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Kiplinger's PERSONAL FINANCE

MONEY SMART LIVING

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FROM THE EDITOR

Mark Solheim

Car Buying Is Stressful

Buying a car is one of the most anxiety-producing financial tasks many people will ever tackle. Cars have price tags, of course, but everyone knows you're not supposed to pay the full sticker price and that you'll have to haggle face-to-face with the dealer to get a good deal.

So car shoppers long for transparency and to be able to lock in the price of the vehicle online. That's why online "no haggle" services are popular. The Goliath in this space is TrueCar. According to the TrueCar website, a participating dealer gives you "an upfront, discounted price that includes all fees, accessory costs and incentives." But as David Muhlbaum reports in "Drive Time," on page 71, TrueCar has some caveats that you should know about before you use the site to buy your next car.

David also tried out the CarBargains service provided by the nonprofit Consumers' Checkbook organization. With CarBargains, you pay $250 to have the service shop at least five local dealers. CarBargains doesn't rely on big data or algorithms. It's effective because the dealers know they are competing for your business. It's transparent because the dealers' prices for the cars and all options you specify are measured against the published invoice price.

As fraught as negotiating a new car's price can be, it's even more stressful when you're shopping for a used car, when a car's repair and accident history is often unknown. I hit some speed bumps not long ago when I helped my daughter buy a used Kia Sportage. We started the search on Carvana, one of a handful of sites where you can buy or sell a used car at a no-haggle price and have it shipped to you—or, in my daughter's case, to Madison, Wis. We also checked AutoTrader.com and found a local dealer with a Sportage for a few hundred dollars below Kelly Blue Book's "fair purchase price." I negotiated the price down a few hundred dollars by e-mail and sent my daughter to the dealership.

THE REAL STRUGGLE FOR A DEAL IS OFTEN WAGED IN THE FINANCE AND INSURANCE OFFICE.

The F&I hurdle. My daughter and I agreed that she would finance about half the cost of the car with the dealership. But when she sent me the paperwork, I discovered that she had also signed contracts for a $2,500 extended warranty, plus an $895 gap insurance policy. Kias have a 10-year/100,000-mile powertrain warranty, so the extended warranty was mostly superfluous. Gap insurance covers the difference between the insurance payoff if your car is totaled and what you owe on the loan. But because we made a down payment worth half the cost of the car, that scenario would never happen.

New or used, the real struggle to land a good deal on a vehicle is often waged in the finance and insurance office. Dealers are promoting extras, such as extended warranties and paint-protection plans, because the profit margin on car sales has shrunk. As reported recently in the *Wall Street Journal,* dealerships earned an average of $420 from a new vehicle sale last year, but they made an average of $908 per new vehicle on their F&I business, according to research by J.D. Power.

I told my daughter not to get an extended warranty, but either from an outsize trust in my ability to lock down the entire transaction long-distance or a misplaced faith in the used-car dealer, she was oblivious to the add-ons. She said she was sent to the F&I office, where she was told to sign a series of documents—and that was it.

After I, uh, reminded my daughter about some financial fundamentals, we went through the time-consuming process of canceling both products. One thing she remembered to ask was whether she could prepay the loan without penalty. The answer is yes, and that's what she plans to do. ■

MARK SOLHEIM, EDITOR
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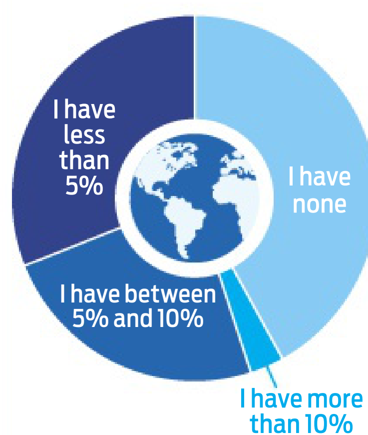
De-Risk and Be Prepared

As a young professional, I have worked hard to decrease my financial risk, and I had already taken many of the steps noted in your article ("De-Risk Your Finances," April). At the same time, I learned some really helpful tips. For example, your advice about car insurance liability limits made me question my coverage levels. I checked, and mine were way too low. I've adjusted my coverage and feel much more prepared in case of an accident. Thank you for spelling out concrete actions we can take to improve our finances.

RAYSA LEER
SILVER SPRING, MD.

Q READER POLL

How much of your portfolio is in emerging-markets investments?



To learn more about emerging-markets investments, including in China, see pages 14 and 54.

SOURCE: POLL SURVEYED 226 *KIPLINGER'S* READERS. 42% OF RESPONDENTS HAVE NO EMERGING-MARKETS INVESTMENTS IN THEIR PORTFOLIO; 31% HAVE LESS THAN 5%; 24% HAVE BETWEEN 5% AND 10%; AND 3% HAVE MORE THAN 10%.

The simple budget breakdown of the 50-20-30 rule doesn't mention giving to charitable and/or religious organizations. Many of these entities do tremendous good for our communities. That wouldn't be possible without financial support from individuals.

CRAIG BOLLENBACH
NIXA, MO.

EDITOR'S NOTE: Charitable contributions and other donations fall under the 30% (discretionary) category. For more about bending this budgeting rule of thumb, see page 38.

Liberal agenda? Your reference to climate change ("Cash In on the Future," April) was way out of line. You wrote: "Over the past year, the country has suffered intense hurricanes and devastating wildfires." Please research history; there were always intense hurricanes and devastating wildfires in this country, even before fossil fuels were burned. Please, please, please don't try to push your liberal agenda in what was once a fine financial publication. Maybe I should just cancel your publications and save a tree or two. Your liberal staff would probably be fine with that.

ROBERT INTAGLIATA
ELK GROVE, CALIF.

Tax help. Rivan Stinson's column ("Millennial Money," April) should have mentioned the AARP Foundation's free Tax-Aide tax prep program, which is geared toward low- and moderate-income taxpayers. Although AARP's emphasis is on the elderly, it accepts all taxpayers, including millennials, who don't have complicated returns.

JOE STEHLING
ANGEL FIRE, N.M.

As a volunteer for the IRS's Volunteer Income Tax Assistance program (VITA), I've seen many people try to prepare their own taxes with either Free File or tax software. Too many times, they mess up their returns, either listing inaccurate information or missing out on refund dollars they're entitled to. Filers with less than $55,000 in annual taxable income should use a trained professional at a VITA site to file their returns accurately—and for free.

HARVEY COHEN
TULSA

CORRECTIONS

The annualized total return of Standard & Poor's 500-stock index from the time Warren Buffett took control of Berkshire Hathaway in 1964 to 2018 was 9.7%, not 18.7% ("Invest Like Buffett," May).

The date a company declares a dividend payment is the dividend declaration date, not the ex-dividend date ("A Tax Guide for Investors," April).

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TOPIC A

MEDICARE FOR ALL: PROMISE AND PERILS

Incremental reforms are more likely than a complete overhaul. BY BRENDAN PEDERSEN

WHILE REPUBLICANS PAUSE in their battle against Obamacare until after 2020, Democrats have again set sail toward health care reform. And the intended destination is familiar: expanding coverage for the nation's uninsured millions while trying to rein in runaway costs. Few experts (or politicians) question the need for reform; the U.S. spends more per capita on health care than any developed nation as the life expectancy of Americans continues to decline.

One proposal—Medicare for All—has emerged as an early favorite, pocketing endorsements from presidential candidates and currently enjoying broad support among voters. But the phrase's popularity may obscure its political weight: Medicare for All represents a radical shift to a nationalized, single-payer system that would eliminate most of the private insurance industry.

The immediate political barrier is price. Federal spending would balloon under a single-payer system by trillions; 10-year cost estimates tend to hover around $32 trillion, or a roughly 70% increase in federal expenditures. Supporters say those costs would be offset by a significant decline in the overall amount we pay under our current system. The Political Economy Research Institute (PERI) at the University of Massachusetts Amherst estimates that having a single entity pay and process all care would cut administrative costs dramatically. Plus, having a nationalized system's huge insurance pool could cut drug and treatment costs by giving the government stronger bargaining power with care providers, allowing it to establish standardized prices and an annual systemwide spending cap. Still, the plan would require a significant tax hike, whether it's an increase in payroll taxes, a new national sales tax, a wealth tax or a medley of tax increases.

Bumping into political reality. Many health economists are open to the idea of

ILLUSTRATION BY PATRICK GEORGE

substantial reform, but "politically, it's just not realistic," says Ellen Meara, a health economist at Dartmouth College. Medicare for All would dissolve a trillion-dollar industry that employs half a million people and covers about 250 million beneficiaries. "The level of satisfaction with private coverage is quite high," says Kristine Grow, of America's Health Insurance Plans, a health insurance trade association and advocacy group.

Incremental changes that would extend health care coverage may be more politically and economically palatable. One option is to expand existing programs, such as allowing people as young as 50 to buy into Medicare. A public option would create a federal insurance provider that would compete with private insurers rather than replace them. Medicare for America, introduced in the House in late 2018, would start with a public option but automatically enroll newborns in the system, gradually growing the insurance pool over time and moving toward a single-payer system.

In the meantime, it's not clear how well voters understand the breadth of change promised by Medicare for All. While 74% of Americans surveyed in January by the Kaiser Family Foundation said they supported a national, government-administered health plan open to all, only 37% endorsed eliminating private insurance. Approaching 2020, expect voters to get a crash course in health care options.

INTERVIEW

A HEALTHY JOB MARKET FOR NEW GRADS

They can expect multiple offers as boomers retire and the economy chugs along.

Edwin Koc is research director at the National Association of Colleges and Employers, which connects colleges and universities with recruiting professionals.

With the unemployment rate at historic lows, how difficult will it be for new graduates to find a job? This year's graduates will have an easier time finding work than at any time in the past decade. We expect U.S. employers to increase hiring of new college graduates by 11% compared with last year. Many companies are trying to fill the talent pipeline as baby boomers retire. Accounting, engineering, management consulting and advertising, as well as motor vehicle manufacturing and high-tech electronics manufacturing, will lead the way. But the labor market is strong across the board, and graduates may receive multiple job offers.

Will graduates have more bargaining power when it comes to pay? The strength of the economy hasn't translated to salary growth yet. Usually, you would see higher salaries as employers compete to attract and retain the best talent. But on average, pay is increasing at about 2% a year. Workers with advanced degrees, as well as engineers, computer scientists and some people working in fields that rely heavily on foreign workers who need a visa, will have more room to negotiate salary and benefits than other workers.

Which skills are most sought after across industries? Employers are usually satisfied with young workers' technical skills. But they complain about the soft skills—communication, critical thinking and project management—that new graduates bring to the workplace. Job seekers who emphasize their written and oral communication skills have an advantage. Some companies are even dropping the idea of hiring by academic major. Rather, they're hiring workers with strong soft skills and plan to teach them role-specific skills on the job.

How is the hiring process changing? New grads won't have as many opportunities to meet recruiters in person and will need to find job openings directly on company websites, LinkedIn and other online sources. Fewer companies are recruiting on campus, and those that visit campus do most of their work in the fall to lock in the best candidates as early as possible. Students need to get serious about their job search early in their senior year instead of waiting until closer to graduation. **KAITLIN PITSKER**

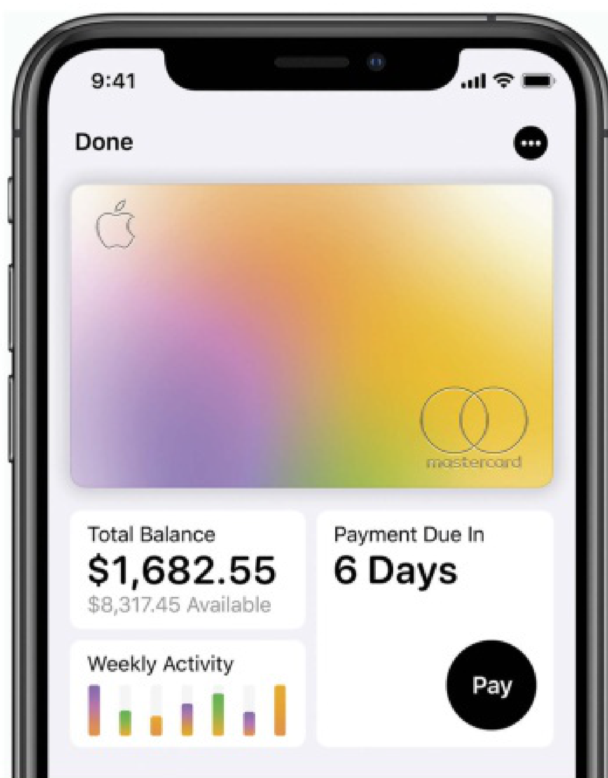
PHOTOGRAPH BY LISA J. GODFREY

CREDIT CARDS

CASH BACK FOR APPLE FANS

But rival rewards cards are a better deal for non-Apple purchases.

CLOSE TO FIVE YEARS AFTER THE LAUNCH OF APPLE PAY FOR IPHONE users, Apple has introduced a credit card built into its mobile wallet. Though the card looks cool and has high-tech features, other rewards cards already on the market may be a better deal (see "The Best Rewards Cards for You," on page 24). Apple encourages users to pay with their phone everywhere Apple Pay is accepted and to use the physical card when that's not an option. The card will be available in the U.S. this summer. **RIVAN STINSON**



▶ Rewards are Apple-friendly
You get 3% cash back on what you spend at the Apple Store, Apple .com, the App Store or iTunes; 2% for purchases made with Apple Pay; and 1% for purchases of non-Apple or non–Apple Pay items using the physical card.

▶ Interest rates are typical
13.25% to 24.24%, depending on creditworthiness.

▶ Extra credit for privacy/security
Account number is stored on the cardholder's smartphone. Cardholders use Face ID or Touch ID to authorize purchases.

▶ It's fee-free
No annual, late, over-the-limit, cash-advance or foreign-transaction fees.

▶ It's titanium
The card weighs less than traditional metal credit cards but is less likely to suffer wear and tear compared with plastic cards.

▶ Cash is paid instantly
Rewards are loaded to the card in real time.

HOLD THE PHONE

PUT YOUR 5G UPGRADE ON PAUSE

Widespread rollout of the faster wireless service could take years.

BY NOW, YOU'VE PROBABLY heard about the promise of fifth-generation wireless, or 5G, with speeds up to 100 times faster than current networks. But don't give up your 4G phone just yet. The transition to widely available 5G could stretch for as long as a decade. Even some mobile providers say the rollout will take three or four years, and that prediction is "absolutely optimistic," says Dan Hays, a wireless industry analyst at PricewaterhouseCoopers.

Blame physics: 5G data requires dense, higher-frequency radio waves to deliver its blazing speed. But the higher the wave frequency, the shorter the distance it can travel before petering out.

While a 4G tower can broadcast a signal for miles, a 5G tower's range is about 1,000 feet. "You could have 5G available right outside your building but not have it down the block or inside your building," Hays says.

Before a city can adopt 5G wireless, it will need *a lot* of antennas, both outside and inside our homes. (Imagine 5G poles lining city blocks and router-like boxes in your kitchen.)

Most cities will also need to install miles of fiber-optic internet cable to support full 5G, a capital-intensive upgrade for most of the country's existing broadband network.

Compared with the transition to 4G, "5G infrastructure is a fundamentally different challenge," says Ernesto Falcon, of the Electronic Frontier Foundation. "It's hundreds of billions of dollars of investment." **BRENDAN PEDERSEN**

COURTESY APPLE

ECONOMY WATCH

IS A RECESSION ON THE WAY?

The recent dip in long-term bond yields below short-term yields isn't cause for panic. BY RYAN ERMEY

MARKET WATCHERS BROKE into a collective sweat recently when the yield on 10-year Treasuries sank below the 3-month T-bill yield. When yields on short-term debt exceed those on longer-term bonds, the yield curve—a representation of interest rates on bonds of varying maturities—is said to be inverted. A little perspiration is understandable: An inverted yield curve has preceded each of the past seven recessions, dating back to the mid 1960s.

An inversion is considered a recession indicator because although short-term rates are driven by current Federal Reserve policy, longer-term rates reflect bond investors' expectations for inflation and future economic growth. When investors believe that the economy will weaken, they tend to pile into the safe haven of longer-term Treasuries, locking in higher rates while they can. In doing so, they bid up the price of long-maturity bonds, driving down yields (bond prices and yields move in opposite directions). A yield curve inversion is an extreme, and rare, no-confidence vote.

As with any economic bellwether, the yield curve isn't foolproof. Although all recessions since the '60s have followed inversions, not all inversions have led to recessions. And there is little predictability as to when a recession will hit or how long it will last. Since 1968, the time between the inversion and eventual recession has ranged from five to 16 months.

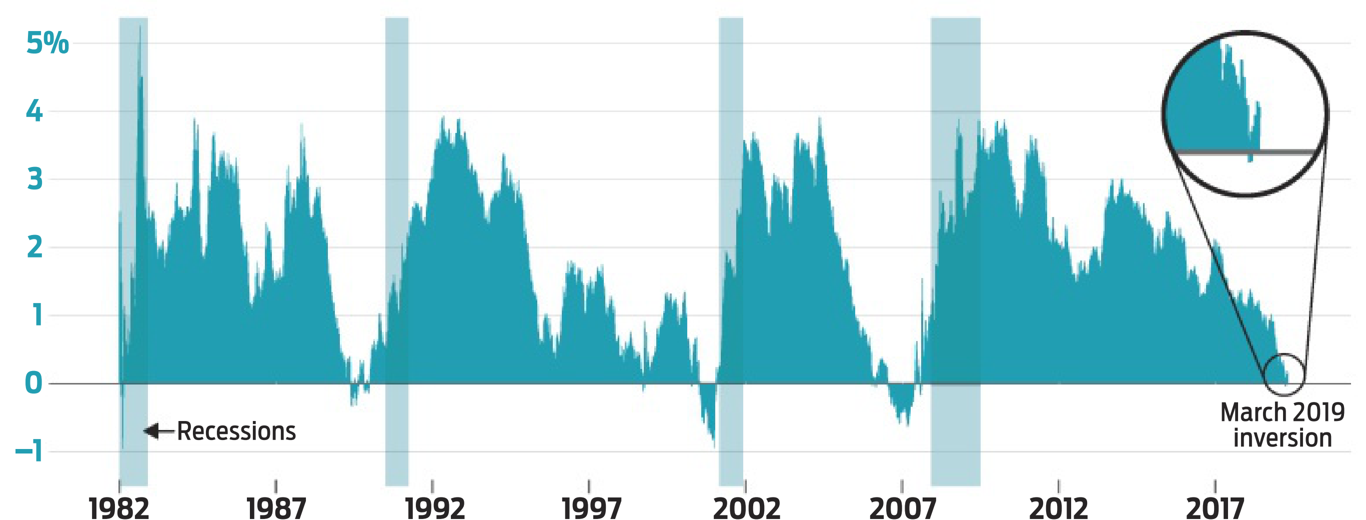
Moreover, March's inversion wasn't severe (a difference of only a few hundredths of a percentage point) or long-lasting (it has since flipped back). Should the long end dip more than 0.5 percentage point below the short end, it would be cause for greater concern, says LPL senior market strategist Ryan Detrick.

Whether the recent inversion is a blip or a harbinger of recession remains to be seen. Regardless, investors should consider it a sign that things are closer to the end than the beginning of the economic cycle, says Sam Stovall, chief investment strategist at research firm CFRA. "By July, it will have been the longest economic expansion in history. Things don't last forever, right?" he says.

Downturn Detector

WHY WE WATCH THE YIELD CURVE

This chart shows the 10-year Treasury yield minus the yield on 3-month T-bills. When the difference between long- and short-term yields dips below zero, a recession often follows.



As of April 19. Shaded areas indicate recession periods. SOURCE: Federal Reserve Bank of St. Louis

PRICIER RIDE

CAR LEASE ENDING? EXPECT TO PAY MORE

Now may be a good time to buy a certified used car.

IF YOU ARE ONE OF THE MILLIONS OF Americans who leased a new vehicle in 2016, expect a substantial markup if you're in the market for another lease this year. According to Edmunds, consumers will pay an average of $1,600 more over the life of their lease in 2019 compared with 2016 (leases typically last three years). The cost is rising for three reasons: New vehicles cost more than they did three years ago; auto-loan interest rates, which are used to calculate lease payments, are at a 10-year high; and resale values have fallen, which inflates the total price you pay over the life of the lease.

If you're reluctant to pay more to lease a car but want a reasonable monthly payment with some protection against ponying up for unexpected repairs, consider buying a certified pre-owned, or CPO, vehicle. These vehicles have been thoroughly inspected and carry a manufacturer-backed warranty that may offer one-year comprehensive coverage and extend the powertrain warranty to 100,000 miles. Leases have a provision that allows you to buy out the lease.

Compare what you'd pay to buy your leased vehicle with the selling price of a CPO vehicle. **MIRIAM CROSS**

ISTOCKPHOTO.COM (3)

CALENDAR
06/2019

SATURDAY, JUNE 1
New college grads: Get your student-loan house in order during your six-month grace period before payments begin. In a recent report, the Department of Education's Office of Inspector General found that some loan servicers failed to provide accurate information regarding payment amounts and repayment options. Learn how to track the balance history and other important information at kiplinger .com/links/errors.

▲ SATURDAY, JUNE 8
Pull on your hiking boots and head to your nearest park for National Get Outdoors Day. Recreation fees will be waived at most day-use sites managed by the U.S. Forest Service. To find a woodland near you, go to www.fs.fed.us.

WEDNESDAY, JUNE 12
A trip to the beach or cabin at the lake isn't the only way to spend your summer vacation. For example, many ski resorts offer off-season packages at discounted rates. For more information on unconventional summer vacations, turn to page 64.

MONDAY, JUNE 24
During National Internet Safety Month, remember to practice good internet hygiene to avoid phishing scams. Examine e-mails and texts for distorted logos, misspellings and grammatical errors. (For more strategies, see "Special Report: ID Theft," May.)

SUNDAY, JUNE 30
Planning a July getaway? Consider renting out your home while you are gone. If you rent it for less than 15 days, the income is tax-free.

RIVAN STINSON

DEAL OF THE MONTH
For techie dads, expect better discounts during the week of Father's Day (which is June 16). The Apple Watch series 4 and the 55-inch TCL Roku Smart TV are both expected to be discounted by up to $100.

OPENING SHOT | James K. Glassman

Don't Be Afraid of Emerging Markets

In my February 2017 column, I wrote that the stocks of emerging markets, which had been languishing for six years, "present a special opportunity." It was a good call, but only temporarily. That year, the MSCI Emerging Markets index returned 37.3%, while Standard & Poor's 500-stock index, the U.S. benchmark, returned 21.8%. In 2018, however, the stocks of emerging markets got clobbered, performing far worse than those in the U.S. or other developed nations. Over the past 10 years, MSCI Emerging Markets has returned just 8.0% annualized, compared with 15.2% for the S&P 500.

The disparity is shocking. You can't just blame China, the largest emerging market by far. Although China's gross domestic product growth rate has slid from double digits as recently as 2011 to an estimated 6.3% for 2019, its stock market has outperformed emerging markets as a whole. Other developing economies in Asia have been sluggish; markets in Latin America and the Middle East have disappointed.

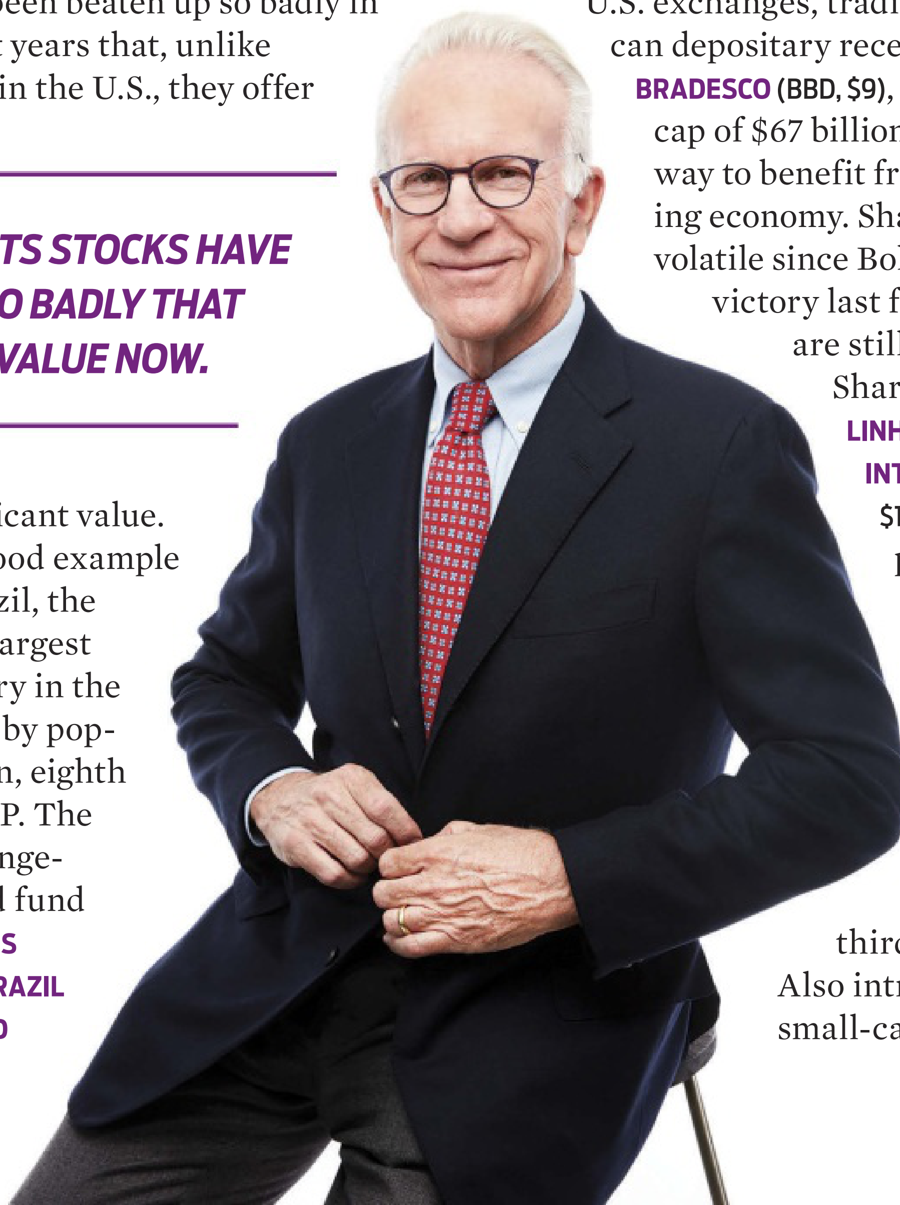
But markets are about the future, not the past, and the future belongs to the aspiring, not to the mature. The forces of economic and demographic change are inexorable. In 1960, the U.S. represented 40% of global GDP; today, the proportion is 24% and falling. In 1960, Americans were 6% of the world's population; today, they're just 4.3%.

I like China's prospects, but that market is explored elsewhere in this issue (see "The Case for China," on page 54), so I'll focus on the two-thirds of assets in the MSCI EM that are not invested in Chinese shares.

Many emerging countries, such as Brazil, have suffered from poor governance; others, such as Thailand, are threatened by new U.S. trade policies. But investors can't be frozen in the moment. Emerging markets have the long-term advantage of rising populations and, as education and technology improve, rising productivity.

Downshifting developed markets. Since the end of the Great Recession, GDP in Western Europe and Japan has been growing at an annual rate between 1% and 1.5%, on average. The U.S. has been growing at about 2.2% (a bit more last year because of the tax cut). While those growth rates appear to be the "new normal" for developed markets, emerging-markets economies have the potential to grow at rates of 4% or more. And emerging-markets stocks have been beaten up so badly in recent years that, unlike those in the U.S., they offer significant value.

EMERGING-MARKETS STOCKS HAVE BEEN BEATEN UP SO BADLY THAT THEY ARE A GOOD VALUE NOW.



A good example is Brazil, the fifth-largest country in the world by population, eighth by GDP. The exchange-traded fund **ISHARES MSCI BRAZIL CAPPED** (SYMBOL EWZ, $40) has declined in five of the past eight years and has returned a measly 2.2% annualized for the past decade. Corruption and bad management have infested the government, and there's no guarantee that Brazil's unconventional new president, Jair Bolsonaro, can pull the country out of the doldrums. But gloom has been built into share prices. The price-earnings ratio of its Brazil index, based on year-ahead projected earnings, is 11, compared with 17 for the U.S.

The iShares ETF is a good way to invest, with an expense ratio of 0.59% and a dividend yield of 2.7%, but the fund is heavy on natural-resource firms that depend on commodity prices rather than on a pickup in Brazil's own economy. Fortunately, unlike most other emerging markets, Brazil has an abundance of stocks listed on U.S. exchanges, trading as American depositary receipts. **BANCO BRADESCO** (BBD, $9), with a market cap of $67 billion, provides a way to benefit from a recovering economy. Shares have been volatile since Bolsonaro's victory last fall, but they are still well priced. Shares of **GOL LINHAS AÉREAS INTELIGENTES** (GOL, $12), a small passenger and cargo airline based in São Paulo, have surged lately but are still down by about two-thirds since 2010. Also intriguing are small-cap stocks

POON WATCHARA-AMPHAIWAN

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BRF (BRFS, $7), a pork and poultry producer that sells internationally, and **NII HOLDINGS** (NIHD, $2), which, although headquartered in Reston, Va., provides wireless services under the Nextel brand in Brazil.

INDIA'S STOCK MARKET HAS BEEN RELATIVELY BUOYANT OVER THE PAST DECADE, BUT OPPORTUNITIES ABOUND. THE CLOSED-END INDIA FUND IS A PARTICULAR BARGAIN.

India beckons. India has one-seventh the GDP of the United States and more than four times the population. *The Economist* forecasts that India's GDP will increase 7.4% this year, faster than any of the 41 other countries the magazine surveys. Unlike Brazil, India's stock market has been relatively buoyant over the past decade but still flat in 2015, 2016 and 2018. Opportunities abound, and you can take advantage of them through the closed-end **INDIA FUND** (IFN, $22), a particular bargain because it currently trades at a 9% discount to the net asset value of the shares it owns. Another good choice is **ISHARES INDIA 50** (INDY, $38), an ETF that owns the country's largest companies, including some you can buy on U.S. exchanges. Two of those are **INFOSYS** (INFY, $10), the technology and outsourcing firm, yielding 3.2%, and **HDFC BANK** (HDB, $116), which has 5,000 branches across the country and a strong position in consumer and corporate finance.

Indonesia is the fourth-most-populous country in the world, with an economy growing at a 5.2% clip. The best stock for U.S. investors is probably **PT TELEKOMUNIKASI INDONESIA** (TLK, $28), which provides mobile phone and Wi-Fi services and trades on the New York Stock Exchange as an ADR with a 3.5% yield. The best ETFs focused on the country are **ISHARES MSCI INDONESIA** (EIDO, $27) and **VANECK VECTORS INDONESIA** (IDX, $24), which have portfolios stuffed with banking stocks—a good way to play any emerging economy.

There are dozens of emerging-markets ETFs, closed-end funds and mutual funds. Some focus on individual countries, from Egypt to Greece; others, such as **VANGUARD FTSE EMERGING MARKETS INDEX ETF** (VWO, $44) and **BARON EMERGING MARKETS** (BEXFX), a member of the Kiplinger 25, are more diversified but tend to be dominated by China. A few funds prefer companies in countries off the beaten path.

One is **COLUMBIA BEYOND BRICS** (BBRC, $17), an ETF that eschews the four large emerging markets—Brazil, Russia, India and China—in favor of smaller ones. Its 91-stock portfolio includes banks in Qatar, Romania and Malaysia; a telecom firm in Morocco; a drug manufacturer in Bangladesh; and an energy distributor in Thailand. The top holding is **NASPERS** (NPSNY, $52), a 104-year-old South African media firm that owns 31% of Chinese internet giant **TENCENT HOLDINGS** (TCEHY, $50)—an investment worth about $145 billion, even though Naspers's own market value is just $106 billion.

I have argued in the past that you can't go too far wrong with an all-U.S. portfolio. True. But, once more, I believe that emerging markets present a special opportunity. The stocks are depressed, and the U.S. and other developed nations have not demonstrated that they will ever resume consistent economic growth rates above 3% or more than minuscule population gains. Emerging markets are volatile. But for the long term, you need their stocks and funds in your portfolio. ■

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

Bargains Abroad

TIME TO GIVE DEVELOPING MARKETS ANOTHER CHANCE

Volatility is a given, but emerging markets are worth exploring. Most of the stocks below trade as American depositary receipts.

Company	Symbol	Share price	1-yr. total return	Country
Banco Bradesco	BBD	$9	5.8%	Brazil
BRF	BRFS	7	2.6	Brazil
GOL Linhas Aéreas Inteligentes	GOL	12	–9.8	Brazil
HDFC Bank	HDB	116	18.5	India
Infosys	INFY	10	28.2	India
Naspers	NPSNY	52	1.2	South Africa
NII Holdings	NIHD	2	–33.2	Brazil
PT Telekomunikasi Indonesia	TLK	28	5.8	Indonesia
Tencent Holdings	TCEHY	50	–1.9	China

Mutual and Exchange-Traded Funds	Symbol	Annualized total return 1 yr.	5 yrs.	Expense ratio
Baron Emerging Markets	BEXFX	–6.7%	4.0%	1.36%
Columbia Beyond BRICs	BBRC	–7.9	–1.5	0.60
India Fund#	IFN	7.1	11.4	NA
iShares India 50	INDY	8.0	8.7	0.92
iShares MSCI Brazil Capped	EWZ	–4.3	–0.6	0.59
iShares MSCI Indonesia	EIDO	–0.3	0.3	0.59
VanEck Vectors Indonesia	IDX	0.4	0.1	0.57
Vanguard FTSE EM Index ETF	VWO	–3.2	3.9	0.12
MSCI EMERGING MARKETS INDEX		**–5.5%**	**4.0%**	

As of April 19. #Closed-end fund. NA Not applicable. SOURCE: © 2019 Morningstar, Inc.

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- **Why selecting a benchmark, something few people do, can help you maintain and grow your portfolio over time in bull and bear markets.** *(Tip #19)*
- **Why paying down your mortgage before you retire might not be a good idea.** *(Tip #26)*
- **How to estimate what your taxes are going to be and look for ways to reduce them in retirement.** *(Tip #40)*
- **Why, if you are close to retirement or already retired, you'll probably live longer than you think.** *(Tip #12)*
- **How not to get caught in the inflation trap and the fallacy of most asset-allocation advice.** *(Tip #13)*
- **What you should tell your adult children about your finances.** *(Tip #23)*

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LIVING IN RETIREMENT | Janet Bodnar

Tips for Retirees Who Are Single

Of all the letters I have received as author of this column—and I am fortunate to get a ton of them—two of the most sobering came from a couple of readers who are single. "Publications and websites talk to their readers as if they are always married," writes Vic Linares. "Never do articles address retirees who are single and how they cope." John Scholtz observes that "you may be taking away a huge part of your social life when you retire. Keeping in touch with former workmates will endure for only one coffee off-campus."

Mr. Linares and Mr. Scholtz, you may be solo, but you are not alone. In a study by Age Wave and Bank of America Merrill Lynch, preretirees said that what they expect to miss most when they leave work is a reliable income. But what retirees actually miss most are their social connections.

That's not surprising, says Ken Dychtwald, CEO of Age Wave. "You're at the peak of your career, answering phone calls and e-mail, going to meetings," he says. "Suddenly, all that stimulation is gone." Without a spouse or other family members on the scene, it can be an even bigger shock.

Being alone also raises financial and legal issues. "With single folks, the most important thing is to have appropriate powers of attorney in case you become incapacitated," says Ali Hutchinson, senior vice president of private wealth management at Brown Brothers Harriman. With no spouse or partner as backup, you're more likely to need long-term care from outside sources or to face estate-planning issues, says Hutchinson.

Retiring alone has its pros as well as cons. "You get to do what you want without having to negotiate with anyone," says Dychtwald (see "Living in Retirement," April). "There's an aloneness but also freedom." He cites his brother Alan, 72, who never married, gave up his job and moved to Florida to care for their mother. Alan had played the drums as a teenager, and when their mother passed away, Ken gave him a gift of 10 lessons at a drum school. Now Alan is in one band and manages another, and "I've never seen him happier," says Dychtwald.

Social connections. Dychtwald predicts that more singles will form "families of friends." In the Age Wave study, single retirees said the leisure experiences they value most are with friends. "You're going to see women traveling together or men who play golf together," says Dychtwald.

There's no one prescription for coping with being alone. For some people, the answer is to go back to work, at least part-time. The number of older Americans in the workforce has been rising, and respondents in the Age Wave study said social connections are a key reason for working in retirement—more important than earning money.

SOME RETIREES WORK PART-TIME OR TAKE A CLASS TO MAINTAIN SOCIAL CONNECTIONS.

For others, the answer is to try something completely different. "I started taking classes in a new field purely for the pleasure of learning and ended up earning a master's degree in that field," writes reader Julia Brown. Another reader writes, "I took up pickleball and immediately became addicted. It proved to be a lot of fun, expanded my social contacts and was great cardio to boot." Rob Jennings created his own small network of "retired guy friends."

If I had to sum up all the advice from *Kiplinger's* readers, it would be to be proactive. "What I realized is you have to make things happen," says Deb Russell. "They will not come knocking on your door." Writes another reader, "I think the best approach is to help others. Too much thinking about yourself is counter-productive."

After retiring, Graten Beavers traveled the world. But hope still springs eternal. "I want to do a lot more with that elusive significant other whenever she appears," he says.

If you're single, how have you coped with being alone in retirement? I'll be happy to share your experiences. ■

POON WATCHARA-AMPHAIWAN

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

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MILLENNIAL MONEY | Ryan Ermey

Branch Out From Target-Date Funds

The other night at dinner, the topic of my roommate's retirement account came up. He told me that he had an account (good start) and knew roughly how much he contributed to it (also good). But he didn't know exactly what he was, um, invested in. I suggested that he might be in a target-date mutual fund, and yes, he remembered, that was it.

It was an educated guess. Half of 401(k) plan participants invest at least some of their assets in a target-date fund, says the Investment Company Institute. It's a familiar story among my age group: "It was the default option when I signed up, and I haven't looked at it since," the story goes.

That's not necessarily a bad thing. A target-date fund is meant to be a set-it-and-forget-it investment. The fund company manages your investments for you, holding a mix of assets that grows more conservative as you approach the year you plan to retire. That might be ideal for my roommate and a lot of other people, too. But those who are becoming savvier investors might consider branching out. By investing in a mix of funds, either in your plan or outside of it, you could end up with a portfolio that's cheaper, better diversified and more in line with your needs.

The right mix. Even if you've learned a bit about investing since opening your 401(k), you may not want to ditch the target-date fund altogether. Rather, see how it fits with your overall investing plan and your personal preferences. The mix in a target-date fund depends on your time horizon. The farther you are from retirement, the more aggressively you can invest because you have time to recover from market dips. But a major shortcoming of target-date funds is their inability to factor in your personal tolerance for risk, says Brian Schmehil, a certified financial planner in Chicago. "During the financial crisis, this was problematic for investors who had a conservative risk tolerance but a long investment horizon," he says.

He suggests taking an online risk-tolerance test to find your personalized allocation target (search "Vanguard Investor Questionnaire" to find one we like). Compare that with the mix in your target-date fund. If they don't line up, adding another fund or two from your plan's roster can ratchet up your exposure to stocks (if you're more aggressive) or bonds (if you're more cautious).

INVESTING IN A MIX OF FUNDS CAN GIVE YOU A PORTFOLIO THAT'S CHEAPER, BETTER DIVERSIFIED AND MORE IN LINE WITH YOUR NEEDS.

You may also want to add funds to diversify your stock holdings. Morningstar personal finance director Christine Benz suggests modeling your stock portfolio after the global stock market, investing the core of your stock holdings—some 55%—in U.S. stocks and the rest in international markets. Among your foreign holdings, devote 15% to 20% to emerging markets (see "Opening Shot," on page 14) and put the rest in developed markets. You'll also want a mix of growth-oriented and bargain-priced stocks, as well as companies of different sizes.

Pay attention to fund costs. Over the course of your investing lifetime, paying even half a percentage point more in fees can erode thousands of dollars from the value of your investments. The average actively managed stock fund charges 1.1% of assets in expenses; the average index fund, 0.6%.

Look at past performance, but view a fund's one-, three-, five- and 10-year returns skeptically; these numbers can be skewed by a huge uptick or downswing in any single year. Rather, a fund should stack up favorably most years against peers and its benchmark.

If your 401(k) has few attractive options beyond your target-date fund or doesn't offer an investment you want—say, an emerging-markets fund—consider investing through an IRA, but only after investing enough to qualify for any matching funds. ■

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POON WATCHARA-AMPHAIWAN

GOLDEN GATE BRIDGE

The Golden Gate Bridge was financed with municipal bonds.

ALSO KEPT TAXES AT BAY

Dubbed one of the 'Wonders of the Modern World', the Golden Gate Bridge opened to the public on May 27, 1937. At the time, it was both the longest and the tallest suspension bridge in the world, with a main span of 4,200 feet and a total height of 746 feet. It is still the tallest bridge in the United States, transporting 110,000 vehicles every day. To help raise the $35 million it cost to build, the authorities in California issued tax-free municipal bonds.

Still Going Strong

And, just like that iconic structure, municipal bonds are still going strong today as a way for investors to invest in civic projects, while earning income that's free of federal taxes and potentially state taxes.

Many US investors use municipal bonds as part of their retirement planning. Here's why:

Tax-Free Income

Income from municipal bonds is not subject to federal income tax and, depending on where you live, may also be exempt from state and local taxes. Tax-free income can be a big attraction for many investors.

About Hennion & Walsh

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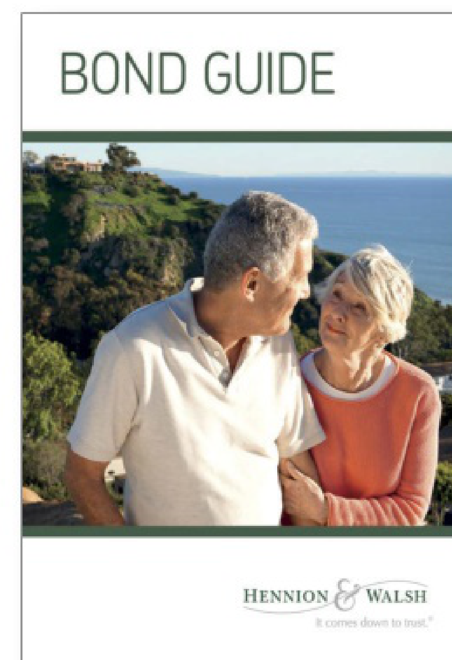

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YOUR MIND AND YOUR MONEY | Anne Kates Smith

The Lesson in the College Scandal

I was as stunned as the next person when news broke recently that 33 wealthy parents were indicted on fraud charges for trying to bribe or cheat their kids' way into elite colleges. These kids were already neck-deep in privilege and opportunity. They didn't need to cheat on entrance exams or pose as recruited athletes to get into a good school. Some of the kids were on board with the scheme, and others, horrifyingly, had no clue. But in either case, the comment at a news conference by Andrew Lelling, U.S. attorney for the district of Massachusetts, says it all: "The parents are the prime movers of this fraud."

The whole rotten debacle reminds me of a story I did a few years ago about inherited wealth. It was a look at why family fortunes tend to dissipate within a few generations, and how well-off parents need to be proactive about preparing their kids, starting at an early age, to handle money and privilege. A revelation to me at the time was that it's harder than it looks to raise emotionally healthy, money-smart kids when money is no object.

One thing is certain (and someone should have told the gang of 33): Being a snowplow parent who removes any and all obstacles is not the way to go. "Too many parents want to prepare the road of life for their children rather than preparing their children for the road of life," says Rod Zeeb, author of *Beating the Midas Curse* and cofounder and CEO of the Heritage Institute, which coaches wealthy families on the emotional aspects of inheritance.

Be careful what you wish for. All parents, wealthy or not, want the best for their children. But be careful how you define "best," says Elizabeth Lombardo, a psychologist and coach who works with high-net-worth clients. Fostering a notion of conditional self-worth that depends on getting into the "best" school (or wearing the trendiest clothing or driving the fastest car) is bound to backfire. Forget about the "best" college; look for one that's the best fit.

Smoothing the way too much for your kids can lead to imposter syndrome—the feeling that because they haven't earned their successes, they're fooling people into thinking they're better than they really are. "We know that when everything is handed to us, not only are we not happier, but that's often when depression sets in," says Lombardo.

> ***BEING A SNOWPLOW PARENT WHO REMOVES OBSTACLES IS NOT THE WAY TO RAISE EMOTIONALLY HEALTHY, MONEY-SMART KIDS.***

It's often the case that those who create family wealth do so by working hard, making mistakes, picking themselves up and persevering. But kids don't inherit self-discipline, resourcefulness and resilience; they have to develop those qualities themselves. Parents can help by making sure family assets are used in a positive way and by giving their kids a chance to be involved in the family's finances.

Begin with a family mission statement that highlights the values you want to foster: education, entrepreneurship or philanthropy, for example. Emphasize that "money is a tool, not a target," says Zeeb. Start early on with three piggy banks for young children so they can divide their allowances and gifts into spending, saving and giving funds.

For older kids, seed an account for a purpose or a cause they are passionate about and learn how to invest it together. Set an allowance—as generous as you see fit—that will enable an older teen or young adult to budget for his or her own expenses. Just be prepared to let the cell phone die or to take back the car when the wireless or insurance bills aren't paid.

When psychologist Lombardo asks clients who have achieved substantial success to reflect on the best time of their lives, "it tends to be when they were starting out, working extra hours and eating ramen noodles because they couldn't afford anything else," she says. "Working toward a goal makes us feel worthwhile."

Parents, please don't take that away from your kids. ■

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

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PHOTO-ILLUSTRATIONS BY JOHN KUCZALA

THE BEST REWARDS CARDS FOR YOU

We've picked the cards that will give you the biggest payback for the way you spend. BY LISA GERSTNER

Choosing a rewards credit card may not seem so rewarding—at first. The market is crowded with contenders vying for space in your wallet, and comparing the card terms and features can easily eat hours of your time. About half of respondents to a TD Bank survey said that shopping for a new card can be overwhelming, or at least annoying. // But the effort is worth it. On a travel rewards card, for example, a 50,000-point sign-up bonus is worth an average of 1.6 round-trip flights, according to personal finance site NerdWallet. And by our estimate, the first-year rewards on everyday spending are worth about $500 or more for some cards. To ease the pain of making a selection, we pored over dozens of the top rewards cards and highlighted the cream of the crop. Then we broke them into categories to help you maximize your payback given your spending habits and desire for simplicity. Cash back is the most

popular reward among card users, so we've dedicated a section to cash-back cards. We've also offered up the best bets in travel and everyday spending, including cards with great rebates on groceries, gas and dining—a category in which card issuers have been cranking up rewards in the past couple of years. We named honorable mentions in each category, too; to see the full description, go to kiplinger.com/links/cards19.

Set your strategy. Rewards card issuers continue to tinker with their offerings, the goal being to lure customers with generous paybacks while keeping their own balance sheets intact. After years of one-upping each other, "a lot of issuers have gotten tired of this arms race," says Ted Rossman, industry analyst for CreditCards.com. There's a school of thought in the industry that this cutthroat competition is not sustainable as customers get better at gaming credit card rewards, he adds. **CHASE SAPPHIRE PREFERRED**, one of our perennial winners among travel cards, no longer waives its $95 annual fee the first year. **AMERICAN EXPRESS BLUE CASH PREFERRED**, another one of our longtime favorites, especially for grocery purchases, dropped department stores from one of its top cash-back categories.

Other cards are experimenting with how they can offer initial bonuses and still encourage extended relationships with customers. "Many folks who chase big sign-up bonuses don't necessarily stick with the cards for long," says Matt Schulz, chief industry analyst for CompareCards.com. One approach is to offer the bonus in tiers. The **WORLD OF HYATT VISA**, for example, our winner in the category of hotel cards, recently split its 50,000-point initial bonus into two parts—25,000 points if you spend $3,000 in the first three months, plus another 25,000 points if you spend $6,000 in the first six months.

Before you pick a card, set your own strategy. You can maximize earnings by carrying multiple cards with outstanding rewards in different areas—say, one with strong travel perks, one that pays a top rebate on gas, and another that provides generous rewards at your favorite retail store. But if you'd rather keep it simple, you may still reap hundreds of dollars a year by using a single card that pays back a solid rate on all purchases, such as **CITI DOUBLE CASH**, which is our "Flat-Rate Cash Back" winner.

Consider your spending patterns, too. Frequent travelers, for example, can glean significant perks by choosing a stellar all-purpose travel card or homing in on cards associated with the hotels and airlines they use most. Keep in mind that rewards cards often charge higher interest rates than those that don't offer rewards, and if you carry a balance, the interest you pay will eat into your earnings.

To help you gauge how much you might gather in rewards for each of our winners, we've calculated a typical annual rebate, which draws on average spending patterns from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. Except where otherwise noted, we assumed $23,000 in total annual spending and subtracted the annual fee from the cash value of each rebate if the fee is not waived the first year. And unless otherwise indicated, rewards do not have limits or expiration dates, and the travel cards do not have foreign-transaction fees.

KipTip

Watch Out for These Category Catches

You drop a hundred bucks on groceries at Walmart, fill your tank at the store's gas station and pay for both purchases with a credit card that claims to offer heightened rewards on grocery and gas spending. But when you check your statement later, you find that the transactions got a measly 1% cash back, instead of the 3% or more you were expecting. What gives?

Purchases from certain types of merchants are commonly excluded from a card's top-earning categories. Gas or groceries bought at superstores, such as Walmart and Target, or wholesale clubs, such as Costco Wholesale and Sam's Club, often don't count. Or your card may not provide higher rebates on dining at restaurants or cafés that exist within another, larger establishment, such as a hotel, department store or grocery store. "Entertainment" can be a particularly squishy category. The Capital One Savor card, for example, which offers 4% cash back on entertainment purchases, doesn't include tickets for collegiate sporting events in the 4% category, although live professional events are covered. Citi Premier, which provides two points per dollar spent on entertainment, excludes bowling alleys.

Read your card's fine print to make sure you understand how purchases are categorized. And if you believe you haven't received rewards that are rightfully yours, ask the issuer whether it will correct the problem.

CASH BACK

FLAT-RATE CASH BACK

Citi Double Cash Mastercard
www.citi.com
Annual fee: None
Typical annual rebate: $460

➤ If you prefer a healthy payback on everything you buy without worrying about categories or caps, this card is for you. You'll earn 1% cash back each time you make a purchase and another 1% back when you pay the bill, for a total of 2%. Once you've accrued at least $25 in cash back, you can redeem it as a check, statement credit, or deposit into a Citi savings or checking

account—or any checking account from which you've paid a Citi credit card bill at least twice. Rewards expire if you haven't earned cash back in the past 12 months.

Honorable mention: **Alliant Cashback Visa Signature**

CASH BACK IN ROTATING CATEGORIES

U.S. Bank Cash+ Visa Signature

www.usbank.com

Annual fee: None

Sign-up bonus: Spend $500 in the first 90 days and get $150 back

Typical annual rebate: $370

➤ This card provides considerable flexibility to earn high rebates in the categories in which you spend the most. You select two categories that earn 5% on up to $2,000 in combined spending per quarter. TV, internet and streaming services is an attractive new category for 5% rewards, and department stores, cell-phone bills, home utilities, fast food, movie theaters and ground transportation were recently among the other options. You also get 2% back in one category of your choice (including gas stations, restaurants or grocery stores) and 1% on everything else. Make sure you choose and activate your 5% and 2% categories each quarter—otherwise, you'll earn only 1%. Redeem cash back as a deposit into a U.S. Bank checking or savings account, a statement credit, or a U.S. Bank prepaid debit card ($20 minimum). Rewards expire after three years.

Honorable mention: **Chase Freedom**

CASH BACK FOR SAVERS

Fidelity Rewards Visa Signature

www.fidelityrewards.com

Annual fee: None

Sign-up bonus: Spend $1,000 in the first 90 days and get $100 back

Typical annual rebate: $460

➤ Need some incentive to boost your savings? You'll get two points per dollar for every purchase with this card, and they're worth a penny each—for a 2% return on your spending—when you use them for deposits into eligible Fidelity accounts, which include brokerage, cash management, retirement, charitable giving, health savings and 529 college-savings accounts (minimum 5,000 points required for such redemptions). You can also exchange points for travel, merchandise, gift cards or statement credit, but points not used for deposits are typically worth only about half the value.

Honorable mention: **Bank of America Cash Rewards Mastercard**

TRAVEL

NO-FEE TRAVEL REWARDS

PenFed Pathfinder Rewards American Express

www.penfed.org

Annual fee: None

Sign-up bonus: 25,000 points if you spend $2,500 in the first 90 days

Typical annual rebate: 40,500 points,

worth $474 in certain travel redemptions

➤ Even if you travel only occasionally, this card may be worth picking up to take advantage of a couple of benefits that typically come with cards that carry annual fees. You'll get a statement credit every five years to reimburse an application fee charged to the card for TSA PreCheck ($85) or Global Entry ($100), which provide expedited security screening at the airport. Plus, the card offers up to $100 per calendar year to refund a range of incidental fees with 11 U.S. airlines (including American, Delta, Southwest and United), such as fees for checked baggage, flight changes, day passes to enter airport lounges, and in-flight food and drinks.

The points-earning scheme is pretty good, too. You'll get three points per dollar on travel purchases (four points if you're a military member or have an Access America checking account with Pentagon Federal Credit Union) and 1.5 points on all other spending. Trading points for the best value, however, can be tricky. Generally, you'll get a solid rate of about 1.17 cents per point if you use them to book hotels through PenFed's redemption portal. But points are worth only about 0.85 cent each for gift cards, merchandise or airline tickets. And you'll pay a fee of $15 to book plane tickets online or $25 by phone. Points expire after five years. You must join PenFed to use the card, which anyone can do by paying one-time dues of $17 to a qualifying organization and depositing $5 into a savings account.

Honorable mention: **Wells Fargo Propel American Express**

TRAVEL REBATES WORTH THE FEE

Capital One Venture Visa

www.capitalone.com

Annual fee: $95, waived the first year

Sign-up bonus: 50,000 miles if you spend $3,000 in the first three months

Typical annual rebate: 54,000 miles, worth $540 in statement credits on travel purchases

➤ This card has been layering on more perks lately. Through January 2020, it's offering 10 miles per dollar spent on eligible hotel bookings at Hotels.com/venture. Otherwise, the standard payback is two miles per dollar on all purchases. You can redeem miles at a value of 1 cent each for travel bookings through Capital One's Rewards Center or statement credits on travel purchases (0.5-cent value for non-travel statement credits), or transfer miles to any of 14 participating airline loyalty programs—mostly at a ratio of two Venture miles to 1.5 airline miles—including those from Air France, Alitalia and Qantas (no domestic carriers are on the list). Cardholders are also reimbursed up to $100 every four years for a TSA PreCheck or Global Entry application fee charged to the card.

Honorable mention: **Citi Premier Mastercard**

FLEXIBLE TRAVEL REDEMPTIONS

Chase Sapphire Preferred Visa

www.chase.com

Annual fee: $95

Sign-up bonus: 60,000 points if you spend $4,000 in the first three months

Typical annual rebate: 30,365 points, worth $285 in travel redemptions (after subtracting the annual fee)

➤ Chase Sapphire Preferred no longer waives its annual fee the first year. But the generous sign-up bonus is worth $750 in travel bookings through the Chase Ultimate Rewards portal, covering the fee several times over. The card also pays back two points per dollar spent on travel and dining and one point on everything else. Points are worth 1.25 cents each for travel bookings, or you can trade them at a reasonable rate of a penny apiece for cash or gift cards. And, central to the outstanding flexibility this card provides, you can also transfer points at a 1:1 ratio to several popular partner hotel and airline loyalty programs, including IHG Rewards Club, Marriott Bonvoy, Southwest Airlines Rapid Rewards, United MileagePlus and World of Hyatt. If you use other Chase cards that collect Ultimate Rewards points, such as Freedom and Sapphire Reserve, you can pool your points to redeem them.

Honorable mentions: **American Express EveryDay, Marriott Bonvoy Boundless Visa**

PREMIUM TRAVEL REWARDS

Chase Sapphire Reserve Visa

www.chase.com

Annual fee: $450

Sign-up bonus: 50,000 points if you spend $4,000 in the first three months

➤ Like other premium cards, Chase Sapphire Reserve sports a hefty annual fee. But cardholders get $300 in statement credits for travel purchases each

year, effectively knocking down the fee to $150 as long as you spend enough to get the credits. (Note that we do not include a typical annual rebate because a premium card provides much of its value outside of the points it awards for everyday spending, so the calculation does not accurately reflect the card's worth.) You'll also earn three Chase Ultimate Rewards points per dollar spent on dining and travel (purchases that qualify for the $300 credit do not earn points) and one point on other spending, and you can redeem points at a strong value of 1.5 cents apiece for travel bookings through the Ultimate Rewards portal. Or, as with Chase Sapphire Preferred, trade points at a rate of a penny apiece for cash back or gift cards, or transfer them to partner airline and hotel loyalty programs.

Among the card's other perks are reimbursement of up to $100 every four years for a TSA PreCheck or Global Entry application fee, a Priority Pass Select membership offering free entry for you and two guests into participating airport lounges ($27 per visit for each additional guest), and extra perks—such as free Wi-Fi, daily breakfast for two, room upgrades and late checkout—when you stay at an SBE hotel or a Luxury Hotel & Resort Collection property.

Honorable mention: **American Express Platinum**

DEDICATED AIRLINE CARD

Southwest Rapid Rewards Priority Visa

www.chase.com

Annual fee: $149

Sign-up bonus: 40,000 points if you spend $1,000 in the first three months

Typical annual rebate: 33,500 points, worth about $350 in airfare (after subtracting the annual fee)

➤ The annual fee on this new card from Southwest Airlines seems stiff, but the perks more than make up for it. You'll get two Rapid Rewards points per dollar spent on Southwest purchases—including plane tickets, gift cards, vacation packages, and reservations with partner hotel and car-rental companies—and one point on other spending. On your account anniversary each year, you'll get a 7,500-point bonus (the bonus is included in the typical annual rebate listed above), a $75 statement credit for Southwest purchases (excluding upgraded boardings and in-flight purchases), and reimbursement of up to four upgrades made in the previous year to boarding positions A1 through A15. For each $10,000 you spend on the card (up to $100,000 a year), you'll earn 1,500 tier qualifying points, which count toward your eligibility for A-List or A-List Preferred status with the airline. And cardholders get a 20% credit for in-flight purchases of drinks and Wi-Fi.

Many other airlines charge passengers for checked baggage and tout waived bag fees as a perk of their credit cards, so it's worth noting that all Southwest fliers can check two bags free. And Southwest doesn't charge a change fee if you must cancel or reschedule a flight.

Honorable mention: **United TravelBank Visa**

HOTEL CARD

World of Hyatt Visa

www.chase.com

Annual fee: $95

Sign-up bonus: 25,000 points if you

spend $3,000 in the first three months, plus an additional 25,000 points if you spend $6,000 in the first six months
Typical annual rebate: 36,077 points, worth about $500 (after subtracting the annual fee)
➤ Boosting the World of Hyatt card to the top is a combination of strong point values, extra points offered in various travel categories and appealing perks. Cardholders earn four points per dollar spent at all Hyatt hotels; two points on dining, airfare purchased directly from airlines, local transit and commuting, and gym memberships; and one point on all other purchases. The card also comes with one free stay at a category 1 to category 4 Hyatt hotel after your account anniversary each year, plus an additional free night in the same hotel categories if you spend at least $15,000 on the card per year. Cardholders also enjoy automatic Hyatt Discoverist status—which comes with premium internet access, late checkout at participating hotels and room upgrades upon arrival when available. You also get five qualifying night credits for the next status level each year and earn an additional two qualifying night credits toward the next status level for each $5,000 spent on the card.

Hyatt has a smaller reach than some other major hotel chains; if you prefer a hotel with more locations, go to kiplinger.com/links/cards19 to see our take on the Hilton Honors American Express card (no annual fee), as well as one of the "Flexible Travel Redemptions" honorable mentions, the Marriott Bonvoy Boundless Visa card ($95 annual fee).
Honorable mention: **Hilton Honors American Express**

EVERYDAY SPENDING

GROCERY REBATES
American Express Blue Cash Preferred
www.americanexpress.com
Annual fee: $95
Sign-up bonus: Spend $1,000 in the first three months and get $200 back
Typical annual rebate: $393 (after subtracting the annual fee)
➤ Offering 6% cash back on up to $6,000 spent per year at the supermarket (1% thereafter), this card is the best contender for anyone with a big grocery budget. It also pays back 3% on gas-station purchases. (However, it dropped department-store spending from its 3% category in the past year.) All other purchases earn 1%. After your rewards balance reaches at least $25, you can redeem it for statement credit; recently, you could also trade cash back for gift cards and merchandise.
Honorable mention: **American Express Blue Cash Everyday**

PAYBACK AT THE PUMP
PenFed Platinum Rewards Visa Signature
www.penfed.org
Annual fee: None

Sign-up bonus: Spend $1,500 in the first 90 days and get $100 back
Typical annual rebate: 39,598 points, worth $463 in certain travel redemptions
➤ Check out this card from Pentagon Federal Credit Union if you spend a lot of money fueling up. You'll earn five points per dollar on gas purchases paid at the pump, three points per dollar at supermarkets and one point on all other spending. You can redeem points through the same program as with the PenFed Pathfinder Rewards card; for more on point values and expiration, airline booking fees, and PenFed membership, see the "No-Fee Travel Rewards" winner.
Honorable mention: **Fort Knox Federal Credit Union Visa Platinum**

DINING REWARDS
Uber Visa
www.barclaycardus.com
Annual fee: None
Sign-up bonus: 10,000 points if you spend $500 in the first 90 days
Typical annual rebate: 43,209 points, worth $432
➤ Despite its ties to a ride-sharing service, the Uber Visa card cooks up top rewards for restaurant visits, offering four points per dollar on dining and takeout purchases, including delivery service Uber Eats. Cardholders also earn three points per dollar spent on airfare, hotel bookings and vacation rentals (including Airbnb); two points per dollar spent on Uber, certain online shopping sites (such as Amazon, Walmart and Best Buy) and certain video- and music-streaming services (such as Netflix and Pandora); and one point on everything else. Points are worth a penny each for Uber Cash (which you can use for rides and Uber Eats purchases), cash back or gift cards. The card carries some appealing side benefits, too: a $50 statement credit toward online subscription services—Amazon Prime, Netflix and HBO Now, among others—after you spend at least $5,000 on the card per year. You also get up to $600 per claim in insurance for a stolen or damaged cell phone if your wireless bill is charged to the card (maximum two claims per year; $25 deductible). Note that you must apply for the card through the Uber app.
Honorable mentions: **Capital One Savor Rewards Mastercard, U.S. Bank FlexPerks Gold American Express**

SHOPPING
Amazon Rewards Visa Signature
www.chase.com
Annual fee: None
Sign-up bonus: $50 Amazon gift card upon credit card approval
Typical annual rebate: 32,564 points, worth $326 in Amazon purchases
➤ Associated with the behemoth in online shopping, this card has broad appeal. It offers three points per dollar spent at Amazon.com and Whole Foods Market, two points at gas stations, restaurants and drugstores, and one point for all other spending. Amazon sweetens the pot for members of its Prime service ($119 yearly fee), offering them a version of the card that yields five points per dollar at Amazon and Whole Foods. Redeem points at a rate of a penny apiece for partial or full Amazon purchases, travel bookings, cash back or gift cards.
Honorable mentions: **Costco Anywhere Visa, Sam's Club Mastercard**

SHOPPING (STORE ONLY)
Target REDcard
www.target.com
Annual fee: None
Typical annual rebate: $40 (assuming $800 spent annually)
➤ Thanks to Target's alluring mishmash of apparel, home goods and other items ripe for an impulse buy, the store's customers have a reputation for buying a lot more than they intended to get when they walked in. The REDcard credit card can help minimize the damage to your pocketbook, with a 5% discount on both in-store and Target.com purchases—and that includes money spent at in-store Starbucks cafes. (Prescriptions, eye exams from Target Optical and certain other purchases do not get the 5% discount.) Cardholders also enjoy an extra 30 days to return purchases, free two-day shipping on eligible items from Target.com, early access to some products and promotions, and a 10%-off coupon for store purchases on your cardmember anniversary if you've signed up for Target's promotional e-mails.
Honorable mention: **Lowe's Advantage**

COLLEGE STUDENTS

Discover It Chrome for Students
www.discover.com
Annual fee: None
Sign-up bonus: A match of cash back earned after one year, doubling your rewards
Typical annual rebate: $47 (assuming $220 spent monthly)
➤ Cardholders earn 2% cash back on up to $1,000 spent quarterly on gas and restaurant purchases and 1% for everything else. Although students may earn somewhat higher rewards on spending with our honorable mention, Bank of America Cash Rewards for Students, Discover It Chrome for Students makes up the difference by offering $20 in cash back each academic year that the cardholder earns a GPA of at least 3.0, and it's friendly to younger folks who may be learning the ropes of managing a credit card: It charges no fee the first time the cardholder pays a bill late, and late payments don't result in a penalty annual percentage rate. We also like that students don't have to meet a spending requirement to get a cash bonus in the first year, and there's no minimum cash-back balance required to redeem rewards. Redemption options include statement credits, deposits into a bank account, charitable gifts and purchases at Amazon.com.
Honorable mention: **Bank of America Cash Rewards for Students Mastercard** ■

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CHANGE OF PLAN

Suddenly Retired

Life throws you a curveball, and you end up leaving the workforce earlier than planned. Here's what to do next.

BY EILEEN AMBROSE

EARLY IN HIS CAREER, DREW PARKER'S goal was to retire at age 57—or at least be financially prepared to quit working by then. But three years ago, at age 55, his retirement came sooner than expected when his employer, Nordstrom, restructured and offered him a buyout.

Parker, of Mercer Island, Wash., says he took the buyout because he believed it might be the last time the retailer offered severance packages with job cuts. He left Nordstrom, where he had worked for 16 years, with about six months' salary and hunted for another job.

"I gave it a good effort, but I got almost no responses," says Parker, who had been a merchandise financial manager, working with Nordstrom's buyers. "In this area, the competition is tough, and at my age, it was much tougher."

Like Parker, many older workers find themselves suddenly retired—sometimes years ahead of their target date. According to a 2018 survey by the Employee Benefit Research Institute, nearly one-third of workers predict they will remain in the workforce until age 70 or older, and only 10% expect to retire before 60. But in reality, only 7% of retirees surveyed stayed on the job until at least 70, and more than one-third had quit working before age 60. Many end up retiring early because of a job loss, a health problem or caregiving responsibilities.

"It happens more often than people realize," says James Bayard, a certified financial planner in Baton Rouge, La. "Given that it does happen, everyone should have a preliminary plan for it."

► **Take a deep breath.** When retirement comes unexpectedly, the initial impulse is often to make drastic financial moves that could have adverse repercussions, financial planners say. For example, draining a 401(k) will trigger taxes and, depending on your age, early-withdrawal penalties.

If you work with a financial adviser, ask your planner to run the numbers to see where you stand and advise you of your options. If you're a do-it-yourselfer, your first step should be to set up a budget based on your new circumstances. Review your sources of income, such as a pension, savings, severance or investments. Next, look at your expenses, how they'll change now that you're not working and whether you need to cut them. Online

DREW PARKER RETIRED AT 55 AFTER HIS EMPLOYER RESTRUCTURED AND OFFERED HIM A BUYOUT.

PHOTOGRAPH BY STANTON J STEPHENS

budgeting tools such as Mint.com and PersonalCapital.com can help.

In Parker's case, his wife continues to work at Nordstrom as a business process manager. "The question was: Could we live on one salary when we had always lived on two?" he says. For them, the answer was yes. Some expenses disappeared or shrank. For instance, paying for yard maintenance and child care for the Parkers' 12-year-old son was no longer necessary. Auto insurance became less expensive because one of the family's cars was being driven less. Parker no longer saves for retirement, but his wife continues to, in addition to putting money aside each month in a 529 college-savings plan for their son.

► **Consider part-time work.** Even if your full-time job is no more, consider finding a part-time gig to bring in some money. Every dollar you earn is one less that you'll have to pull from savings and investments. "It might make the difference between what makes a plan work or not work," says Steven Novack, a financial adviser in New York City. Some part-time jobs even come with benefits. Costco and Starbucks, for instance, offer part-timers health insurance and 401(k) plans with a company match.

For some people, a job loss can also be an opportunity to become your own boss. Parker markets a financial-planning tool called The Complete Retirement Planner. He had developed a spreadsheet to track his finances in retirement and show how they would change if, for example, he took Social Security early or his wife lost her job. Friends wanted to use it, too, so he added more scenarios to fit others and started selling it online in mid 2017.

► **Tap accounts to minimize taxes.** If income from part-time work or a spouse's job isn't enough—and you've gone through your severance or emergency fund—you might have to start drawing down your investment or retirement accounts.

The standard advice is to minimize taxes by withdrawing money first from your taxable accounts, especially if your income is now low enough to qualify for tax-free capital gains. Gains on investments held for more than a year will be taxed for most investors at a rate of 0%, 15% or 20%. For 2019, the 0% rate will apply for taxpayers with taxable income up to $39,375 on individual returns and $78,750 on joint returns.

Next, tap your tax-deferred retirement accounts, such as 401(k)s or traditional IRAs. Withdrawals are taxed as ordinary income at rates ranging from 10% to 37%. Try to save Roth IRAs for last so your investments can grow tax-free as long as possible.

► **Avoid retirement-plan penalties.** If you're forced to retire before age 59½ and need to tap your savings, be mindful of early-withdrawal penalties—and strategies to avoid them. You can withdraw your contributions at any time from a Roth without a penalty. You can avoid taxes and a penalty on the earnings, too, as long as you have owned the Roth for five years and you're at least 59½.

If you pull money out of a 401(k) or traditional IRA before age 59½, you could be subject to a 10% early-withdrawal penalty. But with a 401(k), if you leave your job in or after the year you turn 55, you won't pay a penalty for early withdrawals from the 401(k) associated with that job. This option disappears once you roll the 401(k) into a traditional IRA, says Scott Bishop, a CFP in Houston.

Drawing money from a traditional IRA before age 59½ can trigger a 10% penalty and should be a last resort. But some early retirees in need of money may have no other option. You can avoid the penalty by using the so-called 72(t) rule, in which you agree to take out "substantially equal periodic payments" from the IRA for five years or until you turn 59½, whichever is longer. The IRS offers three methods—amortization, annuitization and required minimum distribution—to calculate your payments based on your account balance and life expectancy. Your payments are locked in once you start, although the IRS permits a one-time switch from the amortization or annuitization method to the required minimum distribution calculation if, for example, you want to reduce the size of your withdrawals.

"You have to look at the 72(t) very carefully before you do it," says Bishop. If you violate the rules, you will owe a retroactive 10% penalty on your withdrawals. To give yourself more flexibility, Bishop recommends splitting a large IRA into at least two accounts (more if the balance is very large). You can start your 72(t) payments from one IRA, and if you later need extra income, you can start 72(t) payments on another, he says.

► **Review your portfolio.** An early retirement can throw your mix of stocks, bonds and cash out of whack. You might have been investing heavily in stocks, figuring you wouldn't need that money for 10 years or so. But if you must start drawing from your portfolio early, you'll need to invest the money you'll be spending in the next year or two more conservatively, so it won't be at risk if the stock market tumbles, says Rand Spero, a CFP in Lexington, Mass. He suggests parking cash you'll need in the next few months in a money market fund from an FDIC-insured online bank that pays a healthy interest rate and investing money needed in a year or two in short-term CDs and U.S. Treasuries. But don't get too conservative with your portfolio. You'll still need the growth that stocks provide to keep up with inflation for decades.

► **Take Social Security sooner or later?** If you have no other sources of income, you may have to apply for Social Security retirement benefits as early as possible, at age 62. (Taking benefits at 62 also makes sense if you are in poor health and don't expect to live for decades in retirement.) However, your benefits will be reduced by as much as 30% compared with what you would have received if you waited until your full retirement age—which is 66 to 67 for workers now in their fifties and early sixties.

If longevity is in your genes or you're married, delaying Social Security can provide generous long-term rewards. For every year you delay Social Security beyond your full retirement age, your benefit grows by 8% until age 70. That's likely a higher return than you'd earn from an investment portfolio, says Mark Fonville, a CFP in Williamsburg, Va. And for couples, having the higher earner delay Social Security until age 70

JENNIFER CROSS, 59, BECAME A FULL-TIME CAREGIVER FOR HER MOTHER AFTER HER JOB WAS ELIMINATED IN 2016.

PHOTOGRAPH BY SARA RUBINSTEIN

ensures that the survivor will get the largest possible benefit.

► **Cover health care.** If you lost your insurance along with your job, you'll need to find coverage until age 65, when you're eligible for Medicare.

If you're married, you might be eligible to join your spouse's workplace plan. Or you can maintain coverage under COBRA, the federal law that allows you to stay on your employer's plan for up to 18 months after leaving your job. But you must pay your share and the employer's share of the premiums, which can be steep.

You might find a better deal through your state's health care exchange (see www.healthcare.gov for links to state

Support Strategies

Your New Job: Caregiver

Some workers retire early to take on a new job as caregiver. That was the case for Jennifer Cross, 59, of Minneapolis, who has been her 95-year-old mother's caregiver for the past three years. Before that, Cross had been working in furniture sales and visiting her mother four or five days a week at the assisted-living facility where she lived. Neither of them liked the facility. So when Cross's position was eliminated in 2016, she invited her mother to live with her and became a full-time caregiver. "I just figured I could do this," she says. "I could take care of her, and that would be my job." Her mother pays her for caregiving, and Cross also works part-time teaching yoga.

Caregivers often take a huge financial hit, which can have ramifications for their retirement security. A MetLife study estimated that the amount of lost wages and reductions in Social Security and pension benefits totaled $303,880 for the typical caregiver age 50 or older who left the workforce early to care for a parent.

"They put a lot at stake by leaving the workplace to be a caregiver," says Quentara Costa, a certified financial planner in North Andover, Mass. Before you step into the role of caregiver, Costa says, hold a meeting with all other family members to discuss what you are willing and able to do, any compensation you might receive, and what help others will provide. The details can be written up in a family caregiver agreement so that there are no disputes—or hard feelings—later, she says. Families that wait until an elderly parent's death to discuss how a caregiver is compensated can end up squabbling over the estate.

Before quitting your job, make sure you have worked long enough to vest in your pension or 401(k) and have accumulated enough credits to qualify for Social Security retirement benefits. Also talk with human resources, which can help you avoid leaving free money on the table by quitting too early. For example, you may need to work until a certain date to qualify for an annual bonus, 401(k) match or profit-sharing payout.

Caregiving is stressful so don't overlook resources available to caregivers, including support groups and respite assistance to give you a break, says Amy Goyer, AARP's family and caregiving expert. Check your local Area Agency on Aging (find agencies at www.eldercare.acl.gov) to learn about support programs. Organizations that target specific illnesses often provide caregiver support. For example, if you're caring for someone who has Alzheimer's, contact the Alzheimer's Association, Goyer says. Information for caregivers is also available at www.aarp.org/caregiver and the Family Caregiver Alliance (www.caregiver.org).

exchanges). You don't have to wait for open enrollment if you lost your job. Generally, if you don't have access to a workplace plan (including a spouse's), you may also qualify for a subsidy that could reduce your premiums by thousands of dollars annually.

To get the subsidy, you must fall within certain income limits—a threshold that you're more likely to meet if you're not collecting a paycheck. For 2019, you can receive a subsidy if your modified adjusted gross income (MAGI) is up to $48,560 for singles, $65,840 for a couple and $100,400 for a family of four. Go to the Health Insurance Marketplace Calculator at www.kff.org to see if you qualify for the subsidy and the estimated subsidy amount.

If your household income is slightly over the threshold, you may be able to reduce it so you can qualify for the subsidy. Contributing to a health savings account or boosting contributions to a working spouse's 401(k) can reduce modified adjusted gross income. The amount you withdraw from tax-deferred accounts matters, too—even a small reduction in withdrawals could make you eligible for the subsidy. Another option, particularly if you don't qualify for a subsidy, is to shop for a policy through an online broker or buy directly from the insurer.

► **See if you qualify for disability.** If you must retire because of a disability, you may be eligible for Social Security disability insurance, which will provide a monthly check to you. To qualify, you must have a medical condition that will keep you from doing basic work activities for at least a year. In most cases, you must have worked five out of the past 10 years before your disability began and stayed long enough in jobs in which you paid into the Social Security system. You can apply online at SSA.gov.

Your initial application may be denied, but you can appeal. Bishop, the Houston CFP, says the application he filed on behalf of his father, a hospital administrator who suffered a stroke at age 58, was denied, so he hired an elder-law attorney to appeal. That worked, and Bishop now advises others to seek professional help either to handle the initial application or the appeal.

Generally, once you've received Social Security disability for two years, you'll qualify for Medicare, even if you're younger than age 65.

► **Downsize.** If you need to make bigger cuts to your living expenses, consider moving to a smaller place—or even to a cheaper state.

That's what Lydia and Chuck Jenkins of New Bern, N.C., did after both of them retired because their jobs had been eliminated. Chuck, 65, lost his job as a network engineer for a telecommunications company in 2016. Lydia, 64, worked in human resources at a biotech company until early this year, when her position was replaced by an automated system. In February, the couple relocated from Thurmont, Md., to North Carolina. They now live in a three-bedroom house that's about half the size of their Maryland house, but their mortgage is less than one-third of their old payment. Plus, taxes are lower in North Carolina, Chuck says (see kiplinger.com/links/retireetaxmap for the most and least tax-friendly states for retirees). ■

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Pension Decision

Lump Sum or Annuity?

If you leave an employer that provides a traditional pension, you'll likely be asked if you want to take it in a lump sum or as an annuity that will pay you an income for life.

There are advantages and risks to both options, says David Kudla, founder of Mainstay Capital Management in Grand Blanc, Mich. The advantage of rolling a lump sum into an IRA, he says, is that you'll be able to decide when to withdraw money and control taxes on those withdrawals. You can leave a lump sum to heirs if you're in poor health and unlikely to collect many pension checks. You may also be able to invest the money to keep up with inflation; most pensions don't have cost-of-living increases, and your purchasing power decreases over time. Plus, if your employer fails and its pension is taken over by the Pension Benefit Guaranty Corp., which insures private pensions, the PBGC may not cover the full pension you're due, Kudla says. (The PBGC's maximum annual benefit for plans it takes over in 2019 is $43,742 for a 60-year-old, or $39,368 with a survivor benefit.)

But traditional pensions are disappearing, and their value shouldn't be underestimated. For example, suppose you were offered a pension that paid a $1,490 monthly benefit for life for a 60-year-old man, or $1,445 for a woman. To buy an annuity that paid the same amount, you would need $300,000, according to www.immediateannuities.com.

With the annuity option, you also have the ability to choose survivor benefits, so if you die before your spouse does, he or she will continue to receive a check. And taking a lump sum puts all of the investment risk on you. How confident are you that you will be able to successfully invest that money throughout retirement? A 2017 MetLife study found that 20% of workers electing to take a lump sum depleted the cash in 5½ years. "There is a behavioral benefit" to a monthly pension check, says Mark Fonville, a certified financial planner in Williamsburg, Va. "It can be immensely liberating, knowing every morning that you wake up, you're going to get your payment."

If you're unsure which option is best for you, have a financial professional run the numbers and the scenarios for you.

ASK KIM | Kimberly Lankford

529 Plans Aren't Just for Kids

CAN I USE MONEY TAX-FREE FROM A 529 college-savings plan to pay for continuing education? Or do I have to be enrolled in a college degree or certificate program?
C.B., BETHLEHEM, PA.

As long as you are taking the course at an eligible institution, the cost of tuition, fees, required books and software can be withdrawn tax-free from the 529, even if you aren't in a degree or certificate program. Eligible institutions include accredited colleges, universities, vocational schools and other postsecondary educational institutions that participate in a student aid program administered by the U.S. Department of Education (see the Federal School Code Search tool at FAFSA.gov). Nearly 4,000 U.S. institutions qualify, along with some outside of the U.S., says James DiUlio, chairman of the executive board of the National College Savings Plan Network.

Continuing education needed to maintain a professional license may also be eligible, depending on the institution where you take the course.

Remedy for RMD mistake. **My brokerage firm didn't include one of my traditional IRAs when calculating my required minimum distributions over the past three years, so I took out less money than I should have. Is there a way to avoid paying the 50% penalty?**
J.D., GEORGETOWN, MAINE

You can ask the IRS to waive the penalty. First, calculate the amount you should have withdrawn as your RMD for each of those years and withdraw the money right away. Then file a separate Form 5329 with the IRS immediately for each year's RMD you missed. Complete lines 52 and 53 with the amount you should have withdrawn, then write *RC*, which means "reasonable cause," and the amount of the penalty you want waived in parentheses on the dotted line next to line 54. Add a brief note saying that the RMD was omitted by the brokerage and was withdrawn immediately upon discovery, says Ed Slott, publisher of IRAHelp.com. (See instructions for Form 5329 at IRS.gov.)

You don't need to send any penalty money unless you hear back from the IRS denying your request for a waiver. Slott says he's never seen a penalty not waived for someone who withdrew the money as soon as he or she realized the mistake and filed Form 5329 with a reasonable excuse.

Insurance when learning to drive. **My son is about to get his learner's permit. Do I need to let my insurance company know now, or should I wait until he has his full license?**
S.R., TAMPA

Contact your car insurance company as soon as your son gets his learner's permit to make sure he's covered, even though your premiums may not increase until he has his full license. But start thinking of ways to reduce the premiums when he does get his license. He can help by keeping his grades up to at least a B average and taking a driver's education course. You can also designate him as a driver of an older car with only liability coverage, says Jeffrey Collignon, of USAA. Meanwhile, consider raising the policy's liability limits, increasing deductibles if the car has comprehensive and collision coverage, and adding an umbrella policy to protect your assets in case he injures somebody or damages another car.

Minor credit report errors. **An address listed on my credit report is incorrect. Is there any reason to start a dispute to change it?**
K.K., CHRISTINE, N.D.

It's a good idea to fix the error. The incorrect address could be the result of a "mixed file," when information of two individuals gets combined into one credit report, or "it could be an indication of an attempt at identity theft," says Paul Stephens, of the Privacy Rights Clearinghouse. You can file a dispute on the credit bureau's website (Equifax.com, Experian.com or TransUnion.com). Stephens advises examining all of your credit reports for suspicious activity.

You can order a free copy of your credit report from each bureau once a year at www.annualcreditreport.com. ■

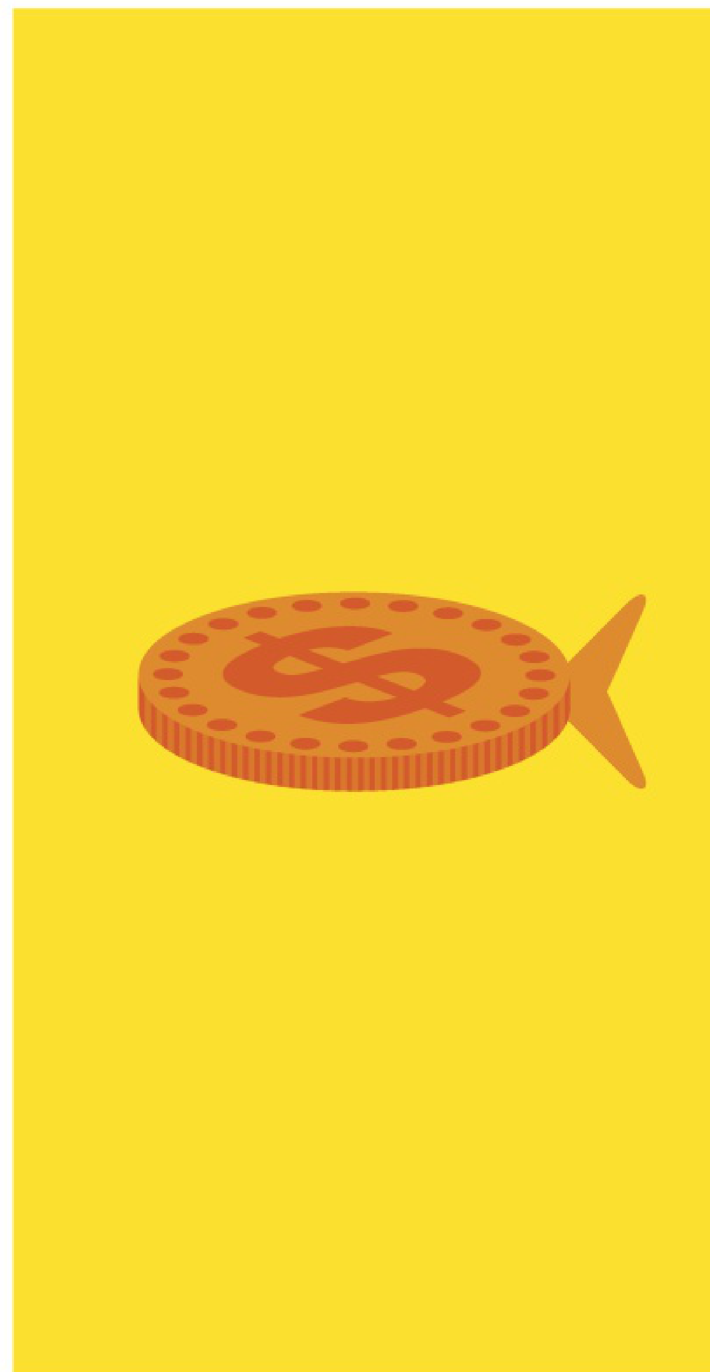
HAVE A QUESTION? ASK KIPLINGER AT ASKKIP@KIPLINGER.COM.

POON WATCHARA-AMPHAIWAN

UNCONVENTIONAL WISDOM

When to Swim Against the Tide

We found five rules of thumb that you may want to bend—or ignore. BY PATRICIA MERTZ ESSWEIN



FINANCIAL RULES OF THUMB CIRCLE around the internet like flotsam caught in an eddy. We scrutinized five particularly persistent ones to see how they hold up. Our conclusion: Most have merit as a starting point for setting a financial goal. But depending on your personal circumstances, you may benefit from bending the rules.

BUDGET

Spend no more than half of your income on living expenses, keep discretionary items to 30%, and save the rest.

In her 2005 book, *All Your Worth: The Ultimate Lifetime Money Plan*, Elizabeth Warren, then a Harvard professor, presented "the balanced money formula," which has since been popularized as the 50/30/20 rule. Under this rule, you allot 50% of your take-home pay to "must haves," 30% to "wants" and 20% to savings.

Must haves include housing, utilities, medical care, insurance, transportation, child care and minimum payments on any legal obligations, such as student loans, child support or anything for which you've signed a long-term contract. Why only 50%? Warren says it's sustainable, leaving you with plenty of money for the rest of your life, including fun and the future. When things go wrong, you may be able to cover the basics with an unemployment or disability check or, if you're married, live on one paycheck for a while.

The 20% for savings is automatic—debited directly from your paycheck—not an afterthought. Use the money to build an emergency fund, pay off debt and save for retirement.

That leaves 30% of your budget for your wants (including charitable giving), which allows you to avoid the cycle of binge spending and crash-diet budgeting, writes Warren. If something goes wrong, this category is the first place you cut.

Although 50/30/20 is a good guide, you need to be flexible, says credit expert Gerri Detweiler. If you live in a high-cost area, spending more than 50% of your paycheck on living expenses may be unavoidable, given the cost of housing, child care and health care. Similarly, if staying within the threshold means buying a home that comes with a three-hour-a-day commute, you may choose to stretch beyond the limit to live closer to work and have more free time. If you're carrying high-cost, unsecured debt, Detweiler strongly recommends that you pay it off within three years to avoid digging yourself into a deeper hole. She recommends that you apply a portion of the 20% designated for savings toward debt repayment and consider how you could reduce your living expenses or discretionary spending to meet the goal.

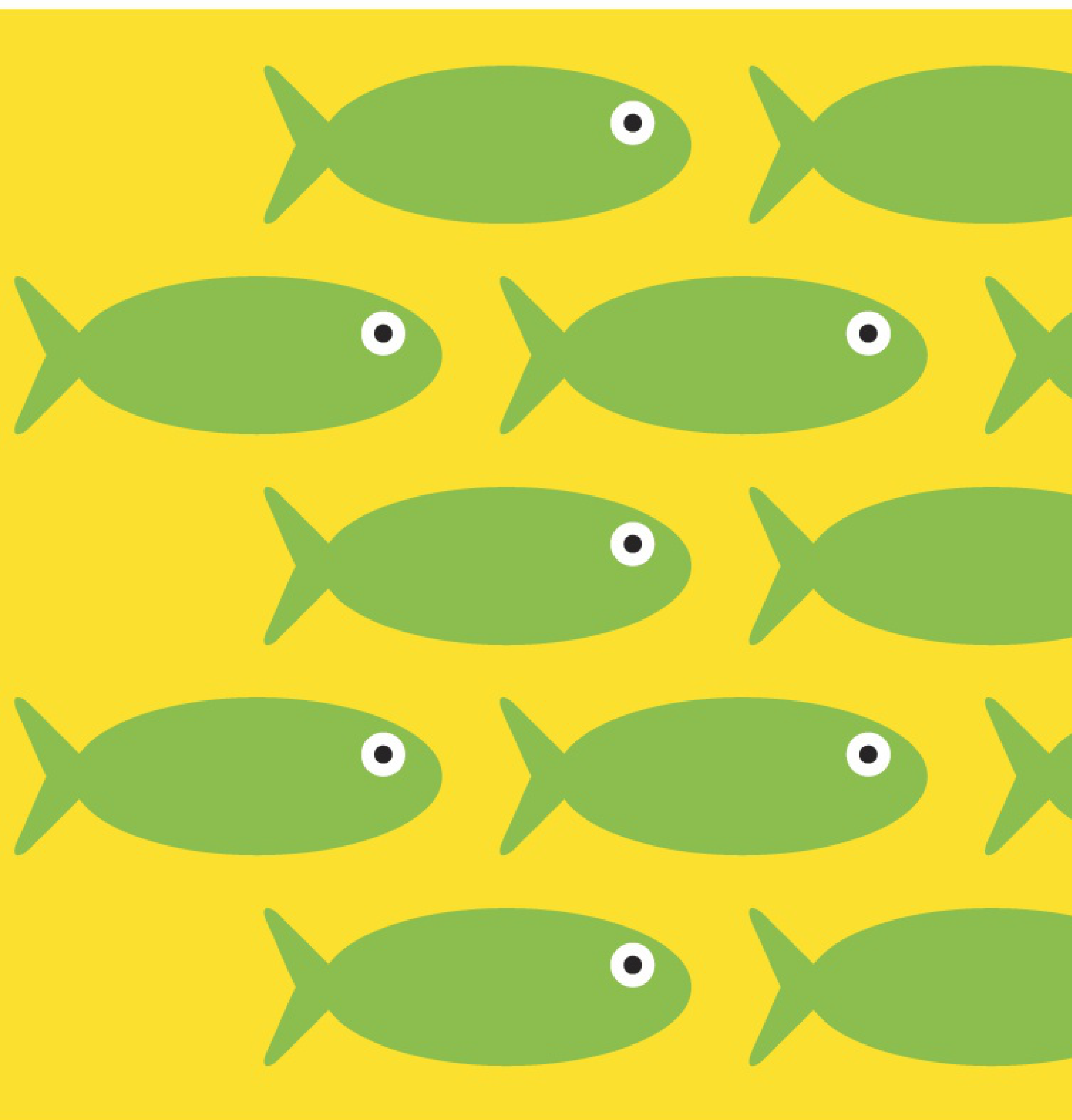
It's also important to reevaluate your budget periodically as your life changes. For example, downsizing or moving to a lower-cost area could allow you to cut your living expenses below 50% and save more for retirement.

HOME

You can afford a home that's two to four times your annual gross income.

You can use this rule to start house shopping online, but you won't know what you can really afford to buy—whether more or less—until you get preapproved for a mortgage by a lender.

Here's why: Lenders will qualify you for a mortgage based on two ratios. One is the *front-end ratio,* which restricts your housing expenses (mort-



gage principal and interest, real estate taxes, insurance, homeowners association dues, and special assessments) to 28% of your gross annual income. It also includes private mortgage insurance if your down payment is less than 20%, hazard (homeowners) insurance and flood insurance.

Say you have a household income of $120,000, no other debts, and you want to buy a home in Phoenix, Ariz. With a 4%, 30-year mortgage, a 20% down payment, a property tax rate of 0.58% (according to Attom Data Solutions) and the state's average annual hazard insurance bill of $1,867 (according to Insurance.com), you could afford a home worth about $613,000. But in a high-cost area, property taxes and insurance can hit hard—and lower the value of the homes you can afford. For example, in Westchester County, New York, with a property tax rate of 2.29%, an average annual insurance bill of $3,082 and all other things being equal, the price of the home you could afford would fall to about $580,000.

To make sure you can pay your mortgage, lenders use the *back-end ratio* to limit all monthly debt payments (mortgage, second mortgage or home-equity line of credit, student loans, and installment debt) to 36% to 50% of your gross monthly income. The amount depends on whether the loan is backed by Fannie Mae, Freddie Mac or the Federal Housing Administration (FHA), as well as your credit score, down payment and reserves. In 2017, the mortgage giants loosened up on the back-end ratio to assist first-time home buyers who have a lot of student debt. But in 2018, they began to tighten up a bit out of concern that maxed-out borrowers who lose their jobs or are hit with high medical bills will be at greater risk of default.

To get a more accurate idea of how much you can afford, use an online mortgage calculator (visit www.bankrate.com or www.hsh.com). Or call a mortgage lender, such as Quicken, to get prequalified (an estimate based on self-reported information) or preapproved (a commitment to lend a certain amount based on documented information). You'll avoid setting your expectations too high or too low and look at houses you can afford. A preapproval will assure home sellers that you can close the deal.

The monthly mortgage payment for which you qualify doesn't reflect the total cost of homeownership. You'll also have to pay for maintenance, repairs and replacement of components, such as the roof. To cover these costs, financial planners recommend setting aside 1% to 2% of the market value of your home annually in a high-yield online savings account.

LIFE INSURANCE

You need life insurance equal to eight to 10 times your annual pretax income. The basic purpose of life insurance is to replace lost income if your spouse or partner passes away early. But the amount of insurance you need depends on a number of individual circumstances.

Decide what expenses or debts you would like to eliminate or goals you would like to meet with a life insurance payout. You may already have a benefit through your employer that will cover your final expenses—about $10,000 for a funeral, burial and related costs. Do you want to relieve your survivor of the burden of a mortgage or other debt? Provide money for your children's education? Leave a legacy for family or charitable beneficiaries? Replace what you would have saved for retirement? "You won't be

ILLUSTRATION BY PATRICK GEORGE

accumulating money in your 401(k) if you're dead, and that big pile of money that you thought would be available at the end of your working years for you and your spouse won't be there," says David Cordell, a professor of finance and managerial economics at the University of Texas in Dallas.

You should also consider how your household's expenses may change if you're not there. They could rise, for example, if your family must pay for services that you formerly provided, such as lawn care, home repair, housekeeping, child care or elder care.

To more precisely calculate your needs, use a life insurance calculator, such as the one at www.lifehappens.org. When you're ready to buy a policy, compare premiums at www.accuquote.com. Your least expensive option will be a term insurance policy, which provides a guaranteed death benefit for a specific time—typically 20 or 30 years—with no savings or investment component.

COLLEGE

Save one-third of the cost of college. Under this rule of thumb, you pay for a third of the cost of college from savings, pay a third from current income and financial aid, and borrow a third using a combination of parent and student loans.

Proponents of this rule say you should save a third of the *sticker* price, which can be daunting for many families. The average sticker price for the 2018–19 academic year at a four-year public institution, including tuition, fees, and room and board, was $21,370 for in-state students and $37,430 for out-of-state students, according to the College Board. The average tab at private colleges was $48,510.

In addition, you may have other expenses that take priority. Do you have high-interest debt? Are you making the maximum contribution to your 401(k)? Do you have an emergency savings fund? On the other hand, if you've checked all of these boxes and still have income left over, you may want to save more than a third and reduce the amount your child will need to borrow. (And keep in mind that if your child qualifies for financial aid, the net price will be far less.)

To calculate how much you must save each month to reach your goal, use the college savings calculator at SavingforCollege.com. You can customize the result by entering your child's age; choice of public or private, in-state or out-of-state school; what portion of the projected costs you hope to cover; and other factors.

For most parents, their state's 529 college-savings plan is the most effective way to save for college. Earnings will accumulate tax-free, and many states offer tax breaks for contributions.

Investing

Time to Update This Rule

When saving for retirement, a conventional rule of thumb is to subtract your age from 100 to determine how much to invest in stocks. But that could leave you with a portfolio that's too conservative, given longer life spans. If you're 65, for example, you could live another 30 years or more. With just 35% in stocks, your portfolio may not grow enough to last that long.

Wade Pfau, professor of retirement income at the American College, in Bryn Mawr, Pa., and Michael Kitces, director of wealth management at Pinnacle Advisory Group, in Columbia, Md., have tested the guideline against others for an individual who retires during a bear market. They found that you would run out of money sooner using the old rule of thumb than if you maintained a 60%-40% split between stocks and bonds throughout retirement, with annual rebalancing.

Some proponents have revised the rule of thumb, recommending that you subtract your age from 110 to 125, depending on other sources of income and your tolerance for risk. At 125, our hypothetical 65-year-old would have 60% in stocks.

SAVING FOR RETIREMENT

You'll need 70% to 80% of your preretirement income to live on when you retire. If you have 20 years until retirement, that replacement rate is a "very basic starting point" for estimating the total savings you'll need for retirement, says David Blanchett, head of retirement research for Morningstar Investment Management. However, it assumes that your spending will increase by the rate of inflation annually and that your retirement will last 30 years, neither of which is necessarily true. His research shows the actual replacement rate required to maintain your preretirement lifestyle during retirement varies significantly by household, from less than 54% to more than 87% of preretirement income.

Once you're within striking distance of retirement—say, three to five years—take stock of your current expenses and try to anticipate what will change. Will you downsize to a less expensive home? Will you still provide some support to your children or grandchildren? How do you want to spend your time in retirement? "Some people will be happy reading a book. But for those who want a really active retirement, their income target could *exceed* their current income level," says Blanchett.

On the other hand, certain expenses will disappear in retirement. You'll probably stop contributing to your retirement accounts, and unless you continue to work, you won't pay Social Security and Medicare taxes. Once you've estimated what you'll spend in retirement, add up your expected sources of income from Social Security, pensions and annuities, as well as withdrawals from savings, to see if you are on track (or use our Retirement Savings Calculator at kiplinger.com/links/retirementcalculator). ■

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CREDIT

Make the Most of Steady Rates

AFTER BOOSTING SHORT-term interest rates between late 2015 and late 2018, the Federal Reserve has signaled it likely won't hike rates in 2019. That's a relief for borrowers—especially those who have debt with a variable interest rate—but savers get shortchanged.

Most credit cards have a variable rate tied to an underlying index, such as the prime rate. When the Fed changes the federal funds rate, the index typically follows in tandem—so card rates should hold steady the rest of the year. If your credit card carries a balance, consider a card with an introductory 0% rate on balance transfers. With rate hikes on pause, card issuers will probably offer 0% windows longer than previously anticipated, says Matt Schulz, chief industry analyst for CompareCards.com. The Amex EveryDay card recently offered a 0% rate on balance transfers and purchases for 15 months (then 15.24% to 26.24%), with no balance-transfer fee as long as you request the transfer within 60 days of opening the account.

A home-equity line of credit typically comes with a variable rate, too. Taking advantage of a HELOC could let you finance a home-improvement project or consolidate high-rate debt without much concern that the rate will increase soon. The average HELOC rate was recently 6.29%, according to Bankrate.com.

A strategy for savers. Even rates on savings accounts from internet banks (usually the most competitive) likely won't move much the rest of the year, says Ken Tumin, founder of Deposit Accounts.com. Since December, some internet banks have cut rates on CDs, especially those with five-year maturities, says Tumin. Still, he says, "it's starting to make more sense to lock in to a CD, especially with the possibility that rates could start falling." Hedge your bets by choosing a CD with a mild early-withdrawal penalty. Capital One 360 recently offered a 3.1% rate on a five-year CD, with a penalty of six months' worth of interest for withdrawing the money early. Ally Bank's five-year CD yields 3%, with a penalty of about five months' interest for an early withdrawal. **LISA GERSTNER**

lgerstner@kiplinger.com

RATE UPDATES

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

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of April 2	Minimum investment	Website (www.)
Vanguard Prime Inv (VMMXX)	2.48%	$3,000	vanguard.com
Gabelli US Treas AAA (GABXX)	2.41	10,000	gabelli.com
Vanguard Federal (VMFXX)	2.38	3,000	vanguard.com
Northern MMF (NORXX)*	2.35	2,500	northerntrust.com

Tax-Free Money Market Mutual Funds	30-day yield as of April 1	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
Vanguard Muni Inv (VMSXX)	1.55%	2.04%/2.38%	$3,000	vanguard.com
M Stanley T-F Daily Inc (DSTXX)*	1.40	1.84/2.15	5,000	morganstanley.com
BNY Mellon Ntl Muni (MOMXX)	1.34	1.76/2.06	10,000	bnymellon.com
Fidelity Muni MMF (FTEXX)*	1.34	1.76/2.06	5,000	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of April 23	Minimum amount	Website (www.)
All America Bank (Okla.)†#‡	2.50%	none	allamerica.bank
Investors eAccess (N.J.)†#	2.50	none	investorsbankeaccess.com
Comenity Direct (Utah)†	2.48	$100	direct.comenity.com
Banesco USA (Fla.)†§	2.47	300	banescousa.com

Certificates of Deposit 1-Year	Annual yield as of April 23	Minimum amount	Website (www.)
Merrick Bank (Mo.)†	2.87%	$25,000	merrickbank.com
Comenity Direct (Utah)†	2.86	1,500	direct.comenity.com
Banesco USA (Fla.)†∂	2.85	1,500	banescousa.com
Citizens Access (R.I.)†∂	2.85	5,000	citizensaccess.com

Certificates of Deposit 5-Year	Annual yield as of April 23	Minimum amount	Website (www.)
First National Bank of America (Mich.)†	3.35%	$1,000	fnba.com
Affinity Plus FCU (Minn.)&¶	3.25	500	affinityplus.org
Main Street Bank (Mich.)†¶	3.25	500	msbmi.com
Presidential Bank FSB (Md.)†¶	3.25	1,000	presidential.com

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ‡Redneck Bank, a division of All America Bank, offers a similar yield. §US Alliance FCU offers a similar yield. ∂Limelight Bank and Rising Bank offer a similar yield. &Must be a member; to become a member, see website. ¶Sun East FCU and Tampa Bay FCU offer a similar yield. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of April 23	Balance range†	Website (www.)
Consumers Credit Union (Ill.)#	5.09%‡	$0–$10,000	myconsumers.org
America's Credit Union (Wash.)#	5.00	0-1,000	youracu.org
La Capital FCU (La.)#	4.25	0-3,000	lacapfcu.org
Orion FCU (Tenn.)#§	4.00	0-30,000	orionfcu.com

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. †Portion of the balance higher than the listed range earns a lower rate or no interest. #Must be a member; to become a member, see website. ‡Requires spending $1,000 or more in CCU Visa credit card purchases. §Premier Member's Credit Union and TAB Bank offer a similar yield. SOURCE: DepositAccounts.

YIELD BENCHMARKS

	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	0.10%	0.10%	0.10%
U.S. Series I savings bonds	2.83	2.83	2.58
Six-month Treasury bills	2.46	2.48	2.04
Five-year Treasury notes	2.36	2.24	2.83
Ten-year Treasury notes	2.57	2.44	2.98

SOURCE FOR TREASURIES: U.S. Treasury

As of April 23, 2019.
- EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
- Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.
- Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.

ILLUSTRATIONS BY CHRIS GASH

INVESTING | COVER STORY

HOW TO GET HIGHER YIELDS

From super-safe money markets to adventurous MLPs and REITs, we found 33 ways to put more cash in your pocket. BY JOHN WAGGONER

For more than a decade, income investors have been plagued by paucity wrapped in misery. The bellwether 10-year Treasury note has doled out an average 2.6% interest since 2008. Although the Federal Reserve has nudged its target interest rate range to 2.25% to 2.50%, it has signaled that it's done raising rates for now.

Even worse, the yield on the 10-year T-note briefly sank below the yield on the three-month T-bill—an unusual inversion that can sometimes herald a recession and lower yields ahead (see "Ahead," on page 12). The takeaway: Locking your money up for longer periods is rarely worth the negligible increase in yield.

What could increase your yield these days? Being a little more adventurous when it comes to credit quality. When you're a bond investor, you're also a lender, and borrowers with questionable credit must pay higher yields. Similarly, stocks with above-average yields probably have some skeletons in their balance sheets.

You can ameliorate credit risk—but not eliminate it—through diversification. Invest in a mutual fund, say, rather than a single

issue. And invest in several different types of high-yielding investments—for example, investment-grade bonds, preferred stocks and real estate investment trusts—rather than just one category.

Despite such caveats, income investing is not as bad as it was in 2015, when it was hard to milk even a penny's interest out of a money market. Now you can get 3.3% or more from no-risk certificates of deposit at a bank. We'll show you 33 ways to find the best yields for the risk you're willing to take, ranging from 2% all the way up to 12%. Just remember that the higher the payout, the greater the potential for some rough waters. (Prices, yields and other data are as of April 19.)

2%-3%

SHORT-TERM ACCOUNTS

Short-term interest rates largely follow the Fed's interest rate policy. Most observers in 2018 thought that would mean higher rates in 2019. But slowing economic growth in the fourth quarter of 2018 and the near-death experience of the bull market in stocks changed that. The Fed's rate-hiking campaign is likely on hold for 2019.

Still, money markets are good bets for money you can't stand to lose. Money market funds are mutual funds that invest in very-short-term, interest-bearing securities. They pay out what they earn, less expenses. A bank money market account's yield depends on the Fed's benchmark rate and the bank's need for deposits.

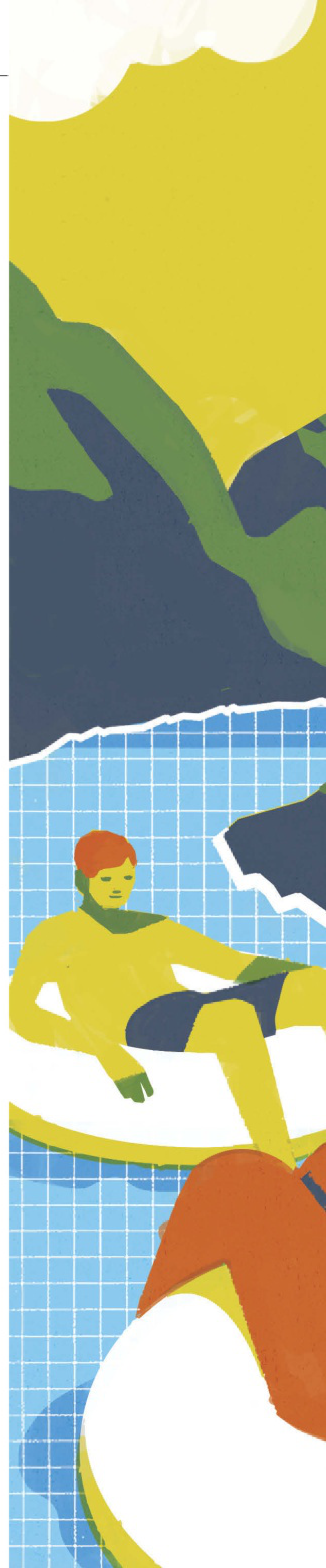
THE RISKS: Money market mutual funds aren't insured, but they have a solid track record. The funds are designed to maintain a $1 share value; only two have allowed their shares to slip below $1 since 1994. The biggest risk with a bank money market deposit account is that your bank won't raise rates quickly when market interest rates rise but will be quick on the draw when rates fall. MMDAs are insured up to $250,000 by the federal government.

HOW TO INVEST: The best MMDA yields are from online banks, which don't have to pay to maintain brick-and-mortar branches. Currently, a top-yielding MMDA is from **INVESTORS EACCESS**, which is run by Investors Bank in New Jersey. The account has no minimum, has an annual percentage yield of 2.5% and allows six withdrawals per month.

You'll get a bump from a short-term CD, provided you can keep your money locked up for a year. **MERRICK BANK**, in Springfield, Mo., offers a one-year CD yielding 2.9%, with a $25,000 minimum. The early-withdrawal penalty is 2% of the account balance or seven days' interest, whichever is larger. The top five-year CD yield was recently 3.4%, from **FIRST NATIONAL BANK OF AMERICA** in East Lansing, Mich.

Your primary concern in a money fund should be how much it charges in expenses. **VANGUARD PRIME MONEY MARKET FUND** (SYMBOL VMMXX, YIELD 2.5%) charges an ultralow 0.16% a year and consistently sports above-average yields.

Investors in high tax brackets might consider a tax-free money fund, whose interest is free from federal (and some state) income taxes, such as **VANGUARD MUNICIPAL MONEY MARKET FUND** (VMSXX 1.6%). To someone paying the maximum 40.8% federal tax rate, which includes the 3.8% net investment income tax, the fund has the equivalent of a 2.7% taxable yield. (To compute a muni's taxable-equivalent yield, subtract your tax bracket from 1, and divide the muni's yield by that. In this case, divide 1.6% by 1 minus 40.8%, or 59.2%). The fund's expense ratio is 0.15%.



2%-3%

MUNICIPAL BONDS

Muni bonds are IOUs issued by states, municipalities and counties. At first glance, muni yields look as exciting as a month in traction. A 10-year, AAA-rated national muni yields 2.0%, on average, compared with 2.6% for a 10-year Treasury note.

But the charm of a muni bond isn't its yield; it's that the interest is free from federal taxes—and, if the bond is issued by the state where you live, from state and local taxes as well. As with tax-free money funds, investors should consider a muni fund's taxable equivalent yield; in the case above, it would be 3.4% for someone paying the top 40.8% federal rate.

Yields get better as you go down in credit quality. An A-rated 10-year muni—two notches down from AAA but still good—yields 2.3%, on average, or 3.9% for someone paying the top rate.

THE RISKS: Munis are remarkably safe from a credit perspective, even considering that defaults have inched up in recent years. But like all bonds, munis are subject to interest rate risk. If rates rise, your bond's value will drop (and vice versa), because interest rates and bond prices typically move in opposite directions. If you own an individual bond and hold it until it matures, you'll most likely get your full principal and interest. The value of muni funds, however, will vary every day.

HOW TO INVEST: Most investors should use a mutual fund or ETF, rather than pick their own individual bonds. Look for funds with rock-bottom expenses, such as **VANGUARD LIMITED-TERM TAX-EXEMPT** (VMLTX, 1.8%). The fund charges just 0.17%, and yields the equivalent of 3% for someone paying the highest federal tax rate. It's a short-term fund, which means it's less sensitive to interest rate swings. That means its share price would fall less than longer-term funds' prices if rates were to rise. The average credit quality of the fund's holdings is a solid AA–.

FIDELITY INTERMEDIATE MUNICIPAL INCOME (FLTMX, 2.0%), a member of the Kiplinger 25, the list of our favorite no-load funds, gains a bit of yield (a taxable equivalent of 3.4% for those at the top rate) by investing in slightly longer-term bonds. The fund's expense ratio is 0.37%; the largest percentage of assets, 39%, is in AA bonds.

VANGUARD HIGH-YIELD TAX-EXEMPT FUND INVESTOR SHARES (VWAHX, 2.9%) also charges just 0.17% in fees and yields 4.9% on a taxable-equivalent basis for someone at the highest rate. The extra yield comes from investing in a sampling of riskier bonds. But the fund's average BBB+ credit rating is still pretty good, and its return has beaten 96% of high-yield muni funds over the past 15 years.

3.5%-4%

INVESTMENT-GRADE BONDS

You get higher yields from corporate bonds than you do from government bonds because corporations are more likely to default. But that risk is slim. The one-year average default rate for investment-grade bonds (those rated BBB– or higher), is just 0.09%, going back to 1981, says Standard & Poor's.

And corporate bonds rated AAA and maturing in 20 or more years recently yielded 3.7%, on average, while 20-year Treasury bonds yielded 2.8% and 30-year T-bonds, 3.0%. You can earn even more with bonds from firms with lightly dinged credit ratings. Bonds rated BBB yield an average 4.0%.

THE RISKS: The longer-term bond market moves independently of the Fed and could nudge yields higher (and prices lower) if inflation worries pick up. Though corporate defaults are rare, they can be devastating. Lehman Brothers, the brokerage firm whose bankruptcy helped fuel the Great Recession, once boasted an investment-grade credit rating.

HOW TO INVEST: Active managers select the bonds at **DODGE & COX INCOME** (DODIX, 3.5%). This fund has beaten 84% of its peers over the past 15 years, using a value-oriented approach. It holds relatively short-term bonds, giving its portfolio a duration of 4.4 years, which means its share price would fall roughly 4.4% if interest rates rose by one percentage point over 12 months. The fund's average credit quality is A, and it charges 0.42% in expenses.

If you prefer to own a sampling of the corporate bond market for a super-low fee, **VANGUARD INTERMEDIATE-TERM CORPORATE BOND INDEX FUND ADMIRAL SHARES** (VICSX, 3.6%) is a good choice. Vanguard recently lowered the minimum investment to $3,000, and the fund charges just 0.07%.

Interest-rate risk is high with **VANGUARD LONG-TERM BOND ETF** (BLV, $91, 3.8%). The exchange-traded fund has a duration of 15, which means fund shares would fall 15% if interest rates moved up by one percentage point in a year's time. Still, the yield on this long-term bond offering is enticing, and the fund's expense ratio is just 0.07%.

3%-6%

DIVIDEND STOCKS

Dividend stocks have one advantage that bonds don't: They can, and often do, raise their payout. For example, **PROCTER & GAMBLE** (PG, $106, 2.7%), a member of the Kiplinger Dividend 15, the list of our favorite dividend-paying stocks, raised its dividend from $2.53 a share in 2014 to $2.84 in 2018, a 2.3% annualized increase.

Preferred stocks, like bonds, pay a fixed dividend and typically offer higher yields than common stocks. Banks and other financial services firms are the typical issuers, and, like most high-dividend investments, they are sensitive to changes in interest rates. Yields for preferreds are in the 6% range, and a generous crop of new issues offers plenty of choices (see "Income Investing," on page 60, for the best ways to invest in preferred stocks now).

THE RISKS: Dividend stocks are still stocks, and they will fall when the stock market does. Furthermore, Wall Street clobbers companies that cut their dividend. General Electric slashed its dividend to a penny per share on December 7, 2018, and the stock fell 4.7% that day.

HOW TO INVEST: Some slower-growing industries, such as utilities or telecommunications firms, tend to pay above-average dividends. **VERIZON COMMUNICATIONS** (VZ, $58, 4.2%), a Kip 15 dividend stock, is the largest wireless carrier in the U.S. Its investment in Fios fiber-optic cable should pay off in coming years. **SPDR PORTFOLIO S&P 500 HIGH DIVIDEND ETF** (SPYD, $39, 4.3%) tracks the highest-yielding stocks in the S&P 500 index. The fund has 80 holdings and is sufficiently diversified to handle a clunker or two.

Utility **PPL CORP.** (PPL, $31, 5.3%) derives more than 50% of its earnings from the United Kingdom. Worries that the U.K.'s departure from the European Union will pressure PPL's earnings have weighed on the stock's price, boosting its yield. Nevertheless, PPL's U.S. operations provide strong support for the company's generous payout.

Ma Bell is a Dividend Aristocrat, meaning that **AT&T** (T, $32, 6.4%) has raised its dividend for at least 25 consecutive years (35 straight years, in AT&T's case). The company has plenty of free cash flow to keep raising its payout.

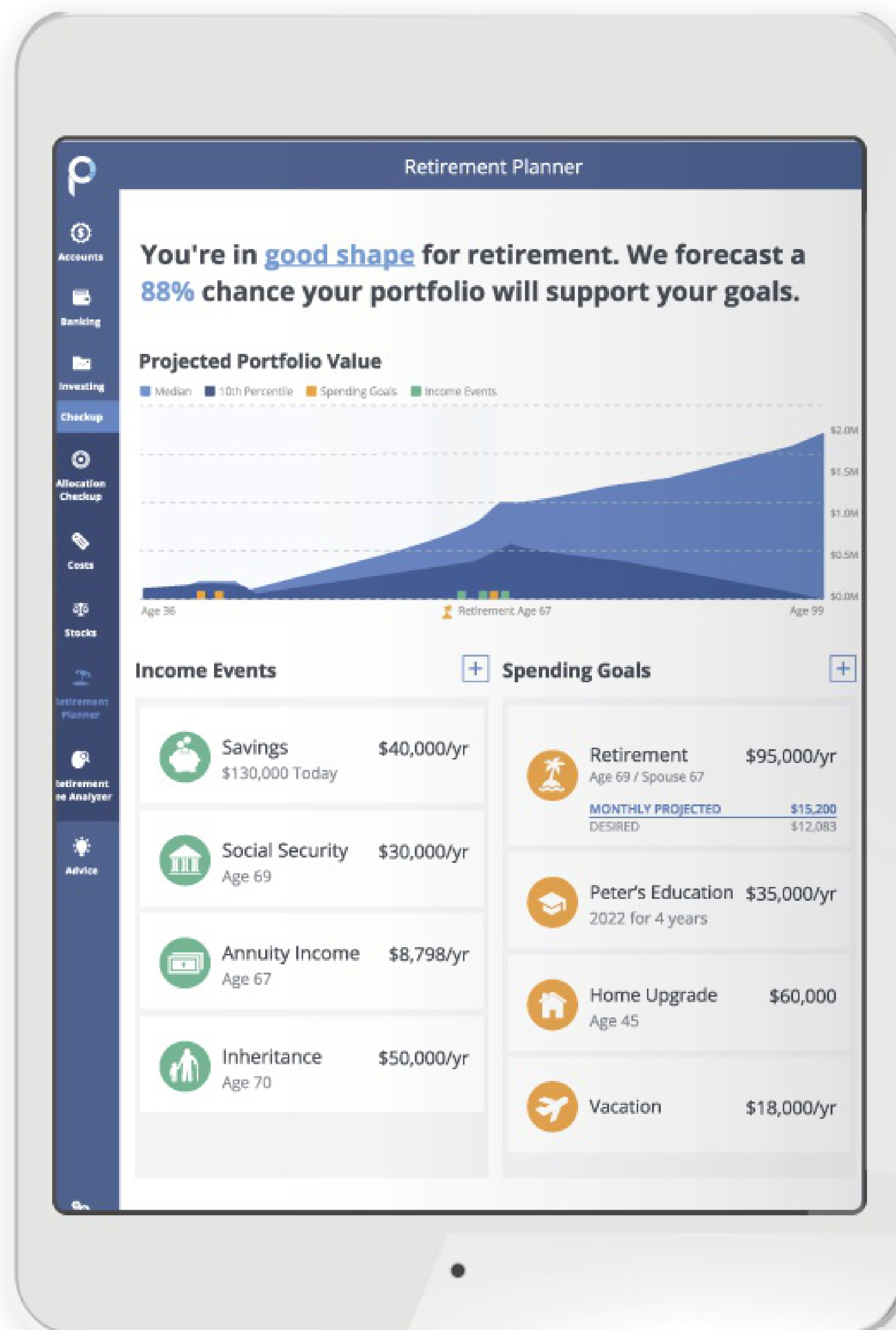
FREE RETIREMENT PLANNER

Take the guesswork out of your retirement.

1 When can I retire comfortably?

2 What impact will Social Security have?

3 What if something unexpected happens?



4 What if I retire earlier?

5 How much money will I have to spend each month?

6 Can I afford that splurge?

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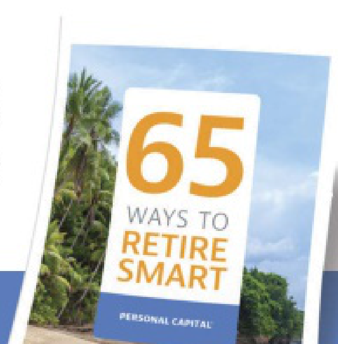

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5%-6%

FOREIGN BONDS

If you think interest rates are low in the U.S., note that most developed foreign countries have even lower rates because their economies are growing slowly and inflation is low. The U.K.'s 10-year bond pays just 1.2%; Germany's 10-year bond yields 0.1%; Japan's yields –0.03%. There's no reason to accept those yields for a day, much less a decade.

You can, by contrast, find decent yields in some emerging countries. Emerging-markets bonds typically yield roughly four to five percentage points more than comparable U.S. Treasury bonds, which would put yields on some 10-year EM debt at about 7%, says Pramol Dhawan, emerging-markets portfolio manager at bond fund giant Pimco.

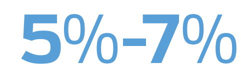
THE RISKS: You need a healthy tolerance for risk to invest in emerging-markets bonds. U.S. investors tend to be leery of them because they remember massive defaults and currency devaluations, such as those that occurred in Asia in the late 1990s. But in the wake of such debacles, many emerging countries have learned to manage their debt and their currencies better than in the past.

But currency is still a key consideration. When the U.S. dollar rises in value, overseas gains translate into fewer greenbacks. When the dollar falls, however, you'll get a boost in your return. A higher dollar can also put pressure on foreign debt denominated in dollars—because as the dollar rises, so do interest payments.

HOW TO INVEST: DODGE & COX GLOBAL BOND (DODLX, 4.5%) can invest anywhere, but lately it has favored U.S. bonds, which were recently 48% of the portfolio. The fund's major international holdings show that it isn't afraid to invest in dicey areas—it has 11% of its assets in Mexican bonds and 7% in United Kingdom bonds.

FIDELITY NEW MARKETS INCOME (FNMIX, 5.6%), a Kip 25 fund, has been run by John Carlson since 1995. That makes him one of the few emerging-markets debt managers who ran a portfolio during the currency-triggered meltdown in 1997-98. He prefers debt denominated in dollars, which accounts for 94% of the portfolio. But he can be adventurous: About 6.5% of the fund's assets are in Turkey, which is currently struggling with a 19% inflation rate and a 14.7% unemployment rate.

ISHARES EMERGING MARKETS HIGH YIELD BOND ETF (EMHY, $46, 6.2%) tracks emerging-markets corporate and government bonds with above-average yields. The holdings are denominated in dollars, so there's less currency risk. But this is not a low-risk holding. It's more than twice as volatile as the U.S. bond market, although still only half as volatile as emerging-markets stocks. (For more on emerging-markets stocks, see "Opening Shot," on page 14, and "The Case for China," on page 54.)



5%-7%

HIGH-YIELD BONDS

Junk bonds—or high-yield bonds, in Wall Street parlance—aren't trash to income investors. Such bonds, which are rated BB+ or below, yield, on average, about 4.7 percentage points more than the 10-year T-note, says John Lonski, managing director for Moody's Capital Markets Research Group.

What makes a junk bond junky? Typical high-yield bond issuers are companies that have fallen on hard times, or newer companies with problematic balance sheets. In good times, these companies can often make their payments in full and on time and can even see their credit ratings improve.

THE RISKS: You're taking an above-average risk that your bond's issuer will default. The median annual default rate for junk bonds since 1984 is 3.8%, according to Lonksi. In a recession, you could take a big hit. In 2008, the average junk bond fund fell 26%, even with reinvested interest.

HOW TO INVEST: **RIVERPARK STRATEGIC INCOME** (RSIVX, 4.8%) is a mix of cash and short-term high-yield and investment-grade bonds. Managers choose bonds with a very low duration, to cut interest rate risk, and a relatively low chance of default.

VANGUARD HIGH-YIELD CORPORATE (VWEHX, 5.5%), a Kip 25 fund, charges just 0.23% in expenses and invests mainly in the just-below-investment-grade arena, in issues from companies such as Sprint and Univision Communications.

SPDR BLOOMBERG BARCLAYS HIGH YIELD BOND ETF (JNK, $36, 5.8%) charges 0.40% in expenses and tracks the Barclays High Yield Very Liquid index—meaning that it invests only in easily traded bonds. That's a comfort in a down market because when the junk market turns down, buyers tend to dry up. The fund may lag its peers in a hot market, however, as some of the highest-yielding issues can also be the least liquid.

Investors who are bullish on the economy might consider **NORTHERN HIGH YIELD FIXED INCOME FUND** (NHFIX, 7.0%). The fund owns a significant slice of the junkier corner of the bond market, with about 23% of its holdings rated below B by Standard & Poor's. These bonds are especially vulnerable to economic downturns but compensate investors willing to take that risk with a generous yield.

7%-10%

MASTER LIMITED PARTNERSHIPS

You might be surprised to learn how much income you can generate from moving hydrocarbons from one place to another. Most MLPs are spin-offs from energy firms and typically operate gas or oil pipelines.

MLPs pay out most of their income to investors and don't pay corporate income taxes on that income. Those who buy individual MLPs will receive a K-1 tax form, which spells out the income, losses, deductions and credits that the business earned and your share of each. Most MLP ETFs and mutual funds don't have to issue a K-1; you'll get a 1099 form reporting the income you received from the fund.

THE RISKS: In theory, energy MLPs should be somewhat immune to changes in oil prices; they collect fees on the amount they move, no matter what the price. In practice, when oil gets clobbered, so do MLPs—as investors learned in 2015, when the price of West Texas intermediate crude fell from $53 a barrel to a low of $35 and MLPs slid an average 35%. Oil prices should be relatively stable this year, and high production levels should mean a good year for pipeline firms.

HOW TO INVEST: **MAGELLAN MIDSTREAM PARTNERS** (MMP, $62, 6.5%) has a 9,700-mile pipeline system for refined products, such as gasoline, and 2,200 miles of oil pipelines. The MLP has a solid history of raising its payout (called a distribution) and expects a 5% annual increase in 2019.

The giant of MLP ETFs, **ALERIAN MLP ETF** (AMLP, $10, 7.2%), boasts $9 billion in assets and delivers a high yield with reasonable expenses of 0.85% a year. Structured as a C corporation, the fund must pay taxes on its income and gains. That can be a drag on yields compared with MLPs that operate under the traditional partnership structure. **EQM MIDSTREAM PARTNERS** (EQM, $46, 10.1%) is active in the Appalachian Basin and has about 950 miles of interstate pipelines. The firm paid $4.40 in distributions per unit last year and expects to boost that to $4.58 in 2019.

9%-10%

CLOSED-END FUNDS

Closed-end funds are the forebears of mutual funds and ETFs. A closed-end fund raises money through an initial stock offering and invests that money in stocks, bonds and other types of securities.

The fund's share price depends on investors' opinion of how its picks will fare. Typically, the fund's share price is less than the current, per-share value of its holdings—meaning that the fund trades at a discount. In the best outcome, investors will drive the price up to or beyond the market value of the fund's holdings. In the worst case, the fund's discount will steepen.

THE RISKS: Many closed-end income funds borrow to invest, which can amplify their yields but increase their price sensitivity to changes in interest rates. Most closed-end funds have higher expense ratios than mutual funds or ETFs, too.

HOW TO INVEST: **ARES DYNAMIC CREDIT ALLOCATION FUND** (ARDC, $15, 8.5%) invests in a mix of senior bank loans and corporate bonds, almost all of which are rated below investment grade. Borrowed money as a percentage of assets—an important indicator for closed-end funds known as the leverage ratio—is 29.6%, which is a tad lower than the average of 33% for closed-end funds overall. The fund's discount to the value of its holdings has been narrowing of late but still stands at 12.1%, compared with 11.2%, on average, for the past three years.

ADVENT CLAYMORE CONVERTIBLE SECURITIES AND INCOME FUND (AVK, $15, 9.4%), run by Guggenheim Investments, specializes in convertible bonds, which can be exchanged for common stock under some conditions. The fund also holds some high-yield bonds. Currently, it's goosing returns with 40% leverage, which means there's above-average risk if rates rise. For intrepid investors, the fund is a bargain, selling at a discount of 10.6%, about average for the past three years.

CLEARBRIDGE ENERGY MIDSTREAM OPPORTUNITY (EMO, $9, 9.7%) invests in energy master limited partnerships. It sells at a 12.1% discount, compared with a 6.6% average discount for the past three years. Its leverage ratio is 33%—about average for similar closed-end funds.

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4%-12%

REAL ESTATE INVESTMENT TRUSTS

You can invest in two types of REITs: those that invest in property and those that invest in mortgages. Both types must pass on at least 90% of their revenue to investors, which is partly why they have such excellent yields. Typically, REITs that invest in income-producing real estate have lower yields than those that invest in mortgages.

The average property REIT yields 4.1%, compared with the average mortgage REIT yield of 10.6%, according to the National Association of Real Estate Investment Trusts. Why the big difference? Property REITs rack up expenses when they buy and sell income properties or lease them out as landlords. Mortgage REITs either buy mortgages or originate them, using borrowed money or money raised through selling shares as their capital.

THE RISKS: When the economy slows down, so does the real estate market, and most REITs will take a hit in a recession. Mortgage REITs are exceptionally sensitive to interest rate increases, which squeeze their profit margins, and to recessions, which increase the likelihood of loan defaults. REIT dividends are not qualified dividends for tax purposes and are taxed at your ordinary income tax rate.

HOW TO INVEST: REALTY INCOME CORP. (O, $69, 4.0%) invests in property and rents it to large, dependable corporations, such as Walgreens, 7-Eleven and FedEx. It's a Kiplinger 15 dividend stalwart and pays dividends monthly.

FIDELITY REAL ESTATE INCOME (FRIFX, 4.0%) isn't a REIT, although it invests in them (among other things). The fund puts income first. It has 43% of its assets in bonds, most of them issued by REITs. The fund lost 0.6% in 2018, compared with a 6% loss for other real estate funds.

Investors will forgive a lot in exchange for a high yield. In the case of **ISHARES MORTGAGE REAL ESTATE CAPPED ETF (REM, $44, 8.2%)**, they're choosing to accept a high degree of concentration: The top four holdings account for 44% of the ETF's portfolio. Although concentration can increase risk, in this instance the fund's huge position in mortgage REITs has helped returns. Falling interest rates late in 2018 pushed up mortgage REITs, limiting the fund's losses to just 3% in 2018.

ANNALY CAPITAL MANAGEMENT (NLY, $10, 12%) is a REIT that borrows cheaply to buy government-guaranteed mortgage securities. Most of those holdings are rated AA+ or better. Annaly boosts its yield by investing in and originating commercial real estate loans and by making loans to private equity firms. Its 2018 purchase of MTGE Investment, a mortgage REIT that specializes in skilled nursing and senior living facilities, will help diversify the firm's portfolio. Annaly is the largest holding of iShares Mortgage Real Estate Capped ETF. ■

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INTERNATIONAL FUNDS

The Case for China

Long-term economic growth should pay off for patient investors who can withstand market swings. BY NELLIE S. HUANG

CHINA IS A COMPLEX COUNTRY. Its rapid growth and industrialization put it in the class of emerging nations, but its vast size lends it some qualities of a developed country. In just a few decades, China has accomplished "one of the most rapid and far-reaching transformations of a major economy that the world has ever seen," says Robert Horrocks, chief investment officer at investment firm Matthews Asia.

China is already a global powerhouse, the world's second-largest economy and the biggest exporter of goods on the planet. Now it's in the throes of a new phase of economic development—one driven by technology and consumer spending rather than focused on manufacturing and infrastructure.

Yet investors are skittish, and Chinese stocks struggled last year. In 2018, the MSCI China index sank 18.9%. One problem is that economic growth in the Middle Kingdom (a loose English translation of the Mandarin word for China) has been slowing. In recent years, the country's gross domestic product has grown around 6% annually, down from the 10% average growth of previous years. Trade tensions with the U.S. haven't helped.

When it comes to China's growth prospects, investors' fears are "overdone," says Kate Moore, chief equity strategist at BlackRock. "China is in very good shape to continue to be one of the largest economies in the world," she says. Indeed, in early 2019, small signs of economic improvement and a positive step toward a U.S.–China trade agreement sent the MSCI China index soaring 22.2% over the first 16 weeks of the year. (Prices and returns in this story are as of April 19.)

The wide market swings show that investors, reacting to the headlines on any given day, can "miss the forest for the trees," says Peter Donisanu, a Wells Fargo Investment Institute strategy analyst. The Asian powerhouse is on a long-term growth trajectory. "China still faces a long road to catch the most developed countries," says Donisanu. "It has only half started."

THE BULLISH TAKE

China's 6% GDP growth rate—the government's official target—is still robust relative to the rest of the world. It's three times the average for the developing world and 43% faster than other emerging nations, on average. China has a history of meeting announced growth targets, and "we believe they will deliver," says Moore. She adds that China watchers today have more tools to assess the accuracy of China's official data, including satellite imagery and even social media. "The tools and available data allow us to have greater confidence in our views around Chinese growth than we might have had a decade ago," says Moore.

New initiatives launched in 2013 and 2015 are aimed at sustaining growth. One is focused on increasing trade opportunities between China and countries in Africa, the Middle East, Europe and Asia. Another fosters homegrown technological innovation, among other things. Beijing has proved to be nimble and

SKYSCRAPERS ALONG THE HUANGPU RIVER MARK SHANGHAI'S PUDONG DISTRICT, THE FINANCIAL HUB OF MODERN CHINA.

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speedy about "fine-tuning" policies to achieve economic goals, Moore says. That's one upside to having a centralized government. Decisions are made quickly, unlike in developed markets.

The Chinese stock market has become friendlier to foreign investors, too, thanks to looser rules regarding foreign investment in China. In addition to the Chinese stocks listed on exchanges in Hong Kong and the U.S., foreign investors can now buy select stocks that trade on the Shanghai and Shenzhen exchanges, known as China A-shares. "In the last three or four years, the number of investment opportunities has expanded," says Andrew Mattock, lead manager of Matthews China fund.

The country's second phase of economic development should resonate with global investors. Ten years ago, financials and energy were among the biggest sectors in the MSCI China index. Today, internet and other tech firms reign, along with financials and consumer goods and services. "Investors in the Western world can relate to these Chinese companies now," says Mattock. Tencent Holdings, for instance, is the Facebook of China; Baidu is China's Google; and Alibaba Group Holding is the Chinese Amazon.com.

Still, the risks of investing in this sometimes-dicey market haven't disappeared. U.S.–China trade relations may be improving, but other tensions remain. "We expect U.S.–China relations to be tense even after a trade agreement is in place," says BlackRock's Moore. Competition in the global tech sector and cybersecurity are two hot buttons.

Credit worries loom, too. The country's debt—including bank loans, corporate debt and government, state and private lending, plus shadow banking (lending by unregulated institutions)—now measures more than 200% of GDP.

And there's the volatility. Emerging-markets stocks have always been rocky, but China stocks have been even more so. Brace yourself for corrections of 5% to 10% in any given year. "Investors should get comfortable with that. But they can use corrections to add to investments and hold for the longer term," says Moore.

WAYS TO INVEST

One way to cash in on China is simply to beef up your exposure to a diversified emerging-markets stock fund. After all, China makes up more than 30% of the MSCI Emerging Markets index. And in November, after MSCI completes the last of several changes to that benchmark, the country's fastest-growing firms will make up an even bigger portion of China stocks in the EM index. China is a big reason BlackRock strategists are bullish on emerging-markets stocks overall these days. "China is the key driver," says Moore.

A growth-oriented investor might devote 10% of portfolio assets to emerging-markets stocks, says Wells Fargo Investment Institute. Such a bet represents roughly a 3% stake in Chinese stocks in your overall portfolio. Our favorite emerging-markets stock fund is **BARON EMERGING MARKETS** (SYMBOL BEXFX). Manager Michael Kass says he expects to see more-positive signals coming from China's economy and corporate earnings later this year. The fund has 33% of its assets invested in Chinese firms, and Alibaba and Tencent are its top holdings.

But you might want to take a more targeted, and slightly heftier, position. The most aggressive allocation recommended by Wells Fargo, for instance, has nearly 6% in Chinese stocks (based on an 18% stake in emerging-markets stocks). Cambridge Associates, a Boston-based advisory firm, says holding 5% to 10% of total stock assets in China is reasonable, given the relative size of its economy and stock market in the world.

Exchange-traded funds are another way to invest. **ISHARES MSCI CHINA** (MCHI, $65), the second-largest China-focused ETF, with $4.7 billion in assets, offers exposure to Chinese stocks listed on exchanges in China, Hong Kong and the U.S.

More-aggressive investors might consider **SPDR MSCI CHINA A SHARES IMI ETF** (XINA, $23). It has just $5.8 million in assets, less than we would prefer. But it focuses on the domestically listed A-share companies available to foreign investors, which Baron Emerging Markets manager Kass says include the country's most exciting investment opportunities. "That's where you're going to find the next Tencent or Alibaba," he says. Volatility is high, however. In 2018, the SPDR ETF lost 29.8%; the iShares ETF swooned, too, but only 19.8%. But the SPDR offering has rebounded faster and higher, up 39.4% in the first 16 weeks of 2019, compared with 23.3% for the iShares ETF.

Investors looking for a smoother path into China should consider **MATTHEWS CHINA DIVIDEND** (MCDFX). The fund invests in dividend-paying Chinese companies of all sizes that have healthy balance sheets and generate steady profits and cash flow. About 90% of all publicly traded Chinese firms available to foreign investors offer a dividend, typically paid once a year. Over the past five years, China Dividend returned 12.5% annualized. That beat 93% of all China-focused funds, with 21% less volatility.

China Dividend's managers, Sherwood Zhang and Yu Zhang, build a barbell portfolio. On one end are shares in stable firms in mature industries with fat payouts but average earnings growth. CapitaLand Retail China Trust, for example, a real estate investment trust, pays a 6.4% dividend yield. At the other end, the managers buy shares in smaller, fast-growing companies that pay modest dividends. China Overseas Property Holdings, a property management firm, yields 1.1%. For its last full fiscal year, which ended in December 2018, the firm reported 31% earnings growth, says Sherwood Zhang. The fund's goal is a portfolio with an above-average dividend yield and above-average earnings growth, relative to the MSCI China index.

We like **MATTHEWS CHINA** (MCHFX), too. Winnie Chwang and Andrew Mattock run the fund, investing mostly in large, growing firms trading at reasonable prices. They limit the portfolio to a trim 35 to 45 holdings because it pushes them to be more decisive about their investment choices. "If we're not 100% sure, we don't buy it," says Mattock. "You force yourself to do more work, and that tends to minimize mistakes."

The duo travel in China extensively. Chwang and Mattock are based in San Francisco, but Mattock has visited some 90 Chinese cities. The idea is to glean investment ideas from 150 medium-size and large cities with 1 million or more in population. Since April 2015, the fund has gained 6.5% annualized, thumping the typical China fund's 4.3% return.

The pair who run **FIDELITY CHINA REGION** (FHKCX), Stephen Lieu and Ivan Xie, have been at the helm for only one year, but they have proved their mettle in that short time. The MSCI China index fell 3.3% over the past 12 months, but the China Region fund was flat, with a 0.3% gain. We prefer longer records, of course. But we think this fund, which also has 20 analysts worldwide behind it, is worth a look.

Lieu and Xie, who are based in Hong Kong, look for growing firms in greater China that trade at reasonable prices. The companies must be economically tied to China, but they don't have to be headquartered there. Most of the fund is devoted to large firms with stable earnings, such as Alibaba and Tencent. But 25% of the portfolio is reserved for opportunistic plays, such as AirTAC International Group, a Taiwanese firm that builds pneumatic components for automated factories. The fund snapped up shares when the stock lost more than half of its value in late 2018, due to concerns over slowing growth in China. The stock has since rallied more than 70% from its 2018 low. ■

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Top Picks

INVEST IN CHINA'S GROWTH

The choices below offer different strategies for gaining exposure to Chinese stocks. Some of the funds are broad and diversified; others take a more targeted approach.

Mutual Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	Exp. ratio
Baron Emerging Markets	BEXFX	–6.7%	10.2%	4.0%	1.36%
Fidelity China Region	FHKCX	0.3	16.0	8.5	0.96
Matthews China	MCHFX	–1.5	19.0	10.3	1.09
Matthews China Dividend	MCDFX	6.2	16.3	12.5	1.19
Exchange-Traded Funds					
iShares MSCI China	MCHI	–2.8%	15.4%	9.5%	0.59%
SPDR MSCI China A Shrs IMI	XINA	0.4	2.2	—	0.65
Indexes					
MSCI CHINA		**–3.3%**	**16.2%**	**10.1%**	
MSCI EMERGING MARKETS		**–5.5**	**11.2**	**4.0**	

As of April 19. SOURCE: © 2019 Morningstar Inc.

CORPORATE CONTROVERSY

Stock Buybacks Surge

Done right, they can be a good deal for shareholders. BY RYAN ERMEY

THE TOPIC OF STOCK BUYBACKS is on the minds of politicians and investors alike, and it's no wonder: 2018 was a banner year for companies buying shares of their own stock. Flush with cash, thanks to friendlier corporate tax policies, companies in Standard & Poor's 500-stock index repurchased $806 billion of stock last year, up 55% from the previous year and 37% from the record set in 2007. The spending continues: Investment firm Goldman Sachs expects S&P 500 firms to spend $940 billion on buybacks in 2019.

With companies having already spent $4.7 trillion over the past decade on their own stock, politicians are beginning to wonder if that money would be better spent elsewhere. Earlier this year, Senators Chuck Schumer and Bernie Sanders announced plans to introduce legislation that would require companies to meet conditions—such as paying a $15 minimum wage and providing certain health care benefits, including paid sick leave—before they could repurchase shares.

Large-scale buybacks, the senators argued in a *New York Times* op-ed, benefit major shareholders and executives at the expense of workers, and also divert corporate spending from research and development. Experts say such a bill would be unlikely to become law and question whether, in its current form, it would have the desired effect. "I get nervous when I see legislation that attempts to fix an ill in the corporate system by just addressing one part," says Tamara Belinfanti, a professor at New York Law School who specializes in corporate governance. She says rules limiting stock buybacks wouldn't necessarily prompt companies to deploy money in the way Schumer and Sanders want it spent.

Some concerns about buybacks may be overblown. Although money spent on buybacks is growing, companies aren't neglecting investment in their businesses. Spending on R&D as well as to maintain or upgrade buildings, equipment, technology and the like has made up the largest portion of corporate cash outlays every year since 1990, according to Goldman Sachs.

As for executives using buybacks to boost stock prices in order to line their pockets, Goldman research found that companies in the S&P 500 that tie executive pay to stock performance spend a smaller proportion of corporate cash on buybacks than firms that don't. Still, the senators' proposal and others like it raise questions as to whether buybacks are good for corporations and the people who invest in them.

What's the appeal? Taken as a whole, the stocks of companies buying back shares have performed well. The S&P 500 Buyback index, which tracks the performance of the 100 S&P 500 firms repurchasing the highest proportion of their shares, has returned an annualized 17.9% over the past decade, compared with a 15.2% return for the broad stock market.

Like dividends, buybacks are touted by corporations as a way to return excess cash to shareholders. Instead of giving investors a cash payment, companies

ILLUSTRATION BY PATRICK GEORGE

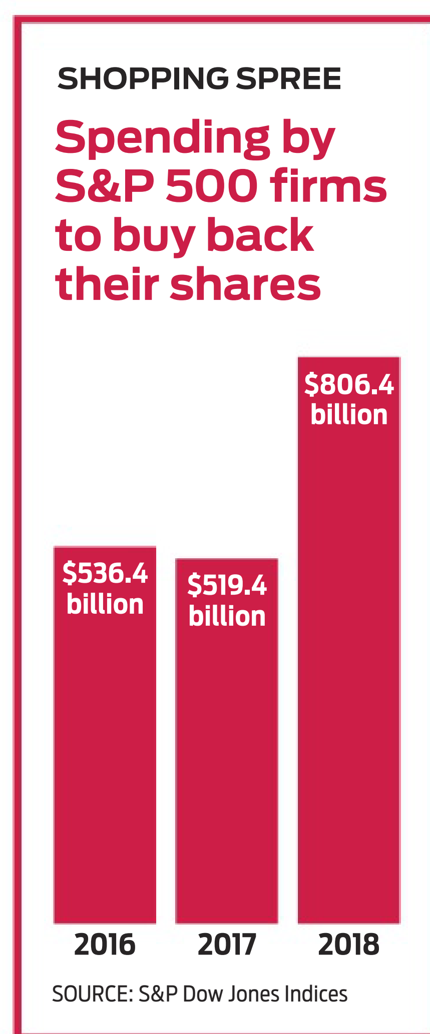
repurchase their own shares, typically on the open market. By reducing the number of shares outstanding, each share an investor owns is worth a bigger piece of the company. Dividing earnings among fewer shares boosts a firm's earnings per share, a fundamental market yardstick that can drive share-price gains.

That may not be the main goal for some companies, however. In many cases, share buybacks are used to keep a company's share count stable as employee stock options vest. At firms where executives and employees are compensated with stock, buybacks keep company shares from being diluted in value as stock options are exercised.

Buybacks are a rarity among fast-growing companies but can represent an efficient way for mature businesses to deploy excess cash, proponents say. Moreover, a large buyback program can signal to investors that management believes beaten-down shares are undervalued, says Mike Schoonover, manager of the buyback-focused Catalyst Buyback Strategy mutual fund (symbol BUYAX).

Biotech firm **BIOGEN** (BIIB, $226) is a good example. The stock plunged in March after trials for its Alzheimer's treatment were discontinued when the drug proved ineffective. Soon after, the company announced $5 billion in planned share repurchases for 2019, on top of the $1.7 billion remaining under the current program. The planned buybacks, which represent about 15% of the company's market value, are a major vote of confidence from management, Schoonover says. Shares have rebounded a bit since the buyback announcement but still sit more than 40% below their 2018 high and well below their fair value, according to Morningstar analyst Karen Andersen, given that Biogen is developing promising treatments for other neurological disorders.

Spotting good deals. Profitable, cash-rich firms that consistently buy back shares at favorable prices tend to be good investments, says Schoonover. But before buying in, investors should make sure that a firm has sufficient funds, either in the form of free cash flow (cash profits after capital outlays) or cash on the balance sheet, to cover the repurchase. The bigger the share-count reduction, the bigger the potential boost in share price. When looking for buyback opportunities, Schoonover recommends sticking to companies repurchasing at least 10% of the firm's market capitalization (shares outstanding multiplied by stock price).



David Fried, who publishes *The Buyback Letter,* a buyback-themed stock newsletter, says to look for companies that have a history of completing the buyback programs that they announce. And don't look at buybacks in a vacuum; Fried favors firms with low price-earnings ratios and high dividend yields in conjunction with consistent buyback programs.

CISCO SYSTEMS (CSCO, $56) fits Fried's bill. The networking giant isn't stingy about returning cash to shareholders. Earlier this year, the firm hiked its quarterly dividend by 6%, to 35 cents a share (for a yield of 2.5%) and announced plans to buy back $15 billion worth of stock, on top of a $25 billion authorization announced in 2018. The firm's moves inspire "confidence in the strength and stability of its cash flows," says Keith Snyder, an analyst at investment research firm CFRA, who rates the stock a "buy."

Another blue-chipper to consider: **THE TRAVELERS COS.** (TRV, $139). The insurance firm bought back 51% of its outstanding shares from 2010 through 2018 and continued the trend with $421 million in share repurchases in the first quarter of this year. Meanwhile, the company's "top-notch risk management and underwriting prowess" should help the firm outpace its peers in the insurance industry, says CFRA analyst Cathy Seifert.

Investors drawn to buybacks should tread carefully. For example, a firm taking on debt to repurchase stock is a red flag, as it may be a struggling company's attempt to buoy sinking shares, says Howard Silverblatt, senior index analyst at S&P Dow Jones Indices. "That strategy may work temporarily, but in the end you can't fight the market," he says.

Bear in mind that the arithmetic that can boost a stock's share price after a buyback announcement typically translates into long-term gains only if the company actually reduces its share count. It may be years, if ever, before the program is completed. And although investors typically punish companies that renege on plans to pay a dividend, firms face few consequences for failing to execute a buyback. "Companies see dividends as an obligation and buybacks as an option," says Schoonover.

This affords companies the flexibility to deploy cash earmarked for buybacks on more-attractive investments, should they come along. But it also means you may never see the boost in stock value that you were anticipating when the buyback was announced. ■

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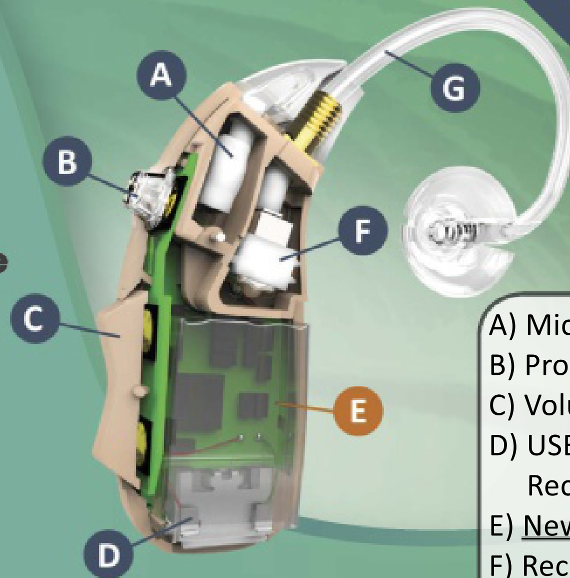

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INCOME INVESTING | Jeffrey R. Kosnett

My Preference for Preferreds

Preferred stocks may sound like humdrum investments, but the category's performance has been anything but, with year-to-date total returns of about 7.5%. In March, 15 new offerings totaling nearly $3 billion appeared, four times the usual monthly quota. That's good news for anyone looking for fully liquid investments that pay a significant yield premium over Treasuries, bank deposits and most dividend-paying common stocks. Preferred shares pay a fixed dividend that takes priority over common-stock payouts. Common stockholders can't get a cent unless preferred investors are paid as promised, though bondholders get paid first.

Explanations for the burst of new preferreds include random timing; companies raising money for mergers and acquisitions; and issuers eager to pay off or refinance their bank and bond debt on easy terms. Businesses with good to middling credit ratings can lock up financing for 6% or so, possibly in perpetuity because a preferred stock normally lacks a specific maturity date, although the issuer can often redeem after five years. For savers, a coupon rate of roughly 6% is excellent now that interest rates aren't rising and may indeed recede. For a CEO whose alternatives include issuing junk bonds, selling assets (creating a tax liability) or taking on variable-rate bank loans, preferreds are an affordable financing solution.

FOR SAVERS, A COUPON RATE OF 6% IS EXCELLENT NOW THAT INTEREST RATES AREN'T RISING AND MAY EVEN RECEDE.

In truth, preferred stocks have been a great deal for ages. It's astonishing that they aren't more widely promoted. Word is getting out, though: Exchange-traded fund **ISHARES PREFERRED & INCOME SECURITIES** (SYMBOL PFF, PRICE $37, YIELD 5.3%) has amassed nearly $15 billion in assets, which is a lot relative to an asset class that claims just $250 billion. (Prices, yields and other data are through April 19 unless otherwise noted.)

Great returns every which way. Standard & Poor's tracks preferreds in many ways, measuring the category broadly as well as sliced into fixed-rate, floating-rate, low-volatility, real estate investment trust preferreds and more. The 10-year annualized returns through early April are grand: 10.5% for U.S. investment-grade preferreds, for example, 11.4% for REIT preferreds and 12.4% for preferreds whose initial fixed rates eventually convert to floating rates. The outsize gains of 2009 inflate 10-year records. But if you start at 2010, you still have excellent returns with little volatility and few defaults or skipped dividends.

Astute fund managers have added huge value. Flaherty & Crumrine, a manager of closed-end preferred funds, is tops. The **F&C PREFERRED INCOME FUND** (PFD, $14) has a nine-year average annual return of 10.7% and a 10-year annualized gain of 16.9%. Sibling funds **F&C PREFERRED SECURITIES INCOME** (FFC, $19) and **F&C PREFERRED INCOME OPPORTUNITY** (PFO, $11) have similar returns. Circling back to the latest offerings, notable debuts include **DIGITAL REALTY TRUST'S 5.85% SERIES K** (DLR-K) and **BRIGHTHOUSE FINANCIAL'S 6.60% SERIES A** (BHFAP). (It can be tricky to find prices and symbols for preferreds, but brokers, Morningstar.com and the *Wall Street Journal* are reliable.)

Preferred shares are issued with a fixed face value and, in theory, can be redeemed at that value—typically $25 a share. I think it's okay to buy preferreds at prices up to $26 a share—about where the better new issues trade now—because a generous yield compensates for that possibility.

As for risks, the bears worry that short-term traders' antics could cause a mini panic, or that stellar gains and rising demand will foster a pile of junky offerings and a burst of defaults and downgrades. I never say never, but I've heard those warnings for years about REITs, utilities, high-yield bonds and municipals, too, without any cataclysms. There are many protections for preferred shareholders. Don't be too nervous to take advantage of a great opportunity. ■

POON WATCHARA-AMPHAIWAN

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

THE KIPLINGER 25 UPDATE

A Top Growth Fund Stumbles

AFTER POSTING A NEARLY flawless record since its 2004 inception, **PRIMECAP ODYSSEY GROWTH** stumbled over the past 12 months. Primecap's 1.2% return trails the competition, which gained an average of 9.8% over the same period, and Standard & Poor's 500-stock index, which returned 9.4%. The fund's disappointing performance puts it behind 98% of funds that invest in large, growing firms. So, what happened?

Odyssey Growth lagged during the market's recent downswing *and* subsequent upswing. Between mid September and late December 2018, the fund fell 23.8%—more than the 19.4% loss in the S&P 500. As the index recovered 16.6% in the first 16 weeks of 2019, the fund managed only a 14.8% return.

Primecap Odyssey tends to hold a healthy slug of assets in go-go health care shares and technology stocks, and that has proved a challenge. In particular, the fund has 32% of its assets invested in health care firms—mostly biotechnology companies. Health care and info tech shares have helped the fund's performance over the long term, but 2018's late-fall turbulence "was a forceful example of how quickly trends can reverse," the firm said in an October report.

A recent drag on the fund has been Biogen, a top 25 holding. The biotech firm lost nearly one-third of its value in March, after it abandoned its Alzheimer's therapy, which was in late-stage trials. (Biogen still has a strong pipeline of treatments for other neurological diseases, and the stock has recovered a bit since then.)

Five managers divide the fund's assets and run each part independently. They favor stocks in fast-growing firms that they think the market has underestimated. Cautiously optimistic, the managers expect growth in the U.S. economy and corporate earnings to slow. But in both cases, "solid growth should endure," they say.

Though Odyssey Growth's sector concentration can hobble returns at times, over the long haul, the strategy delivers. The fund's 16.7% annualized return over the past decade beats the S&P 500 by an average of 1.5 percentage points per year and ranks among the top 23% of all large-growth funds. **NELLIE S. HUANG**

nhuang@kiplinger.com

KEY DATA FOR OUR MUTUAL FUND PICKS

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

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Added to Kip 25
D.F. Dent Midcap Growth	DFDMX	12.9%	12.3%	—	2.9%	May 2019
Dodge & Cox Stock	DODGX	5.0	9.6	15.1%	1.7	May 2014
Mairs & Power Growth	MPGFX	13.5	9.2	14.5	1.2	Jan. 2013
Parnassus Mid Cap	PARMX	9.5	10.3	15.1	0.6	Aug. 2014
T. Rowe Price Blue Chip Growth	TRBCX	9.5	15.6	18.1	0.0	May 2016
T. Rowe Price Dividend Growth	PRDGX	11.6	11.6	14.5	1.6	Oct. 2016
T. Rowe Price QM US Sm-Cp Gro	PRDSX	5.8	11.2	17.5	0.0	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	2.2	7.6	14.0	0.4	May 2009
T. Rowe Price Value	TRVLX	3.3	8.0	14.5	1.5	May 2015
Primecap Odyssey Growth	POGRX	1.2	13.4	16.7	0.3	May 2017
Vanguard Equity-Income	VEIPX	7.5	9.7	14.6	2.9	Jan. 2017
Wasatch Small Cap Value	WMCVX	3.9	8.7	16.2	0.0	Nov. 2018

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Added to Kip 25
AMG TimesSquare Intl Sm-Cap	TCMPX	–15.8%	6.5%	—	0.7%	May 2018
Baron Emerging Markets	BEXFX	–6.7	4.0	—	0.1	Oct. 2016
Fidelity International Growth	FIGFX	2.0	5.9	11.5%	0.8	Feb. 2016
Oakmark International	OAKIX	–9.9	2.8	11.1	1.9	July 2017

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Added to Kip 25
Vanguard Health Care	VGHCX	1.4%	8.8%	15.0%	1.2%	May 2016
Vanguard Wellington‡	VWELX	7.3	7.8	11.2	2.7	May 2016

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Added to Kip 25
DoubleLine Total Return N	DLTNX	4.0%	2.9%	—	3.4%	May 2011
Fidelity Intermed Muni	FLTMX	4.6	2.7	3.5%	2.0	May 2004
Fidelity New Markets Income	FNMIX	–0.4	4.3	8.2	5.6	May 2012
Fidelity Strategic Income	FADMX	2.8	3.4	6.8	4.0	May 2018
Met West Total Return Bond M	MWTRX	4.5	2.4	5.7	2.7	May 2016
Vanguard High-Yield Corporate	VWEHX	5.8	4.7	9.0	5.5	May 2016
Vanguard Sh-Tm Inv-Grade	VFSTX	3.9	2.0	3.4	2.8	May 2010

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500-STOCK INDEX	**9.4%**	**11.6%**	**15.2%**	**2.0%**
RUSSELL 2000 INDEX*	**0.2**	**8.1**	**14.1**	**1.4**
MSCI EAFE INDEX†	**–4.2**	**2.8**	**8.2**	**3.4**
MSCI EMERGING MARKETS INDEX	**–5.5**	**4.0**	**8.0**	**2.7**
BLOOMBERG BARCLAYS AGG BND IDX#	**4.5**	**2.6**	**3.7**	**3.0**

Through April 19. ‡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., S&P Dow Jones Indices.

THE KIPLINGER ETF 20 UPDATE

Here Come the Zero-Fee ETFs

THE RACE TO THE BOTTOM FOR FUND fees has finally hit, well, bottom. Two exchange-traded funds that launched at the beginning of April charge 0% in expense ratios—at least for the first 14 months. Another ETF, awaiting Securities and Exchange Commission review, could initially cost *less* than zero.

The just-launched free ETFs come from online lender SoFi. The firm will waive each of the funds' 0.19% annual expense ratio until at least June 2020. SoFi Select 500 (symbol SFY) focuses on growing, large-company U.S. stocks; SoFi Next 500 (SFYX) homes in on shares of midsize and smaller U.S. firms. CFRA analyst Todd Rosenbluth thinks the funds will remain free for more than one year. "Either the funds will be successful and the 0% fee will be extended, or they won't and the products will shut down," he says.

Meanwhile, relative newcomer Salt Financial is awaiting SEC approval of a low-volatility U.S. stock ETF that would essentially pay its shareholders to invest, at least for a while. Through April 30, 2020, the adviser says it will waive its 0.29% fee *and* contribute the annualized equivalent of 0.05% on assets, up to $50,000 per year, to the assets of the fund. That means that for every $10,000 invested in the fund, Salt would put in another $5 to boost the value of the fund's shares.

Both Salt and SoFi have come late to the ETF party, so they are hungry for business as ETFs become more popular in investor portfolios. According to Charles Schwab, ETFs made up 33.5% of investors' portfolios in 2018, up from 20.8% in 2015. "Firms are eager to participate in this growing market, and they are willing to waive fees to do so," says Rosenbluth.

Investors should note that fees in the new ETFs are waived only temporarily. More important, fees (or the lack thereof) aren't everything. Before investors buy in, they should examine a fund's strategy, its underlying index and how it fits with the rest of their portfolio. Additional no-fee ETFs may come along, but they won't become the norm, says Rosenbluth.

Our defensive picks shine. Kiplinger ETF 20 funds did their job, tracking their indexes through a choppy market over the past 12 months. Vanguard Total Stock Market, even with its 0.03% expense ratio, edged the 8.6% return of its benchmark, CRSP US Total Market index, with a 9.2% gain.

Other bright spots include two defensive U.S. stock funds, Vanguard Dividend Appreciation and Schwab US Dividend Equity, both of which beat Standard & Poor's 500-stock index over the past 12 months. Two of our actively managed Kip ETF 20 bond funds, Pimco Active Bond and Pimco Enhanced Low Duration Active, also beat their bogeys. Foreign stock funds fared poorly due to trade tensions and slower economic growth overseas. **NELLIE S. HUANG**
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Returns/Fees/Free Trades

KIPLINGER ETF 20: VITAL STATISTICS

Core Stock Funds	Symbol	Share price	Annualized total return 1 yr.	3 yrs.	5 yrs.	Yield	Expense ratio	Commission-free
iShares Core S&P 500	IVV	$292	10.0%	13.7%	11.5%	1.9%	0.04%	F, FT, V
iShares Core S&P Mid-Cap	IJH	195	3.7	11.5	9.3	1.6	0.07	F, FT, V
Vanguard FTSE A-W Ex-US Sm-Cap	VSS	107	−9.6	6.3	2.7	NA	0.12	E, FT, V
Vanguard Russell 2000 Value	VTWV	107	−0.4	10.9	6.4	2.0	0.20	FT, V
Vanguard Total Intl Stock	VXUS	54	−4.1	7.6	3.3	NA	0.09	FT, V
Vanguard Total Stock Market	VTI	148	9.2	13.7	11.0	1.9	0.03	E, FT, V
Dividend Stock Funds								
Schwab US Dividend Equity	SCHD	$54	13.7%	13.3%	10.9%	3.2%	0.06%	FT, S, V
Vanguard Dividend Appreciation	VIG	112	11.9	13.1	10.5	2.0	0.06	E, FT, V
WisdomTree Glbl ex-US Qual Div Gro	DNL	58	0.1	8.7	4.2	1.9	0.58	E, FT, S, TD, V
Strategic Stock Funds								
Fidelity MSCI Industrials Index	FIDU	$40	5.1%	13.3%	9.7%	1.6%	0.08%	F, FT, V
Financial Select Sector SPDR	XLF	27	0.1	15.0	11.1	1.9	0.13	FT, V
Invesco Dynamic Large Cap Value	PWV	36	1.3	8.3	7.0	1.9	0.56	FT, V
Invesco S&P 500 Eq Wt Health	RYH	186	3.5	8.0	10.8	0.6	0.40	E, FT, S, V
iShares Edge MSCI USA Moment Fctr	MTUM	112	4.5	16.4	14.8	1.9	0.15	FT, TD, S, V
Core Bond Funds								
Pimco Active Bond	BOND	$105	5.5%	3.0%	3.3%	3.3%	0.76%	E, FT, S, V
SPDR DoubleLine Total Ret Tactical	TOTL	48	4.6	2.3	—	3.3	0.55	FT, V
Opportunistic Bond Funds								
Invesco Senior Loan	BKLN	$23	3.8%	4.2%	2.7%	4.9%	0.63%	FT, S, V
iShares Ultra Short-Term Bond	ICSH	50	2.9	1.9	1.3	2.9	0.08	F, FT, V
Pimco Enhanced Low Duration Active	LDUR	100	3.2	2.5	2.1	3.0	1.02	E, FT, V
Vanguard Total International Bond	BNDX	56	5.0	3.0	4.0	0.8	0.09	E, FT, V
Indexes								
S&P 500-STOCK INDEX (LARGE U.S. STOCKS)			**9.4%**	**13.8%**	**11.6%**	**2.0%**		
MSCI EAFE INDEX (FOREIGN STOCKS)			**−4.2**	**6.9**	**2.8**	**3.4**		
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			**4.5**	**1.8**	**2.6**	**3.0**		

Key: E=E*Trade F=Fidelity FT=Firstrade S=Schwab TD=TD Ameritrade V=Vanguard

As of April 19. —Fund not in existence for the entire period. NA Not available. SOURCES: Dow Jones, fund companies, Morningstar, MSCI.

MUTUAL FUND SPOTLIGHT

A Promising New Manager

For this mid-cap fund, a twist on contrarian investing is paying off.

CONTRARIAN INVESTING IS all about bucking trends. It's fitting, then, that when Nick Schommer took the helm at Janus Henderson Contrarian in July 2017, he overhauled the fund's strategy. It doesn't have much of a track record, but so far, the new approach appears promising.

Since the start of 2018, Contrarian has returned a cumulative 13.8%, 7.3 percentage points better than the Russell Midcap index, a proxy for midsize-company stocks. The fund gets its midcap designation by virtue of the market size of its average holding ($15 billion, compared with $105 billion for the large-cap Standard & Poor's 500-stock index). But the fund invests in firms of all sizes.

Unlike his predecessors, who focused primarily on stocks' valuations, Schommer starts with firms that have a competitive edge due to, say, a powerful brand name, distribution advantages or technology. Companies must also sport robust free cash flow (cash profits after capital outlays).

From there, the fund takes three approaches to undervalued stocks. About half of the fund's assets are invested in companies with business models Schommer believes the market misunderstands. This bucket includes aluminum-can manufacturers Ball Corp. and Crown Holdings, which Schommer says should benefit from better pricing and a shift toward sustainable beverage packaging.

High-quality companies Schommer believes have undervalued assets make up 35% to 40% of the fund's portfolio. Top-five holding Vivendi, a French media firm, is a prime example. Its record label Universal Music Group was once thought to be a drag on the company, but Universal has survived the music industry's switch to digital streaming, and it should become a growth driver, Schommer says.

The remainder of the portfolio is in fast-growing stocks, such as tech giant Alphabet, that have greater potential for growth than the market anticipates. Schommer cites Alphabet's self-driving cars as a potential growth catalyst.

The fund makes big bets on its favorite stocks: The top 10 holdings account for 46% of assets. Such concentration can rock the boat. Since the start of 2018, Contrarian has been 16% more volatile than the Russell Midcap index. **RYAN ERMEY**

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MIDSIZE-COMPANY BLEND STOCK FUNDS

Ranked by one-year returns

Rank/Name	Symbol	Annualized total return 1 yr.	5 yrs.	Max. sales charge	Exp. ratio
1. FAM Equity-Income Investor	FAMEX	19.5%	12.0%	none	1.23%
2. Kinetics Spin-Off Corp Restr No Load	LSHEX	16.7	—	2.00%r	1.45
3. Cambiar SMID Investor	CAMMX	14.7	8.5	2.00r	0.95
4. Touchstone Mid Cap A	TMAPX	13.4	11.1	5.00	1.24
5. AMG River Road Focus Abs Val N	ARRFX	12.9	—	none	0.99
6. Janus Henderson Contrarian T	JSVAX	12.5	5.9	none	0.73
7. Federated MDT Mid Cap Grwth A	FGSAX	9.5	11.6	5.50	1.22
8. Parnassus Mid-Cap	PARMX	9.5	10.3	none	0.99
9. Calvert Mid-Cap A	CCAFX	8.8	6.6	4.75	1.21
10. Victory RS Investors A	RSINX	7.6	6.6	5.75	1.33
CATEGORY AVERAGE		2.8%	7.3%		

20 LARGEST STOCK AND BOND MUTUAL FUNDS

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

STOCK MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Adm	VTSAX	$661.2	8.6%	11.0%	none
2. Vanguard Total Intl Stock Idx Adm	VTIAX	357.1	–4.5	3.3	none
3. Vanguard 500 Index Adm	VFIAX	352.1	9.4	11.5	none
4. American Growth Fund of America A	AGTHX	192.2	5.8	12.3	5.75%
5. Fidelity 500 Index	FXAIX	185.6	9.4	11.5	none
6. American EuroPacific Growth A	AEPGX	160.8	–3.8	4.7	5.75
7. American Balanced A	ABALX	140.2	5.7	7.9	5.75
8. Fidelity Contrafund	FCNTX	119.3	7.5	13.1	none
9. American Washington Mutual A	AWSHX	116.0	8.1	10.3	5.75
10. American Income Fund of America A	AMECX	109.0	3.9	6.2	5.75
S&P 500-STOCK INDEX			9.4%	11.6%	
MSCI EAFE INDEX			–4.2%	2.8%	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Idx Adm	VBTLX	$177.4	4.5%	2.9%	none
2. Pimco Income A	PONAX	118.4	4.5	3.6	3.75%
3. Vanguard Total Intl Bd Idx Adm	VTABX	106.1	4.9	0.8	none
4. Metropolitan West Total Return Bd M	MWTRX	71.8	4.5	2.7	none
5. Pimco Total Return A	PTTAX	65.4	3.5	2.7	3.75
6. Vanguard Interm-Term Tax-Ex Inv	VWITX	65.2	5.0	2.0	none
7. Vanguard Short-Term Inv-Grade Inv	VFSTX	59.1	3.9	2.8	none
8. Dodge & Cox Income@	DODIX	56.6	4.6	3.0	none
9. DoubleLine Total Return Bond N	DLTNX	50.5	4.0	3.4	none
10. Lord Abbett Short Duration Income A	LALDX	46.7	3.5	3.0	2.25
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			4.5%	3.0%	
B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX			5.0%	2.5%	

As of April 19. rMaximum redemption fee. †For all share classes combined. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Bank of America Merrill Lynch, Morningstar Inc., Vanguard.

THE PERKS OF OFF-SEASO

You can save money and avoid the crowds by visiting popular vacation spots at unpopular times. BY MIRIAM CROSS

TRAVELING DURING THE OFF-SEASON IS IN. And no wonder: Off-season travelers are rewarded with shorter lines, lighter crowds and lower prices—as well as activities that didn't exist several years ago. As crowds swell in major destinations during the high season, "these places are getting creative, beefing up experiences and transportation options to attract visitors during the low season," says Gabe Saglie, senior editor at Travelzoo, a deal-finding website. Tour operators such as Globus and Insight Vacations offer programs dedicated to fall, winter and spring travel; travelers can typically save 20% to 40% compared with peak-season itineraries to European and other hot spots.

Venice is even more romantic without the peak-season crowds.

But no one wants to spend a vacation indoors, even if the price is right. Because not all off-season getaways are created equal, we found five ideas for summer, fall and winter trips that deliver good value and great experiences—and often better weather than you might expect.

HIT THE SLOPES WITHOUT THE SNOW

Ski resorts are fast becoming hubs of year-round activity, especially for avid hikers and bikers. But the mountains can suit anyone seeking a tranquil vacation. "You can find almost anything you want in a mountain town," says Evan Reece, CEO of Liftopia, an online seller of lift tickets. "Activities can be as simple as riding the chairlift to the top of the mountain and hiking around, or as varied as attending music festivals or zip-lining." Nearby rivers and lakes beckon those who want to fish, boat or swim, and night owls can join an astronomer for star-gazing. You'll likely pay a fraction of the cost for accommodations compared with peak season, even at upscale hotels.

Vail, Colo. In the summer in Vail, you can slide down the tubing hill, zoom through the forest on a raised alpine coaster, soak up views from a gondola or try your hand at white-water rafting in the Eagle River. For something tamer, visit the weekly farmers' market and art show, stroll the highest botanical garden in the U.S., or catch a performance by the visiting New York Philharmonic. In summer, you can also take advantage of deep discounts at luxury accommodations. For example, rooms at the Sonnenalp Hotel start at about $350 per night for a weekend in mid June, but they jump to $500 or more for a midweek stay in February.

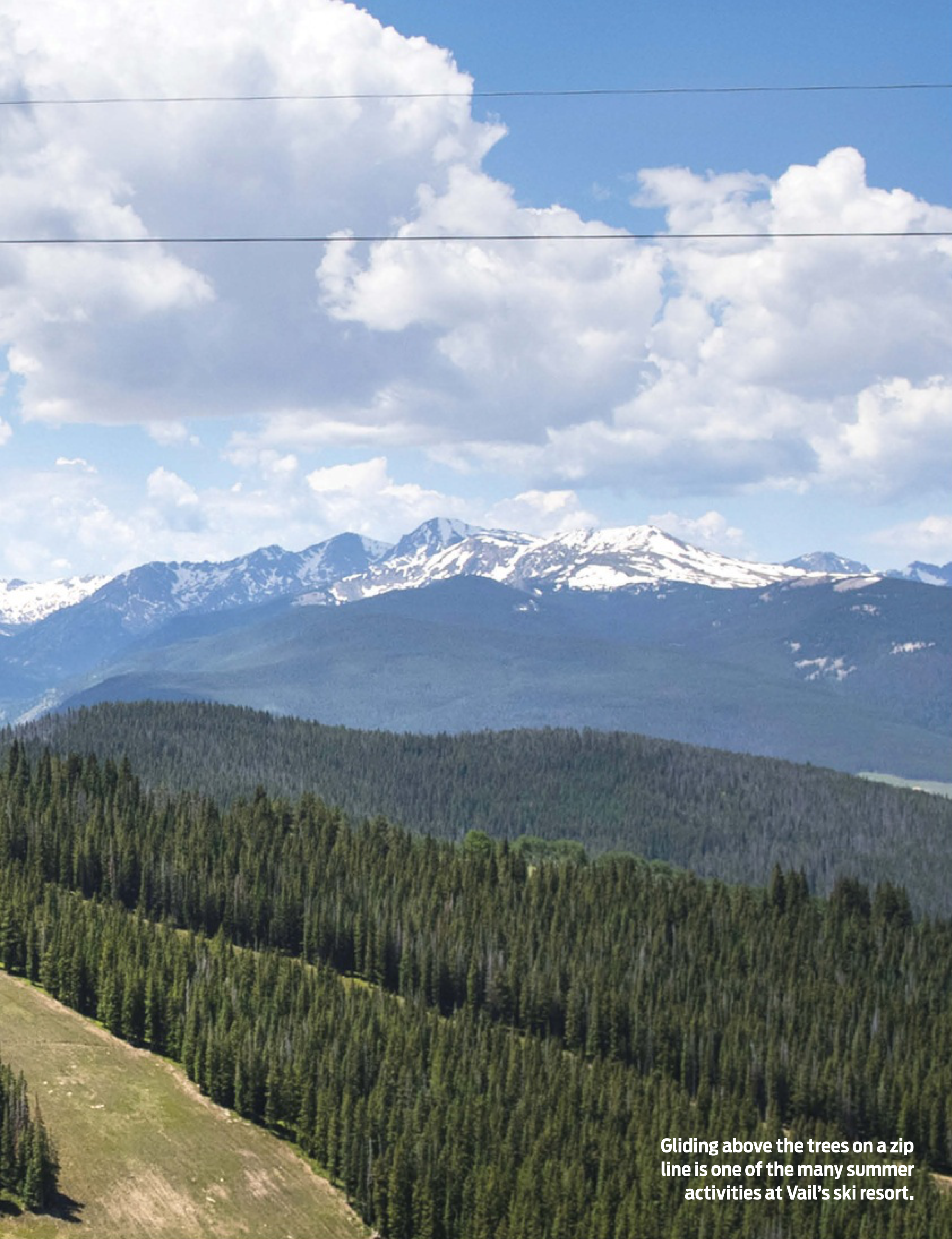
Stowe, Vt. The village of Stowe in the Green Mountains is a skiing hot spot on the East Coast, and crowd-wary travelers might also want to avoid the summer and leaf-peeping seasons. Those are even busier times to visit, says Scott McIntosh, director of sales and marketing at Topnotch Resort in Stowe. But if you come after Columbus Day, the autumn crowds will have died down and colors will still be present (if not as vibrant). Take in the scenery by hiking or mountain biking. When temperatures dip, you can hop around the area's craft breweries or sample flavors at the nearby Ben & Jerry's factory. Topnotch Resort offers discounts of up to 50% off rooms and deals on activities—such as buy one spa treatment, get one free—in November and April.

St. Anton am Arlberg, Austria. This is one of Austria's most popular ski areas in the winter, but it is relatively quiet in the summer, says Liftopia's Reece. You can traverse more than 180 miles of walking paths, passing a variety of alpine flowers that grow only at high altitudes, and stop for a snack at a mountainside hut with a stunning view. Grab a free St. Anton Summer Card on the first day of your vacation from your hotel or guesthouse owner, which rolls together one day of unlimited cable car rides, a two-hour e-bike rental, a torchlight hike and more.

CRUISE WHEN OTHERS REFUSE

The height of hurricane season in late summer and early fall coincides with some of the best cruise deals of the year. As families settle back into the school year and ships return from Europe, cruise lines lower prices and throw in perks to help fill cabins. If you're flexible about which islands you visit, don't let the risk of storms deter you. Cruise lines monitor the weather and can easily circumvent oncoming

PAGES 64-65: GETTY IMAGES VIA IAN.CUIYI; COURTESY VAIL RESORTS


Gliding above the trees on a zip line is one of the many summer activities at Vail's ski resort.

Norwegian Breakaway, which visits Honduras, Belize and Mexico, for as little as $549 per person in mid September. That price jumps to $849 in mid July. (Tack on $170 for taxes and fees.)

Alaska. CruiseCritic also spotted a seven-night one-way cruise from Vancouver, Canada, on Princess Cruises' *Golden Princess* in early September for as little as $579 per person. A similar itinerary in late July would cost $879. (Taxes and fees are an extra $210 per person.)

Mediterranean. The *MSC Divina* offers a seven-night western Mediterranean cruise out of Valencia, Spain, that makes stops in Marseille, Rome, Palermo and other port cities, starting at $538 per person in mid October. You'll pay more than twice that to sail the same route in mid July. (Taxes and fees run $72 per person.)

EXTEND YOUR SUMMER

In southern Europe and the Middle East, balmy temperatures linger into the fall. It may not be warm enough to lie on the beach, but exploring villages and ancient sites is more bearable, especially when you're not jostling for space with fellow travelers in the heat. If you choose to take a tour, expect considerable discounts.

Greece. Although the islands quiet down in the late fall and winter, there is plenty to do on mainland Greece all year round. "Greece has been off-the-charts for us in the off-season," says Steve Born, chief marketing officer of Globus, which runs low- and shoulder-season tours through its Escapes by Globus program. He calculates that travelers on Globus's fall tours to Greece can save about 45% compared with similar summer itineraries. Vacationers can climb the

storms. Keep in mind that you will probably get a credit or partial refund if your itinerary is drastically changed, but there is no guarantee. In extreme situations, such as returning to a different port city, you may be on the hook for flight changes and extra nights in a hotel.

September is a good time to catch the tail end of Alaska's cruising season. Though the weather cools down, you'll go on the same excursions as high-season cruisers and see wildlife without crowds getting in the way. Head to the Mediterranean for an October cruise, when the weather is still warm but fewer tourists populate the port cities.

Caribbean. The editors at CruiseCritic.com found a seven-night western Caribbean cruise from Miami on the

Acropolis, walk the ruins of Olympia, and learn the traditional Greek *sirtaki* dance; some tours also include a cruise around Mykonos, Santorini and other islands dotting the Aegean Sea. Flying there in the fall is considerably cheaper than in the summer. Round-trip airfares from the U.S. cost an average of $712 in November 2018, compared with $1,160 in June 2018, according to Kayak.

Egypt. Low season in Egypt varies depending on where you go. But hotels are still trying to entice tourists to return following the Arab Spring uprisings in 2011, so you'll get strong value for your dollar at any time of year. The State Department rates the country a Level 2 ("exercise increased caution")—the same designation as a number of Western European countries—but for an extra layer of security, join a tour. "We walked away from Egypt for seven years, but in 2018 we felt like the destination was back," says Marty Seslow, vice president of marketing at Gate 1 Travel. Gate 1 Travel's 9 Day Classic Egypt with 3 Day Nile Cruise shuttles travelers to pyramids, temples and tombs, and culminates in a three-night cruise through the Nile Valley. Departures in October and November start at $2,099 per person, including round-trip airfare from New York City and two domestic flights. Play around with departure dates to figure out the cheapest time to go, but you can expect pleasant daytime temperatures even in the depths of winter.

Bermuda. Bermuda is cooler than you might expect in the winter, with temperatures only hitting the mid 60s during the day. "It's beachy, not beach weather," says Saglie, of Travelzoo. But unlike in the Caribbean islands a thousand miles south, you'll find the best deals on high-end resorts in Bermuda during the winter. For example, Travelzoo advertised nightly rates of $173 to $185 for the luxurious Fairmont Southampton resort last year for stays between December and March. Summertime sales at the same resort recently went for $209 to $349 per night. Activities such as golfing, sailing, sunset cruises and scuba diving are available on the island year-round, while others—such as kite-surfing or catching spiny lobsters for dinner with a licensed diver—are best done in the fall and winter.

HOT DEALS IN CHILLY PLACES

Cool temperatures can be a small price to pay to visit over-touristed destinations during their winter lulls. "Experiencing a church or museum without people waving selfie sticks makes a huge difference," says Sarah Schlichter, senior editor of SmarterTravel.com. Plus, accommodations are easier to grab, and you'll dine along with locals rather than visitors.

Grand Canyon. The Grand Canyon's jagged peaks and endless valleys are spectacular at any time of year, but prices and visitors to the South Rim plunge during the winter. (The North Rim starts shutting down on October 15 and doesn't fully reopen until May 15.) Although the weather can get bitterly cold, you also get plenty of sunny days with comfortable temperatures in the 50s and 60s, says Betsy O'Rourke, chief marketing officer for Xanterra Travel Collection, which manages concessions for several national parks. Three of the five shuttle-bus routes (included in your park admission) operate year-round, dropping riders off at various lookout points and trailheads. Or take a day trip aboard the Grand Canyon Railway, a historic railway with vintage cars and roaming musicians playing old Western tunes. The biggest perk related to visiting during the low season is being able to scoop up one of the limited hotel rooms within the park with only a few weeks' notice, especially if you stay midweek. "We sell out our summer inventory the day we open it for booking, 13 months in advance," says O'Rourke. Rates are typically 20% to 30% off summer highs, or up to 40% off if you book during one of Xanterra's two annual sales, on July 25 and Cyber Monday (December 2 in 2019).

Venice, Italy. Without hordes of cruise ship passengers and day-trippers mobbing the narrow alleys, Venice can feel even more romantic in crisp weather. "You see Venice in a different light after 5 P.M., when the overnight crowds are no longer

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Egypt in the fall means pleasant weather and fewer crowds.

there," says Born. Cozy up under blankets for a gondola ride through the misty canals, warm up with a mug of sumptuous Venetian hot chocolate, or shell out $14 to glide around the ice rink at Campo San Polo, skate rentals included. Kayak reports the cheapest month to visit Venice (based on airfare and a two-night hotel stay) is January; in 2018, flights from the U.S. averaged $620, and hotels averaged $106 per night.

Japan. Cherry-blossom season in late March and April is the most popular time of year to visit Japan, but competition for hotels and guides is fierce. Instead, plan your trip a month or two earlier for plum-blossom season, says Lesa Clarkson, travel specialist at ATJ, an agency that focuses on Asian travel. You'll see explosions of fragrant pink flowers but pay half the price for luxury accommodations. Plum blossoms typically appear from the beginning of January through March and can be found at parks, shrines and temples across the country, she says. For example, the Yushima Tenmangu shrine in Tokyo is one of the city's most famous viewing spots, and the Mito Plum Festival—with more than 100 plum-tree varieties—is an easy day trip from Tokyo. Round-trip flights to Tokyo from the U.S. ran in the $800s, on average, in January, February and March of 2018. Airfare sales to Japan are spotty, but we recently saw round-trip flights in the $600s from Boston and in the $700s from Cleveland.

Afternoon showers during Thailand's rainy season produce lush greenery and powerful waterfalls.

DEFY THE RAIN

Think of the rainy season as green season, when downpours set the stage for verdant landscapes and lush vegetation. In some parts of the world, wet months may only amount to afternoon showers with otherwise sunny skies; in other places, you risk cold and damp weather at any time of year, meaning low season is as good a time as any to visit.

Thailand. Rainy season starts in mid May and lasts until mid October in most of the country, but showers typically hit in the afternoon or evening and last for an hour. That means you can still get in a full day of sightseeing and head into a restaurant or spa to escape the wettest parts of the day. Clarkson recommends visiting the north of Thailand in June or July, when summer rains have cleared away the smog from springtime crop-burning, rice terraces are lush and green, and waterfalls are in full force. Flights to Bangkok averaged $964 round-trip from the U.S. in July 2018, according to Kayak, and four-star hotels averaged $77 per night that same month. Domestic flights can be cheap. We recently saw flights from Bangkok to Chiang Mai in the north of Thailand for as little as $31 round-trip this July. Craving the beach? Islands in the Gulf of Thailand, such as Koh Samui, stay relatively dry this time of year—albeit without the same low-season discounts available elsewhere in the country.

Scotland. Despite a reputation for inclement weather, Scotland's winters tend to stay above freezing. If you stick to the east coast, which sees less rain and snow than the west, you can visit the clifftop Dunnottar Castle, the university town of St. Andrews (home to the world's oldest golf course) and the buzzing Christmas markets in Edinburgh. Or head up north to the Highlands region of Moray Speyside, famous for its malt whiskies and one of your best chances in the U.K. to see the northern lights. Kayak reports the cheapest month to visit Edinburgh (based on airfare and a two-night hotel stay) is February, when flights from the U.S. averaged $617 in 2018 and hotels cost an average of $113 per night.

Aruba. The "ABC" islands of Aruba, Bonaire and Curaçao are far enough south in the Caribbean that they usually escape heavy storms during hurricane season. But lower demand in the region means you can find discounts of 30% to 50% at resorts from late August through October, says Leslie Clevenstine, director of marketing at CheapCaribbean .com. In peak winter season, four-night packages at the Renaissance Aruba Resort & Casino, which has a private island nearby with separate beaches for families and adults-only, start at $1,199 per person (including airfare from Fort Lauderdale) on CheapCaribbean.com. The cost drops to $749 per person for the same package in September. ■

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DRIVE TIME | David Muhlbaum

Looking for Less Haggle, Less Hassle

Does the very idea of car shopping give you the prickly hives? Going toe-to-toe with salespeople who, let's face it, have a few negotiating tricks up their sleeve has intimidated car buyers for decades. So the prospect of doing the entire transaction online—without fielding calls and e-mails from dealers—at a fair, fixed price is tantalizing.

If you're shopping for a used car, you can get pretty close to that promise. Building on CarMax's fixed-price model, Vroom and Carvana let you pick a car online, line up financing and have it delivered to your doorstep. No fuss, no muss, no "C'mon down to the showroom and let's talk."

For new-car shoppers, this quest remains more elusive. In theory, you can get awfully close to buying a new car online, though state laws requiring actual signatures on paper documents and red tape for financing approvals are often an impediment.

But here's the catch for those of us who, like Greta Garbo, just want to be left alone: Every option I looked at required you to put in some contact information. On one site, I gave up my cell-phone number to receive a text with the price. Instead, I got a message to come in for a test drive, promising an additional $500 for a trade-in that I didn't have. Another specifically offered to "respect my privacy" and stick to e-mail, then immediately texted and called me.

FOR NEW-CAR SHOPPERS, THE QUEST TO FIND A FAIR, FIXED PRICE AND COMPLETE THE TRANSACTION ONLINE REMAINS ELUSIVE.

Buyers' services. Having generated dozens of false leads for sales reps to chase (sorry, guys), I decided to take a step back and look at the traditional path to less hassle and less haggle: a buyers' service.

TrueCar is the big player in the field. If you use a car-buying service from Consumer Reports, AAA, Geico or Sam's Club (and many others), you're engaging with TrueCar. You pick the car you want, put in your information, and presto: You get prices on dozens of models near you. TrueCar now gives you the vehicle identification number (VIN) with the price. That means you can get that actual car—for the price shown—at one of the participating dealers per the TrueCar Price Report.

What's not to like about that? For one, just as with the dealer sites, you have to put in your contact info to get the offers, so a barrage of phone calls and e-mails from sales reps will follow. Another veteran car-buying service, CarBargains (www.carbargains.org), says it can save you hundreds of dollars over TrueCar's prices. You pay $250 up front to receive at least five bids from car dealers near you. CarBargains, which is run by the nonprofit Consumers' Checkbook organization, goes shopping the old-fashioned way: pitting dealers against each other. CarBargains also points out that it gets no money from dealers—which TrueCar and the Costco Auto Program, also a player in this field, do. That's why it claims to be the true *buyers'* service.

There's a fundamental appeal to CarBargains' approach. But what you get for your $250 is a long, wonky PDF file, with worksheets that you're supposed to print out and mark up with pencil. Plus, you're still the closer. It's up to you to go to the dealership to get your bid.

POON WATCHARA-AMPHAIWAN

And once you've stepped foot in the dealer's showroom, you'll need to make a stop at the finance and insurance office. That's where the dealer will offer you all sorts of stuff: extended warranties, paint coatings, floor mats. At the F&I office, you'll have to keep your guard up to be sure your total cost stays in line with what you planned to spend. So you'll still need to keep your "no thank you" skills sharp. ■

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TAKEAWAY

PROFIT FROM SPRING CLEANING

Thanks to the popularity of the Marie Kondo method, Goodwill and other charitable organizations have been inundated with unusable appliances, dirty clothes and outdated electronics. If you tidied up while spring cleaning, you may have a large pile of things that no longer spark joy. How to separate trash from treasure:

SELL

WHAT: Vintage clothing, wedding dresses in good condition
WHERE: eBay, local consignment stores

WHAT: Lightly worn women's and kids' clothes
WHERE: www.thredup.com or www.poshmark.com; for designer clothes, www.theRealReal.com

WHAT: Used phones, tablets and more from Apple and Samsung
WHERE: www.gazelle.com

DONATE

WHAT: Books
WHERE: Your local library, Goodwill

WHAT: Prom gowns and other used formal wear
WHERE: www.beccascloset.org (or do an internet search for a local charity that takes formal wear)

WHAT: Used furniture
WHERE: www.furniturebanks.org/donate-furniture will help you find a furniture donation near you

WHAT: Desktop computers, laptops, tablets
WHERE: Computerswithcauses.org

RECYCLE

WHAT: Nonworking electronics
WHERE: www.earth911.com to find recycling centers for old or broken electronics, car batteries and more

WHAT: Clothes, bath towels and other home textiles
WHERE: H&M stores. You'll receive a 15%-off coupon for each bag of donated items.

WHAT: Worn athletic shoes
WHERE: Nike stores. Donated shoes are ground up and used to make surfaces for athletic facilities. **RIVAN STINSON**

ILLUSTRATION BY JOE ANDERSON

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