more important than investment returns. Make sure you are saving the right amount. And if you're already retired, make sure you're drawing appropriate amounts from the right accounts. Also, almost everyone should have an estate plan in place.

### Keeping your eye on the prize

Ultimately, it's most important to stay grounded. Investors who focus on big-picture retirement goals are less likely to make short-term emotional investment mistakes.

Taking advantage of improvements in technology is another key step. Great tools exist to help you understand and track the level of risk in your portfolio and how it impacts your long-term goals. Personal Capital's holistic tools, for example, are a fantastic way to view the larger picture and avoid piecemeal investing. ■

## The 2020 election: Should you worry?

All presidential elections are emotional, and this year will be more so than usual, no matter who wins. That is likely to lead to an increase in choppiness around the election. But it still doesn't tell us which direction the market will move overall.

Historically, markets have performed well in election years, with the first and second years of a president's term being most volatile. In election years, returns have historically been better when a Republican is elected. But first-year returns are often better with a Democrat.

**Bottom line:** Investors shouldn't get too caught up in which party wins.

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

# BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY.

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## CORONAVIRUS INFECTS THE GLOBAL ECONOMY

Daily updates about the COVID-19 virus are rattling nerves everywhere.

**Brace yourselves.** We could be in for several months of disquiet. The last viral outbreak to originate in Asia, Severe Acute Respiratory Syndrome, or SARS, lasted roughly six months.

**The virus will nip China's economic growth...** S&P Global cut its forecast of 5.7% growth in Chinese gross domestic product to 5%. But the firm cautioned it was less confident in its figures than usual due to continuing uncertainty over the severity of the outbreak. If it drags on, Morgan Stanley analysts expect a cut of as much as 1.1 percentage points in China's growth.

**...and the rest of the world will feel it, too.** China accounts for roughly 20% of worldwide growth, so the global economy will feel a bite, too, S&P said, thanks to "sharply reduced tourism revenues, lower exports of consumer and capital goods, lower commodity prices, and industrial supply-chain disruptions." In the U.S., "economic fundamentals remain sound and the Federal Reserve stands ready to take action," says Capital Group U.S. economist Jared Franz. The virus should not derail his forecast of 2% U.S. growth in 2020, he says.

**Luxury brands are suffering.** In 2019, Chinese shoppers at home and abroad accounted for 33% of the luxury-goods industry, according to Burberry. The British luxury brand warned in February that the virus is causing a "material negative effect on luxury demand," and it temporarily closed 24 of its 64 stores in mainland China. Sales in China account for a large portion of revenue at Tiffany and Nike, too, according to Morgan Stanley.

**Supply chains are disrupted.** Many parts for smartphones and cars are made in China. Qualcomm, a leading smartphone chip maker, warned that the outbreak was causing "significant" uncertainty around smartphone demand and the supplies needed to produce them. Apple warned its March quarter sales would be lower than expected because of a "slower return to normal" production of its smartphones at China's factories. Other companies at risk of supply-chain setbacks include Best Buy, Floor & Décor Holdings, Gap and General Motors, reports Morgan Stanley.

**Travel curbs hurt, too.** Dozens of airlines have reduced their flights to China through March or April, including American, Delta, Lufthansa, Swiss Airlines and United. At the height of SARS, airline passenger volumes were down 35%, according to the International Air Transport Association.

**The good news: Once the pace of contagion slows, the economy should rebound...** SARS was short-lived, and analysts expect the same for the current coronavirus. S&P Global expects China's economy to expand by 6.4% in 2021.

**...and so should hard-hit stocks.** Despite some volatility, the U.S. stock market has continued to rally. As concerns lessen, look for a number of stocks hit hard by the coronavirus to recover, says Morgan Stanley. For example, through mid February, Las Vegas Sands (symbol LVS), which owns and operates three casinos in Macau, had slipped 8% from its January peak. In early February, Macau officials closed all casinos for half a month in an effort to contain the virus.

Stock in Booking Holdings (BKNG), formerly Priceline.com, dropped 5% from its high in early January. The online travel firm has invested heavily in Chinese travel firms, including Trip.com, considered the Expedia of China.

Starbucks (SBUX) has some 4,100 locations in China, its largest market outside of the U.S. In late January, it closed 2,000 stores temporarily. Shares are down 4%.

**17%**

**The average increase in 401(k) balances in 2019, according to a review of 17.3 million accounts by Fidelity Investments. The average balance rose to $112,300 from the end of 2018. The average IRA balance rose by the same percentage, to $115,400.**

## KOBE BRYANT, INVESTOR

Kobe Bryant was among the highest-paid basketball players in NBA history before his 2016 retirement from the Los Angeles Lakers. But before he retired, he decided he wanted to supercharge his fortune and use it to inspire and give back. And the best way to do that, he decided, was as an investor.

In 2013, Bryant cofounded, with entrepreneur Jeff Stibel, a venture capital firm specializing in media and technology. Bryant Stibel, which now has more than $2 billion in assets, got a boost when Coca-Cola took a majority stake in sports-drink maker Bodyarmor; that parlayed Bryant's $6 million investment into more than $200 million. Since then, Bryant Stibel has invested in Epic Games—of Fortnite fame—as well as hot-sauce maker Cholula and Chinese e-commerce giant Alibaba.

Bryant brought the same uber-competitive ethic to everything he did. He recognized the value of teamwork at the investing firm and was especially focused on bringing in—and bringing along—former athletes. When he died in late January, his net worth was an estimated $600 million.

**1.2%**

**Percentage of Americans with a perfect (850) FICO score. Some 20% of Americans have a score between 800 and 850 and 25% have a score between 740 and 799, according to credit bureau Experian.**

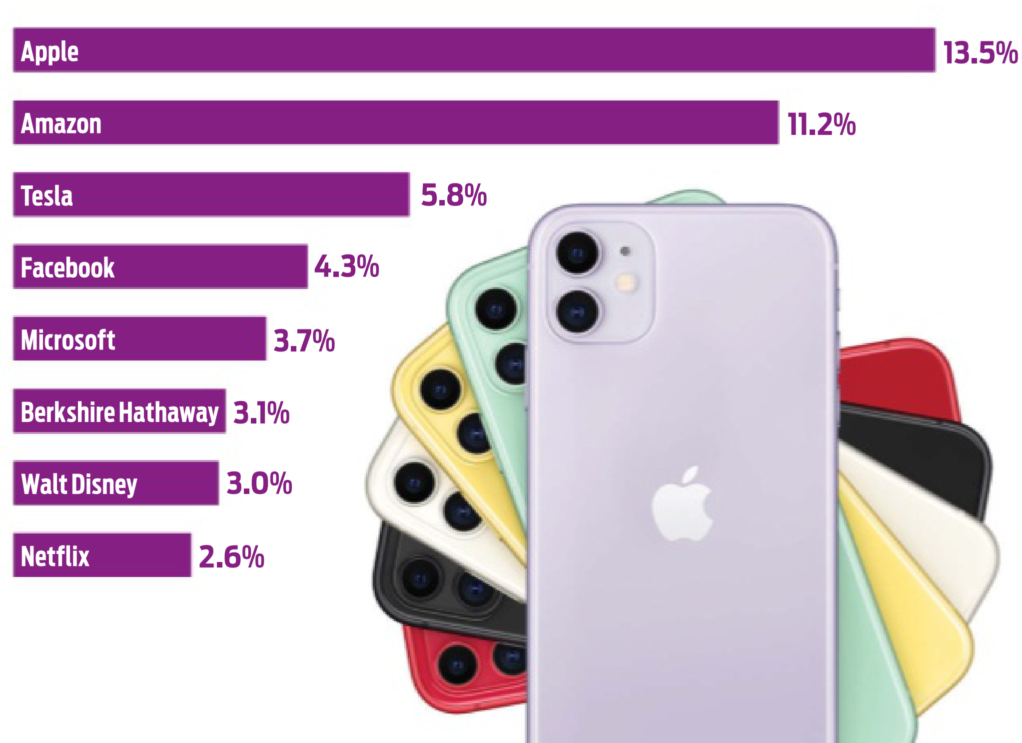
From *The Kiplinger Letter*

## MORE STATES LEGALIZE WEED

More states are legalizing marijuana for medicinal or recreational use...33 for medicinal, 11 for recreational. With 66% of Americans in favor of legal weed for adults, those numbers will continue to grow. N.Y. and N.J. are both likely to okay marijuana for recreational use this year. Momentum is growing in several other states, too: Ariz., Conn., Fla., N.M. and R.I., to name just a few.

## WHAT STOCKS MILLENNIALS WANT

These are the top holdings of U.S. millennial investors, according to the Millennial 100 report by Apex Clearing, a specialist in digital wealth management. Apex Clearing analyzed more than 734,000 portfolios. The average age of investors in the study was just over 31, and the average account size was about $2,300.



# Invest in the Planet

Give your portfolio a greener tint, and make some money, too.

**BY NELLIE S. HUANG and JOHN WAGGONER**

**ILLUSTRATIONS BY TRACI DABERKO**

Part of modern life is worrying about environmental calamity: Millions of tons of garbage in the ocean, dwindling resources, and horrendous natural disasters brought on by rising global temperatures. We all want to save the world, and we all have different thoughts on what the danger is and how to fix it.

But money talks, and these days, the chatter is all about climate change. Investors poured more cash into funds that invest with sustainability in mind in 2019 than in the previous two years combined. The reason? "Climate awareness," says Jon Hale, head of sustainability research at investment research firm Morningstar.

In 2019, the planet recorded its second-warmest year since modern record-keeping began in 1880, according to two independent studies by scientists at NASA and the National Oceanic and Atmospheric Administration (the warmest was 2016). In Australia, extreme heat and high winds fueled gargantuan brush fires that killed at least 24 people and devastated wildlife, with the final economic toll yet to come.

Meanwhile, according to insurance giant Aon, flash floods in the U.S., China, India and Iran accounted for some of the priciest disasters in 2019, tallying combined losses of $53 billion. All told, 2019 closed the costliest decade for natural catastrophes yet. Earthquakes, tsunamis, tropical cyclones, flooding, wildfires, droughts and extreme temperatures contributed to $2.98 trillion in economic damages and losses, $1.1 trillion more than in the previous decade.

Those costs will keep rising and could impede the rate of economic growth in this century unless we grapple with climate change now, says the U.S Global Change Research Program, a congressionally mandated group. Certainly, more investors are addressing the issue through their portfolios. "Call it a tipping point if you want, but concern about climate change is top of mind for all investors," says Morningstar's Hale.

BlackRock, the world's biggest money manager, recently announced that it would integrate sustainable investing principles and processes into every part of its business, including how it invests clients' money. "Climate change has become a defining factor in companies' long-term prospects" because "climate risk is investment risk," BlackRock chief executive Larry Fink wrote in his annual letter to CEOs in January.

We've highlighted six stocks, 10 stock funds and three bond portfolios on the pages that follow. The companies underlying these investments address some of the world's thorniest environmental challenges and are prospering by doing so. They should put some green in your portfolio, too. Returns and other data in these stories are through January 31.

# 6 Green Stocks

These companies prosper by addressing environmental challenges.

Sustainable investing hasn't just arrived; it's fast becoming a bedrock principle. We looked for companies that are taking up the sustainability challenge and found some that are addressing pressing environmental problems—too much trash, scarce resources and increasingly intractable weather woes.

Some of these firms have had sustainability at the core of their business long before it was a buzzword. Our six picks range from tiny, more-speculative firms whose success depends on their environmentally focused operations, to large, dependable firms that are giving at least part of their business a greener tint.

## TACKLING WASTE

The world's 7.5 billion people are contributing to an enormously untidy planet—not due just to trash and plastic but food waste, too. The world wastes about one-third of the food it produces—roughly 130 billion tons a year. That's about 200 to 250 pounds per person, according to the Food and Agriculture Organization of the United Nations.

We'd like to think that those billions of pounds of food waste compost nicely back into the soil, but that's not always so. In 2017, a mass of congealed fat and waste in Baltimore—dubbed a fatberg—caused the spillage of 1.2 million gallons of sewage into Jones Falls, which empties into Baltimore Harbor. That same year in London, a 140-ton fatberg blocked city sewers.

**DARLING INGREDIENTS** (SYMBOL DAR, $27), which began its life as a Texas rendering company in the 19th century, collects food waste and various animal by-products and transforms it all into more useful things for customers in the food, animal feed and fuel industries, among others.

For example, Darling's Bakery Feeds division takes leftover bakery products—bread, dough, pasta, crackers, cereal, bagels, sweet goods and snack chips—and turns it into high-energy animal feed. Its Diamond Green Diesel unit takes animal fat, used cooking oil and distiller's oils and turns it into diesel fuel.

That renewable-diesel business is on track to produce 1.1 billion gallons by 2024, up from 275 million currently, according to analysts at investment firm Baird, who named Darling stock a "top pick" for 2020.

In December, President Trump signed into law an extension of the biodiesel tax credit through 2022 (retroactive to 2018), and that provided the company with a big slug of the capital needed for future expansion. In the meantime, trends for the company's other core businesses remain favorable, according to Baird analysts, who believe the stock can trade at $35 a share over the next 12 months, a nearly 30% increase from its recent close.

**WASTE MANAGEMENT** (WM, $122), another Texas company, is a less speculative play on the world's growing mountain of trash. With a market capitalization of $52 billion, the firm is the largest trash collector (and disposer) in North America. It owns 252 solid waste landfills, 132 recycling facilities and 314 transfer stations, which consolidate, compact and transport waste to landfills.

Waste Management's Renewable Energy division uses gas from decomposing waste to generate electricity, which it then sells to utilities. The company has about 7,600 trucks powered by natural gas, and one-third of those run on natural gas reclaimed from the company's landfills.

Waste Management has an impressive dividend history, increasing its payout every year for the past 16 years. The most recent hike pushed the annual dividend from $2.05 to $2.18, giving the stock a yield of 1.8%. Furthermore, the company has a strong record of beating Wall Street's

earnings estimates, according to Zacks Investment Research.

We should note that Waste Management has plenty of competition. Nor is the stock cheap. The shares trade at 26 times expected 2020 earnings, compared with a multiple of 18 for Standard & Poor's 500-stock index. Waste Management is a good defensive stock in a market decline, however—even in a recession, people have to take out the trash.

## DELIVERING ALTERNATIVE ENERGY

If you want wind power, you need a windmill, and the most important part of a windmill is its propeller. **TPI COMPOSITES** (TPIC, $21) makes propellers for the wind industry that are strong, light and very, very large. A typical wind blade is about 130 to 145 feet long, although TPI has produced blades 230 feet long, which is longer than the wingspan of a long-haul jet.

TPI Composites has about 13% of the global wind propeller market, says Jonathan Waghorn, comanager of the Guinness Atkinson Alternative Energy Fund, and that market is growing rapidly. Newer turbines can be profitable to run in areas where the wind speed is as low as seven miles per hour (turbines needed 13 mph winds just a few years ago). TPI is also entering the fast-growing electric vehicle market, making light, high-strength electric bus bodies.

The small company, whose market value is less than $800 million, is expected to report a loss of a few cents a share for 2019, and the stock has been volatile. But TPI has spent heavily on new facilities, and 2020 could be a solid year. "The company is positioning itself for growth ahead," Waghorn says.

That said, TPI is a small, emerging growth company, and such firms entail considerable risks. For one, the company has a meaningful presence in Turkey, where relations with the U.S. have been deteriorating, notes Value Line analyst James Flood. But TPI is roughly 36% off it's 52-week high, and analysts who follow the stock give it a 12-month target price of just over $25 a share, on average.

**FIRST SOLAR** (FSLR, $50) is one of the brightest lights in the photovoltaic solar energy industry. And in the volatile world of solar stocks, it's probably the safest bet. "It's the ExxonMobil of solar," says fund manager Waghorn, whose fund owns the stock.

Solar power installations have grown at a 50% average annual pace over the past decade, although growth has slowed. Meanwhile, the price of a residential solar installation has fallen 70% over the past 10 years, thanks in part to cheap solar panels made in China. (President Trump slapped a 30% tariff on Chinese solar panels in January 2018, set to decrease to 15% in 2021, although many manufacturers, including First Solar, have shifted production to other countries.)

First Solar has rolled out a new line of solar panels, called Series 6, which it makes at four factories in the United States, Malaysia and Vietnam. The firm's proprietary, thin-film semiconductor technology has helped keep costs down—a key consideration in a highly deflationary industry.

The stock logged a 2% loss over the past year, a return that masks some big ups and downs along the way. But the company has a huge backlog of new orders, and the shares are reasonably priced, according to investment research firm Morningstar, which calculates a fair value for the stock of $62 a share. Wall Street analysts expect the company to report profits of $3.58 a share in 2020, giving the shares a price-earnings ratio of just under 14.

## COMBATING CLIMATE CHANGE

No matter what your views are on climate change, there's no arguing that weather patterns are changing. Farming, which has never been easy, bears the brunt of weather extremes.

Boosting crop yields with more fertilizer is one way to address increasing weather woes. **NUTRIEN** (NTR, $43), a Canadian firm whose stock trades on the New York Stock Exchange, is the world's largest fertilizer company. Although the company isn't small—its market value is nearly $25 billion—it's a somewhat new entity. Nutrien was formed in 2018 through the merger of Potash Corp. of Saskatchewan and Agrium Corp.

The company weathered a challenging year in 2019, marked by the worst U.S. planting season in over a decade (thanks to heavy rains and flooding) and trade wars that cut U.S. soybean exports to China.

Although Nutrien produces crop nutrients, more than half of annual sales come from its retail division, with more than 1,700 locations that sell seeds, fertilizer and other merchandise directly to farmers. The firm says it has some 3,500 agronomists and experts working with growers to reduce the environmental impact of fertilizers while boosting crop yields sustainably.

Analysts expect profits of $2.84 per share in 2020, giving the shares a P/E of just 15 times year-ahead earnings. The stock, trading near a 52-week low, is rated "buy" by investment firm CFRA. The shares sport a robust dividend yield of nearly 4%.

## KEEPING THE WATER FLOWING

Just about everything on the planet needs water. Fresh water accounts for just 2.5% of the Earth's water, and we're not getting any more of it, despite the world's increasing population. **XYLEM** (XYL, $82) provides equipment and services that address the full water cycle, from collection to distribution and use, to the return of water to the environment.

The company operates in three segments, primarily in the U.S. and in emerging markets. Water Infrastructure focuses on the transportation, testing and treatment of water. The Applied Water segment makes pumps, valves, heat exchangers and dispensing equipment. Measurement & Control Solutions helps companies use water wisely.

Xylem said in November that demand from industrial end users, such as oil and gas companies and mining firms, had softened, clouding the stock's short-term outlook. But its remaining operations are doing well—in particular with utilities, which represent roughly 50% of revenues, according to analyst Michael Gaugler at investment firm Janney Montgomery Scott. He recommends the stock for patient investors.

Over the long haul, Xylem should benefit as utilities continue to adopt smart metering, sophisticated data analytics and other cost-saving services and equipment. Moreover, according to ValueLine analysts, the U.S. is in the early stages of what will be a significant cycle of upgrades for water infrastructure, while emerging markets also continue to modernize.

Investors should note that Xylem is sensitive to U.S.–China relations, and that foreign currency fluctuations can impact profits. For now, the company's healthy balance sheet and free cash flow are a plus. For investors with a long-term view, Xylem may be a cool drink of water.

**Go for the Green**

## PLANET-FRIENDLY STOCK CHOICES

**Invest in the companies below—which collectively harness the power of the sun, wind and waste; conserve water; and boost food production—to give your portfolio a sustainable edge.**

| Fund | Symbol | Price | 1-year return | Market cap (billions) | P/E* | Company info |
|---|---|---|---|---|---|---|
| **Darling Ingredients** | DAR | $27 | 27.6% | $4.4 | 15 | Produces sustainable ingredients for food and fuel |
| **First Solar** | FSLR | 50 | –2.0 | 5.2 | 14 | Designs and makes solar power systems |
| **Nutrien** | NTR | 43 | –14.2 | 24.5 | 15 | Makes and sells crop nutrients to boost production |
| **TPI Composites** | TPIC | 21 | –31.6 | 0.75 | 20 | Manufactures blades for the wind power industry |
| **Waste Management** | WM | 122 | 29.4 | 51.6 | 26 | Recycles and disposes waste |
| **Xylem** | XYL | 82 | 15.9 | 14.7 | 25 | Provides water and wastewater applications |
| **S&P 500** | | | **21.7%** | | **18** | |

As of January 31. *Based on estimated earnings for 2020. SOURCES: Yahoo Finance, Morningstar Inc., Refinitiv.

# Sustainable Income

Green bonds are making an impact on the environment.

Money is flooding into so-called green bonds, debt that raises cash exclusively to pay for environmentally friendly activities and projects. It's a young market, just over 10 years old. But growth has accelerated in recent years in part because of a set of best-practice principles developed in 2014 by the International Capital Markets Association.

The green bond principles laid out what issuers need to do to issue a green bond, what kinds of projects are eligible, and what, when and how results need to be reported (the bonds are supposed to have a measurable impact). "It's about transparency, reporting and what the bond is financing," says William Sokol, a VanEck product manager. "Investors know they're financing green projects, but they're not taking on any extra risk compared with a non-green bond from the same issuer."

A record $271 billion in green bonds was issued in 2019 by corporations, financial agencies and sovereign nations (or nation-groups, such as the European Union), pushing the outstanding market of debt that is labeled green to nearly $1 trillion. Citi offered its first green bond in 2019, a $1.1 billion issue to finance environmental strategies such as wind energy projects, a solar company initial public offering, and loans to build affordable housing that is LEED-certified—a globally recognized eco-friendly building certification system. Fannie Mae has issued green bonds to pay for projects to make multifamily developments more energy efficient.

Adherence to the green bond principles is voluntary for bond issuers. But the market can act as a regulator. If a firm issues a green bond that investors decide isn't eco-friendly enough, fewer buyers will step up.

That's what happened to Teekay Shuttle Tankers, a subsidiary of Teekay Offshore, in 2019. The Bermuda-based owner and operator of ships that transport oil from offshore drilling sites had planned to issue $150 million to $200 million to build four energy-efficient tankers, but many buyers balked. "It was viewed as enabling a dependence on fossil fuels, which is what we're trying to get away from," says Sokol. In the end, the firm issued just $125 million in green bonds.

Because green bonds have a short history, many of the funds that focus on this niche are new, too. **ISHARES GLOBAL GREEN BOND** (SYMBOL BGRN, PRICE $55, EXPENSE RATIO 0.25%) opened in 2018. The exchange-traded fund invests in investment-grade sovereign and government-related debt, corporate bonds, and securitized IOUs denominated in local currencies in countries around the world. The fund hedges against currency swings. And all bonds in the fund are either branded "green" or meet standards set by financial firm MSCI for environmentally minded bonds. The ETF's 0.78% yield is underwhelming, but it's no less than a traditional global bond fund would yield, as measured by the Bloomberg Barclays Global Aggregate hedged index.

**VANECK VECTORS GREEN BOND** (GRNB, $27, 0.20%), launched in 2017, yields a more robust 2.40%. One of the ETF's top holdings, a Boston Properties bond, financed the construction of Salesforce Tower in San Francisco, a platinum-certified LEED building that features geothermal cooling, wind power generated by four wind turbines, and a water-recycling system that saves more than 7.8 million gallons of water every year.

**TIAA-CREF GREEN BOND** (TGROX, EXPENSE RATIO 0.80%) launched in 2018. But lead manager Stephen Liberatore has been picking socially and environmentally oriented bonds for more than a decade. He and Jessica Zarzycki invest mostly in high-quality, dollar-denominated bonds that deliver a direct and measurable environmental impact, using a framework that Liberatore created with his team in 2007. "We focus on transparency and disclosure," he says.

The fund's investments fit one of two broad themes: climate change and renewable energy, or natural resources. In its latest impact report, Nuveen's TIAA-CREF stated that the fund's $25 billion in investments have powered 71.7 million homes for one year with renewable energy and saved nearly 5 billion gallons of water, enough to fill more than 7,300 Olympic-size swimming pools, among other measures. The fund yields 2.21%.

# 3 Shades of Green Funds

These funds and ETFs take varying approaches to sustainable investing.

Sustainable investing, sometimes called ESG for the environmental, social and governance criteria that define the investing style, has taken the fund world by storm. But it's not always possible to isolate the *E* from the *S* and *G,* and strategies vary, too. Some portfolios are defined by what they don't own—firms that derive most revenues from fossil fuels, say. Others concentrate on innovative firms that are making the planet greener, such as renewable-energy companies.

The 10 mutual funds and exchange-traded funds highlighted below have at least a partial focus on the environment. We've organized them into three groups that define different approaches: Thematic ETFs that zero in on climate change exclusively; diversified funds that have a sustainable bent; and actively managed funds that hew to an ESG-oriented investment process and get high marks for environmentally friendly portfolios—whether that's their stated aim or not. Which tack you take will depend on how passionate you are about battling climate change as well as how much risk you want to take.

## A LASER FOCUS ON CLIMATE

The advantage of investing in climate change in a focused way is that you can take precise aim at an issue. But the risk is higher, too. These funds aren't diversified, so don't expect them to perform in line with the broad market. They're best used as satellite positions in a diversified portfolio, not as core holdings.

If alternative energy is your thing, consider **INVESCO WILDERHILL CLEAN ENERGY ETF** (SYMBOL PBW, PRICE $36, EXPENSE RATIO 0.70%), which invests in firms that focus on green and renewable energy sources—wind, solar, hydro, geothermal and biofuel—and in technologies that facilitate cleaner energy. California-based Bloom Energy is a top-10 holding. It makes solid oxide fuel cells, which produce clean and affordable electricity by way of a chemical reaction.

The fund holds some foreign stocks, too. Nio is a Shanghai-based maker of luxury electric vehicles. Its ES6 model, a sporty SUV, can go more than 315 miles on a full charge.

WilderHill Clean Energy has a horrible 10-year record, but its 9.9% five-year annualized return is promising. Invesco's Jason Bloom, head of global macro ETF strategy, says the returns are in part a reflection of the sector's rough early days. "The market was right about the growth in clean energy. What it missed was how difficult it would be in the early stages to make money," he says. But volatile results are also a sign of the risk that comes with investing in thematic funds. Year to year, the ride can be extremely rough. In 2018, the fund lost 14.1%. The next year, it gained 62.6%.

WilderHill Clean Energy spreads its bets across a range of alternative energies, as opposed to only solar or wind energy, say. That's good from a long-term perspective. "No one knows which alternative-energy technology will win today, so don't pick just one," says Bloom.

Or, you could cover your bets with a couple of funds. **INVESCO SOLAR ETF** (TAN, $32, 0.71%) focuses on solar power. Its top holding is SolarEdge Technologies, an Israel-based firm that makes panels that harness the sun's energy. **FIRST TRUST GLOBAL WIND ENERGY** (FAN, $15 , 0.60%) invests, as you might guess, in wind energy. Vestas Wind Systems, a Danish maker of wind turbines, is a top holding. These ETFs

10 Picks

### CLIMATE-MINDED FUNDS

Choose among the funds below, balancing between your desire to battle climate change and your need for a diversified portfolio.

| Fund (symbol) | Annual returns 1 year | Annual returns 3 year | Exp. ratio |
|---|---|---|---|
| **Artisan Mid Cap** (ARTMX) | 27.4% | 16.3% | 1.19% |
| **Dodge & Cox Stock** (DODGX) | 11.3 | 9.1 | 0.52 |
| **Green Century Balanced** (GCBLX) | 14.4 | 9.5 | 1.48 |
| **First Trust Global Wind Energy ETF** (FAN) | 18.9 | 9.6 | 0.60 |
| **Invesco Solar ETF** (TAN) | 39.3 | 24.3 | 0.71 |
| **Invesco WilderHill Clean Energy ETF** (PBW) | 42.9 | 26.2 | 0.70 |
| **iShares MSCI ACWI Low Carbon Tgt. ETF** (CRBN) | 17.3 | 11.4 | 0.20 |
| **SPDR MSCI EAFE Fossil Fuel Rsv. Free ETF** (EFAX) | 13.4 | 7.7 | 0.20 |
| **SPDR S&P 500 Fossil Fuel Rsv. Free ETF** (SPYX) | 22.6 | 15.1 | 0.20 |
| **VanEck Vectors Envir. Svcs. ETF** (EVX) | 16.0 | 12.8 | 0.55 |
| **Indexes** | | | |
| S&P 500-STOCK INDEX | **21.7%** | **14.5%** | |
| MSCI ALL COUNTRY WORLD INDEX | **16.0** | **11.0** | |
| MSCI EAFE INDEX | **12.1** | **7.8** | |

As of January 31. SOURCE: Morningstar Inc.

track global indexes and own U.S. and foreign stocks.

**VANECK VECTORS ENVIRONMENTAL SERVICES** (EVX, $106, 0.55%) isn't as single-minded as other ETFs in this group. But dealing with a lot of trash is a recurrent theme. It holds shares in waste collection companies, recycling firms, and soil remediation and environmental consulting services.

Waste Management and Darling Industries (see page 22) are two of the 25 stocks in the portfolio. So are Evoqua Water Technologies, which boosts municipal water quality and industrial firms, and Clean Harbors, which provides, among other things, hazardous-waste disposal services.

The fund has only $38 million in assets—less than we'd like. But it has returned 12.6%, on average, over the past five years, in step with the 12.4% gain in Standard & Poor's 500-stock index.

## INDEX FUNDS WITH AN ENVIRONMENTAL TILT

Who says you can't have it all? These three ETFs attack certain climate change problems and deliver market-like returns. The catch is that the underlying holdings may not be as vigorously climate conscious as some investors want.

**ISHARES MSCI ACWI LOW CARBON TARGET ETF** (CRBN, $128, 0.20%) gives greater play to companies with lower carbon emissions. But the strategy is executed with the parent index in mind, in this case the MSCI All Country World index. The fund's country and sector exposures stay within range of those of the index. The ETF and index have similar top holdings: Apple, Microsoft and Facebook. Its top country exposures are alike, too: U.S., Japan and the U.K.

But not everything is matchy-matchy. Tech, health care and industrial firms figure more prominently in Low Carbon Target than in the index. And energy stocks get less play in the ETF than in the index. All of which goes some way to explain why the fund outpaced the ACWI index over the past one, three and five years.

A depressed energy sector has benefited funds that avoid firms with fossil fuel reserves. The 15.1% annualized three-year return of **SPDR S&P 500 FOSSIL FUEL RESERVES FREE ETF** (SPYX, $79, 0.20%) beats that of the S&P 500. The fund essentially holds all of the companies in the S&P 500 except those with fossil fuel or thermal coal reserves. ExxonMobil and Chevron, for instance, are out. But there are inconsistencies. For instance, Phillips 66 is among the ETF's holdings. Perhaps it doesn't have the kind of reserves required to merit exclusion from the fund, but it owns 13 refineries with a net capacity of 2.2 million barrels of crude oil a day.

Investors seeking international exposure should consider **SPDR MSCI EAFE FOSSIL FUEL RESERVES FREE ETF** (EFAX, $71, 0.30%). It holds stocks in large and midsize companies, none of which own oil, gas or coal reserves that would be used for energy, in 21 developed countries. Over the past three years, the fund has returned 7.7% annualized, in line with the MSCI EAFE broad market index of foreign stocks in developed countries. Plus, it yields 3.0%.

## STOCK PICKING THAT SKEWS GREEN

Investing with all ESG factors in mind can be like a game of Whack-A-Mole. A firm with good scores on environmental measures, such as low carbon emissions, might have a bad mark on governance measures, such as a board that lacks diversity. "There are trade-offs," says Joel Schneider, deputy head of portfolio management at Dimensional Fund Advisors. "You have to look company by company." That's why the task is sometimes best left to the pros.

**GREEN CENTURY BALANCED** (GCBLX, 1.48%) has a very green pedigree. The fund firm, Green Century Capital Management, and subadviser Trillium Asset Management have invested sustainably for decades. And all profits from Green Century funds—two index funds and Balanced—go to a group of environmental and public health nonprofits.

A trio of managers pick the stocks and bonds for Balanced with a variety of ESG factors in mind. They are active shareholders, too, says comanager Cheryl Smith, often working with companies to improve business practices across a range of issues, from CEO pay to boardroom diversity to deforestation.

Tech companies such as Apple, Microsoft and Amazon.com are top stock holdings. The fund won't invest in firms that make

products that essentially harm or kill people, such as cigarettes or weapons, says Smith. The bond side of the portfolio, about 35% of assets, is filled with green or sustainable bonds and community-impact bonds (see the box on page 26). One holding, a Starbucks IOU, pays to train farmers in sustainable farming practices in places including Colombia, Ethiopia and Rwanda.

Investors haven't had to sacrifice returns to do good with this fund. Over the past one-, three-, five- and 10-year periods, Green Balanced has outpaced two-thirds or more of its peers (funds that invest 50% to 70% of assets in stocks).

**ARTISAN MID CAP** (ARTMX, 1.19%) has an ESG focus, according to investment research firm Morningstar. But the fund doesn't sell itself that way. It's just managed by nitty-gritty analysts who pick good companies that happen to give the portfolio a greenish tint.

Four managers look for midsize to large firms with an innovative product or service that fits an emerging customer need. That tilts the fund toward businesses that are big on intellectual property (think medicine and software), rather than businesses that are dependent on natural resources, which helps to explain the fund's high *E* marks, says comanager Matt Kamm. For example, Atlassian, a "green tech" firm and a top holding in the fund, builds a cloud-based software system that helps business teams collaborate to create apps, among other things. The fund's 10-year annualized return, 14.8%, beats the S&P 500 by an average of 0.8 percentage point per year.

**DODGE & COX STOCK** (DODGX, 0.52%), a member of the Kiplinger 25, the list of our favorite no-load funds, is another mutual fund that doesn't have to be labeled green to be environmentally friendly. Based on the good environmental qualities of the stocks it holds, the fund earns an exceptionally high *E* score from Morningstar, compared with its peers. The score puts the fund among the top 5% of all funds that invest in large value-priced companies, according to Morningstar.

Ten comanagers consider ESG measures in each phase of their investment research and decision-making processes. But rather than having hard-and-fast rules, they "assess ESG factors, among many others, that may be a key opportunity or risk for a company," says Bryan Cameron, the firm's director of research. The managers might, for example, invest in a company that has a significant ESG challenge if they believe the stock is depressed as a result of the issue and the company is taking positive steps to address it.

Value stocks have trailed the broad market in recent years. But Stock's 10-year annualized return of 12.5% is impressive on an absolute basis, even if it lags the S&P 500 by an average of 1.5 percentage points per year. ■

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

**The Raters**

# WHO DECIDES WHAT'S GREEN?

Before you can build a green portfolio, you must first identify a universe of environmentally friendly investments. There are principles for green-bond issuers to follow, though doing so is voluntary. But who decides which stocks are green? You (or your fund manager) will have to rely on data from an environmental, social and governance (ESG) ratings provider. And for investors looking to do good, minimize risk and maximize returns, that's where green can get a little muddy.

**ESG ratings.** Some 70 firms provide some form of ESG stock ratings, say researchers at investment firm Research Affiliates. Of the $30 trillion invested globally in investment strategies that incorporate ESG data, the majority is in funds that use ratings from one of a handful of agencies, including MSCI, RobecoSAM (recently acquired by financial research firm S&P Global) and Sustainalytics (partially owned by Morningstar). But even among a small cohort of major players, there isn't much agreement. Researchers at the Massachusetts Institute of Technology compared the ratings from five agencies and found an average correlation of just 61%. Ratings at the three major bond credit-rating agencies, by contrast, are 99% correlated.

The assessments of the arbiters of green can diverge because of differences in the factors deemed important, such as whether an environmental score should include greenhouse gas emissions. Firms may also assign varying levels of importance to the same criteria—so greenhouse gas emissions may be 10% of one firm's *E* score and 20% of another's. The biggest gaps come from raters using different metrics to assess the same attribute. For example, one rater might credit a firm for rolling out plans to reduce emissions, while another may tabulate total emissions along a company's supply chain.

**Two sides of Facebook.** To illustrate the difference in ratings, Research Affiliates examined environmental ratings from two different agencies for the same company: Facebook. One agency assigns 33% of its score to "Minimizing Environmental Impacts of Energy Use," a measure that roughly corresponds to the second rater's "Carbon Intensity," which receives only a 3.3% weighting. As a result of this discrepancy and others, one agency identifies Facebook as an environmental leader while the other indicates that it's below average.

You're unlikely to find a granular breakdown of how a given ratings provider scores companies, says Morningstar investor education director Karen Wallace. Your broker might have some details. Fidelity customers, for example, can access MSCI reports that break down the scoring between *E*, *S* and *G* and list recent company controversies. Morningstar relies on data from Sustainalytics for the ESG scores, carbon risk ratings and fossil fuel exposure statistics for mutual funds, found on Morningstar.com. ESG ratings are a jumping-off point for your own research, says Wallace. Delve into prospectuses or annual reports (these days, many firms also publish sustainability reports) to see if an investment aligns with your values. **RYAN ERMEY**

STOCKS

# What Kills Bull Markets

We don't think this record run is over yet— but we're watching these signs. BY RYAN ERMEY

**THE CURRENT BULL MARKET IS** the longest in history, but it has had some scrapes along the way. Some, such as the August 2015 "flash crash" in exchange-traded funds, were mere flesh wounds. Others, such as the late-2018 sell-off driven by concerns over rising interest rates and a U.S. trade war with China, drew serious blood. Standard & Poor's 500-stock index slid 19.3%—just a hair above bear-market territory (generally defined as a 20% decline from a market's peak).

"If it bleeds, we can kill it," Arnold Schwarzenegger once noted. Okay, that's not accepted Wall Street wisdom, it's a line from the movie *Predator,* but the point stands. The bull market is mortal. Just because it has survived every challenge to date doesn't mean that investors shouldn't keep an eye on where things stand compared with conditions that have led to the demise of bulls past. Overall, the bull doesn't appear to be in immediate danger, but the following factors are worth watching.

## THE ECONOMY

"Bull markets don't die of old age. They die from fright," says Sam Stovall, chief investment strategist at research firm CFRA. What investors fear is recession—a prolonged period of negative economic growth. About two-thirds of bear markets occur alongside recessions, with the market peak tending to precede the recession by six to nine months. Because consumer spending accounts for some 70% of U.S. economic growth, negative trends for consumers signal trouble, says Stovall. Consumer confidence tends to post year-over-year declines in the run-up to recession; housing starts have logged a double-digit decline from the previous year's levels within three months of every recession since 1960.

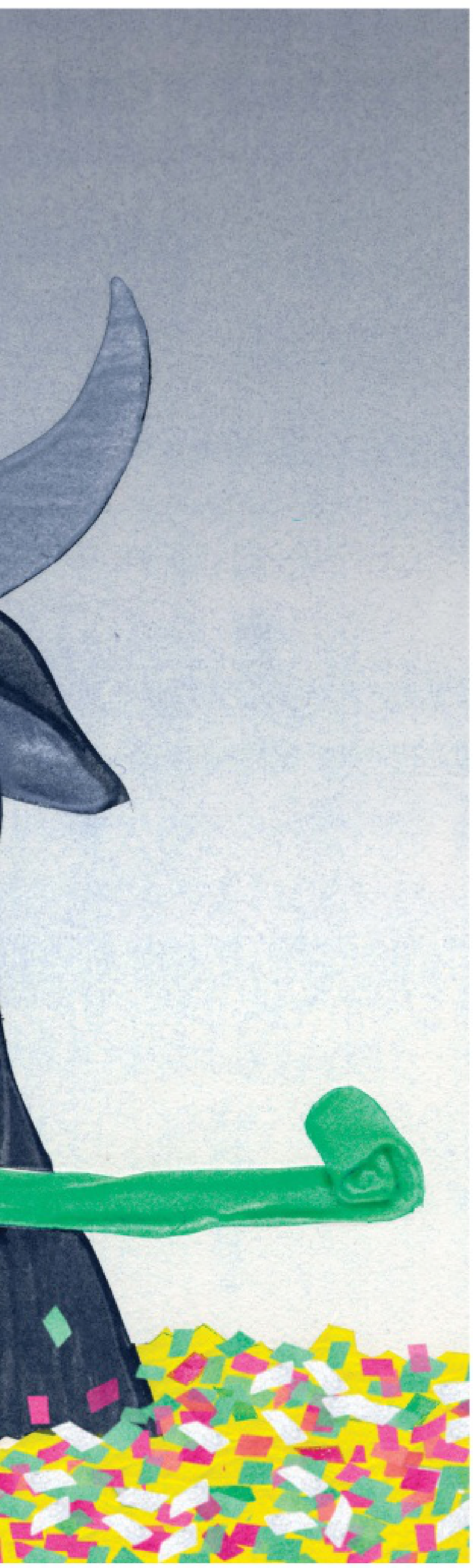
➜ **Today:** Those aren't the only two recession indicators, of course, but they are two that point to current economic health. Consumer confidence rose 7.6% in February over the same month a year ago, according to the University of Michigan Survey of Consumers. Housing starts are solidly up from the previous year's levels in the early going in 2020.

## INFLATION AND THE FED

A worrisome sign for an aging bull: inflation, which erodes consumer buying

ALEX NABAUM

power and whittles the value of financial assets. In the early 1970s, when the oil crisis shot energy prices sky-high, the prices consumers paid for goods soared by double-digit percentages, fueling a bear-market loss of 48.2% in the S&P 500 between January 1973 and October 1974.



Back then, the Federal Reserve hiked short-term interest rates in an attempt to tame inflation. But high rates also drive investors out of stocks and into higher-yielding fixed income investments that offer juicy returns with far less volatility than stocks. From late 1980 through mid 1982, with the Fed's benchmark short-term interest rate at one time eclipsing 20%, the S&P 500 fell by 27.1%.

➜ **Today:** Inflation can't seem to gain ground. Growth in the Consumer Price Index, a measure of consumer buying power, has hovered around a 2% rate since 2016. Kiplinger expects prices to rise at that rate in 2020, down from 2.3% in 2019. A sharp acceleration in the inflation rate, even to 3%, could force the Fed to bump up interest rates and should put investors on notice, says Doug Ramsey, chief investment officer at investment firm The Leuthold Group. Kiplinger expects the Fed to stand pat on rates for now, following a series of hikes in 2018 and three subsequent cuts in 2019.

## GLOBAL SHOCKS

Events that roil citizens have been known to roil markets as well. Investor anxiety over U.S. Cold War provocations in Cuba was at least partly responsible for the "Kennedy slide" in the stock market between late 1961 and early 1962, which saw the S&P 500 decline 28%. And much of the 19.9% broad market decline (practically a bear) in 1990 came shortly after President Bush said that Iraq's invasion of Kuwait "cannot stand."

➜ **Today:** Saber-rattling has dinged the market here and there in recent years, though the dip this past January following the U.S. strike on a prominent Iranian military leader barely registered: Stocks fell by only 0.7% and recovered in a week. In fact, the shocks from military provocations tend to be short-lived, says Stovall. Following 21 such events, going back to the attack on Pearl Harbor, the market has bounced back fully within 45 calendar days, on average.

A more pressing concern is the coronavirus outbreak, which has claimed thousands of lives and thrown a wrench into the Chinese economy and businesses that operate there. If it reaches the level of a global pandemic, the resulting slowdowns in production and consumer demand could cripple global economic growth, says Mike Ryan, investing chief at financial services firm UBS. But if it plays out the way recent outbreaks have, the market won't stay under the weather for long. In the 30 days following the first U.S. case in each major outbreak since 2003, the S&P 500 has posted positive returns, according to CFRA.

## OVERVALUATION

Stocks trading expensively relative to corporate measures such as earnings, sales or cash flow tend to revert to their historical mean. That isn't to say that stocks trading at high prices are imminently headed for a bear market, but the more inflated a bubble gets, the more likely it is to pop. By the turn of the millennium, for example, investors had bid the prices of technology stocks through the roof. In March 2000, the median tech stock in the S&P 500 traded at 79 times earnings over the previous 12 months, and many prominent online firms sported no earnings at all. When the firms failed to live up to their phony fundamentals, the tech sector crashed, dragging the broad market along with it to the tune of a 49% loss.

➜ **Today:** By many measures, stocks are expensive. Stocks in the S&P 500 trade at just over 18 times estimated year-ahead earnings, compared with an average multiple of 16.7 over the past five years and nearly 15 over the past decade. Large-company tech stocks are once again leading the charge, trading at a premium P/E of 22, on average. But that doesn't come close to the stratospheric levels seen in the last tech wreck, and the likes of Apple and Microsoft are established firms with a track record of profitability.

Investors should put valuations in economic context, says UBS's Ryan. At the currently low levels of inflation and unemployment, Ryan would expect stocks to trade between 18 and 22 times year-ahead earnings. "We don't think the market is cheap, but it's definitely not overvalued," he says. ■

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STREET SMART | James K. Glassman

# Don't Give Up on Energy Stocks

Value hunters, who buy what other investors shun, are facing a tough decision these days. Although the rest of the market has been surging, energy stocks have collapsed. Is oil over? Or is this an incredible buying opportunity, like technology shares in 2002 or practically anything in 2009?

I'm an opportunist. But the extent of the carnage in the energy sector is important to understand. Most energy stocks are tied to the price of petroleum. In June 2014, West Texas Intermediate, the North American crude oil benchmark, was $107 a barrel. At the end of 2019, it was just $51 and change. Natural gas dropped over the same period, from $4.79 per thousand cubic feet to $1.84.

That is the main reason McDermott International, the venerable provider of oil and gas construction services (founded in 1923), filed for Chapter 11 bankruptcy in January of this year. The stock, which traded as high as $26 at the start of 2018, closed at 70 cents on January 21, when trading on the New York Stock Exchange was suspended.

Shares of offshore driller Noble have dropped 90% in less than two years. Range Resources, bleeding red ink, has suspended its dividend. Chevron recently took a $10 billion hit by writing down the value of its U.S. shale properties, which had once seemed so promising.

In 2008, energy accounted for 13% of the total market capitalization of Standard & Poor's 500-stock index, rivaling health care and technology; today, energy represents less than 4%. Energy Select Sector SPDR (symbol XLE), a popular exchange-traded fund that tracks the energy stocks in the S&P, has dropped an annual average of 3.2% over the past five years, compared with an annual gain of 12.4% for the index as a whole. (Prices and other data are as of January 31.)

This dismal performance is all the more remarkable because the ETF is dominated by giant integrated energy companies. The giants make money from operations both upstream (finding petroleum and getting it out of the ground or the ocean) and downstream (refining and selling it to consumers or turning it into chemicals). When oil prices fall, hurting the upstream business, so do prices for the raw material used in the downstream business.

**THE WORLD IS AWASH IN OIL AND GAS. THE NOTION OF "PEAK OIL," FASHIONABLE 15 YEARS AGO, IS NOW CONSIDERED HUMOROUS.**

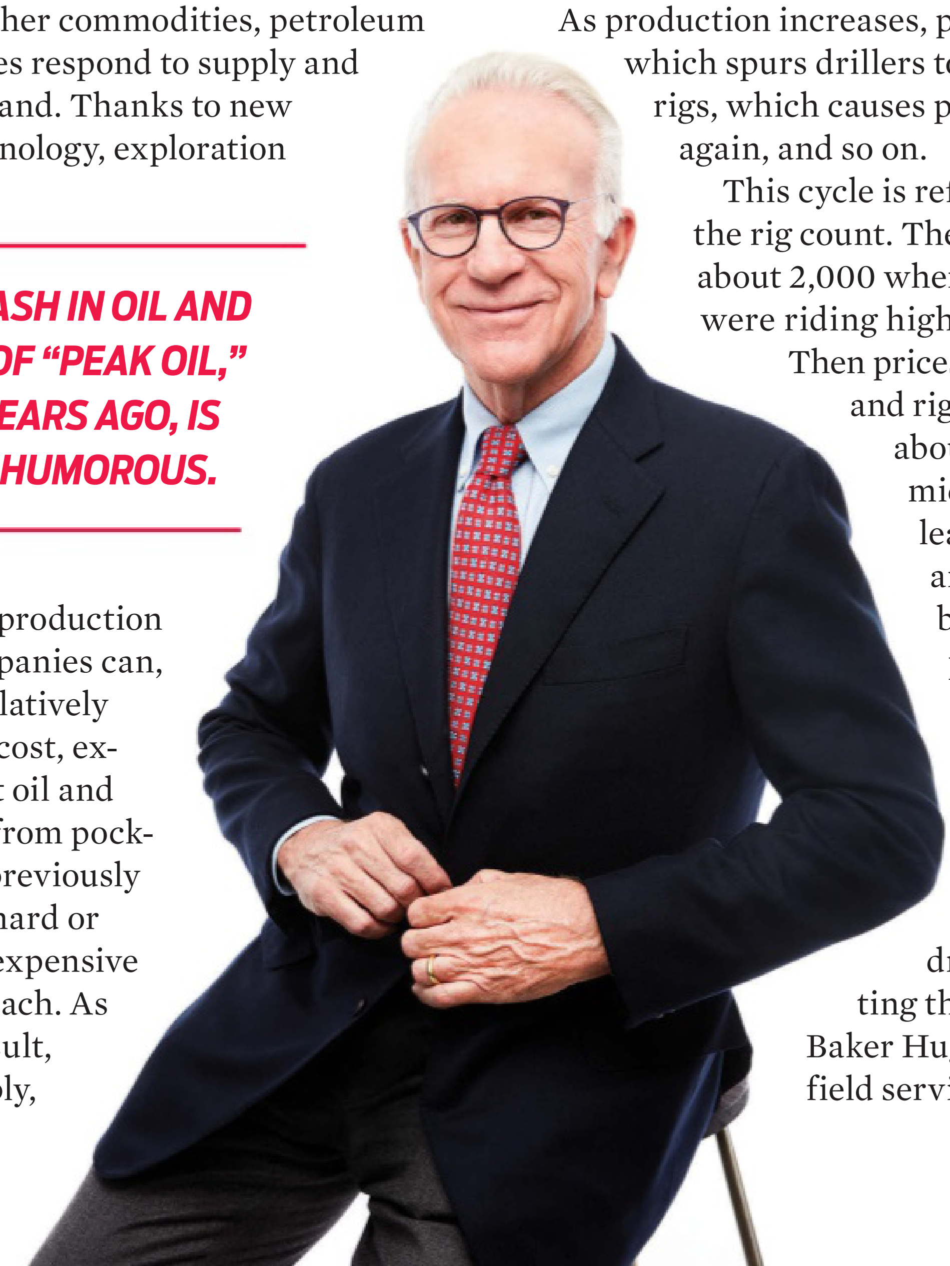
**Awash in oil and gas.** Like the prices of other commodities, petroleum prices respond to supply and demand. Thanks to new technology, exploration and production companies can, at relatively low cost, extract oil and gas from pockets previously too hard or too expensive to reach. As a result, supply, especially in the United States, has risen sharply. Domestic oil production more than doubled from 2011 to 2019, and natural gas production has increased by more than one-third, according to Energy Information Administration data.

OPEC, the once-powerful oil cartel, has lost much of its punch to market forces as new sources outside the Middle East have been playing bigger roles. Four of the top five oil producers aren't even members. (The biggest producers, in order, are the U.S., OPEC heavyweight Saudi Arabia, Russia, Canada and China.)

The notion of "peak oil," which became fashionable 15 years ago, is now considered humorous. The key variable in supply is extraction. When oil prices rise, companies drill for more. As production increases, prices fall—which spurs drillers to shut down rigs, which causes prices to rise again, and so on.

This cycle is reflected in the rig count. The count was about 2,000 when oil prices were riding high in 2014. Then prices dropped, and rigs fell to about 400 in mid 2016, leading to another bump in prices.

A recent Bloomberg headline said the "price collapse" has drillers "hitting the brakes." Baker Hughes, the oil field services giant,



POON WATCHARA-AMPHAIWAN

reported at the end of January that 790 rigs were operating in the U.S.; a year earlier, the figure was 1,045.

Meanwhile, demand has been tempered by a sluggish global economy. The U.S. has been puttering along at about 2% growth for a decade now, and China's growth rate has been slowing lately, hurt by trade friction and, most recently, the coronavirus outbreak.

In addition, concerns about climate change have led to a slow shift from petroleum to renewable energy, such as wind and solar, and an overall flatlining of energy consumption due to conservation. Last year, Americans used less energy (in terms of BTUs, or British Thermal Units, a common measure) than a quarter-century ago. Our use of renewables has roughly doubled since 2002 (see "Invest in the Planet," on page 20).

Still, at this point, renewables are not a major threat to the incumbents. In 2018, fossil fuels (including coal) accounted for 80% of U.S. energy consumption; renewables, 11%; nuclear power, the rest. Electric cars are catching on, but natural gas and coal generate 62% of the electricity that makes them run; wind and solar, 8%; nuclear and hydro, nearly all the rest.

And demand will continue to grow.

**BAD TIMES CAN BE GOOD FOR THE MOST SOLID COMPANIES AS WEAKER COMPETITORS CUT BACK OR FAIL.**

In its outlook for 2020, the EIA predicted that energy use will keep rising for the next 30 years, though more slowly than GDP. Renewables will cut into the market share of nuclear and coal in generating electricity, but natural gas will hold its share steady at about three-eighths of the total.

**Take the plunge.** Guessing the bottom of any cycle is dangerous, but I see significant opportunity in the oil patch. Bad times can be good for the most solid companies as weaker competitors cut back or fail. **SCHLUMBERGER** (SLB, $34), the best of the global oil service firms, trading above $100 a share in 2014, now yields 5.9%. If you believe, as I do, that oil *isn't* over, then Schlumberger is an excellent bet. The same applies to **CONOCOPHILLIPS** (COP, $59), an E&P firm with extensive holdings and real staying power, yielding 2.8%.

To make less risky long-term investments, my strong advice is to focus on "midstream" companies, whose main business is gathering, storing and moving petroleum products around. These businesses can be hurt when oil prices fall and their customers suffer, but not nearly as much as E&P and service companies.

You have excellent choices, all of them substantial large caps. My favorite is **KINDER MORGAN** (KMI, $21), which transports oil and gas through 83,000 miles of pipelines and 146 terminals. The stock lost half its value when crude prices crashed in 2015, and it still hasn't recovered the loss; it yields a lovely 4.8%, nearly three times the rate of a 10-year U.S. Treasury bond.

Another good choice is **THE WILLIAMS COS.** (WMB, $21), which both operates pipelines and processes natural gas. The stock is down by one-third over the past two years, but analysts see revenues and profits rising briskly this year. Williams slashed its dividend in 2016 but has slowly been building it back, and the shares now yield a remarkable 7.6%. I also recommend **ONEOK** (OKE, $75), which, like Williams, is based in Oklahoma and was founded more than a century ago. Shares returned nearly 50% in 2019, but analysts still expect earnings to increase more than 20% in 2020. The stock yields 5%.

Also recommended: Calgary-based **ENBRIDGE** (ENB, $41), with a market cap of $86 billion and a yield of 6%, and **ENTERPRISE PRODUCTS PARTNERS** (EPD, $26), a limited partnership that is a member of the Kiplinger Dividend 15 (see page 37), with a yield of 6.9%.

The energy sector is in a transition, but oil and gas are far from dead. The fact is, if you want your portfolio to reflect the U.S. and global economies, then you need energy. ■

**Energy Plays**

## STEP CAREFULLY INTO THE OIL PATCH

**The stocks below can handle hard times in a beleaguered industry, and they boast healthy yields now.**

| Company | Symbol | Price | Price-earnings ratio* | 1-year return | Yield |
|---|---|---|---|---|---|
| **ConocoPhillips** | COP | $59 | 16 | –10.2% | 2.8% |
| **Enbridge** | ENB | 41 | 21 | 17.1 | 6.0 |
| **Enterprise Products Ptnrs** | EPD | 26 | 12 | –0.5 | 6.9 |
| **Kinder Morgan** | KMI | 21 | 22 | 20.8 | 4.8 |
| **Oneok** | OKE | 75 | 20 | 22.2 | 5.0 |
| **Schlumberger** | SLB | 34 | 21 | –19.7 | 5.9 |
| **Williams Cos.** | WMB | 21 | 21 | –17.5 | 7.6 |
| **S&P 500-Stock Index** | | | 18 | 21.7% | 1.9% |

As of January 31. *Based on estimated 2020 earnings. SOURCES: Morningstar Inc., Zacks Investment Research.

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

**INCOME INVESTING** | Jeffrey R. Kosnett

# The Income Rally Roars On

No sooner do I warn investors that stock and bond prices are too high and point to spreading irrational overexuberance (see "Beware the Roaring Twenties," March) than all my favorite income investment categories go even more wild to the upside. Serves me right for questioning this market. I'm not abandoning all caution. I still believe that AT&T shares are expensive and that closed-end funds with nutty premiums to net asset value will fall toward earth. But sometimes the best moves are the ones you don't make and the right course is to take what the market is giving you, no questions asked.

In January, Standard & Poor's broad municipal bond index returned 1.64%, the index's biggest one-month gain since 2014. Strategists at T. Rowe Price just officially declared utilities a growth sector—no longer dull bond alternatives—and predicted that utility earnings will exceed those of the S&P 500 index for the next few years. Triple-B-rated corporate bonds, which a year ago marinated in fear and loathing, have gained close to 2.6% so far this year and 15% over the past 12 months. (Returns and other data are as of January 31.)

Gripes about market risks now seem feeble. The coronavirus? In the sometimes-perverse way of the bond market, this human tragedy and economic hurdle is a giant gift to bond investors, causing even faster rivers of money to seek haven in U.S. dollars and government debt, driving down interest rates. This development has brought back the not-so-dreaded "inverted yield curve," which occurs when short-term yields are higher than long-term ones. It's ostensibly a harbinger of recession, and typically prompts warnings of bond-price losses and defaults. The reality: Unless the inversion is a result of the Federal Reserve pumping short-term rates skyward, it's trivial.

**Ignore the political polls.** A few scattered pundits are spreading nonsense that the better Bernie Sanders looks in polls and primaries, the likelier the markets' accumulated gains are to atomize. We saw similar warnings of massive inflation and tax increases concomitant with the 2008 surge of Barack Obama to his party's nomination, as well as four years later at his re-election. Quite a few market sages also greeted Donald Trump's election as likely to be troublesome for investors because the markets hate surprises, and Trump was a surprise. Whatever your political leanings, I remind you that the Fed's actions, companies' earnings and dividends, and price stability matter mega-times more than politics.

***SOMETIMES THE BEST COURSE IS TO TAKE WHAT THE MARKET IS GIVING YOU, NO QUESTIONS ASKED.***

As for the troubles at Boeing and the sinking price of oil and natural gas, well, what happens at Boeing and Exxon stays at Boeing and Exxon. There's no risk of contagion to the broader markets. (For more on ExxonMobil, see "The Kiplinger Dividend 15 Update," on the facing page.) If you're tempted by the juicy yields, I'd say first check out taxable municipal bonds (see "Taxable Munis? They're Worth a Look," Feb.) and out-of-favor real estate investment trusts, such as those investing in hotels, senior housing and health care facilities.

Investment managers and advisers who meet with rank-and-file investors are more grounded than the pundits. I surveyed members of the fee-only financial planners' organization NAPFA as to whether it is becoming urgent for retirees to "take a knee," or purge all portfolio risk. Very few said it's time for a run on CDs, money market funds or online savings accounts.

The folks at Columbia Threadneedle Investments publish a monthly markets barometer. Tellingly, they fall in the neutral zone—neither bullish nor bearish—on key investment categories such as U.S. large-company stocks, small caps, growth stocks and value-oriented fare. Ditto for Treasury, investment-grade, municipal and junk bonds, as well as REITs and more. The clear, unambiguous conclusion: Hang in there. ■

POON WATCHARA-AMPHAIWAN

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THE KIPLINGER DIVIDEND 15 UPDATE

# 2 Picks Hit a Rough Patch

**THE PAST 12 MONTHS HAVE BEEN GOOD** ones for U.S. stocks, and the Kiplinger Dividend 15—our favorite dividend-paying stocks—have risen right alongside the broad market. Over the past year, the average return of the stocks on our list and that of Standard & Poor's 500-stock index are an identical 21.7%. After the run-up, our list still sports a healthy 3.5% average dividend yield, compared with 1.9% for the S&P 500 and 1.5% for the 10-year Treasury note (prices, returns and other data are through January 31).

Alternative-asset manager **BLACKSTONE GROUP** was the runaway winner among our picks, having returned 26.2% since our last update, bringing its one-year total return to an eye-popping 86.9%. The firm saw a 21% boost in assets under management in 2019, to $571 billion. Blackstone pays a variable dividend and currently yields 4.0%. That's well below it's five-year average yield of 7.0%, but we doubt many investors who held the stock during the recent run are complaining.

**On our watch list.** Shares of industrial giant **3M** plunged 17.9% over the past year and now sit 37% below their 2018 high. Cyclical slowdowns in the automotive and consumer electronics markets—both of which include major buyers of 3M's products—have crimped earnings of late. 3M is restructuring and cutting costs in order to rebound strongly once these beaten-down markets bounce back, says Mairs & Power Balanced fund manager Kevin Earley. More concerning is that 3M is among the companies facing lawsuits surrounding the manufacture of chemical substances, used in products such as fire-retardant foams, that have allegedly contaminated water supplies. Earley figures that the litigation accounts for some $15 billion to $20 billion in lost market value for 3M since mid 2018.

Whether ongoing legal battles and potential cleanup costs will prove more damaging to 3M (or its payout) remains to be seen, and we'll keep a close eye on it. In the meantime, 3M still boasts a strong balance sheet and generates plenty of cash. The firm raised its payout 2% in February, marking its 61st annual dividend hike.

Shares of **EXXONMOBIL** shed 10.6% over the past 12 months as falling oil and natural gas prices have eaten into the firm's earnings and cash flows. The energy behemoth is investing heavily in new operations that it expects will boost earnings a few years down the line, but more immediately, Exxon lacks sufficient free cash flow (cash profits left over after spending to maintain and expand the business) to cover its ample payout. Analyst Stewart Glickman at investment research firm CFRA expects Exxon to fund its dividend over the short term through debt and sales of non-core assets. The firm has historically maintained a clean balance sheet and diligently paid down debt, he says. It's worth noting that the company continued to raise its dividend even as oil prices fell by more than 70% between mid 2014 and early 2016. Exxon hiked its payout by 6% last year; the shares yield 5.6%. **RYAN ERMEY**

*Ryan_Ermey@kiplinger.com*

## THE KIPLINGER 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)** | $159 | 3.7% | $5.88 | 61 | 7.5% | –17.9% |
| **Air Products & Chemicals (APD)** | 239 | 2.2 | 5.36 | 38 | 12.3 | 48.0 |
| **Emerson Electric (EMR)** | 72 | 2.8 | 2.00 | 62 | 1.3 | 12.4 |
| **ExxonMobil (XOM)** | 62 | 5.6 | 3.48 | 37 | 4.8 | –10.6 |
| **Johnson & Johnson (JNJ)** | 149 | 2.6 | 3.80 | 57 | 6.3 | 14.7 |
| **Procter & Gamble (PG)** | 125 | 2.4 | 2.98 | 63 | 3.0 | 32.3 |
| **Walmart (WMT)** | 114 | 1.9 | 2.12 | 45 | 1.6 | 21.7 |
| **DIVIDEND GROWTH** Companies in this category should continue a history of robust dividend increases. | | | | | | |
| **AbbVie (ABBV)** | $81 | 5.8% | $4.72 | 7 | 24.2% | 6.4% |
| **Home Depot (HD)** | 228 | 2.4 | 5.44 | 10 | 23.7 | 27.3 |
| **Lockheed Martin (LMT)** | 428 | 2.2 | 9.60 | 17 | 9.9 | 50.9 |
| **Texas Instruments (TXN)** | 121 | 3.0 | 3.60 | 15 | 21.5 | 23.2 |
| **HIGH YIELD** Companies in this category have a five-year average yield of 4% or more. | | | | | | |
| **Blackstone Group (BX)** | $61 | 4.0% | $2.44 | 1 | –4.8% | 86.9% |
| **Enterprise Products Ptnrs. (EPD)** | 26 | 6.9 | 1.78 | 22 | 3.8 | –0.5 |
| **Realty Income (O)** | 78 | 3.6 | 2.79 | 25 | 4.2 | 18.1 |
| **Verizon Communications (VZ)** | 59 | 4.1 | 2.46 | 13 | 2.3 | 12.4 |
| **INDEX** | | | | | | |
| S&P 500-STOCK INDEX | | **1.9%** | **$48.60‡** | **12** | **13.6%** | **21.7%** |

As of January 31. *Annualized based on the most recent dividend. †Annualized. ‡The weighted sum of dividends paid by companies in the index. SOURCES: Company websites, Morningstar, S&P Dow Jones Indices, Yahoo Finance.

**YOUR MIND AND YOUR MONEY** | Anne Kates Smith

# Is Your Mutual Fund Politically Biased?

If there's anything we've learned over the past few years, it's that there's a lot of political bias in this country. So maybe it shouldn't come as a surprise that mutual fund managers are susceptible, too.

A recent study shows that managers tend to invest in companies run by executives who share their politics—to the detriment of their fund investors. Prior research has already shown that fund managers prefer stocks from their own countries, their own cities and states, and the states where they grew up.

The study was conducted by finance professors at San Diego State University and the University of Kansas and published in the *Journal of Financial and Quantitative Analysis*. The researchers looked at fund managers from 1,298 funds and executives of 16,655 firms in which the funds invested, culling political donation records from 1989 to 2016 to determine everyone's political leanings.

A relatively simple analysis of the data found a striking pattern of favoritism. Partisan-leaning managers invested about 43% of assets in firms whose executives shared the managers' party affiliation, and only about 33% of assets in firms whose executives had the opposite affiliation. After controlling for a variety of fund, company and other characteristics, the researchers found that overall, both Republican and Democratic fund managers invested 4% to 7% more of their fund's assets in companies managed by politically like-minded executives than did fund managers who had opposite political leanings. Furthermore, managers were more likely to hold on longer to losing stocks of firms run by executives who shared their partisan orientation, the research found.

**No insider info.** Investing along party lines might be okay if managers got a competitive edge by hobnobbing—say, in the neighborhood, at the club or at social events—with like-minded execs. But the researchers didn't find any enhanced information channels along those lines or any increased familiarity with the companies. What they found was a simple preference, long documented in social psychology research, for people similar to themselves—a favoritism that leads people to confer superiority to members of their own group. In this case, that led the managers to consider firms run by executives whose politics were similar to their own to be superior investments.

**RESEARCH FINDS THAT FUNDS WITH MORE PARTISAN HOLDINGS TEND TO HAVE SIGNIFICANTLY HIGHER RISKS.**

Fund managers were also more likely to invest in firms with politically similar management when their own political party was in power. This tendency dovetails with prior research that found investors perceive the markets to be less risky when their own party is in power.

What price do investors pay for casting their lot with politically biased fund managers? Some results from the research showed that these funds perform slightly worse than comparable funds with no political bias; other results suggested the returns were comparable, says study coauthor Yaoyi Xi, a finance professor at San Diego State. What is clear is that the funds with more partisan holdings tended to have significantly higher risks, measured by volatility. "This pattern does not fit well with the principle that investors should expect higher returns when bearing greater risks," says Xi.

The good news for anyone who prefers an unbiased manager is that political bias is muted in managers with more experience, and it becomes less evident when corporate information is readily available. So, as always, look for managers with long and solid track records, who aren't likely to take fliers on companies that are less than forthcoming about business results. And consider index funds if you want to excise manager bias of any sort from your portfolio. ■

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

POON WATCHARA-AMPHAIWAN

**SPOTLIGHT: ARTISAN DEVELOPING WORLD**

# Emerging Challenges

A stake in multinationals buoys this fund when developing markets sink.

**A FEW MONTHS SHORT OF ITS** fifth birthday, **ARTISAN DEVELOPING WORLD** is youthful by mutual fund standards. But before taking the helm, manager Lewis Kaufman spent a decade managing foreign-stock strategies at Thornburg Investment Management, including roughly five years running a diversified emerging-markets stock fund (also called Developing World) whose annualized returns dazzled.

So far, so good for version 2.0: Since its 2015 inception, Artisan Developing World has posted an 11.6% annualized return—ahead of the MSCI index's 6.2% return and the 5.5% average gain among peer funds. (Returns are through January 31.)

Like many emerging-markets funds, Developing World has a big bet on China. The fund dedicates 35% of assets to Chinese stocks (compared with 34% in the MSCI Emerging Markets index), favoring firms that will benefit from the country's productive economy and expand alongside China's growing skilled labor force and middle class.

But an outsize bet on China has been bad news for emerging-markets funds this year. Investors are worried about the coronavirus and its impact on businesses and the economy in China, as well as ripple effects in the region. So far in 2020, emerging-markets funds are down an average 4.2%.

But Developing World returned 0.5% over the same period, cushioned in part by its investments in developed-country multinational firms. Firms such as Visa, which hopes to capitalize on a global shift to cashless payments, and Netflix, with a subscriber base now more than half non-American, benefit from positive trends in emerging markets but tend to hold up better when emerging-markets stocks hit the skids. Kaufman says the outbreak is likely a short-term problem for Chinese businesses, and that the government has shown a quicker and more thorough response than it did with SARS.

The rest of the portfolio is invested in such markets as Latin America and Southeast Asia. Kaufman doesn't expect these economies to expand rapidly, so he hunts for firms that provide a product or service in high demand in an underserved market. MercadoLibre, an e-commerce and mobile payments business in Latin America, is a top holding.

**RYAN ERMEY**
*Ryan_Ermey@kiplinger.com*

## DIVERSIFIED EMERGING-MARKETS STOCK FUNDS
Ranked by one-year returns

| Rank/Name | Symbol | 1-year total return | Current yield | Max. sales charge | Exp. ratio |
|---|---|---|---|---|---|
| 1. Artisan Developing World Inv | ARTYX | 29.7% | — | none | 1.35% |
| 2. Wasatch Emerging Mkts Sm Cap Inv | WAEMX | 26.6 | 5.1% | 2.00%[r] | 1.95 |
| 3. WCM Focused Emerging Mkts Inv | WFEMX | 25.0 | 9.0 | none | 1.50 |
| 4. Driehaus Em Mkts Sm Cap Gr@ | DRESX | 24.3 | 1.5 | 2.00[r] | 1.45 |
| 5. Wasatch Emerging Mkts Select Inv | WAESX | 23.3 | 4.3 | 2.00[r] | 1.50 |
| 6. Morgan Stanley Inst Em Mkts Ldrs A | MELAX | 22.5 | 5.6 | 5.25[s] | 1.55 |
| 7. Touchstone Sands Cptl Em Mkts Gr A | TSMGX | 19.0 | — | 5.00 | 1.61 |
| 8. Fidelity Emerging Markets | FEMKX | 17.8 | 7.7 | none | 0.94 |
| 9. PGIM Jenn Em Mkts Eq Opps A | PDEAX | 17.0 | 5.0 | 5.50 | 1.45 |
| 10. Wm Blair Em Mkts Sm Cp Gr N** | WESNX | 16.9 | 2.3 | none | 1.55 |
| CATEGORY AVERAGE | | 6.6% | 4.1% | | |

## 20 LARGEST STOCK AND BOND MUTUAL FUNDS
Ranked by size. See returns for thousands of funds at kiplinger.com/tools/fundfinder.

### STOCK MUTUAL FUNDS

| Rank/Name | Symbol | Assets† (billions) | Annualized total return 1 yr. | Annualized total return 5 yrs. | Max. sales charge |
|---|---|---|---|---|---|
| 1. Vanguard Total Stock Market Idx Adm | VTSAX | $760.5 | 20.4% | 11.8% | none |
| 2. Vanguard 500 Index Adm | VFIAX | 405.8 | 21.7 | 12.3 | none |
| 3. Vanguard Total Intl Stock Idx Adm | VTIAX | 392.1 | 9.1 | 5.1 | none |
| 4. Fidelity 500 Index Inv | FXAIX | 236.2 | 21.7 | 12.4 | none |
| 5. American Growth Fund of America A | AGTHX | 200.7 | 18.2 | 12.9 | 5.75% |
| 6. American EuroPacific Growth A | AEPGX | 165.5 | 13.8 | 6.2 | 5.75 |
| 7. American Balanced A | ABALX | 161.2 | 13.6 | 8.4 | 5.75 |
| 8. American Washington Mutual A | AWSHX | 126.7 | 17.0 | 11.1 | 5.75 |
| 9. Fidelity Contrafund | FCNTX | 120.8 | 21.3 | 13.9 | none |
| 10. American Income Fund of America A | AMECX | 114.8 | 13.3 | 6.9 | 5.75 |
| S&P 500-STOCK INDEX | | | 21.7% | 12.4% | |
| MSCI EAFE INDEX | | | 12.1% | 5.1% | |

### BOND MUTUAL FUNDS

| Rank/Name | Symbol | Assets† (billions) | 1-year total return | Current yield | Max. sales charge |
|---|---|---|---|---|---|
| 1. Vanguard Total Bond Mrkt Idx Adm | VBTLX | $207.1 | 9.9% | 2.1% | none |
| 2. Pimco Income A | PONAX | 136.4 | 6.7 | 2.5 | 3.75% |
| 3. Vanguard Total Intl Bd Idx Adm | VTABX | 124.9 | 8.8 | 0.5 | none |
| 4. Metropolitan West Total Return Bd M | MWTRX | 82.9 | 9.7 | 1.9 | none |
| 5. Vanguard Interm-Term Tax-Ex Inv | VWITX | 75.9 | 7.6 | 1.3 | none |
| 6. Pimco Total Return A | PTTAX | 68.2 | 9.3 | 1.7 | 3.75 |
| 7. Dodge & Cox Income@ | DODIX | 65.2 | 9.8 | 2.5 | none |
| 8. Vanguard Short-Term Inv-Grade Inv | VFSTX | 63.2 | 5.8 | 2.1 | none |
| 9. Lord Abbett Short Duration Income A | LALDX | 57.4 | 5.1 | 2.2 | 2.25 |
| 10. DoubleLine Total Return Bond N | DLTNX | 56.2 | 6.9 | 3.1 | none |
| BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX | | | 9.6% | 2.0% | |
| B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX | | | 8.8% | 1.6% | |

As of January 31. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. [r]Maximum redemption fee. [s]Front-end load; redemption fee may apply. †For all share classes combined. **Closed to new investors. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Bank of America Merrill Lynch, Morningstar Inc., Vanguard.

ETF SPOTLIGHT

# A Calmer Way to Invest

This ETF uses two tactics to smooth returns.

**LOW- AND MINIMUM-VOLATILITY FUNDS** become popular whenever nerves start to fray, such as during the near bear market of 2018. Given a potentially combustible U.S. election cycle, 2020 seemed a likely candidate for a low-vol resurgence, and the coronavirus outbreak cinched it, driving anxious investors headlong into these funds.

**LEGG MASON LOW VOLATILITY HIGH DIVIDEND ETF** is one of a few low-vol funds that target holdings that not only are more stable than the market overall but also dole out above-average income. The fund starts with a screen of 3,000 U.S. stocks, homing in on profitable firms with sustainable dividend yields. Stocks are then scored based on price and earnings volatility. No stock can exceed 2.5% of assets at the time of the ETF's quarterly rebalancing; no sector can exceed 25% of assets.

The ETF's 80 current holdings are heavy in utilities, real estate stocks and consumer staples, which together account for 56% of assets. Top holdings with generous dividends, such as Duke Energy, give the ETF a yield of 3.3%, far above the 1.9% yield of Standard & Poor's 500-stock index and that of most traditional U.S. low-vol funds.

The ETF has lagged the market since its 2015 inception—not surprising, given its preference for calmer holdings, especially during a roaring bull market. But the ETF isn't designed to outperform the market over long bull stretches—it's much better suited for downturns, such as in the fourth quarter of 2018, when it beat the index by 8.1 percentage points. **KYLE WOODLEY**

*Kyle_Woodley@kiplinger.com*

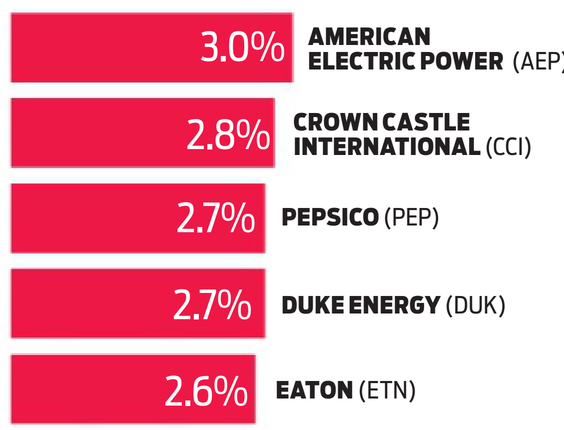
## Legg Mason Low Volatility High Dividend ETF

### KEY FACTS

**SYMBOL:** LVHD
**RECENT PRICE:** $34
**ASSETS:** $916 million
**START DATE:** Dec. 28, 2015
**STOCK HOLDINGS:** 80
**AVG. PRICE-EARNINGS RATIO:** 16.9
**AVG. MARKET VALUE:** $33.6 billion

### PERFORMANCE SINCE INCEPTION


### TOP FIVE HOLDINGS Account for 14% of Assets

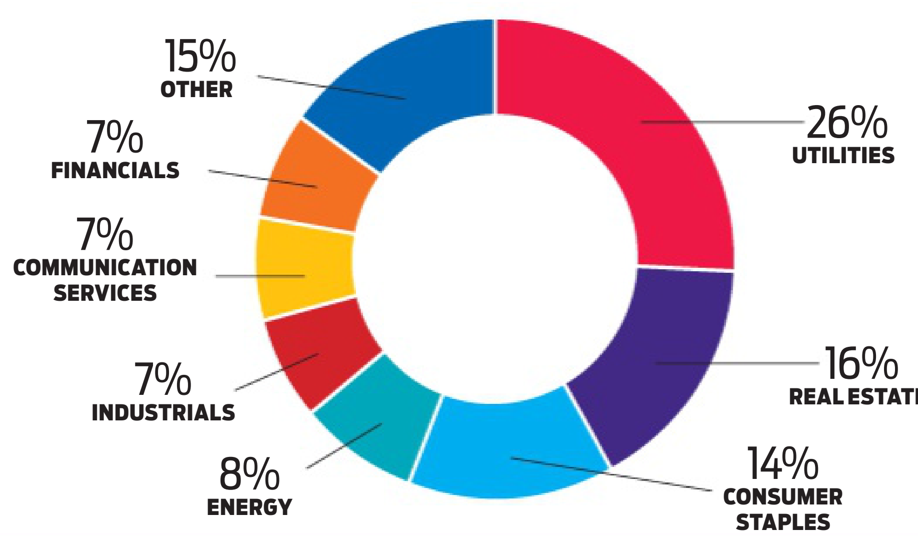



## 3.3%

### THE ETF's YIELD

**Bolstered by utilities and real estate companies, LVHD yields almost twice the market average.**

### SECTOR BREAKDOWN: Safety First




## U.S. Low-Volatility ETFs Ranked by yield

| | | | Annualized total return* | | | | |
|---|---|---|---|---|---|---|---|
| Rank/Fund | Symbol | Assets (millions) | 1 yr. | 3 yrs. | 5 yrs. | Div. yield | Exp. ratio |
| 1. Invesco S&P Sm. Cap High Div. Low Vol. ETF | XSHD | $22 | 1.76% | 2.20% | N/A | 5.1% | 0.34% |
| 2. Invesco S&P 500® High Div Low Vol ETF | SPHD | 4,258 | 6.29 | 6.05 | 9.30% | 4.3 | 0.30 |
| 3. SPDR SSGA US Sm. Cap Low Vol. Index ETF | SMLV | 322 | −4.24 | 5.08 | 0.58 | 3.4 | 0.29 |
| 4. Legg Mason Low Vol. High Dividend ETF | LVHD | 916 | 13.98 | 9.00 | N/A | 3.3 | 0.27 |
| 5. Invesco S&P SmallCap Low Vol. ETF | XSLV | 2,391 | 9.90 | 7.76 | 10.95 | 2.5 | 0.25 |
| S&P 500-Stock Index | | | 21.68% | 14.50% | 12.40% | | |

As of Jan. 31, 2020. *Assumes reinvestment of dividends and capital gains; three- and five-year returns are annualized. N/A Not available; fund not in existence for the entire period. Expense ratio is the percentage of assets claimed annually for operating a fund. SOURCES: Legg Mason Global Asset Management, Morningstar, Ycharts, Yahoo Finance.

THE KIPLINGER 25 UPDATE

# A Deep Bench Bodes Well

**THE LAST TIME WE CHECKED** in with **FIDELITY INTERMEDIATE MUNICIPAL INCOME**, longtime manager Mark Sommer had just retired. Now, Kevin Ramundo, comanager since 2010, is retiring, too, in June. "I'm going to spend time hiking the Appalachian trail and skiing," he says. Fund manager changes make us wary. But this fund is run by a team of mostly longtime members who follow a well-honed process.

The team, which includes comanagers Cormac Cullen, Michael Maka, Elizah McLaughlin and Ramundo, along with three traders and 20-odd analysts, discuss and debate every position in the fund. "While we don't always agree," says McLaughlin, "our fund decisions are fully vetted by the entire team." They look for reasonably priced bonds with stable finances. Managing risk is a priority, too, and the team uses a proprietary tool to monitor the portfolio.

Municipal bonds, which pay interest that is exempt from federal and sometimes state income taxes, have had a great run in recent years. The 2017 tax law included changes specific to munis that crimped supply just as investors began to clamor for the bonds. "There's an imbalance in supply and demand," says Cullen, and that has helped prop up muni bond prices.

Over the past 12 months, Intermediate Muni Income returned 7.4%. That's a solid absolute return for the fund. But it lags Bloomberg Barclays Municipal index and the typical intermediate-term bond fund. Ramundo says low volatility has led to narrowing gaps in muni-fund returns. "The differences in performance among the top funds remain pretty tight," he says.

But Intermediate Muni Income tends to shine in down markets. In 2013, the typical intermediate-term muni fund lost 2.3%; Fidelity Intermediate Muni Income beat 77% of its competition, with a 1.5% loss.

After strong performances two years in a row, the fund's managers are cautiously optimistic. Munis are richly valued, says Cullen. But steady, low interest rates and a strong U.S. economy, coupled with strong demand for munis and tight supply, make it "reasonable to expect continued support for munis." **NELLIE S. HUANG**

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## KEY DATA FOR OUR MUTUAL FUND PICKS

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

| U.S. Stock Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| D.F. Dent Midcap Growth | DFDMX | 32.8% | 15.0% | — | 0.4% | 0.98% |
| Dodge & Cox Stock | DODGX | 11.3 | 10.2 | 12.5% | 2.4 | 0.52 |
| Mairs & Power Growth | MPGFX | 18.4 | 10.4 | 13.0 | 1.8 | 0.64 |
| Parnassus Mid Cap | PARMX | 18.6 | 10.3 | 13.0 | 1.3 | 0.99 |
| T. Rowe Price Blue Chip Growth | TRBCX | 19.8 | 15.8 | 16.9 | 0.6 | 0.70 |
| T. Rowe Price Dividend Growth | PRDGX | 22.9 | 12.8 | 13.7 | 1.9 | 0.64 |
| T. Rowe Price QM US Sm-Cp Gro | PRDSX | 19.1 | 11.4 | 15.7 | 0.6 | 0.80 |
| T. Rowe Price Sm-Cap Value | PRSVX | 11.1 | 9.4 | 11.6 | 1.4 | 0.85 |
| T. Rowe Price Value | TRVLX | 15.8 | 8.7 | 12.2 | 2.1 | 0.78 |
| Primecap Odyssey Growth | POGRX | 9.7 | 12.3 | 14.2 | 1.2 | 0.65 |
| Vanguard Equity-Income | VEIPX | 15.7 | 10.3 | 13.1 | 3.1 | 0.27 |
| Wasatch Small Cap Value | WMCVX | 7.8 | 9.5 | 12.8 | 2.1 | 1.20 |

| International Stock Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| AMG TimesSquare Intl Sm-Cap | TCMPX | 13.3% | 7.9% | — | 2.3% | 1.23% |
| Baron Emerging Markets | BEXFX | 5.3 | 3.7 | — | 2.0 | 1.36 |
| Fidelity International Growth | FIGFX | 24.7 | 8.7 | 9.4% | 1.6 | 0.99 |
| Oakmark International | OAKIX | 7.6 | 3.8 | 7.0 | 3.9 | 0.98 |

| Specialized/ Go-Anywhere Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| Vanguard Health Care | VGHCX | 13.1% | 8.0% | 14.2% | 1.6% | 0.34% |
| Vanguard Wellington‡ | VWELX | 17.7 | 8.9 | 10.1 | 2.8 | 0.25 |

| Bond Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| DoubleLine Total Return N | DLTNX | 6.9% | 3.0 | — | 3.1% | 0.73% |
| Fidelity Adv Strategic Income | FADMX | 8.3 | 4.4 | 5.0% | 2.9 | 0.69 |
| Fidelity Intermed Muni Income | FLTMX | 7.4 | 2.9 | 3.6 | 1.2 | 0.37 |
| Fidelity New Markets Income | FNMIX | 6.4 | 5.7 | 6.2 | 4.5 | 0.84 |
| Met West Total Return Bond M | MWTRX | 9.7 | 2.8 | 4.7 | 2.1 | 0.67 |
| Vanguard High-Yield Corporate | VWEHX | 10.4 | 5.6 | 7.0 | 4.1 | 0.23 |
| Vanguard Sh-Tm Inv-Grade | VFSTX | 5.8 | 2.5 | 2.6 | 2.1 | 0.20 |

| Indexes | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield |
|---|---|---|---|---|
| S&P 500-STOCK INDEX | 21.7% | 12.4% | 14.0% | 1.9% |
| RUSSELL 2000 INDEX* | 9.2 | 8.2 | 11.9 | 1.5 |
| MSCI EAFE INDEX† | 12.1 | 5.1 | 5.8 | 3.2 |
| MSCI EMERGING MARKETS INDEX | 3.8 | 4.5 | 3.8 | 2.7 |
| BLOOMBERG BARCLAYS AGG BND IDX# | 9.6 | 3.0 | 3.8 | 2.0 |

As of January 31. ‡Open to new investors if purchased directly through the fund company. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices. Yields listed are SEC yields for bond funds; weighted average portfolio yields for stock funds.

Kiplinger's

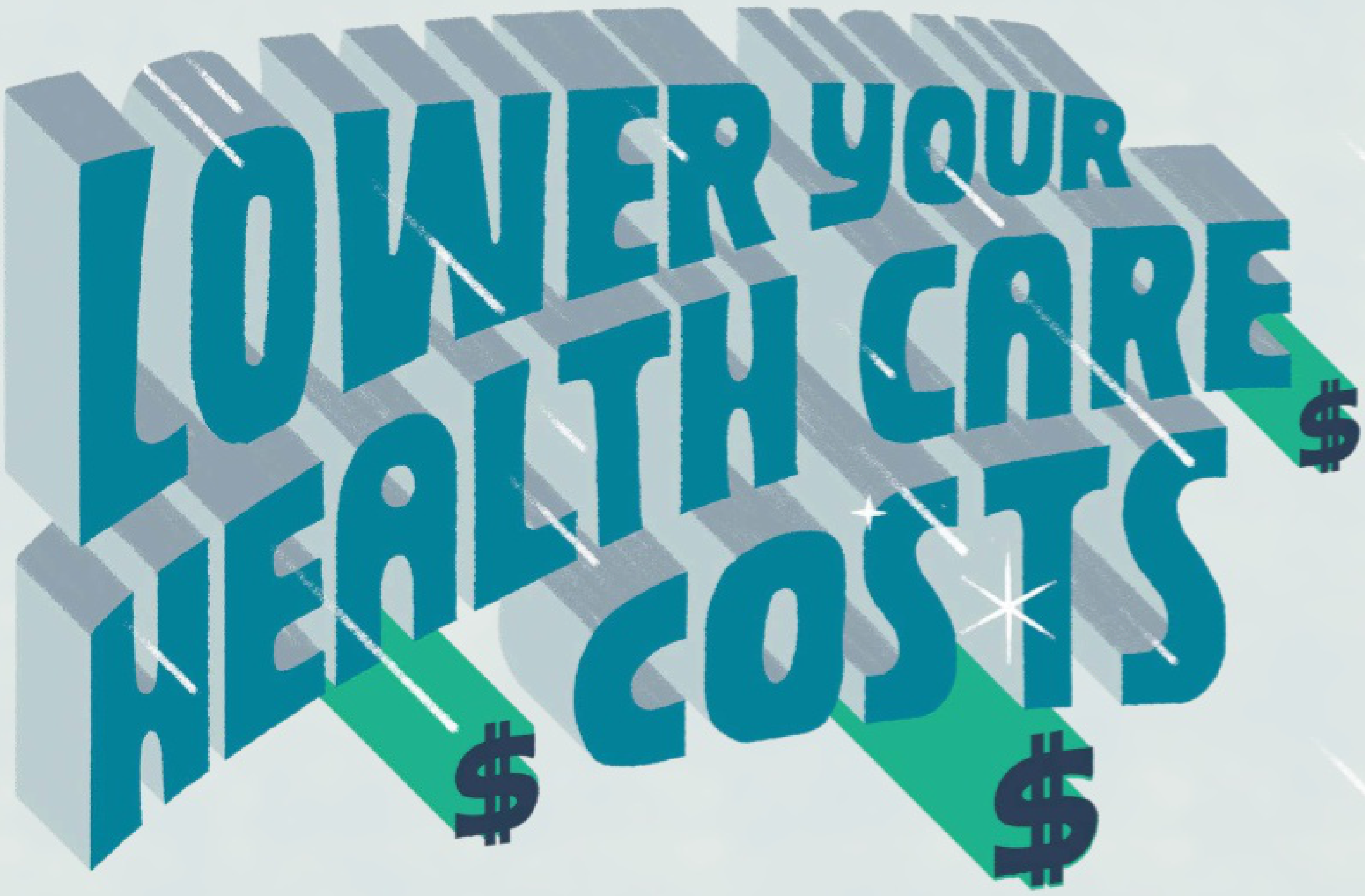
# Special Report: The Power of an HSA

Lower your taxes

Pay your medical bills

Save for your retirement

And much more!




**Health savings accounts help defray the cost of high-deductible health plans. They're also a powerful way to invest for retirement.**

**BY NELLIE S. HUANG and KAITLIN PITSKER**

High-deductible health plans have a well-deserved reputation as a way for employers to pass along some of the burden of spiraling health costs to you. They typically come with lower premiums than traditional insurance plans but require you to pay for more of your medical costs before your insurance kicks in.

Such plans have become more prevalent in recent years. Last year, 30% of people with employer-sponsored health insurance enrolled in high-deductible plans, compared with just 8% a decade earlier, according to the Kaiser Family Foundation. For some people, a high-deductible plan may be the only choice offered by their employer.

But high-deductible plans also give you access to a health savings account. And an HSA has secret powers that most people haven't begun to tap. An HSA isn't just a short-term, tax-friendly way to pay for current and future medical bills; it's also a vehicle for supercharging your retirement savings.

For Marianela Collado, a certified financial planner in Weston, Fla., switching to a high-deductible plan and opening an HSA five years ago was an easy decision. Marianela, her husband, Edgar, and their three boys were healthy and rarely visited the doctor aside from annual checkups. The family began funneling cash into their HSA and covering current medical expenses out of pocket so the account could continue to grow.

Today, Marianela and Edgar, who are both in their early forties, contribute the maximum to their HSA each year, investing most of the money in a portfolio of growth-oriented stocks. "We hope to leave the account untapped for 20 to 30 years so it grows as much as possible," Marianela says. Then, she says, they can use that money for medical expenses during retirement.

**Learn the basics.** A health savings account offers a tax-saving trifecta. First, contributions to an HSA can be made pretax to an employer-sponsored HSA plan—or they can be deducted (even if you don't itemize) if you're saving in an account on your own. Second, money in the account grows tax-deferred. And third, you can take tax-free withdrawals at any time to pay for qualified medical expenses, including deductibles, co-payments, prescription drug costs, and out-of-pocket dental and vision expenses. (If you withdraw the funds for nonqualified expenses before age 65, you'll pay a 20% penalty, plus income tax on the amount you take out.)

To contribute to an HSA, you must be enrolled in a high-deductible health plan with an annual deductible of at least $1,400 for individual coverage or $2,800 for family coverage in 2020. The plan must also have a limit on out-of-pocket medical expenses including deductibles, co-payments and other amounts (but not premiums). In 2020, the out-of-pocket limit is $6,900 for individual coverage and $13,800 for family coverage.

If your health plan meets those requirements, you can contribute up to $3,550 to an HSA in 2020 if you have individual coverage, or up to $7,100 if you have family coverage, including any cash your employer has kicked in. If you are 55 or older in 2020, you can contribute an additional $1,000 in catch-up contributions.

A couple of other important details: Unlike flexible spending accounts, which generally must be depleted by year-end (or March 15, depending on your employer), HSA funds don't have a use-it-or-lose-it rule. That means you can build up a stash of tax-free money for major medical bills or for medical expenses much



HAND LETTERING BY MARY KATE McDEVITT

later, such as in retirement. Also, you can't make new contributions to an HSA after Medicare coverage begins, even if you're still working, but you can continue to use the money that's already in the account tax-free for eligible costs that aren't covered by insurance.

**Set your strategy.** Before you pledge to invest for the long term in your HSA, check out the decision tree on page 48. The best approach to saving in your HSA depends on how much cash you have available elsewhere to cover out-of-pocket medical expenses, your HSA plan's minimum-balance requirements and how long you think it will be until you need to withdraw the money from the account.

Your decision also hinges on how much you're saving in your 401(k) or other retirement plans. If you don't have enough money to max out your HSA and 401(k), start by making sure you're contributing enough to your 401(k) to get the most out of any match your employer offers. Then, shift your attention to your HSA. If it turns out you're able to save more after hitting the maximum HSA contribution, switch back to saving in your 401(k).

If you have access to an HSA through your employer, that provider's plan is likely your best bet. Most employers that offer access to an HSA cover the administrative fees. Many also seed the account with a company contribution.

If your employer doesn't offer an HSA, you don't like the HSA provider your employer uses, or you're buying health insurance on your own, most banks and brokerage firms offer HSAs to anyone with an eligible policy. You generally won't be able to get an automatic pretax payroll deduction if you open your own account (you can deduct your contributions later), but you may find lower fees and

MARIANELA AND EDGAR COLLADO, WITH SONS (CLOCKWISE FROM TOP) JULIAN, CHRISTIAN AND JONATHAN, ARE USING THEIR HSA TO SAVE FOR MEDICAL EXPENSES IN RETIREMENT.

PHOTOGRAPH BY TOM SALYER

better investing options by switching providers.

To compare fees and expenses along with investing options, visit HSASearch.com. The Collados, for example, will be re-shopping their HSA provider soon. Their current provider has good investing options but requires that $5,000 remain in the checking portion of the account before they may invest. Because the family doesn't plan to use the money for many years and could cover their full deductible from other sources, they would prefer to invest all of their HSA funds.

**Maximizing HSA benefits.** You can use the money in your HSA tax-free for eligible medical expenses at any time. But you'll get the most bang for your HSA buck by using other cash for current medical expenses and allowing money in your HSA to grow tax-free.

Save receipts for any out-of-pocket medical expenses that you incur after opening the account. Many health plans and HSA administrators provide online tools to help you track your qualified expenses and record how you paid those bills, making it easier for you to reimburse yourself later.

An HSA can also play a key role in your retirement strategy. You'll face a stiff penalty (20%, plus income taxes) if you tap your HSA for non-medical expenses before age 65. But after age 65, you'll only have to pay taxes on the withdrawal if you use it for anything other than eligible medical expenses. Your best bet, though, is to use the money for medical expenses. You can use HSA funds to pay for medical costs that Medicare doesn't cover, as well as monthly premiums for Medicare Part B and Part D and Medicare Advantage plans. Withdrawals for those costs will be tax- and penalty-free. You can also pay a portion of long-term-care insurance premiums. The amount you can withdraw tax-free depends on your age.

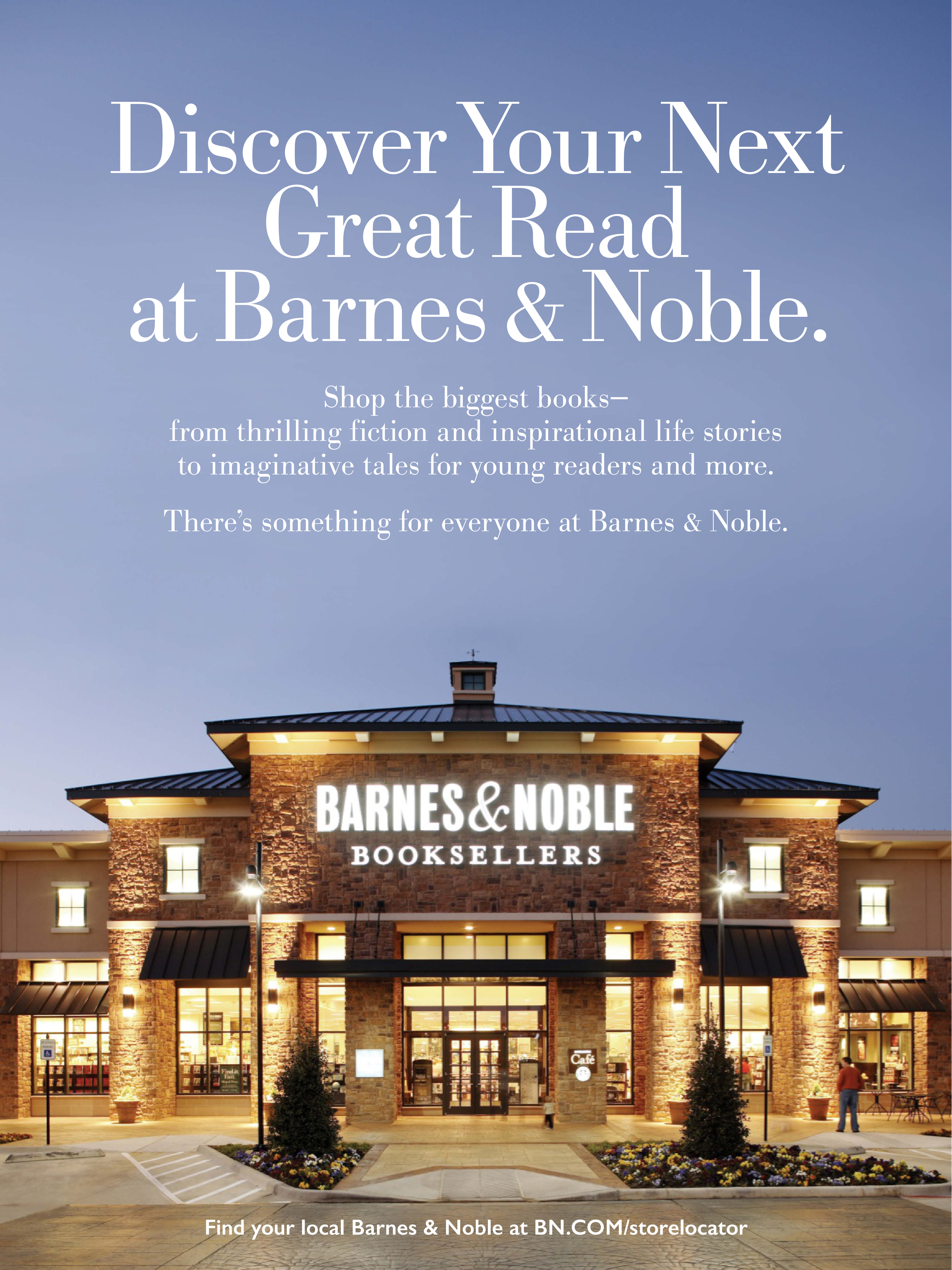
Again, you can't contribute to an HSA after you're covered under Medicare. But be aware of the tax trap if you delay signing up for Medicare: When you enroll in Part A, you get up to six months of retroactive coverage. To avoid a tax penalty, stop making HSA contributions at least six months before you enroll.


If you have enough money to cover your out-of-pocket expenses, use a health savings account to supercharge your retirement savings. But here's the rub: Not all health savings accounts come with an investing option. The big HSA providers, including Bank of America and the HSA Authority, typically do. But HSAs offered through community banks and credit unions don't, according to HSA consulting firm Devenir. Those accounts are set up primarily for spending.

If your HSA doesn't have an investment vehicle, don't worry. You can open a second HSA at a provider that does and add money to that account in tandem with your workplace contributions.

Another alternative is to save only in your workplace HSA but periodically shift money to your investing HSA. "These accounts are portable, unlike money in a 401(k)," says Devenir president Eric Remjeski. The IRS limits taxpayers to one rollover per year from one health savings account to another. But some plans allow direct "trustee to trustee" transfers, which have no annual transaction limit, says Greg Will, a certified public accountant and financial planner in Frederick, Md., because technically, the IRS doesn't view direct transfers as rollovers.

The tax benefits aren't exactly the same between employer-sponsored HSAs and an HSA you open up on the side. For one thing, contributions from your paycheck into a workplace account aren't taxed for Social Security and Medicare, which saves you 7.65%,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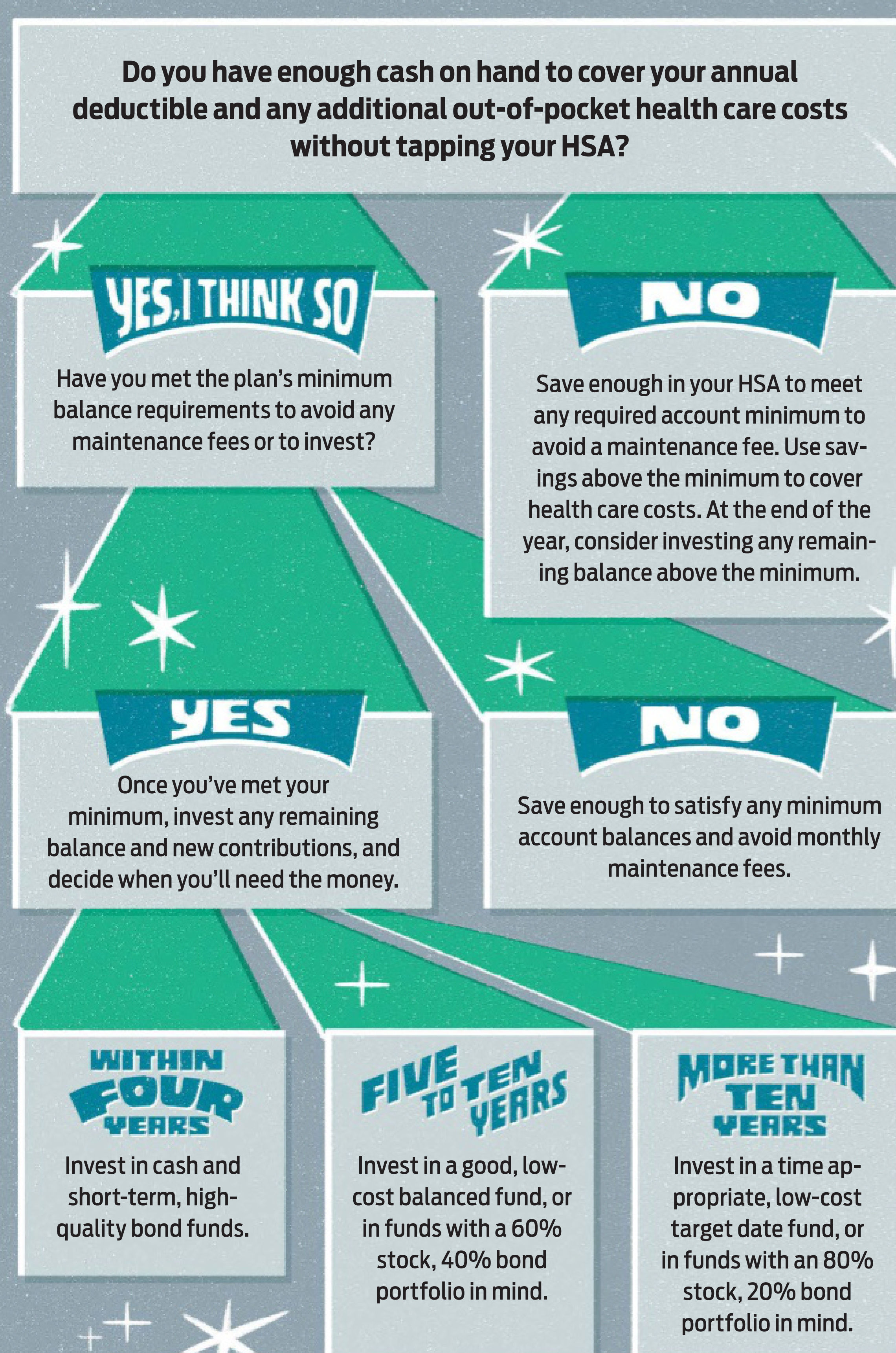
and your contributions are deducted from your paycheck pretax. With a non-workplace HSA, however, you make after-tax contributions. You're still eligible for a full break on federal, state and local taxes on those contributions, but you don't collect until you declare them on your tax return.

**Shop smart.** Finding a good health savings account is tricky, in part because there are hundreds of plans out there. Of the few plans that offer investing capabilities, some feature only mutual funds, and others allow you to invest in stocks, mutual funds and exchange-traded funds. Ben Lake, a financial adviser at Altfest Personal Wealth Management in New York City, has helped some of his clients find and set up an HSA on their own. "It's kind of tough," he says.

Morningstar, the financial-data firm, rates a handful of the biggest HSA plans every year. Its 2019 report ranks 11 HSA providers on a variety of investing criteria, giving high grades to firms that charge low fees and that offer an appropriate range of high-quality, low-cost, core investment options, among other things.

Fidelity came in first, followed by the HSA Authority and Bank of America. In addition to strong investment options, Fidelity's HSA plan "charges rock-bottom fees that no other provider can compete with," says Morningstar analyst Leo Acheson, who conducted the HSA study with Megan Pacholok. (Though any stock, ETF or


**To open an HSA, you must be enrolled in a qualified high-deductible health plan, which means the plan has a deductible of at least $1,400 for single coverage and $2,800 for family coverage, among other measures. In 2020, singles can contribute a maximum of $3,550, and families $7,100, to an HSA. One strategy is to invest the HSA money for retirement or other long-term goals and pay for current medical costs out of pocket. Here's help deciding if that makes sense:**



mutual fund is available in Fidelity's HSA, the firm has a list of good mutual funds it recommends from a variety of firms.) Also, Fidelity allows you to invest with as little as $1 in your Fidelity HSA. By contrast, many HSA providers require a $1,000 to $2,000 balance in your account before you can start investing.

Of course, you can research investing HSAs on your own. The HSA Search tool (www.hsasearch.com) lets you home in on plans with investing options. The HSA Report Card offers insight into providers that may be suitable for index-fund fans, among other features (http://thehsareportcard.com/the-top-10-investor-hsas).

Focus on HSAs with low fees. That includes account fees the provider may levy, as well as the expense ratios of any underlying funds, says Lauren Zangardi Haynes, a certified financial planner in Richmond, Va. "All of these accounts and products are making money somehow. Figure out how they're doing it and decide if it makes sense for you."

**Follow the investing rules.** Approach how you invest your HSA dollars the same way you would any other investment account. Consider your risk tolerance and time frame. "Treat it like a 401(k)," says Maria Bruno, head of Vanguard's U.S. wealth planning research. The longer your time horizon, the more stocks you can hold in your portfolio. But money you need in less than five years should be socked away in a money market fund or a high-quality short-term bond fund.

For most investors, a good, low-cost target-date fund is a fine choice, no matter how far-off or close you are to retirement. These funds do the work for you, shifting from an aggressive to a more conservative blend of assets over time as you near the target year—in most cases, a year closest to when you plan to retire. The typical target-date fund for savers in their twenties and thirties holds 90% of its assets in stocks; funds for investors in their fifties and early sixties hold between 50% and 60% in stocks and the remainder in bonds.

Even a balanced fund, which holds a static position of 60% stocks and 40% bonds, will work well for most investors with short to medium time frames.

Workers in their twenties, thirties or even forties, who have decades to go before retirement, can afford to spice up their investments. Some financial advisers, including Haynes, the Richmond, Va., financial planner, invest a large portion of younger clients' HSAs aggressively, in small-company and emerging-markets stock funds. The point is to take advantage of the many tax benefits that come with an HSA and invest for growth so that assets in the account increase as much as possible. "That's aggressive, but it's balanced with more-conservative investments in other accounts," says Haynes. In fact, most of Haynes's clients keep enough cash in their HSA to cover their annual deductible, even though they don't plan to use it. "It can supplement a cash emergency fund if a client were to experience very high medical costs," she adds.

That's the other upside to having an HSA. Unlike an IRA or a 401(k), you can access the funds if absolutely necessary without paying a tax penalty. "It's like having personal hazard insurance," says Lake, the New York City financial adviser. The money is there if you ever experience a serious health care emergency, but ideally you won't need it and you'll invest it so it can grow for decades. ■

**KipTip**

## Find Good Funds for Your HSA

**If an all-in-one mutual fund isn't for you, keep these tips in mind as you search for good funds with strong track records and low costs.**

**Objective.** Figure out your goal, then find a fund that fits. If you can't afford the losses that come with occasional, but inevitable, down markets, stick with a money market fund or a short-term bond fund. Bond funds tend to be less volatile than stock funds. But depending on what kinds of fixed-income securities they invest in—government bonds, corporate debt or mortgage-backed securities, for example—they will vary in risk, return and volatility. Stock funds offer more growth potential than money market or bond funds, but they come with greater risk, too.

**Performance and risk.** Look for a fund with a three- and five-year record, under the same manager, that beats its benchmark and its peers. But dig deeper. Year-by-year returns may reveal a nasty roller coaster ride. If you can, find out how the manager performed during market corrections. How did that U.S. stock fund you're eyeing fare over the last three months of 2018, when Standard & Poor's 500-stock index lost nearly 14%? A look at how a fund performed during good years and bad years can give you an idea of its volatility. Can you sit through the downdrafts without flinching?

**Fees.** You've heard it before: Fees eat away at your investment over time. A $10,000 investment growing 10% a year with a 1.5% management fee translates into roughly $50,000 after 20 years. But a similar investment in a fund with just 0.5% in expenses would be worth more than $60,000. Keep averages in mind as you scrutinize fund fees. The average U.S. stock mutual fund charges 1.07% in annual expenses; taxable bond mutual funds average 0.90%. Exchange-traded funds, available in HSA plans that have brokerage windows, charge even less. U.S. stock ETFs cost an average of 0.35% per year; taxable bond ETFs, 0.30%.

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**MONEY SMART WOMEN** | Janet Bodnar

# Family Finances Are a Joint Project

My column on sharing passwords and other key financial information with your spouse ("Money Smart Women," July 2019) struck a chord with a number of readers—myself included (more on that later). "Your article sparked some cleanup activity for my wife and me," writes Dale Tennison. "We went to work to document everything, including automatic payments and withdrawals." They also made sure that family members know how to access the information.

Other readers wrote about their personal wake-up calls. "Our credit cards were compromised several times, and that was the incentive for us to organize our records so that changing credit card auto-payments could be done easily and quickly," writes one reader. She and her husband later expanded the list to include information about life insurance, pensions and financial accounts. For reader Craig Carlson, the catalyst was helping his elderly mother manage the paperwork after his father passed away. Carlson says that prompted him to "start a checklist for my wife."

My friend Teri, one of the savviest money managers I know, took charge of her family's finances when she married later in life and became part of a blended family. When she was planning to retire, she says, "I got serious about knowing the balances in all of our accounts." She keeps a spreadsheet of all those accounts (including passwords), which she updates quarterly. "I tell my husband he's not allowed to change any passwords without telling me," she says.

Readers have adopted various strategies for safeguarding their information. "We keep a paper copy under lock and key and another encrypted on my laptop," says one. "I don't trust security in the cloud," writes another, "so I keep my information in a file on a USB flash drive. All my wife needs to do is look for that file, and (hopefully) she'll find everything she needs."

**Streamline your system.** In addition to sharing information, it's also critical to keep things as simple as possible.

**MAKE SURE YOU HAVE ACCESS TO KEY ACCOUNTS, AND KEEP THINGS AS SIMPLE AS POSSIBLE.**

A friend of mine recently lost her husband after a long battle with ALS. She is a professional woman with a law degree, and she and her husband had worked with a financial adviser. But her husband had made their financial arrangements so complex that she confessed she "only understood about 30%" of what he had done. Now she has to deal with 100% of the consequences.

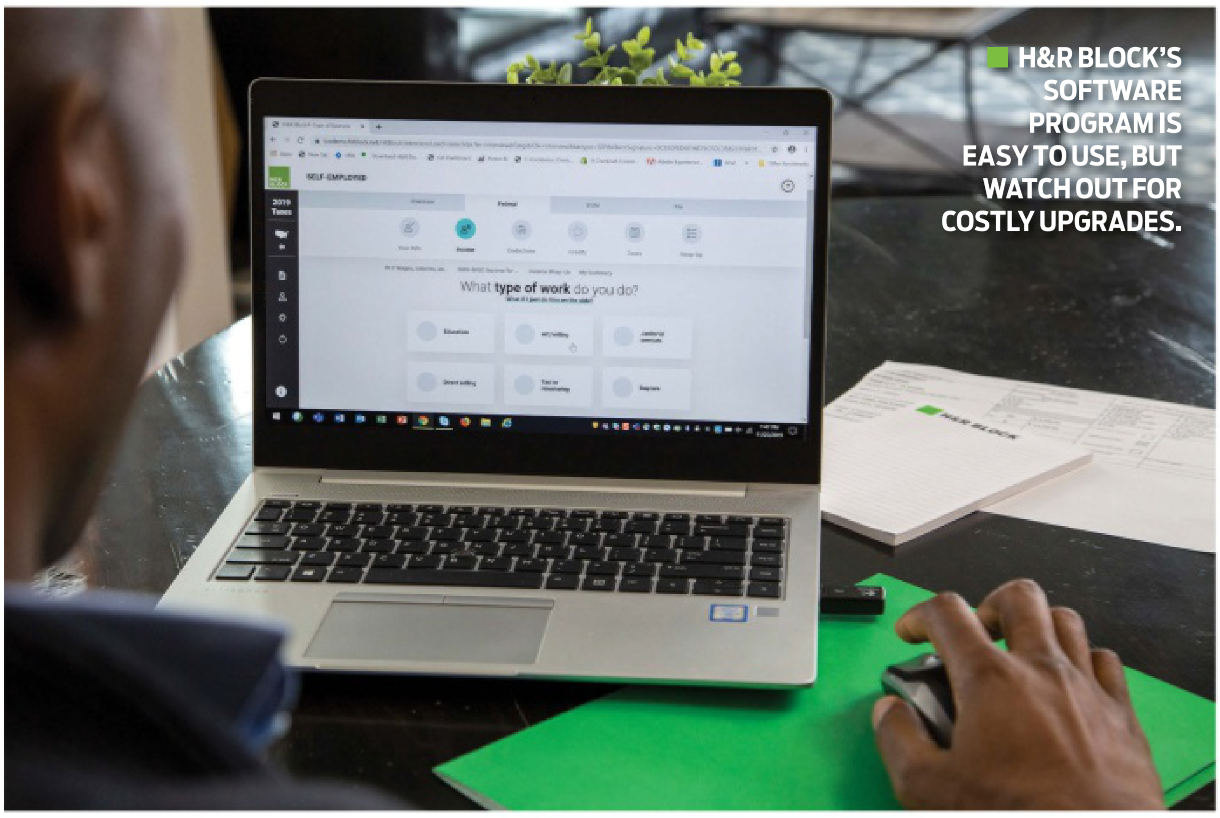
To avoid complexity, the Tennisons have consolidated a number of accounts with a single financial institution because "there's less to document and communicate." And Teri and her husband have cut back to one joint credit card. Readers also stress the importance of making sure both spouses have access to joint accounts, as well as keeping track of beneficiaries, which Teri includes in her quarterly financial statements (see "Living in Retirement," Feb.).

And that's where I come in. After writing my column, I sat down with my husband to review our own finances. I realized, to my shock, that when I rolled over my Roth 401(k) account from work to a Roth IRA with a financial firm, I had neglected to name beneficiaries. I had assumed subconsciously—and erroneously—that beneficiaries on my other accounts at the same firm would apply. Needless to say, I hurriedly logged on to my account to remedy this.

But that wasn't all. My husband and I live in Maryland, and tax law in the state has changed since we last updated our wills several years ago. We realized it makes sense to revisit (and possibly simplify) our designations. Now a visit to our lawyer is on our to-do list.

Keeping an eye on your finances is an ongoing process. But it can be less intimidating if you take it one step at a time and have a system that both of you understand. "Our system is far from perfect or even finished," writes one reader, "but it has given both my husband and me much greater peace of mind." ■

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




H&R BLOCK'S SOFTWARE PROGRAM IS EASY TO USE, BUT WATCH OUT FOR COSTLY UPGRADES.

COURTESY H&R BLOCK

**TAXES**

# BEST VALUES IN TAX SOFTWARE

We ranked the most popular tax-prep packages to help you find the ones that provide the best experience at the lowest cost.

**BY RIVAN STINSON, ROCKY MENGLE and SANDRA BLOCK**

**AS THE TAX DEADLINE NEARS, YOU HAVE** two choices: pay someone to prepare your taxes or hunker down and do it yourself. If your tax situation is straightforward—you don't own a business, for example, or have a large amount of investment income—you can save a lot of money by preparing your own return. The average cost of paying someone to prepare a federal and state tax return for taxpayers who claim the standard deduction is $176, according to the National Society of Accountants. For taxpayers who itemize, the average cost is $273.

But tax software can get expensive, too. Although most major providers offer free programs for taxpayers who claim the standard deduction, earn modest income and have no dependents, you may be forced to upgrade to a more expensive version if you contributed to a health savings account or deducted interest on a student loan.

To help you find the program that's right for you, Kiplinger reviewed the most popular programs and ranked them based on cost, ease of use, tax help and more. We used two fictional tax returns: one for a single taxpayer with income reported on Form W-2, and a second for a married couple with a young child and a mortgage who itemized deductions. (For more on our methodology, see the box below.)

Prices quoted here are as of February 14. Many tax prep providers engage in surge pricing, which means the cost could rise as the tax filing deadline approaches. For a rundown of all nine programs we reviewed, go to kiplinger.com/links/taxsoftware20.

## 1. Credit Karma Tax

**PROS:** Easy to navigate; free with no exceptions, even for complex returns

**CONS:** Won't process multiple state tax returns

www.creditkarma.com/tax

The credit monitoring and credit card site tops our value rankings. Even for our hypothetical couple who itemized, Credit Karma Tax supported all the forms they needed.

Credit Karma can't prepare more than one state tax return, a drawback for anyone who lived in more than one state. Credit Karma Tax makes money by marketing products and services based on the information you provide on your tax return, but you can opt out and still use the program.

## 2. FreeTaxUSA

**PROS:** Free federal return, even for complex tax situations

**CONS:** Program can't import W-2s and 1099s

www.freetaxusa.com

FreeTaxUSA has streamlined its program, which means you don't have to spend time answering questions that aren't relevant to your situation. And, as is the case with Credit Karma Tax, you can use the free program even for more-complex tax returns. The program will import past years'

**OUR METHODOLOGY** We ranked the programs on cost, navigation (ease of use), the availability of tax help and the number of state returns included in the base price. We deducted points if more expensive upgrades were needed. // For each tax software program on our list, we applied our criteria to two fictional tax returns. One of our returns was for a single taxpayer who rents an apartment, received one W-2 form, has a student loan, contributed to an IRA and has no dependents. The other return was for a married couple who own a home, have a young child, received investment income, donated to charity and contributed to a health savings account. They both received a W-2 form for earned income and contributed to separate IRAs.

returns, including returns filed via TurboTax, H&R Block and TaxAct, but can't import your W-2s or 1099s. You need to upgrade for access to live chat from a tax professional, but the cost is a modest $7. Plus, it costs only $12.95 to prepare and file one state tax return—about half of the amount some other programs charge.

### 3. TurboTax

**PROS:** Superior navigation and help features; imports most W-2s and 1099s
**CONS:** Free edition can be used only in limited tax situations, and upgrades are expensive
**www.turbotax.com**

TurboTax excels in providing smooth navigation and loads of support. It also has the most robust import capabilities, allowing users to import data from more than 150 million W-2s, along with information from hundreds of financial institutions. For an additional charge (an extra $50 for Deluxe; $70 for Premier), users can have a certified public accountant review their tax return and point out any deductions they may have missed. But unless you have a complex return or are a nervous filer, that's probably overkill because the program does such a good job of highlighting tax breaks and alerting you to possible errors. TurboTax provides clear and understandable answers to questions, and also provides videos and live help from a large community of users at no extra cost.

All of these bells and whistles come at a cost. TurboTax offers a free version to taxpayers who have W-2 income and claim the standard deduction, but even someone with a seemingly straightforward return can quickly become ineligible. Our fictional single filer was required to upgrade to Deluxe ($30 for a federal return and $40 for one state tax return) in order to deduct interest on a student loan. Our itemizing couple had to upgrade to Premier ($55 for a federal return and $40 for one state tax return) because they had a modest amount of investment income.

### 4. TaxSlayer

**PROS:** Classic version supports all returns
**CONS:** Limited tax help
**www.taxslayer.com**

TaxSlayer Classic provides great value for people who don't need a lot of hand-holding. For only $17, any taxpayer can complete a federal tax return using this program. Each state tax return costs $29.

You can get some basic written tax guidance if you're a Classic user, but you'll have to pay an additional $37 to upgrade to TaxSlayer Premium if you need one-on-one help from a tax pro.

TaxSlayer allows you to import information from your W-2, and you can import information from last year's return, even if you used a competitor's product.

**KipTip**

## Free Filing

Most tax preparation providers offer a free version of their programs, but it's usually limited to taxpayers with simple returns. If you had income of $69,000 or less in 2019, however, you can prepare and e-file your federal tax return through IRS Free File even if your return is complex. Some tax preparation companies that participate in IRS Free File include a free state tax return; others will charge you for that.

This year, there are 10 Free File participants. Each participant is permitted to impose its own criteria. For example, H&R Block's Free File program is open to taxpayers with adjusted gross income of $69,000 or less who are between the ages of 17 and 51, along with active members of the military with AGI of $69,000 or less. The IRS provides a tool that will help you find a program you're eligible to use.

Be careful: Some tax software providers use search words such as "free file" to persuade customers to sign up for programs that end up costing them money. To avoid confusion, go straight to the source: www.irs.gov/filing/free-file-do-your-federal-taxes-for-free.

### 5. H&R Block

**PROS:** Smooth navigation
**CONS:** Costly upgrades
**www.hrblock.com**

In the past, you could count on H&R Block to offer value at a reasonable price. This year, not so much. While our single taxpayer was able to stick with the free online version, our itemizing couple had to use the Deluxe version, which costs $30 for a federal and $37 for one state tax return. Block offers eight online tax prep services that range from free to $150.

Once you get over the sticker shock, Block provides what you need with little hassle. The software tracks your refund—or the amount you owe—as you complete your return, and you can easily review your work for errors. Taxpayers with only W-2 income and no HSA contributions can file their federal return and up to three state returns for free.

### 6. TaxAct

**PROS:** Imports W-2s and previous-year tax returns
**CONS:** Limited help
**www.taxact.com**

In years past, TaxAct was popular with budget-minded taxpayers who didn't need a lot of assistance. The program still doesn't provide much in the way of help, but it's no longer a bargain.

Our fictional single taxpayer, who claimed the standard deduction, was required to upgrade to TaxAct Deluxe because he deducted interest on his student loan, even though he didn't have to itemize to claim this tax break. That means he would need to shell out $30 to file a federal return and an additional $40 for one state return. Our married couple had to upgrade to TaxAct Premium—($40 for a federal return and $40 for a state return) because they had a modest amount of investment income. Live chat for tax-related questions is limited to customers who purchase TaxAct's Premium or Self-Employed+ versions. ■

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

BANKING

# Great Accounts for an Emergency Fund

**TO PREPARE FOR A LOSS OF** income or a large, unexpected expense, the standard advice is to set aside at least three to six months' worth of living expenses. But only 41% of U.S. adults have stashed away enough to cover just a $1,000 emergency, according to a recent Bankrate survey. Instead of tapping savings, 16% say they'd use a credit card, 14% would borrow from family or friends, and 7% would take out a personal loan.

An emergency fund in a dedicated account offers more freedom and less stress than a loan when you need money fast. If you keep the funds in a bank money market deposit account, it may come with a debit card or checks, providing easy access to your money. If you prefer a savings account, look for one that allows large, quick transfers of money to your checking account, says Ken Tumin of DepositAccounts.com. One way to achieve that is to open both a savings and a checking account with a single bank—transfers within an institution are usually immediate and free, says Tumin.

Whichever type of account you choose, look for one that doesn't charge a monthly maintenance fee. If your account tacks on a monthly fee when the balance falls below a certain level, you may end up being charged if you make a big withdrawal. Ideally, the account will have a track record of offering a high interest rate and require a low minimum balance to earn interest.

**Saver-friendly accounts.** Tumin recommends three online savings accounts that fit the bill. The **ALLY BANK ONLINE SAVINGS ACCOUNT** (www.ally.com) yields 1.6%, the **MARCUS BY GOLDMAN SACHS ONLINE SAVINGS ACCOUNT** (www.marcus.com) has a 1.7% interest rate, and the **SFGI DIRECT SAVINGS ACCOUNT** yields 1.86% (www.sfgidirect.com).

Among money market deposit accounts, check out the **SALLIE MAE MONEY MARKET ACCOUNT** (www.salliemae.com/banking), which comes with check writing and offers a 1.75% rate. **REDNECK BANK MEGA MONEY MARKET** (https://redneck.bank) yields 1.75% on a balance of up to $50,000 and offers a debit card and checks. **LISA GERSTNER**

*Lisa_Gerstner@kiplinger.com*

## RATE UPDATES

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

## TOP-YIELDING SAVINGS

| Taxable Money Market Mutual Funds | 30-day yield as of Feb. 4 | Minimum investment | Website (www.) |
|---|---|---|---|
| **Vanguard Prime MMF** (VMMXX) | 1.68% | $3,000 | vanguard.com |
| **Meeder Prime MMF** (FFMXX)* | 1.55 | 2,500 | meederinvestment.com |
| **Vanguard Federal MMF** (VMFXX) | 1.55 | 3,000 | vanguard.com |
| **Gabelli US Treas AAA** (GABXX) | 1.54 | 10,000 | gabelli.com |

| Tax-Free Money Market Mutual Funds | 30-day yield as of Feb. 3 | Tax eq. yield 24%/35% bracket | Minimum investment | Website (www.) |
|---|---|---|---|---|
| **Vanguard Muni MMF** (VMSXX) | 0.91% | 1.20%/1.40% | $3,000 | vanguard.com |
| **M Stanley T-F Daily Inc** (DSTXX)* | 0.77 | 1.01/1.18 | 5,000 | morganstanley.com |
| **BNY Mellon Ntl Muni** (MOMXX) | 0.75 | 0.99/1.15 | 10,000 | bnymellon.com |
| **Fidelity Muni MMF** (FTEXX) | 0.68 | 0.89/1.05 | 1 | fidelity.com |

| Savings and Money Market Deposit Accounts | Annual yield as of Feb. 14 | Minimum amount | Website (www.) |
|---|---|---|---|
| **CFG Bank** (Md.)†# | 2.15% | $25,000 | thecfgbank.com |
| **BrioDirect** (N.Y.)†^ | 2.00 | 25 | briodirectbanking.com |
| **MemoryBank** (Ky.)†#^ | 2.00 | 50 | mymemorybank.com |
| **BankUnitedDirect** (Fla.)†#^ | 2.00 | 2,500 | bankuniteddirect.com |

| Certificates of Deposit 1-Year | Annual yield as of Feb. 14 | Minimum amount | Website (www.) |
|---|---|---|---|
| **ableBanking** (Maine)† | 2.20% | $1,000 | ablebanking.com |
| **Marcus by Goldman Sachs** (N.Y.)†‡ | 2.15 | 500 | marcus.com |
| **USAlliance Financial** (N.Y.)&‡ | 2.15 | 500 | usalliance.org |
| **Rising Bank** (Mo.)†‡ | 2.15 | 1,000 | risingbank.com |

| Certificates of Deposit 5-Year | Annual yield as of Feb. 14 | Minimum amount | Website (www.) |
|---|---|---|---|
| **Fort Bragg FCU** (N.C.)& | 2.99% | $25,000 | fortbraggfcu.org |
| **Transportation FCU** (Va.)& | 2.78 | 1,000 | transfcu.org |
| **Hiway FCU** (Minn.)& | 2.71 | 25,000 | hiway.org |
| **Pen Air FCU** (Fla.)&** | 2.60 | 500 | penair.org |

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ^TotalDirectBank offers a similar yield. ‡Live Oak Bank and Merrick Bank offer a similar yield. &Must be a member; to become a member, see website. **Financial Partners CU 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. 14 | Balance range† | Website (www.) |
|---|---|---|---|
| **Consumers Credit Union** (Ill.)# | 5.09%‡ | $0–$10,000 | myconsumers.org |
| **La Capitol FCU** (La.)# | 4.25 | 0–3,000 | lacapfcu.org |
| **One American Bank** (S.D.) | 3.50 | 0–10,000 | oneamericanbank.com |
| **Evansville Teachers FCU** (Ind.)# | 3.30 | 0–20,000 | etfcu.org |

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. †Portion of the balance higher than the listed range earns a lower rate or no interest. #Must be a member; to become a member, see website. ‡Requires spending $1,000 or more in CCU Visa credit card purchases. 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** | 2.22 | 2.22 | 2.83 |
| **Six-month Treasury bills** | 1.56 | 1.57 | 2.51 |
| **Five-year Treasury notes** | 1.42 | 1.63 | 2.48 |
| **Ten-year Treasury notes** | 1.59 | 1.82 | 2.66 |

As of February 14, 2020.
- EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
- Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.
- Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.

# Money Management Advice for Expats

You need to take extra steps to handle everything from banking to health care. **BY LISA GERSTNER**

You're finally ready to realize your dream of retiring outside the U.S. But before you give in to the lure of sunny beaches, a rich culture, family ties or the low cost of living in a new country, you'll need to brush up on the nitty-gritty of managing your money as an expat.

Retiring abroad will likely make your financial life more complex, especially when it comes to taxes and your investment and bank accounts. But with some foresight—and help from a financial adviser and tax professional—you can overcome the challenges. "When you get overseas, you realize it's not as difficult as you thought it was going to be," says Jeff Opdyke, an American citizen currently living in Prague and editor of *The Savvy Retiree,* a publication from *International Living* magazine.

## BANKING AND CREDIT

You may be able to get by without opening a bank account in your country of residence, but there are good reasons to do so. It's usually the most practical way to pay for rent, utilities and other local services. And if you use your U.S.-based debit card to make ATM withdrawals overseas, you'll likely be hit with foreign-transaction fees and charges for using out-of-network machines. To choose a bank, ask locals which institutions they recommend, suggests Opdyke. He settled on a bank that offers an English-language mobile app.

Maintaining an account in the U.S. is usually a good idea, too. You can use it on visits stateside, and it may be the best way to pay taxes or deposit retirement-account distributions and Social Security

GETTY IMAGES

benefits. (The Social Security Administration will deposit benefits to bank accounts held in most foreign countries, too.) Gabrielle Reilly, a certified financial planner who works with expats, says that many of her clients arrange large quarterly transfers of money from their U.S. bank account to their local one to keep fees to a minimum. (An outgoing international wire transfer often runs $30 to $50 or more.) Or, especially when dealing with currencies that tend to fluctuate widely against the U.S. dollar, such as the euro, it makes sense to initiate transfers when exchange rates are favorable, says Reilly.

To avoid hefty transfer fees from your U.S. bank account, consider a service such as TransferWise. TransferWise applies a market-based exchange rate to transfers (banks and other services often use less-favorable exchange rates) and charges you a percentage of the transaction. Sending $1,000 to a foreign account that holds Mexican pesos, for example, recently incurred a fee of about $11.

**Steer clear of roadblocks.** You may run into difficulties in both finding a bank account abroad and maintaining one in the U.S. The Foreign Account Tax Compliance Act (FATCA), which went into effect in 2014, requires overseas banks to report to the IRS foreign assets held by U.S. taxpayers or face a stiff penalty. Some foreign banks refuse American customers because of the hassle, but "that's been alleviated somewhat" as banks have become more familiar with the law, says Marylouise Serrato, executive director of advocacy organization American Citizens Abroad (ACA).

Under FATCA, U.S. citizens residing abroad must also report their holdings in foreign accounts (including investment accounts) on Form 8938 if total funds exceed $400,000 on the final day of the tax year for married people filing a joint tax return, or if balances are higher than $600,000 at any point during the year. For other taxpayers, the limits are $200,000 on the final day of the tax year or if funds exceed $300,000 at any time. In addition, you must file a Report of Foreign Bank and Financial Accounts (FBAR) with the U.S. Treasury Department if your total assets in foreign financial and investment accounts exceed $10,000 anytime during the calendar year.

One other potential obstacle: Some U.S. banks give the boot to expats who have no permanent U.S. address. And changing your mailing address to that of a relative or friend in the U.S. may not help you get around this problem. Financial institutions may review records from the U.S. Postal Service, check your computer or smartphone's IP address when you log in to your account online, or track where your phone calls originate to figure out where you reside. And if, say, you use your sister's address in California and the state receives a copy of Form 1099 reporting your interest income, you may be asked to explain to the state why you shouldn't have to file a tax return there, says Jonathan Lachowitz, a CFP who works with expats.

One solution is to open a checking account that the State Department Federal Credit Union (www.sdfcu.org) provides in partnership with American Citizens Abroad. Accustomed to serving employees of the U.S. Department of State, who work all over the world, the credit union offers the account to other Americans living abroad who have no domestic address. You must be a member of ACA to use the account (annual fee: $70, or $55 if you're 65 or older).

**Keeping your credit alive.** Obtaining a credit card from an issuer based in another country is often difficult. Credit systems operate differently in other countries than in the U.S., and the credit history you've established in the U.S. isn't usually useful to foreign issuers. You're usually better off hanging on to your U.S. cards. They often offer superior rewards (such as cash back or airline miles earned with every purchase) than cards from foreign issuers, you can use them to make purchases on American websites (which may block cards from issuers outside the U.S.), and you'll maintain a credit history in the U.S., says Lachowitz. A healthy credit profile comes in handy if you move back to the states.

If you want to use a U.S.-issued credit card in another country, make sure it doesn't charge a foreign-transaction fee. Most travel rewards credit cards from major issuers don't charge such fees, and some issuers—including Capital One and Discover—waive the fee on all their cards.

ISTOCKPHOTO.COM (3)

DESTINATIONS

## The Best Places to Retire Abroad

*International Living* evaluated foreign countries' attractiveness to retirees based on several criteria, including climate, health care and cost of living. For 2020, these are the top picks:

### 1. Portugal

## INVESTING

It's usually best to keep your retirement and investment accounts with U.S. firms. If you open investment accounts abroad, you may have to contend with FATCA reporting rules. Plus, if you invest in non-U.S. mutual funds or exchange-traded funds through a foreign institution, they're considered passive foreign investment companies (PFICs), and taxes are punitive.

One big caveat: Just as some U.S. banks reject American customers who move overseas, investment firms may tell expats with no permanent U.S. address that they're no longer eligible to hold an IRA or a brokerage or other account. That's what happened to Jean Nielsen, 77, who had IRAs and other investments with a brokerage firm in California when she relocated to Prague. She found Reilly Financial Advisors, the firm where CFP Gabrielle Reilly is employed, and with the firm's help transferred her accounts to a new custodian. Her IRA's required minimum distributions go into a U.S. financial institution's cash account, and she can withdraw funds from it using a debit card attached to the account.

"I would say probably 90% of the people who reach out to me from outside the U.S.—mostly from Europe—do so because their financial firm has notified them that it won't work with them," says Reilly. Her employer has relationships with various U.S. custodians that allow her expat clients to hold investment accounts, and she transfers clients' assets as quickly as possible. "If the institution liquidates an IRA and mails the account holder a check, that's a fully taxable event on the entire amount. That can be devastating," says Reilly. Well before you move, ask your investment company whether you can keep your accounts after you've left the country.

Another sticking point: Most U.S. financial institutions won't allow citizens living overseas to buy mutual funds, although you may not be forced to sell holdings you already have when you move out of the U.S., says Lachowitz. And if you live in a European Union country, your U.S. and foreign brokers may prohibit you from purchasing U.S.-listed ETFs, too. So future transactions could be limited to individual stocks and bonds.

## TAXES

You may be a bona fide resident of a foreign country, vowing never to return to the States. But if you're a U.S. citizen and have income—whether it's earned through a job or generated from a pension or retirement or investment accounts, and whether it originates inside or outside the U.S.—you'll generally have to file a U.S. tax return and pay taxes on that income. (A couple of exceptions: You don't have to file if your income falls below certain thresholds or if it is solely from Social Security benefits.)

"For those who reside abroad, it's not obvious, and it's usually a rude awakening when they find out they have to file," says Katelynn Minott, a certified public accountant and partner for Bright!Tax, which provides tax services for expats. The tax-return deadline for those living abroad is June 15 rather than April 15. You'll owe interest on any tax due that goes unpaid after the regular April deadline, but the late-payment penalty doesn't kick in until after June 15.

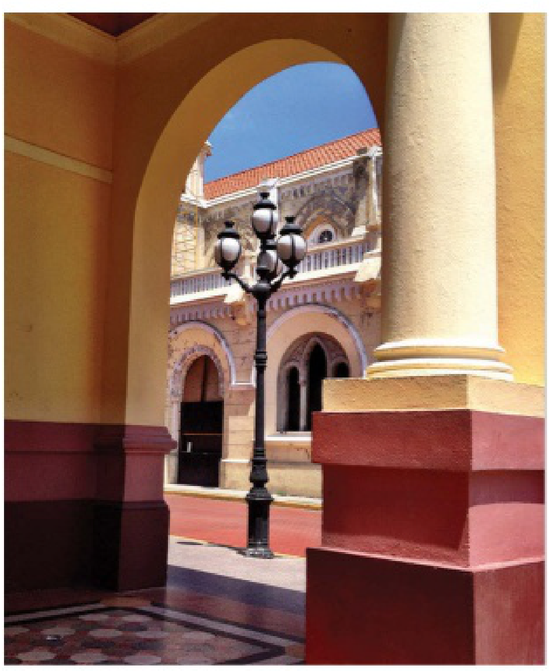
Your former state may expect you to file a return and pay taxes, too, under the assumption that at the end of your time abroad, you will return to that state, so your residency was never relinquished.

"Some states are quite aggressive in their approach," says Minott. In particular, California and New York are known for cracking down on residents who move overseas, she says. To avoid such challenges, some people relocate to a state with no income tax for a few months so they can establish residency, then move overseas.

Chances are you'll have to file a return in your country of residence, too. And you may have to pay tax to the foreign jurisdiction on your U.S. earnings—possibly even on pension or other retirement income. Further muddling the picture, your new country's tax year may span different dates than the U.S. tax year.

Given the complexity of taxation for expats, enlisting help is almost imperative. "You need a good accountant in the U.S. and one in your new country of residence," says Reilly. Your U.S. accountant should be familiar with taxation for expats, and the tax pro you use in your new country should work regularly with U.S. citizens. The ACA offers a directory of

2. Panama



3. Costa Rica

4. Mexico, 5. Colombia, 6. Ecuador, 7. Malaysia, 8. Spain, 9. France, 10. Vietnam

tax services for expats at https://acareturnpreparerdirectory.com.

**Tax breaks for expats.** On the bright side, some countries have tax treaties with the U.S. to alleviate the burden on expats. U.S. citizens who live in several countries—including Canada, Germany, Italy, the U.K. and Switzerland—don't have to pay U.S. income tax on Social Security benefits. International treaties regarding gift and estate taxes may help you avoid double taxation on your financial gifts to others and on your assets after your death.

The U.S. also offers tax breaks to citizens living in other countries. The foreign tax credit allows you to reduce your U.S. tax obligation, in the form of a credit or itemized deduction, based on the foreign taxes you pay to your country of residence. The foreign earned income exclusion applies to foreign earnings that you get from a job or self-employment in your country of residence (but not to passive income, such as from a pension or investments). In 2020, you can exclude up to $107,600 of foreign earnings from your income for U.S. taxation.

## HEALTH CARE

Your U.S. tax liability may follow you to a new country, but Medicare doesn't. If there's any chance you may eventually live in the U.S. again, however, it's wise to pay your Medicare Part B premiums. If you enroll in Medicare Part B later than the time you first become eligible, your monthly premium goes up by 10% for each 12 months that you delay. Plus, you can use Medicare coverage if you visit the U.S. to get health care.

The good news is that many countries offer high-quality health care at prices much lower than you'd pay in the U.S.—and for some retirees, that's one of the main reasons they decide to move overseas. Usually, you have three ways to put together an affordable health care plan: Pay out of pocket, enlist in the country's public health care program (if it's available to foreign residents) or use private insurance, says Dan Prescher, a senior editor for *International Living* who splits his time between Mexico and the U.S.

If joining a country's government-run health system is an option, premiums may be as low as $25 to $100 a month per person—or it may be free, according to *Live Richer, Spend Less: International Living's Ultimate Guide to Retiring Overseas,* which Prescher coauthored with his wife, Suzan Haskins. You may face extended wait times to see physicians or to undergo nonemergency procedures, and public clinics and hospitals can be crowded.

For better service, explore private-sector choices in your country of residence. Some private insurers don't offer new policies to those older than 65 or 70 (though they will continue an existing policy), and premiums may run higher than those for a country's public system. But your medical costs could still be one-fifth to one-fourth of what you'd pay in the U.S., says Prescher. Because doctor visits and procedures are often relatively affordable without insurance in foreign countries, you may be able to pay out of pocket for basic care at private facilities and use either the public health program or a private policy for major surgeries. Even if you end up paying the full price for a major procedure, you'll likely pay less than you would stateside. According to Patients Beyond Borders, which offers guidance for medical tourists, a hip replacement averages $17,200 in Costa Rica and $15,500 in Mexico, compared with $36,300 in the U.S. without insurance.

Another option: Some large insurers offer international health policies for expats. The Group Medical Insurance Plan from the Paris-based Association of Americans Resident Overseas (www.aaro.org) is available to U.S. expats living in most countries. In 2020, the annual premium for a single person between age 60 and 69 who has a Silver level hospitalization and medical plan (covering 80% to 100% of expenses) is 4,017 euros, or about $4,360. You must also pay a $30 annual fee and be an AARO member, which runs 65 euros (about $70) yearly for an individual or 85 euros (about $90) for a couple. ■

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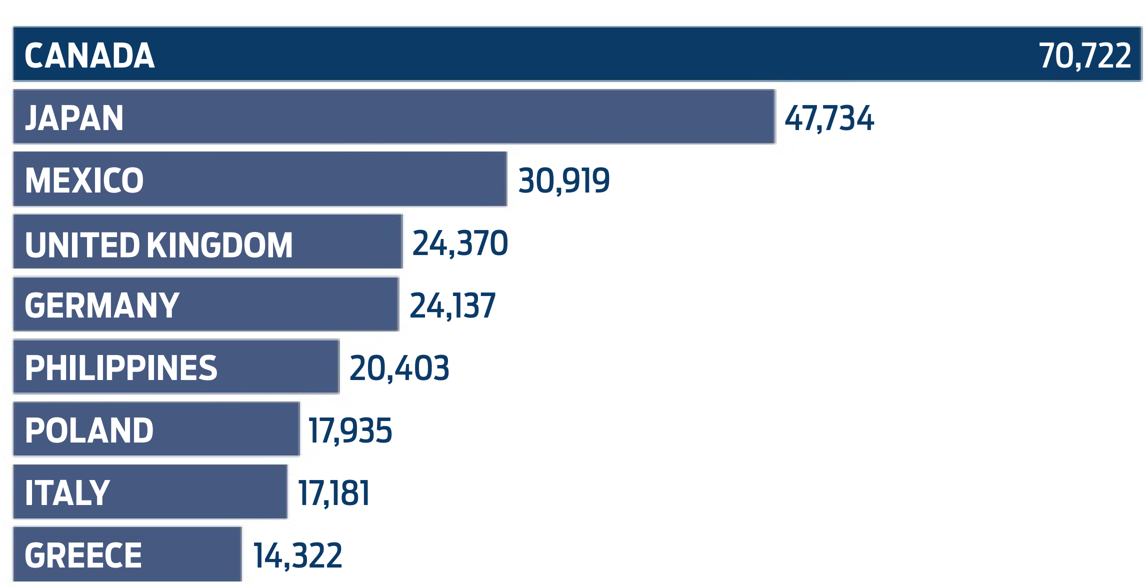
BY THE NUMBERS

### Where the Most U.S. Expats Retire

Countries with the largest number of retired expats, based on retirees who receive Social Security benefits:




SOURCES: Social Security Administration, Master Beneficiary Record, 100 percent data; U.S. Postal Service geographic data.

LIVING IN RETIREMENT | Janet Bodnar

# Expect Surprises in Retirement

Financially, your experiences have been mixed—and sometimes eye-opening.

**A BIG THANKS TO ALL OF YOU** for sharing your retirement experiences (see "Living in Retirement," Dec.). I've been overwhelmed with e-mails—many more than I can acknowledge in a single article. So this will be the first of several columns, starting with a look at some of the things that have surprised you the most.

What struck me most is that you're all so darn busy. "Before I retired, I made a three-page list of things to keep me busy," writes Bob Gray. "Eight months after I retired, I found the list. I hadn't had time to look at it."

Karen Lojo keeps a weekly spreadsheet of things she would like to get done, but "it's in pencil so I can reshuffle it." Lojo has backpacked across the Grand Canyon, "but my closets are still not cleaned." Likewise, John Russo discovered that "things that weren't important enough to do when I was working aren't important to me now."

Jim Turner surprised his family, who feared he would be at loose ends when he retired. Instead, "I replaced my work routine with my retirement routine: exercise in the morning, errands and civic work in the afternoon, and reading in the evening." Turner's second-biggest surprise: "I watch less TV than when I was working."

Roger Van Cleve thought that he would spend more time on creative projects, such as brewing his own beer and learning to play the guitar. Instead, "the amount of time I spend playing sports has expanded" to include tennis, cycling and golf. Those guitar lessons "have slipped down the priority list."

Marilee Morgan is also doing something she didn't envision in retirement: getting up at 6:15 A.M. to take advantage of activities in her active-adult community. "I wasn't a morning person before, but now I happily rise early, eager to enjoy the day. Go figure!"

**The time factor.** Keeping busy is the key to adjusting to all the extra time on your hands. "My biggest surprise is how fast time goes by," writes Sally Zitzer. "I have now been retired for 15 years and it boggles my mind." Ramin Hashemi says "the day goes by just as quickly as when I worked."

But the transition can be rocky. At first, says John Walther, "I went a little bonkers and threw myself into every volunteer opportunity that looked palatable. Now I'm dialing back and trying to find the right balance." After decades of productive work, "it's hard to learn how to just relax," says Walther. "Once I realized this, I started to enjoy the process."

For some of you, productive work is still in the picture. "I was surprised that after anticipating retirement for so long, I lasted six months before starting my own part-time consulting business," says Rob Jennings. For others, it's the opposite: "I loved retirement right from the get-go and haven't missed work at all," writes Cindy Gnech. "In the eight years since I retired, I have worked for five whole days, and I complained almost the whole time about the things I couldn't do."

Financially, your experiences have also been mixed. "I'm spending much more than I expected in retirement because of all my free time," says Dennis Maki. Like a number of other readers who retired too early to sign up for Medicare, Tom Whin was surprised at "how much our health insurance premiums went up every year after our COBRA coverage expired and we had to use Obamacare."

On the plus side, Nancy Ashmore's biggest surprise is that "we have more than enough money to enjoy exactly the retirement life we envisioned. Years of financial planning, maxing out the 401(k) and paying off all debt before retirement have given us a freedom that is truly exhilarating." ■

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# Good Debt, Bad Debt

It's often smart to borrow to boost your income and your assets. **BY KAITLIN PITSKER**

**WITH U.S. HOUSEHOLD DEBT AT A RECORD-**breaking $14 trillion at the end of 2019, more Americans are learning to live with and manage debt. Since the financial crisis, consumer credit in its many forms—from student loans and mortgages to auto loans and credit cards—has grown. In recent years, a strong economy and job market have encouraged many people to spend and borrow more.

Not all debt is harmful to your financial health. In fact, many people divide borrowing into good debt and bad debt. Good debt is used to finance goals that will increase your net worth, such as earning a college degree (see "Ahead," on page 12), buying a home or owning a small business. Good debt is even better if it carries a low interest rate and is tax-deductible. Bad debt is money borrowed to buy things that won't last or that you can't afford, such as a Coach handbag that you charge to your credit card but don't pay off, or a trip to Cozumel that you finance with a home equity line of credit or personal loan.

Sometimes the boundaries between good and bad debt aren't as clear. Many experts consider loans for cars or other depreciating assets to be bad debt. But if you take on debt to buy or repair a car you need to get to work or to pay for a necessary medical expense, that debt falls somewhere between good and bad, says Michele Cagan, a certified public accountant and author of *Debt 101*.

Still, too much debt of any type is overwhelming. And even good debt can turn bad when you have too much of it, as happened for many households in the years leading up to the 2008 financial crisis. But rather than forgoing debt altogether, the key is understanding the purpose of the debt and what you can afford, says Cagan. If you're considering taking out a loan, make sure you understand the details—including when you'll need to start making payments, what the interest rate is and other repayment terms. Consider how those payments will fit into your budget.

**Strategies to pay it off.** Once you're on the hook to pay back money that you borrowed, the strategy is the same, no matter how much you owe. Start by taking inventory of the amount you've borrowed, the payment dates, the lenders and the interest rate for each of your debts. Build the minimum payment for each debt into your monthly budget. (If you're having trouble meeting the minimum-payment amounts, see the box on the facing page.) Then see how much more you can afford to put toward your debts, and make a plan to speed up repayment. It might stretch your budget to make larger payments, but paying down your debts more aggressively will help you wipe them out more quickly and save you hundreds, if not thousands, of dollars in interest.

Simple math shows that paying off your debt with the highest interest rate first, while making minimum payments toward the others—known as the avalanche method—will save you the most money. But some borrowers prefer what's called the snowball method. With this strategy, you tackle the debt with the smallest balance first, then roll that payment into the next smallest debt. Creating a snowball isn't the fastest way to get

HARRY CAMPBELL

out of debt, says Cagan, but it can help borrowers stay motivated because they can see their progress.

Other strategies to manage your debt will depend on the types of debts that you have. Because today's interest rates are low compared with historical rates, you may be able to refinance some of your debts at a lower rate and use the extra cash to speed up repayment or boost your savings.

With most credit card interest rates hovering between 15% and 20%, any credit card debt you have is likely costing you a bundle and is a prime candidate for faster repayment. While you're paying down the debt, you might also consider a balance transfer, shifting the balance to a new credit card that charges no interest on transfers for a period of time. Most issuers give cardholders a year to 15 months to carry an interest-free balance. A few also waive promotional balance transfer fees. Just make sure you can pay off the balance by the end of the introductory period, when higher interest rates typically kick in. If you don't qualify for a balance transfer or need more time to pay your debt, try negotiating with your issuer for a lower interest rate.

**Dealing with student loans.** For students who borrowed to attend college, the average debt at graduation was $29,000 among those who graduated in 2017–18, according to the College Board. In recent years, interest rates for federally backed student loans ranged from 3.4% to more than 7%. Fixed interest rates from private lenders currently range from about 4% to 14%, and variable rates range from roughly 3% to 12%.

If you have federal student loans, consolidating them through the government can make payments more convenient, but it won't lower your interest rates or save you money. The interest rate of the new loan is the weighted average of the interest rate of the loans that you combine. If you go this route, consider excluding your highest-rate loan and targeting it for early repayment.

But consolidating will allow you to pick a new federal repayment plan. There are three main options beyond the traditional 10-year plan: plans that stretch your payment over longer periods, plans that gradually increase the amount of your monthly payments and plans that base the amount of your payments on income. To see what your monthly payment and loan terms would be under different repayment plans, visit StudentLoans.gov and use the Repayment Estimator. The longer the repayment period, the more you will ultimately pay in interest, so pick the plan with the highest monthly payment you can afford.

To lower the interest rate on your student loans, you'll have to refinance with a private lender. Private lenders will refinance both private and federal student loans into one loan. Assuming you've established a good credit history since college, you'll likely be able to score a lower interest rate on private loans than you did when you were a student; you may be able to lower the rate on your federal loans, too.

If you refinance federal loans with a private lender, you'll typically lose benefits and protections that come with federal student loans, such as deferment and forbearance. But some borrowers, particularly those with high-paying jobs, conclude that the savings from lower interest rates are worth the trade-off. ■

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

**KipTip**

## When You're In Too Deep

If you're having trouble repaying your loans or think you may miss a payment, call your creditors. Explain the situation and ask about any repayment options that lower the interest rate or monthly payments while keeping the account in good standing. Many creditors will change due dates, waive interest and late fees for a while, or offer other options that can help.

If you're still struggling to repay your debts, consider credit counseling, a service that offers financial advice and debt-management plans. Work with a nonprofit organization such as the National Foundation for Credit Counseling (NFCC) because then lenders will be more likely to accept new terms for your debt, which can lead to a more manageable payment schedule and lower interest rates. To find an NFCC office near you, visit www.nfcc.org/locator.

**MILLENNIAL MONEY** | Lisa Gerstner

# Can You Count on Social Security?

At some point in my young adulthood, I became aware that many millennials were skeptical that Social Security would still be paying benefits by the time we retire. Curious whether that sentiment still stands, I recently posted to my Facebook page to ask my generational cohorts whether they've absorbed a similar message and how they're incorporating Social Security into their retirement plans. Many respondents said that they aren't counting on Social Security to be around in a few decades and that to stay afloat, they expect to tap their own investments in 401(k)s and IRAs, brokerage accounts, and real estate.

In reality, Social Security is not doomed. Much of the anxiety surrounding its future stems from projections that if Congress takes no action, Social Security's trust fund will run out of money in 2035. But even if that happens, Social Security will be on track to pay out 80% of scheduled benefits from payroll taxes. What's more, lawmakers are likely to shore up the program, although it may be at the last minute. Strategies may include increasing the percentage taken out of workers' checks for Social Security payroll taxes—currently, it's 6.2% for employees—or boosting the amount of income subject to payroll taxes. Other ideas include raising the age of full retirement (currently, it's 67 for anyone born in 1960 or later) and changing cost-of-living adjustments so that they result in smaller benefit increases.

That's reassuring for millennials who struggle to save for retirement. As one of the commenters on my Facebook post pointed out, financially strapped millennials who are carrying heavy student debt and putting off homeownership don't have much choice but to bank on Social Security.

**Shaping your retirement plan.** Like some of my friends, I don't give income from Social Security much weight in my retirement planning. I think that benefits will be available in some form, but I'd rather not rely on them for the bulk of my income. For someone who claims Social Security at full retirement age and had average earnings, benefits replace only about 40% of preretirement income. The percentage drops to about 27% for high earners; it can be as high as 75% for very low earners. I'm unusual for someone my age because my husband and I are hoping to collect a pension as retirees—he's in the military and will receive a pension if he completes 20 years of service. But we're also squirreling away money in tax-advantaged retirement accounts and our brokerage account.

For stability and peace of mind, some financial planners counsel young clients to take a similar tack: Expect Social Security to be around, but plan for retirement as though it won't. "If you can take care of yourself with your own investments, the rest is icing on the cake," says Tara Tussing Unverzagt, a certified financial planner and president of South Bay Financial Partners in Torrance, Calif.

Still, given that Social Security isn't going to vanish, it's reasonable to include it as you put together a retirement plan. At www.ssa.gov/myaccount, you can sign up for an account. After you've logged in, you'll see your estimated monthly retirement benefits, which vary depending on the age you start taking them (for more, see "Your Social Security Questions Answered," March). Keep in mind that your estimates will likely change over time along with your earnings and the policies regarding Social Security.

To be conservative, you could assume a 20% cut to your estimated benefit to account for the possibility that just 80% of benefits will be paid if Social Security's trust fund is depleted. For clients who are especially worried, CFP Kaleb Paddock, founder of Ten Talents Financial Planning in Parker, Colo., assumes a reduction of as much as 50%. ■

**I THINK BENEFITS WILL BE AVAILABLE IN SOME FORM, BUT I'M NOT RELYING ON THEM FOR THE BULK OF MY INCOME.**

POON WATCHARA-AMPHAIWAN

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PRACTICAL PORTFOLIO | Ryan Ermey

# What Drives Stock Returns?

Hint: It's more than just company profits.

**WE'RE TOLD OVER AND** over that growth in corporate earnings drives stock market returns. If that's the case, what has been going on lately? In 2019, Standard & Poor's 500-stock index posted a total return of 32%, but corporate earnings barely moved. In 2018, with corporate profits solidly up, the market surrendered 4.4%. The truth is, earnings are only part of the picture when it comes to stock market returns. Understanding the whole mosaic can give you insight on how to manage your portfolio.

You can divide stock returns into three primary drivers, which can work in concert or at odds: earnings growth, valuation and dividends. In a vacuum, earnings growth is the easiest to understand. Say a stock costs $100 per share and posts earnings of $10 per share. If earnings grow by 5%, to $10.50, then the stock price should grow by a commensurate 5%, to $105, producing a 5% return.

But stock prices reflect what investors expect in the future. Their confidence or negativity about a stock's potential is expressed in its valuation, commonly represented by a measure such as the price-earnings ratio. If investors are bullish on a stock, they'll bid up the price, thus "expanding" the stock's price-earnings multiple and boosting return.

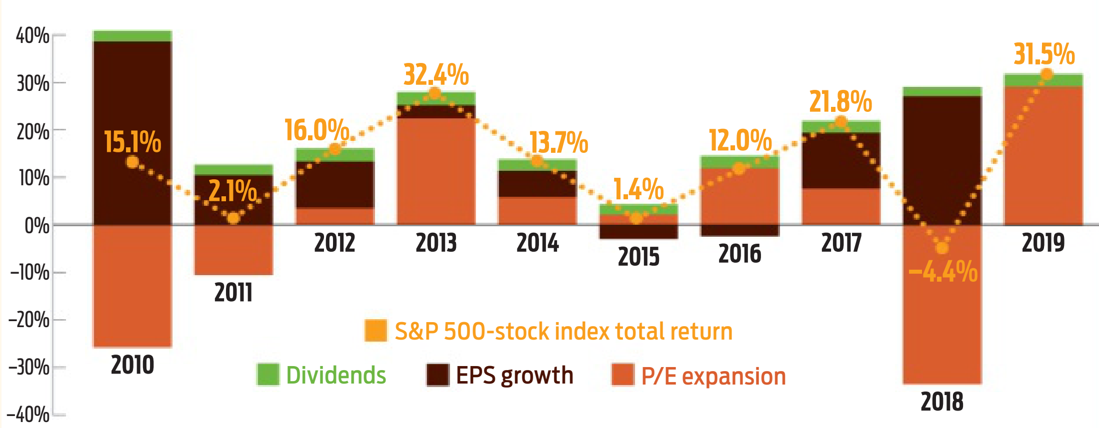
Say the $100 stock with $10 in earnings has a P/E of 10. Should confident investors bid the price up to 12 times earnings, the stock would now trade at $120, a 20% return. In 2019, 29 percentage points of the S&P 500's 32% return came from valuation expansion. "Valuation expansion last year was in anticipation of earnings growth this year," says analyst Willie Delwiche, at investment firm Baird.

Understanding where the market's valuation stands compared with historical averages can give investors a sense of market risk, says Delwiche, because valuations tend to revert to mean levels over time. At 18 times expected year-ahead earnings, the S&P 500 trades above the 10-year average of 15. That doesn't mean prices will come down imminently, Delwiche says, but it could signify that investors should explore less-volatile pockets of the market or consider investing overseas, where stocks are trading closer to historical norms.

Adding It Up

## BUILDING BLOCKS OF TOTAL RETURNS

Stock market returns are made up of three major components.




SOURCE: Calamos Wealth Management

**Count on dividends.** Income investors know the power of the third major driver of total returns: dividends. Since 1955, earnings growth has contributed 63% of the S&P 500's total annual return, on average, followed by dividend payments (28%) and expansions or contractions in valuation (9%), according to Calamos Wealth Management.

Of those factors, dividends are the least volatile and don't ever detract from the market's return. As a result, reinvested dividends have an outsize impact on the market's return over time.

From the end of 1970 through 2019, 78% of the total return of the S&P 500 came from the compound growth of reinvested dividends, according to analysts at the Hartford Funds. The message is clear, says CFRA investment chief Sam Stovall: "Dividends reward the buy-and-hold investor."

What will drive returns in 2020? Calamos chief investment officer Reed Murphy believes the baseline case is for valuations to hold relatively steady and for earnings growth for companies in the S&P 500 to come in below current estimates of 9%-plus. He suggests the S&P 500 is likely to return 7% to 8% in 2020, including a 1.9% dividend yield. ■

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REWARDS

# HOME PRICES ON THE RISE

A tight supply of homes for sale and lower mortgage rates are pushing up home values. Sellers and homeowners are reaping the rewards. BY DANIEL BORTZ

KAUSHIK MUKERJEE AND PREETI VASISHTHA faced stiff competition when they set out to buy a home last spring. The couple, who live in Northern Virginia and have an 8-year-old son, were looking for a home in a good school district, but they lost out to other bidders on two houses before their offer on a townhouse stuck. "In one case we competed against 10 other offers, and the home sold for $20,000 above list price," Mukerjee says. Ultimately, the couple paid $502,000—slightly above list price—for a 2,000-square-foot, three-bedroom townhouse in Burke, Va.

Kody Henderson, a 26-year-old first-time home buyer, also grappled with a hyper-active market when he looked for a home in the Seattle area. He struck out on three before he snagged a three-bedroom single-family house for $465,000 in Burien, Wash., last November. "I kept getting beat by cash offers that were usually above list price," says Henderson. "It was frustrating."

More buyers are looking for a home than at any time since 2013. Skylar Olsen, Zillow's director of economic research, says demand for homes has increased over the past five years as a result of strong economic growth as well as low mortgage rates and more



PHOTOGRAPH BY RYAN DONNELL

AFTER LOSING OUT TO OTHER NORTHERN VIRGINIA BUYERS TWICE, PREETI VASISHTHA AND KAUSHIK MUKERJEE LANDED A HOME IN A GOOD SCHOOL DISTRICT FOR THEIR SON.

millennials entering their thirties and "approaching peak home buying ages." (According to a recent report from the National Association of Realtors, the median age of first-time home buyers is 33.)

Furthermore, a large cohort of baby boomers are buying and selling, as many boomers downsize for retirement. Adding to the big squeeze on buyers is a huge housing shortage: The number of homes in the U.S. listed for sale on Zillow in December was down 7.5% from the previous year and is at the lowest level ever recorded by the company. The U.S. housing market is facing an undersupply of homes for sale of 3.8 million, which is driving up home prices and putting pressure on housing affordability, says George Ratiu, Realtor.com's senior economist.

For about one in four home buyers in 2019, the home-search process took more than a year, Realtor.com found. "The housing shortage is brutal," says Matt Parker, a Seattle real estate agent and author of *Real Estate Smart: The New Home Buying Guide*. "Buyers can go months without looking at any new properties."

## HIGH DEMAND, HIGHER PRICES

While buyers are dealing with limited supply, home sellers—and homeowners with no plans to move anytime soon—are reaping the rewards. Home values climbed in 2018 before hitting the pause button starting in spring 2018 because of higher mortgage rates. But home price gains picked up in the second half of 2019 as mortgage rates retreated again. The median price of existing homes depends on who's calculating it. According to Attom Data Solutions, a property database provider, the median home price increased 6.2% in 2019, hitting an all-time high of $258,000. According to Clear Capital, which supplies average home prices for metro areas across the U.S., home prices rose 5.7% in 2019, compared with an increase of 7.4% in 2018. Clear Capital says the median sales price of a residential property was $253,000 in December 2019. (For home prices in the 100 largest cities, see the table on page 69.)

How high will home prices go this year? Kiplinger expects a 3.6% rise in 2020. December marked the sixth consecutive month of year-over-year increases, reversing the trend of decelerating price growth that began in March 2018 and ended in July 2019. Home prices are nearly 60% above the bottom they hit in February 2012 and are now 15% above their pre-crisis peak, on average.

Frank Nothaft, chief economist at financial data and analytics firm CoreLogic, is more optimistic, with a price-increase forecast of 4.6% for 2020. "We're predicting 2% economic growth this year, which is slightly slower than the past couple of years but still sufficient to create enough jobs to stimulate the housing market," Nothaft says.

Assuming that mortgage rates stay below 4%—the 30-year fixed-rate mortgage was recently about 3.5%, according to Freddie Mac—lower-priced homes will continue to appreciate faster than higher-priced homes, says Mike Fratantoni, chief economist at the Mortgage Bankers Association.

After years of sluggish growth, the supply of newly built homes is picking up. Robert Dietz, chief economist at

**Mortgage Outlook**

## Should You Refinance?

Mortgage rates are at three-year lows. The average rate for a 30-year fixed-rate mortgage was recently about 3.5%, according to Freddie Mac—down about one percentage point from the year before. The average rate for a 15-year fixed-rate mortgage was recently 3%. Is now the right time for you to refinance?

In 2019, buyers and refinancers took out more home loans than in any year since 2006, according to industry research group Inside Mortgage Finance. The reduced rates widen the pool of homeowners who could lower their monthly payments. Mortgage-data firm Black Knight Inc. estimates that 11.3 million U.S. homeowners would qualify for and benefit from a refinancing, the second-most on record. Average monthly savings would be $268.

If it has been several years or more since you bought your home or since you last refinanced, there's a good chance your mortgage rate is more than one percentage point above current rates, which is usually a sign that it makes sense to refinance. But you may benefit from a refi even if your new rate would be less than a full point lower. It depends partly on how long you plan to stay in your home and how long it would take to recoup closing costs.

Keep in mind that closing costs for refinancing will typically run between 3% and 6% of your new loan amount, so knowing when you plan to sell your home is essential. Say you have a $300,000, 30-year, fixed-rate loan at an interest rate of 4.4% that you took out in 2014, and you're making a monthly payment of $1,688 a month in principal and interest. If you refinance to a 30-year loan with an interest rate of 3.0% and closing costs of 3% and finance the closing costs, you would lower your mortgage payment to $1,303, saving you $385 per month. You could break even and begin saving after a bit more than three years. If you sold your home in 10 years, you would save a total of $17,457.

If you have a 30-year loan but plan to sell your house in a few years, refinancing to a five- or seven-year adjustable-rate mortgage (ARM) could enable you to save even more money. You could also choose a no-cost refinance, in which your mortgage lender pays the closing fees, but that would require you to pay a higher interest rate.

Need help crunching the numbers? Use The Mortgage Professor's refinance calculator (www.mtgprofessor.com) to enter the details of both your current mortgage and your new loan to see how long you'd have to stay in your home to start saving money on a refi.


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## Find Out What Your Home Is Worth

All real estate is local, so the median home price in your metro area is only a broad indicator of overall trends.

Unfortunately, many homeowners misjudge the value of their home, laments Indianapolis real estate agent Chris Dossman. "You can't just look at what your neighbor's house sold for and assume that your home is the same value as theirs," Dossman says. "For example, how old is your neighbor's roof compared to yours? How old are their appliances? You can look at pictures, but pictures don't tell the whole story."

There's no shortage of online home-value estimators—and they can be a good starting point—but their estimates can vary significantly depending on their methodology. For example, Zillow estimates that its error rate for homes not currently on the market is about 7.5%.

Your best approach when assessing your home's value? Look at homes within a one-mile radius that sold within the past 30 to 60 days that are similar to yours in terms of square footage, the number of bedrooms and bathrooms, and home improvements. (You can search for recently sold houses at sites such as Zillow, Realtor.com and Redfin.) Take the average sales price of three or four homes to gauge your home's value.

Essentially, you're doing a comparative market analysis, or "CMA," in which you're looking at comparable properties ("comps" in industry lingo)—which is how real estate agents recommend listing prices to home sellers.

Want an expert's opinion of how much your house is worth? Consult a real estate agent—many offer complimentary home appraisals—or consider hiring a professional appraiser to assess the value of your home. A typical home appraisal costs between $300 and $400, according to HomeAdvisor.

the National Association of Home Builders (NAHB), says that builders have been grappling with rising costs of land, labor and building materials, plus a labor shortage of about 300,000 skilled workers. But the NAHB projects that 920,000 single-family houses will be built this year—close to the 1 million homes that will have to be constructed annually to pull the nation out of its housing shortage, Dietz says.

The median price tag of newly built homes climbed to $331,400 in December, less than a 1% year-over-year bump, according to data from the Department of Housing and Urban Development and the U.S. Census Bureau. Most new homes being built are for move-up home buyers, Dietz says, but a growing number of homebuilders are beginning to focus on building houses for first-time buyers.

### HOT MARKETS

Of course, some housing markets are seeing bigger price gains than others. Salt Lake City, New Orleans and Knoxville, Tenn., had the highest home-price appreciation. Boise, Idaho, also had a double-digit jump. "Our inventory is the lowest it has been in 19 years," says Boise real estate agent Sheila Smith. "We've been seeing a huge exodus from [the West Coast] to Boise, largely because the cost of living here is so much more affordable."

Denver's price increases slowed in 2019, but—from January 2010 to December 2019, the city's median home price swelled from $202,896 to $424,051, a price increase of 11.2% per year, according to a December report from Redfin.

The downside? Tight supply coupled with rising living costs has eroded affordability in some areas, particularly in California. Nationally, home buyers need 7.2 years to save for a 20% down payment on the median-priced home, but home buyers in Los Angeles need 18.4 years, a recent Zillow report found. "Homes on the West Coast just aren't

Housing Snapshot

## Home Prices in 100 Cities

The table shows changes in prices for existing homes (single-family houses and condos) for the 100 largest **metro areas** tracked by Clear Capital as of December 31, 2019. In addition to the one-year change, we show the change in home prices since the peak of the national market in mid 2006 and since the bottom of the market in early 2012.

The **median home price** (half of all homes sold cost more, and half cost less) of a residential property as of December 31 was $253,000, according to Clear Capital. Home prices rose 5.7% in 2019, compared with an increase of 7.4% in 2018. Prices in more than one-fifth of the 100 cities have doubled since then, led by Salt Lake City, New Orleans and Knoxville, Tenn. Cities that cooled in 2019 include Jackson, Miss., Kansas City, Mo., Bridgeport, Conn., and San Jose, Calif.

The **affordability index** shows the relative affordability of cities (on a scale of 1 to 10; 1 is the most affordable, 10 is least affordable). It's based on the percentage of annual income required to buy a median-priced home in each metro area in late 2019.

At the end of 2019, home prices rose faster than wages and rents in two-thirds of the 855 counties analyzed by Attom Data Solutions. Yet owning a three-bedroom home is more affordable than renting a median-priced home in more than half of those markets. Attom's analysis shows ownership is more affordable in less-populated counties and renting more affordable in urban areas. Cities with more than 1 million people where it's still more affordable to buy a home than rent include Cleveland, Detroit and Philadelphia.

| METRO AREA | Median home price | % change 1 year | % change Since peak* | % change Since bottom† | Affordability index# |
|---|---|---|---|---|---|
| Akron, Ohio | $138,000 | 6.7% | -5.7% | 65.7% | 2 |
| Albany, N.Y. | 198,000 | 5.0 | 13.1 | 25.9 | 5 |
| Albuquerque, N.M. | 180,000 | 3.8 | 11.7 | 32.0 | 7 |
| Allentown, Pa. | 181,000 | 10.2 | 2.2 | 45.6 | 5 |
| Atlanta, Ga. | 225,000 | 7.7 | 14.2 | 123.7 | 4 |
| Augusta, Ga. | 154,000 | 7.8 | 17.6 | 37.8 | 1 |
| Austin, Texas | 299,000 | 6.0 | 93.3 | 91.5 | 9 |
| Bakersfield, Calif. | 225,000 | 7.0 | -14.7 | 99.7 | 7 |
| Baltimore, Md. | 254,000 | 4.2 | -8.4 | 35.9 | 5 |
| Baton Rouge, La. | 178,000 | 6.7 | 18.4 | 23.8 | 3 |
| Birmingham, Ala. | 165,000 | 7.4 | 2.5 | 55.8 | 1 |
| Boise City, Idaho | 290,000 | 10.0 | 48.7 | 161.9 | 9 |
| Boston, Mass. | 421,000 | 3.7 | 20.8 | 69.8 | 8 |
| Bridgeport, Conn. | 374,000 | -1.3 | -19.0 | 28.7 | 6 |
| Buffalo, N.Y. | 150,000 | 6.5 | 64.7 | 60.2 | 4 |
| Cape Coral, Fla. | 220,000 | 1.9 | -14.1 | 98.0 | 8 |
| Charleston, S.C. | 251,000 | 5.0 | 27.5 | 66.4 | 9 |
| Charlotte, N.C. | 227,000 | 7.0 | 43.5 | 72.2 | 4 |
| Chattanooga, Tenn. | 169,000 | 10.0 | 43.4 | 63.3 | 4 |
| Chicago, Ill. | 229,000 | 2.8 | -15.2 | 67.5 | 4 |
| Cincinnati, Ohio | 165,000 | 9.4 | 15.6 | 59.7 | 1 |
| Cleveland, Ohio | 135,000 | 6.5 | -13.7 | 67.9 | 1 |
| Colorado Springs, Colo. | 304,000 | 9.9 | 49.8 | 80.2 | 8 |
| Columbia, S.C. | 150,000 | 7.0 | 14.3 | 36.4 | 3 |
| Columbus, Ohio | 192,000 | 9.7 | 26.4 | 85.3 | 4 |
| Dallas, Texas | 225,000 | 5.3 | 69.4 | 106.8 | 5 |
| Dayton, Ohio | 128,000 | 4.6 | 5.3 | 57.8 | 2 |
| Deltona, Fla. | 200,000 | 7.1 | -3.2 | 112.3 | 7 |
| Denver, Colo. | 400,000 | 4.1 | 70.5 | 111.8 | 8 |
| Des Moines, Iowa | 186,000 | 5.4 | 26.1 | 45.0 | 3 |
| Detroit, Mich. | 164,000 | 5.9 | -10.1 | 138.6 | 1 |
| Durham, N.C. | 242,000 | 1.1 | 38.6 | 51.1 | 3 |
| El Paso, Texas | 130,000 | 5.4 | 23.1 | 25.5 | 6 |
| Fayetteville, Ark. | 188,000 | 6.7 | 15.7 | 55.5 | 2 |
| Fresno, Calif. | 260,000 | 5.0 | -14.7 | 93.4 | 8 |
| Grand Rapids, Mich. | 193,000 | 7.5 | 39.8 | 119.7 | 5 |
| Greensboro, N.C. | 145,000 | 3.7 | 10.7 | 44.0 | 3 |
| Greenville, S.C. | 183,000 | 10.0 | 47.5 | 62.3 | 5 |
| Harrisburg, Pa. | 169,000 | 5.6 | 16.9 | 31.9 | 3 |
| Hartford, Conn. | 214,000 | 1.1 | -10.1 | 14.3 | 4 |
| Honolulu, Hawaii | 580,000 | 1.3 | 44.6 | 59.7 | 10 |
| Houston, Texas | 197,000 | 2.9 | 43.9 | 82.2 | 4 |
| Indianapolis, Ind. | 145,000 | 8.5 | 12.4 | 63.0 | 2 |
| Jackson, Miss. | 130,000 | -4.5 | -8.5 | 32.7 | 8 |
| Jacksonville, Fla. | 208,000 | 5.9 | -0.6 | 85.5 | 3 |
| Kansas City, Mo. | 159,000 | -2.1 | -1.3 | 70.2 | 2 |
| Knoxville, Tenn. | 175,000 | 10.3 | 34.8 | 54.3 | 5 |
| Lakeland, Fla. | 173,000 | 9.5 | 1.9 | 99.8 | 6 |
| Las Vegas, Nev. | 275,000 | 4.1 | -16.0 | 151.4 | 8 |
| Little Rock, Ark. | 145,000 | 6.1 | 11.2 | 12.9 | 1 |
| Los Angeles, Calif. | $650,000 | 4.4% | 11.4% | 99.1% | 10 |
| Louisville, Ky. | 170,000 | 4.7 | 20.2 | 43.9 | 2 |
| Madison, Wis. | 260,000 | 7.4 | 35.6 | 50.9 | 7 |
| McAllen, Texas | 124,000 | 5.2 | 35.8 | 37.2 | 7 |
| Memphis, Tenn. | 147,000 | 9.7 | 2.5 | 64.8 | 1 |
| Miami, Fla. | 269,000 | 4.4 | -11.4 | 116.1 | 8 |
| Milwaukee, Wis. | 193,000 | 8.3 | -3.6 | 58.2 | 3 |
| Minneapolis-St. Paul, Minn. | 265,000 | 5.9 | 7.4 | 80.8 | 5 |
| Modesto, Calif. | 315,000 | 5.5 | -16.3 | 149.7 | 9 |
| Nashville, Tenn. | 265,000 | 6.9 | 68.4 | 87.7 | 6 |
| New Haven, Conn. | 201,000 | 2.0 | -23.5 | 31.5 | 6 |
| New Orleans, La. | 199,000 | 12.0 | 30.1 | 74.6 | 4 |
| New York, N.Y.-N.J. | 418,000 | 5.3 | 3.5 | 47.4 | 10 |
| North Port-Sarasota, Fla. | 245,000 | 4.6 | -12.1 | 94.0 | 7 |
| Ogden, Utah | 278,000 | 3.8 | 81.7 | 93.2 | 9 |
| Oklahoma City, Okla. | 158,000 | 5.7 | 30.6 | 32.5 | 1 |
| Omaha, Neb. | 186,000 | 6.3 | 35.5 | 50.2 | 3 |
| Orlando, Fla. | 235,000 | 6.8 | -6.5 | 112.9 | 7 |
| Oxnard, Calif. | 598,000 | 1.3 | -3.1 | 75.3 | 10 |
| Palm Bay, Fla. | 199,000 | 6.1 | -1.8 | 121.3 | 5 |
| Philadelphia, Pa. | 220,000 | 7.8 | 5.5 | 37.5 | 1 |
| Phoenix, Ariz. | 265,000 | 8.4 | -0.8 | 132.2 | 6 |
| Pittsburgh, Pa. | 152,000 | 4.2 | 30.7 | 44.6 | 2 |
| Portland, Ore. | 385,000 | 3.9 | 49.0 | 94.5 | 9 |
| Providence, R.I. | 268,000 | 4.5 | -8.5 | 80.5 | 7 |
| Provo, Utah | 340,000 | 5.9 | 77.6 | 105.2 | 10 |
| Raleigh, N.C. | 262,000 | 4.3 | 38.2 | 48.3 | 6 |
| Richmond, Va. | 233,000 | 5.5 | 16.9 | 55.1 | 7 |
| Riverside-San Bernardino, Calif. | 355,000 | 5.0 | -9.9 | 110.2 | 10 |
| Rochester, N.Y. | 140,000 | 8.1 | 28.5 | 40.0 | 4 |
| Sacramento, Calif. | 399,000 | 6.0 | -2.3 | 127.3 | 8 |
| Salt Lake City, Utah | 310,000 | 12.2 | 95.8 | 133.3 | 9 |
| San Antonio, Texas | 185,000 | -0.3 | 48.5 | 66.0 | 6 |
| San Diego, Calif. | 568,000 | 4.2 | 8.2 | 92.4 | 10 |
| San Francisco, Calif. | 875,000 | 1.0 | 24.4 | 133.1 | 10 |
| San Jose, Calif. | 1,086,000 | -0.9 | 46.9 | 134.4 | 10 |
| Scranton-Wilkes-Barre, Pa. | 103,000 | 7.0 | 2.4 | 36.1 | 2 |
| Seattle, Wash. | 460,000 | 4.8 | 56.8 | 119.1 | 9 |
| Spokane, Wash. | 248,000 | 10.2 | 67.1 | 79.4 | 8 |
| Springfield, Mass. | 200,000 | 0.8 | 3.5 | 44.8 | 6 |
| St. Louis, Mo. | 163,000 | 6.3 | -4.5 | 50.2 | 3 |
| Stockton, Calif. | 355,000 | 4.4 | -14.5 | 155.1 | 10 |
| Tampa, Fla. | 201,000 | 8.0 | -0.7 | 113.5 | 5 |
| Toledo, Ohio | 122,000 | 6.4 | -6.6 | 59.8 | 1 |
| Tucson, Ariz. | 206,000 | 7.0 | -4.0 | 74.8 | 6 |
| Tulsa, Okla. | 154,000 | 3.0 | 17.6 | 30.6 | 2 |
| Virginia Beach, Va. | 229,000 | 5.1 | -6.1 | 27.9 | 9 |
| Washington, D.C.-No. Va. | 397,000 | 5.8 | -8.2 | 47.7 | 9 |
| Winston-Salem, N.C. | 150,000 | 6.0 | 20.1 | 38.5 | 2 |
| Worcester, Mass. | 247,000 | 3.8 | -1.3 | 67.2 | 7 |

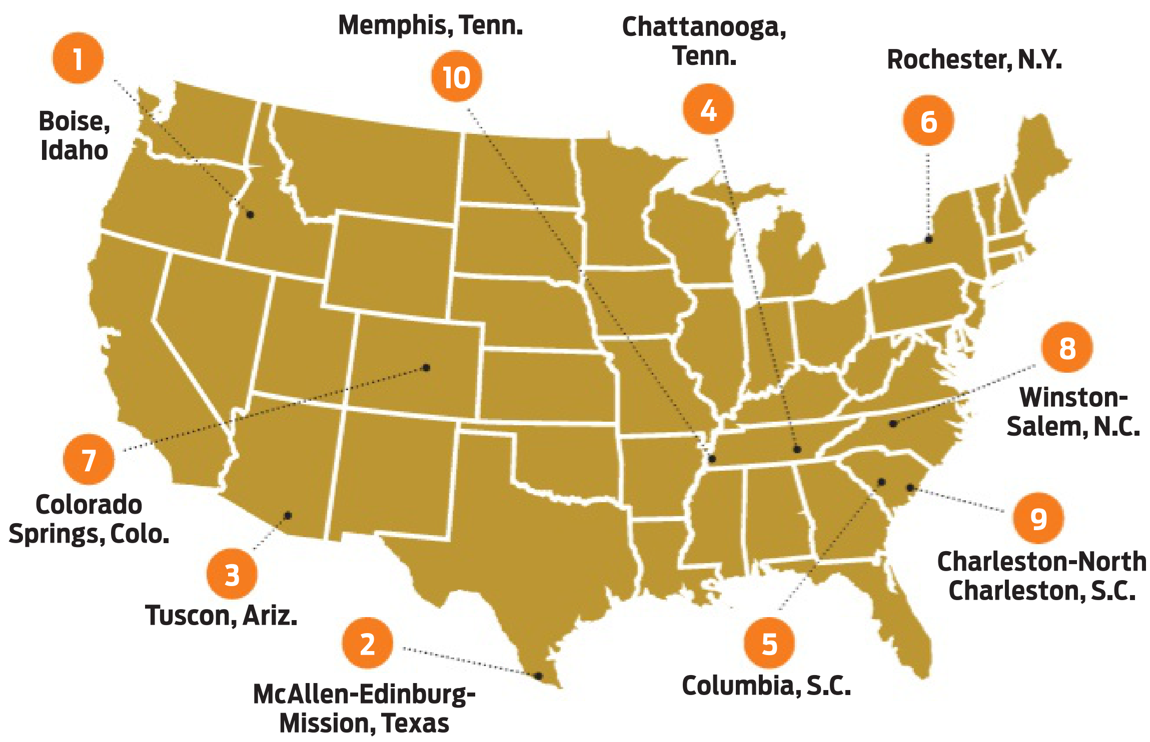
Home-price data as of December 31, 2019. Cities represent metropolitan statistical areas as defined by the U.S. Census. *Since May 31, 2006, when the housing market peaked nationally. Since March 31, 2012, when the housing market hit bottom nationally. #Ranked 1 (most affordable) through 10 (least affordable).
SOURCES: Clear Capital, Attom Data Solutions (www.attomdata.com), U.S. Census.

Source for last graf: https://www.attomdata.com/news/market-trends/attom-data-solutions-2020-rental-affordability-report/

Buyer-Friendly Cities

## Top Housing Markets of 2020

These cities are the most attractive markets for home buyers in 2020, according to an analysis by Realtor.com that forecasts sales and home prices. The cities, which are attracting both millennials and retirees, share several traits: strong job growth, high numbers of graduates of local colleges who have stayed in the area, and affordable homes—especially compared with coastal metro areas.




affordable anymore," says Lawrence Yun, the NAR's chief economist.

### TIPS FOR BUYERS AND SELLERS

Although it's a seller's market in most cities, now is still a great time to buy a house if you're looking to snag a low mortgage rate. But home buyers should be prepared to deal with competing offers, says Chris Dossman, a real estate agent in Indianapolis. And getting preapproved for a mortgage before you make an offer is a must.

If a house is priced fairly, you'll need to be willing to make a full-price offer—or even above list price for a property in a hot neighborhood. You will want to make your strongest offer from the outset—your highest bid, with as few contingencies as possible. Home sellers have been shying away from bidding wars; just 9% of offers written by Redfin agents faced a bidding war in December, a 10-year low. "Talk [with your agent] in advance about what an aggressive offer looks like so that you'll be prepared in a multiple-offer situation," advises Peggy Yee, a real estate broker in Vienna, Va.

Partnering with a real estate agent who's an expert in the neighborhoods where you're shopping is key, because a plugged-in agent can hear about new listings before they hit the market and set up early showings for you. Also, sign up for real-time alerts of price reductions and new listings from websites such as Zillow and Realtor.com.

Flexibility is crucial, says Julie McDonough, a real estate agent in Southern California. You may have to expand your home search to other neighborhoods or towns if no homes are for sale in your desired area or you can't afford to buy a home there. This is a common challenge: 22% of millennials who are planning to buy their first home this year said they've been priced out of their desired neighborhoods, TD Bank's 2020 First-Time Homebuyer Pulse survey found.

Home sellers have the upper hand in most markets. But even though it may be tempting, don't list your home above its market value. Today's home buyers have access to a surplus of housing information online—meaning they know what properties are worth and when a house is overpriced.

"Some home sellers think that they can ratchet up home prices and find buyers. But if your house stays on the market for more than 30 days, it becomes stale, and buyers will believe that there is something wrong with your house," the NAR's Yun says.

Home buyers expect Instagram-worthy, move-in-ready homes, so staging is more important than ever, says Philadelphia-based real estate agent Patrick Conway. If you're on a budget, focus on staging the living room, master bedroom and kitchen—the three most important staged rooms for home buyers, an NAR survey found.

The supply of homes for sale in your area is a good indicator of how much leverage you have. Six months' supply is considered a balanced market between buyers and sellers; in markets with less than six months' supply, home sellers have the upper hand. (You can find this information and other home-sale market statistics on the website of your local association of Realtors.) Devise a plan for how you'd handle multiple offers. Instead of reviewing offers as they come in—or simply accepting the first offer you get—Yee recommends setting a deadline for all offers, so that every buyer who comes to your open house gets a chance to submit an offer.

If you're buying another home after you sell, you'll be competing with other buyers. Move-up buyers have less to worry about, but if you plan to downsize, you may be targeting the same homes as first-time buyers. ■

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

**DRIVE TIME** | David Muhlbaum

# Should Your Next Car Be New or Used?

At Kiplinger, we've hewed pretty closely to the same car-buying advice over the years: Used cars offer the best value. Not overspending on a depreciating asset fits well with our get-rich-slowly philosophy.

As designated car guy here, I've repeated that mantra plenty of times. But recently a friend challenged me on it. He was looking for something safe, with a stick shift and a hint of sportiness. Maybe a new Honda Civic or Toyota Corolla iM? No problem with your choices, I said, but why not buy used? His counter: Carmaker subsidies made the interest rate he would pay for a loan on a new car much lower than the rates he was finding for used-car loans. Also, he argued, a three-year-old car would be that much closer to needing new tires, brakes and possibly major service.

"But ... but ... depreciation!" I sputtered. At the same time, I remembered that the models he was considering have super-high residual values. Maybe he was right? I resolved to run some numbers and check with experts to see if it ever makes more financial sense to buy a car new rather than used.

Note that I said *financial* sense. Some people, for any number of reasons, will never buy a used car. Conversely, some won't ever buy new (price is often the reason). My friend was in neither of these camps, and I imagine there are others like him.

**What's the answer?** According to Ivan Drury, senior insights manager for Edmunds.com, there are cases when it's better to buy new than used. "It isn't even rare," he says. "You need vehicles that are low-priced to start with and have high resale value." Some examples he provided: the Toyota Tacoma pickup, the Toyota 4Runner (a popular old-school SUV), the Jeep Wrangler and the Subaru Crosstrek (a small crossover). "With these," he says, "the price differential is not enough to say, 'Hey, go out and buy a used car.'" It's the opposite case for luxury vehicles. For these, favorable financing and free maintenance can't make up for the huge depreciation hit, Drury says. Buy used.

What about the cars on your short list, which might be somewhere in between these two groups? I recommend starting with an online calculator, such as the Edmunds True Cost to Own tool, to consider all the costs (insurance, depreciation, maintenance and more) that go into car ownership. If you want to get deeper into the financing costs, also check out State Farm's New Car vs. Used Car calculator, which (for better and worse) lets you input your own values for almost all of the parameters.

And, of course, it's important to make an apples-to-apples comparison. Eric Ibara, director of KBB's 5-Year Cost to Own tool, notes that cars get better and safer all the time. "There are a lot of features coming out on new cars that are not available on a three- or five-year-old car," he says. "The safety technology, for example—some of the older cars had it, but not all of them did."

Fortunately for my buddy's situation, there's not much difference between a 2020 Honda Civic and one from three model years earlier, 2017. So: For a Civic LX with a six-speed, over five years, it will cost $228 *less* to buy a 2020 model than a 2017 one. As expected, the new car costs more up front and depreciates more dramatically, but maintenance and repairs are higher for the used model. Not a huge difference, but don't forget, you get that new-car smell along with your savings.

Want to follow along with the calculations for the Civic and some other models? I've published some of my spreadsheets with commentary at kiplinger.com/links/neworused. ■

***THERE ARE CASES WHEN IT'S BETTER TO BUY NEW THAN USED. LOOK FOR LOW-PRICED CARS WITH HIGH RESALE VALUE.***

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# Test Your Financial Smarts

April is Financial Literacy Month, when educators promote efforts to improve Americans' understanding of taxes, saving, credit and more. Think you're already savvy about your finances? Take our quiz to find out.

**1.** If you don't owe taxes, you won't be penalized for filing your federal income tax return after Tax Day.

___ **True** ___ **False**

**2.** How high must your FICO credit score be for you to qualify for the best interest rates?

**A. 600**
**B. 650**
**C. 700**
**D. 750**

**3.** If a 25-year-old investor deposits $100 a month in a mutual fund with an annualized return of 10%, he'll have about $640,000 at age 65. If he waits until age 40 to start saving, how much will he have to deposit each month to have the same amount at age 65?

**A. $150**
**B. $225**
**C. $475**
**D. $800**

**4.** You and your spouse bought a house for $100,000 in 2000 and sold it for $500,000 this year. How much will you owe in capital gains taxes?

**A. $100,000**
**B. $60,000**
**C. $0**

**5.** You can invest in only one 529 college-savings plan per child.

___ **True** ___ **False**


**6.** When do you need to start taking required minimum distributions from Roth IRAs?

**A. When you retire**
**B. At age 72**
**C. At age 70½**
**D. Never**

**7.** Which of these expenses can you write off on your federal tax return if you don't itemize?

**A. Charitable contributions**
**B. Medical expenses**
**C. Mortgage interest**
**D. Student loan interest**

**8.** When interest rates rise, bond prices

**A. Rise**
**B. Fall**
**C. Stay the same**

## ANSWERS

**1:** True. The penalty for missing the filing deadline is a percentage of the tax owed with the return. If the IRS owes you, there is no penalty. **2:** D. A credit score in the mid 700s will usually allow you to qualify for the best rates. **3:** C. The saver who starts at 25 would deposit a total of $48,000 of his own money; the procrastinator would need to come up with $142,000 out of pocket to have the same amount at age 65. **4:** C. As long as they've owned the house and lived there for at least two out of the past five years, married couples can exclude up to $500,000 in home-sale profits from taxes. **5:** False. There is no law limiting the number of 529 plans you can invest in to save for a college education. **6:** D. Unlike traditional IRAs, you never need to take required distributions from Roth IRAs. **7:** D. You can deduct up to $2,500 a year of interest paid on student loans, regardless of whether you itemize deductions, as long as you meet certain income thresholds. **8:** B. As interest rates go up, newer bonds come to market paying higher interest yields than older bonds that investors own, making the older bonds worth less.

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