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Kiplinger's PERSONAL FINANCE

MONEY SMART LIVING

Surprise! You Can Still Save Hundreds On Your Taxes

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PLUS

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Home values in 100 cities p 66

MARCH 2019


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$9,507
PER MONTH IN RETIREMENT
You could have about
$8,193
PER MONTH IN RETIREMENT
See what happens if you change your:
Retirement age
65

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KIPLINGER'S PERSONAL FINANCE
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VOL. 73 NO. 3

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ASHLEY BLAKE

ON THE COVER: Photo-Illustration by Kevin Childers
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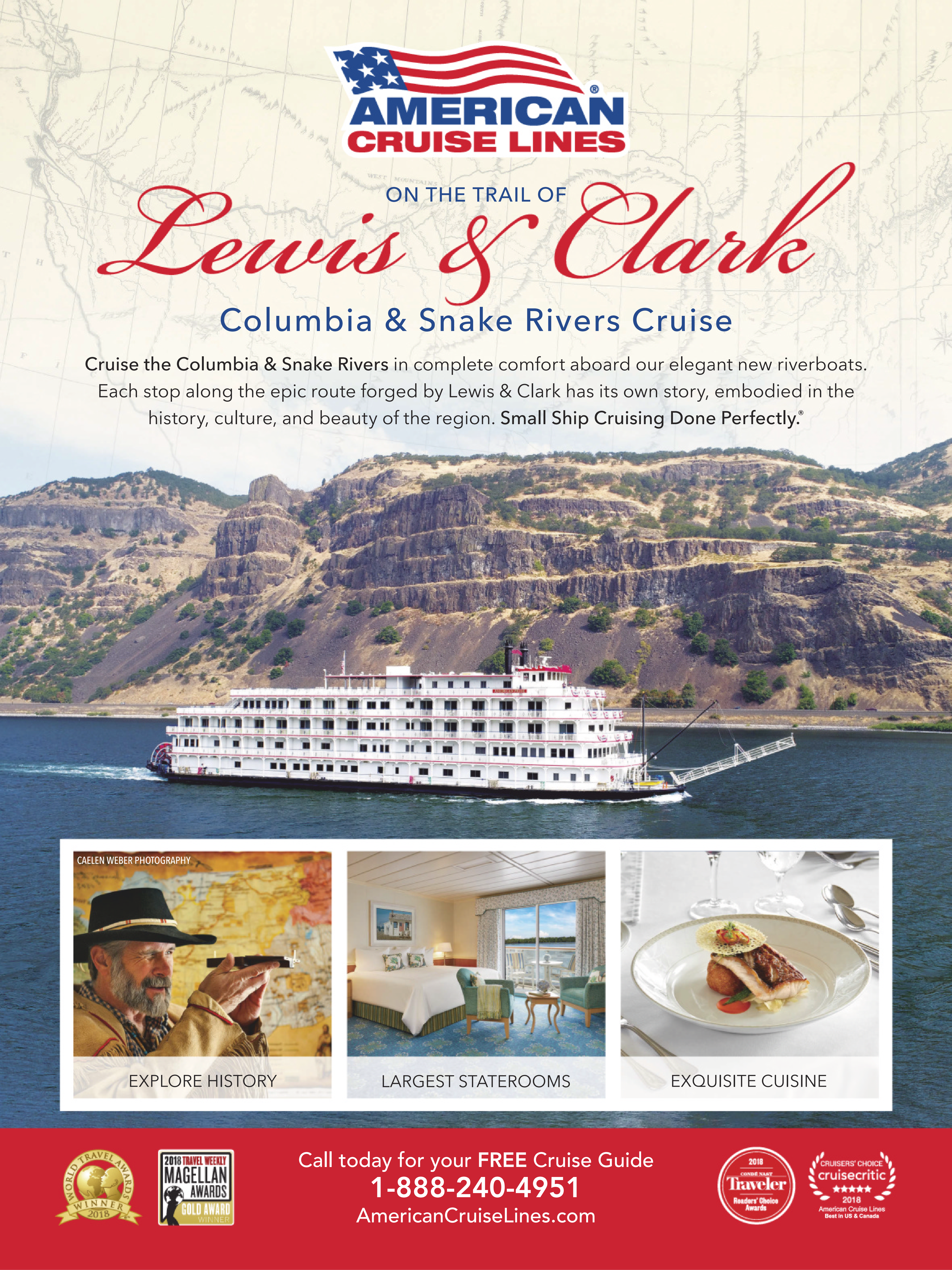

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Mark Solheim

The Shutdown Hits Home

As I write this column, the longest federal government shutdown in U.S. history is entering day 28, with no clear path for a resolution. Our offices are located less than two miles from the U.S. Capitol, and I've gotten used to witnessing nonstop drama from across town. But when our leaders hold 800,000 federal government workers' paychecks hostage, it feels personal—and impacts personal finances. Even if you're not a federal employee, the shutdown has ramifications for your finances, especially your taxes (see below). For those directly affected, it serves as a real-life test of an underpinning of financial preparedness: the emergency fund.

Friends and family. The D.C. metro area is home to 284,000 federal workers, who make up more than 8% of the area's total labor force. Of those, an estimated 145,000 are caught in the current gridlock. Most of us at Kiplinger have friends, relatives or neighbors who are affected. I asked a few of them how they are doing.

Four weeks into the shutdown, most of them weren't panicking. For example, Dan Helfrich, the cousin of my boss, vice president of content Sarah Stevens, is a mechanical systems engineer for NASA who has worked for the feds for 30 years. His wife is pulling in a private-sector paycheck, and he says they have enough savings to cover the mortgage and other expenses. Dan says their savings "should last quite a while, since we are cutting back on some nonessential expenses."

The story is similar for my next-door neighbor, Bill Kaliardos, who is a safety engineer for the Federal Aviation Administration. He says he has extra cash on hand because he has been sitting on savings he had planned to invest. In the meantime, Bill, who has given his razor a furlough, has been decluttering the basement.

For Sarah Stinson, the mother of reporter Rivan Stinson, the prospects are more dire. She works as an auditor for the IRS in Detroit. Stinson says she spent her extra savings when she recently moved from Georgia to Michigan. She paid her bills in January but doesn't know how she is going to cover rent and expenses in February. Her federal credit union is offering a small interest-free loan and she may apply for jobless benefits, but Stinson says that won't cover most of her bills.

THIS IS A REAL-LIFE TEST OF FINANCIAL PREPAREDNESS.

Meanwhile, museums are shuttered and most national park visitor centers are closed. Air traffic controllers and TSA agents are working without pay, and many reports that help investors and the Federal Reserve chart the trajectory of the economy are on hold. The fallout will ripple through the economy for a long time.

What's the takeaway for you? Make sure you have savings in an emergency fund (see "Millennial Money," on page 20). And be patient as you prepare and file your taxes. Our cover story, starting on page 22, will help you navigate the new tax rules. Even if Washington hasn't funded the affected agencies by the time tax season starts on January 28, the IRS announced it will bring back some (unpaid) workers to process returns and issue refunds. But don't expect much help. IRS's toll-free helpline numbers weren't working during the shutdown, and its taxpayer assistance centers were closed, too.

If you've been getting fat tax refunds, consider adjusting your withholding so you're not giving Uncle Sam an interest-free loan. That way you won't sweat your refund next year.

John Bogle's legacy. The founder of Vanguard and father of the low-cost index fund died on January 16. Bogle was a cult figure among DIY investors. Vanguard is home to 24% of total net assets in U.S. mutual funds and ETFs, and as we report in our mutual fund guide starting on page 44, Bogle's war on investing costs has led some fund companies to reduce their fees to zero. ■

Mark Solheim

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MSOLHEIM@KIPLINGER.COM
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POON WATCHARA-AMPHAIWAN


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Claiming Social Security

I was glad to see your focus on the benefits of delaying Social Security until age 70 and drawing down 401(k) and IRA balances to cover expenses as a way to reduce required minimum distributions ("Social Security: Now or Later?" Jan.). RMDs can lead to surcharges on Medicare premiums and taxation of a higher percentage of Social Security benefits. I believe high-income retirees are destined for even greater means-testing pain, not to mention higher taxes. Kudos for pointing out benefit commencement strategies for various individual situations.

KEN KOROKNAY
OCEAN PINES, MD.

Q READER POLL

Which type of fund represents the majority of your fund holdings?

Actively managed 49%

Index 36%

Exchange-traded 15%

To learn more about the latest trends in the mutual fund industry, and to see the top-performing funds, turn to page 44.

SOURCE: POLL SURVEYED 245 *KIPLINGER'S* READERS.

My health is good, I don't think the goofs in Congress will totally screw up Social Security, and I didn't need the money—but I signed up at 62. By the time I reach my break-even age, I figure there's a good chance that my wife and I won't enjoy that payout as much as we do now. We take great pleasure in using it to splurge on travel, buy gifts for grandkids, eat out and other small pleasures.

DOUG WOLFF
CINCINNATI

Regarding the advice to invest in a five-year immediate annuity to bridge the gap between age 65 and 70: With this approach, 96% of the monthly benefit is just a return of the money you paid the insurance company. That means that your total return over the five-year period is less than 4%. A better approach might be to utilize a CD ladder, which would provide a higher return. Also, it is probably not clear to most readers that at the end of five years you have zero dollars—that is, your investment in the annuity is gone.

BOB HAMM
VIA E-MAIL

Many of my friends are now at or near Social Security filing ages, and they seem baffled by the phrase "full retirement age." I have explained to them that the benefits your parents started receiving at age 65 are the benefits you need to wait to claim until your full retirement age (66 for most baby boomers). If people were more aware that they were leaving some of their earned benefits on the table when they choose to file early, they might be more inclined to wait, although not necessarily until age 70. I suggest that "full retirement age" be called "full benefits age."

STEVE BRIGGS
EAGAN, MINN.

A cheaper wireless plan for abroad. One important perk you did not mention in "Choose a Cheaper Wireless Plan" (Jan.) is whether the plan includes coverage when you're traveling abroad. With many carriers, you have to pay a high daily or weekly fee if you want to use your phone when you're overseas. With my T-Mobile plan I get unlimited data and texting in more than 100 countries around the world at no extra charge. Phone calls abroad from the U.S. cost only 25 cents a minute, but they are free in Canada and Mexico.

SHIRLEY BILD
VIA E-MAIL

CORRECTION

Pentagon Federal Credit Union requires a minimum of $1,000, not $10,000, to open a five-year certificate of deposit ("Top-Yielding Savings," Feb.).

LETTERS TO THE EDITOR

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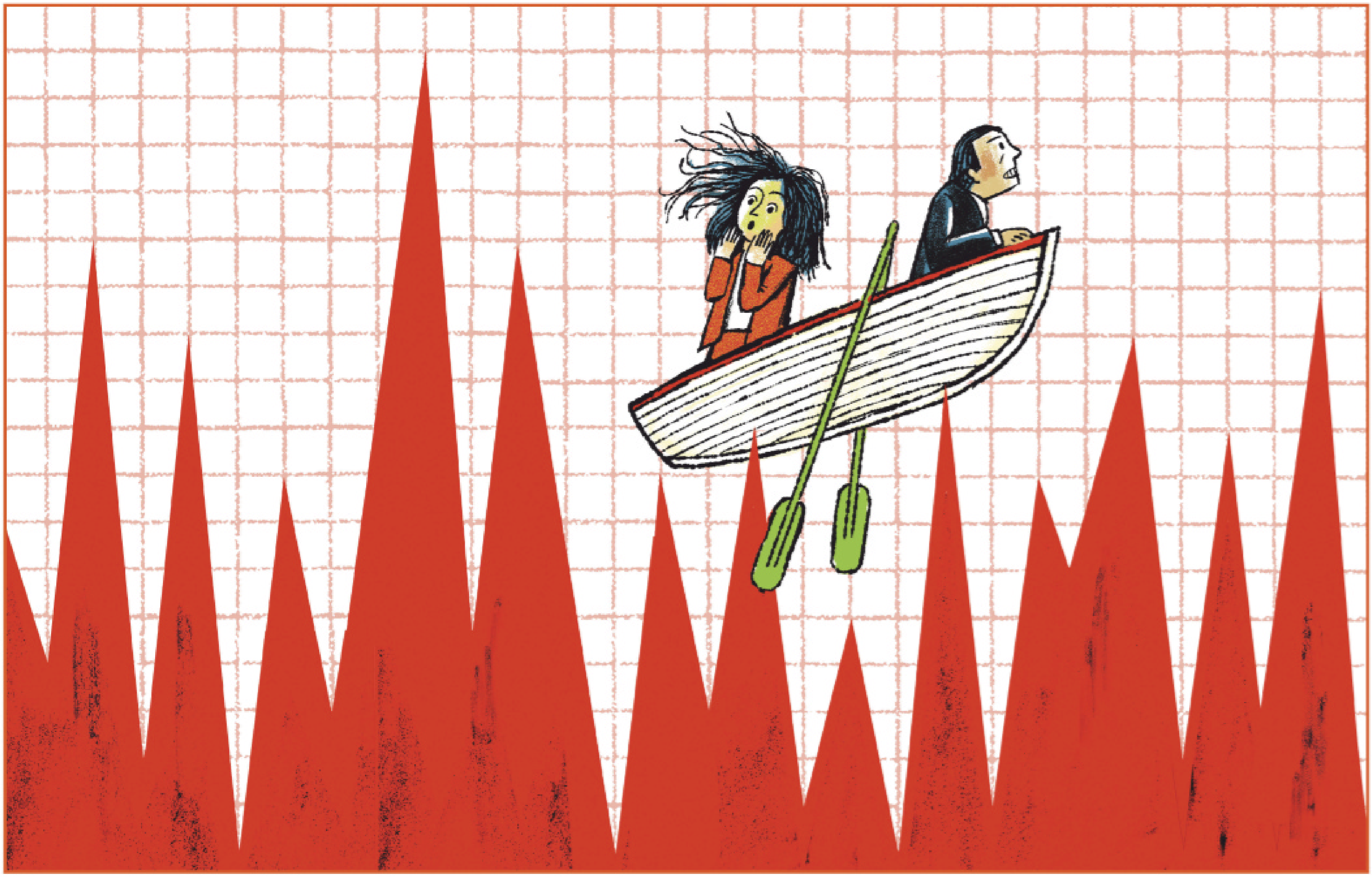


TOPIC A

WHAT'S NEXT FOR A TURBULENT MARKET

Investors wonder if it's sink or swim for stocks. Our take: time to bottom-fish. BY ANNE KATES SMITH

INVESTORS TOSSED ABOUT by the stock market's rough seas are no doubt wondering what just hit them. A bear market? A bull-market correction? We won't know for sure until sometime in the future. But when it comes to your investing strategy, the answer matters less than you think.

Stock prices peaked last September and have been in a volatility vortex ever since. From the September peak to the trough on December 24, Standard & Poor's 500-stock index fell 19.8%—escaping by a whisker the generally accepted definition of a bear market, which is a loss of 20% or more. Other market benchmarks were clearly mauled by the bear, including the small-company Russell 2000, which fell 27%, and the Dow Jones transportation average, down 25%. Losses were greatest in the energy sector, down 31%, and communication services (which includes Alphabet, Facebook and Netflix), down 29%.

Dramatic downdrafts are often followed by big bounces, and at its recent close of 2596, the S&P 500 is already up 10% from its low. But the volatile swings aren't over. "I'm confident that we will not go below [a loss of] 19.8% on the S&P 500, but we have to engage in some backing and filling to prove that was the low," says Sam Stovall, chief investment strategist at research firm CFRA.

Think of the past 12 months as a rolling bear market, says Russ Koesterich, portfolio manager for the global allocation team at investment giant BlackRock. In other words, investors have punished various market segments in succession, starting with emerging markets early in 2018. Stovall calls the late 2018 collapse "the deepest of corrections." But Jim Paulsen, chief strategist at Leuthold Group, sums up the downturn this way: "What you call it is way less important than what you do with it."

A buying opportunity? Sharply lower share prices in relation to earnings and other yardsticks may have given an aged bull a little breathing room (see "Thanks for the Memories," on page 60). "We may have reset the dial for as much as another year," says Stovall. In January 2018, the S&P 500 was trading at 19 times projected earnings for the companies in the index. It fell to 14 times earnings in December and recently traded at 15 times analysts' estimates for the year ahead. "That's a revaluation miracle," says Paulsen.

Slowing economic growth that allows the Federal Reserve to pause its rate-hiking campaign is also a plus. As long as the economy doesn't sink into recession, Paulsen sees the market testing its old highs (around 2900 for the S&P 500).

For now, Koesterich advises investors to use a two-pronged strategy: Keep more cash while also bottom-fishing for bargains in financials, energy firms, materials producers and industrials. Look for companies with strong balance sheets and a history of increasing earnings and dividends, such as aerospace and defense firm **NORTHROP GRUMMAN** (SYMBOL NOC, $256) or **BANK OF NEW YORK MELLON** (BK, $48), says Stovall. "I'd have more overseas than in the U.S.," says Paulsen. "International stocks are better values, and they're coming out of a slowdown already."

Whatever you do, make sure you're investing in sync with your stage in life and your risk tolerance so you're prepared for a *real* bear market—the one that will precede the next recession and could arrive later in 2019 or early next year. Because when that bear arrives, there might be nothing ambiguous about it.

INTERVIEW

A SALVE FOR INVESTOR ANXIETY

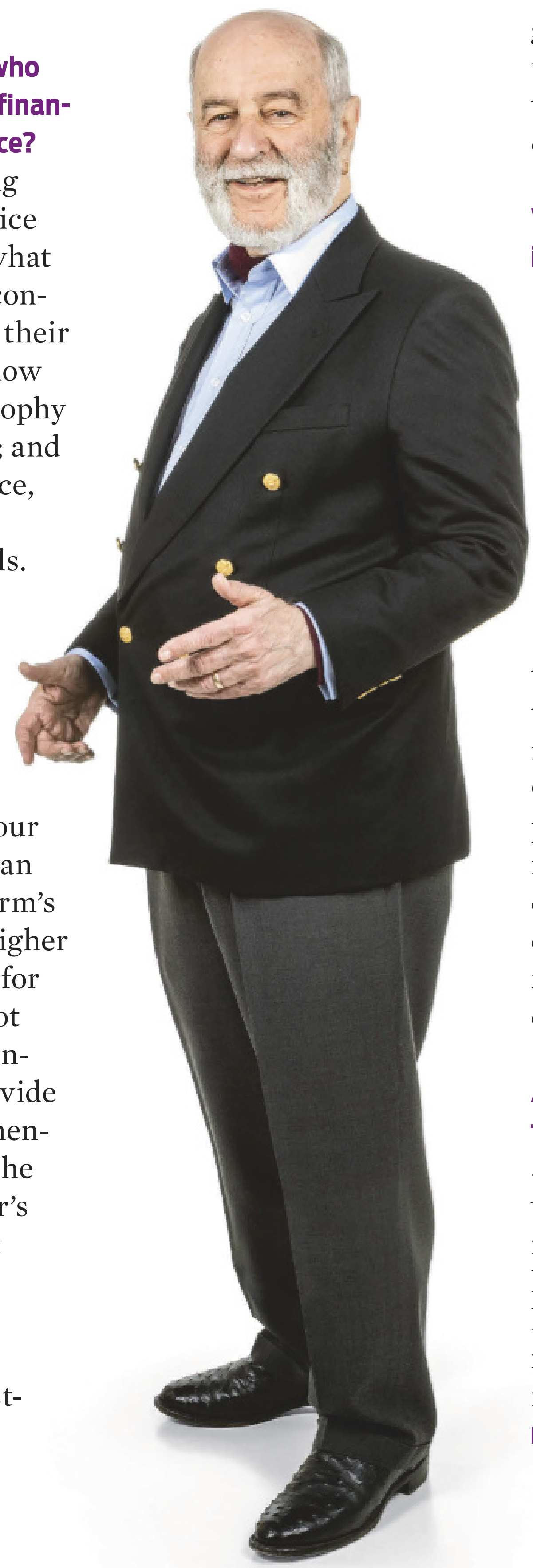
Don't panic, and look for an adviser who will look out for your best interests.

Harold Evensky is a certified financial planner and author of Hello Harold: A Veteran Financial Advisor Shares Stories to Help Make You Be a Better Investor.

Where should investors who are interested in hiring a financial planner look for advice? We recommend looking for the three *p*'s of advice givers: *philosophy,* or what they believe and how consistent they've been in their approach; *process,* or how they make their philosophy work in the real world; and *people*—their experience, track record, staff and professional credentials.

Look for certified financial planners. A CFP is required to serve as a fiduciary, which means the adviser has the responsibility to act in your best interest, rather than the best interest of a firm's bottom line. That's a higher standard than the one for brokers. Brokers are not required to disclose conflicts of interest or provide an investment recommendation that is best for the client's needs. A broker's recommendation must be "suitable" for your risk tolerance and investment goals, but it might not be the lowest-cost alternative.

What do you tell clients during market downturns or periods of volatility? The consequences of selling investments in response to a market downturn



can decimate your long-term plans. That's because you need to time when you're getting out and back in. The market moves fast: If investors don't get back in as it recovers, they miss out on rising prices. Down markets are a chance to buy when stocks are low and to rebalance your portfolio to get back to your target allocation of stocks, bonds and cash. Those who look long-term and rebalance along solid parameters are going to recover far sooner than those who got out or who didn't do anything during a downturn.

What advice do you have for investors who say they want to move their investments out of the market to avoid risk? Investors confuse certainty and safety. They think they can go to cash, certain they won't lose money, but that's not actually safe for your long-term financial well-being. You need to have assets in the market to keep up with taxes and inflation. If you go all-in on CDs, for instance, you simply won't have adequate returns to keep up with the cost of living. Certainty comes from good planning, not an investment with a certain return.

Any other advice for investors? Turn off the TV and radio. The day-to-day volatility you hear about is noise. If you look at history, these talking heads have never been right, and they don't know more than anyone else.

BRENDAN PEDERSEN

PHOTOGRAPH BY MARK UMSTOT

TIME IS MONEY

FLY THROUGH SECURITY

CLEAR uses biometrics to speed you through airport screening, but it's pricey.

IF YOU'RE A FREQUENT business traveler, hate standing in line or tend to get to the airport late, a new private service can get you through security faster. But it doesn't come cheap.

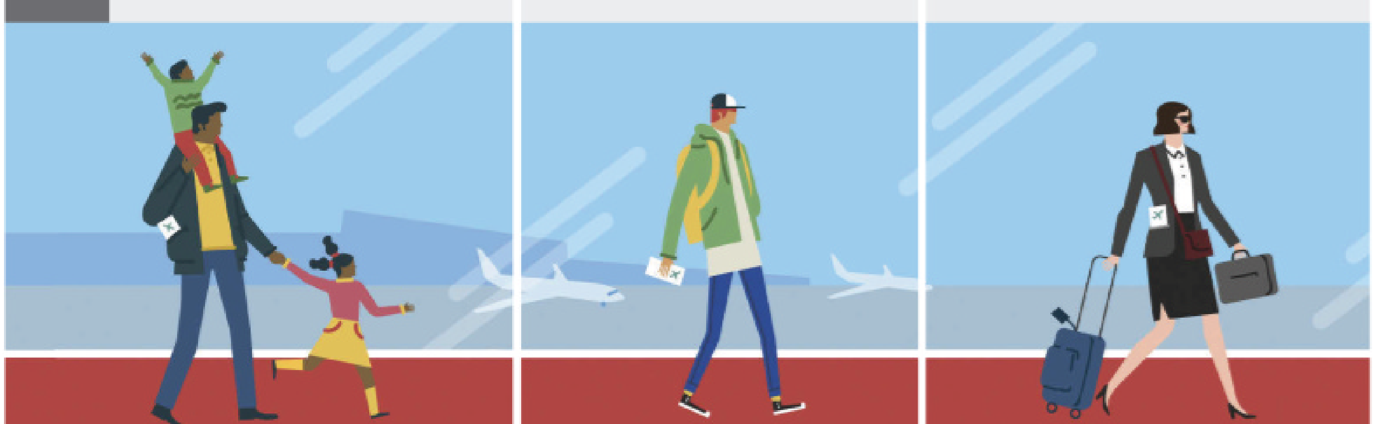
CLEAR, which is currently available at 27 airports across the U.S. and has 2.5 million users, allows you to bypass the first step in getting through security: standing in line to show your driver's license or passport. The system stores your fingerprints and eye scans, creating an encrypted code that is specific to you. (Once created, this code is matched each time you go through the system.) After you pass the biometric screen and show your boarding pass, a CLEAR representative will escort you to security screening. If you also have PreCheck or Global Entry, you can keep your shoes and belt on.

The cost is $179 a year. You can add as many as three family members age 18 and older for an extra $50 each per year. Children younger than 18 can use the lane free when they are with a CLEAR parent and don't need to be added to the account.

There are ways to cut the cost. You can be reimbursed for up to $100 if you have Platinum, Gold or Silver Medallion Delta SkyMiles status or have an eligible Delta SkyMiles credit card. American Express cardholders may also be eligible for a rebate of up to $80.

To enroll, go to www.clearme.com/enroll and complete the process at a participating airport, where you'll need to present a valid photo ID and payment. Alternatively, you can complete the entire process at the airport.

For more information on PreCheck and Global Entry, go to kiplinger.com/links/globalentry. **RIVAN STINSON**



	TSA PreCheck	Global Entry	CLEAR
COST	**$85 for 5 years** Free for children 12 and younger when traveling with a parent.	**$100 for 5 years** Children need their own Global Entry pass.	**$179 annually** Free for children under 18 when traveling with a parent.
WHERE	More than 200 airports across the U.S.	75 international and domestic airports	27 airports across the U.S. and expanding
BEST FOR	U.S. domestic travelers	International and domestic travelers	Frequent business fliers
SAVE	Credit or rebates with participating credit cards*	Credit or rebates with participating credit cards*	Up to $100 for Delta SkyMiles members and Amex cardholders

*Among them are PenFed Pathfinder Rewards American Express; Chase Sapphire Reserve Visa; and Platinum Card from American Express.

DEBT Rx

RELIEF FOR STUDENT BORROWERS

As college costs and student-loan interest rates continue to rise, many graduates and former students are struggling to repay their student loans. But new federal and state offerings are providing some borrowers in difficult situations with ways to avoid default.

Borrowers undergoing treatment for cancer can now defer payments on their federal direct loans during their treatment, without accruing interest on the loans. If you qualify, contact the company that services your loans to request a deferment. You may need to provide a letter from your oncologist.

Students who were enrolled at a college that closed may qualify to have their federal loan balance expunged. Roughly 15,000 borrowers who attended schools that shuttered from late 2013 to 2015 recently had their federal debts canceled. Students generally had to be enrolled at a now-defunct institution when it closed (or shortly before) without enrolling in another school for three years. For more details, visit http://studentaid.ed.gov and search "closed school discharge."

Your state may also be able to help. In recent years, several states, including California, Connecticut and Washington, have enacted legislation to protect student-loan borrowers or provide an ombudsman to help borrowers who are in trouble. **KAITLIN PITSKER**

SMART SAVING

HOW TO AVOID CASHING OUT YOUR 401(K)

It's easier to transfer your savings to your new employer's plan.

IF YOU'RE CHANGING JOBS, YOU WILL probably remember to pack your framed pictures, lucky pen and alma mater coffee mug. But there's something else you should take with you: your 401(k).

Until recently, that was easier said than done. But a U.S. Labor Department ruling last fall could open the door for automatic 401(k) transfers between employers, which means fewer employees will be tempted to cash out, triggering taxes and early-withdrawal penalties if they're younger than 55. Cash-outs, which are most common among workers with less than $5,000 saved, will cost Americans $2 trillion in savings over the next decade, according to Deloitte Consulting.

"Someone with a $5,000 balance in their 401(k) might lose $1,750 as a result of an early withdrawal," says Mike Giefer, a certified financial planner in Minneapolis. Plus, "if they don't retire for 40 years, that money invested could have been worth $75,000" (assuming a 7% yearly return).

Companies that don't participate in automatic rollovers may still let you roll over your former employer's 401(k) to their plan. If your next job doesn't allow rollovers—or doesn't offer a 401(k)—roll your savings into an IRA. **BRENDAN PEDERSEN**

CALENDAR
03/2019

FRIDAY, MARCH 1
As the market continues to seesaw, keep your ears open for the tough questions posed during March's usual batch of shareholder meetings. Apple will convene with its investors at Steve Jobs Theater, just outside its campus in Cupertino, Calif., on March 1.

▲ MONDAY, MARCH 4
Don't limit spring cleaning to your closets. Consider decluttering some of your subscription services, too. Do you actually use all those streaming services? Been neglecting that new gym membership? Take time to go through your debit or credit card statement and free your finances from freeloading fees.

FRIDAY, MARCH 15
For many flexible spending account holders, the Ides of March is the last day to spend funds stashed in their flex accounts for 2018. Any money remaining in the account after today will be forfeited, so use it or lose it. But don't forget that FSA money can be used for more than just doctors' visits. Go to www.fsastore.com for a complete list of eligible expenses.

SUNDAY, MARCH 31
Today is the last day for enrolling in traditional Medicare, as well as Medicare Advantage. If you miss the deadline, you won't be able to sign up until next year—unless you meet specific conditions, such as moving from your plan's old service area or quitting your employer's insurance.
BRENDAN PEDERSEN

DEAL OF THE MONTH
With snow mainly in the rearview, you'll find significantly reduced prices on skis, snowboards, skates and other accessories as cold-weather gear goes on clearance this spring, according to analysts at CardRates.com.

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ASPIRATIONS

This Trader Helps Others Do It, Too

He teaches technical analysis plus emotional discipline as keys to investing success.

PROFILE

WHO: Raymond Rondeau, 55

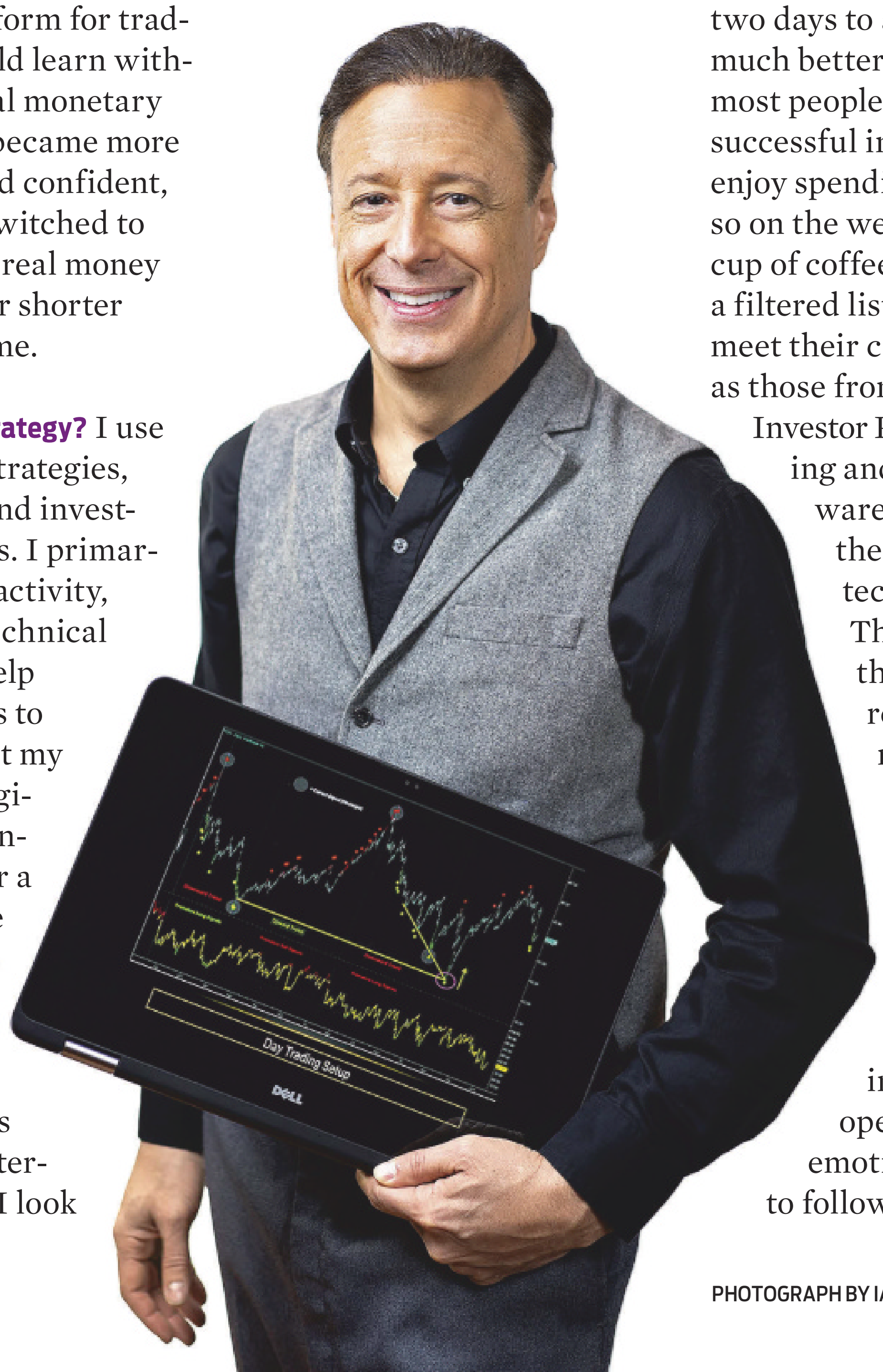
WHERE: Exeter, R.I.

WHAT: Trader, president of the New England American Association of Individual Investors chapter, and creator of AAII's new course, "Investing Strategies and Technical Analysis"

When did you start trading? I began with a simulated account at TradeStation [a brokerage and technical analysis platform for trading], so I could learn without any actual monetary risk. After I became more proficient and confident, I gradually switched to trading with real money and then over shorter periods of time.

What's your strategy? I use a variety of strategies, techniques and investment vehicles. I primarily use price activity, charts and technical analysis to help choose prices to enter and exit my trades strategically. I hold investments for a range of time periods.

I always go where I feel the best opportunities are. For shorter-term trades, I look for peculiar reactions to investment-related news, as well as certain price patterns and chart formations. My computers constantly scan more than 1,500 stocks and other kinds of investment vehicles in real time. When they identify an opportunity meeting my criteria, they alert me and provide some basic trade parameters. Then I examine the potential trade. If the risk-reward ratio makes sense, I enter the execution orders.



Can anyone do this? Day trading is probably the least appropriate form of trading for most people. It's like playing speed chess, with limited time to determine your next move, and that's stressful. In my opinion, "swing" trading, which anticipates holding times of two days to a few weeks, is a much better alternative for most people. I know many successful investors who enjoy spending an hour or so on the weekend, over a cup of coffee, looking over a filtered list of stocks that meet their criteria, such as those from AAII's Stock Investor Pro stock screening and research software, and reviewing them for strong technical setups. Then they set their positions, real or simulated, monitor them throughout the week and track their results.

How do you keep emotions out of it? Having a well-developed plan and the emotional discipline to follow through are two keys for successful trading. My first consideration is always risk. When placing a trade, I always first decide at what point I should get out. And to overcome any human bias, I set my trading platform to alert me at certain loss thresholds. If they are hit, I close all my positions.

Sometimes I back-test a strategy for efficacy over long time periods on numerous issues. With this tactic, I can generate statistics on hundreds of trade-related measurements to fine-tune my future trades. I also religiously review my past trades to help identify and avoid any negative, emotionally based tendencies.

What's the best way for people to start using these strategies? You can open an account with an online brokerage such as TradeStation for $1,000 or less. Once you access its platform, you'll have all the charts and related tools you would likely ever need to learn and trade effectively. By trading with a simulated account, you won't have to trade with real money until you're ready. It's a great way to get started, gain some experience and see if trading is right for you. **PATRICIA MERTZ ESSWEIN**

pesswein@kiplinger.com

PHOTOGRAPH BY IAN MACLELLAN

OPENING SHOT | James K. Glassman

Show Business Can Be Good Business

The market is not much fun lately, but certain stocks are. Even if we are headed into a recession (and there are signs we may be), businesses that entertain people tend to do all right. **WALT DISNEY (SYMBOL DIS, $113)**, the largest such stock by market value, weathered a slight dip in sales and lower earnings in the fiscal year that ended in September 2009, as the Great Recession was coming to a close. For the two fiscal years that straddled the economic downturn, however, revenues increased overall, and earnings per share for the owner of TV networks, theme parks, movie studios and a cruise line went on to set a record in 2011. The company never reduced its annual dividend, which increased from 31 cents a share in 2007 to 60 cents a share five years later (today, it's $1.76).

Disney keeps growing. Last year, the company reached a deal with Rupert Murdoch's empire to buy 21st Century Fox, which includes 20th Century Fox film and TV studios, U.K.-based Sky News, and some of Fox's cable channels (though not Fox News) for a total of $71 billion.

Disney also owns eight of the world's 10 largest amusement parks, measured by attendance, including the first-place Magic Kingdom in Orlando and Shanghai Disneyland, which zoomed to number eight in 2017, its second year of operation. Even if park admissions—which run $135 per day for an adult at peak times at Disneyland in Anaheim, Calif.—fall off in a weakening economy, the company should continue to prosper with its media business as Americans cocoon at home and watch programming on TV, or maybe go to the movies for $10 or $12 a head.

Including the Fox deal, Disney owns either all or a big chunk of ABC, ESPN, A&E, the National Geographic channel, Star (a network in India that reaches more than 700 million people a month), the Hulu streaming service, Pixar, Lucasfilm and Marvel Entertainment, plus franchises including the Muppets, the Simpsons, X-Men, Star Wars, Winnie the Pooh and, of course, Mickey Mouse. And cartoon characters don't charge a talent fee or make you fly them around on private jets.

If you think I like Disney, you're right—especially at a price-earnings ratio of just 16, based on analysts' consensus estimates for the fiscal year ending in September. Oh, and Disney's stock price was remarkably stable throughout a volatile 2018.

> ***EVEN IF WE ARE HEADED INTO A RECESSION, BUSINESSES THAT ENTERTAIN PEOPLE TEND TO DO ALL RIGHT.***

Pick up some bargains. Unlike Disney, most entertainment stocks sank at the end of last year. That's only natural; a falling tide lowers all (or nearly all) boats. The question is whether companies can sustain their earnings when the economy slows or reverses course—or at least bounce back quickly when times get better. **NETFLIX (NFLX, $338)** is a good candidate. It went public in 2002 and increased its earnings by 45% in 2008 and 40% in 2009. Netflix has had rough patches, when investors worried about rising competition or about new subscriptions stalling. But Netflix is the kind of company that should be able to ride out any economic storm. Its revenues aren't dependent on advertising but on modest fees from consumers.

In recent years, Netflix has gone global in a big way. In the third quarter of 2018, it added 5.9 million foreign subscribers—more than five times its domestic additions. Earnings soared to 89 cents a share, up from 29 cents a share in the third quarter of 2017. Still, Netflix stock dropped by more than one-third from its July high through the end of 2018, making it a bargain.

Unfortunately, you can't buy an exchange-traded fund or mutual fund that focuses exclusively on entertainment stocks. The closest is Invesco Dynamic Leisure and Entertainment (PEJ), but two of its top four holdings are restaurants, and it also owns airlines and hotels. My leaning is toward pure diversion with a company such as **WORLD WRESTLING ENTERTAINMENT (WWE, $79)**. It suffered a dip in revenues during the last

POON WATCHARA-AMPHAIWAN

recession, but its profits held up. The average annual growth in the stock price over the past 10 years has been 23.4%, and, bucking the overall market trend, shares more than doubled in 2018. Value Line projects that WWE's earnings will grow an annualized 37.5% over the next five years, thanks in part to a new TV deal with Fox.

Or consider **ACTIVISION BLIZZARD** (ATVI, $47), the video-gaming giant whose shares were clobbered at the end of 2018. The firm owns such franchises as Call of Duty, World of Warcraft, Candy Crush Saga and Major League Gaming. In a recession, it's doubtful gamers will forgo their obsession.

Nor, I suspect, will sports fans. Most teams are owned privately, but shares of **MANCHESTER UNITED** (MANU, $19), the soccer team based in the eponymous English city, trade on the New York Stock Exchange. The team has become a global phenomenon. Games air in the U.S. (NBC paid $1 billion to broadcast matches of the Premier League, which includes Manchester United), and revenues have risen a cumulative 50% over the past three years, in part because of logo-heavy merchandise sales. Another good choice is **MADISON SQUARE GARDEN CO.** (MSG, $280), established in 1879. It now owns not only the venue in Midtown Manhattan but also the New York Knicks (basketball) and Rangers (hockey) teams, as well as an e-gambling company.

CEDAR FAIR OWNS AMUSEMENT PARKS, INCLUDING CEDAR POINT, FAMOUS FOR ITS 18 ROLLER COASTERS. REVENUES DIPPED ONLY SLIGHTLY DURING THE LAST RECESSION.

Looking for a happy ending. Running movie theaters is not easy these days. The heavyweight in the business is **AMC ENTERTAINMENT HOLDINGS** (AMC, $14), with more than 1,000 theaters in the U.S. and abroad. The company was bought in 2012 by a Chinese firm, which launched an initial public stock offering a year later at $18 a share. The shares now trade at $14. Although AMC has struggled, I believe the stock has the potential to turn around dramatically. I also recommend America's fourth-largest movie chain, **MARCUS** (MCS, $43), which owns just 68 theaters, mostly in the Midwest, plus 21 hotels. It's not a pure entertainment investment, but it's hard to resist. With a market cap of $1.2 billion, it's a value play—despite a big stock-price rise in 2018. Only a couple of analysts cover Marcus, but the stock trades at a reasonable valuation of 23 times their estimated earnings for 2019.

Another small entertainment firm focused on the Midwest is **CEDAR FAIR** (FUN, $54), which owns amusement parks, including Cedar Point in Sandusky, Ohio, famous for its 18 roller coasters. Structured as a limited partnership, Cedar Fair currently yields 6.9%. The company's revenues dipped only slightly during the last recession.

Finally, consider two international entertainers, both trading on the NYSE. **TENCENT MUSIC ENTERTAINMENT GROUP** (TME, $13), the Chinese online music provider that was spun off from Tencent Holdings in December, carries a whopping market cap of $21.1 billion. Small-cap **EROS INTERNATIONAL** (EROS, $9) is not what its name implies. The New Jersey–based company is a worldwide distributor for films and music made in India. Eros is risky. It has barely any earnings, and only two analysts cover the stock. But it's in a niche that should grow briskly, even if the economy turns down.

Are we headed for a recession? No one knows, but the real estate market is flashing caution signs, long-term bond yields have dropped, and if the current expansion continues until July, it will become the longest since at least 1854. Entertainment stocks offer a fun way to be prepared—and to profit no matter what happens. ■

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

Entertainment Plays

STOCKS FOR FUN AND PROFIT

Businesses that entertain people tend to be resilient during economic rough patches, as movies, music, sports events and roller coasters continue to attract customers.

Company	Symbol	Share price	Market value (billions)	Price-earnings ratio*	Yield
Activision Blizzard	ATVI	$47	$35.5	17	0.7%
AMC Entertainment Holdings	AMC	14	1.5	74	5.7
Cedar Fair	FUN	54	3.0	17	6.9
Eros International	EROS	9	0.7	NA	0.0
Netflix	NFLX	338	147.2	106	0.0
Madison Square Garden	MSG	280	6.7	NA	0.0
Manchester United	MANU	19	3.1	NM	0.9
Marcus	MCS	43	1.2	23	1.4
Tencent Music Entertainment Group	TME	13	21.1	NA	0.0
Walt Disney	DIS	113	167.7	16	1.6
World Wrestling Entertainment	WWE	79	6.2	89	0.6

As of January 11. *Based on estimated earnings for the next four quarters. NA Not available. NM Not meaningful.
SOURCES: Yahoo Finance, Zacks Investment Research.

Vanguard's Top 4 Funds

These are the profitable Vanguard mutual funds you should own right now!

The nearly impossible task of finding and getting into the best funds at Vanguard ends now… with the release of our new special report, ***Vanguard's Top 4 Funds***.

We love Vanguard. But we hate that so many investors are missing out on Vanguard's strongest funds. Every Vanguard investor seeking to build wealth should own these funds.

My name is Dan Wiener, and along with my co-editor, Jeff DeMaso, we're an independent voice and advocate for Vanguard investors. We aren't paid or endorsed by Vanguard… or any mutual fund company… which means we can tell you things you won't hear from them or anyone else. And all those little secrets add up to greater profits!

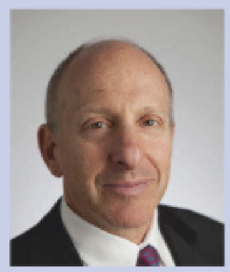
And in this new report, you'll discover what Vanguard won't tell you, including…

- Two funds that put the performance of Vanguard's flagship funds to shame.
- Vanguard has 10 index funds you can't get into unless you're able to cough up $100,000… none of these 10 funds are good enough to earn a spot in ***Vanguard's Top 4 Funds***. In fact, not one of Vanguard's index funds are good enough to earn a spot on this list!

No fluke funds in this report, and no risky one-year wonders, either.

The Shocking Truth About Index Funds

You've been told time and again that managed funds can't beat index funds. So this might shock you: The funds revealed in this free report soundly trounced Vanguard's flagships over the last 10 years… and will probably continue to beat indexing over the next 10 years, too.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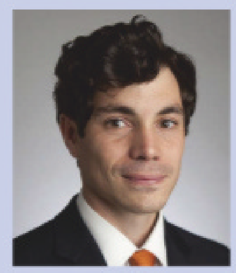
Jeff DeMaso

- Dan Wiener and Jeff DeMaso, editors of *The Independent Adviser for Vanguard Investors*, are America's foremost authorities on Vanguard and its funds.
- Dubbed the "Vanguard Gumshoe" by Forbes magazine, Dan has won the industry's "Financial Advisory" award.
- Jeff's market views and opinions have appeared in such publications as *USA Today*, *Forbes*, *The Wall Street Journal*, *Barron's*, *InvestmentNews* and *Kiplinger*.

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Fund #1: A stream of dividend income that grows while generating capital growth.

This fund, led by one of Vanguard's top index-beating managers, holds stocks that not only pay dividends, but also those that are likely to *increase* their dividends. But it takes a mastermind to find them. The fund manager's name is revealed in ***Vanguard's Top 4 Funds***.

One of the mandates of this fund is diversification across all market sectors. And this expert stock-picker does just that, with total confidence. He beat Vanguard's dividend stock index in 7 of the past 9 years.

Fund #2: A solid sector play with a legacy of high-quality management.

This top-notch sector fund enjoyed an outstanding track record under its previous manager. Had you invested $3,000 in 1984 and held it throughout his tenure, reinvesting distributions, you'd have $227,770. That same investment in 500 Index would have delivered only $54,570.

And the fund's current manager hasn't missed a beat. When you calculate rolling 3-year and 5-year returns of her fund against its benchmark, there's really no comparison. The active fund eats the index for lunch and dinner. Little wonder that it's been in 3 of our 4 *Model Portfolios* for years. You'll see why the moment you get your hands on **our latest free report**.

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MONEY SMART WOMEN | Janet Bodnar

Retirement Tips for a Long Lifetime

My daughter Claire, who's 34, recently sent me an e-mail recounting what she called "the saddest conversation between a mom and her daughter," which Claire overheard while having lunch at a restaurant. The girl, who appeared to be about 12 years old, asked her mother how people pay for retirement. "Her mom said, 'Well, there's this thing called a pension, but that probably won't be around when you're older. And there's Social Security, but that probably won't be around, either.' "

"And that was it," Claire wrote. "It made me sad because the mom clearly had no idea how one actually pays for retirement, and it was such a lackluster answer to a really good question. It seemed like a good time for her to tell her daughter that you need to save for retirement for your entire life."

Claire is right on two counts: Lackluster answers won't help girls become financially savvy, nor will they help women achieve a secure retirement.

I'll weigh in on raising money-smart girls in another column. This month I'll tackle the retirement question. "Women face all the issues that men face, plus they have additional complicating factors," says Larry Swedroe, co-author with Kevin Grogan of *Your Complete Guide to a Successful & Secure Retirement*.

Those factors can be summed up in one word: longevity. Women statistically live longer than men in retirement, but they tend to amass less in retirement savings because they earn less over the course of their careers, are more likely to take time off for family responsibilities and tend to invest more conservatively.

Beyond basics. As Claire put it, the key to retirement is to "save for your entire life"—mainly by taking advantage of IRAs and 401(k) accounts and other workplace retirement plans so that you can invest steadily and not shy away from taking the kinds of calculated risks that will allow your nest egg to grow more quickly (see kiplinger.com/links/best).

In addition to that general advice,

> ***WOMEN FACE ALL THE FINANCIAL CHALLENGES THAT MEN FACE—PLUS A LONGER LIFE SPAN.***

women should take advantage of specific retirement-planning strategies that fit their circumstances and stages of life. Besides funding a 401(k), for example, working women can "make sure we are negotiating salaries," says Katie Keary, a certified financial planner with Buckingham Strategic Wealth in St. Louis. "We don't ask for more, whereas men tend to do that."

Women who leave the workforce temporarily don't have to neglect retirement savings if they have a spousal IRA. Assuming your spouse is working, he (or she) can contribute up to $6,000 to a spousal IRA in 2019, or $7,000 if you're 50 or older (see kiplinger.com/links/stay).

For women who are re-entering the workforce after an extended absence, catch-up contributions for those 50 and older can help make up for lost ground. In addition to the $1,000 bonus for IRAs, you can contribute an additional $6,000 to a 401(k) account in 2019, on top of the basic $19,000.

In the event that your marriage ends in divorce, your joint retirement savings may be your largest single asset. You aren't automatically entitled to a share of your spouse's plan, so make sure it's on the table when you negotiate a settlement.

Remember that you have a right to receive a survivor benefit if your spouse is eligible for a traditional pension. That trims the monthly payout a little, but unless you're likely to die before your spouse, it rarely makes sense to give up lifetime benefits. And if you are entitled to your own pension, gender-neutral calculations generally make it more advantageous for women to take a regular payout rather than a lump sum, if you're offered that option (see kiplinger.com/links/max).

Because women have longer life expectancies than men, the annual 8% boost in Social Security payouts that you receive by waiting past full retirement age to claim benefits is particularly valuable for women. "The longer you can wait, the better," says Keary. "Social Security is really longevity insurance for women." ■

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

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MILLENNIAL MONEY | Miriam Cross

Emergency Funds Can Reduce Stress

According to a 2018 report from the Federal Reserve, 40% of adults in the U.S. would not be able to cover an unexpected expense of $400 without scrounging up the cash by, say, borrowing from friends or family or selling something.

If I lost my job tomorrow, I would be devastated. But I know I could survive for a few months without a paycheck. Over the past few years, I've accumulated a stash of cash in a savings account—and left it alone. I haven't had any financial disasters serious enough for me to drain my cache. But I feel calmer knowing the money is there.

An emergency fund can come to your rescue not only if you lose your job but also if you have an unexpected medical bill or an urgent home or car repair. It can also bail you out of a situation that you may not think of as an emergency but affects your mental health or professional growth. For example, you may decide to break the lease on an apartment because of a bad roommate situation or quit a toxic job even though you have nothing else lined up.

YOUR SAVINGS CAN BAIL YOU OUT OF A SITUATION YOU MAY NOT THINK OF AS AN EMERGENCY.

Get started. Millennials who are juggling everyday expenses, student (or other) debt and retirement-account contributions may be hard-pressed to see the importance of preparing for some unknown future plight. But without an emergency fund, when a sudden expense *does* crop up, you may need to deplete your retirement savings or investments, skip bill payments, or carry a balance on your credit card to pay for it—and any of those could ding your financial future.

Financial planners usually recommend setting aside from three to six months' worth of essential living expenses, including rent or mortgage payments, health insurance, transportation, and groceries. If you have a stable job, are debt-free and could move in with friends or back home in a pinch, you might be comfortable saving less. A spouse or partner's income is another safety net. If you have children, a mortgage or lots of debt, or you earn an irregular income as a freelancer or small-business owner, you should lock down enough capital to last six months or more.

Of course, this may mean that your emergency fund should have thousands of dollars. But you don't need to stockpile that amount all at once, especially if you are simultaneously paying down loans or beefing up your 401(k). Pam Capalad, a certified financial planner in New York City and founder of Brunch & Budget, recommends focusing on a smaller amount, such as one month's worth of living expenses. After that, work on debt while gradually contributing to your emergency fund. If you're feeling really stretched, keep at least $1,000 in your emergency fund at all times to bail you out of minor crises. "Otherwise, the cycle of debt will continue," Capalad says.

The easiest place to keep your emergency fund is in an FDIC-insured high-yield savings or money market deposit account. *Kiplinger's* best banks for millennials, Ally Bank and Discover Bank, both offer savings accounts that recently paid 2% or more and have no monthly fees or minimum-balance requirements (see the tables on page 42 for more options).

Need more motivation? "Save for a feeling, not for a thing," says Capalad. "Having this fund means that if something unexpected comes up, you can grieve or be emotional without stressing about the financial side or feeling stuck." If it helps, rename your emergency fund something more positive, such as a yes fund or an opportunity fund, says Capalad. "It gives you the ability to say *Yes, I can buy new tires for my car,* or *Yes, I can take advantage of this once-in-a-lifetime opportunity.*" ■

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2. Potential 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.

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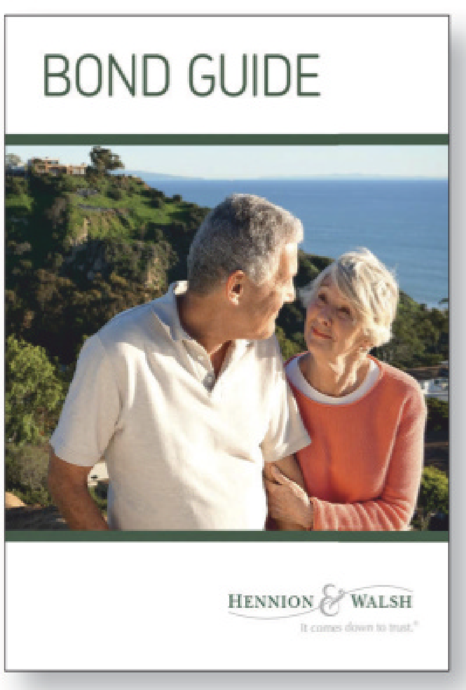

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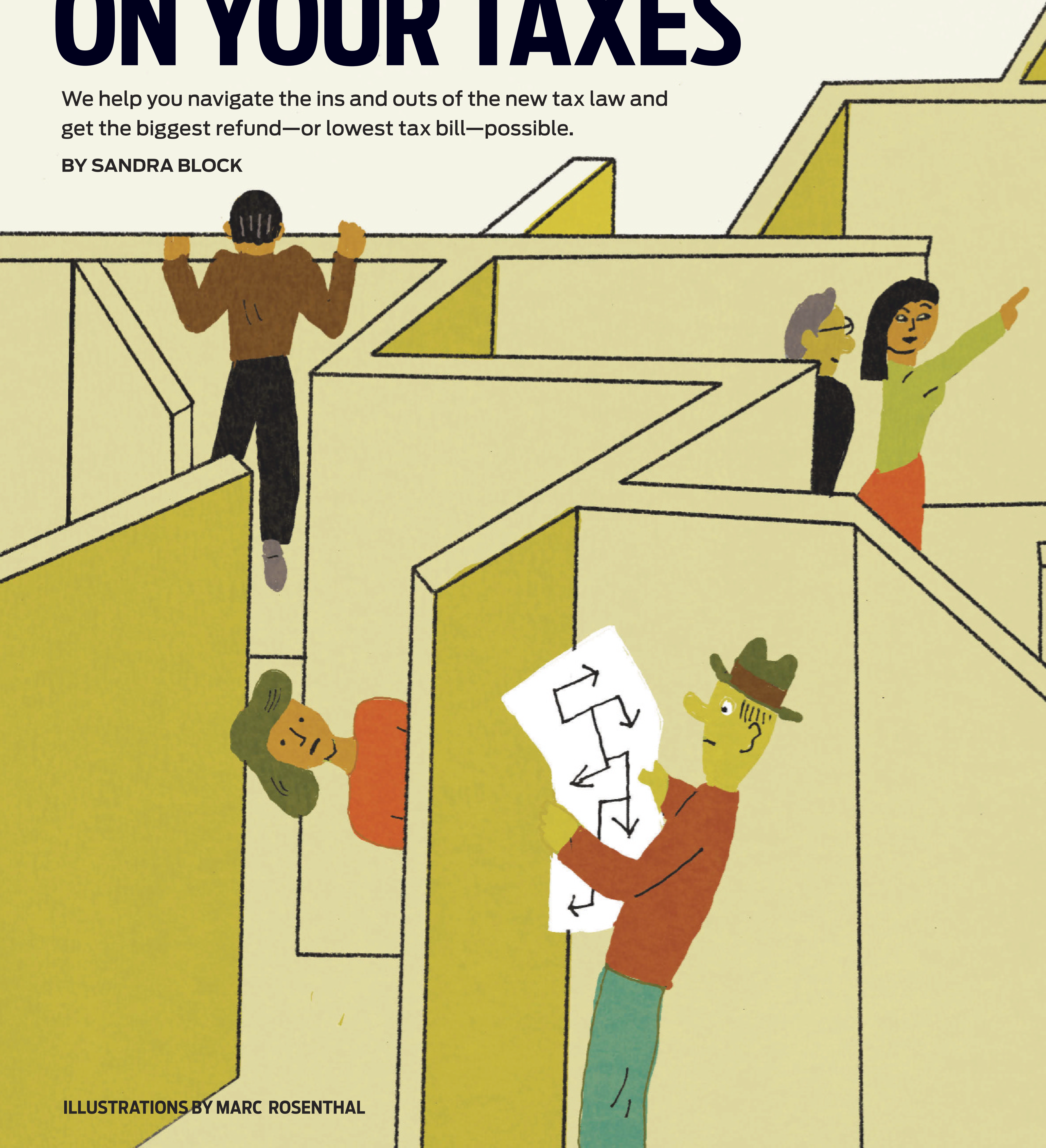
OUR GUIDE TO SAVING ON YOUR TAXES

We help you navigate the ins and outs of the new tax law and get the biggest refund—or lowest tax bill—possible.

BY SANDRA BLOCK



ILLUSTRATIONS BY MARC ROSENTHAL

Supporters of the Tax Cuts and Jobs Act said the new law would cut taxes for millions of Americans and shrink their returns to the size of a postcard, drastically reducing the amount of time required to file.

The tax overhaul will indeed lower taxes for many taxpayers, but the upcoming filing season—the first since the tax law took effect—could introduce new headaches, complications and unexpected costs. Deductions and other tax breaks that taxpayers have claimed for years have been capped or eliminated. Self-employed people will probably need to hire an accountant to navigate a new money-saving tax break. And that streamlined tax return? While the new Form 1040 is shorter than the old one, it comes with 117 pages of instructions.

The lengthy instruction manual is a nonissue for most taxpayers because the majority use tax-preparation software or hire a tax preparer. But even if you outsource your taxes, filing your 2018 return will probably require extra effort on your part.

To add another layer of complication, in mid January the IRS was still shuttered as a result of the partial shutdown of the federal government. The agency announced it will bring back some (unpaid) workers to process returns and issue refunds even if the shutdown isn't over by the time tax season starts on January 28. But don't look for much live assistance from the agency. Its toll-free help-line numbers weren't working during the shutdown, and the IRS's taxpayer assistance centers were closed, too.

BIG CHANGES

The tax overhaul lowered tax rates across the board and expanded income thresholds, so more of your income will be taxed at the new, lower rates. For example, the top rate was reduced to 37% from 39.6%, and for a married couple, it doesn't kick in until their taxable income exceeds $600,000. In 2017, that couple would have paid the top rate once their taxable income exceeded $470,700.

But the most-significant changes affect personal exemptions and the standard deduction. In 2017, you could take a deduction of $4,050 for each personal exemption claimed on your tax return (one for single returns and two for joint returns, plus one for each dependent). Personal exemptions were eliminated in favor of a larger standard deduction and an expanded child tax credit. The child tax credit, worth $1,000 for each child under 17 in 2017, is now worth $2,000 per child (a credit is a dollar-for-dollar reduction in your tax bill). The tax law also expanded the number of families who are eligible. The credit begins to phase out for couples with an adjusted gross income of more than $400,000 (up from $110,000 in 2017) and $200,000 for all other filers (up from $75,000 in 2017).

The standard deduction, meanwhile, was nearly doubled. In 2018, single filers will be able to claim a standard deduction of $12,000, up from $6,350 in 2017. Married filers will be eligible for a standard deduction of $24,000, up from $12,700 in 2017. Taxpayers who are 65 and older will get an even larger standard deduction. Two 65-year-olds who file a joint tax return will receive a standard deduction of $26,600; an individual 65-year-old filer can claim a standard deduction of $13,600.

Because of this change, only about 10% of taxpayers are expected to itemize deductions on their 2018 returns, down from about one-third of filers in the past. But if you've itemized in previous years, you'll still need to run the numbers to determine whether you're better off itemizing or claiming the standard deduction. Tax software (or a tax preparer with a software program) will do this for you. You'll need to gather receipts for charitable contributions, property-tax payments, mortgage interest and other deductions in order to determine which option gives you the lower tax bill. (Some deductions have been scrapped or capped, which we discuss below.)

If you fall into one or more of these groups, you may benefit from itemizing deductions:

► **You have a large mortgage.** The tax law took aim at deductions on super-

KipTip

LAST-MINUTE TAX BREAKS

Although the door closed on most tax-saving strategies on New Year's Eve, there are still ways to lower your 2018 tax bill:

Contribute to a health savings account. You have until April 15 to set up and fund a health savings account for 2018. To qualify, you must have had an HSA-eligible insurance policy at least since December 1. The policy must have had a deductible of at least $1,350 for individual coverage or $2,700 for family coverage. You can contribute up to $3,450 to an HSA if you had single coverage or $6,900 if you had family coverage. You can contribute an additional $1,000 if you were 55 or older in 2018, or another $2,000 if you were married and both of you were at least 55. Contributions to an HSA will reduce your adjusted gross income. The money in your account will grow tax-free, and withdrawals used to pay medical expenses are also tax-free.

Contribute to an IRA. You also have until April 15 to contribute to an IRA for 2018. If you're not enrolled in a workplace retirement plan, you can deduct an IRA contribution of up to $5,500, or $6,500 if you're 50 or older. Contributions will reduce your adjusted gross income on a dollar-for-dollar basis, which could make you eligible for tax breaks tied to your AGI.

Workers who have a company retirement plan but earn less than a certain amount may qualify to deduct all or part of their IRA contributions. For 2018, this deduction phases out for single taxpayers with AGI of between $63,000 and $73,000; for married couples who file jointly, the deduction phases out between $101,000 and $121,000. If one spouse is covered by a workplace plan but the other is not, the spouse who isn't covered can deduct the maximum contribution, as long as the couple's joint AGI doesn't exceed $189,000. A partial deduction is available if the couple's AGI is between $189,000 and $199,000.

sized mortgages. Under the old law, you could deduct interest on a mortgage of up to $1 million, and if you closed on the loan on or before December 15, 2017, you still qualify to deduct interest on that amount. For loans acquired after that, you can deduct interest on up to $750,000. Either way, if you have a fat mortgage, there's a good chance you'll still itemize, says Nathan Rigney, research analyst for H&R Block's Tax Institute. High property taxes could also push you over the threshold, even with a new cap on the amount you can deduct, Rigney says.

► **You were generous.** Charitable contributions alone probably won't get you over the threshold. But if you had significant mortgage interest and high property taxes, your donations could get you over the hump and lower your taxes. Make sure you gather all of your receipts and acknowledgments from the charities you supported last year.

► **You had a lot of unreimbursed medical expenses.** For 2018, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. (The threshold will rise to 10% of AGI for 2019 unless Congress changes it.) If your AGI was $50,000, for example, you would only be allowed to deduct unreimbursed medical expenses that exceeded $3,750. Still, some taxpayers with high medical expenses and modest incomes may qualify. If you had a lot of out-of-pocket medical expenses last year—say, for long-term care or a serious illness—it's worth tracking down your receipts and records. Co-payments, the cost of prescription drugs, and treatments that aren't covered by your insurance (including dental and vision care) are all deductible.

If you claimed the standard deduction in the past and your situation hasn't changed much, it's unlikely you'll itemize now. But that doesn't necessarily mean filing your taxes will be a snap, because in recent years, Congress has enacted a raft of tax breaks for non-itemizers, and most of them survived the tax overhaul. Ignore them and you could end up paying more than you should in taxes.

Some of the most generous tax breaks available to non-itemizers are for families who have kids in college.

The American Opportunity tax credit, which you can claim for students who are in their first four years of undergraduate study, is worth up to $2,500 for each qualifying student. You don't have to itemize to claim the credit, which represents a dollar-for-dollar reduction in your tax bill. Married couples filing jointly with modified adjusted gross income of up to $160,000 can claim the full credit; those with MAGI of up to $180,000 can claim a partial amount.

You may also be eligible for the Lifetime Learning credit. It isn't limited to undergraduate expenses, and you don't have to be a full-time student to claim it. The credit is worth up to 20% of your out-of-pocket costs for tuition, fees and books, up to $2,000. Married couples filing jointly with MAGI of up to $112,000 can claim the full credit; those with MAGI of up to $132,000 can claim a partial credit.

Non-itemizers may also be eligible for several "above the line" deductions. In addition to lowering your taxes—if you're in the 24% tax bracket, for example, $1,000 in above-the-line deductions will save you $240—these deductions will shrink your adjusted gross income, which could make you eligible for other tax breaks tied to your income.

You can deduct up to $2,500 in student-loan interest for you, your spouse or a dependent if your modified adjusted gross income is less than $65,000 if you're single or $135,000 if you're married and file a joint return. The deduction is phased out above those levels, disappearing completely if you earn more than $80,000 if single or $165,000 if filing jointly.

If you're not covered by a retirement plan at work, you can deduct contributions to an IRA, even if you don't itemize. You can make contributions to a 2018 IRA until April 15, 2019 (see box on page 24).

DISAPPEARING DEDUCTIONS

Roughly two-thirds of taxpayers will see their taxes go down this year, the Tax Policy Center estimates. About 29% of taxpayers will see no change, and 6% are expected to pay more. Popular tax breaks that were eliminated or curbed include:

► **State and local property taxes.** The tax overhaul capped the amount of state and local taxes you can deduct at $10,000. In the past, these taxes were generally fully deductible. This could increase the tax bill for residents of states with high state income and property taxes. In high-tax states such as California, the deduction for state and local taxes was often the largest

A 'Serious Saver' Seeks the Best Place to Stash Cash

Cash offers protection from volatility and the freedom to travel for one near-retiree

With all the volatility in the market, financial advisers say building up cash reserves is a smart move. Bari Kahn of Springfield, Virginia, has certainly taken that advice to heart.

The full-time data researcher has always been what she calls a serious saver. "I've typically put aside a high percentage of my income, but since the market began sinking, I upped my target to almost 50%," she says. "I'm also delaying my retirement a few years, and if I get a tax refund this year, you can bet it's going directly into savings."

The goal? Kahn wants to make sure she has three years of income set aside in reasonably liquid investments she can tap if stocks take a deep dive. And she wants to make sure she can access a good portion of those assets quickly if she needs or wants to spend it — on a last-minute trip, for example.

"I absolutely love to travel," she admits. In recent years, she's visited Peru and Cuba.

She's also made multiple trips to visit her sons in California and Alabama, and she's planning a cruise to Croatia, Italy and Greece later this year. "I don't want a market downturn to keep me from tackling my [travel] bucket list!"

Safety, plus robust earnings

At any age, cash gives you the flexibility to manage financial emergencies without tapping long-term savings. The amount of cash to set aside will vary depending on your situation, but experts typically recommend that everyone stockpile enough money to last at least six months to a year. Retirees — or near-retirees like Kahn — who want extra security and flexibility may even consider setting aside two or three years' worth of expenses.

Ideally, you want a safe place to stash your cash and watch it grow. For a long time, traditional brick-and-mortar banks were the default choice. Not any longer. They may be safe, but they don't offer the higher earnings that serious savers need in today's uncertain economic climate.

Online banks take the lead

The good news is that online savings accounts are leading the way in giving consumers a profitable alternative. Compared with traditional banks, they offer dramatically higher yields. For example, the interest rate for online savings accounts at Barclays is 24 times higher than the national average for traditional savings accounts.[1]

What's more, many online savings accounts, including those with Barclays, have no monthly maintenance fees and don't require a minimum opening balance. You'll also gain time-saving features like mobile banking.

Of course, you still get the security of knowing your savings are protected. Like traditional savings accounts, the money in your Barclays online savings account is insured by the Federal Deposit Insurance Corporation, up to $250,000.

The freedom to go where life takes you

"Having enough cash set aside is really important to me," says Kahn. "It represents both security and freedom. The security of knowing that I will have enough money to live comfortably in retirement, and the ability to say 'yes' when an opportunity to hit the road occurs."

Serious savers like Kahn owe it to themselves to check out the competitive rates offered at online banks like Barclays. Visit **Banking.BarclaysUS.com** for more information.

[1]National savings average rate courtesy of the FDIC's Weekly National Rates and Rate Caps, as of 01/09/2019; average rate used is for deposits under $100,000.

deduction taxpayers claimed, says William Norwalk, tax partner with Sensiba San Filippo in San Francisco. Norwalk adds, though, that lower tax rates for high-income taxpayers could help offset the loss of the deduction.

► **Moving expenses.** In the past, people who relocated for a job and paid the moving costs could deduct most of their expenses, even if they didn't itemize. The tax overhaul eliminated that deduction unless you're an active-duty member of the military.

► **Interest on home-equity loans.** You can deduct interest on loans or lines of credit only if the money is used to buy, build or improve your home. If you use a home-equity line of credit to pay for college tuition, for example, the interest isn't deductible.

► **Alimony.** If you're paying alimony under the terms of a divorce finalized or modified before December 31, 2018, go ahead and deduct your payments (assuming you still itemize). For divorce agreements reached after December 31, alimony is no longer deductible.

► **Unreimbursed casualty losses.** If a tree fell on your home last year, you probably won't be able to deduct losses that aren't covered by insurance unless a hurricane knocked it down (see the box on page 30).

► **Miscellaneous itemized deductions.** These deductions included the write-off for tax-preparation fees, investment fees and unreimbursed business expenses. Previously, taxpayers could deduct these expenses if they exceeded 2% of their adjusted gross income. This change could be particularly costly for employees with significant unreimbursed business expenses. An employee who drives a lot to visit clients—and isn't reimbursed for the mileage—could end up with a higher tax bill this year, particularly if the individual also pays state and local taxes that exceed $10,000, says Lisa Greene-Lewis, a certified public accountant with TurboTax. The change could also raise taxes for employees who work remotely and can no longer deduct the cost of maintaining a home office (the tax law won't affect the ability of self-employed workers to claim a home-office deduction).

Families with children (or other

dependents) who are 17 or older could also end up paying more. The tax law provides a $500 credit for each dependent who is 17 or older. The income thresholds for this credit are the same as those for the child tax credit (couples with AGI of up to $400,000 and all other filers with AGI of up to $200,000), but the smaller credit may not be enough to offset the loss of the $4,050 personal exemption for dependents claimed on your tax return.

Only about 200,000 taxpayers are expected to pay the alternative minimum tax in 2018, down from more than 4 million in recent years. The AMT is a parallel tax system initially designed to prevent the uber-wealthy from avoiding taxes. The tax law significantly hiked the exemption for the AMT and eliminated or limited deductions that typically trigger it, such as deductions for state and local taxes and miscellaneous business expenses.

TAXES ON INVESTMENTS

Investors who cashed in some of their winners last year in anticipation of a bear market will be happy to learn that the tax overhaul didn't boost taxes on investment gains. On the other hand, it didn't lower them, either. And some new quirks in the law may prompt a review of whether or not you should give some of your investments to your kids.

The new law retained the favorable tax treatment granted to long-term capital gains and qualified dividends, imposing a rate of 0%, 15%, 20% or 23.8%, depending on your total income. But the capital gains rate, which used to be based on tax brackets, is now tied to income thresholds. To qualify for the 0% capital gains rate, for example, you'll need to have 2018 taxable income of less than $38,600 if you're single or $77,200 if you're married and file jointly. You can still offset capital gains with losses and, if losses exceed gains, use the excess losses to offset up to $3,000 of regular income.

If you owe the kiddie tax, which applies to investment income of more than $2,100 earned by children under age 19—or, if full-time students, age 24—you may owe more this year. Or not. In the past, a child's investment income that exceeded the $2,100 threshold was generally taxed at the parents' rate. Starting in 2018, it is taxed at the same rates as trusts and estates, which range from 10% to 37%, depending on the amount of unearned income your child has.

That *doesn't necessarily mean* you'll

pay higher taxes on a child's investment income. Consider a situation in which a child has $5,000 of income subject to the kiddie tax, and the parents have taxable income of $150,000. In 2017, applying the parents' 25% rate to the $5,000 would have cost $1,250. If the old rules still applied, the parents would pay $1,100, based on their 22% tax rate. But because they're using the trust tax rates, their kiddie tax bill would be just $843.

However, the change could boost taxes on the sale of securities owned by your children, says Tim Steffen, director of advanced planning for Baird Wealth Solutions. Under the trust tax rates, children with unearned income of more than $12,700 will pay the top long-term capital gains rate of 20%. Parents don't pay the top long-term capital gains rate until their income exceeds $600,000 for a married couple, or $500,000 for singles. If you expect to sell a large number of securities from your child's account soon after transferring them to your child—to pay for college, for example—you may be better off selling assets from your own account and giving the child the proceeds, Steffen says. Likewise, grandparents who want to give appreciated stock to their grandchildren may want to give it to their adult children instead.

NEW BREAK FOR THE SELF-EMPLOYED

If you're self-employed or have a side gig, you may be eligible for a generous new tax break. Starting this year, many taxpayers who report their business profits (or losses) on Schedule C of their individual tax returns will be allowed to deduct up to 20% of their qualified business income (net income after business deductions) before they calculate their tax bill. For example, if you're self-employed and earned $100,000 in qualified business income in 2018, you could be eligible to deduct $20,000. If you're in the 24% tax bracket, that would reduce your tax bill by $4,800.

You don't have to itemize to claim this new tax break. The deduction won't reduce your adjusted gross income, nor will it reduce your earnings for purposes of calculating taxes for Social Security and Medicare. (Self-employed workers must pay the full 15.3% of self-employment taxes, although they can deduct half of the amount from their AGI.)

Be advised, though, that this provision of the tax overhaul contains a host of caveats that could disqualify you for all or part of the deduction. If your total taxable income—including interest, dividends and income reported on Form W-2, if you also have a regular job—is less than $157,500 on an individual return or $315,000 on a joint return, you can deduct 20% of your qualified business income no matter what type of business you're in. At higher income levels, the calculation gets more complicated.

To prevent affluent professionals, such as doctors and hedge fund managers, from gaming the system, Congress created a higher standard for people who provide personal services. For these business owners, the deduction phases out once total taxable income exceeds $157,500, or $315,000 for married couples, and disappears once taxable income tops $207,500 for singles and $415,000 for couples. ■

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Gone With the Wind

DISASTERS MAY NO LONGER BE DEDUCTIBLE

In the past, when disaster struck your property, you could take comfort knowing that some of your losses were deductible. But that may no longer be the case.

The Tax Cuts and Jobs Act eliminated the deduction for unreimbursed casualty losses unless they occur in a federally declared disaster area. If an electrical fire destroyed your house last year, for example, the losses aren't deductible. Even losses from natural disasters, such as damage from a hailstorm, aren't deductible if they failed to receive the federal designation, says Tim Steffen, director of advanced planning for Baird Wealth Solutions.

If your losses were the result of a federally declared disaster, such as hurricanes Michael and Florence in the Carolinas or the Camp Fire wildfire in northern California, you can still deduct some of your unreimbursed losses. You must itemize to claim this deduction. If you have enough deductions to get over the threshold for the higher standard deduction, you must reduce the amount of your unreimbursed losses by $100. Once you've done that, you can only deduct unreimbursed losses that exceed 10% of your adjusted gross income. If, say, your adjusted gross income last year was $150,000 and your total net loss was $83,000, you would first reduce it to $82,900, then knock off $15,000, leaving you with a net deduction of $67,900.

As was the case in the past, taxpayers who are eligible for the casualty-loss deduction will have the option to claim the loss in the year it occurred or for the previous year. That allows you to choose the year that will give you the biggest tax break.

If your losses were caused by a weather-related event, don't assume you're ineligible for this deduction just because your local disaster didn't make the national news. "You'd be surprised how many areas receive the federal designation," Steffen says. Go to www.fema.gov/disasters for a complete list of disaster declarations by state.

ASK KIM | Kimberly Lankford

How to Opt Out of Credit Card Offers

I RECENTLY RECEIVED A CREDIT CARD OFFER in the mail that listed a web address where I can request to opt out of all prescreened credit card solicitations. Is this legitimate?

R.L., FALLS CHURCH, VA.

Yes. The site, www.optoutprescreen.com, is run by the major credit bureaus. Opting out of prescreened card offers makes it less likely that an ID thief will intercept them and take out credit in your name.

You can opt out for five years electronically or by phone (888-567-8688), or you can mail in a form to block prescreened offers permanently. (You may still receive offers from companies you currently do business with.)

Paul Stephens, director of policy and advocacy for the Privacy Rights Clearinghouse, suggests signing up for the service and shredding unused offers. If you have elderly parents, help them opt out, too. And if you miss hearing about card deals, you can opt back in.

Fighting a drug coverage denial. **My Medicare Part D plan is not covering a drug that my doctor prescribed. What can I do?**

D.W., DALLAS

Find out why the drug wasn't covered. Your doctor may just need to fill out a prior authorization form each year explaining why you need the drug. If insurance still doesn't cover it, ask your pharmacist for the cash price, which may be less with coupons or discount programs found through GoodRx.

Alternatively, ask your doctor if you can switch to another drug that is covered by your insurance. Many plans have online tools listing these "therapeutic alternatives" and showing how much you'd pay.

If that doesn't work, your doctor can request an exception or file an appeal (see www.medicare.gov/appeals). Your pharmacist and State Health Insurance Assistance Program can help (see www.shiptacenter.org).

Benefit of a Roth 401(k). **My company is starting to offer a Roth 401(k). I'm 56 years old, and most of my savings is in a traditional 401(k). Does it make sense to contribute to the Roth?**

G.K., ST. PETERS, MO.

The key question is whether you think your income tax rate is lower now than it will be in retirement. That's because with a Roth 401(k), you don't get a tax deduction for your contribution up front, but you can withdraw the money tax-free in retirement.

POON WATCHARA-AMPHAIWAN

"For a younger person who expects their earnings to go up later, that's a clearer case for the Roth 401(k)," says Roger Young, a senior financial planner with T. Rowe Price.

It's a tougher decision if you're currently in a high tax bracket. Your tax rates could still be high in retirement if you have a lot of savings in tax-deferred accounts. (Tax rates are set to rise at the end of 2025.) Consider contributing at least some money to the Roth to provide tax diversification, allowing you to manage withdrawals from tax-free and tax-deferred accounts so you can limit the tax bite and avoid other levies on high-income retirees, such as the Medicare surcharge.

Tax breaks for charitable work. **As a retiree, I've been volunteering more with nonprofits. Can I deduct expenses when traveling to meetings on behalf of the charities?**

S.A., MARIETTA, GA.

You can deduct unreimbursed travel expenses as a charitable donation if you file an itemized tax return and the trip is primarily for your work with the nonprofit. You can deduct airfare, lodging, meals and—if driving—parking, tolls and mileage at a rate of 14 cents per mile. Keep a mileage log with the date and reason for the trip. You should get a letter from the charity confirming your activity and stating that no goods or services were exchanged, says Morris Armstrong, an enrolled agent in Cheshire, Conn., who can represent taxpayers before the IRS. ■

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

FAMILY FINANCES

How to Afford Long-Term Care

Your options range from conventional coverage to tapping your life insurance benefits. BY KIMBERLY LANKFORD

YOU'VE HEARD IT BEFORE: Long-term-care costs can shatter your retirement nest egg. The average cost of a private room in a nursing home is more than $100,000 per year, and the average amount of time people need some kind of long-term care is about three years.

But there are crucial nuances in real life. A frequently cited statistic says that if you're 65 years old, there's a 70% chance you'll need long-term-care services during your lifetime—but that includes unpaid care by family. Plus, you may need care for only a few weeks or months.

A study by the U.S. Department of Health and Human Services projected that 48% of people turning 65 between 2015 and 2019 won't need *any* paid care. But more than one-fourth will need more than $100,000 of care, and 15% will require care that costs more than $250,000. The bill could top $500,000 over five years for someone with dementia in a memory-care unit in a nursing home.

"Insurance would never have been invented if everybody were average," says Claude Thau, an actuary and long-term-care consultant in Overland Park, Kan.

That's why it's important to assess the risks, says Jean Young of the Vanguard Center for Investor Research and co-author of a study analyzing health care costs in retirement. The study concludes, "Even if the probability of incurring expensive care is relatively low, the number is at a magnitude that is hard to ignore."

Financial planners tend to start talking about long-term-care costs when their clients' financial focus shifts from raising kids to envisioning retirement. Many people in their fifties and sixties have seen how much long-term care has cost their parents and want to protect some of their savings if they end up needing care themselves.

PERSONALIZE THE RISK

Because the cost of care can vary so much from person to person, it's essential to look at your own risks, the types of care you want, costs in your area, and your savings and income when figuring out how to incorporate care costs into your financial plan.

Thau recently created a tool that uses long-term-care claims data to help planners get a better estimate of the financial risks of long-term care for their clients. Included are questions about gender, age, marital status, geography and the client's network of potential caregivers.

"It's a very individual math problem to solve for each client," says Brooke Salvini, a certified financial planner in San Luis Obispo, Calif., and a member of the American Institute of CPAs' personal financial planning executive committee. Salvini begins her consultations with clients by explaining the average cost of different types of care using Genworth's Cost of Care study (www.genworth.com/costofcare). She then asks questions to help them estimate their own costs, such

PHOTOGRAPH BY ASHLEY BLAKE

KAREN PETERSEN BOUGHT A LONG-TERM-CARE INSURANCE POLICY THAT COVERS $200 A DAY FOR FOUR YEARS.

as whether they plan to stay in the area or move to be near children (care costs can vary significantly by city) and whether they'd like to receive care in their home or move to a retirement community or assisted-living facility. She recommends going on a shopping trip to find out how much the places they're interested in cost now. The specifics can change by the time you need care, but knowing the costs can give you more-realistic numbers to factor into your retirement plans.

Salvini uses four years as a starting point, then discusses risk factors that could increase the length of care, such as a family history of dementia. Then she looks at her clients' savings, home equity and retirement income to determine how much they can afford to pay at the age they're likely to need care (usually about 80). She factors in a drop in regular expenses—for example, they won't have housing expenses if they move to an assisted-living facility. "We usually aren't fully insuring because that can be so expensive," she says. Most people pay for long-term care by tapping several sources, including their savings and home equity, she says.

After they figure how much of a gap they'd like to fill with insurance, they look at several coverage options, including traditional long-term-care policies and hybrid life insurance policies that also provide long-term-care benefits. Some also consider how much extra they'd need to start saving now to cover the potential costs themselves.

Karen Petersen, 60, of San Luis Obispo, started working with Salvini when she and her husband separated about 10 years ago. They had discussed long-term-care expenses for a few years, but Petersen finally took action five years ago after a friend was diagnosed with ALS in her forties. Petersen and Salvini calculated the costs in her area, where she'd like to stay, and how much she could cover from her savings and retirement income. After Salvini showed her three long-term-care insurance options, Petersen chose a Genworth policy that covers $200 per day for a four-year benefit period and increases by 5% per year. She pays $3,327 per year for the policy.

Petersen's mother lived in assisted living for several years and spent one year in a nursing home before she died at age 88. Petersen doesn't want her children, who are 26 and 29 and live hundreds of miles away, to worry about how she'll pay for care. "I want my kids to know that I'm taking care of myself," she says.

Some people are reluctant to pay premiums for insurance they may not use and would rather self-insure. Ken Weingarten, a certified financial planner in Lawrenceville, N.J., says people with $2.5 million to $3 million in savings may have enough money to self-insure if they have a high level of retirement income from pensions and Social Security and have average long-term-care expenses. But if they don't have pension income, he says, "they may be on the cusp."

"What if they get dementia and they need memory care that costs $150,000 per year for eight to 10 years? That can start digging into a portfolio."

Weingarten and his wife, Trina, both now 51, bought long-term-care insurance when they were in their late thirties—much younger than usual—because of his parents' experience. Weingarten's mother was diagnosed with multiple sclerosis when he was a teenager and needed increasingly more expensive care for several years before she died. She had some long-term-care coverage through his father's company. But after his mother's care costs exhausted the policy, his parents spent down almost all of their savings and eventually turned to Medicaid, which paid for his mother's nursing home but left his father at age 50 with just the couple's house, car and limited retirement savings.

Stuart Chen-Hayes, 56, and his husband, Lance,

KipTip

What to Do If You're Hit With a Rate Hike

Most people who bought long-term-care insurance policies more than five years ago have had at least one round of rate increases. When insurers first offered long-term-care policies, they underestimated the number of people who would have expensive claims, and they expected more people to drop their policies before they would have to pay out. Some insurers have increased rates on older policies by up to 90%.

Some rate increases that were approved by states last year are now affecting policies up for renewal. If you get a rate increase notice, you usually have a few choices. You could pay the extra premiums and keep the policy as is, or you could keep premiums the same and make changes to the coverage, such as reducing the inflation protection from 5% to about 3%, or reducing the benefit period from five years or more to about three years.

Ken Weingarten, a certified financial planner in Lawrenceville, N.J., has faced two rate increases since he bought long-term-care insurance 15 years ago. When he got the first increase, he calculated how much his daily benefit had grown at a 5% compounded rate. He found that his coverage was more than care costs in his area, so he reduced future adjustments to 3.5% and kept premiums the same. At the next rate increase, he chose to pay the extra premiums and keep coverage as is.

Even after the rate increases, the cost of an older policy is generally much less than switching to a new policy, because rates have increased and you'd pay more because you're older.

55, both had a parent with dementia or Alzheimer's. When they started working with Weingarten four years ago, they determined they were on target for their retirement-planning goals but were underinsured for liability insurance, life insurance and long-term care.

They figured they could cover some of the long-term-care expenses with savings and current income but wanted insurance to help. They pay about $1,100 per year each for policies with shared benefits, which lets either of them tap into the other's pool of money if they need more coverage. The policies provide them both with monthly benefits of $4,000 for up to four years, creating a pool of benefits worth almost $200,000 each, which increases by 3% per year for inflation.

WAYS TO COVER THE COST OF CARE

There are several ways to pay for long-term care. John Ryan, an insurance specialist in Greenwood Village, Colo., who works with fee-only financial planners, usually shows how much it would cost to provide the same monthly benefit in several different ways (see the box on page 36). Each option has pros and cons.

Traditional long-term-care policies. A traditional LTC policy is usually the most efficient way to cover costs if you end up needing care. You choose the daily or monthly benefit and the benefit period, and usually an inflation adjustment of 3% per year. Choosing a smaller daily benefit but a longer benefit period tends to cost less for the same total pool of money, says Tom Hebrank of Advanced Planning Solutions in Marietta, Ga. The earlier you buy the coverage, the lower your annual premiums will be, but you'll have to pay premiums for a longer period of time.

One way to hedge your bets is to get a policy with shared benefits with a spouse or partner. For example, if you each bought a shared policy with three years of benefits, you'd have a total pool of six years that either spouse could use. This tends to increase premiums by 15% to 30% per year but may make you more comfortable choosing a shorter benefit period, says Brian Gordon of MAGA Ltd., a Chicago-based agency specializing in long-term care that works with financial planners.

Most policies with shared benefits let both spouses share the total pool of money, but some provide an extra pool of benefits. Mike and Kristi Henritze of Windsor, Colo., bought New York Life policies last year, when he was 49 and she was 47, that cost $1,646 per year for Mike and $2,015 per year for Kristi. They get a 25% couples' discount for buying the coverage together, and both have $200 in daily benefits for three years, which equals a benefit pool of about $200,000 each. They can also increase their benefits (and premiums) based on changes in the Consumer Price Index every year. They paid 25% more to add an extra $200,000 pool of benefits that either can use.

It's becoming more difficult to qualify for long-term care if you have any health issues. Some companies only insure 50% to 60% of applicants, compared with 90% in the 1990s, says Gordon. A surprising number are rejected because of their height/weight ratio, and some companies are limiting coverage if a parent had Alzheimer's. Standards vary by insurer; Gordon asks a lot of medical questions to help pinpoint the company with the best deal before his clients apply.

Most policies pay out if you need help with two of the six activities of daily living (such as bathing and dressing) or have cognitive impairment, and they cover care at home, in an assisted-living facility or in a nursing home. Some require you to use a licensed caregiver from an agency.

Premiums can increase after you buy the policy, which has happened to many people over the past 20 years (see the box on page 34). Ryan recommends being prepared for premium increases of 20% every five years, although prices tend to be more stable on newer policies.

Hybrid life insurance/long-term care. More insurers are offering life insurance that provides extra coverage for long-term care. You usually pay a lump sum or premiums for 10 years, and you can receive a death benefit worth slightly more than your premiums if you don't need care. If you do need care, you can receive about three times the death benefit in long-term-care coverage. Long-term-care payouts are subtracted from the death benefit.

For example, with Lincoln Financial's MoneyGuard, a 55-year-old woman paying $10,000 a year for 10 years would qualify for a $4,370 monthly benefit for six years, with benefits compounded by 3% annually. If she died without needing long-term care, her heirs would receive $104,820. Hybrid policies tend to be a good deal for single women, who generally pay 50% more than single men for traditional long-term-care policies. If you already have permanent life insurance, you can make a tax-free exchange, called a 1035 exchange, into a hybrid life insurance policy that provides long-term-care benefits.

Life insurance with chronic care rider. These policies let you access a portion of your death benefit early if you meet the standard long-term-care triggers. Some companies charge 5% to 15% extra for this feature; others don't charge extra but reduce your death benefit by more than dollar-for-dollar if you withdraw money for care.

You can usually withdraw up to 2% of the death benefit each month, says David Eisenberg of Quantum Insurance Services in Los Angeles. The policies can provide some long-term-care coverage for people who are getting life insurance anyway. But the amount of coverage you receive may be limited, and your heirs won't receive money you use for care.

Deferred-income annuities. These annuities don't provide coverage specifically for long-term care, but they can provide income for the rest of your life starting in, say, your eighties, when you're likely to need care. A 60-year-old man who invests $130,000 in a New York Life deferred-income annuity will receive $37,327 per year starting at age 80, says Jerry Golden of Golden Retirement in New York. You'll get payouts even if you don't need care, but they stop when you die. Your payouts will be lower if you choose an option that would allow your heirs to receive a lump sum based on your original investment, minus any payouts made to you. You can invest up to $130,000 of your IRA (but no more than 25% of your balance) in a version of a deferred-income annuity, called a qualified longevity annuity contract (QLAC). The money isn't included in your required minimum distribution calculation. ■

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Four Ways to Pay for Long-Term Care

For a 55-year-old **man** or **woman** who wants to cover $4,500 a month for **three** years, options range from a traditional insurance policy to a deferred-income annuity.

	1 Traditional long-term care policy**	2 Hybrid life insurance/LTC	3 Life insurance with chronic care rider	4 Deferred-income annuity
Annual premiums	M $1,533 W $2,475	FOR 10 YEARS: M $9,562 W $10,304	M $6,508 W $5,669	LUMP SUM PAID AT AGE 55: M $298,083 W $362,418
Total premiums* (over 25 years)	M $38,325 W $61,875	M $95,620 W $103,040	M $162,700 W $141,725	M $298,083 W $362,418
Total payouts† (over three years)	M $329,313 W $329,313	M $339,291‡ W $339,291‡	M $336,960 (plus $132,000 death benefit) W $344,160 (plus $133,000 death benefit)	M $339,192 W $339,192 ($113,064 annual payouts continue for life)
Value if no care is needed	M $0 W $0	DEATH BENEFIT: M $108,000 W $119,526	DEATH BENEFIT: M $468,000 W $478,000	M $113,064/yr. W $113,064/yr.

*Total premiums are to age 80 (assumes premiums will not increase for the traditional long-term care policy).

†Total payouts start at age 80 (assuming the $4,500 monthly benefit rises by 3% compounded each year).

**Assumes a 90-day waiting period. Premiums for the man would be $1,245 and woman $2,010 if they received a couples discount and shared benefits.

‡Monthly payouts ($9,148 at age 80) can continue for up to six years.

SOURCE: John Ryan, David Eisenberg and Jerry Golden

NO FREE LUNCH

Dinner and a Sales Pitch

When a financial adviser invites you to a free meal, complicated, high-cost flavors of annuities are often on the menu. BY EILEEN AMBROSE

AFTER YEARS OF DECLINING SALES, annuities are hot again. Annuity sales in 2018 were projected to top $230 billion—a 13% increase over 2017—reports the Limra Secure Retirement Institute, an industry research group.

Part of the reason for the resurgence is that rising interest rates are increasing payouts, making these insurance products more attractive to investors. But much of the credit for the rebound goes to the demise last year of the fiduciary rule—the U.S. Department of Labor rule that would have required brokers and others to put clients' financial interests ahead of their own when giving retirement-account advice.

Insurers offer several kinds of annuities, from straightforward to downright confusing. *Kiplinger's* often recommends the plain-vanilla type to retirees: an immediate income annuity that can generate enough income along with Social Security and, perhaps, a pension to cover basic living expenses (see the box on page 40). But other types—namely, variable and indexed annuities—are complicated, often carry high fees or commissions, and are periodically the subject of investor alerts from regulators.

"FREE" DINNERS

The more complex flavors of annuities are often on the menu at free dinners staged by financial professionals to attract new clients. David Fuith of Shoreview, Minn., a suburb of St. Paul, attended a few such free dinners, hoping to find an adviser. After a meal of steak and chicken at a restaurant last year, Fuith, an editor at a legal publishing firm, agreed to follow-up meetings with the firm hosting the dinner.

During the third meeting, an adviser recommended an annuity. Fuith says he isn't sure what kind it was, and thinks some details were glossed over, but from his description it appears to have been an indexed annuity. The adviser wanted Fuith to put 90% of his assets held outside IRAs and a 401(k) into the annuity. He also suggested that Fuith sell a mutual fund he had owned for 25 years so he could invest the proceeds in the annuity—although Fuith says that would have triggered a big capital-gains tax bill. But Fuith balked at tying up so much of his money in the annuity.

The adviser said he was willing to negotiate. "My idea would be to put 10% or 20% in an annuity. Their idea was 90%. That's a lot of real estate to negotiate," says Fuith, who didn't buy the annuity. "Maybe I ought to have some modest percentage of my money in annuities," he says, "but I can't invest in something I don't understand."

Gerri Walsh, senior vice president of investor education at the Financial Industry Regulatory Authority (Finra), says a free-dinner seminar can be a legitimate way for companies to prospect for clients and for consumers to learn about a new product or strategy. "But ultimately, whether the hard sell happens at the seminar or happens later, the person putting on the seminar and providing you with the meal is hoping to do business with you," she says. "If you go to one of these pitches,

ILLUSTRATION BY JACOB MYRICK

go with an open mind. But don't go with your checkbook open."

PROS AND CONS

Annuities can provide a valuable income stream in retirement, especially for those without a traditional pension. Recognizing this, the government now allows people to use a portion of their pretax 401(k) and IRA money to buy a deferred-income annuity—sometimes called longevity insurance—that would start payouts at, say, age 80. And Congress has been weighing legislation to encourage more employers to offer annuities within their 401(k)s.

Some planners recommend variable annuities to high-income savers who have maxed out their 401(k)s and IRAs and want another tax-deferred investment. Indexed annuities are often pitched as a way for older investors to potentially enjoy some of the upside of the market without losing principal.

Sounds simple enough, but variable and indexed annuities are far from simple, and terms and riders may differ from insurer to insurer. Even some financial experts admit that they have difficulty describing how they work.

"Variable and fixed indexed annuities are the most complex, opaque and conflict-ridden, because they pay the people recommending the annuities the highest commissions and give them other types of perks," says Micah Hauptman, counsel with the Consumer Federation of America.

The Labor Department's fiduciary rule was supposed to curb conflicts of interest when brokers and others give advice on retirement accounts. The rule required advisers to put a client's interests first, instead of recommending the investment that paid the highest fees and commissions.

The prospect of the rule's implementation depressed sales to holders of retirement accounts. In 2016, the year after the fiduciary rule was announced, variable-annuity sales fell \$28 billion. But a federal court last year struck down the rule, saying that the Labor Department had exceeded its authority, and the Trump administration didn't appeal. Todd Giesing, annuity research director at Limra, says uncertainty over the rule's status affected sales. But even if the court hadn't struck down the rule, he adds, annuity sales would have rebounded as companies and brokers adapted.

Meanwhile, the Securities and Exchange Commission has proposed an alternative rule that would require brokers to act in the best interest of clients. "Regulation Best Interest" aims to enhance disclosures to clients, but consumer advocates say the rule doesn't even define what "best interest" means and is much weaker than the fiduciary standard.

The SEC proposal, expected to be finalized this year, would apply only to brokers selling securities, which includes variable annuities, says Hauptman. It would not apply to indexed annuities, sales of which are regulated by state insurance commissioners. Insurance regulation is typically more lax than securities regulation, Hauptman says, so "that's where you get a lot of the bad incentives and bad practices."

LOOK BEFORE YOU LEAP

Anyone offering you an annuity should review your finances and goals first, and only then determine if an annuity would work for you. Kashif Ahmed, a CFP in Bedford, Mass., says you should be asking, "What hole in my plan is this going to solve?"

One criticism of annuities is that they can be a more expensive way to accumulate retirement savings than using low-cost mutual funds, says Jamie Hopkins, director of retirement research at the Carson Group. Plus, you'll pay capital-gains taxes on the earnings from a fund, which tend to be lower than the regular-income taxes that apply to annuity withdrawals.

But if you're highly risk-averse or likely to sell in a panic when stock prices fall, investing in an indexed annuity or a variable annuity with a rider providing protection in a market downturn can be worthwhile if it keeps you in stocks, Hopkins adds.

Before pulling the trigger, ask about fees and the penalties for pulling out of the contract early. Ask how the adviser is being compensated by the insurer, including any sales incentives, because that could be a big driver behind the annuity recommendation. A salesperson might receive 5% or 6% of the sale—or opt for a slightly smaller percentage up front and get a trailing commission of, say, 0.25% annually for the life of the annuity, says Ashley Foster, a CFP in Houston.

Also, check out the background of the adviser selling the annuity. At https://brokercheck.finra.org, you can review the record of brokers selling variable annuities. Go to www.naic.org for links to state insurance departments, where you can check on agents selling other types of annuities. ■

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Basics

The Annuity Menu

With a simple fixed-annuity contract, you pay money to an insurance company in exchange for a stream of income for life or for a certain number of years. You can choose to pay a lump sum and start payouts shortly thereafter—called an immediate-income annuity. Or you can buy a deferred-income annuity, say, in your fifties or sixties and delay payouts until years later. Variable and indexed annuities, however, are more complex.

Variable annuities. You're able to invest your money among a variety of mutual-fund-like accounts, and your earnings grow tax-deferred. The investment risk is on you, so your account value can go down if your investments tank.

Almost all variable annuities are sold with riders that increase the cost, says Jamie Hopkins, director of retirement research at the Carson Group. The most common is a guaranteed lifetime withdrawal benefit, or GLWB, which promises a certain level of income even if your investments lose value. But the fees on riders can add up. A GLWB, for instance, can cost 1% to 1.5% of your account value each year.

Variable annuities have other annual fees, too, such as a fee that averages 1.25% to cover a basic death benefit and other guarantees in the contract. Annual investment fees also run much higher than if you purchased similar funds outside the annuity.

Variable and indexed annuities (see below) also charge a penalty if you dump the annuity before the insurer recoups the cost of setting it up—including the up-front sales commission. This surrender charge often starts at 7% to 10% of your account value and drops a percentage point each year until it disappears.

Not all variable annuities are pricey. Vanguard sells them directly to investors with no commissions, no surrender charges if you're older than 59½ and an average yearly investment fee of 0.50%—compared with the industry average of 2.24%, the company says.

Variable annuities are securities, and their sale is regulated by the Securities and Exchange Commission and Financial Industry Regulatory Authority. Finra has taken action against firms whose brokers persuade investors to exchange one annuity for another while misstating the costs and benefits of doing so. An exchange generates a new commission for the broker and starts the clock again on surrender charges for the investor. "That's one of the troublesome issues," says Finra's Gerri Walsh.

Indexed annuities. Sometimes called fixed-indexed annuities or equity-indexed annuities, these promise a minimum amount of interest each year, which protects your principal, plus the potential to earn more interest based on the price change in the annuity's benchmark, such as Standard & Poor's 500-stock index. (Your money isn't invested in the securities making up the index.)

The calculations to figure your return can make your head spin. You are guaranteed an interest-rate floor each year, usually 0%. This means you won't lose principal if the index plunges, unless you pull out more than 10% of your account value that year and get hit by a surrender charge, says Michael Foguth, a CFP in Brighton, Mich.

But your upside return is limited. The annuity might have a cap, so if the index jumps, say, 15% for the year, your return may be limited to 6%. Or it may have a "participation rate" in which you receive a percentage, usually 80%, of the index's gain. Insurers differ on when and how they measure changes in the index, and they can revise the terms periodically. If you add riders, indexed annuities can get even more complex and expensive.

Be aware that your return will be tied to the price change in the index, not its total return, which includes dividends. Dividends account for a sizable portion of investors' stock market returns. For example, if you invested $10,000 in the S&P 500 from the start of the bull market in 2009 until the end of last year, your balance would have grown to $45,520 with reinvested dividends—but only to $37,050 without.

ID THEFT

Mask Your Credit Card Number

WORRIED ABOUT YOUR credit card number falling prey to online breaches or fraud? A few card issuers have a solution: virtual credit card numbers. These randomly generated numbers are linked to your credit card, and you can use them instead of your actual card number for online shopping. That means your real number remains hidden from a merchant's website.

If you create different numbers for different online merchants, the fallout in the event of a breach is limited. With Capital One's "intelligent assistant," Eno, for example, your virtual numbers are saved in a control panel, so you can lock or delete individual numbers without affecting the rest of your spending. "EMV chips gave us protection against the cloning of credit cards, but a lot of credit card fraud has moved online," says Beverly Harzog, credit card expert and author of *The Debt Escape Plan*.

Two issuers in addition to Capital One currently offer virtual card numbers on most of their credit cards: Bank of America, through its ShopSafe service, and Citi, through its Virtual Account Numbers benefit. You can create a temporary set of digits for one-time use or for multiple purchases with the same merchant, as well as for recurring purchases, such as Netflix subscriptions. Bank of America and Citi allow you to set expiration dates of up to 12 months in the future; Capital One numbers will expire in five years. Bank of America and Capital One say you will continue to earn rewards when using their virtual card numbers.

There are a few potential hiccups when bringing your virtual numbers into the real world. For example, you'll need to keep track of virtual card numbers linked to recurring purchases to prevent missed payments. And card issuers say returning items purchased with a temporary number online to a physical store shouldn't be a problem, but you should bring a copy of your receipt as backup. Check with your issuer about whether paying in person for a hotel or rental car that you reserved online with a virtual card number will work. **MIRIAM CROSS**

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RATE UPDATES

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

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Jan. 8	Minimum investment	Website (www.)
Invesco Premier Port Inv (IMRXX)*	2.45%	$1,000	invesco.com
Vanguard Prime Inv (VMMXX)	2.43	3,000	vanguard.com
Vanguard Federal (VMFXX)	2.31	3,000	vanguard.com
Northern MMF (NORXX)*	2.30	2,500	northerntrust.com

Tax-Free Money Market Mutual Funds	30-day yield as of Jan. 7	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
Vanguard Muni Inv (VMSXX)	1.60%	2.11%/2.46%	$3,000	vanguard.com
M. Stanley T-F Daily Inc (DSTXX)*	1.49	1.96/2.29	5,000	morganstanley.com
BNY Mellon Ntl Muni (MOMXX)	1.40	1.84/2.15	10,000	bnymellon.com
Fidelity Municipal (FTEXX)	1.39	1.83/2.14	5,000	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of Jan. 15	Minimum amount	Website (www.)
CIT Bank (Calif.)†	2.45%	$25,000	cit.com
Memory Bank (Ky.)† #	2.40	none	mymemorybank.com
MySavingsDirect (N.Y.)†	2.40	none	mysavingsdirect.com
Vio Bank (Fla.)†	2.37	100	viobank.com

Certificates of Deposit 1-Year	Annual yield as of Jan. 15	Minimum amount	Website (www.)
Total Direct Bank (Fla.)†	2.91%	$25,000	totaldirectbank.com
VirtualBank (Fla.)†	2.86	10,000	virtualbank.com
Citizens Access Bank (R.I.)† ‡	2.85	5,000	citizensaccess.com
Limelight Bank (Utah)†‡	2.85	1,000	limelightbank.com

Certificates of Deposit 5-Year	Annual yield as of Jan. 15	Minimum amount	Website (www.)
United States Senate FCU (D.C.)§	3.62%	$20,000	ussfcu.org
Northpointe Bank (Mich.)	3.60	1,000	northpointe.com
Popular Direct (Fla.)†	3.60	10,000	populardirect.com
Pentagon Federal Credit Union (Va.)§&	3.50	1,000	penfed.org

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ‡Live Oak Bank and Sallie Mae Bank offer a similar yield. §Must be a member; to become a member, see website. &Connexus Credit Union, Georgia Banking Co. and Utah First 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 Jan. 15	Balance range†	Website (www.)
Consumers Credit Union (Ill.)#	5.09%‡	$0–$10,000	myconsumers.org
La Capital FCU (La.)#	4.25	0–3,000	lacapfcu.org
Premier Members CU (Colo.)#	4.00	0–2,000	pmcu.org
One American Bank (S.D.)	3.50	0–10,000	oneamericanbank.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. SOURCE: DepositAccounts

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	0.10%	0.10%	0.10%
U.S. Series I savings bonds	2.83	2.83	2.58
Six-month Treasury bills	2.52	2.56	1.59
Five-year Treasury notes	2.53	2.73	2.35
Ten-year Treasury notes	2.72	2.89	2.55

SOURCE FOR TREASURIES: U.S. Treasury

As of January 15, 2019.

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

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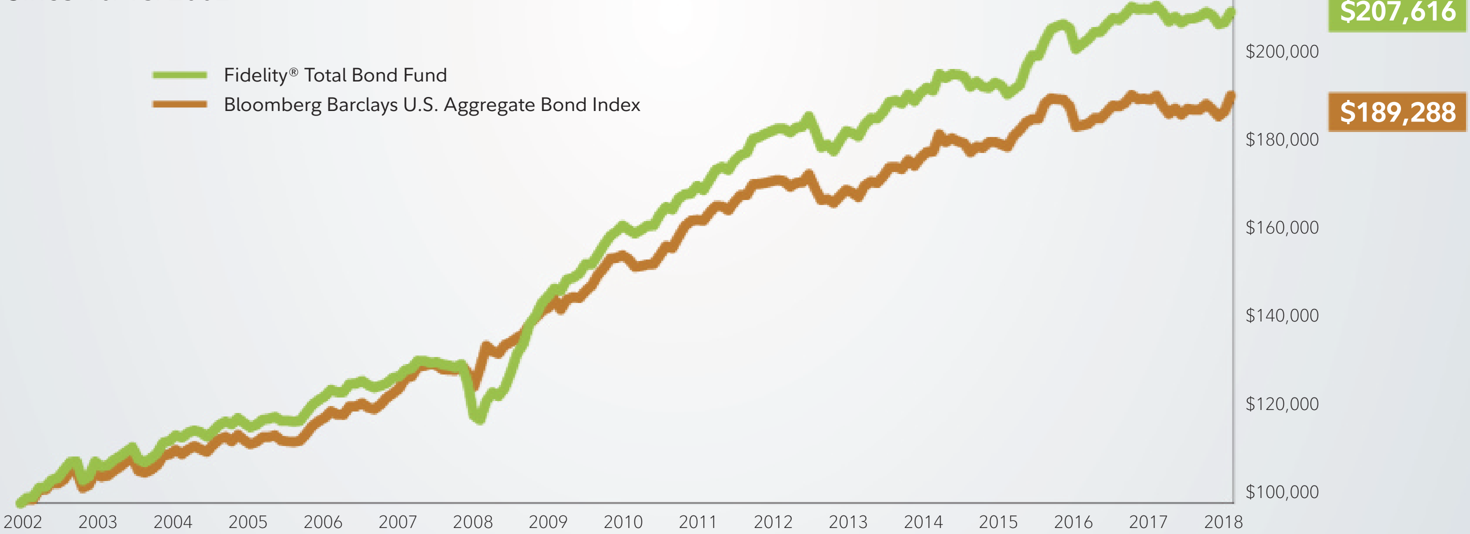

Average Annual Total Returns as of 12/31/2018	1 year	3 year	5 year	10 year	Life of Fund Since 10/15/2002	Expense Ratio
Fidelity® Total Bond Fund	–0.67%	3.08%	2.86%	5.43%	4.61%	0.45%[2]
Bloomberg Barclays U.S. Aggregate Bond Index	0.01%	2.06%	2.52%	3.48%	4.01%	

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so investors may have a gain or loss when shares are sold. Current performance may be higher or lower than what is quoted, and investors should visit Fidelity.com/performance for most recent month-end performance.

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Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Life-of-fund figures are reported as of the commencement date to the period indicated.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.

ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

[1]The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged broad-based, market value–weighted benchmark that measures the performance of the investment-grade, U.S. dollar–denominated, fixed-rate taxable bond market. Sectors in the index include Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. It is not possible to invest directly in an index.

[2]Expense ratio is the total annual fund operating expense ratio from the fund's most recent prospectus. Expense ratio as of 12/31/2018.

Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, offering circular, or, if available, a summary prospectus containing this information. Read it carefully.

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AL UND GUIDE

PROFIT FROM THESE TRENDS

BY NELLIE S. HUANG

CHANGE IS INEVITABLE, as Benjamin Disraeli, the 19th-century British prime minister, once said. He was talking about society. But it's also true in the nearly $16 trillion world of mutual funds—and we're not just talking about recent gyrations in the financial markets. Take the past year. For the first time in history, mom-and-pop investors can invest in free mutual funds. The four funds, all Fidelity index funds, charge no annual fees. "I used to say expense ratios can't get to zero," says Sean Collins, chief economist at the Investment Company Institute, "and I've had to change my tune."

The drop in expense ratios is just one of many shifts under way in the mutual fund industry. Other trends include lower investment minimums, reduced sales loads, an explosion of quantitative strategies, and the ongoing flow of assets out of actively managed funds and into index funds. All told, the mutual fund world has become extremely competitive. Says Brian Hogan, head of Fidelity's investment product solutions and innovation division: "The pace of change is accelerating. If we don't disrupt what we're doing, someone else will."

We'll highlight the biggest developments in the fund world today and give advice, where possible, on how best to navigate them. Change is constant. When it comes to mutual funds, that's been good for investors so far.

1 EVER-LOWER FEES

It's now a well-worn investing mantra: Fund fees eat into your investment returns. As a result, for several years now investors have been dumping their high-cost actively managed mutual funds for low-cost index mutual funds and ETFs (more on that later). In large part, that's why mutual fund expense ratios have dropped 40% since 2000, from an average of 0.99%, or 99 cents for every $100 invested, to 0.59% in 2017, the Investment Company Institute says.

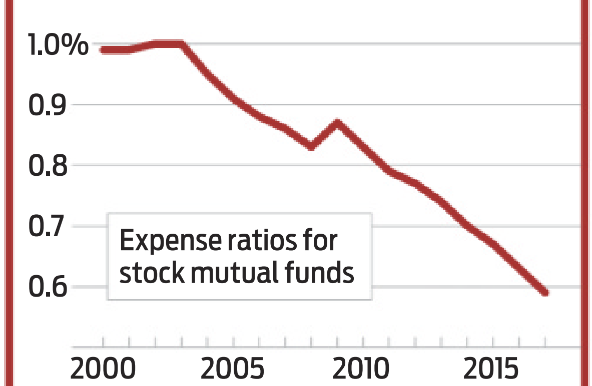
That trend will continue. Consulting firm PwC predicts that fees for actively managed funds will fall by another 20% by 2025. Expense ratios for index funds will drop more, by 21%. "Where does it stop?" asks ICI's Collins. "Are we going to see a world where fund advisers are offering to pay to subsidize expense ratios? I don't think we really know at this point."

At Vanguard, the industry low-fee standard bearer, the notion of a zero fee or even a negative fee is not plausible. "It costs something to run a mutual fund," says Jon Cleborne, a principal in Vanguard's Retail Investor Group. "There are licensing fees, auditing fees, servicing fees." His view is that transparency in fees is more important than charging the lowest fee.

Shareholders who pay little or nothing to invest in some funds might end up paying in other ways. For instance, Fidelity's zero-fee funds, which have pulled in $2.5 billion since their August launch, were designed to attract new customers who would pay for other Fidelity products. "People will buy a combination of products," says Fidelity's Hogan, with the firm likely earning fees from follow-on investments in actively managed funds, money market funds, stocks and bonds.

FEES KEEP FALLING

You're keeping more of what you earn.



SOURCE: Investment Company Institute

But, as when the four-minute mile was bested, now that the zero-expense-ratio barrier has been broken, you can expect to see more funds with no charge—or close to it. The first zero-expense-ratio ETF may launch this year, predicts Todd Rosenbluth, an analyst at CFRA Research. JPMorgan and Schwab, in particular, have the resources to cut an ETF's fees to nothing. An increase in assets and higher trading volume, for instance, could offset any potential losses.

But focusing exclusively on fees isn't always the best strategy. It behooves investors to make sure they fully understand a fund before buying shares and to be confident that it offers the kind of market exposure they seek. "Don't choose a fund based just on an eye-catching or even zero expense ratio," cautions CFRA's Rosenbluth.

For instance, Fidelity Zero Extended Market Index (symbol FZIPX) and Fidelity Extended Market Index (FSMAX) both invest in midsize companies. The Zero fund has a 0% expense ratio, and consumer stocks such as Lululemon Athletica and Advance Auto Parts are among its top holdings. FSMAX, on the other hand, charges a 0.045% annual fee and holds more tech stocks. A cautious investor might prefer the Zero fund; an aggressive investor might favor the other fund.

2 FALLING COSTS ELSEWHERE

Lost in the excitement about Fidelity's zero-fee fund launch last year were two other pieces of good news for investors: Fidelity eliminated its minimum investment to open a brokerage account (from $2,500), and it lowered the minimum initial investment for all its mutual funds to $1 (from $2,500). To be fair, Fidelity was a little late to the zero-minimum brokerage account party. TD Ameritrade and Merrill Edge already required no minimum to open an account. (Schwab joined the party late, too, last November.) And Fidelity's latest salvo came well after Schwab trimmed the minimum investment on all of its OneSource, no-transaction-fee funds to $100 (from $2,500) back in 2015.

In any case, in November, Vanguard followed the trend in a slightly different fashion. It trimmed expense ratios for millions of investors by reducing the $10,000 investment minimum for its Admiral share class to $3,000, allowing more investors to qualify for the lower-cost shares. Investing costs across the board "just keep going down and down and down," says Vanguard's Cleborne.

3 MORE UNIQUE OFFERINGS

Investors can already choose among thousands of funds. That means firms must be creative about the new products they launch.

Funds focused on environmental, social and corporate governance factors will continue to abound. These ESG funds are a draw for investors who want to align their portfolio with their social values. But the investment style is also gaining traction for homing in on specific criteria—such as diversity in the workplace—that many now view as having a material, positive effect on the company's bottom line (see "Values Investing," Dec.).

You may also see new funds that offer exposure to slices of the market we haven't seen before. DoubleLine Infrastructure Income, for instance, is a three-year-old fund that focuses on a nascent sector of the bond market: financing that funds infrastructure projects, such as commuter rail systems. The firm says the sector offers yields akin to those of intermediate-term bonds, but with less volatility. And Fidelity has filed for approval to launch a fund focused on companies that are run by their founders, a criterion that many solid stock pickers have long said has merit.

Quantitative strategies, which are hugely popular among ETFs, are creeping into the mutual fund world. Such funds follow rules-based approaches or focus on particular market niches, such as small companies trading at bargain prices. "It's an easy way for mutual fund companies to offer more low-priced products," says CFRA's Rosenbluth.

New products can be enticing, but investors would be wise to make sure new funds fit in with their overall investment plan. Be clear about your investment rationale for buying a fund. Will it address a specific goal, such as providing lower volatility or a higher yield? Do you see merit in the fund's investment approach?

4 SHIFTING ASSET FLOWS

Index funds and ETFs continue to draw investors' money away from more-expensive, actively managed mutual funds. And the trend is unlikely to end anytime soon.

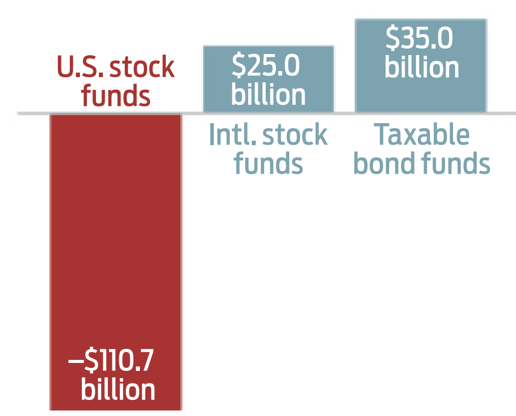
Actively managed funds, especially U.S. stock funds, continue to lose money as index mutual funds and ETFs rake it in. Although index mutual fund assets account for just 20% of all mutual fund assets, actively managed U.S. stock mutual funds have seen net outflows—more money has gone out the door than has come in—every calendar year since 2005, while index mutual funds have seen net inflows. It's not exactly a dollar-for-dollar exchange, says ICI's Collins, "but it's close."

Meanwhile, ETFs continue to grow in popularity, too, thanks to increasing investor familiarity and a growing group of fee-only financial advisers who prefer these funds as primary investment vehicles. ETF assets over the 10-year period ending in 2017 have increased at an annual rate of 16%; mutual fund assets, by contrast, have grown by 2%. ETFs now make up 19% of all assets in investment funds (mutual funds make up the rest).

Mutual fund investors have been savvy about shifting their assets around. In 2018, they were selling high and buying low, at least with regard to stock funds. Over the 12-month stretch, foreign stock funds took in \$25 billion. At the same time, \$110.7 billion exited U.S. diversified stock funds. This came as U.S. stocks peaked and foreign markets tumbled: International stock markets gave back 14.2% in 2018, far more than the 4.4% loss in the U.S. market.

VALUE AND SAFETY

Investors fled U.S. stocks in 2018.



SOURCE: © 2019 Morningstar Inc.

Investors are devoting more money to bond mutual funds, too, despite the rise in interest rates in recent months. (Yields and prices move in opposite directions.) Aging baby boomers getting their portfolios ready for retirement and investors nervous about a bear market in stocks are primarily driving this shift, says ICI's Collins. Indeed, bond fund categories—including intermediate-term bonds, ultra-short debt, municipal bonds and bank loans—dominated the top 10 Morningstar fund categories with the biggest net inflows over the past year.

5 CLOSED FUNDS REOPENING

As a result of market downturns or poor short-term performance, funds that had closed to new investors may reopen. It has happened before: In 2008, amid the financial crisis, Fidelity Contrafund, which had closed to new investors in 2006, and Fidelity Low-Priced Stock, which closed in 2003, reopened to new investors. So did Dodge & Cox Stock, which had closed to new investors in 2004. All three funds remain open.

More recently, foreign stock markets have suffered losses, and two solid funds in this category that were previously closed to new investors have reopened. FMI International, closed to new investors in April 2017, reopened in April 2018. In December, Oakmark International, a Kiplinger 25 fund, lifted a restriction that had limited new investors to buying shares directly from Oakmark. "We've already seen closed funds reopen, and I think we'll see more of that in 2019," says Rosenbluth.

Shrewd investors will keep an eye on good funds that are now closed to investors and may reopen. Two standouts we're watching closely: Harding Loevner Emerging Markets and Dodge & Cox International. ■

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A Tough Year for Investors

U.S. MARKETS FARED BETTER THAN OVERSEAS COUNTERPARTS. BY NELLIE S. HUANG

Volatility wreaked havoc on nearly all of the world's stock markets in 2018, posing a challenge for mutual funds. Most major markets posted double-digit declines. A few fell by more than 20%—officially a bear market. Standard & Poor's 500-stock index, a relative bright spot, sank just 4.4% for the calendar year. But overseas, things got ugly. Two major foreign-stock benchmarks registered hair-raising declines midyear. In both cases, a late 2018 rebound partially revived returns. The MSCI EAFE, an index of foreign stocks in developed markets, finished the year with a 14% decline. And the MSCI Emerging Markets index dropped 15%. (Returns are through December 31, 2018.)

A stronger dollar, rising U.S. interest rates and escalating trade tariffs were a drag on foreign stocks. China lost 19% in 2018. In Europe, economic growth flatlined, and a debt crisis in Italy spooked investors. Some bourses turned bearish, including Germany's, down 22%, and Ireland's, down 25%. Japan's stock market fell 13%.

In the U.S., after an early rough patch, the S&P 500 hit record highs in August and September. Weeks later, the index began to slide, and by late December it had dropped 19.8% in price, just shy of a bear market. Other U.S. bogeys fared worse. Though they have recovered a bit since late December, the tech-heavy Nasdaq, the Russell 2000 small-cap benchmark and the S&P MidCap 400 each experienced price declines of 24% or greater from peak to trough in 2018.

The past year gave funds a chance to prove their mettle. On the pages that follow, we show the top-performing mutual funds in 11 categories. The list includes only funds with reasonable minimum-investment requirements and excludes leveraged and inverse index funds. **DATA COMPILED BY RYAN ERMEY AND NELLIE S. HUANG**

Get the latest data on any mutual fund, and sort and compare thousands of funds, with our Mutual Fund Finder, at kiplinger.com/links/fundfinder.

LARGE-COMPANY STOCK FUNDS

Focused bets paid off.

Shares in large U.S. companies posted a loss in 2018, on average, and most mutual funds that invest in them followed suit. A few funds—many of them concentrated portfolios of 20 to 30 stocks in fast-growing firms—managed to post positive returns. Artisan Thematic, for instance, holds shares in 28 firms that stand to benefit from one of six long-term-growth themes, including big data and life sciences. Polen Growth, which devotes 75% of its 28-stock portfolio to technology, consumer and health care firms, won by mixing internet giants Facebook and Alphabet with consumer perennials such as Nike. Over the long term, large-company stock funds with a tech focus stood out. Fidelity OTC, an actively managed fund, is benchmarked to the tech-stock-heavy Nasdaq Composite index.

1 YEAR	
1. Copley Fund	15.7%
2. Morgan Stanley Multi Cap Growth A	12.1
3. Artisan Thematic Inv	11.2
4. Virtus Zevenbergen Innovative Gr Stk A	10.8
5. Zevenbergen Genea Inv	10.8
6. Dunham Focused Large Cap Growth A	9.7
7. Eaton Vance Atlanta Capital Focused Gr A	8.5
8. Baron Opportunity Retail	8.1
9. Polen Growth Inv	7.5
10. Morgan Stanley Instl Growth A	7.4
CATEGORY AVERAGE	–5.6%

3 YEARS	
1. Zevenbergen Genea Inv	18.7%
2. Morgan Stanley Multi Cap Growth A	16.8
3. Leland Thomson Reuters Venture Cap Idx A	16.1
4. American Century Focused Dynamic Gr Inv	14.8
5. Morgan Stanley Instl Growth A	14.6
6. Transamerica Capital Growth A	14.2
7. Akre Focus Retail	14.1
8. Marshfield Concentrated Opportunity	13.8
9. Nationwide Ziegler NYSEArcaTech100 A	13.8
10. Homestead Growth	13.6
CATEGORY AVERAGE	7.8%

5 YEARS	
1. USAA Nasdaq-100 Index	12.7%
2. Polen Growth Inv	12.6
3. Morgan Stanley Multi Cap Growth A	12.5
4. Shelton Nasdaq-100 Index Direct	12.4
5. Morgan Stanley Instl Growth A	12.3
6. Fidelity OTC	12.2
7. Edgewood Growth Retail	12.1
8. Rydex Nasdaq-100 Inv	11.9
9. Transamerica Capital Growth A	11.9
10. Homestead Growth	11.7
CATEGORY AVERAGE	6.8%

10 YEARS	
1. Morgan Stanley Multi Cap Growth A	19.7%
2. Morgan Stanley Instl Growth A	19.4
3. Fidelity OTC	18.9
4. Shelton Nasdaq-100 Index Direct	18.8
5. USAA Nasdaq-100 Index	18.5
6. Touchstone Sands Capital Select Growth A	17.9
7. Rydex Nasdaq-100 Inv	17.8
8. Homestead Growth	17.5
9. Morgan Stanley Instl Advantage A	17.4
10. Pin Oak Equity	17.3
CATEGORY AVERAGE	12.3%

Returns are annualized through December 31, 2018. *Closed to new investors. SOURCE: © 2019 Morningstar Inc.

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MIDSIZE-COMPANY STOCK FUNDS

Mid caps lost their mojo.

Last year was dismal for mutual funds that invest in midsize U.S. companies, with the average loss approaching double digits. Value Line Mid Cap Focused bucked the trend. The fund looks for firms with steadily rising profits that can do well whether the economy is expanding or shrinking. That approach has made for a tame portfolio that tends to perform well in dicey markets. Eventide Gilead screens stocks for religious as well as environmental, social and corporate governance factors. Fast-growing biotech stocks have helped Gilead over the past decade, but the fund has also been 15% more volatile than its average peer over that period. Buffalo Discovery posted a disappointing 2018 but is a long-term outperformer. The fund's two managers invest in companies they believe to be the top innovators in their industries.

1 YEAR	
1. Morgan Stanley Instl Mid Cap Growth A	11.8%
2. ClearBridge Select A	10.2
3. Virtus KAR Mid-Cap Growth A	7.5
4. Steinberg Select Inv*	6.8
5. Value Line Mid Cap Focused	4.7
6. T. Rowe Price New Horizons	4.0
7. Riverbridge Growth Inv	4.0
8. Baron Focused Growth Retail	3.8
9. Federated Kaufmann A	3.6
10. Champlain Mid Cap Adv*	3.5
CATEGORY AVERAGE	–9.8%

3 YEARS	
1. ClearBridge Select A	16.6%
2. Kinetics Market Opportunities No Load	16.5
3. T. Rowe Price New Horizons	13.8
4. Virtus KAR Mid-Cap Growth A	13.5
5. Champlain Mid Cap Adv*	13.5
6. Kinetics Paradigm No Load	13.5
7. BlackRock Mid-Cap Growth Equity Inv A	12.3
8. Ave Maria Growth	11.9
9. Janus Henderson Enterprise T*	11.8
10. Value Line Mid Cap Focused	11.7
CATEGORY AVERAGE	6.1%

5 YEARS	
1. ClearBridge Select A	11.5%
2. Primecap Odyssey Aggressive Growth*	11.1
3. T. Rowe Price New Horizons	10.3
4. Janus Henderson Enterprise T*	10.1
5. BlackRock Mid-Cap Growth Equity Inv A	9.8
6. Champlain Mid Cap Adv*	9.7
7. Federated Kaufmann A	9.6
8. Virtus KAR Mid-Cap Core A	9.4
9. T. Rowe Price Mid-Cap Growth*	9.4
10. Virtus KAR Mid-Cap Growth A	9.3
CATEGORY AVERAGE	4.7%

10 YEARS	
1. T. Rowe Price New Horizons	19.3%
2. Primecap Odyssey Aggressive Growth*	19.2
3. Jackson Square SMID-Cap Growth Inv	18.1
4. Eventide Gilead N	16.8
5. AB Discovery Growth A	16.3
6. T. Rowe Price Mid-Cap Growth*	16.2
7. Janus Henderson Enterprise T*	15.9
8. Buffalo Discovery	15.9
9. BlackRock Mid-Cap Growth Equity Inv A	15.7
10. Meeder Quantex Retail	15.6
CATEGORY AVERAGE	12.5%

SMALL-COMPANY STOCK FUNDS

Growth dominated value.

Small-company mutual funds struggled even more than their large and midsize brethren in 2018. But as the roster of one-year winners shows, growth-focused funds held up better than their value-oriented counterparts. Wasatch Ultra Growth targets super-fast growers that can boost earnings by more than 20% per year. The fund trounced the small-company Russell 2000 index in 2017 and 2018, but it trailed the benchmark for four consecutive years between 2011 and 2014. The managers at Baron Discovery search for rapid growers among really small firms. Companies in the portfolio have an average market value of $1.2 billion, compared with $3.2 billion for the average small-company stock fund. Discovery stumbled badly in 2015, but its three-year record through 2018 outpaces all but 1% of its competition.

1 YEAR	
1. Alger Small Cap Focus A	14.2%
2. Wasatch Ultra Growth	10.6
3. Jacob Micro Cap Growth Inv	10.3
4. Virtus KAR Small-Cap Growth A*	8.8
5. Jacob Small Cap Growth Inv	8.3
6. Nysa Fund	7.9
7. Federated Kaufmann Small Cap A	6.9
8. Neuberger Berman Small Cap Growth Inv*	5.6
9. Lord Abbett Developing Growth A*	5.1
10. Friess Small Cap Growth Inv	4.5
CATEGORY AVERAGE	–10.8%

3 YEARS	
1. Virtus KAR Small-Cap Growth A*	22.6%
2. Aegis Value A	18.2
3. Baron Discovery Retail	18.2
4. Alger Small Cap Focus A	16.8
5. Kinetics Small Cap Opportunities No Load	16.3
6. Wasatch Ultra Growth	16.3
7. Federated Kaufmann Small Cap A	15.9
8. Virtus KAR Small-Cap Core A*	15.5
9. Driehaus Micro Cap Growth*	15.0
10. Wasatch Micro Cap	14.6
CATEGORY AVERAGE	6.7%

5 YEARS	
1. Virtus KAR Small-Cap Growth A*	14.5%
2. Federated Kaufmann Small Cap A	11.6
3. Wasatch Ultra Growth	10.8
4. Virtus KAR Small-Cap Core A*	10.5
5. Meridian Small Cap Growth A*	10.5
6. Alger Small Cap Focus A	10.5
7. Driehaus Micro Cap Growth*	10.4
8. Baron Discovery Retail	9.8
9. Nationwide Small Company Growth A*	9.3
10. Brown Capital Mgmt Small Co Inv*	9.0
CATEGORY AVERAGE	3.8%

10 YEARS	
1. Virtus KAR Small-Cap Growth A*	18.6%
2. Wasatch Ultra Growth	17.7
3. Brown Capital Mgmt Small Co Inv*	17.0
4. AMG Managers Cadence Emerging Cos N	16.8
5. Janus Henderson Triton T*	16.8
6. Delaware Smid Cap Growth A	16.7
7. AB Small Cap Growth A	16.6
8. Buffalo Emerging Opportunities	16.6
9. Federated Kaufmann Small Cap A	16.3
10. Janus Henderson Venture T*	16.2
CATEGORY AVERAGE	12.2%

Returns are annualized through December 31, 2018. *Closed to new investors. SOURCE: © 2019 Morningstar Inc.

PROFESSIONAL INSIGHTS FROM PERSONAL CAPITAL

Bear-Market Defense: Here's Your Best Game Plan

Craig Birk, Executive Vice President, Portfolio Management, answers investors' top questions about optimizing your portfolio during market dives.

As the bull market diminishes, retirement savers are becoming increasingly nervous. A recent poll conducted in November 2018 by Personal Capital and *Kiplinger's Personal Finance* confirms those fears: A majority of the 1,014 investors we surveyed say they're worried about the impact of a market swoon before (61%) or during (62%) retirement.

Given recent market volatility, their concerns are no doubt climbing even higher, so here are answers to questions I hear often. Investors will want to keep this information in mind over the coming weeks and months.

1 How do I know when it's an 'official' bear market?

History shows us that markets are always cyclical, with bulls giving way to bears, and vice versa. Since 1929, US investors have dealt with 20 bears—defined as a 20% or more drop in a given index. It's easy to forget, but generally the good times last longer than the scary declines. Indeed, this bull market has been on the cusp of being the longest in history.

Another fact is that a bear's bite can vary considerably. For example, the Standard & Poor's 500-stock index has lost more than half of its value four different times over the past 100 years, including each of the last two major bear markets. Bears are always uncomfortable, but most aren't that bad. We don't see the extreme valuations of 1999 or the leverage of 2008, so we expect the next bear will be less painful than these last two.

2 What should I do if or when a bear market begins?

Ideally, an investment strategy should be designed with the expectation that a bear market can come at any time. There should be no reason to panic or deviate from the strategy.

That said, market corrections like what we experienced in the fourth quarter of 2018 can be a good time for a reality check on overall risk tolerance. For example, if you're losing sleep when the market dives by 15%, your portfolio may be too risky.

At that point, it's still OK to add diversification to the mix. Once a full-blown bear market arrives, however, it is usually too late to sell. Exiting stocks after things already feel terrible is one of the biggest mistakes people make.

"We expect the next bear market will be less painful than the last two."

3 What's the best way to stay diversified during a downturn?

Ideally, investors should periodically rebalance in all phases of the market cycle. That means selling stocks and buying bonds when the market is strong, and selling bonds to buy stocks when things feel bleak.

This is hard emotionally for many people, however. And it's where a disciplined advisor can add real value and experienced guidance.

4 Any specific sectors to watch for defensive or rebound moves?

Unfortunately, many investors time their sector bets with a rear-view mirror, which can be painful. Defensive sectors, such as utilities and consumer staples, generally hold up better in downturns. Stocks that performed best in the bull tend to fall the most in the bear.

This time around that tilt applies to US growth stocks, and tech in particular. Small caps may also provide an opportunity, as they often plunge in bear markets but tend to bounce the hardest, historically outperforming in rebounds. A good rule is to have meaningful exposure to all sectors and excessive exposure to none.

5 What should I do if I'm hoping to retire soon?

We believe everyone should have a three- to six-month emergency fund and that other liquid assets for general retirement expenses should be invested in a diversified portfolio. But that doesn't mean the portfolio has to be aggressive. A good portfolio for many approaching or in retirement can be mostly bonds. It's simply wise to have a personalized strategy designed for both up and down markets. ■

HYBRID FUNDS

Bonds saved the day.

Hybrid funds own a mix of stocks and bonds. The funds with the best long-term returns tend to have the most in stocks. T. Rowe Price's target-date funds took four spots in the 10-year rankings, for instance, and all four had more than 80% of their portfolio in stocks at last report. But last year's winners were, predictably, heavy in bonds. Hussman Strategic Total Return prospered in 2018 by investing mainly in bonds and gold-mining stocks, a tactic aimed more at avoiding losses than generating outsize long-term gains. Fidelity Strategic Dividend & Income normally keeps about 80% in stocks, which includes real estate investment trusts, convertible securities and preferred stocks. Plumb Balanced fund tends toward a traditional mix of roughly 60% stocks and 40% bonds but chooses its limited holdings well. It currently holds 40 stocks and 25 bonds.

1 YEAR	
1. Franklin Convertible Securities A*	4.3%
2. AllianzGI Convertible A*	2.8
3. Issachar N	2.4
4. Value Line Asset Allocation Inv	2.0
5. Hussman Strategic Total Return	1.5
6. Highland Global Allocation A	1.2
7. T. Rowe Price Capital Appreciation*	0.6
8. Janus Henderson Balanced T	0.5
9. Calamos Convertible A	0.5
10. Ave Maria Bond	0.4
CATEGORY AVERAGE	–6.5%

3 YEARS	
1. Catalyst/SMH Total Return Income A	11.4%
2. Sextant Global High Income	10.9
3. Highland Global Allocation A	10.4
4. Franklin Convertible Securities A*	9.8
5. Wells Fargo Diversified Cap Builder A	9.7
6. Plumb Balanced	8.3
7. Cavalier Growth Opportunities C	8.3
8. Columbia Convertible Securities A	8.2
9. Meeder Moderate Allocation Retail	8.2
10. Lord Abbett Convertible A	8.1
CATEGORY AVERAGE	4.8%

5 YEARS	
1. T. Rowe Price Capital Appreciation*	8.3%
2. Wells Fargo Diversified Cap Builder A	7.8
3. Plumb Balanced	6.9
4. Franklin Convertible Securities A*	6.9
5. Wells Fargo Index Asset Allocation A	6.8
6. GuideStone Funds Defensv Mkt Strats Inv	6.8
7. Victory INCORE Investment Grd Convert A	6.6
8. Value Line Capital Appreciation Inv	6.3
9. Janus Henderson Balanced T	6.2
10. Sector Rotation Fund	6.2
CATEGORY AVERAGE	3.4%

10 YEARS	
1. Hotchkis & Wiley Value Opps A	16.6%
2. Wells Fargo Diversified Cap Builder A	12.9
3. Franklin Convertible Securities A*	12.7
4. T. Rowe Price Capital Appreciation*	12.6
5. Fidelity Strategic Dividend & Income	11.9
6. Fidelity Convertible Securities	11.7
7. T. Rowe Price Retirement 2045	11.6
8. T. Rowe Price Retirement 2050	11.6
9. T. Rowe Price Retirement 2055	11.6
10. T. Rowe Price Retirement 2040	11.6
CATEGORY AVERAGE	8.1%

LARGE-COMPANY FOREIGN STOCK FUNDS

A year to forget.

Funds that invest in large, developed-market stocks had a tough time keeping their heads above water in 2018. Tweedy, Browne Global Value held up better than most of its peers, in part because it focuses on high-quality stocks trading at bargain prices, which has helped to steady the fund during past choppy markets. Oakmark International, a member of the Kiplinger 25, had a dreadful year in 2018, but over the past decade, the managers' contrarian approach—buying out-of-favor companies with prodigious cash flows—bested the MSCI EAFE index, which tracks large, foreign firms in developed countries. Fidelity International Capital Appreciation manager Sammy Simnegar has clobbered his peers over the past decade by favoring firms with increasing earnings and healthy balance sheets.

1 YEAR	
1. Redwood AlphaFactor Tactical Intl N	–2.6%
2. Sextant International	–3.9
3. Morgan Stanley Instl Intl Advtg A	–5.5
4. Polen International Growth Inv	–6.0
5. Goldman Sachs GQG Ptnrs Intl Opps A	–6.4
6. Tweedy, Browne Global Value	–6.7
7. Longleaf Partners International	–7.1
8. WCM Focused International Growth Inv	–7.6
9. Virtus WCM International Equity A	–7.9
10. Dreyfus International Stock A	–8.0
CATEGORY AVERAGE	–15.4%

3 YEARS	
1. Morgan Stanley Instl Intl Advtg A	11.7%
2. Morgan Stanley Instl International Opp A	9.9
3. Longleaf Partners International	9.0
4. Sextant International	8.9
5. Vanguard International Growth Inv	8.3
6. MFS International Growth A	7.2
7. Buffalo International	6.8
8. WCM Focused International Growth Inv	6.7
9. Dreyfus International Stock A	6.7
10. Harding Loevner Intl Eq Rsrch Inv	6.6
CATEGORY AVERAGE	2.5%

5 YEARS	
1. Morgan Stanley Instl Intl Advtg A	9.4%
2. Morgan Stanley Instl International Opp A	8.6
3. MFS International Value A*	5.2
4. WCM Focused International Growth Inv	5.0
5. ClearBridge International Growth A	4.7
6. Touchstone International Growth Opps A	4.5
7. FMI International	4.4
8. JHancock International Growth A*	4.2
9. Pimco StocksPLUS Intl (USD-Hedged) A	4.1
10. Fidelity International Capital Apprec	4.1
CATEGORY AVERAGE	0.2%

10 YEARS	
1. ClearBridge International Growth A	11.7%
2. Fidelity International Capital Apprec	11.4
3. Thornburg International Growth A	11.3
4. Pimco StocksPLUS Intl (USD-Hedged) A	11.1
5. Pear Tree Polaris Foreign Value Ord	10.7
6. Oakmark International Investor	9.8
7. Artisan International Value Inv*	9.8
8. MFS International Value A*	9.8
9. Vanguard International Growth Inv	9.5
10. Franklin Intl Growth A	9.3
CATEGORY AVERAGE	6.3%

Returns are annualized through December 31, 2018. *Closed to new investors. SOURCE: © 2019 Morningstar Inc.

SMALL- AND MIDSIZE-COMPANY FOREIGN STOCK FUNDS

Winning = losing less.

Small foreign companies, on average, fared worse than their large brethren in 2018. That's why none of the one-year "winners" in this category posted a positive gain. Brown Capital Management International Small Company ranks among the top performers over the past one and three years. But investors have to make peace with its high 1.41% annual fee. Two low-cost Fidelity funds are worth considering. Fidelity International Small Cap favors bargain-priced shares in a mix of developed and emerging countries. Fidelity International Small Cap Opportunities tilts more toward fast-growing firms in developed countries and has hefty bets in Japan and the U.K. Both funds have posted above-average annualized returns over the past five and 10 years, with below-average volatility.

1 YEAR	
1. Brown Capital Mgmt Intl Sm Co Inv	–3.4%
2. Virtus KAR International Small-Cap A	–7.0
3. Oppenheimer International Small-Mid Co A*	–9.5
4. Aberdeen International Small Cap A	–9.6
5. MFS International New Discovery A	–10.7
6. FPA International Value	–10.8
7. Kopernik Global All-Cap A	–11.3
8. Nuveen Winslow International Sm Cap A	–12.2
9. Royce International Premier Inv	–12.4
10. IVA International A	–13.1
CATEGORY AVERAGE	–19.0%

3 YEARS	
1. Kopernik Global All-Cap A	13.5%
2. Virtus KAR International Small-Cap A	12.9
3. Brown Capital Mgmt Intl Sm Co Inv	10.6
4. Aberdeen International Small Cap A	7.7
5. Oppenheimer International Small-Mid Co A*	7.5
6. FPA International Value	7.3
7. Royce International Premier Inv	6.8
8. Fidelity International Small Cap	6.5
9. Calvert International Opportunities A	5.8
10. Grandeur Peak Intl Stalwarts Inv	5.7
CATEGORY AVERAGE	2.7%

5 YEARS	
1. Oppenheimer International Small-Mid Co A*	7.4%
2. Virtus KAR International Small-Cap A	6.6
3. Royce International Premier Inv	5.5
4. Wasatch International Opps Inv†	5.1
5. T. Rowe Price International Discovery*	4.9
6. Fidelity International Small Cap Opp	4.6
7. Manning & Napier Rainier Intl Discovery K	4.4
8. Aberdeen International Small Cap A	4.4
9. Fidelity International Small Cap	4.0
10. AMG TimesSquare International Small Cap N	3.6
CATEGORY AVERAGE	1.5%

10 YEARS	
1. Oppenheimer International Small-Mid Co A*	19.9%
2. Oberweis International Opportunities	15.1
3. Wasatch International Opps Inv†	14.1
4. Wasatch International Growth Inv†	13.4
5. Pear Tree Polaris Fgn Val Sm Cap Ord	12.5
6. T. Rowe Price International Discovery*	12.3
7. Fidelity International Small Cap Opp	12.2
8. Harding Loevner Intl Small Coms Inv	12.1
9. Aberdeen International Small Cap A	11.7
10. Fidelity International Small Cap	11.6
CATEGORY AVERAGE	10.0%

GLOBAL STOCK FUNDS

Uncle Sam delivered the *oomph.*

U.S. stock markets held up better than foreign stock markets in 2018. That provided a nice boost for global funds, which typically invest in a mix of U.S. and foreign stocks. Vanguard Global Minimum Volatility bested many peers in 2018 with a rules-based strategy that homes in on defensive stocks. The low-cost fund, which is actively managed by Vanguard's in-house, numbers-driven stock-picking group, was 27% less rocky last year than the MSCI ACWI index. T. Rowe Price Global Stock has outpaced its peer group every calendar year since 2012, when manager David Eiswert took over. The fund's outsize stake in U.S. stocks, relative to the typical world stock fund, has helped. Long-term winner Artisan Global Opportunities sticks with financially healthy, growing firms that have a competitive edge over peers.

1 YEAR	
1. Polen Global Growth Inv	2.3%
2. Harbor Global Leaders Inv	1.8
3. Morgan Stanley Instl Global Sustain A	0.3
4. Columbia Select Global Equity A	–1.5
5. Morgan Stanley Instl Global Franchise A	–1.8
6. Vanguard Global Minimum Volatility Inv	–1.8
7. Dreyfus Global Stock A	–2.0
8. Brown Advisory Global Leaders Inv	–2.6
9. MFS Low Volatility Global Equity A	–2.6
10. Yorktown Capital Income A	–2.7
CATEGORY AVERAGE	–10.4%

3 YEARS	
1. Baron Global Advantage Retail	12.4%
2. Morgan Stanley Instl Global Opp A	12.1
3. Oppenheimer Global Opportunities A	11.4
4. T. Rowe Price Global Stock	10.5
5. Polen Global Growth Inv	10.4
6. American Beacon SGA Global Growth Inv	10.2
7. Morgan Stanley Instl Global Advtg A	9.8
8. PGIM Jennison Global Opportunities A	9.8
9. MFS Global Growth A	9.5
10. Kinetics Global No Load	9.3
CATEGORY AVERAGE	5.5%

5 YEARS	
1. Morgan Stanley Instl Global Opp A	12.6%
2. T. Rowe Price Global Stock	9.0
3. Oppenheimer Global Opportunities A	8.8
4. Vanguard Global Minimum Volatility Inv	8.3
5. Baron Global Advantage Retail	8.0
6. PGIM Jennison Global Opportunities A	8.0
7. American Beacon SGA Global Growth Inv	7.8
8. Morgan Stanley Instl Global Franchise A	7.6
9. Virtus Vontobel Global Opportunities A	7.3
10. T. Rowe Price Global Growth Stock	7.0
CATEGORY AVERAGE	3.7%

10 YEARS	
1. Morgan Stanley Instl Global Opp A	19.6%
2. Seven Canyons World Innovators Inv	15.7
3. Oppenheimer Global Opportunities A	15.5
4. Artisan Global Opportunities Inv	14.7
5. Wasatch Global Opportunities Inv	13.9
6. Oppenheimer Global Focus A	13.7
7. T. Rowe Price Global Stock	13.1
8. Marsico Global	12.6
9. American Funds Smallcap World F1	12.6
10. AllianzGI Global Small-Cap A	12.4
CATEGORY AVERAGE	9.6%

Returns are annualized through December 31, 2018. *Closed to new investors. †New investors must purchase directly from the fund company. SOURCE: © 2019 Morningstar Inc.

DIVERSIFIED EMERGING-MARKETS FUNDS

Buy 'em while they're cheap.

Rising U.S. interest rates and a stronger dollar sent stocks in emerging countries into bear-market territory. But swift turnarounds are common for this asset class, which has been strong out of the gate in 2019. Beef up exposure to good funds now, while prices are still cheap. Pimco RAE Emerging Markets charges a 3.75% load, but you can avoid the fee by buying shares at Fidelity, TD Ameritrade or Vanguard. The fund focuses on gross profits, dividends and book value (assets minus liabilities), among other measures of corporate health. Buy-and-hold investors should consider Driehaus Emerging Markets Growth. The fund has a $10,000 minimum, but you can gain entry for just $100 through Schwab. China, India and Brazil are among the fund's biggest country exposures.

1 YEAR	
1. BlackRock Emerging Mkts Eq Strats Inv A	–1.9%
2. American Beacon Acdn Emkts Mgd Vol Inv	–4.5
3. Janus Henderson Emkts Mgd Vol T	–5.0
4. Virtus KAR Emerging Markets Small-Cap A	–5.6
5. T. Rowe Price Emerging Mkts Val Stk	–9.9
6. ICON Emerging Markets S	–10.1
7. RBC Emerging Markets Small Cap Eq A	–10.6
8. Pzena Emerging Markets Value Inv	–10.6
9. State Street Disciplined Emkts Eq A	–10.9
10. RBC Emerging Markets Equity A	–10.9
CATEGORY AVERAGE	–16.6%

3 YEARS	
1. Pimco RAE PLUS EMG A	15.1%
2. Pimco RAE Emerging Markets A	14.0
3. Virtus KAR Emerging Markets Small-Cap A	12.7
4. Ashmore Emerging Markets Equity A	12.6
5. Pzena Emerging Markets Value Inv	12.2
6. Fidelity EMEA	11.8
7. Templeton Developing Markets A	11.5
8. Delaware Emerging Markets A	11.3
9. Artisan Emerging Markets Inv	11.2
10. BlackRock Emerging Markets Div Inv A	10.9
CATEGORY AVERAGE	6.9%

5 YEARS	
1. RBC Emerging Markets Equity A	4.3%
2. T. Rowe Price Emerging Markets Stock*	3.8
3. BMO LGM Emerging Markets Equity A	3.7
4. Virtus KAR Emerging Markets Small-Cap A	3.6
5. Fiera Capital Emerging Markets Inv	3.4
6. Calvert Emerging Markets Equity A	3.4
7. Goldman Sachs Emerging Markets Eq A	3.1
8. Artisan Emerging Markets Inv	2.8
9. American Century Emerging Markets Inv	2.8
10. Fidelity Emerging Markets	2.7
CATEGORY AVERAGE	0.6%

10 YEARS	
1. Wasatch Emerging Markets Small Cap Inv	12.4%
2. VanEck Emerging Markets A	11.5
3. Templeton Emerging Markets Small Cap A	11.0
4. Pimco RAE PLUS EMG A	10.2
5. Oppenheimer Developing Markets A*	9.9
6. Causeway Emerging Markets Inv	9.6
7. Driehaus Emerging Markets Growth Inv	9.5
8. T. Rowe Price Emerging Markets Stock*	9.4
9. Delaware Emerging Markets A	9.1
10. Aberdeen Emerging Markets A*	9.0
CATEGORY AVERAGE	7.7%

REGIONAL AND SINGLE-COUNTRY FUNDS

Brazil spices up returns.

Strong, albeit uneven, returns in Brazil have driven Latin America–focused funds to the top of the one- and three-year winners lists. These funds have been twice as volatile as the typical diversified emerging-markets stock fund in recent years. But if the region intrigues you, consider T. Rowe Price Latin America, which is low-cost and has been less volatile than its peers over the past three years. Long-term investors should do well with a stake in the growing economies of India and China, but broad exposure to the region may offer a smoother journey. Matthews Asia Innovators charges below-average fees and invests in Asian firms in developed and emerging countries with cutting-edge products or technology. China, India and South Korea are its biggest country bets.

1 YEAR	
1. DWS Latin America Equity A	–2.8%
2. BlackRock Latin America Inv A	–3.9
3. Voya Russia A	–5.4
4. Wasatch Emerging India Inv	–5.5
5. Hennessy Japan Inv	–6.6
6. Timothy Plan Israel Common Values A	–7.5
7. Templeton China World A	–8.0
8. T. Rowe Price Latin America	–8.2
9. T. Rowe Price Africa & Middle East	–8.9
10. Commonwealth Australia/New Zealand	–9.6
CATEGORY AVERAGE	–15.6%

3 YEARS	
1. DWS Latin America Equity A	19.2%
2. T. Rowe Price Latin America	15.9
3. BlackRock Latin America Inv A	15.1
4. Morgan Stanley Inst Asia Opp A	14.3
5. Voya Russia A	13.7
6. Wasatch Emerging India Inv	13.2
7. Hennessy Japan Small Cap Inv	12.4
8. Fidelity Latin America	11.8
9. Hennessy Japan Investor	11.1
10. Eaton Vance Greater China Growth A	11.0
CATEGORY AVERAGE	4.8%

5 YEARS	
1. Wasatch Emerging India Inv	17.1%
2. Matthews India Inv	14.8
3. ALPS/Kotak India Growth Inv	12.7
4. Eaton Vance Greater India A	11.6
5. Hennessy Japan Small Cap Inv	11.5
6. Hennessy Japan Inv	10.6
7. Franklin India Growth A	10.1
8. Neuberger Berman Greater China Eq A*	8.7
9. Matthews China Dividend Inv	7.7
10. Matthews Pacific Tiger Inv	6.5
CATEGORY AVERAGE	2.0%

10 YEARS	
1. Matthews India Inv	15.1%
2. Hennessy Japan Small Cap Inv	13.4
3. Matthews Asia Innovators Inv	13.3
4. Fidelity Pacific Basin	13.0
5. Invesco Asia Pacific Growth A	12.8
6. Matthews Pacific Tiger Inv	12.6
7. Invesco European Small Company A	12.5
8. Oberweis China Opportunities	12.5
9. T. Rowe Price New Asia	12.5
10. Matthews Asia Small Companies Inv	12.0
CATEGORY AVERAGE	8.0%

Returns are annualized through December 31, 2018. *Closed to new investors. SOURCE: © 2019 Morningstar Inc.

SECTOR FUNDS

Health care was the Rx.

Health care was 2018's top sector, returning 6.5%. The sector is defensive because everyone needs health care, even in a bear market. It's also full of growth potential. Fidelity Select Medical Technology and Devices is a play on the new frontiers of medical diagnostics. Technology has been the enduring theme of the bull market. Consider Red Oak Technology Select, a concentrated tech fund that counts Microsoft, Alphabet and Intel among its top holdings. For the daring, there's Firsthand Technology Opportunities Fund, with stakes in emerging tech companies such as cloud computing firm Arista Networks and video streamer Roku. A strong job market bodes well for the American consumer. Consider Fidelity Select Retailing, a 10-year winner. The fund was also a rare gainer among retail-focused funds in 2018.

1 YEAR	
1. Perkins Discovery	22.2%
2. Fidelity Select Medical Tech and Devices	16.2
3. Fidelity Select Health Care Services Port	10.4
4. Berkshire Focus	10.0
5. Fidelity Select Utilities	8.6
6. BlackRock Health Sciences Opps Inv A	8.0
7. Fidelity Select Health Care	7.4
8. Wells Fargo Specialized Technology A	7.2
9. Eaton Vance Worldwide Health Sciences A	6.0
10. Fidelity Select Pharmaceuticals Port	5.8
CATEGORY AVERAGE	–9.5%

3 YEARS	
1. Firsthand Technology Opportunities	19.8%
2. EuroPac Gold A	18.9
3. Red Oak Technology Select	18.4
4. Janus Henderson Global Technology T	18.3
5. BlackRock Technology Opportunities Inv A	18.1
6. Victory RS Science and Technology A	17.8
7. AllianzGI Technology A	17.2
8. Wells Fargo Specialized Technology A	17.1
9. Fidelity Select Medical Tech and Devices	16.9
10. Fidelity Select Software & IT Services Port	16.8
CATEGORY AVERAGE	4.4%

5 YEARS	
1. Fidelity Select Semiconductors	17.4%
2. Fidelity Select Medical Tech and Devices	16.8
3. T. Rowe Price Global Technology*	16.3
4. Columbia Global Technology Growth A	15.4
5. BlackRock Technology Opportunities Inv A	14.8
6. Columbia Seligman Comms & Info A	14.4
7. Firsthand Technology Opportunities	14.4
8. Columbia Seligman Global Tech A	14.4
9. Putnam Global Technology A	14.1
10. Red Oak Technology Select	13.9
CATEGORY AVERAGE	3.5%

10 YEARS	
1. T. Rowe Price Global Technology*	22.7%
2. Berkshire Focus	22.4
3. Fidelity Select Retailing	21.2
4. Fidelity Select Software & IT Services Port	20.9
5. Red Oak Technology Select	20.6
6. Fidelity Select Semiconductors	20.3
7. Fidelity Select IT Services	20.1
8. Fidelity Select Technology	19.9
9. MFS Technology A	19.8
10. Firsthand Technology Opportunities	19.7
CATEGORY AVERAGE	10.1%

ALTERNATIVE FUNDS

Playing both sides of the fence.

If you want to diversify beyond stocks and bonds, consider alternatives. The category includes funds that make bets on commodity prices, currencies and pretty much anything else. AMG FQ Long-Short Equity buys stocks that the fund's managers like while also selling short, or betting against, stocks they think are headed lower. According to the most recent report, the fund was bullish on tech company Ciena Corp. and bearish on insurer MBIA. Causeway Global Absolute Return takes a global approach to the long-short strategy, using derivative investments to bet on companies primarily in developed foreign countries and in the U.S. FundX Tactical Upgrader uses other funds to place up or down bets on stocks. Merger seeks consistent returns by buying shares in takeover targets after a merger is announced, hoping for a profit when the deal closes.

1 YEAR	
1. Navigator Sentry Managed Volatility A	23.1%
2. LoCorr Long/Short Commodity Strats A	15.1
3. Highland Long/Short Healthcare A	12.4
4. Rational Tactical Return A	9.5
5. Causeway Global Absolute Return Inv	8.9
6. Hussman Strategic Growth	8.8
7. AMG FQ Long-Short Equity N	7.8
8. Merger Inv	7.7
9. Comstock Capital Value AAA	7.5
10. FundX Tactical Upgrader	7.5
CATEGORY AVERAGE	–4.6%

3 YEARS	
1. AMG FQ Long-Short Equity N	10.8%
2. Catalyst/Millburn Hedge Strategy A	9.3
3. Gotham Total Return N	8.9
4. Natixis ASG Tactical US Market A	7.8
5. FundX Tactical Upgrader	7.8
6. Camelot Event Driven A	7.5
7. Meeder Spectrum Retail	7.0
8. JPMorgan Hedged Equity A	6.8
9. Rational Tactical Return A	6.7
10. Balter L/S Small Cap Equity Inv	6.7
CATEGORY AVERAGE	0.7%

5 YEARS	
1. LoCorr Long/Short Commodity Strats A	12.0%
2. AMG FQ Long-Short Equity N	8.0
3. Natixis ASG Tactical US Market A	6.9
4. AC Alternatives Discp Long Short Inv	6.3
5. Nuveen Equity Long/Short A	5.7
6. JPMorgan Hedged Equity A	5.5
7. FundX Tactical Upgrader	5.2
8. Altegris Futures Evolution Strategy A	5.1
9. BlackRock Event Driven Equity Inv A	4.8
10. Schwab Hedged Equity	4.6
CATEGORY AVERAGE	0.3%

10 YEARS	
1. Boston Partners Long/Short Equity Inv*	12.2%
2. AMG FQ Long-Short Equity N	12.2
3. Weitz Partners III Opportunity Inv	11.6
4. Guggenheim Alpha Opportunity P	10.5
5. BlackRock Event Driven Equity Inv A	9.8
6. Nuveen Equity Long/Short A	9.3
7. Dunham Appreciation & Income A	8.8
8. DWS Global Macro A	7.4
9. BlackRock Tactical Opportunities Inv A	7.0
10. Hancock Horizon Quant Long/Short Inv	6.9
CATEGORY AVERAGE	0.9%

Returns are annualized through December 31, 2018. *Closed to new investors. SOURCE: © 2019 Morningstar Inc.

BARGAINS

Stocks That Smart Managers Like Now

These pros use the market's downdrafts to their advantage. **BY JOHN WAGGONER**

BENJAMIN GRAHAM, AUTHOR OF *The Intelligent Investor*, the value-investing bible, likened the stock market to a man with wild mood swings. One day Mr. Market would offer to sell you his business at a ridiculously high price; the next day he'd offer it at a crazy discount.

During market declines, mutual fund managers are paid to look out for fire-sale stocks. Many used the downturn that began last September to snap up new holdings or add to positions they already owned. We asked a few smart bargain hunters to share where they're finding good values now. (Prices and other data in this story, unless otherwise noted, are through January 11.)

■ OAKMARK FUND'S VALUE GURU BILL NYGREN SAYS AMERICAN AIRLINES AND CITIGROUP ARE BARGAINS.

COURTESY AMERICAN AIRLINES; ISTOCKPHOTO.COM

■ Charles Bobrinskoy, ARIEL FOCUS (SYMBOL AFOYX) Cheap stocks are the "silver lining" in a bleak market, says Bobrinskoy, especially because investors' worries about the economy now appear overblown. "We're seeing data saying that not only was the jobs situation not bad, it was great," he says.

One favorite that Bobrinskoy is buying more of: **BORGWARNER,** a leading manufacturer of powertrains and turbochargers for the automotive industry. The company is best known for products that improve fuel efficiency and lower carbon emissions. But the firm is also a leader in electric-vehicle powertrains and, in fact, it "makes more money from electric vehicles than gas-powered ones," Bobrinskoy says.

Bobrinskoy also favors alternative-asset managers, particularly **BLACKSTONE GROUP,** a member of the Kiplinger Dividend 15. Blackstone, which has $457 billion in assets under management, offers investments in real estate, private equity, hedge funds and bonds. Its quarterly dividend payout is variable, depending on what the company earns. But traditional dividend investors shouldn't be put off by the company's variable payout, says Bobrinskoy, as management takes great pride in Blackstone's typically generous payout to investors.

The mutual fund industry is under pressure from low-cost and (from the industry's point of view) low-profit index funds. That's not the case with firms specializing in alternatives. "Alt managers are gaining assets," Bobrinskoy says. He thinks Blackstone's asset growth will power the stock past its peers.

■ Mark Travis, INTREPID CAPITAL DISCIPLINED VALUE (ICMCX) The correction was bad enough in large-company stocks, but small-company stocks were walloped. "Someone screamed *Fire!* and there was just one exit in the back of the theater," Travis says.

SKECHERS is one stock that got burned, according to Travis. Worries about the trade war with China accounted for part of the footwear maker's fall (some Skechers products are produced there). Shares trade at nearly 15 times the company's free cash flow (the money generated after operating expenses and spending to maintain or expand the business), compared with nearly 20 times for the average apparel stock.

Skechers' balance sheet appears strong enough to see it through much of the retail industry's headwinds. "Skechers is a mispriced security, as far as we can tell," Travis says.

Another mispriced

PEANUT ALLERGIES

Percentage of peanut allergies that cannot be outgrown

78%

Which company will introduce the first allergy-free peanut?

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

E-COMMERCE

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

$561 BILLION

How will cardboard companies redesign boxes to minimize waste?

Source: Statista

Continued from page 57

security, by Travis's reckoning, is **CABOT OIL & GAS,** an exploration-and-production company concentrated in Pennsylvania's Marcellus Shale. Taking on too much debt is the biggest risk for oil producers, says Travis; Cabot's balance sheet is conservatively managed. And the company is committed to sending half of its free cash flow to shareholders via dividends and buybacks, Travis says.

■ **Bill Nygren, OAKMARK FUND (OAKMX)** One of the unusual things about the market in recent months is how disconnected stock prices became from business results, says Nygren. "A lot of companies with fundamental business models that are not broken are selling for very low price-earnings ratios," he says. Nygren still likes **CITIGROUP,** one of his top holdings, which currently trades at eight times analysts' estimates of 2019 earnings. "Citi is uniquely positioned to be a global bank. It doesn't seem as if a lot has to go right for the stock to do well," he says. In the meantime, Citi sports a hefty dividend yield of 3.2%.

The company also has an ongoing share-buyback program, which should give remaining shareholders a bigger slice of the earnings pie.

Another of Nygren's bargains is **AMERICAN AIRLINES,** selling at six times estimated 2019 earnings. The U.S. airline industry is essentially an oligopoly now, with American Airlines weighing in at number four by current market value.

Since this past summer, airlines have been pricing

Stocks on Sale

MR. MARKET'S DEALS

Pros are snapping up shares in companies the market is mispricing.

Company	Symbol	Share price	1-year total return	Price-earnings ratio*	Yield
Alliance Data Systems	ADS	$167	−38.2%	7	1.4%
American Airlines Group	AAL	32	−43.1	6	1.3
Blackstone Group	BX	32	−0.4	12	8.0
BorgWarner	BWA	39	−28.8	9	1.7
Brooks Automation	BRKS	28	10.9	30	1.4
Cabot Oil & Gas	COG	24	−14.0	13	1.2
Citigroup	C	57	−23.3	8	3.2
FedEx	FDX	171	−36.3	11	1.5
Skechers USA	SKX	25	−34.7	13	0.0

As of January 11. *Based on estimated earnings for the next four quarters.
SOURCES: Morningstar Inc., Yahoo Finance, Zacks Investment Research.

tickets assuming that oil would be selling at $70 a barrel, says Nygren. "People don't get refunds because oil has since fallen to $50," he says. Furthermore, as businesses become more global, travel should keep growing, he adds. American is using most of its excess capital to repurchase shares, with enough in its buyback plan to soak up 11.2% of outstanding shares.

■ **Ian Sexsmith, PARNASSUS FUND (PARNX)** If you have a private-label credit card from a retailer, you probably have had contact with **ALLIANCE DATA SYSTEMS.** Given the recent trends in retailing, store-based credit cards might not sound appealing. But Alliance Data is also a full-service digital-marketing agency and loyalty-program manager—and that's what will keep the company chugging into the future, Sexsmith thinks.

The stock got folded, spindled and mutilated in the recent downturn—over the past 12 months it has fallen 38.2%, counting dividends, and currently sells at the bargain-basement level of seven times estimated 2019 earnings. "The stock got completely crushed," Sexsmith says. "There's no way that's the right price."

Sexsmith also thinks investors got it wrong with **FEDEX,** whose stock has lost 36.3% over the past 12 months. "FedEx is the best in the world at what it does, and it's gaining market share on UPS," Sexsmith says. Although investors worry about increased competition as Amazon.com rolls out its own delivery service, its nascent enterprise holds less than 3% of FedEx's share of the delivery business, he says.

■ **Jon Christensen, VIRTUS KAR SMALL-CAP GROWTH (PSGAX)** There's nothing Virtus managers like more than great businesses whose stocks get swept up in a market downturn. **BROOKS AUTOMATION,** which tumbled from a high of $40 in August 2018 to a low of $23 in December, "took a pretty good hit," says Christensen.

The firm has two main segments: semiconductors and life sciences. The latter, which focuses on tissue-sample storage and gene sequencing, is the more promising of the two. "Life science is what we're interested in," Christensen says. The segment should eventually overtake the company's semiconductor business, and the firm "will be a health care company, focused on making health care more efficient," he adds. "We like this story a lot for the longer term." ■

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STOCKS

Thanks for the Memories

The bull market was born 10 years ago in March. We highlight some high (and low) points.

BY JOHN WAGGONER

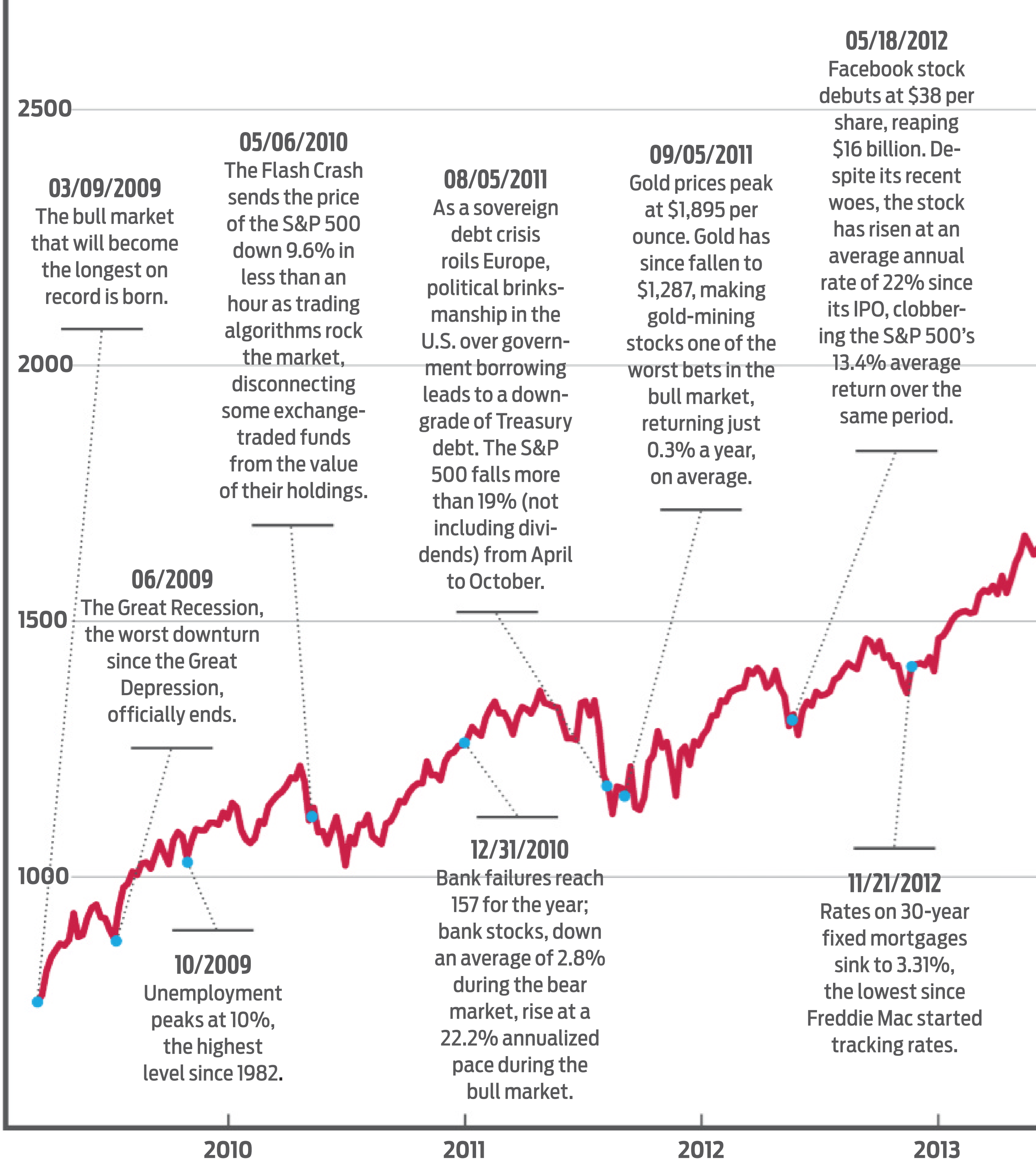
WE KNOW, OF COURSE, WHEN the bull market began: March 9, 2009, when Standard & Poor's 500-stock index closed at 676.53—down 57% from its previous high. The question every investor is asking now is, "When will it end?" It's possible the end has come already and we just don't know it yet.

Stock prices peaked on September 20, 2018, with the S&P 500 at 2930.75, and they have been on a roller coaster since. Should prices fall 20% (the generally accepted definition of a bear market) before surpassing that high, we'll know in retrospect that that date was the end of the longest bull market on record. If the bull is still alive, then March will mark its 10th birthday. Its gift to us: a 17.1% annualized rate of return, including dividends. (Prices and returns in the story are through January 11.)

One thing we've learned is that bull markets often have near-death experiences. Measured by intraday prices, the bull market died in 2011, when the S&P 500 fell 21.6% from May to October of that year. More recently, the S&P 500 fell 20.2% from its intraday high in September to its intraday low in December. In both cases, the index

A Bull Market for the Record Books

THE S&P 500 INDEX FROM MARCH 9, 2009, THROUGH JANUARY 11, 2019



ISTOCKPHOTO.COM

managed to rally at the close, avoiding an official bear market.

Bull markets don't die of old age. They die of fear, and fear has been in no short supply recently. Volatility has soared as investors worry about trade wars, a slowing economy and rising interest rates. The Federal Reserve slashed the federal funds rate to zero during the financial crisis and kept it there until 2015. Such ultralow rates made it cheaper for businesses and individuals to borrow and made bonds less attractive relative to stocks. The Fed has hiked rates in quarter-point increments nine times since then, and those increases have slowed the bull down. The S&P 500 has returned an average of 9.8% a year since the first Fed hike on December 16, 2015.

Sooner or later, the bull market will give way to a bear market. Our advice for long-term investors won't change: Allocate your assets in tune with your stage in life and your goals, invest regularly, and, when the inevitable bear market comes, keep calm and carry on. ■

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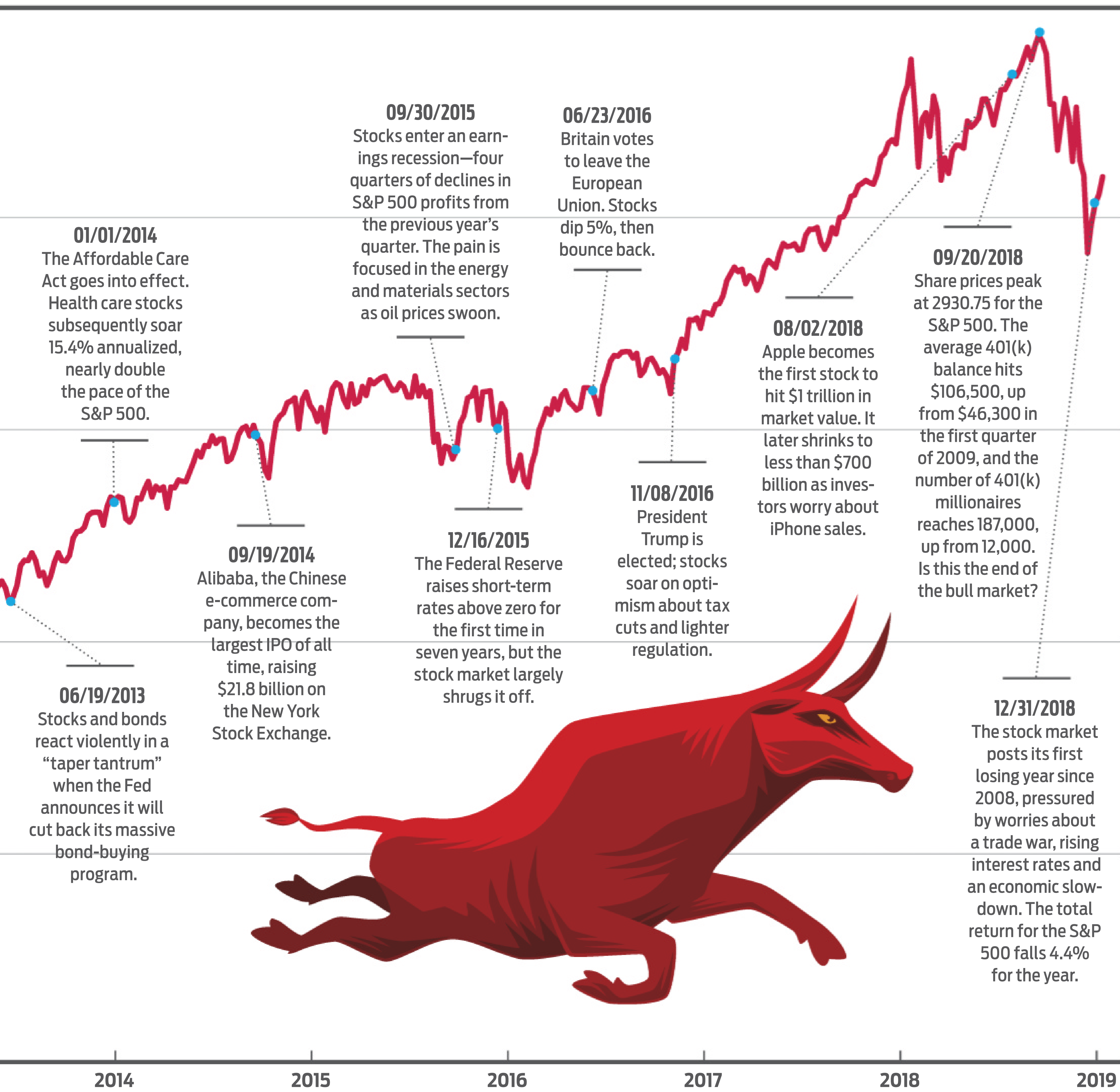

BASICS

The Magic of Moving Averages

This technical indicator can help predict where stocks are headed.

WHEN PRICE CHARTS BEGIN TO look like jagged mountain ranges, it can be hard to map out which way stocks are headed. Enter the simple moving average. The tool is a staple of technical analysis—the practice of determining the direction of stock prices based on statistical patterns. It can sharpen the stock market picture, and, although a moving average won't pinpoint peaks or troughs, it can tell you whether the momentum of a stock or an index is up or down.

A simple moving average is calculated by adding up a stock's or an index's daily closing prices over a given period—the most popular periods are 50 days and 200 days—and dividing by the number of days in that period. A moving average "effectively smooths out the noise of daily price swings, so that investors can see which way things are trending," says William Delwiche, an investment analyst at financial services firm Baird. Moving averages can be superimposed on stock charts on nearly any brokerage website, as well as on free sites, such as Yahoo Finance.

Stock prices that diverge from the prevailing trend of a moving average can be a signal to buy or sell—or at least to become more bullish or bearish. When a stock's price falls below its moving average, it's considered a sign of a weakening trend and indicates heightened risk and uncertainty, says Mark Dodson, research director at investment management firm Cypress Capital. "Adopting a simple rule, such as not buying a stock until its price rises above its 50- or 200-day moving average, can help you avoid riding a company to the bottom," he says.

When a price rises above the moving average, investors should be more risk-tolerant and aggressive, Dodson adds. For example, Facebook's 50-day moving average may be signaling better days ahead for the beleaguered social media stock. The stock has surrendered 18% since falling below its 50-day moving average last July, but it began trading above its average in early January. (Returns and other data in this story are through January 11.)

Crossed signals. More-advanced technical analysis focuses on the interaction between longer- and shorter-term moving averages. During a healthy bull market, for example, both the 50-day moving average and the 200-day moving average would be headed in the same direction, with the 50-day average higher than the 200-day indicator.

But when a 50-day moving average dips below an investment's 200-day average, it results in a scary-sounding red flag: the "death cross." That's what happened with Standard & Poor's 500-stock index in early December. The death cross is a "definite sell signal," says Louise Yamada, author of the newsletter *TechPoints,* as it indicates that a short-term pullback may be devolving into a long-term downturn. The inverse, the "golden cross," is considered a buy signal.

But the death cross is far from being a perfect indicator of prolonged market slides. Although the S&P 500 came perilously close to a bear market in late December, it has since turned around, so it remains to be seen whether the most recent instance was prescient or a false alarm. Though a cross in December 2007 presaged the worst of the '07–'09 bear market, crosses in 2011 and 2015 signaled market slides that never became full-fledged bears.

For fundamentals-based investors—those who rely on data such as corporate earnings and economic growth—poring over stock charts can seem like reading tea leaves. But technical signals can be a valuable tool to get a sense of the market's underlying trends, as long as investors understand that they're only part of a larger toolbox, says Delwiche. "Don't try to turn these signals into foolproof market-timing devices," he says. **RYAN ERMEY**

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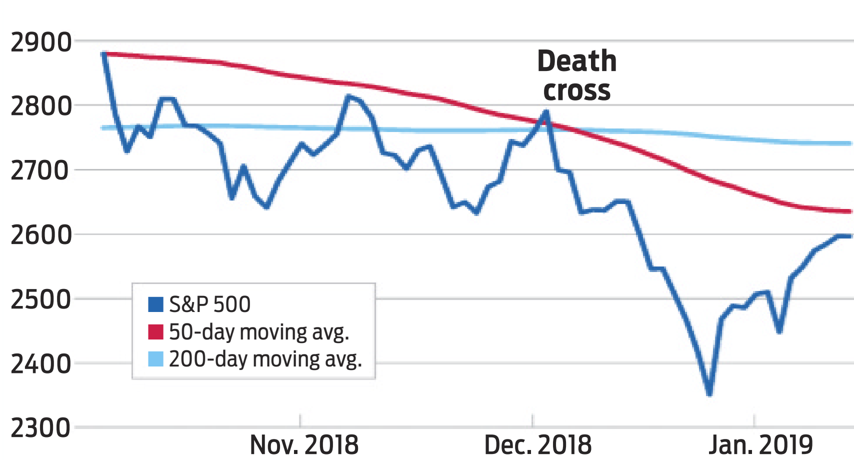
Trend Spotter

FOLLOW THE CHARTS

When the S&P 500's 50-day moving average crossed below its 200-day moving average in December, it signaled a market downdraft.



As of January 11. SOURCE: Yahoo Finance

PRACTICAL INVESTING | Kathy Kristof

What I Learned When Stocks Tanked

Watching your portfolio increase in value is a blast. But watching as stocks decline is far more instructive. The market has recently provided that unpleasant learning experience, and I learned something unexpected.

To back up a minute: In my opinion, you should always have the bulk of your portfolio in index funds. These funds give you diversification without the hassle of managing a substantial portfolio of hand-picked securities.

However, there are also good reasons to invest in individual stocks, as I've done with the Practical Investing portfolio. Those reasons include controlling for a specific objective, such as boosting yield or reducing risk, and learning about how markets and individual stocks work.

One of the goals of Practical Investing is to manage risk, or volatility. The market's precipitous drop between December 3 and December 24 shaved 16.4% from the value of the Vanguard Total Stock Market exchange-traded fund (symbol VTI), the index fund I use as a benchmark. The Practical Investing portfolio dropped just slightly less—16.1%. But given that Practical Investing has a large share of its assets in Apple (AAPL), which declined far more sharply than the market (making it a crazy bargain now, in my opinion), I thought the rest of the portfolio was performing as hoped.

My other portfolio. What surprised me was the performance of a piece of my index fund portfolio, which is made up of funds that mimic big company, midsize company, real estate and international indexes. I also own a so-called smart index fund, Invesco FTSE RAFI US 1000 ETF (PRF). I bought it about 10 years ago because it was supposed to weed out overpriced shares.

You see, both the biggest strength and the biggest weakness of most index funds is that they don't discriminate. They hold every share in the relevant index, generally in direct proportion to each company's market capitalization, which is its share price times shares outstanding. Thus, Microsoft, Apple and Amazon.com, among the most highly valued companies in America, are the top holdings in VTI, making up more than 8% of the portfolio.

I WAS DISAPPOINTED BY THE VOLATILITY OF A SO-CALLED SMART INDEX FUND THAT WAS SUPPOSED TO WEED OUT OVERPRICED SHARES.

Research Affiliates, an investment firm that developed the indexing formula for the Invesco fund, argues that the market is emotional, regularly bidding up the price of popular stocks well past what's reasonable. Because a firm's weight in most indexes is determined solely by market value, you'd expect most market-cap-weighted funds to be loaded with overpriced shares. Research Affiliates instead weights companies by an array of factors, including revenue, book value, cash flow and dividends, raising the odds that the strongest companies will be most prominent in the index, regardless of their stock price.

This approach made a lot of sense to me. I also thought the fund would be less volatile than an ordinary index fund and therefore deliver better long-term results. But when this "smart" fund got hit harder than the market as a whole in December, I took a closer look. As it turns out, my assumptions were wrong. The Invesco fund has mostly kept up with the long-term results of the Vanguard Total Stock Market ETF, but over short periods, it experiences sharper swings.

This may be because the formula discounts "hot" stocks and pushes up some that are out of favor. Meanwhile, Vanguard's Total Stock Market has performed admirably in good times and bad. The differences between the two funds aren't dramatic enough to spur a rash shift in my portfolio. But when I need cash, I just might take it out of the smart fund, which has turned out to be a bit less clever than I'd hoped. ■

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POON WATCHARA-AMPHAIWAN

INCOME INVESTING | Jeffrey R. Kosnett

Buy These Free-Range Bond Funds

Last month I promised to discuss bond funds whose managers aren't hemmed in by allegiance to an index or the ultraconservative viewpoint that Treasury bonds and notes are the center of the universe. As I wrote, I dislike such stolid holdings as total bond market exchange-traded funds and funds designed to replicate the Bloomberg Barclays Aggregate Bond index—which is 42% Treasuries and includes no municipals, high-yield bonds, bank loans or credit card receivables. To me, that approach treats debt instruments primarily as "stuff that isn't stocks" rather than as a vibrant, investable universe of its own.

I grant that Vanguard Total Bond Market ETF (symbol BND) has a practically invisible 0.05% expense ratio and that during periods of unease about lesser-grade corporate bonds, tax-exempts or foreign I.O.U.s, it can beat many of its actively managed and more creative rivals. In the fourth quarter of 2018, BND returned 1.65%, while **DODGE & COX INCOME** (DODIX, YIELD 3.36%) made just 0.27%. But over the years, Dodge & Cox's broad reach and wise decision-making have given patient shareholders a huge advantage over the index trackers, even given its vast size. The firm has succeeded brilliantly with some of the largest mutual funds the world has ever seen.

A COMMON THREAD WITH THESE OFFERINGS IS AN ADVENTUROUS BUT NOT RECKLESS ROSTER OF BOND ISSUERS AND CREDIT RATINGS.

Best bets for 2019. Right now, I'll unambiguously endorse Dodge & Cox Income as a keeper for 2019. I'll say the same about **THORNBURG STRATEGIC INCOME** (TSIIX, 5.45%), and, if you can buy them without a load through your broker or adviser, **PGIM UNCONSTRAINED BOND** (PUCAX, 3.50%) and **PIMCO INCOME** (PONAX, 3.70%). The common thread is short duration (meaning a low sensitivity to interest rates), high yield and an adventurous but not reckless roster of bond issuers and credit ratings. Some of these types of funds suffered at the end of the year, apparently because liquidity in the loan and credit markets tightened up—that's an insider's way of saying funds that had to sell pools of loans, low-rated short-term "junk" bonds and the like did so at terrible prices. But the market has since loosened up, and this cycle has abated.

If you're looking for a satellite fund to add to your core holdings, consider **RIVERNORTH DOUBLELINE STRATEGIC INCOME** (RNDLX, 5.9%). Last year, the fund lost 1.53%. But in the first two weeks of 2019, this combination of Jeffrey Gundlach's mortgage strategies at DoubleLine and RiverNorth's knack for finding undervalued, high-yielding assets, such as deeply discounted closed-end funds, returned a fat 2.25%.

The challenge for bond fund managers in the year ahead is no longer what the Fed *might* do but the consequences of its rate-raising campaign so far: the now-competitive yields on bank deposits and Treasury bills. Jeffery Elswick, director of fixed income for the Frost funds, says clients ask why they should not put all their money in cash—as in greenbacks—or in T-bills. His response is that there are lots of bargains in oversold assets that funds can now scoop up. "The most value is in [short- and intermediate-term] investment-grade corporates and high-yield bonds," he says, along with floating-rate debt. **FROST TOTAL RETURN** (FATRX, 4.79%) has a long history of besting the Bloomberg Barclays Agg index and Vanguard's total bond ETF, with the exception of the last three months of 2018.

I have followed the management teams for most of these funds for decades, and I am enormously confident in all of them. That so many trusted fixed-income funds didn't lose more money in 2018 is a positive. If the Fed does as I expect and either pauses raising rates or hikes them less frequently than it has been, many other active fixed-income funds will turn things around nicely from the trials of 2018. ■

POON WATCHARA-AMPHAIWAN

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THE KIPLINGER ETF 20 UPDATE

We Load Up on Caution

AS THE SPECTER OF AN ECONOMIC slowdown and eventual recession looms, we're making a defensive shift in our Kiplinger ETF 20 roster, swapping VanEck Vectors Fallen Angels High Yield for **ISHARES ULTRA SHORT-TERM BOND ETF**.

Vectors Fallen Angels High Yield holds bonds issued by firms that once fetched investment-grade credit ratings but have since "fallen" to lower-rated "junk" status because of weak balance sheets, poor management or other troubles. (Junk bonds have a greater risk of default compared with investment-grade debt.) In other words, the ETF invests in bonds the credit-rating agencies once regarded as safe but now consider speculative.

In good times, Vectors Fallen Angels High Yield soared. It returned 25.7% in 2016 and 9.4% in 2017, beating most of its peers in both years. But over the past year, the fund has lost 2.7%, trailing 94% of its high-yield ETF peers. Indeed, if the economy has seen its best days (for the current cycle), a move to higher-quality bonds is prudent. "Given where we are in the current market, it's a good idea to build into your bond portfolio some resiliency, more diversification and more high-quality debt," says Jonathan Rather, a member of the fixed-income strategy team at investment firm BlackRock.

That brings us to iShares Ultra Short-Term Bond, an actively managed fund that offers a mix of high-quality bonds with one- to three-year maturities. Roughly 82% of the portfolio—a mix of short-term corporate notes, investment-grade floating-rate bonds and some certificates of deposit—is rated single-A or better. (Investment-grade ratings start at triple-B and go up to triple-A.) What's more, the fund has a low, 0.39-year duration (a measure of interest-rate sensitivity). That means if rates were to rise by one percentage point, the fund's net asset value would fall 0.39% (yields and prices move in opposite directions). The broad bond market index, Bloomberg Barclays U.S. Aggregate Bond, has a duration of nearly six years.

The iShares fund has recently shown how resilient it can be. Over the past 12 months, as the Agg index struggled to stay in positive territory, Ultra Short-Term Bond gained 2.3%. The ETF even beat the 1.6% return of Pimco Enhanced Low Duration Active, a Kip 20 ETF we added last year as a hedge against rising interest rates.

What's the difference between iShares Ultra Short-Term Bond and Pimco Enhanced Low Duration? An investment in either would be considered a defensive move, but the iShares ETF portfolio is an even more cautious play, thanks to its higher-quality portfolio. Ultra Short-Term holds only investment-grade debt; 10% of the Pimco fund is junk-rated or unrated. The trade-off, of course, is yield. The Pimco ETF yields 3.7%; the iShares offering, 3.0%. We think there's room for both in your portfolio. **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	$260	–4.4%	12.7%	9.3%	1.8%	0.04%	F, FT, V
iShares Core S&P Mid-Cap	IJH	176	–8.7	12.3	7.1	1.5	0.07	F, FT, V
Vanguard FTSE A-W Ex-US Sm-Cap	VSS	99	–17.0	7.1	1.7	2.8	0.13	E, FT, V
Vanguard Russell 2000 Value	VTWV	100	–9.6	12.3	5.2	2.3	0.20	FT, V
Vanguard Total Intl Stock	VXUS	49	–14.1	8.3	1.8	3.2	0.11	FT, V
Vanguard Total Stock Market	VTI	133	–4.6	12.9	8.8	2.1	0.04	E, FT, V
Dividend Stock Funds								
Schwab US Dividend Equity	SCHD	$48	–4.9%	12.8%	8.9%	3.4%	0.07%	FT, S, V
Vanguard Dividend Appreciation	VIG	100	–2.5	12.9	8.3	2.2	0.08	E, FT, V
WisdomTree Glbl ex-US Qual Div Gro	DNL	51	–13.2	9.5	2.6	2.2	0.58	E, FT, S, TD, V
Strategic Stock Funds								
Fidelity MSCI Industrials Index	FIDU	$35	–13.0%	12.9%	6.8%	1.9%	0.09%	F, FT, V
Financial Select Sector SPDR	XLF	25	–13.8	12.9	8.5	2.0	0.13	FT, V
Invesco Dynamic Large Cap Value	PWV	34	–11.1	9.6	6.0	2.5	0.56	FT, V
Invesco S&P 500 Eq Wt Health	RYH	186	–0.8	9.8	10.9	0.6	0.40	E, FT, S, V
iShares Edge MSCI USA Moment Fctr	MTUM	103	–3.5	15.2	12.6	1.4	0.15	FT, TD, V
Core Bond Funds								
Pimco Active Bond	BOND	$103	1.1%	2.7%	3.0%	3.6%	0.61%	E, FT, V
SPDR DoubleLine Total Ret Tactical	TOTL	48	1.5	2.4	—	3.5	0.55	FT, V
Opportunistic Bond Funds								
Invesco Senior Loan	BKLN	$23	1.7%	4.5%	2.0%	5.7%	0.65%	FT, S, V
iShares Ultra Short-Term Bond	ICSH	50	2.3	1.7	1.1	3.0	0.08	F, FT, V
Pimco Enhanced Low Duration Active	LDUR	99	1.6	2.1	—	3.7	1.02	E, FT, V
Vanguard Total International Bond	BNDX	54	3.0	3.2	3.8	1.0	0.11	E, FT, V
Indexes								
S&P 500-STOCK INDEX (LARGE U.S. STOCKS)			**–4.3%**	**12.8%**	**9.3%**	**2.1%**		
MSCI EAFE INDEX (FOREIGN STOCKS)			**–13.1**	**6.6**	**1.4**	**3.7**		
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			**0.7**	**1.9**	**2.4**	**3.3**		

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

As of January 11. —Fund not in existence for the entire period. SOURCES: Dow Jones, fund companies, Morningstar, MSCI.

HOME PRICES TAKE A BREATHER

Prices will continue rising, but more slowly, as the housing market regains some balance between buyers and sellers. BY PATRICIA MERTZ ESSWEIN

OVERVALUED

Median home price: $195,000
Typical mortgage payment: $998
Change in sales from last year: –9.9%
Months' supply: 2.9, up from 2.3 in 2017
Days on market: 83 days, up from 77 in 2017

DALLAS

UNDERVALUED

Median home price: $860,000
Typical mortgage payment: $4,131
Change in sales from last year: –11.5%
Months' supply: 2.3, up from 1.5 in 2017
Days on market: 23 days, up from 15 in 2017

SAN FRANCISCO

POTENTIAL SELLERS TAKE NOTE: You may not have the upper hand in negotiating, even with first-time buyers. Witness Robert Ruppelt, 35, and his fiancée, Sara Shultz, 32, who were recently looking to buy a first home in Tampa. The couple made an offer on a four-bedroom, two-bath home that had been listed at $255,000 but was relisted at $248,000 after a price reduction. The couple countered twice with offers of $232,000 and $238,000, both of which were rejected. So Ruppelt and Shultz walked away. // "We wanted to feel we were getting a deal. We knew we'd be fine if we didn't get that one, and we didn't feel a need to rush," says Ruppelt. Ultimately, they settled on a new home that will be completed this summer for about $265,000. It will cost more than the other house, but the couple like that the home will be brand new and they can pick the flooring and paint colors.

Home prices nationwide started to soften in mid 2018. No one expects them to dive; rather, prices will continue rising but more gradually as the housing market regains a bit of balance between buyers and sellers and reverts to long-term trends.

Carl Medford, a real estate agent who works in Oakland and San Jose, Calif., says that when the market began to shift, buyers figured it out immediately and began to sort into two groups: those who think, *Why buy now when we can buy in six months for less?* and those who started throwing lowball offers. But sellers can take months to get the memo. "It rocks their worlds, because we've had a seven-and-a-half-year romp," says Medford.

For the past few years, buyers—benefiting from historically low interest rates—competed for super-slim pickings and bid up prices. Sellers sold quickly for the asking price or more. But in spring 2018, the housing market began to shift in the cities where home prices had grown fastest as houses reached the limits of affordability. Buyers grappled with rising mortgage rates (the 30-year rate rose by about a percentage point in 2018) and wages that hadn't kept up with the growth in home prices. Later in the year, they grew skittish about the economy and volatility in the stock market.

Home prices rose 7.4% overall in 2018, compared with 5.5% in 2017, according to Clear Capital, a provider of real estate data and analysis. Home values in 2018 rose in all but 10 of the 366 cities tracked by Clear Capital. They went up by double-digit percentages in one-sixth of them, led by Boise, Detroit, Las Vegas, San Jose and Scranton–Wilkes Barre. (For data on the 100 largest metro areas tracked by Clear Capital, see the table on page 71.)

Prices rose more slowly in the largest cities and on the coasts, and they rose more quickly in surrounding smaller cities, as well as in the Midwest and Northeast, as the economic recovery went national. Cities with go-go home prices, such as Grand Rapids and Lakeland, Fla., typically have vigorous economies, with an influx of employers and jobs, and amenities that lure millennials.

For 2019, CoreLogic, a financial data and analytics company, forecasts that prices nationally will rise by 4.8%.

HOUSING OUTLOOK

The tax overhaul (see "Our Guide to Saving on Your Taxes," on page 22) will affect buyers and sellers, but the impact is yet to be seen in the housing market. The law's lower tax rates will free up more disposable income, which could increase housing demand. But the tax benefits of homeownership have been diminished—with new caps on the amount of mortgage interest and state and local taxes that taxpayers may deduct—raising the cost of owning compared with renting.

Existing home sales nationally fell by 7%, to 5.32 million homes, in November compared with November 2017, according to the National Association of Realtors. Some cities saw steeper declines. For example, sales fell by 9.1% in Atlanta, 9.6% in Orlando, 13.4% in all of California, 14.7% in Dallas and nearly 20% in Seattle (King County). Lawrence Yun, chief economist for the National Association of Realtors, expects sales to be flat in 2019. "The forecast for home sales nationally in 2019 will be very boring—meaning stable," he says.

Meanwhile, the number of listings for sale is ticking up. But supply is still tight, with more wiggle room at the upper end of the market than the lower end. Sellers still have the edge, but it's taking them longer to close deals. Price cuts have made a comeback, especially for expensive homes. Buyers are finding more to look at and don't feel as desperate. "The housing market has been running at 70 or 80 miles per hour, and we're now just getting back to 55," says Yun.

HOT OR COLD

Is Your Market Fairly Valued?

CoreLogic, a financial data and analytics company, looks at the long-term relationship between home prices and income. It categorizes individual cities as overvalued (home prices are at least 10% above the long-term sustainable level), fairly valued (within 10% of the sustainable value) or undervalued (10% below). Prices shouldn't deviate too much above the long-term sustainable level for the market to remain affordable. When prices do climb too far, "it raises the specter that they will need to adjust or income must rise a lot to restore that balance," says Frank Nothaft, chief economist at CoreLogic.

Surprisingly, San Francisco—notorious for its high-priced, hard-to-get housing—is *under*valued. Nothaft explains that homeowners' incomes in the Bay Area have historically been in line with its cost of living. Still, the city proves unaffordable to workers who don't have cushy incomes, and the Bay Area has a high rate of people leaving for lower-cost areas, such as other states or the Central Valley of California, where home prices rose strongly this past year as a result of the influx.

As of November 2018, more than one-third of the top 100 metro areas (by housing stock) were overvalued, slightly more than one-fourth were undervalued, and the rest were fairly valued. Besides Chicago, large cities that are fairly valued include Atlanta and Boston. Among overvalued cities, Dallas is joined by Orlando and Seattle.

Of the top 50 metro areas, 44% were overvalued. "It's a yellow caution flag," says Nothaft. The last time the percentage of overvalued markets was this high was in 2003, he says. (At the peak of the bubble, about 70% of all metro areas were overvalued.)

Most homeowners today, though, are in a significantly stronger position than they were in 2006. They have much more home equity, and they're carrying much less mortgage debt.

PAGES 66–67: VISIT DALLAS (2); ISTOCKPHOTO.COM (4); MODERN FARMHOUSE BY DEMESNE. PHOTOGRAPHY BY SEAN GALLAGHER.

CHICAGO

This spring will be the best measure of whether the housing market is returning from very tight to normal, Yun says. If homeowners acknowledge that the easy price gains are over and this is a good time to sell, then they'll make the move based on normal factors—such as a growing family or the desire for a better school district, he says.

But potential sellers face a couple of stumbling blocks. First, many will encounter higher mortgage rates on a new loan than they had on their old one (see the mortgage forecast on page 70). Also, older homeowners who want to downsize are competing for the same homes as first-time buyers. Small, moderately priced houses are scarce, which means potential downsizers may end up staying put.

Building new homes is key to breaking the stalemate, but homebuilders have been underbuilding for more than a decade. Builders have been hindered by labor shortages, community opposition to high-density projects and growing costs of land, labor and materials. Plus, they've been building at the mid-to-high end of the market, not at the entry level. But it's not all bad news. Builders are offering incentives to buyers, and they're slowly starting to build smaller, lower-price homes that are more affordable, says Andres Carbacho-Burgess, housing economist at Moody's Analytics.

ADVICE FOR BUYERS AND SELLERS

For the first-time home buyer, it's important to compare the cost of buying the home you want against the cost of renting it, says Frank Nothaft, CoreLogic's chief economist. If it costs more to buy, consider what you'll gain from homeownership that will make the extra amount worthwhile.

The value of your home will probably rise over time. But don't assume that because prices in your area went up 10% in each of the past two years they will do the same in the future. Nor can you assume you'll get a bargain if you wait to buy.

FAIRLY VALUED

Median home price: $215,000

Typical mortgage payment: $1,093

Change in sales from last year: –2.8%

Months' supply: 4.3, up from 4.2 last year

Days on market: 44, down from 47 last year

ISTOCKPHOTO.COM (4)

For would-be sellers who have been sitting on the sidelines while they wait for higher prices, accept that the biggest price gains are likely behind you. Between the third quarter of 2017 and the third quarter of 2018, the average homeowner (with a mortgage) gained $12,400 in equity, the smallest annual increase in two years, says CoreLogic.

Attracting a buyer in today's market requires preparation, pricing and promotion, says California agent Medford. That's because today's younger buyers have a different mind-set. "They shop on their phones, and if they don't like what they see, they won't darken the door of your open house," he says.

Buyers want move-in-ready homes because their tastes have been refined by watching home-improvement shows—but they don't have the do-it-yourself skills. They love beautiful kitchens, upgraded bathrooms, upscale flooring and so on. Also, they can't see past your 1980s Ethan Allen furniture. If you don't spruce up and stage your home, you can't expect to receive a top-dollar offer. Homes that are listed "as is" will most likely receive offers from investors that are 70 or 80 cents on the dollar.

Sellers must also price ahead of the market, meaning that if your market has turned downward, you'll have to list your house below the previous comparable sales. If you don't underprice by a little, you risk your home sitting unsold while buyers ask their agents what's wrong with it.

You should expect guidance about your market from any agent you hire—whether you're a seller or buyer. Market indicators (months' supply, average days on the market, percentage of current listings with price reductions) will help you understand the market and how much leverage you have in the price you set—or offer. (*Months' supply* is how long it would take to sell all homes listed for sale at the current pace of sales. Six months' supply is considered balanced between buyers and sellers. Less than that gives sellers the advantage, and more than that favors buyers.) If you want to see what's happening before you talk with an agent, search for the website of your local association of Realtors and look for a monthly or quarterly report of "market statistics."

To promote your home, an agent should reach buyers where they live, using e-mail, Facebook, Instagram and Twitter. And that means professional photos, drone footage, virtual reality (3D) tours—anything to keep them from "swiping left" and moving on. ■

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MORTGAGE OUTLOOK

Rates in Flux

The 30-year fixed rate steadily rose in 2018, after lingering at about 4% or lower since mid 2011. It hit a national average rate of 4.9% late in the year, according to mortgage giant Freddie Mac. But by early January 2019, after investors fled stocks for bonds, the 30-year fixed rate retreated to 4.5%. The 15-year fixed rate was 4.0%, and the initial fixed rate for a 5/1 hybrid ARM (the rate is fixed for the first five years and adjusts annually after that) was also 4.0%. The 30-year fixed rate on jumbo loans (with a loan amount of $484,350 or more, or in high-cost areas, $726,525 or more) was 4.3%, according to *Mortgage News Daily*'s daily rate survey.

Kiplinger expects rates to bump up to 5% on a 30-year fixed-rate mortgage and 4.4% on a 15-year loan, before settling at 4.8% and 4.2%, respectively, by year-end. Upward pressure on rates will be restrained: The Fed is widely expected to raise short-term rates just twice in 2019.

As always, when you shop for a mortgage, include an independent mortgage broker or two (https://findamortgagebroker.com) along with your bank or credit union and nonbank lenders such as Quicken, Caliber Home Loans or Loan Depot.

Housing Snapshot

Home Prices in 100 Cities

The table at right shows changes in prices for existing homes (single-family houses and condos) for the 100 largest **metro areas** tracked by Clear Capital in 2018. We also show the change in home prices since the peak of the national market in mid 2006. Prices in more than half of the cities in 2018 met or exceeded their previous peak. The table also shows how far prices have risen since the bottom of the market in early 2012. Prices in almost one-fifth of the 100 cities have doubled since then, led by Las Vegas.

The **median home price** (half of all homes sold cost more, and half cost less) as of December 31 was $240,000, an increase of $8,000 in 2018, compared with an increase of $20,000 in 2017. The smaller amount reflects a slowdown in home-price growth, as well as an increase in the number of entry-level homes sold.

The **affordability index** shows the relative affordability of cities (on a scale of 1 to 10; 1 is most affordable and 10 is least affordable). It's based on the percentage of annual income required to buy a median-priced home in each metro area in late 2018. The least affordable city is New York, and the most affordable is Detroit.

Home prices have outpaced wages and rents in about three-fourths of 755 counties analyzed by ATTOM Data Solutions. Renting a three-bedroom home is more affordable than buying a median-priced home in more than half of those markets and in the vast majority of the largest cities. Among cities with more than 1 million people, the only three where it's still more affordable to buy a home than rent are Cleveland, Detroit and Philadelphia.

SOURCES FOR PAGES 66-69: Bankrate.com, Clear Capital, CoreLogic and local associations of Realtors. Monthly mortgage payment (principal, interest, insurance and property tax) assumes a 20% down payment and a 4.5% mortgage rate.

METRO AREA	Median home price	% change 1 year	% change Since peak*	% change Since bottom†	Afford-ability index#
Akron, Ohio	$135,000	11.3%	−9.0%	51.8%	3
Albany, N.Y.	182,000	8.7	5.0	18.5	8
Albuquerque, N.M.	167,000	3.2	7.6	28.8	7
Allentown, Pa.	175,000	11.8	−10.2	32.4	5
Atlanta, Ga.	210,000	8.9	5.8	106.4	4
Augusta, Ga.	155,000	5.7	6.8	25.3	1
Austin, Texas	290,000	2.2	81.1	80.0	9
Bakersfield, Calif.	215,000	6.8	−21.3	81.5	7
Baltimore, Md.	248,000	6.0	−15.8	26.7	5
Baton Rouge, La.	168,000	1.7	31.6	14.4	3
Birmingham, Ala.	153,000	5.0	−8.0	31.1	1
Boise City, Idaho	260,000	15.7	26.1	121.7	8
Boston, Mass.	410,000	7.0	14.3	57.2	9
Bridgeport, Conn.	356,000	2.2	−18.6	24.7	7
Buffalo, N.Y.	141,000	9.3	55.1	46.9	5
Cape Coral, Fla.	209,000	2.3	−21.8	82.1	8
Charleston, S.C.	239,000	5.9	18.9	59.2	8
Charlotte, N.C.	204,000	7.3	29.6	57.8	4
Chattanooga, Tenn.	158,000	6.7	25.8	45.2	4
Chicago, Ill.	215,000	6.1	−18.4	62.8	4
Cincinnati, Ohio	158,000	8.4	5.3	46.3	2
Cleveland, Ohio	128,000	9.9	−18.7	56.1	1
Colorado Springs, Colo.	280,000	8.7	34.7	60.0	8
Columbia, S.C.	139,000	8.7	6.3	27.9	2
Columbus, Ohio	180,000	9.0	17.3	55.0	4
Dallas, Texas	195,000	7.1	62.5	94.2	5
Dayton, Ohio	120,000	7.4	−3.1	49.7	2
Deltona, Fla.	191,000	8.2	−13.4	95.4	7
Denver, Colo.	383,000	7.2	66.3	100.0	9
Des Moines, Iowa	173,000	3.1	16.4	37.0	3
Detroit, Mich.	157,000	12.6	−18.9	136.4	1
Durham, N.C.	220,000	5.5	32.1	38.9	3
El Paso, Texas	124,000	3.9	14.4	20.6	6
Fayetteville, Ark.	180,000	2.9	6.9	41.3	2
Fresno, Calif.	250,000	9.2	−19.6	83.1	9
Grand Rapids, Mich.	182,000	10.5	27.8	104.2	5
Greensboro, N.C.	140,000	7.9	1.9	29.5	3
Greenville, S.C.	170,000	5.5	31.7	47.2	5
Harrisburg, Pa.	163,000	4.7	3.4	16.9	3
Hartford, Conn.	209,000	1.6	−12.8	13.2	5
Honolulu, Hawaii	600,000	6.2	43.3	53.5	10
Houston, Texas	178,000	4.5	37.2	77.1	4
Indianapolis, Ind.	125,000	9.7	−2.7	52.8	2
Jacksonville, Fla.	195,000	8.9	−9.3	74.4	3
Kansas City, Mo.	143,000	9.1	−0.3	66.4	3
Knoxville, Tenn.	162,000	6.8	20.5	36.9	4
Lakeland, Fla.	165,000	12.2	−9.8	82.4	6
Lancaster, Pa.	190,000	6.5	19.7	26.9	7
Las Vegas, Nev.	266,000	14.9	−20.9	137.1	8
Little Rock, Ark.	145,000	3.6	4.7	6.2	2
Los Angeles, Calif.	$634,000	7.1%	6.1%	91.6%	10
Louisville, Ky.	168,000	6.1	13.3	33.3	3
Madison, Wis.	250,000	4.7	25.5	40.7	7
Memphis, Tenn.	142,000	7.4	−7.6	49.1	1
Miami, Fla.	255,000	6.3	−17.1	103.4	8
Milwaukee, Wis.	179,000	8.9	−13.4	46.7	2
Minneapolis–St. Paul, Minn.	252,000	6.3	0.1	67.6	5
Modesto, Calif.	295,000	9.6	−20.8	136.4	9
Nashville, Tenn.	247,000	7.4	54.4	74.8	6
New Haven, Conn.	194,000	5.6	−26.0	26.1	6
New Orleans, La.	184,000	5.5	11.2	48.5	4
New York, N.Y.–N.J.	410,000	9.2	−4.0	38.1	10
North Port–Sarasota, Fla.	234,000	3.6	−16.9	79.8	8
Ogden, Utah	214,000	13.0	73.3	89.3	10
Oklahoma City, Okla.	148,000	3.5	22.2	21.0	1
Omaha, Neb.	180,000	6.3	27.2	40.2	6
Orlando, Fla.	220,000	9.1	−16.3	95.7	7
Oxnard, Calif.	589,000	7.4	−5.8	69.6	10
Palm Bay, Fla.	185,000	10.2	−10.2	104.6	5
Philadelphia, Pa.	205,000	8.0	−5.1	24.9	1
Phoenix, Ariz.	252,000	8.7	−11.0	103.7	7
Pittsburgh, Pa.	138,000	5.9	16.5	32.1	2
Portland, Ore.	370,000	6.3	39.3	86.6	9
Providence, R.I.	262,000	11.7	−14.5	69.5	6
Raleigh, N.C.	246,000	5.4	30.1	38.8	6
Richmond, Va.	226,000	5.8	6.8	42.0	8
Riverside-San Bernardino, Calif.	339,000	7.0	−14.7	100.3	10
Rochester, N.Y.	137,000	6.8	17.4	27.5	4
Sacramento, Calif.	375,000	6.8	−6.8	115.5	8
Salt Lake City, Utah	255,000	9.9	68.5	101.1	9
San Antonio, Texas	153,000	10.6	54.8	69.4	6
San Diego, Calif.	545,000	5.3	4.4	84.1	10
San Francisco, Calif.	860,000	9.3	22.4	127.4	10
San Jose, Calif.	1,100,000	13.8	48.8	130.1	10
Scranton–Wilkes-Barre, Pa.	100,000	13.5	−13.5	24.0	2
Seattle, Wash.	430,000	8.7	47.1	110.7	9
Spokane, Wash.	228,000	12.4	40.9	59.8	7
Springfield, Mass.	200,000	6.4	1.0	41.5	6
St. Louis, Mo.	157,000	4.9	−8.5	38.1	4
Stockton, Calif.	335,000	9.7	−19.4	135.4	10
Syracuse, N.Y.	112,000	6.2	12.6	13.9	1
Tampa, Fla.	189,000	8.9	−10.7	94.9	5
Toledo, Ohio	109,000	8.1	−14.6	52.2	1
Tucson, Ariz.	198,000	8.5	−13.5	59.5	6
Tulsa, Okla.	146,000	2.3	10.9	24.1	3
Virginia Beach, Va.	217,000	4.0	−12.4	21.1	9
Washington, D.C.–No. Va.	375,000	4.3	−13.9	37.5	9
Winston-Salem, N.C.	144,000	5.7	8.1	29.1	2
Worcester, Mass.	241,000	6.1	−9.3	54.7	7
Youngstown, Ohio	77,000	1.8	−22.8	24.5	1

Home prices as of December 31, 2018. Cities represent metropolitan statistical areas as defined by the U.S. Census. *Since May 31, 2006, when the housing market peaked nationally. †Since March 31, 2012, when the housing market hit bottom nationally. #Ranked 1 (most affordable) through 10 (least affordable). SOURCES: Clear Capital, ATTOM Data Solutions, U.S. Census.

TAKEAWAY

BETTING ON MARCH MADNESS

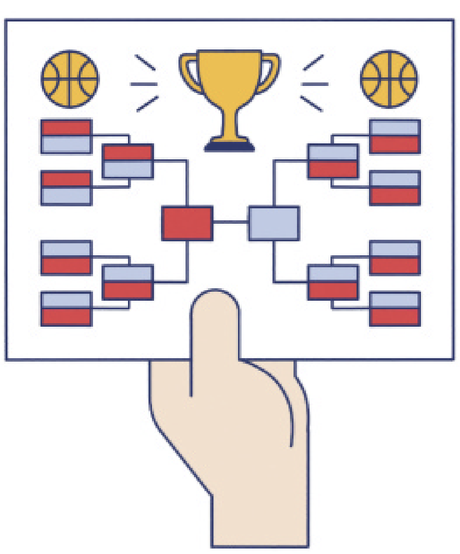
Gambling on college basketball's Big Dance is no longer confined to the office pool. Several states now allow legal sports betting. Before the tournament kicks off in Dayton, here's what you need to know. **BY BRENDAN PEDERSEN**

WHERE

Sports betting is legal in eight states—Arkansas, Delaware, Mississippi, Nevada, New Jersey, Pennsylvania, Rhode Island and West Virginia—plus the District of Columbia. Within the next few months, expect another 20 or so states to consider legalizing sports betting, including California and New York.

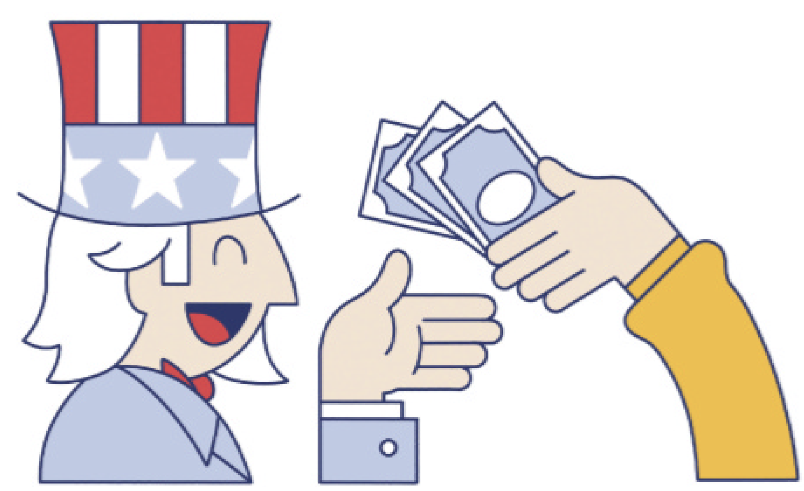
HOW

In short, you need to be there. Most legal sports betting has been limited to brick-and-mortar casinos. States are gradually rolling out mobile apps, but they'll have strict GPS requirements to function.



THE CUT

The IRS considers your gambling spoils taxable income. Some states tax gambling winnings, too. Many casinos will automatically deduct taxes when you cash out. You're allowed to deduct gambling losses from your taxes, but you must itemize, and the deduction can't be larger than your total winnings for a given year.



THE CATCH

Avoid the pitfalls of novice sports bettors. Don't choose a team just because the odds look great, especially if it's a parlay bet that requires several successful outcomes (for example, your team winning and having fewer fouls and more substitutions than its opponent). Avoid going all-in on an underdog after a win that might just be a fluke. (Rest in peace No. 16 UMBC, which pulled off March Madness's biggest upset in history last year against No. 1 Virginia, then lost the next round.)

THE ODDS

The likelihood of picking a perfect bracket is somewhere between one in 2 billion and one in 9.2 *quintillion*. Either way, it has never happened. In 2014, Warren Buffett offered $1 billion to anyone in the world who could nail a perfect bracket. Following some legal hiccups, he has since modified the award to $1 million a year for life and limited it to his 300,000 employees within Berkshire Hathaway. (As usual, the odds favor the house.)

ILLUSTRATIONS BY ANDREW JOYCE


JAMES MOSKITO
FOUNDER, OCEAN SAFARI'S
SAN FRANCISCO, CA
1995
First dive with a great white
2000
Starts his first scuba tour business
2005
Rescues a female humpback whale entangled in fishing nets off the coast of San Francisco
2007
Purchases an annuity
2017
Starts Ocean Safari's, LLC
2030
Target retirement date
PROTECT YOUR INCOME.
RETIRE YOUR RISK.
Even if bumping up against whales, sharks and other dangers of the deep isn't part of your job, you've probably lived with a certain amount of risk. The trick is not to bring risk into your retirement.
Retiring with enough money saved isn't always as easy as it sounds. But adding an annuity to your portfolio can provide a protected income stream for the rest of your life and help keep your money working when you're ready to retire.
Find out how an annuity can provide protected lifetime income at RetireYourRisk.org.
Alliance for Lifetime Income