# Kiplinger's
PERSONAL FINANCE

# There's Still Time to Save on Your Taxes

We help you find breaks and write-offs you may have overlooked. p 42


**PLUS**

**In our latest poll, Americans weigh in on the new tax law.** p 50

MARCH 2020

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KIPLINGER'S PERSONAL FINANCE
FOUNDED 1947

VOL. 74 NO. 3




## AHEAD



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ON THE COVER: Photo-illustration by Richard Borge

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DAN PAGE

# GET MORE ADVICE FROM KIPLINGER

## HOW WILL THE NOVEMBER ELECTIONS AND ANY CHANGES IN THE TAX CODE AFFECT YOU, YOUR INVESTMENTS AND YOUR BUSINESS?

Tax changes can significantly affect the financial decisions you make in 2020 and beyond.

It's critical, therefore, to understand how the leading candidates for President want to revise the tax system.

Don't be caught unaware – or worse, unprepared. Start by downloading your FREE copy of "New Tax Rules for 2020."

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### TAX DEDUCTIONS FOR NON-ITEMIZERS

Millions of taxpayers no longer itemize deductions on their tax return, thanks to the larger standard deduction under the 2017 tax reform law. But you can still claim these breaks.

**kiplinger.com/links/itemize**

### 10 VULNERABLE STATES

See *The Kiplinger Letter*'s list of 10 states that would have to either raise taxes or cut spending by more than 4% in a typical recession.

**kiplinger.com/links/unprepared**

### SOARING STOCKS

Looking for outsize gains in 2020? Analysts are forecasting 20% growth or more from these 11 S&P 500 stocks.

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# Taxes and Retirees

**I was surprised that you did not include California as one of the least-tax-friendly states ("Moving to Another State? Check Out Taxes First," Jan.). The state's top income tax rate is over 13%. Sales taxes in Bay Area counties are around 9%. Gasoline taxes are among the highest in the U.S. Property taxes are around 1.1% of market value, but your usage of a $400,000 price means that, in coastal California, your property would be around 500 square feet. By comparison, property taxes on a 2,200-square-foot home would run about $23,000 in coastal California.**

NAME WITHHELD
BURLINGAME, CALIF.

*Editor's note: Yes, California's top income tax rate is 13.3%, but most people pay at a much lower rate—in fact, with nine brackets starting at 1%, California actually has one of the most progressive tax-rate structures in the nation. Our classifications are based on the overall estimated state and local tax burden for a hypothetical retired couple with $120,000 of income (mostly from Social Security, IRA withdrawals and a pension). For that hypothetical couple, California is in the second tier of states we consider tax-friendly. (Go to kiplinger.com/links/retireetaxmap to see how all 50 states stack up.) Sales and property taxes are based on state-wide averages. Although those taxes may be high in certain parts of the state, they are countered by lower rates in other parts of the state.*

**Investing with Schwab.** It was interesting to read that Charles Schwab wished he could start Schwab all over again with zero commissions ("Ahead," Jan.). In the early 1980s, at the start of my investing journey, I had a brokerage account with Schwab. Inactivity fees continued to eat away at my account balance until I decided to liquidate my account. Clearly the fees were intended for me to trade frequently, generating fees for Schwab's agents. Either Mr. Schwab's view on commissions has changed, or he is just saying that to attract the younger investor.

JAMES FRANCOLINE
EAST GRANBY, CONN.

**Stocks for the next decade.** You recommend Boeing as one of the "10 Stocks for the Next 10 Years" (Jan.). About the two fatal crashes of the 737 Max that took 346 lives, you write, "The snafu has taken a bite out of Boeing's 2019 earnings. But a fix is in the works and it's only a matter of time before the airline receives approval to begin flying again." The glossing over of this *snafu* and recommendation of this as a stock for the next 10 years strictly on the basis of future potential profits is disgusting. People died. Boeing knew it had a problem. I will not be buying Boeing stock.

GREG KAMERER
PORTLAND, ORE.

*Editor's note: Our word choice to describe the challenges at Boeing was completely inappropriate. The only appropriate word is* tragedy. *We apologize.*

## Q READER POLL

**The bull market keeps defying expectations and is approaching its 11th birthday. How do you think stocks will perform this year?**

- **67%** Increase modestly, with single-digit returns
- **10%** Decline modestly
- **9%** Rack up another year of double-digit percentage gains
- **9%** Remain flat
- **5%** Enter a bear market (a 20% decline)

**Carbon offsets.** I'm awash with cynicism about carbon offsets as I observe wealthy "environmental advocates" utilizing carbon offsets to assuage their guilt over their use of luxuries such as private jets ("Squishy Science," Jan.). Key takeaway: If you're rich, you can pollute as much as you desire and still be considered environmentally responsible.

KEN CALHOUN
PORTLAND, ORE.

**Kids and spending.** I had to read "Teaching Kids to Manage Their Money" ("Ahead," Jan.) a few times to make sure I wasn't missing something. The infographic adds up to a whopping 166%. I wish I could invest 166% of my money.

SCOTT MARKHAM
DETROIT

*Editor's note: We should have clarified that the figures add up to more than 100% because respondents were allowed to select all options their kids spend money on.*

**Correction.** In the table of the 10 largest stock mutual funds (Feb.), we transposed the names of Vanguard Total International Stock Index Admiral Shares and Vanguard 500 Index Adm.

## CONTACT US

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

**Mark Solheim**

# Antisocial Security

My most recent birthday was a significant milestone: I turned 62. And as every American within two decades of retirement knows, that's when you can claim Social Security benefits.

Turning 62 prompted me to dig up my latest Social Security benefits estimate to incorporate into my retirement financial plan. I don't intend to claim benefits until at least full retirement age (66 and 6 months for someone born when I was), when I can lock in a monthly benefit about 35% higher than I'd get at my current age. In fact, I may wait until age 70 so I can earn the 8%-a-year bonus for three and a half years. But it's comforting to know that if I need the income sooner, it's there. (We help you sort out the best time to file, among other common conundrums, in our collection of Social Security FAQs starting on page 54.)

**SOCIAL SECURITY WOULD LIKE YOU TO CONDUCT YOUR BUSINESS ONLINE, BUT BE PREPARED TO NAVIGATE SOME SPEED BUMPS.**

In 2011, Social Security stopped mailing annual paper statements to beneficiaries younger than 60, and a few years back I signed up for a mySocialSecurity account at www.ssa.gov/myaccount. But when I went online to retrieve my statement, the password I had jotted down didn't work. And that's when things got discouraging.

**Office, phone or online?** More than 40 million people visit a field office each year, and according to a 2018 report from the Social Security Office of the Inspector General, the average wait time is 25 minutes—but more than 4 million visitors cool their heels for longer than an hour. Trying to get answers on the phone isn't much better. In a recent exchange in a Facebook group for finances, users compared notes, and commiserated, over the frustratingly long times they spent on hold trying to reach customer service. (As a workaround, go to GetHuman.com and search for "Social Security." If you type in your phone number, you will get a call back when the service connects with a live rep.)

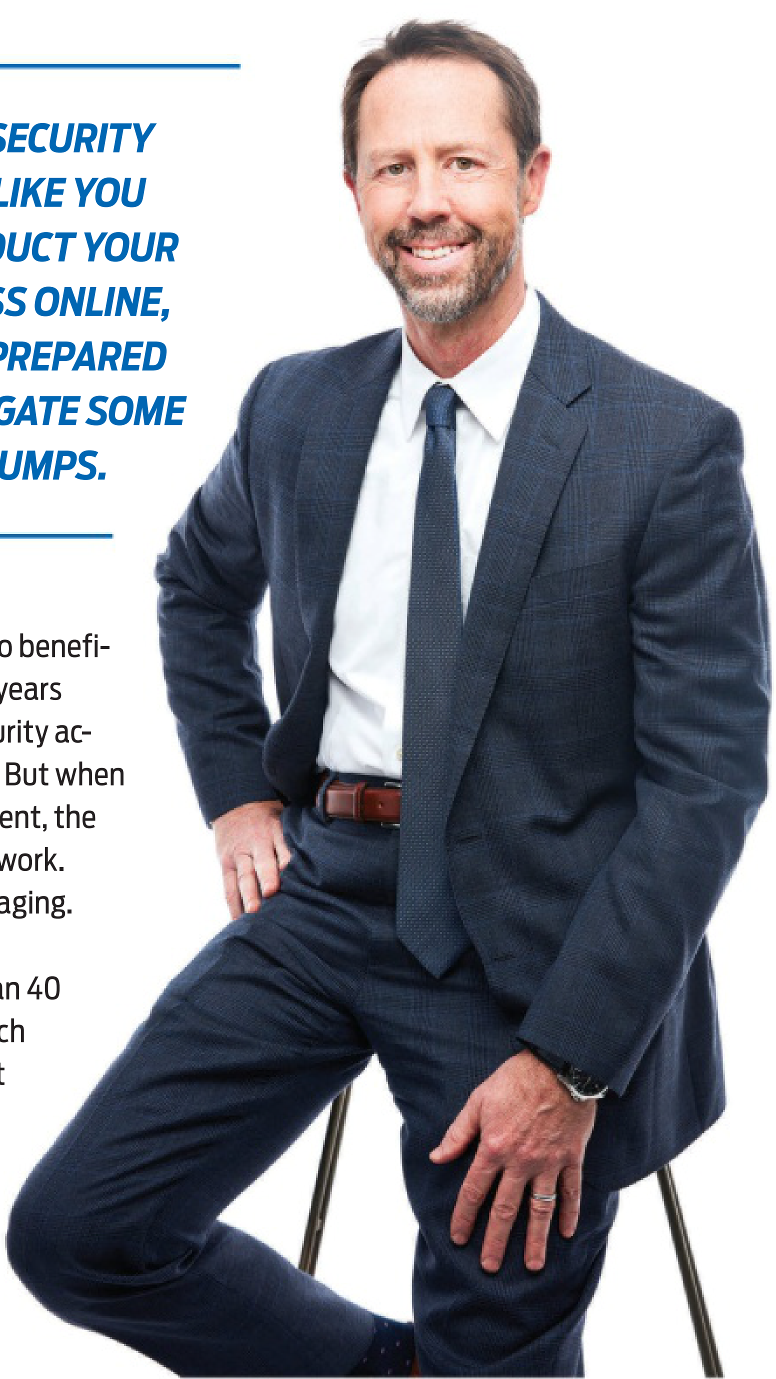
The Social Security Administration would like you to conduct your business online, but be prepared to navigate speed bumps there, too. For example, to create a mySocialSecurity account online, you have to answer questions about your Equifax credit history. That isn't necessarily a test you'll easily ace. I've received questions about who serviced my kids' student loans that I co-signed a decade ago. Plus, if you've frozen your credit files, you'll have to remove the freeze on your Equifax report temporarily. (You won't have to lift the freeze if you go to a Social Security office to open the account.)

Back to my saga: I followed the prompts to reset my password, which led me to the security questions I had set up years before: In what city did you meet your spouse/significant other? I knew the answer was Washington, D.C., but with or without capitals, periods and commas? Next one: What was the model name of your first car? *Hmm.* Did I say Volkswagen (or VW) Super Beetle? Or perhaps superbeetle? None of my answers were correct.

I requested a temporary password, and a letter arrived a couple of weeks later—with one of the characters of the password illegible because of an ink problem. I called customer service, and a pleasant rep named Karen told me there was nothing she could do short of mailing another letter with another temporary password.

For most of the past decade, Congress reduced Social Security's operating budget. But it recently reversed course and increased the agency's funding. Most of the customer service improvements in the works will be for online operations. So whatever you do, don't lose your password.

**Tax help.** Our cover story (see page 42) suggests plenty of ways you can still trim your tax bill. And on page 50 are highlights from a Kiplinger/Barclays Bank poll in which we asked taxpayers about their experience with the new tax law. The results may surprise you. ■



POON WATCHARA-AMPHAIWAN

Mark Solheim

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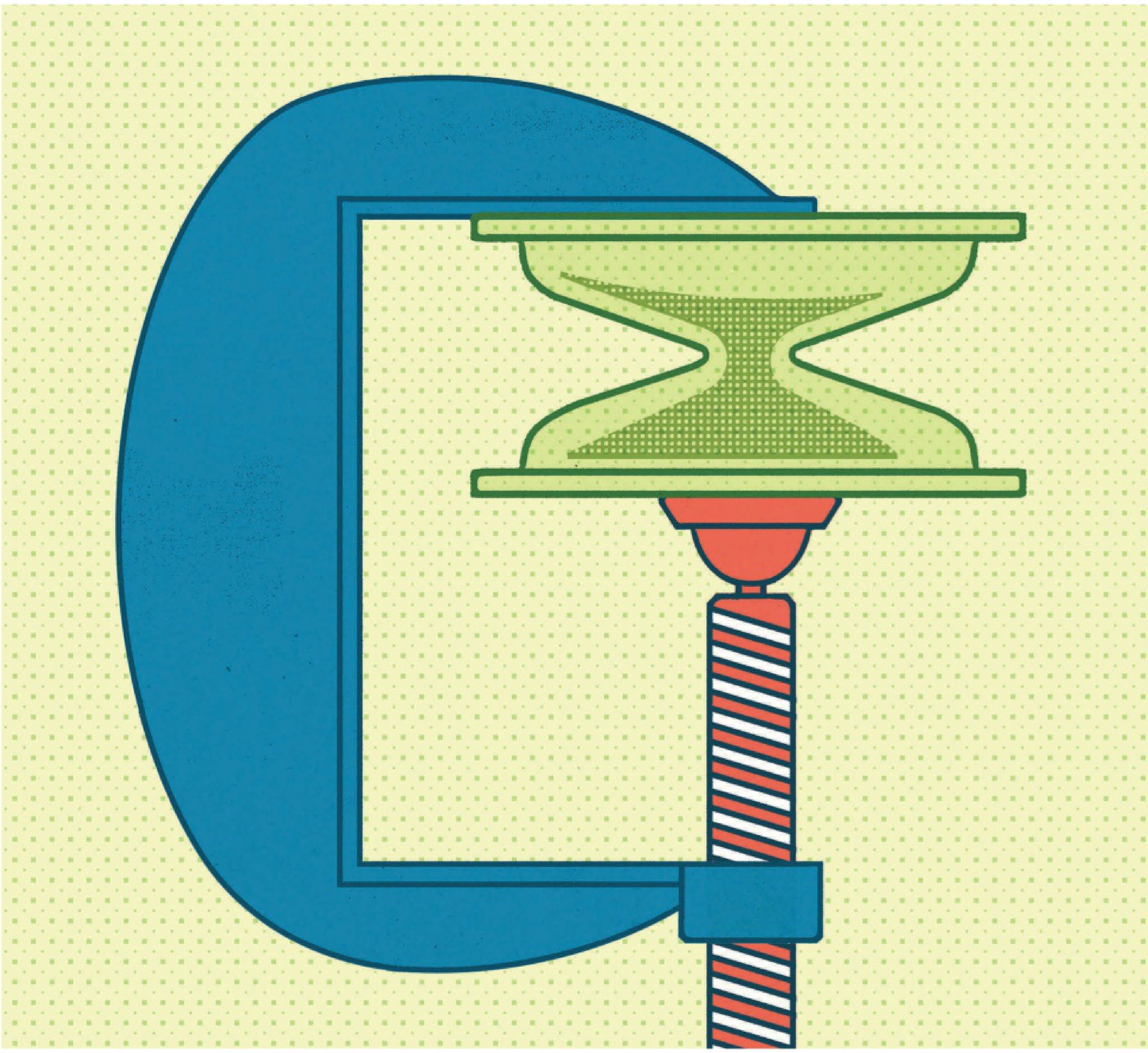
# AHEAD



TOPIC A

## SOME HEIRS COULD FACE A TAX SQUEEZE

IRA owners should review their estate plan as a new law puts an end to stretch IRAs. BY MIRIAM CROSS

**IF YOU PLAN TO LEAVE A HEFTY** part of your IRA to your adult children, you may want to schedule an appointment with your estate-planning attorney and your financial planner. Don't be surprised if they're booked up for a few weeks.

That's because the Setting Every Community Up for Retirement Enhancement (SECURE) Act, signed

ILLUSTRATION BY DAN PAGE

into law at the end of 2019, contains a worrisome provision for diligent savers and their heirs. Starting in 2020, non-spouse heirs who inherit IRAs or 401(k)s lose the ability to "stretch" their required minimum distributions (RMDs) from an inherited account over their own lifetime. Rather, they must drain the account within 10 years after the year of the owner's death. That means losing what could be decades of tax-free growth, forcing larger withdrawals and potentially jacking up the beneficiary's tax bills in what might be his or her prime earning years.

"Congress pulled the rug out from under people who saved for years under tax rules they thought were certain," says Ed Slott, founder of IRAHelp.com. If you inherited an account from someone who died in 2019 (or earlier), you can still stretch payments over your lifetime. Plus, the rules for married couples don't change, so a surviving spouse can roll an inherited IRA into his or her own IRA and postpone required distributions until age 72 (boosting the age when you start RMDs is another provision of the SECURE Act). Minor children—but not grandchildren—can stretch an inherited IRA until they reach the age of majority, or until age 26 if they're still in school. Disabled or chronically ill beneficiaries, or beneficiaries who are not more than 10 years younger than the deceased, are also exempt from the new, stricter rules.

**Make a new plan.** If you planned to leave an IRA to adult children, contact your financial adviser and estate planner to discuss your next steps—but first ask if they are up to date on the new rules. In particular, you'll need to rethink your estate plan if you left your IRA to a trust. If a retirement plan is left to a trust and the language states that the beneficiary gets only the RMD each year, it could result in one giant distribution in the 10th year after the year of death.

You might also want to reconsider your beneficiaries. "In the past, many people left IRAs to their children or grandchildren if their spouse didn't need the money, because their kids had a longer life expectancy," says Jeffrey Levine, of BluePrint Wealth Alliance. You may want to split your IRA among your spouse and children. If you die before your spouse, your children end up with a smaller pot to withdraw over the compressed time line. When your spouse dies and leaves an IRA to your children, they get a new 10-year time line for the rest of the money.

Even better, consider converting your traditional IRA in stages to a Roth. Your heirs will still need to empty the account in 10 years, but they won't be taxed on the money, so they could wait until the 10th year and benefit from nine years of tax-free growth.

**More time for IRAs to grow.** For those approaching retirement, the news is better. Anyone who didn't turn 70½ by the end of 2019 (in other words, those born on or after July 1, 1949) can now delay taking RMDs from 401(k)s and traditional IRAs until the year they turn 72. Those turning 70 early in 2020 get almost two extra years of tax-deferred growth. The higher RMD age also gives you more time to convert more of your IRA money to a Roth before RMDs begin.

**Retirement Savings**

### More Ways the SECURE Act Could Affect You

➜ Starting in 2021, part-time employees will be able to contribute to a 401(k) plan. In the past, employees who worked fewer than 1,000 hours during the year typically weren't allowed to participate in their employer's 401(k) plan.

➜ Parents can take penalty-free withdrawals of up to $5,000 from a 401(k) or IRA after the birth or adoption of a child.

➜ 401(k) plan administrators will be required to provide an annual estimate of how much money plan participants could get each month if they used the account balance to buy an annuity.

➜ Workers can now contribute to a traditional IRA after age 70½ (but they may be better off contributing to a Roth instead).

INVESTING

## LOOK PAST GLOBAL TENSIONS

With tensions again escalating in the Middle East, investors should remain calm and stick to their long-range investing plan. According to investment research firm CFRA, since World War II, the average market loss after military or terrorist shocks has been just 5%, measured by prices for Standard & Poor's 500-stock index. The average time it has taken for stocks to bottom is 22 days, with the market recovering all losses in an average of 47 days. The biggest hit came from the attack on Pearl Harbor in 1941, when stocks lost 19.8% and took 307 days to recover. Iraq's invasion of Kuwait in 1990 triggered a 16.9% drop, recouped in 189 days. More recently, in 2017 North Korean missile threats shaved 1.5% off stock prices; the loss was erased in 36 days.

As for worries about spiking oil prices, these days, with increased U.S. crude production, violence in the Persian Gulf region isn't likely to result in shortages. Nor are oil prices likely to climb high enough to seriously damage the U.S. economy. Expect gold prices to jump when the headlines get scary, but fight the urge to speculate: Gold has rallied sharply already over the past year. In general, a small amount of gold can make sense, via an exchange-traded fund such as iShares Gold Trust (symbol IAU), as a portfolio diversifier, inflation hedge and insurance against catastrophe.
**ANNE KATES SMITH**

INTERVIEW

# ALEXA, PROTECT MY PRIVACY

## Take steps to keep speakers, security cameras and other smart devices safe from hackers who want to steal your data—or worse.

*Theresa Payton is CEO of security consulting company Fortalice Solutions, cofounder of Dark Cubed, a cybersecurity product company, and former chief information officer for the White House.*

**Reports circulated recently that hackers had accessed Ring home security cameras and used them to speak to and taunt their owners. Why are crooks interested in smart devices?** Investigations into these events are ongoing, but we know that a forum was set up online where hackers were livestreaming some of the things that they were doing, ostensibly to show the dangers of these types of devices. It was a violation of privacy and very scary for the victims, but we really haven't seen yet how these devices could be used to conduct economic and political espionage. You may think that your day-to-day life is boring and inconsequential, but you could be connected to somebody hackers consider a valuable target.

Another possibility is that hackers could gather the blueprints necessary to break in and enter a home. Hackers may, for example, grab videos and snapshots of how a home's security alarm is set and accessed. You don't have to put on a tinfoil hat, but you should use these devices with caution.

**Why are these devices vulnerable?** Manufacturers want them to be simple to use. Security safeguards can be cumbersome, and customers may abandon a device if they have to go through 15 steps before they can use it. Plus, the components for that cool device you just got probably came from at least 20 different companies. The challenge is to make a device secure, easy to use and sold for a price customers are willing to pay. The industry is working to improve, but unfortunately, protecting security and privacy rests largely on consumers' shoulders right now.

**What security features should consumers look for?** Ask some questions before you buy. Does the product encrypt your data? If it doesn't, look for another product. Can you change the default password to one that's difficult to guess? I've seen cases in which you can't. Will the device update itself automatically with the latest privacy and security patches, or is it on you to do that? And is two-factor authentication an option? Check out the strength of a company's customer service, too. One way to do that is to look up its social media accounts. Is the company responsive to users who are having problems?

**How can I find products that measure up?** Big-name companies, such as Amazon and Google, usually build those features into their devices. When I'm looking into buying a gadget, I like to check Mozilla's Privacy Not Included website (https://foundation.mozilla.org/en/privacynotincluded). Mozilla puts gadgets through their paces to see how well they protect user privacy.

**What else can consumers do to make these devices more secure?** If you don't know whether your devices are automatically retrieving the latest security patches, the best way to ensure that they get the updates is to turn them off periodically and unplug your router, then plug the router in and turn the devices back on. Pick a regular household activity, such as paying bills, and tack this on to your routine. Also, hide your home Wi-Fi network so that it's invisible to others. If you're not sure how to that, call your internet service provider. If my family is about to discuss something sensitive—say, when we're going to go on a vacation—we unplug our smart speaker from power and the internet.

**LISA GERSTNER**

PHOTOGRAPH BY ANDAR SAWYERS

LET IT RIDE

# INVESTORS PROSPERED BY STAYING THE COURSE

## The long bull market made it easier to avoid buying high and selling low.

**THERE MAY BE NO MORE** common mantra in the investing world than "buy low, sell high." But study after study shows that investors tend to do the opposite—piling into stocks when the market is up and selling when it plummets.

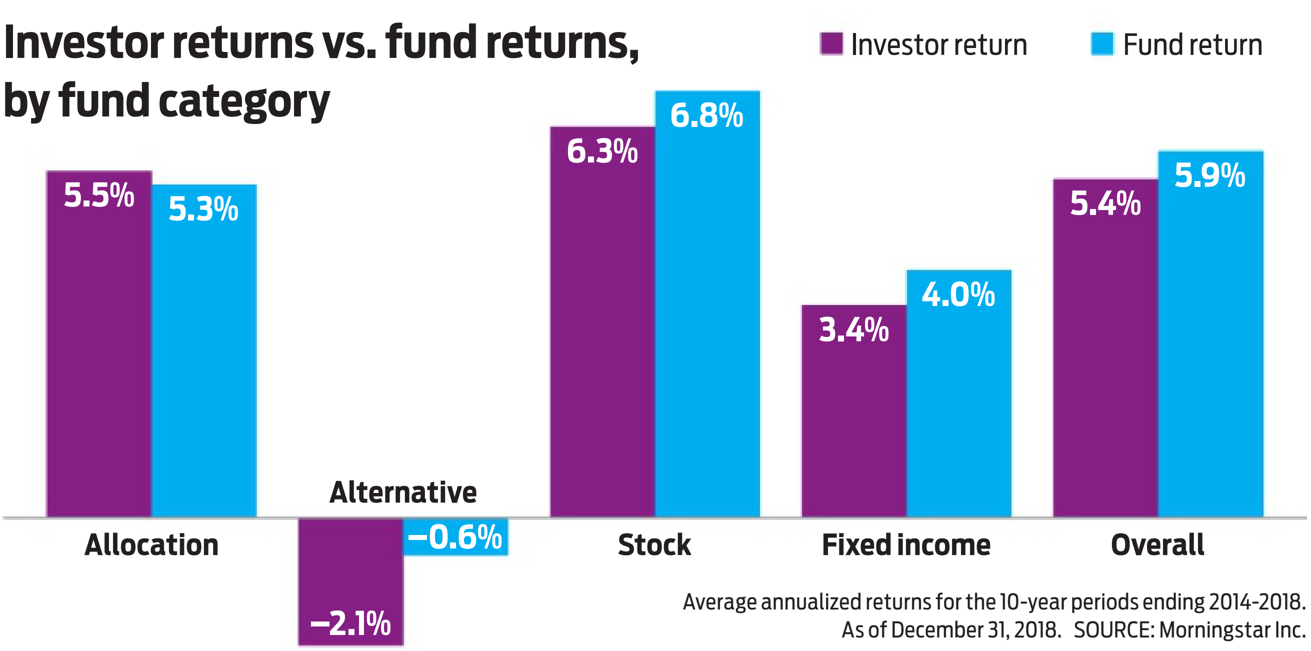
But a new report from investment research firm Morningstar indicates that investors may be improving. The study tracked average annualized returns for mutual funds and exchange-traded funds for 10-year periods that ended in 2014 through 2018. It then compared the results with "investor returns," which take into account when investors put money in and pulled money out. U.S. investor returns trailed fund returns by an annualized 0.45 percentage point, on average—a marked improvement over the 0.57 percentage point gap the researchers found two years earlier.

Investors in "allocation" funds, which hold a mix of stocks and bonds, earned more than the funds themselves, indicating that the majority of investors put more money in the funds when prices were low than when prices were high. Target-date funds, which fall into this group, are likely the main reason for the category's better performance. These funds, which invest in a mix of stocks and bonds that grows more conservative as investors near retirement, are predominantly held in workplace retirement plans, in which investors tend to hold for the long term and invest at regular intervals.

Investors showed the worst timing when they invested in alternative funds—investments designed to provide returns that aren't correlated with stock or bond markets. Those funds didn't benefit from a general upward trend, surrendering an average 0.61% annualized return over the 10-year rolling periods. But investors fared much worse, losing 2.05%.

Investors continue to pile into low-cost, passively managed funds, which should help them over the long term, says Sam Stovall, chief strategist at investment research firm CFRA. But the fact that investors saw worse results investing in volatile funds indicates that the shrinking "gap" could expand when markets overall get choppier. "There's an old saying: Don't confuse brains for a bull market," Stovall says. **RYAN ERMEY**

### Investor returns vs. fund returns, by fund category




Average annualized returns for the 10-year periods ending 2014-2018. As of December 31, 2018. SOURCE: Morningstar Inc.

GRADUATION GIFT

# A NEW WAY TO REPAY COLLEGE LOANS

A little-known provision tucked into a law enacted at the end of 2019 allows parents to use money from their 529 college-savings plans to help their children pay off their student loans.

A provision in the SECURE Act (see "Topic A," on page 9) allows owners of 529 plans to withdraw up to $10,000, tax-free, to make payments on the plan beneficiary's student loans. Account owners can also withdraw up to $10,000 to repay loans for each of the beneficiary's siblings.

In the past, families who had a balance in a child's account had to change the beneficiary or pay taxes and penalties on earnings to withdraw the money.

Before withdrawing 529 money to repay student loans, check with your state's plan. Although many states will likely conform with the federal law, some may require you to return state tax deductions or credits you received if the money is used to repay student loans, says Ross Riskin, an assistant professor of taxation at the American College of Financial Services.

Grandparents who have saved in a separate 529 plan could see benefits, too. Withdrawals from a grandparent-owned 529 plan are reported as untaxed student income, which can reduce a student's financial aid package by up to 50% of the distribution amount. Now, grandparents can also use the money to help their grandchildren repay their loans. **KAITLIN PITSKER**

SCAMWATCH

# WATCH OUT FOR PHONY WILDFIRE CHARITIES

**PHOTOS OF KANGAROOS AND KOALAS** fleeing the massive wildfires in Australia are heartbreaking, and many people want to help. But as is the case with past disasters, the catastrophe has proved irresistible to fraudsters. The Australia Competition and Consumer Commission has warned that scammers are using social media and fake websites to raise funds. Some have impersonated people who have been affected by the wildfires.

The wildfires have also generated thousands of pages on crowdfunding sites. Some are scams, while others are ill-conceived funding efforts, according to the Better Business Bureau's Wise Giving Alliance. Some postings use pictures of victims without their permission. Appeals to help Australian firefighters should also be viewed with caution, the BBB says.

Even if the crowdfunding appeal is legitimate, you generally can't claim a tax deduction for a contribution that goes to an individual or family. Contributions to non-U.S. charities are usually not deductible, either. There are several U.S. charities that are accepting donations to help wildfire victims. Charities accredited by the BBB include the American Red Cross (www.redcross.org), Direct Relief (www.directrelief.org), and the International Fund for Animal Welfare (www.ifaw.org). **SANDRA BLOCK**

# CALENDAR
03/2020

## ▲ SUNDAY, MARCH 8
Daylight Savings time begins in most parts of the U.S. While you'll enjoy an extra hour of daylight, setting your clocks forward means giving up an hour of sleep. Losing even an hour of sleep can impair your concentration, according to the Cleveland Clinic, so this may not be the ideal day to tackle your taxes.

## SUNDAY, MARCH 15
For many holders of health care flexible spending accounts, this is the deadline to spend funds stashed in their accounts for 2019. Any money left after today will be forfeited. Fortunately, you don't need to schedule a last-minute doctor's appointment to use up your funds. Over-the-counter allergy medications, contact lens solution and digital thermometers are eligible FSA expenses. Go to www.fsastore.com for a complete list.

## MONDAY, MARCH 23
A recent report from Freddie Mac found that the cost of child care has increased 49% over the past 25 years. If you're paying for child care, make sure you claim all of the tax breaks available. Turn to page 42 for a rundown of tax credits and deductions for families.

## FRIDAY, MARCH 26
If you turned 70 on or before June 30, 2019, and haven't yet taken a required minimum distribution from your IRA, put in an order with your financial institution. You have until April 1 to take your first RMD and avoid a 50% penalty on the amount you're required to withdraw. Seniors who turned 70 after June 30 can wait until they turn 72 to take their first RMD (see "Topic A," on page 9).

## DEAL OF THE MONTH
**March is a great time to snag discounts and incentives on cruises, according to DealNews.com. Look for weeklong cruises to the Bahamas and the Caribbean for as little as $377 per person.**

ISTOCKPHOTO.COM (2)


Gamboa Rainforest Resort


Panama Canal, Gaillard Cut


Playa Bonita


Panama City


Red-Eyed Tree Frog


Pollera Dancer

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**Day 1 Panama City, Panama**
Welcome to fun, vibrant Panama. Caravan provides airport transfers.

**Day 2 Old Panama, Miraflores**
Visit the ruins of Panama Viejo (Old Panama), the city founded by the Spanish in 1519. Visit the Canal Museum at Miraflores, overlooking the Panama Canal locks. Learn about the Canal construction and operation.

**Day 3 Panama Canal Cruise**
Boat ride on Gatun Lake. See the lush jungle watershed region of the Panama Canal. Cruise through jungle canals and by hilltop islands. Look for monkeys. Enjoy a relaxing two night stay at your resort located in the rainforest.

**Day 4 Panama Canal Cruise**
Today an unforgettable adventure as you cruise more of the Panama Canal. Cruise by the Bridge of the Americas, pass through Miraflores and Pedro Miguel Locks, and cross the Continental Divide. Get up-close views of the canal locks.

**Day 5 Embera Tribe, Playa Bonita**
Cruise on the Chagres River to visit an Embera tribal village. The Embera inhabit the rainforests of Panama. Then, visit a live jungle sloth exhibition. Continue to your beach hotel for a relaxing two night stay on the Pacific Coast.

**Day 6 Playa Bonita**
Entire day at leisure to enjoy your beach resort. Swim in your hotel's infinity pool. Time to beachcomb and enjoy your resort's amenities.

**Day 7 Handicrafts, Museum**
Visit a Kuna tribal marketplace. Shop for colorful mola embroidery and handicrafts. Visit the Museum of Biodiversity, designed by Frank Gehry. Enjoy a farewell dinner.

**Day 8 Panama City**
Tour ends after breakfast at your hotel. Caravan provides airport transfers. Hasta la Vista—Thanks for vacationing with Caravan!

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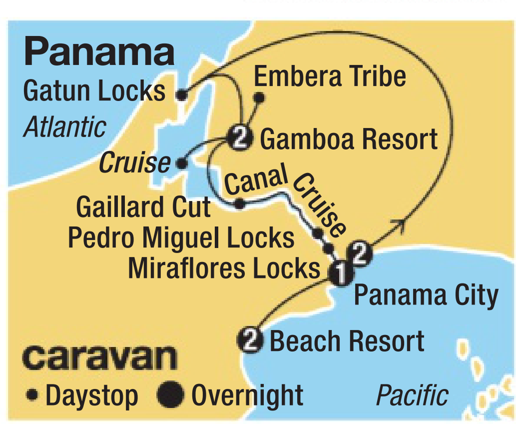


**Hotels** - listed by day
1, 2 **Panama City** Marriott Courtyard
3, 4 **Gamboa** Rainforest Resort
5, 6 **Playa Bonita** Westin Resort
7 **Panama City** InterContinental Miramar

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# BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY.

## HEALTH CARE INFLATION MAY BE SLOWING

Health care spending in 2018 rose at a slower rate than spending in the overall economy, according to a recently released government study. The report found that U.S. health care spending reached $3.6 trillion in 2018, an increase of 4.6%. That was greater than the increase of 4.2% in 2017 but the same rate as in 2016, and it reflects a decade-long trend in which spending on health care as a percentage of the overall economy is growing slower than historical averages.

An Affordable Care Act tax accounts for most of the 2018 increase, according to the study, which was produced by economists at the U.S. Centers for Medicare and Medicaid Services. The tax, an annual fee on all health insurers, is among several taxes imposed under the law to cover the ACA's cost. Congress suspended the tax in 2017 and 2019. Congress also suspended other ACA taxes in the spending bill for 2020.

Other findings:

- Retail drug prices fell by 1% in 2018 for the first time in more than four decades. The report attributes the dip in retail drug prices to an increase in generic medicine use, plus slowing price increases for many brand-name pharmaceuticals.
- The cost per person for private health insurance rose in 2018 by an average of 6.7%, to $6,199, the most rapid increase since 2004. That doesn't include out-of-pocket costs, including deductibles and co-payments.
- The portion of health spending that consumers are directly responsible for—out-of-pocket costs for deductibles, co-payments and other fees—increased by 2.8%, compared with a 2.2% increase in 2017.
- Overall growth in household health care spending, including out-of-pocket expenses, premium payments and contributions to Medicare through payroll taxes, remained unchanged, at 4.4%.
- Health-care expenditures amounted to $11,172 per person.
- About 1 million more people became uninsured in 2018, increasing the total to 30.7 million.

## 5G WIRELESS RAMPS UP

T-Mobile has rolled out 5G wireless service that it says will cover more than 200 million people in more than 5,000 cities and towns across the U.S. That compares with the currently limited 5G coverage of Verizon and AT&T. But there's a catch: T-Mobile's offering is "low band" 5G, which won't be as fast as Verizon's or AT&T's speediest offerings.

To take advantage of 5G, you need to upgrade your phone. T-Mobile offers two phones—the OnePlus 7T Pro 5G McLaren ($900) and the Samsung Galaxy Note10+ 5G ($1,300)—that will tap into its low-band 5G network where it's available and rely on 4G coverage everywhere else. (Apple doesn't yet offer an iPhone that can tap 5G speeds.) T-Mobile is dangling incentives to lure customers to its 5G network.

**46%**

Percentage of those who earn more than $80,000 per year who are carrying credit card debt, according to a recent Bankrate study. People earning $40,000 or less, had the least amount of debt.

GETTYIMAGES (2)


## HOME PRICES HEAD HIGHER

Low mortgage rates and a healthy job market are feeding a slow but steady gain in home sales and prices. The National Association of Realtors reports that existing-home sales were up 2.7% in November from a year earlier, the fifth straight month of year-over-year gains.

Millennials buying their first home accounted for nearly half of mortgage originations for home purchases, according to data from Realtor.com. But the market for starter homes remains tight, contributing to a rise in prices. The median sales price for an existing home rose to $271,300 in November, up 5.4% over the past year.

## A BANG-UP END TO THE DECADE

| Market | 2019 return | 10-year annualized return | Highest return of decade |
|---|---|---|---|
| **U.S. stocks** (including dividends) | 31.5% | 13.6% | 31.5% (2019) |
| **Foreign stocks** (developed mkts) | 22.0 | 5.5 | 25.0 (2017) |
| **Emerging-markets stocks** | 18.4 | 3.7 | 37.3 (2017) |
| **Bonds** | 8.7 | 3.7 | 8.7 (2019) |
| **Gold** | 18.4 | 3.4 | 29.2 (2010) |
| **Bitcoin** | 274.0 | 404.3† | 1,271.4 (2017) |

Benchmarks: S&P 500, MSCI EAFE, MSCI Emerging Markets, Bloomberg Barclays U.S. Aggregrate Bond index, PM London Fix. The 2019 and 10-year annualized returns are as of December 31, 2019. †Annualized return as of October 5, 2019. SOURCES: Coinbase, Morningstar Inc., Kitco.com.

From *The Kiplinger Letter*

## STATE PENSION FUNDS GET HEALTHIER

State pensions have seen overall improvement, but there are some notable laggards. Strong investment returns have boosted the median funding ratio...the fraction of what is needed now in order to deliver promised future benefits... to 72.5%. But four state plans (New Jersey, Rhode Island, Pennsylvania and Hawaii) are below 60%. Three (Kentucky, Illinois and Connecticut) are less than 40%.

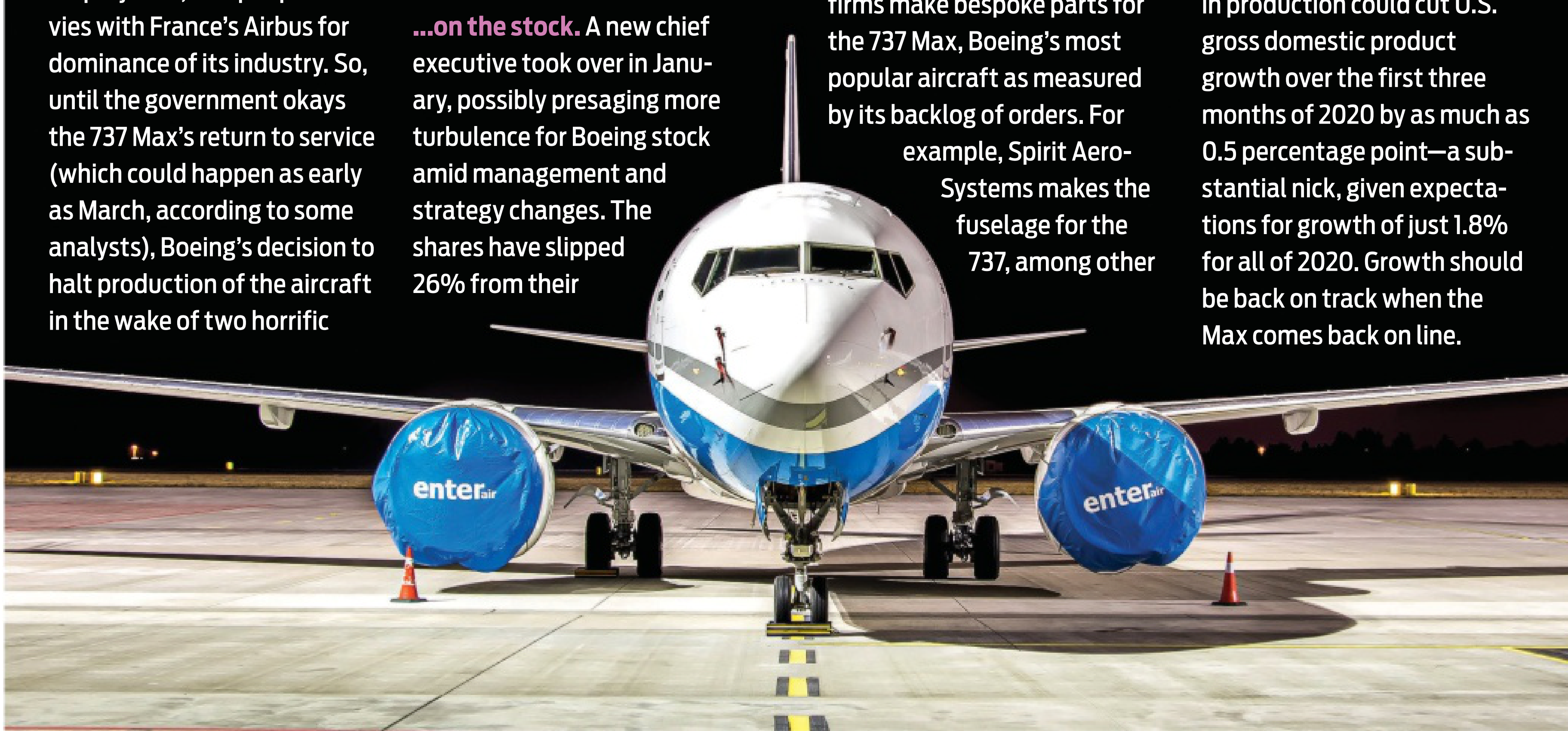
## BOEING'S LONG SHADOW

Aerospace giant Boeing has a market value of $186 billion, employs 153,000 people and vies with France's Airbus for dominance of its industry. So, until the government okays the 737 Max's return to service (which could happen as early as March, according to some analysts), Boeing's decision to halt production of the aircraft in the wake of two horrific crashes will have far-reaching financial ripple effects ...

**...on the stock.** A new chief executive took over in January, possibly presaging more turbulence for Boeing stock amid management and strategy changes. The shares have slipped 26% from their March 2019 high. Cannacord Genuity analyst Ken Herbert rates the stock a "hold."

**... on suppliers.** Dozens of firms make bespoke parts for the 737 Max, Boeing's most popular aircraft as measured by its backlog of orders. For example, Spirit AeroSystems makes the fuselage for the 737, among other parts, and more than half of the company's annual revenue comes from Boeing.

**... on the economy.** The pause in production could cut U.S. gross domestic product growth over the first three months of 2020 by as much as 0.5 percentage point—a substantial nick, given expectations for growth of just 1.8% for all of 2020. Growth should be back on track when the Max comes back on line.



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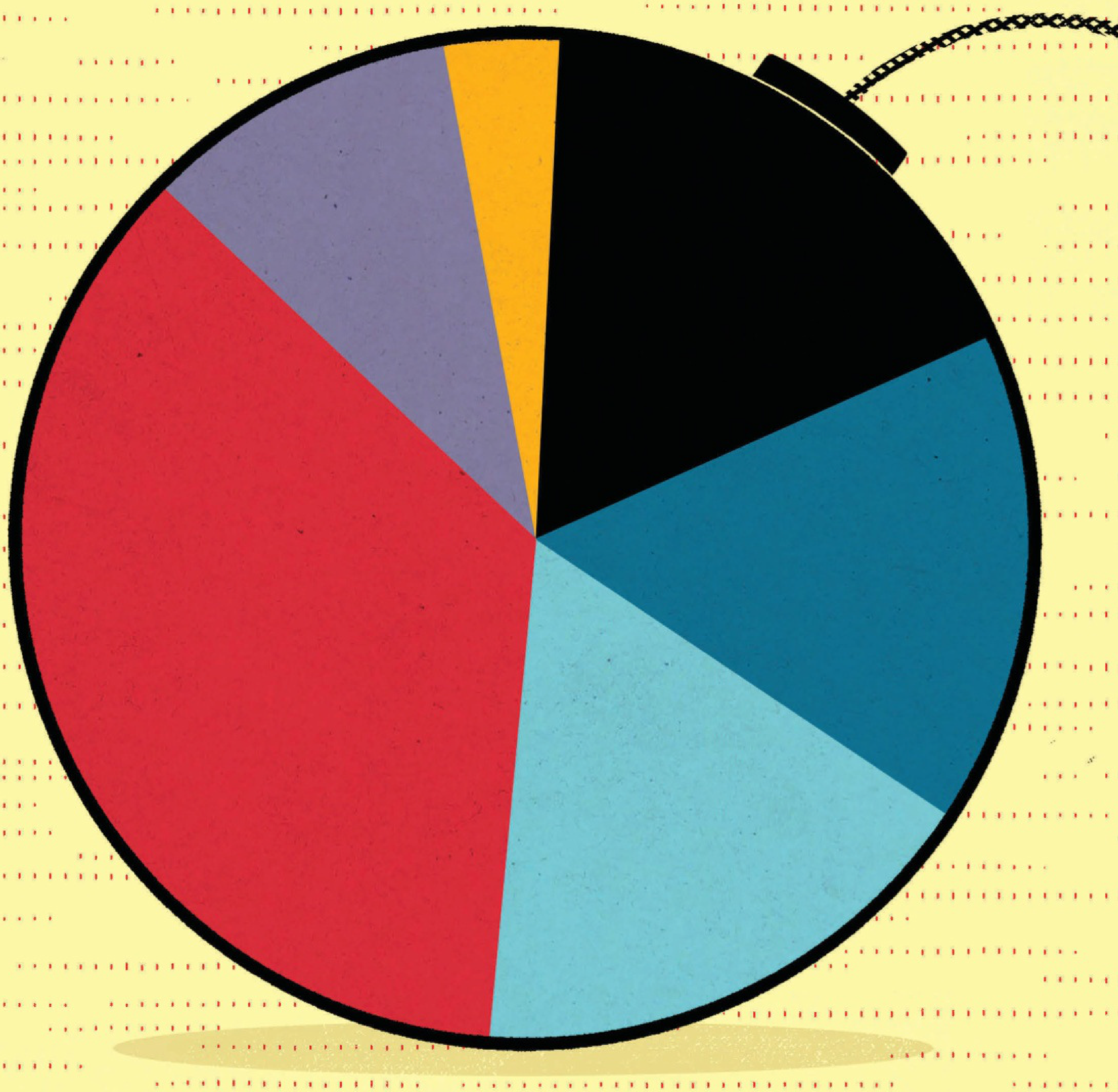
# INVESTING



# IS A DEBT BOMB TICKING?

**Corporations have amassed a ton of debt. Protect yourself with these funds and ETFs.**

**BY NELLIE S. HUANG**

ILLUSTRATION BY DAN PAGE

**IF DEBT LIGHTS THE FIRE** of every financial crisis, as author Andrew Ross Sorkin once observed, then we may have a problem brewing. Companies have loaded up on a record amount of debt in recent years, thanks in part to rock-bottom interest rates. Most market watchers don't expect the buildup to trigger an imminent credit disaster. Still, investors should be aware of risks that are building and choose carefully as they invest in bonds or stocks. // Years of low interest rates have fueled a decade-long economic expansion and a bull market in stocks and bonds, and such ideal economic and market conditions have been perfect for borrowing. The value of outstanding IOUs issued to investors and other institutions by large, nonfinancial U.S. companies—$10 trillion, reports the St. Louis Federal Reserve—has nearly doubled over the past decade. That's equivalent to half the country's gross domestic product.

Many firms have used the borrowed money to fund acquisitions. For example, CVS Health borrowed $45 billion to acquire Aetna in 2018. Others have issued debt to fund share buybacks—including Apple, which launched a massive bond offering in 2013. Still others have borrowed to make or bolster dividend payments.

But there's a fine line between smart borrowing and overextension, and some market watchers see worrisome signs. The quality of the debt is one issue. Half of all high-quality corporate debt is rated triple-B, the lowest rung of investment-grade credit. When triple-B-rated companies slip up, they risk a rating downgrade to "junk" status, which can stoke investor fears and send the bond market reeling.

Another worry is that yield-starved investors have become complacent about taking on greater risk to eke out higher fixed-income returns, only to be unpleasantly reminded of the consequences when the economy sours. Finally, some analysts fear that firms borrowing to fund share buybacks or dividends instead of reinvesting in the company are putting short-term interests ahead of long-term growth. "Debt isn't necessarily bad," says Capital Group investment specialist Dale Hanks. "It's about how it's utilized."

Risks of a credit crunch remain muted as long as interest rates stay low and the economy hums along. But if rates rise or business slows, firms with hefty debts may have to sell assets or cut dividends to cover their obligations. If the country falls into a recession, some firms may default, which can send financial markets plunging.

Fortunately, interest rates should hold relatively steady for now. The Federal Reserve said in late 2019 that it does not plan to raise rates until after a significant and sustained uptick in inflation. Says Capital Group's fixed-income specialist Margaret Steinbach, "Rates will be lower for longer and longer and longer." Nonetheless, investors wary about the risks embedded in the corporate-debt bender can shore up their portfolios with that in mind. (Returns, prices and other data are through December 31.)

## BOND INVESTORS

**Build a core.** A well-balanced portfolio needs a core bond fund for ballast. A true core bond fund holds mostly A-rated debt and no more than 5% of assets in high-yield bonds. The managers at **BAIRD AGGREGATE BOND FUND** (SYMBOL BAGSX, EXPENSE RATIO 0.55%) buy only investment-grade bonds. More than half of the fund's assets sit in triple-A-rated debt, including Treasuries and government-backed mortgage securities. The rest of the fund's holdings include high-quality corporate debt (40%) and other asset-backed securities (8%). The fund yields 2.09%, which may not impress income seekers, but its main role is to hold up in hard times. Consider it an insurance policy against a recession.

**Beef up your safe havens with other government bonds.** Agency mortgage-backed securities come with the same guarantee of Treasuries and a touch more yield. Stable interest rates should keep prepayments—a risk with mortgage debt—at bay. **VANGUARD MORTGAGE-BACKED SECURITIES** comes in an exchange-traded-fund share class (VMBS, 0.05%, SHARE PRICE $53) and a mutual fund class (VMBSX, 0.07%). Both hold only triple-A-rated mortgage bonds. The ETF yields 2.55%, and the mutual fund yields 2.53%, a tad more than the typical core bond fund.

**Move up in corporate quality.** Everything worked in fixed-income markets last year. Take some profits in junkier debt and bolster your exposure to higher-quality bonds. **ISHARES AAA - A RATED CORPORATE BOND ETF** (QLTA, 0.15%, $55) offers exposure to the highest-rated corporate IOUs and yields 2.42%.

**Try emerging-markets bonds for extra income.** This isn't the risky sector it once was. Today, more than half of the emerging-markets bond universe is investment grade. The dollar isn't as strong as it was in late 2017 and early 2018. In fact, it was relatively stable in 2019 against a basket of foreign currencies. And many analysts expect it to weaken this year. "Dollar weakness is positive for EM assets because governments and companies have a lot of dollar-denominated debt. When the dollar rises, it's like a tax," says Alec Young, FTSE Russell's managing director of global markets research. And when it weakens, it's like a rebate.

Be prepared for volatility. The ride with emerging-markets bonds is twice as bumpy as the typical core bond fund. But securities in this sector, on average, yield twice as much. **ISHARES J.P. MORGAN USD EMERGING MARKETS BOND ETF** (EMB, 0.39%, $115) yields 4.31%. This ETF sidesteps the impact of currency swings by buying dollar-denominated bonds. For a boost in income, you could pair your dollar-based ETF with the version that invests in IOUs in local currencies, **ISHARES J.P. MORGAN EM LOCAL CURRENCY BOND ETF** (LEMB, 0.30%, $44), which yields 5.50%.

## STOCK INVESTORS

**See what supports your dividends.** Avoid companies with a lot of debt. Professional stock (and bond) pickers scrutinize balance sheets and income statements to get a sense of whether a company has the wherewithal to pay its debts—because if it comes to a choice between making a debt payment or paying a dividend, the former will always win. "Understanding what a company intends to do with its debt and how it intends to pay it down is paramount to what we do," says Capital Group's David Bradin, an investment specialist at American Funds.


Retirement Plan Fee Analysis
FEE ANALYSIS: YOUR 401K PLAN
YOUR ACCOUNT BALANCE: $83,665
You are paying $1,094 in annual fees in your retirement plan. Learn more
You may be able to grow your investments faster by reducing your fees when you roll over your old plan to an IRA from TD Ameritrade.
Do Nothing $271,601
Rollover IRA with Similar funds $335,935
Rollover IRA with Lower cost funds $376,002
Compare the impact of fees
Similar portfolio
Lower cost portfolio
We compared the existing holdings in your plan to the funds available in an IRA from TD Ameritrade. Here is the most similar match:
YOUR EXISTING PLAN
ROLLOVER IRA
$271,601
Estimated balance in 30 years
$335,935
Estimated balance in 30 years
Additional growth potential from fee savings in an IRA
$64,334
Estimated over 30 years

Consider two automakers, Ford Motor and Daimler AG. Both offer similar dividend yields: Ford, 6.37%; Daimler, 6.46%. But Ford has a triple-B credit rating and Daimler is rated single-A. Moreover, Daimler generates enough in annual operating income to pay its yearly interest expenses 13 times over. Ford throws off enough to pay three years' worth of interest payments. "Investors can jump to a conclusion that two companies in a similar industry with similar yields are the same," says Capital Group's Hanks. "But one has more risk than the other, and its dividend could get cut. You might want to ask yourself, *Am I getting paid for the risk I'm taking?*"

**Choose a dividend pro.** At **VANGUARD EQUITY-INCOME (VEIPX, 0.27%)**, two firms run the fund but work separately, homing in on large, high-quality firms with above-average yields. The fund yields 2.70%. **SCHWAB U.S. DIVIDEND EQUITY ETF (SCHD, 0.06%, $58)** isn't actively managed, but the companies in the index it tracks must meet several criteria. Firms must have paid dividends for at least 10 consecutive years, for starters. And only firms with the best relative financial strength, marked by their ratio of cash flow to total debt and their return on equity (a profitability measure), make the final cut. The ETF yields 3.11%. **VANGUARD DIVIDEND GROWTH (VDIGX, 0.22%)** yields just 1.84%, but manager Donald Kilbride focuses on cash-rich, low-debt firms that can hike dividends over time. Morningstar analyst Alec Lucas says the fund is "a standout when markets tremble."

**Add a dash of high quality.** A strong balance sheet—one that's low in debt—is a key characteristic of a high-quality company. It's right up there with smart executives at the helm and a solid business niche in its industry.

Double down on high quality with **ISHARES EDGE MSCI USA QUALITY FACTOR ETF (QUAL, 0.15%, $101)**. The ETF invests in a diversified group of 125 large and midsize firms that have low debt, stable annual earnings growth and high return on equity. Johnson & Johnson, Pepsico and Facebook are among its top holdings. BlackRock has an international-stock version of this ETF, **ISHARES EDGE MSCI INTERNATIONAL QUALITY FACTOR ETF (IQLT, 0.30%, $32)**, that held up better than the MSCI ACWI ex USA foreign-stock index during the 2018 correction. The ETF yields 2.31%, and top holdings include Nestlé and drug company Roche Holding.

**Go abroad.** Companies in the rest of the world are less indebted, on average, than firms in the U.S. Even better, if you focus on the best players overseas, you might beat the U.S. stock market, says Capital Group's Robert Lovelace. "A majority of the best-performing stocks over the past 10 years were companies based outside the U.S."

At **FIDELITY INTERNATIONAL GROWTH (FIGFX, 0.99%)**, manager Jed Weiss focuses on firms with a competitive edge. If a company can raise prices for its goods without a drop-off in demand, Weiss is happy. That's a trait that can buoy a business in rough times.

**WISDOMTREE GLOBAL EX-U.S. QUALITY DIVIDEND GROWTH (DNL, 0.58%, $66)** invests in 300 dividend-paying companies in developed and emerging foreign countries. The fund yields 2.6%. The firms must meet certain quality and growth bars, including return on equity and return on assets (another profitability measure), to be included in the fund. As a result, the portfolio has an average debt-to-capital ratio of 29—less than the 34 ratio of the MSCI ACWI ex USA index (and 44 for the S&P 500). The U.K., Japan and Denmark are its biggest country bets. ■

YOU CAN CONTACT THE AUTHOR AT NELLIE_HUANG@KIPLINGER.COM.

Bomb Shelters

## HUNKER DOWN WITH THESE FUNDS

A debt crisis isn't imminent yet, but income investors can shore up their portfolio with a shift to funds that favor high-quality bonds and stocks.

| BOND FUNDS | Symbol | Expense ratio | Yield | 1-year return |
|---|---|---|---|---|
| Baird Aggregate Bond Inv | BAGSX | 0.55% | 2.1% | 9.2% |
| iShares Aaa - A Rated Corporate Bond ETF | QLTA | 0.15 | 2.4 | 12.5 |
| iShares J.P. Morgan EM Local Currency Bd ETF | LEMB | 0.30 | 5.5 | 6.7 |
| iShares J.P. Morgan USD Em Mkts Bd ETF | EMB | 0.39 | 4.3 | 15.6 |
| Vanguard Mortgage-Backed Secs ETF | VMBS | 0.05 | 2.6 | 6.2 |
| Vanguard Mortgage-Backed Secs Idx Adm | VMBSX | 0.07 | 2.5 | 6.2 |
| STOCK FUNDS | | | | |
| Fidelity International Growth | FIGFX | 0.99% | N/A | 34.0% |
| iShares Edge MSCI Intl Quality Factor ETF | IQLT | 0.30 | 2.3% | 27.8 |
| iShares Edge MSCI USA Quality Factor ETF | QUAL | 0.15 | 1.7 | 34.1 |
| Schwab U.S. Dividend Equity ETF | SCHD | 0.06 | 3.1 | 27.3 |
| Vanguard Dividend Growth Inv | VDIGX | 0.22 | 1.8 | 31.0 |
| Vanguard Equity-Income Inv | VEIPX | 0.27 | 2.7 | 25.2 |
| WisdomTree Global ex-US Qual Div Gr ETF | DNL | 0.58 | 2.6 | 35.4 |
| INDEXES | | | | |
| S&P 500-STOCK INDEX | | | **1.8%** | **31.5%** |
| MSCI ACWI EX USA INDEX | | | **3.0** | **21.5** |
| BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX | | | **2.3** | **8.7** |

As of December 31, 2019. N/A=not available. SOURCE: Morningstar, fund companies.

THE KIPLINGER ETF 20 UPDATE

# Health Care Finishes Strong

**OVER THE PAST 12 MONTHS, INVESCO** S&P 500 Equal Weight Health Care ETF gained 25.3%. That lags the broad U.S. stock market, as measured by Standard & Poor's 500-stock index, which climbed a whopping 31.5%. But it was a much better result for the health fund than we had expected.

The upcoming presidential election has been a source of angst for health care investors. The sector is a magnet for hot-button policy issues and often comes under fire in election years. This time, rhetoric about a Medicare-for-all government-sponsored health plan and legal wrangling about the Affordable Care Act proved to be a double whammy. Over the first nine months of 2019, health care was the worst-performing sector in the S&P 500, up just 5.6%. (Even beleaguered energy stocks fared better.) The S&P 500 rose 20.6% over the same stretch.

Things turned around, however, after Senator Elizabeth Warren unveiled a $20.5 trillion health care plan in November that was "more moderate than the market expected," says John Frank, an equity strategist at Invesco. In short, Warren said she would tax businesses and the wealthy to pay for the plan, but not the middle class.

Health care stocks rallied on the news, and over the last three months of the year, the worst-performing sector suddenly became one of S&P 500's best, with a 14.4% gain—just behind the information technology sector. Stock in UnitedHealth Group, for instance, jumped 36% in the last quarter of 2019; shares in insurer Centene soared 45%; Humana climbed 44%. All three are holdings in the Invesco health care ETF.

**A balanced approach.** As the fund's name suggests, the 61 stocks in the portfolio get an equal weighting of about 1.6% of the fund's assets. The process buffers the fund in two ways, says Frank. First, the risk is evenly distributed. Consider: In a market-value-weighted S&P 500 health care index fund, the top 10 holdings would make up more than half the fund's assets. By contrast, at Invesco S&P 500 Equal Weight Health Care, the top 10 stocks account for just 17% of the fund's assets.

The second benefit stems from the portfolio's quarterly rebalance, which Frank says implements a buy-low, sell-high discipline. Last summer, shares in Align Technology, which makes the Invisalign dental trays that are fast becoming the orthodontic treatment of choice, fell 37% after disappointing third-quarter guidance, among other issues. The stock slipped from a 1.6% weighting in the fund to just below 1.0%. When the September rebalance occurred, the fund loaded up on Align, which was trading at roughly $180 per share, to bring the stock's weighting back to par. It was good timing: By the end of December, the stock traded near $280. **NELLIE S. HUANG**
*Nellie_Huang@kiplinger.com*

Returns/Fees

## KIPLINGER ETF 20: VITAL STATISTICS

| Core Stock Funds | Symbol | Share price | Annualized total return 1 yr. | 3 yrs. | 5 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|---|
| Invesco S&P SmallCap Low Vol | XSLV | $51 | 22.4% | 8.0% | 11.2% | 3.3% | 0.25% |
| iShares Core S&P 500 | IVV | 323 | 31.4 | 15.2 | 11.7 | 1.8 | 0.04 |
| iShares Core S&P Mid-Cap | IJH | 206 | 26.1 | 9.2 | 9.0 | 1.6 | 0.07 |
| Vanguard Total Intl Stock | VXUS | 56 | 21.6 | 9.9 | 5.9 | NA | 0.08 |
| Vanguard Total Stock Market | VTI | 164 | 30.8 | 14.6 | 11.2 | 1.8 | 0.03 |
| **Dividend Stock Funds** | | | | | | | |
| Schwab US Dividend Equity | SCHD | $58 | 27.3% | 13.3% | 11.0% | 3.1% | 0.06% |
| Vanguard Dividend Appreciation | VIG | 125 | 29.7 | 15.8 | 11.2 | 1.8 | 0.06 |
| WisdomTree Glbl ex-US Qual Div Growth | DNL | 66 | 35.4 | 14.6 | 8.0 | 2.6 | 0.58 |
| **Strategic Stock Funds** | | | | | | | |
| ARK Innovation | ARKK | $50 | 35.2% | 37.9% | 21.7% | NA | 0.75% |
| Fidelity MSCI Industrials Index | FIDU | 42 | 30.6 | 11.2 | 9.8 | 1.5% | 0.08 |
| Financial Select Sector SPDR | XLF | 31 | 31.9 | 11.8 | 11.0 | 1.9 | 0.13 |
| Invesco S&P 500 Eq Wt Health | RYH | 221 | 25.3 | 15.5 | 9.8 | 0.6 | 0.40 |
| iShares Edge MSCI Min Vol USA | USMV | 66 | 27.8 | 15.5 | 12.4 | 2.0 | 0.15 |
| iShares MSCI USA ESG Select | SUSA | 134 | 32.2 | 15.2 | 11.0 | 1.5 | 0.25 |
| **Core Bond Funds** | | | | | | | |
| Pimco Active Bond | BOND | $108 | 8.7% | 4.5% | 3.5% | 2.4% | 0.73% |
| SPDR DoubleLine Total Ret Tactical | TOTL | 49 | 7.0 | 3.5 | — | 2.8 | 0.55 |
| **Opportunistic Bond Funds** | | | | | | | |
| Invesco Senior Loan | BKLN | $23 | 8.8% | 3.5% | 3.2% | 4.2% | 0.65% |
| iShares Ultra Short-Term Bond | ICSH | 50 | 3.2 | 2.3 | 1.7 | 2.0 | 0.08 |
| Pimco Enhanced Low Duration Active | LDUR | 102 | 3.3 | 2.3 | 1.9 | 2.3 | 0.36 |
| Vanguard Total International Bond | BNDX | 57 | 7.9 | 4.4 | 3.8 | 0.6 | 0.09 |
| **Indexes** | | | | | | | |
| S&P 500-STOCK INDEX (LARGE U.S. STOCKS) | | | **31.5%** | **15.3%** | **11.7%** | **1.8%** | |
| MSCI EAFE INDEX (FOREIGN STOCKS) | | | **22.0** | **9.6** | **5.7** | **3.2** | |
| BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX | | | **8.7** | **4.0** | **3.0** | **2.3** | |

As of December 31, 2019. —Fund not in existence for the entire period. NA Not available. SOURCES: Dow Jones, Fund companies, Morningstar, MSCI.

# A Big Turnaround for Markets

RECORDS TOPPLED IN THE U.S., BUT FOREIGN SHARES ALSO ROSE. BY NELLIE S. HUANG

Who's complaining about stock market results for 2019? Not us. Investors in U.S. shares easily shrugged off the threats of a growling bear in late 2018 and pushed the market to record highs throughout 2019. And most foreign markets dazzled. Although they didn't keep pace with U.S. stocks, they posted double-digit gains—a refreshing turnaround from previous years. In all, it was a winning year for stocks (bonds did well, too). Returns here and in the tables below are through December 31.

Though all major U.S. stock groups did well in 2019, large-company shares led the way, as they have for most of the past decade. The large-company Standard & Poor's 500-stock index notched a 31.5% return. Stocks in small and midsize companies didn't disappoint, even though they lagged the S&P 500. The S&P MidCap 400 benchmark of midsize firms gained 26.2%, and the Russell 2000 small-company stock index climbed 25.5%. Technology shares were unstoppable. Information technology was the best-performing sector in the S&P 500 last year, with a 50.3% gain.

Overseas, negative interest rates in Denmark, Germany, Switzerland, Sweden and Japan dominated headlines and buoyed foreign stocks. The MSCI EAFE index, which tracks foreign stocks in developed countries, gained 22.0% in 2019. Even stocks in emerging nations fared well. The MSCI Emerging Markets index gained 18.4%, thanks mostly to hefty gains in China, which now represents about one-third of the EM benchmark. Shares did well in Russia, Greece and Egypt, too.

On the pages that follow, we show the top-performing stock mutual funds in 11 categories. The list includes only funds with minimum-investment requirements of $10,000 or less, and it excludes leveraged and inverse index funds. DATA COMPILED BY RYAN ERMEY

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## LARGE-COMPANY STOCK FUNDS

Tech propelled outsize returns.

Large-company funds have had the wind at their backs, and they've used outsized stakes in technology as sails. Concentrated portfolios, with relatively few stocks, have done well. Brown Advisory Growth Equity manager Ken Stuzin, at the helm nearly 21 years, keeps the count at 30 to 35 high-quality stocks. Managers at the firm's similarly concentrated Sustainable Growth fund seek firms with a competitive advantage due to green factors such as resource-efficient design or manufacturing. Tech and health care are the biggest sector bets in both funds, which require just $100 to invest. DF Dent Premier Growth runs a 37-stock portfolio; Visa and insurer Markel are the top holdings. Akre Focus, a solid, 10-year winner with just 19 stocks, has a big slug (17%) of cash. USAA Nasdaq-100 index is a good choice offering a broader approach.

| 1 YEAR | |
|---|---|
| 1. Leland Thomson Reuters Vntr Cptl Idx A | 49.4% |
| 2. Meridian Enhanced Equity Inv | 45.2 |
| 3. Vulcan Value Partners | 44.4 |
| 4. DF Dent Premier Growth Inv | 42.9 |
| 5. Virtus KAR Capital Growth A | 42.8 |
| 6. Matthew 25 | 42.1 |
| 7. Touchstone Growth Opportunities A | 41.5 |
| 8. Lateef Focused Growth A | 41.4 |
| 9. YCG Enhanced | 41.2 |
| 10. Baron Durable Advantage Retail | 40.8 |
| CATEGORY AVERAGE | 28.9% |

| 3 YEARS | |
|---|---|
| 1. Leland Thomson Reuters Vntr Cptl Idx A | 33.6% |
| 2. Morgan Stanley Insight A | 30.2 |
| 3. Zevenbergen Genea Inv | 29.2 |
| 4. Fidelity Advisor Growth Opps A | 29.2 |
| 5. Baron Opportunity Retail | 28.7 |
| 6. Virtus Zevenbergen Innovative Gr Stk A | 26.6 |
| 7. TCW New America Premier Equities N | 25.7 |
| 8. Franklin DynaTech A | 25.0 |
| 9. Zevenbergen Growth Inv | 24.9 |
| 10. Brown Advisory Growth Equity Inv | 24.4 |
| CATEGORY AVERAGE | 14.0% |

| 5 YEARS | |
|---|---|
| 1. Leland Thomson Reuters Vntr Cptl Idx A | 22.1% |
| 2. Morgan Stanley Insight A | 18.0 |
| 3. Fidelity Advisor Growth Opps A | 17.7 |
| 4. Brown Advisory Sustainable Growth Inv | 16.5 |
| 5. Franklin DynaTech A | 16.5 |
| 6. Fidelity OTC | 16.4 |
| 7. Polen Growth Inv | 16.3 |
| 8. USAA Nasdaq-100 Index | 16.3 |
| 9. Virtus Zevenbergen Innovative Gr Stk A | 16.2 |
| 10. Edgewood Growth Retail | 16.0 |
| CATEGORY AVERAGE | 10.1% |

| 10 YEARS | |
|---|---|
| 1. Fidelity Advisor Growth Opps A | 17.8% |
| 2. Shelton Nasdaq-100 Index Direct | 17.4 |
| 3. USAA Nasdaq-100 Index | 17.3 |
| 4. Akre Focus Retail | 17.1 |
| 5. Fidelity OTC | 17.1 |
| 6. Morgan Stanley Insight A | 16.8 |
| 7. Fidelity Growth Company* | 16.7 |
| 8. Rydex Nasdaq-100 Inv | 16.6 |
| 9. Edgewood Growth Retail | 16.2 |
| 10. Metropolitan West AlphaTrak 500 | 16.2 |
| CATEGORY AVERAGE | 12.1% |

Returns are annualized through December 31, 2019. *Closed to new investors. SOURCE: © 2020 Morningstar Inc.

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## MIDSIZE-COMPANY STOCK FUNDS

Mid caps got their mojo back.

Mid-cap shares lost their mojo in 2018, but in 2019, they were hot. The S&P MidCap 400 index posted a 26.2% gain in 2019. DF Dent Midcap Growth is a member of the Kiplinger 25, our favorite no-load funds. The fund's managers favor growing businesses that generate cash, dominate their industry and have smart, shareholder-focused executives at the top. Baron Partners Retail ranks well over the past decade and the past year. Its hefty 2.0% expense ratio is a turnoff, and you need an iron stomach to endure the ride. But manager Ron Baron has delivered fat returns with spicy investments such as Tesla. The manager at Janus Henderson Contrarian is relatively new, but we like what we see so far. Expenses are a below-average 0.74%, too.

| 1 YEAR | |
|---|---|
| 1. Baron Partners Retail | 45.0% |
| 2. Tocqueville Opportunity | 44.8 |
| 3. Brown Capital Management Mid Co Inv | 44.2 |
| 4. Virtus KAR Mid-Cap Growth A | 44.0 |
| 5. Shelton Green Alpha | 43.7 |
| 6. Janus Henderson Contrarian T | 43.0 |
| 7. Transamerica Mid Cap Growth A | 42.8 |
| 8. Principal MidCap A* | 42.5 |
| 9. Needham Growth Retail | 42.3 |
| 10. Touchstone Mid Cap Growth A | 42.1 |
| CATEGORY AVERAGE | 29.7% |

| 3 YEARS | |
|---|---|
| 1. Morgan Stanley Inst Discovery A | 29.4% |
| 2. Virtus KAR Mid-Cap Growth A | 27.4 |
| 3. ClearBridge Select A | 26.7 |
| 4. T. Rowe Price New Horizons* | 23.5 |
| 5. BlackRock Mid-Cap Growth Equity Inv A | 23.2 |
| 6. Baron Partners Retail | 23.2 |
| 7. Virtus KAR Small-Cap Core A* | 22.6 |
| 8. Alger Weatherbie Specialized Growth A | 22.5 |
| 9. DF Dent Midcap Growth Inv | 22.4 |
| 10. Delaware Smid Cap Growth A | 22.3 |
| CATEGORY AVERAGE | 11.8% |

| 5 YEARS | |
|---|---|
| 1. Virtus KAR Small-Cap Core A* | 16.8% |
| 2. Virtus KAR Mid-Cap Growth A | 16.7 |
| 3. T. Rowe Price New Horizons* | 16.2 |
| 4. BlackRock Mid-Cap Growth Equity Inv A | 15.4 |
| 5. ClearBridge Select A | 15.1 |
| 6. Conestoga SMid Cap Inv | 14.5 |
| 7. Janus Henderson Enterprise T* | 14.3 |
| 8. Value Line Mid Cap Focused | 14.2 |
| 9. DF Dent Midcap Growth Inv | 14.0 |
| 10. Federated Kaufmann A | 14.0 |
| CATEGORY AVERAGE | 8.6% |

| 10 YEARS | |
|---|---|
| 1. T. Rowe Price New Horizons* | 18.8% |
| 2. Primecap Odyssey Aggressive Growth* | 16.9 |
| 3. Baron Partners Retail | 16.1 |
| 4. Jackson Square SMID-Cap Growth Inv | 16.0 |
| 5. Delaware Smid Cap Growth A | 15.9 |
| 6. Virtus KAR Small-Cap Core A* | 15.8 |
| 7. Principal MidCap A* | 15.8 |
| 8. Eventide Gilead N | 15.8 |
| 9. Value Line Mid Cap Focused | 15.3 |
| 10. Janus Henderson Enterprise T* | 15.3 |
| CATEGORY AVERAGE | 11.9% |

## SMALL-COMPANY STOCK FUNDS

Growth dominated—again.

Small stocks fared better this year, but it wasn't enough to beat the S&P 500. Growth-focused funds beat value-oriented offerings for the third year running. Not one small-value fund made the winners lists. Wasatch Micro Cap, which focuses on firms with less than $1 billion in market value, beat the Russell 2000 index over the past one, three, five and 10 years. But its 1.65% annual expense ratio is pricey. Wasatch Ultra Growth invests in companies averaging about $2.5 billion in market value and has an even better 10-year record. Tech and health care shares dominate both Wasatch funds. At Needham Small Cap Growth, the one- and five-year records shine, but its long-term record is below average. We're eyeing Davenport Small Cap Focus, which holds just 31 stocks. The five-year-old fund is off to a fantastic start.

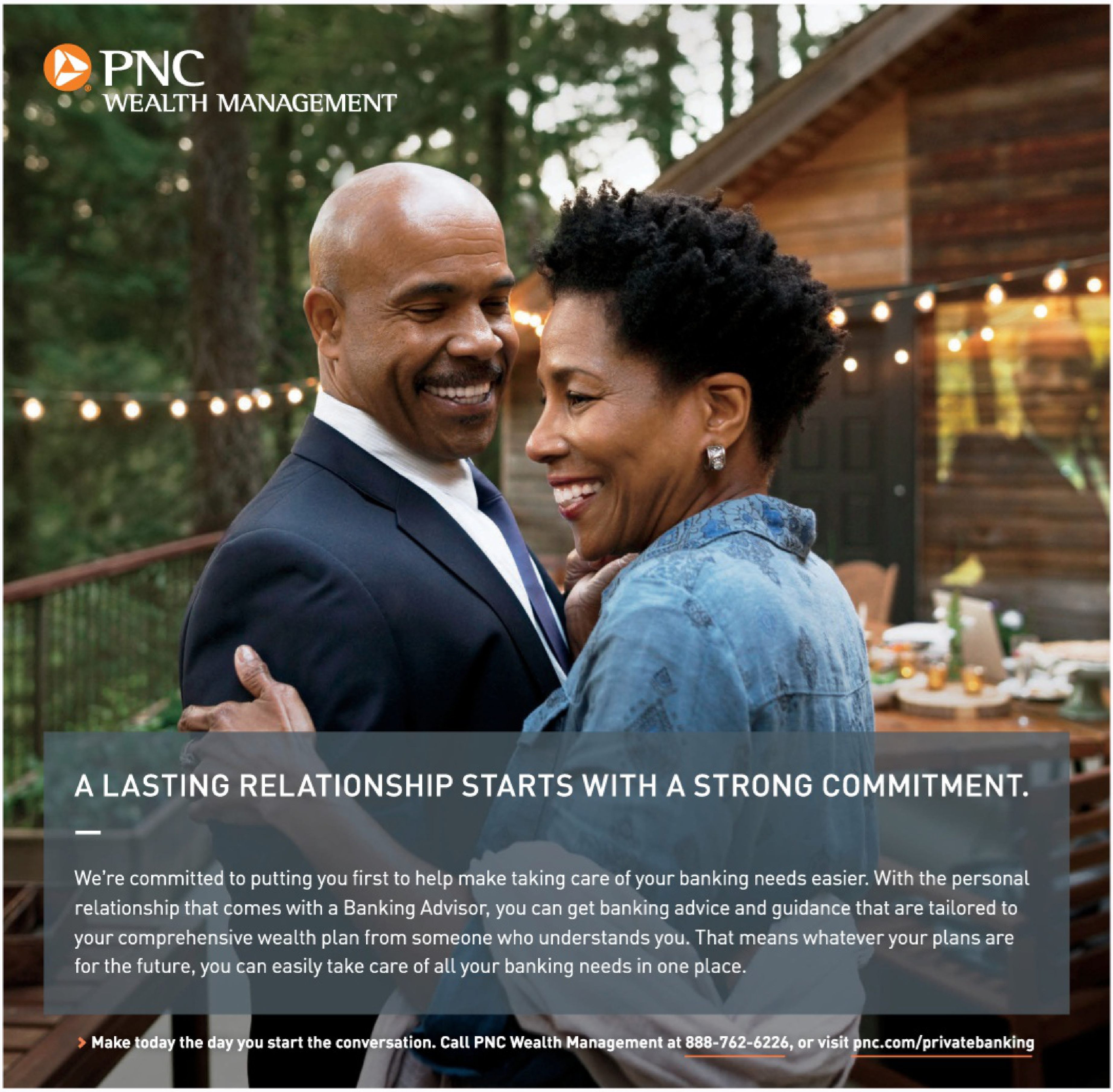
| 1 YEAR | |
|---|---|
| 1. Needham Small Cap Growth Retail | 54.4% |
| 2. Victory Munder Small Cap Growth A | 44.1 |
| 3. Needham Aggressive Growth Retail | 43.9 |
| 4. Jacob Micro Cap Growth Inv | 42.5 |
| 5. Wasatch Micro Cap | 42.2 |
| 6. Harbor Small Cap Growth Inv | 41.8 |
| 7. Buffalo Small Cap | 41.0 |
| 8. Davenport Small Cap Focus | 40.9 |
| 9. MFS New Discovery A | 40.8 |
| 10. Columbia Small Cap Growth I A | 40.6 |
| CATEGORY AVERAGE | 25.3% |

| 3 YEARS | |
|---|---|
| 1. Virtus KAR Small-Cap Growth A* | 27.6% |
| 2. Jacob Micro Cap Growth Inv | 26.5 |
| 3. Wasatch Ultra Growth | 26.2 |
| 4. Wasatch Micro Cap | 25.7 |
| 5. Federated Kaufmann Small Cap A | 25.4 |
| 6. JPMorgan Small Cap Growth A | 22.6 |
| 7. Alger Small Cap Focus A* | 22.2 |
| 8. Neuberger Berman Small Cap Growth Inv* | 22.1 |
| 9. Artisan Small Cap Inv* | 22.0 |
| 10. AB Small Cap Growth A | 21.9 |
| CATEGORY AVERAGE | 8.9% |

| 5 YEARS | |
|---|---|
| 1. Virtus KAR Small-Cap Growth A* | 21.2% |
| 2. Wasatch Ultra Growth | 17.4 |
| 3. Federated Kaufmann Small Cap A | 17.0 |
| 4. Wasatch Micro Cap | 16.2 |
| 5. Columbia Small Cap Growth I A | 15.5 |
| 6. Alger Small Cap Focus A* | 15.0 |
| 7. Conestoga Small Cap Inv* | 14.8 |
| 8. Fidelity Small Cap Growth* | 14.5 |
| 9. Nationwide Small Company Growth A* | 14.5 |
| 10. Needham Small Cap Growth Retail | 14.4 |
| CATEGORY AVERAGE | 7.9% |

| 10 YEARS | |
|---|---|
| 1. Virtus KAR Small-Cap Growth A* | 18.7% |
| 2. Wasatch Ultra Growth | 16.3 |
| 3. AB Small Cap Growth A | 16.1 |
| 4. Federated Kaufmann Small Cap A | 16.1 |
| 5. Brown Capital Mgmt Small Co Inv* | 15.6 |
| 6. Buffalo Emerging Opportunities | 15.4 |
| 7. Victory RS Small Cap Equity A* | 15.4 |
| 8. Wasatch Micro Cap | 15.3 |
| 9. JPMorgan Small Cap Growth A | 15.3 |
| 10. Artisan Small Cap Inv* | 15.3 |
| CATEGORY AVERAGE | 11.6% |

Returns are annualized through December 31, 2019. *Closed to new investors. SOURCE: © 2020 Morningstar Inc.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## HYBRID FUNDS

Aggressiveness paid off.

Hybrid funds own a mix of stocks and bonds, and in 2019, it paid to tilt toward stocks. At year-end, eight of the top 10 performers for the one-year period held more than 80% in stocks. Fidelity Convertible Securities made the list with convertible bonds, which pay regular coupon payments like any bond but can be converted into a predetermined amount of the issuer's stock. Value Line Capital Appreciation and Value Line Asset Allocation use the firm's "timeliness" rankings to find attractive stocks. The former recently held 84% of assets in stock; the latter holds a 60-30-10 split among stocks, bonds and cash. Plumb Balanced, which holds about 60% of assets in stocks, focuses on innovative firms with ample recurring revenue streams. Visa and Mastercard are the top two holdings in the 37-stock portfolio.

| 1 YEAR | |
|---|---|
| 1. MFS Aggressive Growth Allocation A | 29.7% |
| 2. Fidelity Convertible Securities | 28.6 |
| 3. Virtus Tactical Allocation A | 28.5 |
| 4. Manning & Napier Target 2060 K | 28.2 |
| 5. Manning & Napier Target 2055 K | 28.2 |
| 6. Manning & Napier Target 2050 K | 28.1 |
| 7. ICON Equity Income S | 27.7 |
| 8. American Century One Choice VryAgrsv Inv | 27.6 |
| 9. TIAA-CREF Lifestyle Aggressive Gr Retail | 27.6 |
| 10. Wells Fargo Diversified Cap Bldr A | 27.5 |
| CATEGORY AVERAGE | **19.5%** |

| 3 YEARS | |
|---|---|
| 1. Franklin Convertible Securities A* | 15.1% |
| 2. Value Line Capital Appreciation Inv | 15.0 |
| 3. Plumb Balanced | 14.3 |
| 4. AllianzGI Convertible A | 14.1 |
| 5. MFS Aggressive Growth Allocation A | 14.0 |
| 6. Manning & Napier Target 2050 K | 13.9 |
| 7. Manning & Napier Target 2055 K | 13.9 |
| 8. Manning & Napier Target 2060 K | 13.9 |
| 9. Value Line Asset Allocation Inv | 13.7 |
| 10. Janus Henderson Balanced T | 13.4 |
| CATEGORY AVERAGE | **8.8%** |

| 5 YEARS | |
|---|---|
| 1. Franklin Convertible Securities A* | 10.6% |
| 2. T. Rowe Price Capital Appreciation* | 10.5 |
| 3. Wells Fargo Diversified Cap Bldr A | 10.2 |
| 4. MFS Aggressive Growth Allocation A | 9.7 |
| 5. Value Line Asset Allocation Inv | 9.5 |
| 6. Plumb Balanced | 9.3 |
| 7. Eaton Vance Tax-Managed Eq Aset Allc A | 9.2 |
| 8. American Funds 2050 Trgt Date Retire A | 9.2 |
| 9. American Funds 2055 Trgt Date Retire A | 9.2 |
| 10. Value Line Capital Appreciation Inv | 9.1 |
| CATEGORY AVERAGE | **6.3%** |

| 10 YEARS | |
|---|---|
| 1. Hotchkis & Wiley Value Opps A | 13.4% |
| 2. T. Rowe Price Capital Appreciation* | 11.8 |
| 3. Wells Fargo Diversified Cap Bldr A | 11.7 |
| 4. Value Line Asset Allocation Inv | 11.1 |
| 5. Bruce Fund | 10.6 |
| 6. Franklin Convertible Securities A* | 10.6 |
| 7. MFS Aggressive Growth Allocation A | 10.6 |
| 8. Fidelity Strategic Dividend & Income | 10.6 |
| 9. Great-West Aggressive Profile Inv | 10.5 |
| 10. Wells Fargo Index Asset Allocation A | 10.5 |
| CATEGORY AVERAGE | **7.7%** |

## LARGE-COMPANY FOREIGN STOCK FUNDS

Catching up to U.S. markets.

Foreign markets have struggled to keep up with shares in the U.S. That said, several funds walloped their peers and the broad U.S. stock market in 2019—among them, Fidelity International Growth, a member of the Kiplinger 25. Manager Jed Weiss favors attractively priced shares in large, growing foreign companies that can raise or hold prices firm even when demand is sluggish. A chunk of investments in U.S. firms, including Visa and Mastercard, have helped. Vanguard International Growth invests in large, growing companies, too, but it's got a slightly riskier profile, thanks to a stash (22% of assets) in emerging-markets stocks that's twice as big as that of its competition.

| 1 YEAR | |
|---|---|
| 1. Mercator International Opportunity A | 38.5% |
| 2. PGIM Jennison International Opps A | 38.0 |
| 3. Franklin Intl Growth A | 36.9 |
| 4. Invesco International Select Equity A | 35.3 |
| 5. WCM Focused International Growth Inv | 35.0 |
| 6. Morgan Stanley Inst International Opp A | 34.8 |
| 7. AB Concentrated International Growth A | 34.3 |
| 8. Great-West International Growth Inv | 34.1 |
| 9. Fidelity International Growth | 34.0 |
| 10. Columbia Acorn International Sel A | 33.4 |
| CATEGORY AVERAGE | **23.2%** |

| 3 YEARS | |
|---|---|
| 1. Morgan Stanley Inst International Opp A | 21.8% |
| 2. PGIM Jennison International Opps A | 21.3 |
| 3. Morgan Stanley Inst Intl Advtg A | 20.9 |
| 4. Vanguard International Growth Inv | 17.9 |
| 5. WCM Focused International Growth Inv | 17.8 |
| 6. ClearBridge International Growth A | 17.3 |
| 7. Franklin Intl Growth A | 17.0 |
| 8. Columbia Acorn International Sel A | 16.5 |
| 9. Fidelity International Capital Apprec | 16.5 |
| 10. Polen International Growth Inv | 16.3 |
| CATEGORY AVERAGE | **9.7%** |

| 5 YEARS | |
|---|---|
| 1. Morgan Stanley Inst International Opp A | 14.7% |
| 2. Morgan Stanley Inst Intl Advtg A | 14.7 |
| 3. WCM Focused International Growth Inv | 11.6 |
| 4. PGIM Jennison International Opps A | 10.7 |
| 5. Vanguard International Growth Inv | 10.6 |
| 6. Franklin Intl Growth A | 10.2 |
| 7. MFS International Intrinsic Value A* | 9.9 |
| 8. Virtus SGA International Growth A | 9.8 |
| 9. William Blair International Ldrs N | 9.7 |
| 10. Fidelity International Capital Apprec | 9.5 |
| CATEGORY AVERAGE | **5.6%** |

| 10 YEARS | |
|---|---|
| 1. ClearBridge International Growth A | 10.7% |
| 2. MFS International Intrinsic Value A* | 9.8 |
| 3. Thornburg International Growth A | 9.8 |
| 4. Fidelity International Capital Apprec | 9.7 |
| 5. Pimco StocksPLUS Intl (USD-Hedged) A | 9.4 |
| 6. Touchstone International ESG Equity A | 9.3 |
| 7. JHancock International Growth A* | 9.0 |
| 8. Artisan International Value Inv* | 9.0 |
| 9. Great-West International Value Inv | 8.9 |
| 10. Fidelity International Growth | 8.8 |
| CATEGORY AVERAGE | **5.5%** |

Returns are annualized through December 31, 2019. *Closed to new investors. SOURCE: © 2020 Morningstar Inc.

## SMALL- AND MIDSIZE-COMPANY FOREIGN STOCK FUNDS

Up off the mat.

After a dismal 2018, small foreign companies rebounded in 2019, and many funds that focus on this category posted solid double-digit gains. The managers at AMG TimesSquare International Small Cap, a Kip 25 member, favor best-in-class small firms in developed countries with a sustainable competitive edge. The fund has outpaced its peers in all but one calendar year since 2014, its first full year after launching in 2013. It has sizable bets in Japan, France and the U.K. Grandeur Peak International Stalwarts invests in small-to-midsize companies with increasing revenues, stable profit margins and healthy balance sheets. The U.K., Japan and China/Hong Kong are the fund's biggest country exposures, and the portfolio's 98 stocks have an average market value of nearly $5 billion.

| 1 YEAR | |
|---|---|
| 1. Segall Bryant & Hamill Fdml Int'lSmCpRet | 39.4% |
| 2. Artisan International Small-Mid Inv | 32.3 |
| 3. Royce International Premier Inv | 31.3 |
| 4. William Blair International Sm Cap Gr N* | 31.1 |
| 5. Wasatch International Opps Inv* | 29.7 |
| 6. Grandeur Peak Intl Stalwarts Inv | 28.3 |
| 7. Federated International Small-Mid Co A | 27.2 |
| 8. Wasatch International Growth Inv* | 27.0 |
| 9. AMG TimesSquare International SmallCap N | 27.0 |
| 10. Driehaus International Small Cap Growth | 26.9 |
| CATEGORY AVERAGE | **15.5%** |

| 3 YEARS | |
|---|---|
| 1. Brown Capital Mgmt Intl Sm Co Inv | 18.4% |
| 2. Royce International Premier Inv | 17.7 |
| 3. Invesco Oppenheimer Intl Sml-Mid Com A* | 15.2 |
| 4. Driehaus International Small Cap Growth | 14.8 |
| 5. Virtus KAR International Small-Cap A | 14.1 |
| 6. Artisan International Small-Mid Inv | 14.1 |
| 7. Fidelity International Small Cap Opp* | 14.1 |
| 8. Segall Bryant & Hamill Fdml Int'lSmCpRet | 13.6 |
| 9. Grandeur Peak Intl Stalwarts Inv | 13.4 |
| 10. Aberdeen International Small Cp A | 13.3 |
| CATEGORY AVERAGE | **8.0%** |

| 5 YEARS | |
|---|---|
| 1. Royce International Premier Inv | 14.3% |
| 2. Virtus KAR International Small-Cap A | 12.9 |
| 3. Invesco Oppenheimer Intl Sml-Mid Com A* | 12.7 |
| 4. Fidelity International Small Cap Opp* | 11.0 |
| 5. Wasatch International Opps Inv* | 10.8 |
| 6. Driehaus International Small Cap Growth | 10.4 |
| 7. T. Rowe Price International Discovery* | 10.1 |
| 8. Fidelity International Small Cap | 9.7 |
| 9. DFA International Small Cap Growth | 9.7 |
| 10. AMG TimesSquare International SmallCap N | 9.6 |
| CATEGORY AVERAGE | **5.6%** |

| 10 YEARS | |
|---|---|
| 1. Invesco Oppenheimer Intl Sml-Mid Com A* | 12.7% |
| 2. Oberweis International Opportunities | 11.5 |
| 3. Wasatch International Opps Inv* | 10.7 |
| 4. Fidelity International Small Cap Opp* | 10.5 |
| 5. Wasatch International Growth Inv* | 10.5 |
| 6. Aberdeen International Small Cp A | 10.3 |
| 7. Victory Trivalent International Sm-Cp A | 9.8 |
| 8. T. Rowe Price International Discovery* | 9.5 |
| 9. Fidelity International Small Cap | 9.4 |
| 10. Driehaus International Small Cap Growth | 9.2 |
| CATEGORY AVERAGE | **7.5%** |

## GLOBAL STOCK FUNDS

Best of both worlds.

Funds in this category invest in a mix of U.S. and foreign stocks, so they have fared better than funds focused only on foreign stocks in recent years. Baron Global Advantage was tops in 2019, but it's a winner over the past three and five years, too. (The fund isn't old enough for a 10-year record). A hefty 25% stake in emerging-markets stocks sets Global Advantage apart from other global funds, which typically hold 9%. T. Rowe Price Global Stock has been a consistent performer and boasts a below-average expense ratio of 0.82%. Manager David Eiswert isn't wholly responsible for the fund's 10-year record, because he has only been in place since late 2012. But from 2013 through 2019, he has outpaced his peers in every calendar year.

| 1 YEAR | |
|---|---|
| 1. Baron Global Advantage Retail | 45.1% |
| 2. Artisan Global Discovery Inv | 42.6 |
| 3. ALPS/Red Rocks Listed Private Equity Inv | 40.0 |
| 4. AMG TimesSquare Global Small Cap N | 37.6 |
| 5. Mundoval Fund | 37.2 |
| 6. New Alternatives Inv | 36.7 |
| 7. Columbia Select Global Growth A | 36.6 |
| 8. American Century Focused Global Gr Inv | 36.1 |
| 9. Artisan Global Opportunities Inv | 35.6 |
| 10. MFS Global Growth A | 35.3 |
| CATEGORY AVERAGE | **23.4%** |

| 3 YEARS | |
|---|---|
| 1. Baron Global Advantage Retail | 27.8% |
| 2. Morgan Stanley Inst Global Opp A | 23.7 |
| 3. Polen Global Growth Inv | 21.9 |
| 4. PGIM Jennison Global Opportunities A | 21.9 |
| 5. Harbor Global Leaders Inv | 21.7 |
| 6. Columbia Select Global Equity A | 20.7 |
| 7. Brown Advisory Global Leaders Inv | 20.5 |
| 8. Morgan Stanley Inst Global Advtg A | 20.2 |
| 9. T. Rowe Price Global Stock | 19.6 |
| 10. Marsico Global | 19.4 |
| CATEGORY AVERAGE | **10.8%** |

| 5 YEARS | |
|---|---|
| 1. Morgan Stanley Inst Global Opp A | 17.6% |
| 2. Baron Global Advantage Retail | 15.2 |
| 3. Invesco Oppenheimer Global Opports A | 15.0 |
| 4. Polen Global Growth Inv | 14.6 |
| 5. T. Rowe Price Global Stock | 14.2 |
| 6. PGIM Jennison Global Opportunities A | 14.2 |
| 7. Virtus SGA Global Growth A | 13.8 |
| 8. WCM Focused Global Growth Inv | 13.5 |
| 9. Artisan Global Opportunities Inv | 12.8 |
| 10. Morgan Stanley Inst Global Advtg A | 12.4 |
| CATEGORY AVERAGE | **7.1%** |

| 10 YEARS | |
|---|---|
| 1. Morgan Stanley Inst Global Opports A | 16.4% |
| 2. Artisan Global Opportunities Inv | 13.7 |
| 3. Harbor Global Leaders Investor | 12.7 |
| 4. Morgan Stanley Inst Global Franchise A | 12.3 |
| 5. T. Rowe Price Global Stock | 12.2 |
| 6. ALPS/Red Rocks Listed Private Equity Inv | 12.1 |
| 7. Marsico Global | 12.0 |
| 8. Seven Canyons World Innovators Inv | 11.9 |
| 9. Invesco Oppenheimer Global Opports A | 11.9 |
| 10. Virtus Vontobel Global Opportunities A | 11.8 |
| CATEGORY AVERAGE | **8.1%** |

Returns are annualized through December 31, 2019. *Closed to new investors. SOURCE: © 2020 Morningstar Inc.

## DIVERSIFIED EMERGING-MARKETS FUNDS

Charging into 2020.

China shares soared 25% last year, despite a simmering trade spat. The country represents a 34% slug of the MSCI Emerging Markets index, so that helped lift the benchmark to an 18.4% gain in 2019. Fidelity Emerging Markets has earned a top-10 rank in each of the four time periods; however, its longtime manager just left, so we're wary of recommending it. Consider instead Artisan Developing World. It has a shorter track record than we'd like (it launched in mid 2015). But the fund has an experienced manager, an average annual fee and risk-adjusted returns that beat the competition over the past one and three years. WCM Focused Emerging Markets has an impressive record, too. If only its 1.50% expense ratio were a little lower.

| 1 YEAR | |
|---|---|
| 1. Artisan Developing World Inv | 41.7% |
| 2. Invesco Emerging Markets Select Equity A | 37.5 |
| 3. WCM Focused Emerging Markets Inv | 37.4 |
| 4. Driehaus Emerging Markets Small Cap Gr | 33.7 |
| 5. Fidelity Emerging Markets | 33.7 |
| 6. JPMorgan Emerging Markets Equity A | 31.6 |
| 7. Columbia Emerging Markets A | 30.8 |
| 8. Ashmore Emerging Markets Equity A | 30.3 |
| 9. PGIM Jennison Emerging Markets Eq Opps A | 30.0 |
| 10. Invesco Developing Markets A | 30.0 |
| CATEGORY AVERAGE | **20.7%** |

| 3 YEARS | |
|---|---|
| 1. WCM Focused Emerging Markets Inv | 19.1% |
| 2. Fidelity Emerging Markets | 17.4 |
| 3. Artisan Developing World Inv | 17.3 |
| 4. BlackRock Emerging Mkts Eq Strats Inv A | 17.1 |
| 5. Mirae Asset Emerg Mkts Great Consumer A | 17.0 |
| 6. BlackRock Emerging Mkts Inv A | 16.7 |
| 7. Ashmore Emerging Markets Equity A | 16.3 |
| 8. JPMorgan Emerging Markets Equity A | 16.2 |
| 9. Invesco Emerging Markets Select Equity A | 16.1 |
| 10. Wasatch Emerging Markets Select Inv | 16.0 |
| CATEGORY AVERAGE | **10.9%** |

| 5 YEARS | |
|---|---|
| 1. WCM Focused Emerging Markets Inv | 9.1% |
| 2. Fidelity Emerging Markets | 8.5 |
| 3. T. Rowe Price Emerging Markets Stock* | 8.5 |
| 4. Invesco Emerging Markets Select Equity A | 8.3 |
| 5. JPMorgan Emerging Markets Equity A | 8.2 |
| 6. Ashmore Emerging Markets Equity A | 8.0 |
| 7. Delaware Emerging Markets A | 8.0 |
| 8. Calvert Emerging Markets Equity A | 7.9 |
| 9. American Funds New World A | 7.7 |
| 10. Goldman Sachs Emerging Markets Eq A | 7.7 |
| CATEGORY AVERAGE | **5.0%** |

| 10 YEARS | |
|---|---|
| 1. Thornburg Developing World A | 6.9% |
| 2. Wasatch Emerging Markets Small Cap Inv | 6.5 |
| 3. American Funds New World A | 6.3 |
| 4. Driehaus Emerging Markets Growth Inv | 6.2 |
| 5. Virtus Vontobel Emerging Markets Opps A | 6.1 |
| 6. VanEck Emerging Markets A | 5.8 |
| 7. Invesco Oppenheimer Developing Mkts A* | 5.7 |
| 8. Fidelity Emerging Markets | 5.4 |
| 9. T. Rowe Price Emerging Markets Stock* | 5.3 |
| 10. Delaware Emerging Markets A | 5.3 |
| CATEGORY AVERAGE | **4.0%** |

## REGIONAL AND SINGLE-COUNTRY FUNDS

China, China, China.

A slower-growing Chinese economy, a trade war and an on-and-off stock market didn't hamper funds that focus on China shares. We like Matthews China Investor. The ride can be bumpy with this fund, but it has outpaced its rivals and the MSCI China index over the past three years. You can lower volatility and earn better risk-adjusted returns with a fund that invests across Asia. Matthews Asia Innovators Investor holds hefty slugs of tech and financial stocks; China, India, South Korea and Taiwan are its biggest country exposures. Investors looking for a solid Japan-focused fund should consider Hennessy Japan Small Cap, which focuses on small firms with clean balance sheets, above-average earnings growth that is sustainable and predictable, and strong cash flow.

| 1 YEAR | |
|---|---|
| 1. Voya Russia A | 47.8% |
| 2. Columbia Acorn European A | 46.0 |
| 3. Morgan Stanley Inst Asia Opp A | 44.2 |
| 4. Fidelity Latin America | 40.6 |
| 5. AB All China Equity A | 37.1 |
| 6. Oberweis China Opportunities | 36.3 |
| 7. DWS Latin America Equity A | 35.6 |
| 8. Matthews China Small Companies | 35.4 |
| 9. Fidelity China Region | 35.1 |
| 10. Matthews China Inv | 34.6 |
| CATEGORY AVERAGE | **24.0%** |

| 3 YEARS | |
|---|---|
| 1. Morgan Stanley Inst Asia Opp A | 29.8% |
| 2. DWS Latin America Equity A | 20.3 |
| 3. Matthews China Small Companies | 19.7 |
| 4. Neuberger Berman Greater China Eq A* | 19.5 |
| 5. Columbia Greater China A | 19.4 |
| 6. Fidelity China Region | 19.2 |
| 7. Matthews China Inv | 19.0 |
| 8. Eaton Vance Greater China Growth A | 18.3 |
| 9. Wasatch Emerging India Inv | 18.2 |
| 10. Fidelity Latin America | 18.0 |
| CATEGORY AVERAGE | **11.9%** |

| 5 YEARS | |
|---|---|
| 1. Voya Russia A | 17.8% |
| 2. Hennessy Japan Small Cap Inv | 13.7 |
| 3. T. Rowe Price Japan | 13.5 |
| 4. Hennessy Japan Inv | 12.8 |
| 5. Matthews China Small Companies | 11.8 |
| 6. Timothy Plan Israel Common Values A | 11.6 |
| 7. Fidelity Japan Smaller Companies | 11.5 |
| 8. Wasatch Emerging India Inv | 11.4 |
| 9. Fidelity Pacific Basin | 10.6 |
| 10. T. Rowe Price Asia Opportunities | 10.6 |
| CATEGORY AVERAGE | **2.0%** |

| 10 YEARS | |
|---|---|
| 1. Hennessy Japan Small Cap Inv | 13.9% |
| 2. Hennessy Japan Inv | 12.8 |
| 3. Fidelity Pacific Basin | 10.9 |
| 4. Fidelity Japan Smaller Companies | 10.9 |
| 5. Matthews Asia Innovators Inv | 10.2 |
| 6. T. Rowe Price Japan | 10.0 |
| 7. Matthews Japan Inv | 9.8 |
| 8. Matthews China Dividend Inv | 9.7 |
| 9. Fidelity Nordic | 9.3 |
| 10. Invesco European Small Company A* | 9.2 |
| CATEGORY AVERAGE | **5.7%** |

Returns are annualized through December 31, 2019. *Closed to new investors. SOURCE: © 2020 Morningstar Inc.

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# WHAT IS AVAXHOME?

## SECTOR FUNDS

Tech trounced everything else.

It has been hard to go wrong owning technology stocks. Tech firms in the S&P 500 overall returned north of 50% in 2019, and tech leads all other sectors in three-, five- and 10-year returns. Fidelity Select Semiconductors invests in firms that make microchips and similar electronic components—a red-hot business lately, though it should be noted that semiconductor stocks are prone to boom-and-bust cycles. Janus Henderson Global Technology invests in the U.S. and abroad, with more than half of revenues from the 68 companies in the portfolio coming from overseas. Investors with an appetite for risk have been rewarded for holding Eventide Healthcare & Life Sciences, which invests primarily in small and midsize biotechnology firms, whose prospects typically depend on regulatory approvals for drugs still in development.

| 1 YEAR | |
|---|---|
| 1. Fidelity Select Semiconductors | 64.5% |
| 2. Fidelity Advisor Semiconductors A | 63.8 |
| 3. Rydex Electronics Inv | 59.8 |
| 4. Eventide Healthcare & Life Sciences N | 58.4 |
| 5. OCM Gold Investor | 56.9 |
| 6. Columbia Seligman Global Tech A | 54.9 |
| 7. Columbia Seligman Comms & Info A | 53.9 |
| 8. Firsthand Alternative Energy | 53.6 |
| 9. Rydex Precious Metals Inv | 52.8 |
| 10. Franklin Gold and Precious Metals A | 51.5 |
| CATEGORY AVERAGE | 25.8% |

| 3 YEARS | |
|---|---|
| 1. Eventide Healthcare & Life Sciences N | 32.0% |
| 2. Berkshire Focus | 30.6 |
| 3. BlackRock Technology Opportunities Inv A | 30.0 |
| 4. Janus Henderson Global Technology T | 28.3 |
| 5. Firsthand Technology Opportunities | 27.7 |
| 6. Fidelity Advisor Technology A | 27.5 |
| 7. Fidelity Select Technology | 27.3 |
| 8. Putnam Global Technology A | 26.3 |
| 9. Fidelity Select Software & IT Svcs Port | 26.1 |
| 10. Columbia Global Technology Growth A | 26.0 |
| CATEGORY AVERAGE | 9.0% |

| 5 YEARS | |
|---|---|
| 1. Fidelity Select Semiconductors | 21.5% |
| 2. BlackRock Technology Opportunities Inv A | 21.4 |
| 3. Fidelity Advisor Semiconductors A | 21.1 |
| 4. Berkshire Focus | 20.3 |
| 5. Janus Henderson Global Technology T | 20.2 |
| 6. Putnam Global Technology A | 20.1 |
| 7. Columbia Global Technology Growth A | 20.0 |
| 8. Fidelity Select Technology | 19.9 |
| 9. Fidelity Advisor Technology A | 19.9 |
| 10. Fidelity Select Software & IT Svcs Port | 19.6 |
| CATEGORY AVERAGE | 6.2% |

| 10 YEARS | |
|---|---|
| 1. Berkshire Focus | 19.1% |
| 2. T. Rowe Price Health Sciences | 19.1 |
| 3. T. Rowe Price Global Technology | 19.1 |
| 4. Fidelity Select Software & IT Services Port | 19.1 |
| 5. Fidelity Select Semiconductors | 18.9 |
| 6. Fidelity Select IT Services | 18.8 |
| 7. Fidelity Select Retailing | 18.5 |
| 8. Fidelity Select Biotechnology | 18.4 |
| 9. Columbia Global Technology Growth A | 18.3 |
| 10. Fidelity Advisor Semiconductors A | 18.3 |
| CATEGORY AVERAGE | 9.3% |

## ALTERNATIVE FUNDS

The long and short of it.

Alternative funds seek returns that zig when stock and bond markets zag. Strategies are wide-ranging, but nearly all the top performers in this category are "long-short" funds, whose managers buy stocks they like and use derivatives to bet against stocks they expect to decline. AMG FQ Long-Short Equity uses subadviser First Quadrant's quantitative model to assess the relative attractiveness of stocks. The fund's long position contains a greater share of small- and mid-cap stocks than does the typical competitor. Boston Partners Long/Short Equity buys firms the managers see as undervalued while shorting overpriced names. The fund was recently bullish on Citigroup and bearish on Netflix. Schwab Hedged Equity uses Schwab's in-house stock ratings system to make calls on stocks. The fund is long on Microsoft and short on furniture retailer Wayfair.

| 1 YEAR | |
|---|---|
| 1. Virtus KAR Long/Short Equity A | 38.1% |
| 2. Probabilities A | 34.7 |
| 3. Weitz Partners III Opportunity Inv | 33.5 |
| 4. Innovative Dividend Performers A | 32.2 |
| 5. CBOE Vest S&P 500 Enhanced Gr Strat Inv | 30.0 |
| 6. Catalyst Systematic Alpha A | 28.9 |
| 7. Superfund Managed Futures Strategy A | 28.8 |
| 8. Camelot Premium Return A | 24.6 |
| 9. Caldwell & Orkin - Gator Capital L/S Fd | 24.2 |
| 10. Swan Defined Risk Growth A | 23.0 |
| CATEGORY AVERAGE | 8.0% |

| 3 YEARS | |
|---|---|
| 1. AXS Alternative Growth A | 12.9% |
| 2. CBOE Vest S&P 500 Enhanced Gr Strat Inv | 12.7 |
| 3. Superfund Managed Futures Strategy A | 12.6 |
| 4. RiverPark Long/Short Opportunity Retail | 12.5 |
| 5. Toews Tactical Monument | 11.2 |
| 6. AMG FQ Long-Short Equity N | 11.1 |
| 7. Highland Healthcare Opportunities A | 10.5 |
| 8. Delaware Hedged U.S. Equity Opps A | 9.8 |
| 9. Weitz Partners III Opportunity Inv | 9.7 |
| 10. Probabilities A | 9.7 |
| CATEGORY AVERAGE | 2.6% |

| 5 YEARS | |
|---|---|
| 1. AXS Alternative Growth A | 9.5% |
| 2. AMG FQ Long-Short Equity N | 8.1 |
| 3. RiverPark Long/Short Opportunity Retail | 7.0 |
| 4. Gateway Equity Call Premium A | 6.6 |
| 5. Covered Bridge A | 6.5 |
| 6. LoCorr Long/Short Commodity Strats A | 6.3 |
| 7. Glenmede Secured Options | 6.3 |
| 8. JPMorgan Hedged Equity A | 6.2 |
| 9. AB Select US Long/Short A | 5.9 |
| 10. AMG River Road Long-Short N | 5.8 |
| CATEGORY AVERAGE | 1.1% |

| 10 YEARS | |
|---|---|
| 1. AMG FQ Long-Short Equity N | 11.1% |
| 2. Weitz Partners III Opportunity Inv | 10.9 |
| 3. BlackRock Event Driven Equity Inv A | 9.1 |
| 4. Nuveen Equity Long/Short A | 8.0 |
| 5. Guggenheim Alpha Opportunity A | 7.8 |
| 6. Snow Capital Long/Short Opportunity A | 7.4 |
| 7. Hancock Horizon Quant Long/Short Inv | 7.4 |
| 8. Diamond Hill Long-Short A | 6.7 |
| 9. Boston Partners Long/Short Equity Inv | 6.7 |
| 10. Schwab Hedged Equity | 6.2 |
| CATEGORY AVERAGE | 1.2% |

Returns are annualized through December 31, 2019. *Closed to new investors. SOURCE: © 2020 Morningstar Inc.

**PROFESSIONAL INSIGHTS FROM PERSONAL CAPITAL**

# Investing Outlook for a New Decade

**By Craig Birk,** Chief Investment Officer

The past decade seemed to defy conventions. The economy continued to chug along without falling into a recession every several years, as it has done in the past. The bull market in stocks that started in 2009 is now the longest in history. And the bull may still have room to run.

But there are signs investors are getting uneasy. A recent joint *Kiplinger-Personal Capital* poll found that nearly half of respondents say the economy is slowing, with about one-third bracing for a recession by the end of 2020. Most respondents also worry about a stock market decline. Some four out of 10 check their portfolio either daily or weekly. And investors of all ages have moved a sizable portion of their portfolio into cash.

Our Personal Capital advisors are seeing more and more investors ask about where to put their money going forward, or how to protect against the inevitable bear market. Of course, no one can predict what this new decade will bring. But here are answers to some frequent questions from investors—and our outlook for the decade ahead.

### What are lessons investors should have learned in the past decade?

There are three main lessons. One, that big, awful bear markets like 2008 will happen, but stocks will generally increase in value over long periods of time anyway. This is why, at Personal Capital, we encourage investors to stay focused on the long-term instead of making drastic changes to their portfolios based on fear of market movement.

Two, that interest rates are just as hard to predict as stocks. For most of the decade, everyone expected rates to rise, but they fell. Now most expect them to keep falling, but it is dangerous to be overconfident about this. Even the Fed doesn't seem to know, so don't expect any so-called expert to either.

And three, be wary of making important investment decisions based on politics. Political experts had a horrible

## "Don't be surprised if the next decade favors a more global approach."

record this decade of predicting election outcomes. Even those who got it right struggled to anticipate the market impact.

### Are we due for a recession soon?

The 2010s was the first decade in the US without a recession, which is unlikely to happen again. You should be prepared for a recession sometime early the next decade, but also shouldn't be surprised if we have additional years of growth.

### How can investors protect themselves in a recession?

The best protection is to have a well-diversified portfolio that is aligned with your long-term financial plan, and one you will be able to stick with if things turn south. Being too conservative over time can have a cost, but it is not nearly as bad as bailing out when prices are low.

Another way to protect against recession is to avoid unnecessary debt. Digging out of high interest rate credit card debt can be tough during a recession.

### What trends do you see for the upcoming decade?

More rapid advances in technology, cheaper startup costs, and changing consumer preferences will lead to wealth creation, but also more frequent and faster disruption of existing businesses.

Looking ahead, major changes are likely imminent in financial services and investors should expect the unexpected, even with today's tech darlings. Faster change cycles should be positive for diversified investors, but they can also create greater risk for those with concentrations in single sectors or industries.

Also, this record-breaking bull market has mostly been dominated by the US. While the length of this trend is impressive, long and powerful winning streaks between US and international stocks are the norm. Don't be surprised if the next decade favors a more global approach.

### How can investors take advantage of these trends?

There will be some big winners in the next decade, but we may also see more established companies losing share. Last decade, innovation mainly favored large technology companies. Over the next decade, smaller and more nimble companies across other sectors are likely to gain share.

We urge investors not to give up on global diversification. When it comes to domestic vs. international, for the last 50 years you could have done very well just by owning whichever area fared worse the previous decade. That may be too simplistic of an approach, but owning some of each ensures you don't get caught behind the trend, which can be very damaging to long term results. ■

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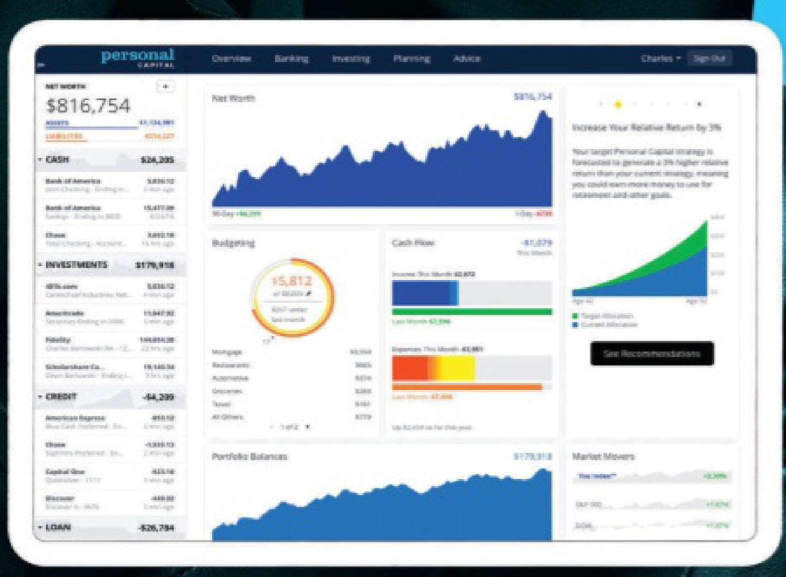


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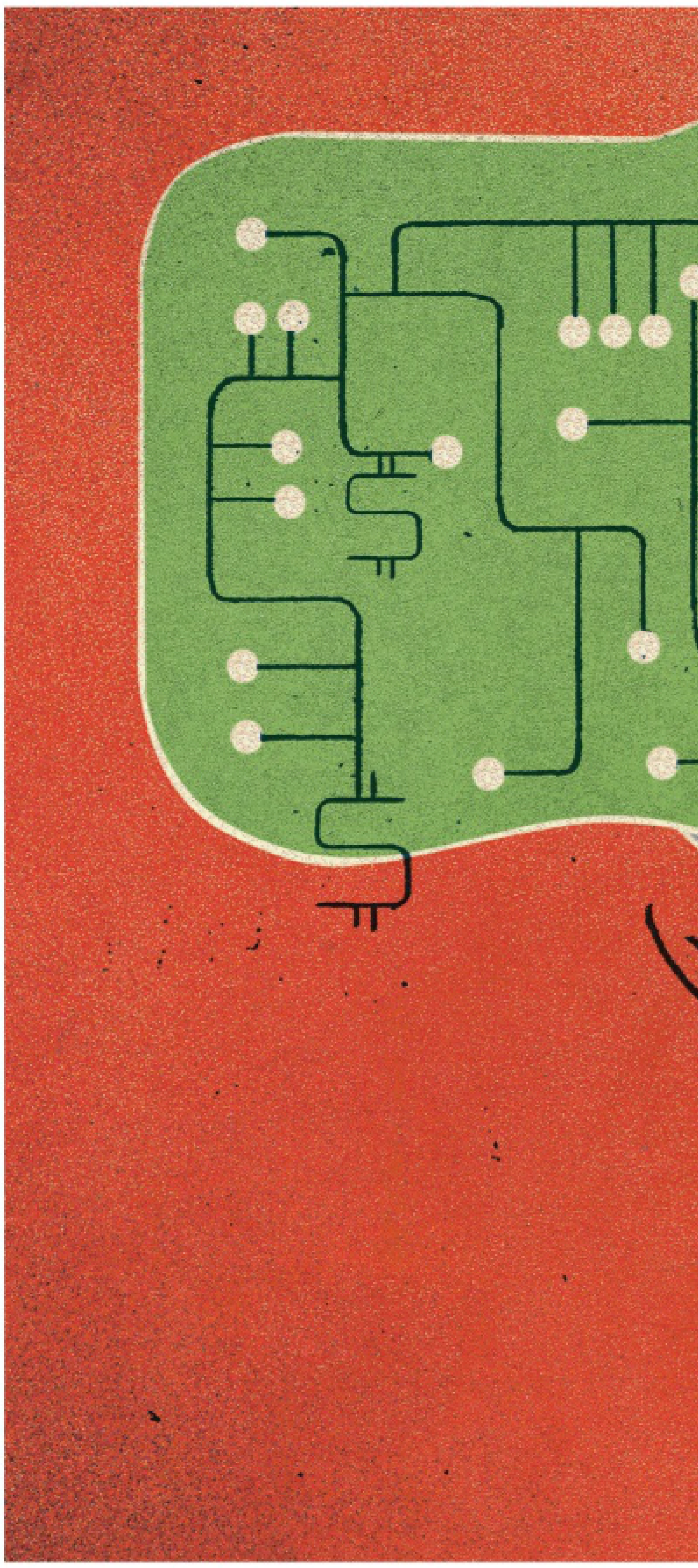
FUTURE FANGS

# PROFIT FROM TINY TECH STOCKS

Big-name leviathans have dominated the market, but the minnows may be catching up. BY RYAN ERMEY



DAVID PLUNKERT

**IT'S NO SECRET THAT LARGE TECHNOLOGY** firms have led the way for much of the bull market. By now, every investor knows that *FANG* stands for Facebook, Amazon.com, Netflix and Google (although Google is now Alphabet). From the beginning of the bull market in 2009 through 2018, tech stocks in the large-company Standard & Poor's 500-stock index edged out tech stocks in the small-cap S&P SmallCap 600 by a half-percentage point per year, on average. As large-company stocks pummeled small firms across the board in 2019, Big Tech pulled in front big time, returning 50.3%, compared with 39.6% for small-tech firms.

But small tech firms may be poised to close the gap. Jim Paulsen, chief investment strategist at market research firm Leuthold Group, likes to refer to them as "mini FANGs," and he's bullish on their prospects. Though small tech firms typically command an 18% valuation premium over large tech names, he says, stocks in the S&P 600 Capped Information Technology index currently sport the same average price-earnings ratio as those in the counterpart S&P 500 infotech index.

That's even though analysts estimate that over the next three to five years, profits for the small tech stocks will increase at twice the rate of big-tech earnings, says Paulsen. And although small stocks tend to come with more volatility than large ones, small tech firms will largely avoid some of the risks tied to the tech behemoths. "These firms aren't in the crosshairs of regulators over privacy or antitrust issues," he says.

## TRY THE SMALL FRY

Paulsen recommends shifting as much as 50% of whatever you have allocated to tech stocks into smaller names. For broad exposure, consider **INVESCO S&P SMALLCAP INFORMATION TECHNOLOGY ETF (SYMBOL PSCT, $96)**, which charges an annual expense ratio of 0.29%. The fund invests in a portfolio of 80 stocks weighted by average market capitalization (share price times shares outstanding), with the average stock clocking in at $1.9 billion. Top holdings include network testing equipment maker Viavi Solutions, energy resource management company Itron, and Brooks Automation, which provides materials and services primarily to the semiconductor industry. (Prices, returns and other data in this story are through December 31.)

Mutual fund investors won't find any pure plays on small-cap tech stocks, though they can invest in funds that tilt heavily in their direction. Among technology sector funds, **USAA SCIENCE & TECHNOLOGY FUND (USSCX)** has relatively limited exposure to giant firms, holding only 44% of assets in large caps, compared with a 70% stake for its average peer. The fund's 25% allocation to pint-size firms may seem scant, but compared with the 6% holding among peer funds, it's a big bet on the little guys. Management of the fund is split between teams at Victory Capital (who manage roughly two-thirds of assets) and Wellington Capital Management. The Victory team screens for stocks with sustainable earnings growth, high returns on capital and improving profit margins, before homing in on stocks with niche businesses and excellent management teams. Wellington's team scours the globe for fast-growing, high-quality firms with market-leading innovations.

Tech names currently predominate, followed by health care firms; 17% of assets are in foreign firms. Top small-cap tech holdings include communications software firm RingCentral (see below) and semiconductor manufacturer Macom Technology Solutions. The fund has bested its average peer in seven of the past 10 calendar years, with a 16.6% annualized return that beats the average tech fund by 1.4 percentage points. Over that period, USAA Science & Tech was 11% less volatile than rival funds, on average.

**DF DENT SMALL CAP GROWTH** (DFDSX) allocates 40% of assets to tech stocks, compared with a 17% average holding among funds that invest in small-company stocks. A focus on fast-growing, innovative firms accounts for the bias toward tech, says comanager Gary Wu. He and comanager Matthew Dent favor firms with a dominant position in a niche market, ample or growing amounts of cash, and a management team that allocates capital wisely and with shareholder interests in mind. The managers also value "sticky" businesses, ones that tend to retain customers. As a result, the fund holds a number of makers of what Wu calls "mission critical" software—tech that massively improves the business that adopts it, becoming essential and embedded in its operations.

The fund doesn't have a long track record, but since its November 2013 debut, Small Cap Growth returned an annualized 11.5%, 1.7 percentage points ahead of the S&P SmallCap 600 and better than 93% of small-cap mutual funds.

## LOOK TO THE CLOUD

Investors with a high tolerance for risk who want to capitalize on one of the fastest-growing trends in tech might consider the stock of firms offering their products and services via the internet—in other words, in the proverbial cloud. Technology research firm Gartner expects annual cloud revenues worldwide to reach $355 billion in 2022, up from $228 billion in 2019. Among the most promising next-generation cloud companies are so-called software-as-a-service firms.

These companies have revamped the old model of providing services through software with a renewable licensing fee. Rather, customers pay a subscription fee to access software in the cloud. Such a model is attractive because it creates a steady, predictable revenue stream with fewer fluctuations in customer demand, allowing execs to invest efficiently in expanding the business. Because customers typically sign long-term agreements and fully integrate the software into their businesses, they tend to stick around.

Though companies such as Salesforce.com and Workday have become well-known names, the shift to doing business in the cloud is still nascent. The three small, fast-growing companies below are well positioned to grow along with the cloud. Because these fledglings lack a consistent record of profitability so far, they're best suited for long-term investors comfortable with more-speculative holdings. But all have records of prodigious revenue growth and have the potential to deliver market-beating returns over the next few years.

**BlackLine (BL, $52)** BlackLine is aiming to revolutionize the way companies keep their books with software that automates and streamlines the financial and accounting practices that go into the closing process at the end of each accounting period. The market for such services amounts to some $18.5 billion in annual revenue, according to market research firm and consultancy Frost & Sullivan. BlackLine's estimated $285 million in 2019 revenue is a mere nibble out of a huge pie, yet the firm, which began trading publicly only in 2016, is nonetheless a leading player in the industry, with best-in-class features and functionality, says DF Dent's Gary Wu.

Shares sit below their September 2018 high due to investor concerns over slowing sales growth. But the slowdown was at least partially by design, says Wu. Rather than shooting for hyperexpansion, BlackLine spent the past two years building out the firm's team that helps customers with implementing the software. With a revamped team in place, Wu expects sales growth to pick back up in 2020.

Measured by generally accepted accounting principles, BlackLine has no earnings to speak of, and by the firm's own (non-GAAP) accounting, profits are meager. That makes the stock, by both standards, expensive. But BlackLine trades at an enterprise value (generally thought of as what it would cost to buy a company outright) that is 7.7 times estimated 2020 revenues, according to analysts at investment firm William Blair. That's a discount to rival firms, which trade at a median multiple of 9.6, they say. And given BlackLine's potential to boost sales and expand profit margins at a faster rate than its peers, the stock deserves a "buy" (outperform) rating, they say.

**Five9 (FIVN, $66)** Whether you contact a business over the phone or use an online chat, people on the other end of those interactions use software to help assist customers. Five9 is a leader in providing such software in the cloud—a business known as contact center as a service. Five9's technology improves customer experience, for instance, by using artificial intelligence to route customer calls to the most appropriate agent among the available pool.

Five9 estimates that only about 15% of call center agents have converted to the cloud and says the potential market for the industry is $24 billion in annual revenues. That gives Five9 "open-field running for the foreseeable future," says Jagjit Sahota, an investment analyst at mutual fund firm Wasatch Global Investors. "We think Five9 will be the dominator in this market."

Five9 has grown at a torrid pace, boosting revenue by an annualized 25% from 2013 through 2018 while steadily improving profitability. The firm's earnings are still nonexistent, but the annual trend has been solidly in the right direction since Five9 went public in 2014. Sahota believes the company should continue to increase profitability while boosting sales at a robust, mid-20s annual percentage rate over the next three to five years.

**RingCentral (RNG, $169)** If RingCentral has a say, you may soon bid goodbye to your old desktop phone. The firm's software allows workers to communicate via phone, text, video conference, instant message and more over one web-based platform. RingCentral, which charges a subscription fee per "seat" (each end user, essentially), estimates the company serves 3 million of the 10 million seats that have already migrated to the cloud. But companies providing the old-fashioned model serve some 400 million to 500 million seats. Helping matters for RingCentral is a recently inked agreement with legacy office communications firm Avaya to become the firm's exclusive cloud software provider, giving RingCentral access to Avaya's cache of more than 100 million seats.

RingCentral's stock has jumped 45% since the deal was announced in October, aided by the firm posting better-than-expected third-quarter results (though profits are still in the red by traditional accounting standards). Wall Street is underestimating the impact of the deal, which could spark 31% annual growth in subscription revenue through 2023, to $2.4 billion, says Jefferies analyst Samad Samana. RingCentral is Samana's contribution to Jefferies' "Franchise Pick" list—the buy-rated stocks the firm's analysts are most bullish on. ■

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Small-Cap Picks

## LOOK BEYOND THE TECH TITANS

**Large-company tech stocks have trumped their small-cap cousins for much of the bull market, but these more-speculative issues could close the gap.**

| Company/Fund | Symbol | Share price | Exp. ratio | Annualized total return 1 yr. | Annualized total return 3 yrs. | Annual revenue† (in millions) |
|---|---|---|---|---|---|---|
| **Invesco S&P SmallCap Info Tech ETF** | PSCT | $96 | 0.29% | 39.2% | 11.7% | — |
| **DF Dent Small Cap Growth Inv** | DFDSX | — | 1.05 | 36.3 | 15.8 | — |
| **USAA Science & Technology Fund** | USSCX | — | 1.02 | 37.8 | 21.5 | — |
| **BlackLine Inc** | BL | 52 | — | 25.9 | 23.1 | $287 |
| **Five9 Inc** | FIVN | 66 | — | 50.0 | 66.6 | 322 |
| **RingCentral Inc** | RNG | 169 | — | 104.6 | 101.6 | 888 |
| S&P SMALLCAP 600 INDEX | | | | **22.8%** | **8.4%** | |

As of December 31, 2019. †Based on analyst estimates for calendar year 2019. — Not applicable.
SOURCE: Morningstar, Inc., Zacks.

STREET SMART | James K. Glassman

# Benjamin Graham's Timeless Advice

Benjamin Graham had all the traits of a great investor—brains, curiosity and discipline. An immigrant to New York, his family was plunged into poverty when his father died. But Ben was a smart kid. He learned to read six languages in high school and went on to attend Columbia University, where he became a Greek scholar and, on graduation, received offers to teach from three disparate departments: mathematics, philosophy and English. Instead, he chose Wall Street, eventually teaching at Columbia's business school, where Warren Buffett was among his students.

Graham had several big ideas. One was that the stock market was susceptible to the same kind of rigorous study as any academic subject. The result was *Security Analysis,* the classic book he wrote in 1934 with David Dodd. Another big idea was that investors should strive to own stocks that are priced low enough that they provide a "margin of error."

**YOU DON'T HAVE TO BE A BRILLIANT ANALYST LIKE GRAHAM TO RECOGNIZE THE VALUE IN VALUE TODAY.**

Extreme value can produce extreme gains. As Graham wrote in the 1964 edition of *The Intelligent Investor* (first published in 1949), "In many cases there may be less real risk associated with buying a 'bargain issue' offering the chance of a large profit than with a conventional bond."

You don't have to be a brilliant analyst like Graham to recognize the value in value today. A study by Fidelity found that over the 26-year period through 2015, large-cap value stocks returned 9% compared with 8.6% for large-cap growth. Since then, however, growth has clobbered value.

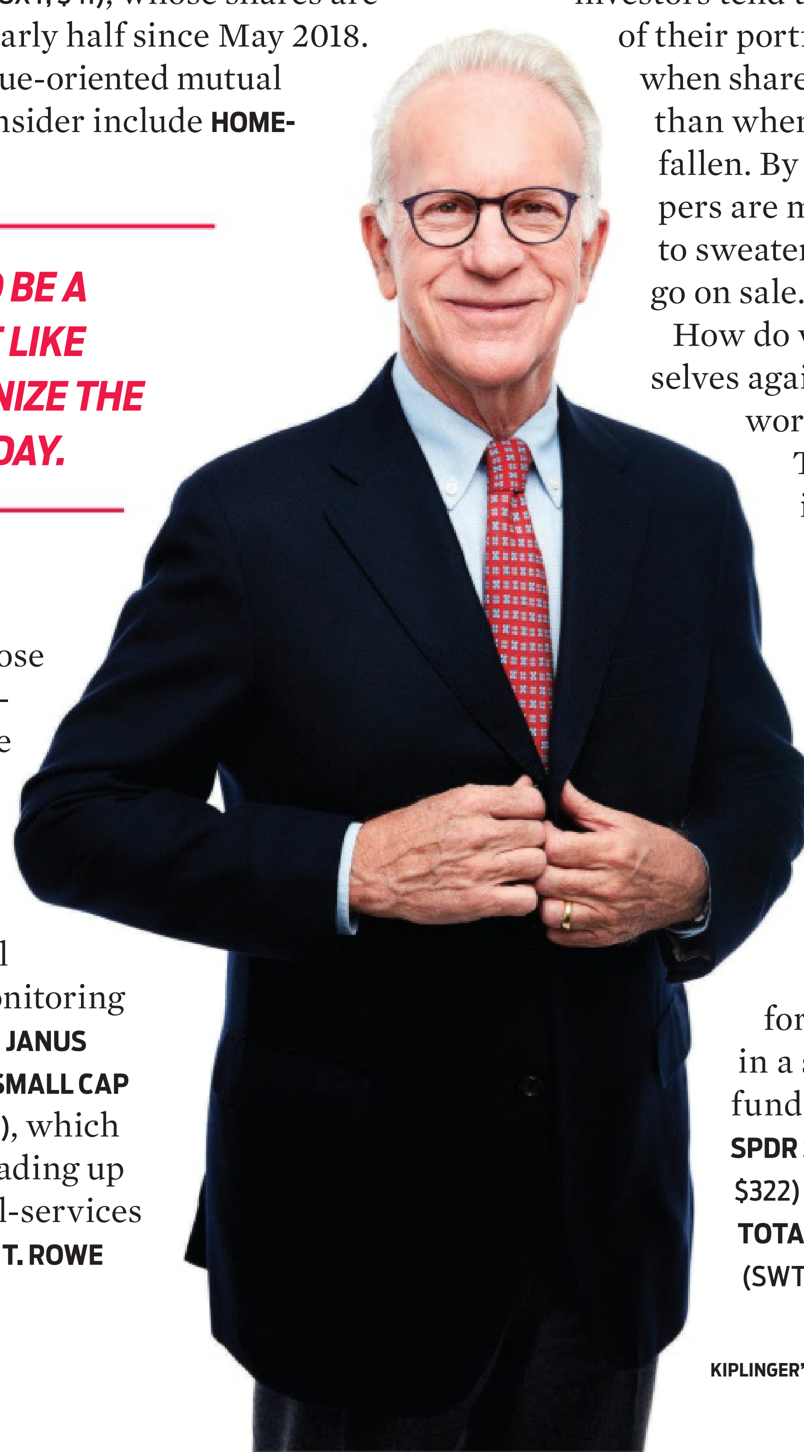
Over the past three years, for example, Vanguard Russell 1000 Growth, an exchange-traded fund geared to a broad growth-stock index, has returned an annual average of 20.4%. **VANGUARD RUSSELL 1000 VALUE** (SYMBOL VONV, $120) has returned just 9.6% annually. Value seems to be particularly undervalued right now. (Stocks and funds I like are in bold. Prices and returns are through December 31.)

Or simply check out the portfolio of **DODGE & COX STOCK** (DODGX), a superb large-cap value fund. Top holdings include **WELLS FARGO** (WFC, 54), a venerable financial company beset by recent management turmoil, and **OCCIDENTAL PETROLEUM** (OXY, $41), whose shares are down by nearly half since May 2018.

Other value-oriented mutual funds to consider include **HOMESTEAD VALUE** (HOVLX), whose top 10 holdings include **PARKER-HANNIFIN** (PH, $206), a company that sells all kinds of monitoring equipment; **JANUS HENDERSON SMALL CAP VALUE** (JSCVX), which has been loading up on financial-services stocks; and **T. ROWE PRICE EQUITY INCOME** (PRFDX), which owns value stocks that pay good dividends, including **THE SOUTHERN CO.** (SO, $64), the Atlanta-based electric utility, now yielding close to 4%.

**The big idea.** Graham's third—and perhaps most important—idea involved psychology. He wrote in *The Intelligent Investor,* "The investor's chief problem—and even his worst enemy—is likely to be himself." Here, he was ahead of his time. The rise of behavioral economics in recent years has shown that people often make financial decisions irrationally. For example, investors tend to devote more of their portfolio to stocks when shares have run up than when prices have fallen. By contrast, shoppers are more attracted to sweaters when they go on sale.

How do we protect ourselves against our own worst instincts? The best answer is dollar-cost averaging, investing the same amount of money regularly in the same bundle of stocks or mutual funds—or, for that matter, in a single index fund such as ETF **SPDR S&P 500** (SPY, $322) or **SCHWAB TOTAL STOCK MARKET** (SWTSX).



POON WATCHARA-AMPHAIWAN

Here's an example: Assume you tell your bank to transfer $1,000 every quarter to a broker who is instructed to use it all to buy shares in a single stock. At the start of the first quarter, the market price of the stock is $25, so your $1,000 buys 40 shares (I'm leaving out transaction costs to make the illustration simple). Three months later, the stock has collapsed to $12.50, so your $1,000 buys 80 shares. The next quarter, the stock drops to $10, so you get 100 shares. Then, it jumps to $20, so you buy 50. At the end of a year, the stock price ends where it began, at $25. You have invested $4,000 and own 270 shares for an average cost of $14.81 each. Had you invested $4,000 all at once at the start of the year, your cost per share would be $25.

Of course, in this example, the stock falls and then rebounds to its original price. If the stock shot straight up, you might have been better off making the all-in investment. But the danger for investors comes not in a sharply rising market, when it's easy to stay invested, but in a falling market, when the impulse is to bail out. Dollar-cost averaging allows you to view your investments in a completely different way. A falling stock price is not a calamity; in fact, it is a boon because it allows you to own a bigger chunk of the company.

**"A SERIOUS INVESTOR," GRAHAM WROTE, "IS NOT LIKELY TO BELIEVE THAT THE DAY-TO-DAY FLUCTUATIONS OF THE STOCK MARKET MAKE HIM RICHER OR POORER."**

It's a rare investment that, at some point, does not fall below the price you paid for it. Graham emphasized both the likelihood and the transience of such declines. "The bona fide investor," he wrote, "does not lose money merely because the market price of his holdings declines." Investors lose money only if they actually sell at a loss.

The problem, as behavioral economists including Nobel Prize winner Richard Thaler have pointed out, is that investors are "loss averse," which means "that they are distinctly more sensitive to losses than to gains." When investors combine loss aversion with a propensity to check the dollar value of their portfolios frequently, they end up making mistakes—such as purging their portfolios of perfectly good stocks at precisely the wrong time.

**A better viewpoint.** When you dollar-cost average, on the other hand, you focus more on the number of shares you own than on the daily prices of those shares. You think of yourself as accumulating a bigger stake in an excellent business—or, if you own a broad-based mutual fund, in a time-tested economy.

"A serious investor," Graham wrote, "is not likely to believe that the day-to-day or even month-to-month fluctuations of the stock market make him richer or poorer." He's right, but how many serious investors are there if we define *serious* as meaning *immune to their own irrational impulses*? Not many.

One solution Graham suggests is "some kind of mechanical method of varying the proportion of bonds to stocks in the investor's portfolio." If the market rises, the investor should "make sales out of his stockholdings, putting the proceeds into bonds; as it declines, he will reverse the procedure." Graham advocates this strategy because it will give the investor "*something to do*" [Graham's italics]; that is, it will "provide some outlet for his otherwise too pent-up energies."

What Graham is describing is a form of regular portfolio rebalancing. Assume you decide on a mix of 60% stocks and 40% bonds. If, after a few years, the stock market rises 50% and bonds are flat, then just holding on to your assets gives you a new mix: 69% stocks and 31% bonds. But if you sell enough stocks and then use the proceeds to buy bonds, you'll get back to 60-40.

I favor rebalancing, but I am a fanatic when it comes to dollar-cost averaging. Another advantage to this strategy is that it is a forced savings program. If a fixed amount comes out of your bank account each month or each quarter, you tend not to miss it because you never had it to spend. What a great way to tame your own worst enemy! ■

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

By the Numbers

## THE MAGIC OF DOLLAR-COST AVERAGING

Dollar-cost averaging allows you to buy more shares when they are cheaper. In this example, an all-in purchase in January would net 160 shares at a cost of $25 per share.

| Date | Share price | Investment | Shares purchased |
|---|---|---|---|
| January | $25 | $1,000 | 40 |
| April | 12.50 | 1,000 | 80 |
| July | 10 | 1,000 | 100 |
| October | 20 | 1,000 | 50 |
| **Total:** | | **$4,000** | **270** |

Average cost: **$14.81**

**INCOME INVESTING** | Jeffrey R. Kosnett

# Beware the Roaring Twenties

It's the new Roaring Twenties, so let's call up an authentic voice from the last such era: Thorstein Veblen, an economist and social critic who coined the phrase "conspicuous consumption." Veblen's most enduring observation is that the more something costs, the likelier wealthy people or status-seekers are to buy it. Economists call such baubles Veblen goods. And today they seem to be plentiful in many investors' income portfolios.

Stocks are expensive, bond prices appear gold-plated, and real estate investment trusts just finished their best year since 2006. Gold is on a roll. The case for caution is legitimate.

Then again, the excesses of the 1920s—and other bull runs, such as those in the 1980s and 2010s—went on and on, frustrating killjoys and permabears. I've advocated that everyone stick with what's working, choose higher-yielding investments over lower-yielding ones, reinvest returned cash and new money, and ignore short-term, news-driven setbacks. That's paid off.

But I don't know how much the market will keep bidding up the price for each dollar of interest or dividends. Is there a breaking point? And is it in sight? In 2019, the strategists and portfolio managers all told me that low inflation, falling interest rates and a compliant Federal Reserve have built a concrete floor under share prices. Buyers might hesitate, but mass selling is not in the offing.

However, I find that many heretofore reasonably priced dividend stocks and other investments really are rich. It's sensible now to look over your holdings and see if you have something that appears to be vulnerable at its current price. The following isn't a strict sell list, because if you have large embedded gains, you can better afford a correction than a capital gains tax bill. Dividends and most interest payments are not in danger. But I expect some sharp price setbacks. Here's where I see some red flags:

**AT&T (symbol T).** A year ago, people piled into the only bona fide blue-chip common stock with a yield above 7%. Then, you paid roughly $14 for each $1 of T dividends. Now, with the stock pushing $40, the price per dollar of dividends is nearly $20. That's steep.

**Baby bonds with $25 par value trading for $27.** Discounts have become scarce among these low-face-value IOUs. Never mind that the interest rate climate is more bullish now that the Fed has stopped tightening. That's a high markup to pay for these bond snippets.

***FOR THE FIRST TIME IN YEARS, VALUATIONS—NOT BLACK SWANS OR POLITICS OR THE FED—ARE A CHALLENGE.***

**Dividend funds.** The sobriquet *dividend* on a fund or a strategy can disguise some awfully high valuations. The 10 largest holdings of iShares Select Dividend ETF (DVY) boast a 43% one-year average return. But of those 10, only one, Dominion Energy, declared much of a dividend hike in 2019.

**Certain closed-end funds.** Gabelli Utility Trust (GUT) has an average long-term return for a utility fund and a portfolio full of the usual suspects. Yet it commands a premium to net asset value of 57%? Even Jay Gatsby wouldn't pay that—but somehow, someone is.

**Water utilities.** For years, American Water Works (AWK) and Aqua America (WTR) had price-earnings ratios in the 20s and sharply rising dividends. Now the dividend growth has slowed, and you pay over 30 times earnings for both American and Aqua. Clean water is priceless, but these shares shouldn't make Apple look cheap.

I'm not bearish on the economy. But for the first time in years, valuations—not black swans or politics or the Fed—are a challenge. Even if investment excesses aren't wretched, they still have a way of correcting. So, shop carefully, review what you own, and don't chase the herd. ■

POON WATCHARA-AMPHAIWAN

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## THE KIPLINGER 25 UPDATE

# A Good Year for Most of Our Funds

**ALMOST EVERY MAJOR** investment category, from bonds to shares in U.S. and foreign companies, had a bang-up year in 2019. How did our Kiplinger 25 funds do? On average, our bond and international stock choices shone; the group's U.S. stock funds were a mixed bag (all returns are through December 31).

Falling interest rates helped bond funds (when rates fall, bond prices rise). The Kip 25's seven selections averaged a 9.4% return in 2019, led by a 15.8% jump in Vanguard High-Yield Corporate. The group beat the benchmark Bloomberg Barclays U.S. Aggregate Bond index (up 8.7%). The worst performer was DoubleLine Total Return Bond. The fund lagged the Agg index largely because the fund avoided corporate debt, a key driver of the index's returns in 2019.

The Kip 25's foreign-stock funds finished 2019 solidly. Three of them—AMG TimesSquare International Small Cap, Fidelity International Growth and Oakmark International—outpaced the MSCI EAFE index in 2019. Baron Emerging Markets edged past the MSCI Emerging Markets index.

Our U.S. stock funds struggled to beat the broad-market benchmark in a banner year. Standard & Poor's 500-stock index gained 31.5%, its best year since 2013. Two Kiplinger 25 funds beat the bogey: DF Dent Midcap Growth, with a 40.1% return, and T. Rowe Price QM U.S. Small-Cap Growth Equity, up 32.8%. T. Rowe Price Dividend Growth and Blue Chip Growth came close to the index return.

The other eight U.S. stock funds lagged the S&P 500. Large-company stock funds fared better than those that invest in smaller firms, and growth-oriented funds beat value-focused ones. Dodge & Cox Stock and T. Rowe Price Value each trailed the S&P 500 by more than five percentage points, but they did better than Wasatch Small Cap Value, which focuses on small-company stocks trading at bargain prices.

Keep in mind that one-year returns are a blip in a long-term investment. Primecap Odyssey Growth, for instance, lags the S&P 500 on a one-year basis, but the fund's three-, five- and 10-year records still beat it. **NELLIE S. HUANG**

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## KEY DATA FOR OUR MUTUAL FUND PICKS

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

| U.S. Stock Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| DF Dent Midcap Growth | DFDMX | 40.1% | 14.0% | — | 0.4% | 0.98% |
| Dodge & Cox Stock | DODGX | 24.8 | 9.7 | 12.6% | 2.6 | 0.52 |
| Mairs & Power Growth | MPGFX | 28.4 | 9.9 | 13.0 | 1.9 | 0.64 |
| Parnassus Mid Cap | PARMX | 28.8 | 9.9 | 12.8 | 1.4 | 0.99 |
| T. Rowe Price Blue Chip Growth | TRBCX | 30.0 | 15.2 | 16.0 | 0.7 | 0.70 |
| T. Rowe Price Dividend Growth | PRDGX | 31.0 | 12.1 | 13.3 | 2.0 | 0.64 |
| T. Rowe Price QM US Sm-Cp Gro | PRDSX | 32.8 | 11.5 | 15.3 | 0.6 | 0.80 |
| T. Rowe Price Sm-Cap Value | PRSVX | 25.8 | 9.2 | 11.7 | 1.5 | 0.85 |
| T. Rowe Price Value | TRVLX | 26.2 | 8.2 | 12.1 | 2.1 | 0.78 |
| Primecap Odyssey Growth | POGRX | 24.0 | 12.5 | 14.2 | 1.3 | 0.65 |
| Vanguard Equity-Income | VEIPX | 25.2 | 10.1 | 12.9 | 3.1 | 0.27 |
| Wasatch Small Cap Value | WMCVX | 23.6 | 9.9 | 12.6 | 2.2 | 1.20 |

| International Stock Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| AMG TimesSquare Intl Sm-Cap | TCMPX | 29.6% | 8.7% | — | 2.6% | 1.23% |
| Baron Emerging Markets | BEXFX | 18.5 | 4.5 | — | 2.4 | 1.36 |
| Fidelity International Growth | FIGFX | 34.0 | 9.1 | 8.8% | 1.8 | 0.99 |
| Oakmark International | OAKIX | 24.2 | 5.1 | 7.3 | 4.3 | 0.96 |

| Specialized/ Go-Anywhere Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| Vanguard Health Care | VGHCX | 22.9% | 8.8% | 14.3% | 1.6% | 0.34% |
| Vanguard Wellington‡ | VWELX | 22.5 | 8.6 | 9.9 | 2.8 | 0.25 |

| Bond Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| DoubleLine Total Return N | DLTNX | 5.6% | 2.9 | — | 3.2% | 0.73% |
| Fidelity Adv Strategic Income | FADMX | 11.0 | 4.4 | 5.0% | 3.1 | 0.69 |
| Fidelity Intermed Muni | FLTMX | 6.5 | 2.9 | 3.5 | 1.4 | 0.37 |
| Fidelity New Markets Income | FNMIX | 10.9 | 5.3 | 6.2 | 4.8 | 0.84 |
| Met West Total Return Bond M | MWTRX | 9.9 | 2.8 | 4.8 | 2.1 | 0.67 |
| Vanguard High-Yield Corporate | VWEHX | 15.8 | 5.7 | 7.1 | 4.2 | 0.23 |
| Vanguard Sh-Tm Inv-Grade | VFSTX | 5.7 | 2.5 | 2.7 | 2.2 | 0.20 |

| Indexes | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield |
|---|---|---|---|---|
| S&P 500-STOCK INDEX | 31.5% | 11.7% | 13.6% | 1.8% |
| RUSSELL 2000 INDEX* | 25.5 | 8.2 | 11.8 | |
| MSCI EAFE INDEX† | 22.0 | 5.7 | 5.5 | 3.2 |
| MSCI EMERGING MARKETS INDEX | 18.4 | 5.6 | 3.7 | 2.6 |
| BLOOMBERG BARCLAYS AGG BND IDX# | 8.7 | 3.0 | 3.7 | 2.3 |

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

# You Still Have Time to Save on Your Taxes

Start now to take advantage of all of the tax breaks available to you.

BY SANDRA BLOCK

The deadline for filing your federal tax return is still weeks away, but there are plenty of reasons to start your taxes well before April 15. If you're owed a refund—and most taxpayers are—you'll get your money that much sooner. Filing early will also reduce the risk that a crook will hijack your refund, because someone can't steal a refund that's already been claimed. And even if you end up owing the IRS, it's better to know that now, when you have time to come up with the money, than at 11 P.M. on April 14. // But perhaps the most compelling reason to start now is that filing early will give you enough time to claim all the tax breaks available to you. The Tax Cuts and Jobs Act, now in its second year, nearly doubled the standard deduction, which for 2019 is $12,200 for single taxpayers and $24,400 for married couples who file jointly. Only about 10% of taxpayers will continue to itemize. // Even if you're sure you'll claim the standard deduction, don't assume you can polish off your return during the Super Bowl halftime. Congress has recently enacted a bevy of tax credits and deductions for non-itemizers. Overlook them and you

 ILLUSTRATION BY RICHARD BORGE

See page 50 for highlights from a Kiplinger/ Barclays Bank poll about the new tax law.

■ THE TAX CODE PROVIDES SEVERAL BREAKS FOR PARENTS OF COLLEGE STUDENTS.

ISTOCKPHOTO.COM (2)

could end up paying more to the IRS than you should.

The tax code is particularly welcoming for parents, even if they don't itemize. For example, if you became a parent last year, you'll be eligible for a $2,000 tax credit. Unlike a deduction, which reduces the amount of income the government gets to tax, a credit reduces your tax bill dollar for dollar. The credit begins to disappear as income rises above $400,000 on joint returns and above $200,000 on single and head-of-household returns—although there's no limit to how many kids you may claim on a return, as long as they qualify.

You may also qualify for a tax credit that will reduce the cost of child care. If your children are younger than 13, you're eligible for a credit of 20% to 35% for up to $3,000 in child-care expenses for one child or $6,000 for two or more. The percentage decreases as income increases. Eligible expenses include the cost of a nanny, preschool, before- or after-school care, and summer day camp.

Once the kids start college, make sure you take advantage of tax breaks designed to offset the rising cost of higher education. 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. Married couples filing jointly with modified adjusted gross income (MAGI) of up to $160,000 can claim the full credit; those with MAGI of up to $180,000 can claim a partial amount.

Unlike the American Opportunity credit, the Lifetime Learning credit 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 a maximum of $2,000. Married couples filing jointly with MAGI of up to $116,000 can claim the full credit; those with MAGI of up to $136,000 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.

One of the most popular above-the-line tax breaks is the deduction for contributions to an IRA. If you're not covered by a retirement plan at work, you can deduct up to $6,000 in contributions to an IRA, or $7,000 if you're 50 or older. Even if you're covered by a workplace plan, you may be eligible to deduct all or a portion of your contributions, depending on your income (see the box on page 46).

Another above-the-line deduction could provide relief for taxpayers with student loans. You can deduct up to $2,500 in student-loan interest for you, your spouse or a dependent if your MAGI is less than $85,000 ($170,000 if filing a joint return). The deduction starts to phase out at MAGI of $70,000 (for singles) and $140,000 (for joint filers). A former student can claim this deduction even if Mom and Dad are making the payments.

### ADVICE FOR ITEMIZERS

With the larger standard deduction, many taxpayers will be able to do a quick, back-of-the-envelope determination to see whether they'll itemize. Plus, if you claimed the standard deduction last year and your situation hasn't changed, it's unlikely you'll itemize on your 2019 tax returns.

But some taxpayers will still benefit by calculating their taxes both ways to see which delivers the lower bill. (Tax software makes this task pretty easy, as long as you have all the necessary documents.)

Homeowners who have a large mortgage are still good candidates for itemizing. For loans acquired after December 15, 2017, you can deduct interest on a mortgage (or mortgages) of up to $750,000. (For loans taken out before that date, you can deduct interest on mortgage debt of up to $1 million.)

High property taxes could also raise the likelihood that you'll benefit from itemizing. The tax overhaul capped deductions for state and local taxes, but you can still claim a deduction for up to $10,000.

Charitable contributions remain a

**Strategies**

# If You're Self-Employed

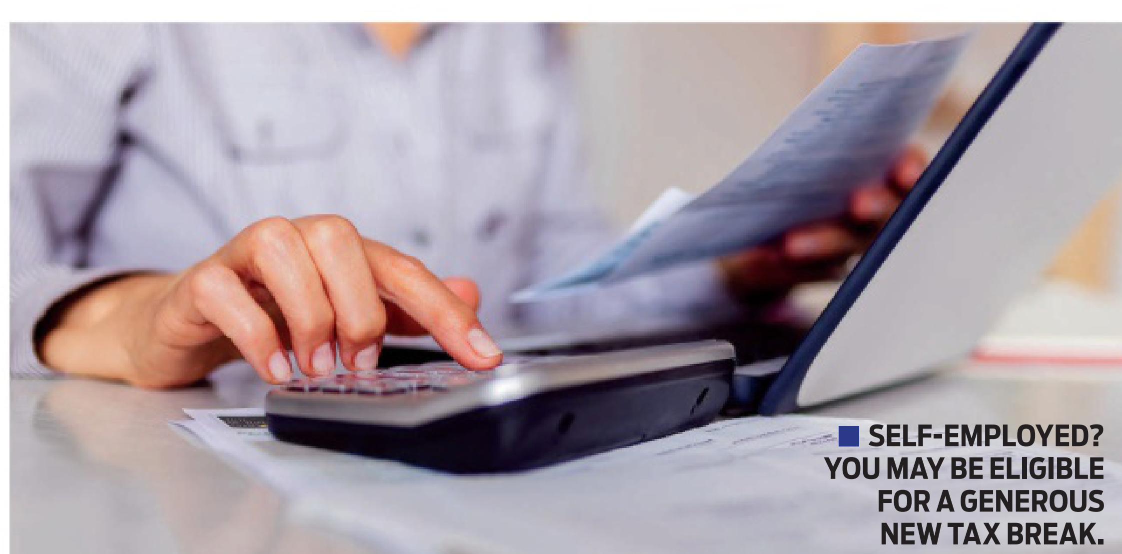
If you work for yourself, either by choice or necessity, the task of preparing your tax return is considerably more complex, even if you didn't earn a lot of money last year. The same goes for people who are independent contractors, a status that's increasingly common in today's workforce.

While employees split the tax for Medicare and Social Security with their employer, people who work for themselves must pay the entire 15.3% tax themselves. That often comes as a shock to newly self-employed workers, says Dina Pyron, of Ernst and Young's TaxChat mobile tax-preparation service. "It's a big chunk of additional tax on top of your income tax," she says.

The good news is that you can deduct half of what you pay in self-employment taxes, even if you don't itemize. And that's just one of a long list of deductions available to those who work for themselves, whether it's a full-time job or a side hustle. All of your business-related expenses—everything from mileage to postage stamps—are deductible (you need to save the receipts). Health insurance premiums are also deductible. And if you use a room or other space in your home or apartment exclusively for business, you can claim a home-office deduction. You can deduct the actual costs, based on a percentage of insurance, utilities and so on, or use a simplified method developed by the IRS: Write off $5 for every square foot that qualifies for the deduction. For example, if you have a 300-square-foot home office (the maximum size allowed for this method), your deduction would be $1,500.

**A big money-saver.** Once you've tallied up these deductions, it's time to determine whether you're eligible for a new tax break that could save you a lot of money. The new tax law allows eligible self-employed taxpayers to deduct up to 20% of their qualified business income—net income after they've claimed business deductions—before they calculate their tax bill. For example, if you're self-employed and earn $100,000 in qualified business income this year, 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.

The deduction is subject to various limitations if your taxable income is $160,700 or more ($321,400 or more for spouses filing jointly). Above those thresholds, the write-off phases out if you provide personal services, such as financial planning or accounting. But if your income is below the thresholds (which is the case for many people who are newly self-employed or have part-time income) you can claim the full deduction no matter what your business. To help alleviate confusion about this tax break, the IRS is providing a separate form this year (Form 8995 or Form 8995-A) to report qualified business income, along with new guidance, says Christina Taylor, head of operations for Credit Karma Tax.



■ SELF-EMPLOYED? YOU MAY BE ELIGIBLE FOR A GENEROUS NEW TAX BREAK.

popular deduction for itemizers, so if you're on the cusp between claiming the standard deduction and itemizing, make sure you get credit for all of your philanthropy in 2019. Gather your receipts and acknowledgments from the charities you supported last year. You can also deduct donations of clothes, books and other noncash items. Use the fair market value of the items—not the amount you paid for them—when calculating how much to deduct. (Some tax software programs provide guidance on valuing your donated items.)

If you had extraordinary medical costs last year, deducting your unreimbursed expenses could push you into the itemizing pool. However, you'll only be allowed to deduct a portion of those expenses. For 2019, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. If your AGI was $50,000, for example, you would only be allowed to deduct the unreimbursed medical expenses that exceeded $3,750. The list of eligible expenses is long, ranging from long-term care to health insurance co-payments to prescription drugs. And if any costs for dental and vision care aren't covered by your insurance, those expenses are also deductible.

### HEADS-UP FOR RETIREES

If you're retired, it's even more important to start your tax return early. While you'll probably claim the standard deduction, you could be in for some unpleasant surprises—particularly if you're a new retiree.

The money you've scrupulously saved in your 401(k) or traditional IRA will be taxed when you withdraw it. As is the case for non-retirees, you'll also owe taxes on dividends, interest and capital gains in your taxable accounts. A portion of your Social Security benefits may be taxable, too (see "Your Social Security Questions Answered," on page 54).

That means it's critical to take advantage of all the tax breaks available to you. To start with, you're eligible for a larger standard deduction once you turn 65. For 2019, you can claim an additional $1,650 for your standard deduction if you're unmarried and not a surviving spouse. If you and your spouse are both 65 or older, you can claim an additional $2,600.

If you reached age 70½ by the end of 2019, you'll have to take required minimum distributions from your tax-deferred accounts and pay taxes on that money (see "Ahead," on page 9, for changes to RMD rules). It's too late to do anything about that now, but it's not too soon to look for ways to lower your tax bill in 2020. You can transfer up to $100,000 a year from your traditional IRAs directly to charity. (If you're married, your spouse can transfer an additional $100,000 to charity from his or her IRAs.) The transfer counts toward your required minimum distribution and is excluded from taxable income.

Depending on your income, you may also be able to avoid paying taxes on capital gains from your taxable

KipTip

## Last-Minute Tax Savers

You must act before December 31 to lock in most tax-saving financial moves, but there are still a few things you can do between now and April 15 to lower your tax bill.

**Contribute to a health savings account.** You have until April 15 to set up and fund a health savings account for 2019. 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 $3,500 to an HSA if you had single coverage or $7,000 if you had family coverage. You can contribute an additional $1,000 if you were 55 or older in 2019, or another $2,000 if you were married and both spouses 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.


A HEALTH SAVINGS ACCOUNT COULD LOWER YOUR 2019 TAX BILL.

**Stash money in an IRA.** You also have until April 15 to contribute to an IRA for 2019. If you're not enrolled in a workplace retirement plan, you can deduct an IRA contribution of up to $6,000, or $7,000 if you were 50 or older in 2019. As with HSAs, contributions to a traditional IRA will reduce your adjusted gross income on a dollar-for-dollar basis, which could also make you eligible for other tax breaks tied to your AGI.

Workers who have a company retirement plan but earn below a certain amount may qualify to deduct all or part of their IRA contributions. For 2019, this deduction phases out for single taxpayers with AGI of between $64,000 and $74,000; for married couples who file jointly, the deduction phases out between $103,000 and $123,000.

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 $193,000. A partial deduction is available if the couple's AGI is between $193,000 and $203,000.

ISTOCKPHOTO.COM


New Math

# Know What You'll Owe

Completing your tax return usually provides a sense of relief, but it can also lead to regrets. Did you owe the IRS more than you expected? Or was your refund so large you almost expect to receive a note from the Treasury Department thanking you for your generous interest-free loan?

In either instance, it's now easier to figure out how much you'll owe the IRS when you file your 2020 tax return. The IRS has overhauled Form W-4—the form you use to tell your employer how much to withhold from your paycheck—to reflect changes in the Tax Cuts and Jobs Act. In the past, your withholding was based on the number of allowances you claimed, and those allowances were based on your personal exemptions. The tax overhaul eliminated personal exemptions, and the calculation that was confusing to many taxpayers no longer applies.

The new W-4 form allows your employer to calculate your withholding based on several factors, including the number of your dependents, family income from other jobs, and deductions you expect to claim when you file your return. The result should be more precise than the old system, says Christina Taylor, head of operations for Credit Karma Tax.

All employees hired in 2020 must use the new W-4, says Alice Jacobsohn, senior manager of government relations for the American Payroll Association. Employees who didn't change jobs aren't required to fill out the new form, but if you're unhappy with the outcome of your 2019 tax return—or your personal situation has changed since you filed your last W-4—you probably should.

If you have only one job, no dependents and claim the standard deduction, all you need to provide is your name, Social Security number and filing status. But if your taxes are more complex—you itemize, for example—you'll need to provide more information. An ideal time to complete this task is right after you've finished your 2019 tax return, because you should have this information at hand.

If you're a two-earner family, the new W-4 does a better job of calculating how much you should have withheld. The form also provides a way to adjust your withholding to reflect income from taxable investments or a side gig. Don't want your employer to know you're moonlighting? Go to www.irs.gov/individuals/tax-withholding-estimator to calculate your withholding. You can enter the result on the "extra withholding" line without revealing any more information about the sources of your income.

accounts. If you're a single filer and your 2019 taxable income was less than $39,375 (or $78,750 if you're married and file jointly), you won't owe taxes on gains from stocks or mutual funds you owned for more than a year.

## WHAT'S NEW

Also note these changes for 2019:

**Alimony payments may no longer be deductible.** The tax overhaul eliminated the deduction for alimony for divorces finalized or modified on or after January 1, 2019. If your divorce was finalized or modified before December 31, 2018, you can still deduct your payments.

**A revamp of the "kiddie" tax was repealed.** The tax overhaul changed the way investment income earned by children younger than 19 (or full-time students younger than 24) was taxed. Under the kiddie tax, a child's investment income that exceeds $2,200 was scheduled to be taxed at the rates that trusts and estates are taxed, which can run as high as 37%. After advocates for military families said the change would penalize children of deceased service members, Congress repealed the change. Investment income earned by children will generally be taxed at their parents' tax rate.

**The IRS wants to know about your investments in virtual currency.** There's a new question at the top of Schedule 1 for Form 1040: "At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" The IRS wants to make sure you're reporting taxable income you earned from investments in virtual currency, says Andy Phillips of H&R Block's Tax Institute. If you sold a virtual currency for more than you paid for it, you're expected to pay taxes on your profits at capital gains rates, even if you used it to make a purchase. ■

CONTACT THE AUTHOR AT SANDRA_BLOCK@KIPLINGER.COM.

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**A KIPLINGER — BARCLAYS BANK POLL**

# Taxpayers Weigh In on the New Tax Law

Our poll shows that most Americans aren't feeling a financial boost from the tax overhaul.

A majority of Americans surveyed in a new poll conducted by Kiplinger in partnership with Barclays Bank say their taxes stayed about the same after the 2017 Tax Cuts and Jobs Act, with remaining respondents almost equally split between higher and lower taxes.

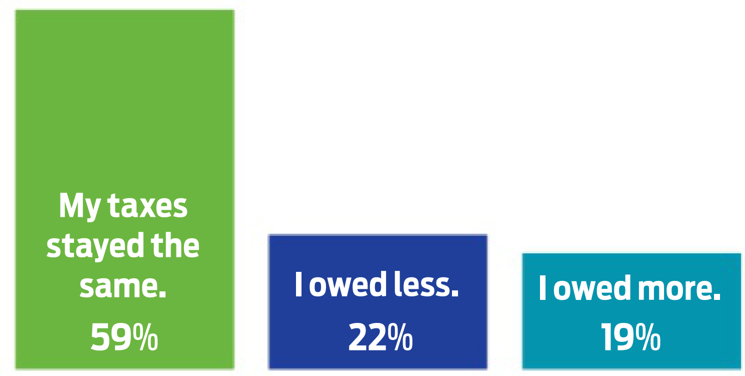
The tax overhaul lowered tax rates and expanded income thresholds, but employers also reduced withholding for many wage earners. That may have reduced refunds or inflated balances due with the returns of many taxpayers—and given the impression that savings under the new law were less generous. In addition, the law scaled back itemized deductions. Some 15% of respondents report being affected by the new $10,000 cap on deducting state and local taxes. Some 20% said they felt the impact of no longer being able to claim miscellaneous itemized deductions to write off items such as tax preparation and investment fees and unreimbursed business expenses.

Other highlights: Nearly 40% of respondents say they switched from itemizing deductions to taking the standard deduction, which increased to $12,000 for individuals and $24,000 for married couples filing jointly for the 2018 tax year (higher for taxpayers age 65 or older). Nonitemizers can't deduct charitable contributions, and roughly 20% of respondents report reducing donations. But about two-thirds of those surveyed say they give to charity regardless of any tax break.

About three-fourths of respondents got a refund on their last return. Nearly two-thirds say they'd rather get a refund than a bigger paycheck throughout the year.

The poll surveyed a national sampling of 852 taxpayers between December 3 and 13, 2019. The median age was 49 years old, and the median household net worth was $203,850 (excluding a primary residence). We've included highlights here (figures are medians unless otherwise indicated).

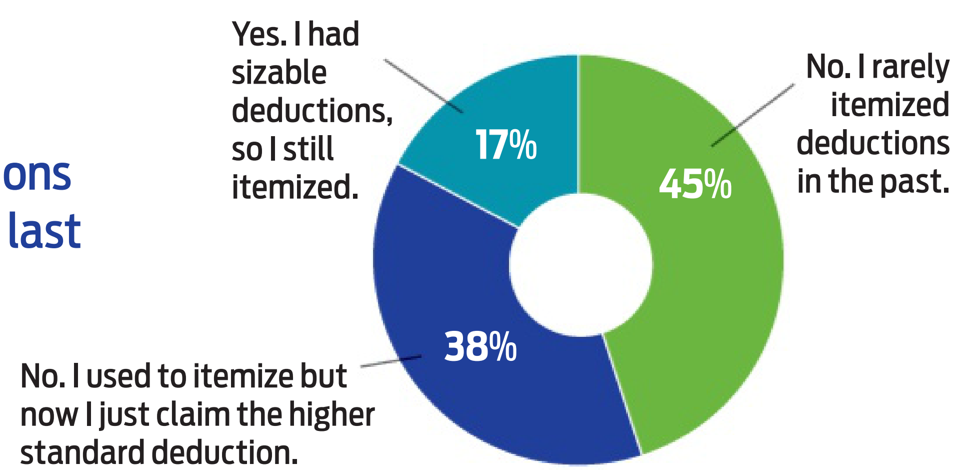
## How did the 2017 Tax Cuts and Jobs Act affect your last tax return?



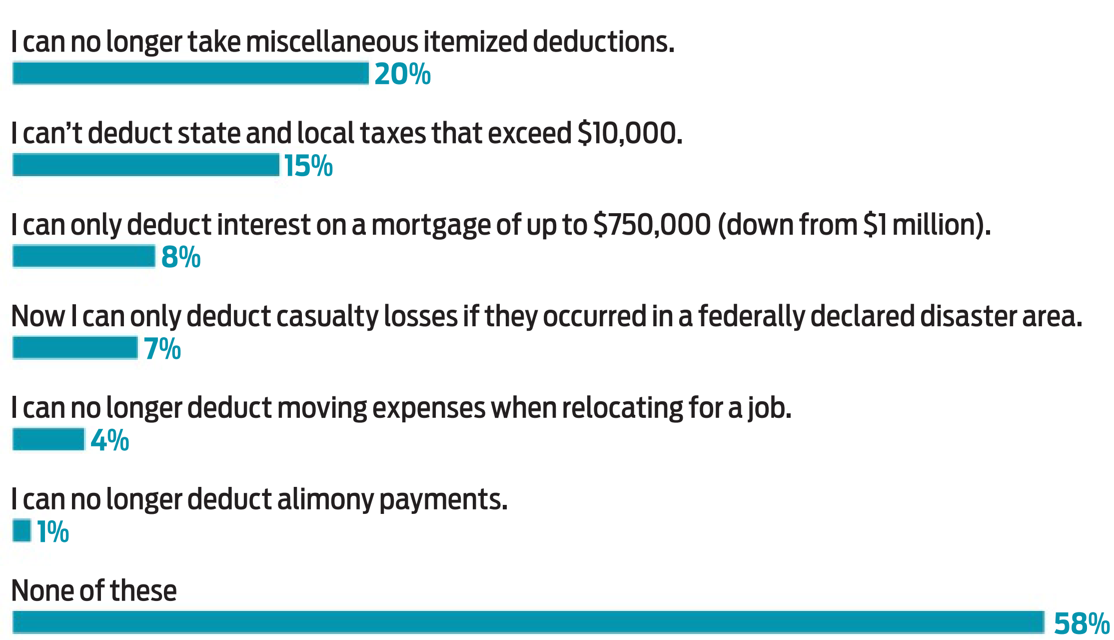

## ITEMIZING

**The standard deduction was doubled last year, so fewer people now file an itemized return.**

### Did you itemize deductions on your last return?




### Which of these tax changes affected you?




Some percentages don't add up to 100% due to rounding or because respondents chose all answers that were applicable.

# CHARITABLE GIVING

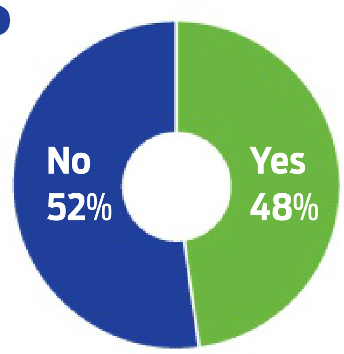
**The 2017 tax law makes it less likely that taxpayers will be able to deduct gifts to charity.**

## Has your charitable giving changed?

| | |
|---|---|
| No, I give regardless of any tax break. | 66% |
| Yes, I have decreased the amount I donate to charity. | 20% |
| Yes, I combined two or more years of charitable giving into a single year to qualify for the tax deduction. | 8% |
| I'm over 70 and now give to charity directly from my IRA. | 3% |
| Yes, I opened a donor-advised fund. | 1% |
| Other | 3% |

# PREPARING TAX RETURNS

## Do you usually hire someone to prepare your tax return?




## If you prepare your own return, do you use tax software?

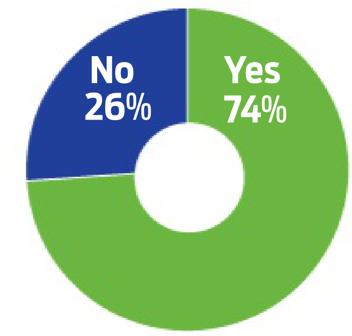
| | |
|---|---|
| Yes | 72% |
| No | 28% |

## Which tax software do you use?

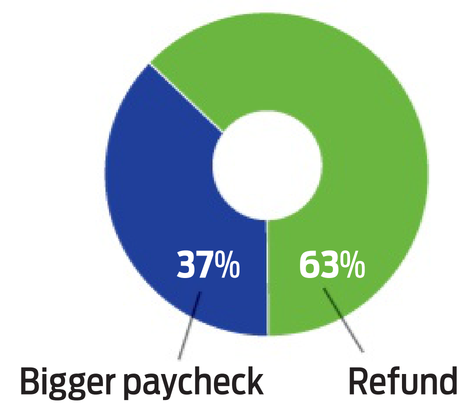
| | |
|---|---|
| TurboTax | 75% |
| H&R Block | 17% |
| Tax Act | 13% |
| Other | 4% |

# REFUNDS

## Did you receive a refund after filing your last tax return?




## Would you rather get a tax refund or have less tax withheld during the year and receive bigger paychecks?




## The median tax refund for 2018 was **$2,154**. What did you do with your refund?

| | |
|---|---|
| Saved it | 38% |
| Spent a portion; saved the rest | 23% |
| Created an emergency fund | 6% |
| Invested it | 10% |
| Paid credit card bills | 25% |
| Paid student loans | 3% |
| Bought gifts for friends or family | 3% |
| Bought myself a gift | 6% |
| Splurged on a vacation | 7% |
| Spent it on everyday items | 16% |

## After filing your last tax return, did you make changes to your W-4 to adjust your withholding?

| | |
|---|---|
| No, I'm fine with the way it is. | 88% |
| Yes, I had more taxes taken out of my paycheck. | 8% |
| Yes, I had fewer taxes withheld. | 4% |

This survey was conducted by Qualtrics between December 3 and 13, 2019.

CREDIT CARDS

# Free Protection for Your Smartphone

**DO YOU WORRY ABOUT CELL** phone mishaps? Before you shell out for insurance, see whether your credit card comes with coverage as a free benefit. Last year, Mastercard began offering cell phone protection for holders of its World and World Elite credit cards. Consumer credit cards from Wells Fargo come with phone insurance, and so do the Chase Ink Business Preferred Visa, Uber Visa and U.S. Bank Visa Platinum cards.

To get the insurance, you have to pay your monthly wireless bill with the credit card (check with the issuer to see whether all phones on a family plan are covered). The coverage limit per claim is often $600, although Mastercard World Elite cardholders get up to $800 a claim. Yearly coverage limits apply, too, typically ranging from about $1,000 to $1,800. And the number of claims may be capped at two or three annually. Deductibles run from about $25 to $100.

The insurance usually covers devices that are damaged or stolen (but not lost). The type of damage that qualifies varies. Mastercard's protection, for example, includes screen scratches that don't affect your phone's ability to make or take calls; some other plans exclude cosmetic damage. Other exclusions may include phones paired with a prepaid wireless plan, devices stolen from checked baggage during air travel and electronic problems not caused by physical damage, such as inability to charge the battery. If your phone is stolen, you may have to provide the benefit administrator a police report that was filed within 48 hours of the incident, and damage claims may require a repair estimate. And you'll typically have to file your claim within a specified window after the damage or theft occurred—often 90 days.

If you buy insurance through your phone carrier, you may enjoy higher coverage limits of about $2,000 per claim and inclusion of lost phones in the plan, says Tina Chang, of WhistleOut, a phone-plan comparison site. But the cost may be about $10 to $20 per month in premiums. **LISA GERSTNER**

*Lisa_Gerstner@kiplinger.com*

## RATE UPDATES

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

## TOP-YIELDING SAVINGS

| Taxable Money Market Mutual Funds | 30-day yield as of Dec. 31 | Minimum investment | Website (www.) |
|---|---|---|---|
| **Vanguard Prime MMF** (VMMXX) | 1.72% | $3,000 | vanguard.com |
| **Gabelli US Treas AAA** (GABXX) | 1.65 | 10,000 | gabelli.com |
| **Vanguard Federal MMF** (VMFXX) | 1.58 | 3,000 | vanguard.com |
| **Payden Cash Reserves MMF** (PBHXX) | 1.57 | 5,000 | payden.com |

| Tax-Free Money Market Mutual Funds | 30-day yield as of Dec. 30 | Tax eq. yield 24%/35% bracket | Minimum investment | Website (www.) |
|---|---|---|---|---|
| **Vanguard Muni MMF** (VMSXX) | 1.15% | 1.51%/1.77% | $3,000 | vanguard.com |
| **M Stanley T-F Daily Inc** (DSTXX)* | 1.07 | 1.41/1.65 | 5,000 | morganstanley.com |
| **BNY Mellon Ntl Muni** (MOMXX) | 1.00 | 1.32/1.54 | 10,000 | bnymellon.com |
| **Fidelity Muni MMF** (FTEXX) | 0.92 | 1.21/1.42 | 1 | fidelity.com |

| Savings and Money Market Deposit Accounts | Annual yield as of Jan. 10 | Minimum amount | Website (www.) |
|---|---|---|---|
| **CFG Bank** (Md.)†# | 2.25% | $25,000 | thecfgbank.com |
| **Customers Bank** (Pa.)† | 2.25 | 25,000 | customersbank.com |
| **BrioDirect** (N.Y.)† | 2.10 | 25 | briodirectbanking.com |
| **HSBC Direct** (Va.)† | 2.05 | 1 | hsbcdirect.com |

| Certificates of Deposit 1-Year | Annual yield as of Jan. 10 | Minimum amount | Website (www.) |
|---|---|---|---|
| **Quontic Bank** (N.Y.)† | 2.20% | $1,000 | quonticbank.com |
| **Marcus by Goldman Sachs** (N.Y.)†^ | 2.15 | 500 | marcus.com |
| **USAlliance Financial** (N.Y.)&^ | 2.15 | 500 | usalliance.org |
| **Rising Bank** (Mo.)†^ | 2.15 | 1,000 | risingbank.com |

| Certificates of Deposit 5-Year | Annual yield as of Jan. 10 | Minimum amount | Website (www.) |
|---|---|---|---|
| **Financial Partners CU** (Calif.)& | 2.85% | $1,000 | fpcu.org |
| **Advancial** (Texas)& | 2.72 | 25,000 | advancial.org |
| **State Dept FCU** (Va.)& | 2.68 | 500 | sdfcu.org |
| **Pen Air FCU** (Fla.)&‡ | 2.60 | 500 | penair.org |

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ^Live Oak Bank offers a similar yield. &Must be a member; to become a member, see website. ‡Home Loan Investment Bank offers a similar yield. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

## TOP CHECKING ACCOUNTS

Must meet activity requirements*

| High-Yield Checking | Annual yield as of Jan. 10 | Balance range† | Website (www.) |
|---|---|---|---|
| **Consumers Credit Union** (Ill.)# | 5.09%‡ | $0-$10,000 | myconsumers.org |
| **La Capitol FCU** (La.)# | 4.25 | 0-3,000 | lacapfcu.org |
| **TAB Bank** (Utah)§ | 4.00 | 0-50,000 | tabbank.com |
| **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. §T-Mobile Money offers a similar yield for wireless customers. SOURCE: DepositAccounts.

## YIELD BENCHMARKS

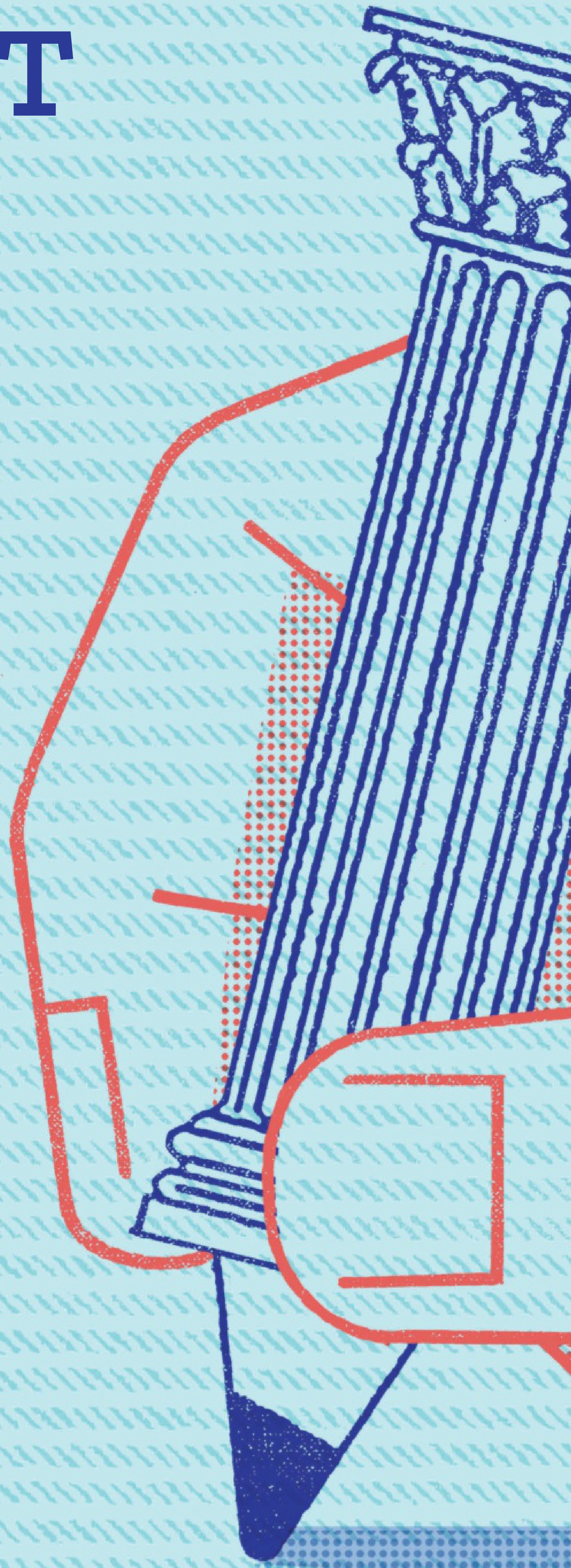
| | Yield | Month-ago | Year-ago |
|---|---|---|---|
| **U.S. Series EE savings bonds** | 0.10% | 0.10% | 0.10% |
| **U.S. Series I savings bonds** | 2.22 | 2.22 | 2.83 |
| **Six-month Treasury bills** | 1.55 | 1.57 | 2.51 |
| **Five-year Treasury notes** | 1.63 | 1.68 | 2.56 |
| **Ten-year Treasury notes** | 1.83 | 1.85 | 2.74 |

SOURCE: U.S. Treasury

As of January 10, 2020.

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

# RETIREMENT

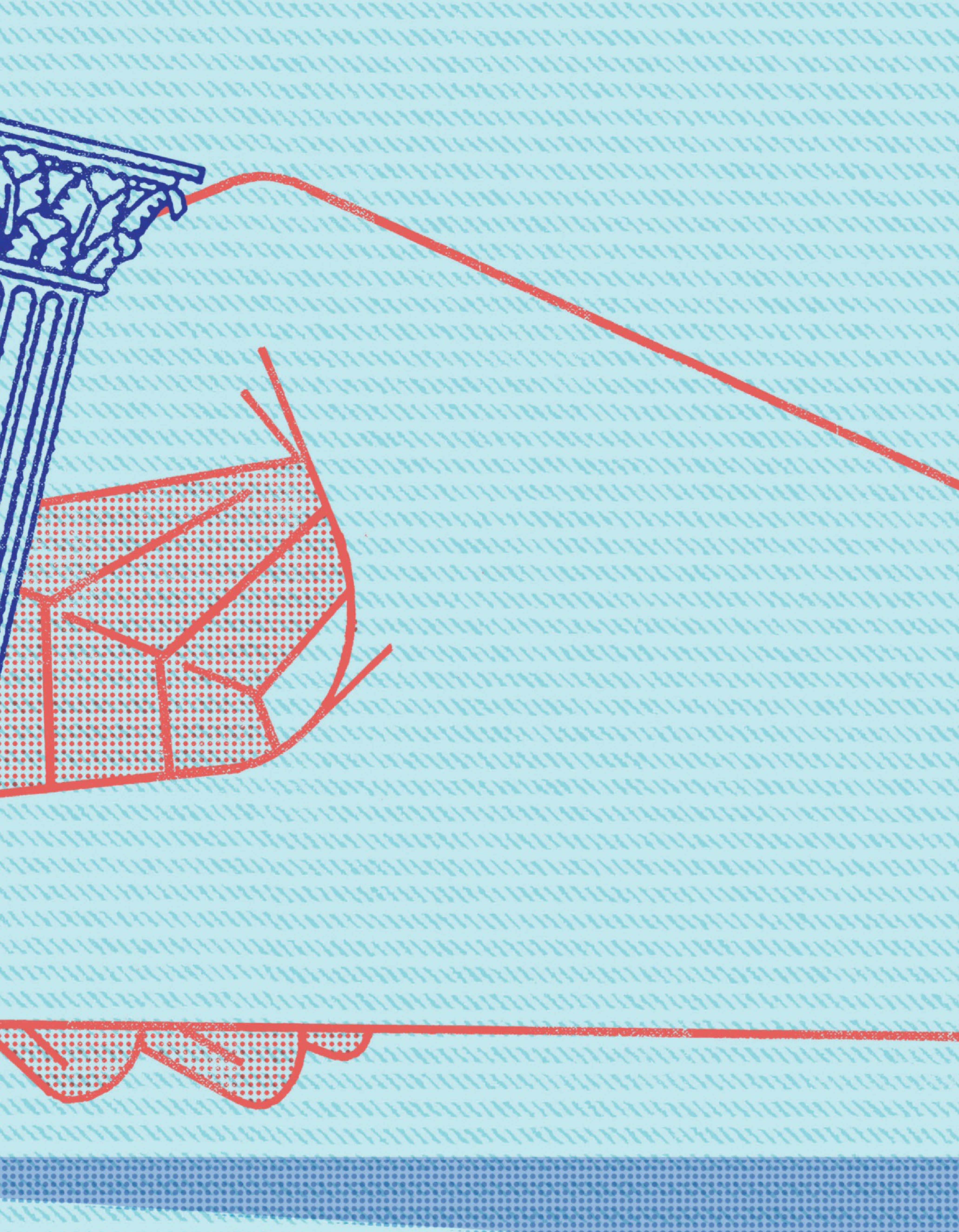


# Your Social Security Questions Answered

Selecting the right strategy will pay off for years to come. **BY LISA GERSTNER**

As you approach retirement, figuring out when and how to claim Social Security benefits looms as one of the most important tasks on your to-do list. Choosing the right time and best strategy could significantly boost your income—and the stakes are particularly high for couples. Judging by the amount of mail we get on this topic, many retirees and preretirees are grappling with the complexity of their choices. Here we've answered several common reader questions. The best decisions for you depend on your own circumstances, but knowing the basics will help you choose the right options.

 ILLUSTRATIONS BY DAN PAGE



### I'm deciding at what age I'll claim Social Security benefits. How does my life expectancy factor in?

First, the basics: You can start getting benefits as early as age 62, but you'll receive up to 30% less in each check than if you wait until your full retirement age, which is 66 for those born from 1943 to 1954 and gradually rises to 67 for those born in 1960 or later. For each year after your full retirement age that you wait to start benefits until the maximum age of 70, you'll get an 8% boost in delayed-retirement credits.

Social Security actuaries aim to set payouts so that if you die at the time your life expectancy projects, you'll receive about the same total amount of benefits no matter when you start claiming them. If you are single and have never been married, spousal and survivor benefits aren't a concern, so your decision about when to claim hinges on how long you think you'll live. If you can afford to postpone taking benefits and are deciding whether to hold out to age 70, a key question is whether you expect to live past 80. Research shows that at about age 80, the cumulative amount you've received in benefits is approximately the same whether you started benefits at age 62, 70 or somewhere in between.

As a rule of thumb, "if you're single and believe that your life expectancy is less than 80, you should claim before 70. If you think you're going to live past 80, wait until 70," says Bill Meyer, CEO of Social Security Solutions, which provides tools to help recipients determine when to claim benefits. A person who is eligible to receive $2,000 a month at a full retirement age of 66 and lives to 95 would receive $198,000 more in total benefits if he or she waited to claim at age 70 instead of at 62.

You can enter your gender and birth date at www.ssa.gov/oact/population to get an estimate of how many more years you may live at your current age as well as at 62, your full retirement age and 70, if you haven't reached those ages yet. But you should also account for your health, your lifestyle and your parents' longevity (especially that of your mother) as you gauge your potential life span.

### How can my spouse and I make the most of our combined benefits?

Married couples have more to consider to maximize their benefits, but they also have certain advantages. Even if one spouse never earned income covered by Social Security, he or she may claim benefits based on the other spouse's record, as long as the other spouse has started claiming benefits. If you claim spousal benefits at your full retirement age, you get 50% of your spouse's primary insurance amount (PIA)—that is, the benefit your spouse is eligible to receive at his or her full retirement age. If your husband or wife waited to claim benefits past full retirement age, the calculation of your spousal benefit does not include any delayed-retirement credits. And if you claim your spousal benefit between 62 and your full retirement age, the benefit is reduced.

If both members of a couple can claim benefits based on their own work history, the lower earner may still get spousal benefits if his or her own benefit is less than half of the other spouse's PIA. In that case, the lower earner receives his or her own benefit plus an additional amount so that the total payout adds up to the maximum spousal benefit for which the lower earner is eligible.

Beyond the ins and outs of spousal benefits, there's the question of when each spouse should start benefits. Ultimately, the spouse with the higher PIA should determine when to start benefits based primarily on the life expectancy of the spouse who is expected to live the longest, says Meyer. If at least one spouse is likely to live past 80, it often makes sense for the higher earner to delay claiming until age 70. Meanwhile, the lower-earning spouse may choose to claim his or her own benefits as early as 62 to gain some income. When one spouse dies, the surviving spouse receives 100% of the highest benefit.

Those who were born before January 2, 1954, can use a strategy called "restricting an application to spousal benefits." Using this method, the higher-earning spouse can temporarily take a spousal benefit, which may prove lucrative in the long run. At full retirement age or later, the higher earner applies for spousal benefits while the lower earner collects his or

KipTip

## Taxes on Social Security

Some seniors are surprised—and dismayed—to discover that a portion of their benefits may be taxable. If all of your income comes from Social Security, your benefits probably won't be taxed. But if you have income from other sources, such as a part-time job, withdrawals from an IRA or a pension, up to 85% of your benefits could be taxed.

Social Security taxes are based on your provisional income, which is calculated by taking your adjusted gross income, not counting Social Security benefits, and adding in nontaxable interest and half of your Social Security benefits. If your provisional income is below $25,000 and you file taxes as single or head of household, or less than $32,000 if you file a joint return, you won't owe taxes on your benefits. If your provisional income is between $25,000 and $34,000 and you're single, or between $32,000 and $44,000 and you file jointly, up to 50% of your benefits may be taxable. If your provisional income is more than $34,000 and you're single or more than $44,000 and you're married filing jointly, up to 85% of your Social Security benefits may be taxable. In addition, 13 states tax Social Security benefits.

her own benefit. Because the higher earner has reached full retirement age, he or she gets half of the lower earner's primary insurance amount. During this time, the higher earner builds delayed-retirement credits on his or her own benefit, and at age 70, the higher earner switches to the boosted benefit. The lower earner switches to a spousal benefit if it's higher than his or her own.

### What should divorcees know?

If you are divorced and were married to your ex-spouse for at least 10 years, you can claim spousal benefits based on your ex's record as long as you're single now and the benefit to which you're entitled based on your own work history is less than the spousal benefit. Even if your former spouse hasn't applied for or suspended his or her own benefits, you can claim spousal benefits if your ex is 62 or older and you've been divorced for at least two years. Be aware that if you remarry, you'll lose the spousal benefit—but you can reapply for it if you and your spouse divorce or he or she dies.

If you're eligible for the spousal benefit for divorcees and aren't close to retirement, don't assume that it's your best bet. You may be able to boost your own benefit higher than the spousal one because Social Security bases your own benefit on the 35 years that you earned the most. Jeannette Bajalia, president and founder of financial-planning firm Woman's Worth, encourages clients to generate more income if their benefits are on the cusp. "I've shown clients that if they made, say, $18,000 a year, that would throw out some zeros on their earnings record" and tip their benefit over the edge, says Bajalia.

### What about widows and widowers?

At age 60 (or as early as 50 for those who are disabled), widows and widowers may begin claiming survivor benefits based on their deceased spouse's record. But, says Bajalia, "just because you're eligible at 60 doesn't mean it's the right thing to do at 60." If you wait to take the survivor benefit at your full retirement age, you'll get the same amount that your spouse was receiving or was eligible to receive; claiming earlier reduces the benefit.

The size of your survivor benefit also depends on when your spouse died and whether he or she started claiming benefits during his or her lifetime. If your spouse had started claiming benefits, your maximum survivor benefit is the amount he or she was collecting. If your spouse died before full retirement age and had not yet claimed benefits, the survivor benefit is based on the amount your spouse would have obtained at full retirement age. And if your spouse died after his or her full retirement age and had not begun benefits, you're eligible for the amount your spouse would have received at the age of death, including delayed-retirement credits.

An additional perk for widows and widowers: You can claim survivor benefits while letting your own benefit grow, then switch to receiving your own benefit later—a smart move if your benefit will exceed the survivor benefit. Or you may choose to start your own benefits at 62, then switch to survivor benefits at your full retirement age. Pursuing the optimal strategy can mean "hundreds of thousands of dollars of difference," says Meyer.

### What happens if I sign up for Social Security before full retirement age and then go back to work?

If you work and collect Social Security before you reach full retirement age, the "earnings test" may decrease your benefit payout, depending on how much you earn. If you won't reach full retirement age in 2020, you can earn up to $18,240 without affecting benefits (the earnings limit adjusts each year based on the national average wage index). For amounts above that

threshold, Social Security withholds $1 in benefits for every $2 you earn. The year you turn your full retirement age, Social Security cuts you a break: The amount exempt from the earnings test is higher—in 2020, it's $48,600—and the test applies only to the months prior to the month of your birthday. Plus, benefits are trimmed by $1 for each $3 earned.

Rubbing a little salt into the wound, Social Security doesn't remove benefits from your checks proportionally. Say that in 2020, your monthly benefit is $1,000, you won't reach full retirement age and you estimate that you'll earn $23,240 for the year. In that case, $5,000 of income is subject to the earnings test, and Social Security needs to withhold a total of $2,500 for the year. Because Social Security typically doesn't make partial monthly payments, you'll get no benefit check for three months, missing out on a total of $3,000. If your 2020 tax return shows that you correctly estimated your earnings, you'll get the $500 back in 2021. If your 2020 tax return shows that you previously overestimated your earnings, you'll get back the difference. If you earned more than expected, you'll have to repay the amount due to Social Security.

Once you reach full retirement age, the earnings test vanishes. Note that income from investment earnings, retirement-account withdrawals and pensions does not fall under the earnings test, which applies only to earnings from a job or self-employment.

The earnings test may cause some pain while you're working, but benefits withheld aren't lost forever. Starting at your full retirement age, Social Security boosts your monthly check to make up for the missed benefits. For example, if you started taking benefits at 62, your full retirement age is 66 and you lost 12 months' worth of benefits to the earnings test, Social Security will adjust your monthly payout as though you had started benefits three years early instead of four.

### I work in the public sector, as a teacher, and I've heard that I may receive reduced Social Security benefits. Is this true?

In certain states, government employees such as teachers, firefighters and police officers may be affected by what's known as the windfall elimination provision (WEP). Under the WEP, you would face a cut in benefits if you receive a government pension paid from an employer that did not withhold Social Security tax from wages and, at some point, you also worked in the private sector, paying Social Security tax on earnings. The WEP won't eliminate your Social Security benefit, but it could shrink your monthly payout by hundreds of dollars. For a list of the 15 states in which public employees may not be covered by Social Security, go to www.nea.org/home/16819.htm. If you're affected by the WEP, use the calculator at www.ssa.gov/planners/calculators to estimate your benefit.

Before the WEP was enacted in 1983, Social Security considered workers who had no earnings covered by Social Security for a certain number of years to be low-wage workers—and for low-wage workers, Social Security adjusts benefits so that they replace a greater percentage of average career earnings than for high-wage workers. The WEP is designed to remove this advantage for those who are also receiving a pension based on employment in a public-sector job. The WEP doesn't apply if you have at least 30 years of substantial earnings under Social Security.

Holding a public-sector job not covered by Social Security may result in a hit to your spousal or survivor benefits, too. The government pension offset (GPO) lowers such benefits by two-thirds of the amount of your government pension. If your monthly pension amount is $900, for example, your spousal or survivor Social Security benefit will be reduced by $600. The GPO may wipe out your entire spousal or survivor benefit.

### Are Medicare premiums automatically deducted from Social Security payments?

If you're collecting Social Security checks when you become eligible for Medicare at age 65, your Medicare Part B premiums are automatically deducted from your benefit. If you aren't receiving Social Security benefits when you're ready to start Part B, you'll have to enroll in Medicare separately, and you'll get a bill for premiums. Medicare Part A, which covers hospital stays, has no premium for most people.

If you have a Medicare Advantage or Part D plan, you can have those premiums removed from your Social Security check, too—but it's not automatic. The amount deducted for Medicare premiums of any kind is considered part of your Social Security benefit and may be subject to tax. ■

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# Picking Stocks? Your Brokerage Can Help

Online brokers have beefed up investor tools and research.

**BY RYAN ERMEY**

**IF YOU'RE A REGULAR READER OF** *Kiplinger's,* chances are you know some basics when it comes to evaluating stocks. You know that you want to buy low, sell high and hold for the long term, for example, and that a low price-earnings ratio means that a stock is relatively inexpensive. But when it comes right down to it, out of the thousands of stocks trading on U.S. markets, do you really know how to choose ones to invest in?

Probably not. But to be fair, you're not alone. Take it from Warren Buffett, the Oracle of Omaha, himself: "Most people don't know how to pick stocks. Most of the time I don't know how to pick stocks," Buffett said in a 2019 interview. He believes that most investors—pretty much anyone who doesn't research stocks for a living—should be invested in diversified, low-cost mutual funds.

We're fans of a well-diversified core portfolio of funds, too. But part of the fun and challenge of investing is picking great stocks, and if you're ready to branch out, your brokerage is an excellent place to start your search. "About 84% of investment research done by our clients on any given day is directly related to individual stock research," says Cory Triolo, head of digital client experience for Merrill Edge. "We want to make that experience as seamless and intuitive as possible." Merrill isn't alone in this regard. Lowering fees and commissions isn't the only incentive brokers are using to lure customer dollars. They're beefing up investor tools and research offerings, too.

**Where to start?** To funnel thousands of stocks down to a handful, investors first much establish a "circle of competence," says Morningstar investment analyst Joshua Aguilar. "It's incumbent on investors to familiarize themselves with certain areas of the market. These need to be businesses that you understand and can see where they might be headed," he says. That doesn't mean you need to have worked in medicine to buy a health care stock, or that only bankers should look at financial firms. But you should understand the dynamics of an industry—the overarching factors, such as interest rate movements, inflation or energy prices that could affect business, as well as the internal profit drivers for select companies.

Several brokers offer some type of "thematic investing" tool that provides lists of stocks, sorted by themes, that are drawing investor interest. For example, Fidelity's lists include familiar investing themes, such as pharmaceutical producers, as well as newfangled areas, such as big data, cloud computing and natural foods.

Clients of Charles Schwab, Merrill Edge and WellsTrade have access to lists of stock picks curated by those firms' affiliated advisers. Merrill Edge's U.S. 1 and Endeavor lists, for example, are based on the advice of Bank of America Merrill Lynch analysts and investment strategists.

**Narrowing things down.** Once you've targeted a universe of investments to consider, it's time to take your broker's stock screener for a spin. No two screeners look the same, but they all function more or less the same way: Users select from lists of stock characteristics, indicating whether they'd

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like a measure—a P/E, say—to be within a certain range or above or below average compared with peers. The more filters you select, the more the pool of stocks that meet the desired criteria shrinks, effectively leaving you with a short list of potential buys.

Most brokers' screens offer more than 100 criteria for winnowing your selections. According to our most recent online broker rankings ("We Rank the Online Brokers," Oct.), Fidelity had 149 criteria, the most of any major brokerage. But you needn't tick every box. Rather, investors should think about what they're looking for in a stock and choose a handful of relevant characteristics, says Charles Rotblut, vice president of the American Association of Individual Investors, an investor education group.

Those seeking income from their investments, for instance, might screen for stocks with consistent dividends, high yields, a healthy dividend growth rate and a relatively low payout ratio (the percentage of earnings paid out in dividends). If building a screen from scratch sounds daunting, get started with a preset screen that you find appealing. Virtually every broker offers preset screens; among E*Trade's are "Aggressive Small Cap" and "Inexpensive Growth Stocks." From there, begin layering on characteristics or eliminating criteria to suit your needs.

**Do your homework.** Once you've run a screen, don't mistake your short list for a buy list. Now is when the real work begins. Go to each stock's page and examine the fundamentals behind the business by poring over the company's income statement, balance sheet and cash-flow statement. Check the income statement for consistently growing sales and profits, for instance, and the balance sheet for whether debt levels are rising or falling.

Your brokerage may have something like an "Overview" or "Key Ratios" page, on which you'll find key metrics such as the debt-to-equity ratio (the lower, the better) and return on invested capital (you want it to be high and consistent relative to peers). The sites may provide comparisons to averages among peer firms—Merrill's site does this, for instance. To see what top executives are thinking, be sure to read the firm's annual and quarterly reports filed with the Securities and Exchange Commission; they are often available on your broker's site as well as the company's web page.

Many brokers provide professional research and stock analysis. Virtually every brokerage offers quantitatively generated research reports, and several offer reports with in-depth qualitative analysis from investment research firms such as CFRA or investment banks such as Credit Suisse. Such reports can be useful for translating the Byzantine language of stock analysis into plain English and may lay out a compelling thesis for or against a stock you're considering. Rotblut says he likes to use such reports as a gut check. "If I think a stock is undervalued and CFRA analysts say the stock is overvalued, then it's a sign to stop and ask myself, *Did I miss something?*" he says.

Stocks that look attractive but you think are overpriced should be added to your watch list. Depending on your brokerage, you can set e-mail or mobile app alerts for when news breaks about stocks on your watch list, for instance, or when the stock's price moves below a certain level. Waiting to buy until a stock loses some luster may take some courage, but, says Aguilar, it should be easier for investors who have done their research. ■

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**MILLENNIAL MONEY** | Rivan Stinson

# Why You Need a Renters Policy

Last fall, my worst fear as a renter became a reality: A pipe burst in the apartment directly above mine, flooding my apartment. What made the situation even worse was that I got the news when I was out of town visiting family. I panicked, even though I was told the situation was being handled. There were three questions running through my head that weekend: How many of my belongings were destroyed? How long would the repairs take? And what would my renters insurance cover?

**Renters insurance checkup.** Ever since I relocated to the Washington, D.C., area from Michigan, I've rented—and had a renters policy (some apartment complexes and landlords require tenants to have one).

In general, a renters policy covers three basics: your liability, personal possessions and living expenses in the event your apartment becomes uninhabitable. The policies typically cover losses from a burglary, vandalism, windstorms and certain types of water damage—which is where things get confusing.

If my apartment had flooded because of a hurricane, I would have been out of luck, because most renters policies don't cover flooding that comes from outside your building. But a burst pipe falls into the accident category, which is usually covered. To file a claim, I logged on to my Liberty Mutual insurance account from my smartphone. I received text message updates throughout the process from the agent handling my claim.

As with any other insurance coverage, renters insurance has deductibles and coverage limits that all factor into the cost of the policy and the amount you'll be reimbursed. My policy, which costs $18.50 a month, covers $15,000 in personal property and provides liability coverage of $100,000 and guest medical coverage of $1,000. My deductible is $500. The average monthly premium for renters insurance is about $17 a month for $40,000 in personal property coverage, according to Insurance.com. (If you have auto insurance, you may be able to get a discount of about 5% by buying your renters insurance from the same company.)

You may want more coverage, especially for personal property, if you have high-end furniture, designer clothes or a lot of tech in your apartment. Before you decide which policy is best for you, take an inventory of your belongings and how much they cost. You can either keep a spreadsheet online in the cloud (which is something I should have done) or use an app such as Encircle to create your list.

***THE AVERAGE MONTHLY PREMIUM FOR RENTERS INSURANCE IS ABOUT $17 A MONTH FOR $40,000 IN PERSONAL PROPERTY COVERAGE, ACCORDING TO INSURANCE.COM.***

Once you've accounted for all your items, you'll have to decide whether to get replacement coverage or actual cash value coverage. The former, which I have, replaces the items at full cost, and the latter factors in depreciation. Replacement coverage costs about 5% more, but Penny Gusner, at Insurance.com, says it's worth it.

"You have to compare how much you would get for your used television or computer to how much it would cost to replace it with something new and similar," says Gusner. You could end up spending more in the end if you go with actual cash value, she says.

Some online companies are automatically giving replacement coverage as your only option.

It's also important to consider any insurance riders that could be available to you. For example, my policy offered additional home computer coverage of $5,000, which I added to protect my expensive MacBook.

In the end, I filed my claim only to discover that the amount of my losses was less than my deductible. I wasn't surprised, but I was hoping to get something for my troubles. I'll definitely start keeping an inventory of what I have and make sure it's up to date. ■

POON WATCHARA-AMPHAIWAN

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BASICS

# How to Shop for Life Insurance

You may be able to estimate how much you need online, but that's just the start of your search.

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**NO ONE NEEDS TO TELL YOU** why you should have life insurance: If you die and your family or anyone who depends on you for support could no longer count on your income, life insurance would replace that income—assuming you choose a policy with the amount of coverage that is right for you.

In addition to deciding on the coverage amount, you have a few more hoops to jump through—namely, whether to buy a whole life or term life policy.

*Whole life* (often called cash-value or permanent life insurance) provides coverage for life and has an investing component that allows you to take a loan against the policy. The downside: Compared with term coverage, it's expensive, especially in the early years of the policy. *Term life* provides coverage for a defined period of time—typically five, 10 or 20 years—without the investment and loan bells and whistles. What you see is what you get. Another advantage: Term life policies typically cost far less than whole life.

For most people, term insurance makes the most sense and, dollar for dollar, gives you the most protection for your money. An insurance agent you trust may be able to make a compelling case for buying some version of cash-value insurance. To counteract the argument that with cash-value insurance you reap generous rewards after you've held a policy for a number of years, term proponents urge consumers to buy term and invest the difference in premiums.

**How much do you need?** Rules of thumb—such as buying coverage equal to seven to 10 times your annual pretax income—and calculators provided by the insurance industry are a handy starting point. But these shortcuts gloss over specifics that shape how much coverage you'll need. A recent analysis by online insurance broker Policygenius found that 77% of term life insurance shoppers were lowballing the amount of coverage they applied for. "Half a million dollars seems like a large lump sum, but over 20 to 30 years, it could leave you at the poverty line if there aren't other sources of income," says Nicholas Mancuso, a senior operations manager at Policygenius.

A more reliable approach to determining the right coverage is to add up the income your family would need to cover ongoing expenses as long as they need it (say, the number of years until your youngest child graduates college); the estimated cost of sending your kids to college; your debts; and final expenses at death. Then subtract savings, college funds and other life insurance policies. Finally, adjust the amount to reflect your situation. For example, you may want to increase coverage if a stay-at-home parent provides child care.

According to the Insurance Information Institute, similar policies often have annual premiums that differ by hundreds of dollars a year. You can get preliminary quotes from multiple insurers using websites such as AccuQuote.com, LifeQuotes.com and Policygenius.com. How much you'll actually pay for a policy depends on your age, gender, health and family history. Insurers generally ask about your height, weight, blood pressure, cholesterol levels and any medical issues, and they will often require a medical exam. Some will also factor in your driving record, credit history and any risky hobbies, such as scuba diving.

If an insurance company quotes a steep rate because of your risk profile, shopping around can help. Some insurers charge much more that others for similar health conditions.

You may already get life insurance as a benefit from your job, and you may be able to buy extra coverage through your employer without a medical exam. That could be a good deal if you have health issues, but if you're in good health, you can usually buy a policy elsewhere for less.

**KAITLIN PITSKER**
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# REWARDS Travel

THE PARIS-BASED BUDGET AIRLINE FRENCH BEE FLIES FROM SAN FRANCISCO TO FRENCH POLYNESIA.

# Secrets

These strategies and money-saving tips will help you unlock the very best values. BY MIRIAM CROSS

Are you itching for a spring or summer getaway? You can often save money on airfare by hopping across the ocean to Europe and Asia rather than crisscrossing the U.S. Or you can jet from a growing number of East Coast cities directly to destinations all over Africa, from Casablanca to Cape Town, without dragging out your journey with a layover. And dreamy islands of the South Pacific beckon, with flights from the West Coast sometimes dipping into the $500s.

We've sifted through travel strategies and money-saving tips that will help you unlock the best values in travel. If you're the type of traveler who is more about the journey than the destination, note that cruise lines are redefining how they offer value, emphasizing perks over last-minute price cuts. Or you can save on leisurely train travel without letting your budget go off the rails. We also reveal tricks from the pros that will help you turn up rooms in sold-out hotels or drive down the cost of a rental car. Finally, we highlight destinations where your travel dollar will go further, both here and abroad.

## Air Travel

**Know when to pounce.** If you reserve your plane tickets more than six months in advance, you probably won't get the best fare, because airlines set their initial prices conservatively, says Hayley Berg, economist at price-prediction app Hopper. In general, you want to book domestic trips about 45 days in advance and international trips closer to 75 days in advance, says Berg. But the windows vary, so start monitoring your airfares further out.

**Let the deals come to you.** Are you happy to go with the flow? Sign up for Scott's Cheap Flights e-newsletter (www.scottscheapflights.com; free for a standard subscription or $49 per year to get peak-season and rare deals). Or get instant alerts from Secret Flying's smartphone app (www.secretflying.com). Both services dig up rock-bottom airfares and may inspire you to pick a vacation spot you would otherwise never consider. Recent steals (all prices are for round-trip fares): Salt Lake City to Shanghai for $472, New York City to Peru for $286, and Boston to Barcelona for a minuscule $177.

YOU CAN SNAG A ROUND-TRIP TICKET TO TOKYO FOR LESS THAN $600.

## DEALS: Hop On a Plane

**Denver.** Frontier, Southwest and United all added routes to and from Denver in 2019, increasing competition to the Mile High City. Hopper forecasts an average domestic round-trip fare of $131 to Denver this year, and Kayak has named Denver as one of its top 10 "wallet friendly" cities—meaning the cost of a flight and hotel is considerably less than most other places.

**French Polynesia.** French Bee, a low-cost airline based in Paris, will whisk you from San Francisco to the dazzling lagoons of French Polynesia in eight hours. One-way basic fares (meaning no checked bag, seat choice or meals) start at $249, and a recent search turned up a round-trip itinerary for $659 in April. We also found flights on full-service airlines in the high $600s round-trip from Los Angeles and San Francisco stretching well into the spring.

**Japan.** Airfares from all over the U.S. to Japan have reached record lows, says Scott Keyes, of Scott's Cheap Flights e-newsletter, with deals in the $500s and $600s, and sometimes even lower. A growing number of routes from the U.S. now fly into Haneda Airport, which is closer to Tokyo than Narita Airport.

**Search the vacation portal.** American Airlines, Delta, JetBlue and other airlines hide discounts of up to 40% by bundling flights and hotels on their vacation-package websites—including for premium cabins and fancy hotels. Sometimes the airline will throw in bonus miles or additional discounts when you snag a package. Don't need the hotel, or prefer to choose different lodging? This trick works even better. "You can book the package with the cheapest hotel, then book your hotel separately and get a ton of savings," says Clint Henderson, senior news editor at ThePointsGuy.com. The airlines don't consider this strategy an abuse of the system, he says, but you should cancel your hotel reservation as a courtesy. We found a five-night package on Delta Vacations for two travelers heading from Detroit to Vienna, Austria, in April for $914 apiece—with only one stop—if they chose the least expensive (and very inconvenient) hotel. For the same dates, flights start at $1,357, with two stops.

**Catch a deal without committing.** The Department of Transportation requires that airlines flying to, from or within the U.S. allow passengers to cancel within 24 hours of buying the ticket for a full refund (or place a 24-hour hold on charging for their airfares), as long as you made your reservation at least seven days in advance (American Airlines and Delta have even shorter windows).

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Delta gives you more wiggle room by allowing you to cancel a ticket for a full refund until midnight on the day after the reservation was made. Some foreign carriers that operate to or from the U.S. only allow a hold, so don't pay for the ticket up front and expect a refund. Online travel agencies may offer similar policies but are not bound by the same rules as airlines.

**Avoid delays.** Grab a morning flight when possible, especially from non-hub airports. The plane that will take you to your destination typically arrives the night before, according to ExpertFlyer.com. The app TripIt will send you real-time flight alerts if you pay for the Pro version ($49 per year), or you can simply type your flight number into Google for an instant update. To track and predict delays, search your flight number at FlightAware .com and click "Where is my plane now."

**Head to the nearest hub.** If your closest airport has few flight deals, scout airfares from the nearest hub airport. You may need to hop a flight or drive to the bigger airport to snag a deal. If you can drive to the airport, find alternatives to pricey airport garages at www .parksleepfly.com, where you can also reserve a package that bundles a night in a hotel, discounted parking and an airport shuttle.

## DEALS: Hit the Rails

**California Zephyr.** This 52-hour journey begins in Chicago and hurtles west across the Rockies, through canyons and over the Sierra Nevadas, before pulling in near San Francisco. The cost for two people sharing a roomette was recently $771 to ride the entire route in late May.

**Switzerland.** A three-day Swiss Travel Pass starts at $240 and offers unlimited travel on regular trains, buses and boats (you pay to reserve on premium panorama trains, but reservations are not available on most other trains). You also get free admission to hundreds of museums and three mountain excursions. "Even the suburban trains in Zurich are tremendously scenic," says Ted Blank, of Travel Leaders.

THE CALIFORNIA ZEPHYR ROLLS PAST STUNNING SCENERY AS IT TRAVELS FROM CHICAGO TO THE SAN FRANCISCO BAY.

## Train Travel

**Buy train tickets early.** Amtrak prices don't fluctuate wildly the way airfares do, so it usually makes sense to book as far in advance as you can. Amtrak has a light presence outside of the Northeast Corridor. In many areas of the U.S., only one train a day rolls through. For summer travel, sleeper cars can sell out 10 to 11 months in advance, says Ted Blank, a luxury travel specialist with Travel Leaders, in Stillwater, Minn. For an overnight or even a daylong trip, consider treating yourself to a sleeper car. It will cost more, but you'll get meals and some privacy.

**Take a pass on buying a rail pass (most of the time).** "People used to buy rail passes in Europe and pop around as the spirit moved them," says Blank. But in many countries in Europe, passes no longer make sense because you can't necessarily just show up and ride, he says. Intercity high-speed trains often require a reservation, which costs extra, and these trains are often sold out at peak times. To see what makes sense, compare the cost of a pass that covers your regions and number of days you want to take the train, as well as the cost of paid reservations where necessary, to point-to-point tickets. For more information, check out Seat61.com, a site dedicated to train travel.

## Cruises

**Think perks, not price cuts.** Cruise lines are pulling back from steep discounts and favoring a choose-your-own-perks approach instead, such as beverage packages, prepaid gratuities or onboard credit. Keep your eyes peeled for incentives during "wave season," which typically lasts from January to March each year. A travel adviser can help you figure out which add-ons are best suited for you. "There can be a huge difference in value, but cruise lines don't typically spell out exactly what the value of a drinks package or prepaid gratuity is," says Scott Koepf, vice president of

KEVIN MIYAZAKI/THE NEW YORK TIMES/REDUX

strategic development with Cruise Planners.

**Plan way ahead.** You are likely to be rewarded with the lowest cruise prices if you lock in your purchase when fares go on sale. That could be as far ahead as three years for high-end ships and two years for other ships. Meanwhile, last-minute deals have dried up over the past few years. "Cruise lines don't want someone talking at dinner about how much they paid and find out the person at the next table bought their fare two weeks ago and paid half," says Colleen McDaniel, senior executive editor of CruiseCritic.com.

**Sail a refurbished ship.** Cruise lines freshen up their ships every few years. But a more substantial renovation can make you feel as if you're sailing on a brand-new ship without the new-ship price tag, says McDaniel. For example, Royal Caribbean has kitted out the *Oasis of the Seas;* the remodeled ship debuted at the end of 2019 and sets sail from New York in 2020, with a 10-story slide, escape room and karaoke booths.

**Book a guaranteed cabin.** If you're not picky about the exact location of your cabin, you can gamble on a long hike to the elevator and reserve a cabin "guarantee," which means the cruise line will assign you a room in the category you choose (inside, outside, balcony or suite). Depending on the line, you may save money over choosing a specific cabin. And if the cruise line oversells in your chosen category, there is a chance of getting bumped up to a higher level at no additional charge.

**Track price drops.** A travel adviser can monitor markdowns for you and shoot you an e-mail when a new offer or upgrade pops up. It's not as easy to compare cruise fares as airfares and hotel rates, but you can shop around on CruiseCritic.com, Kayak and TripAdvisor, and sign up for free price drop alerts through CruiseCritic. Decide in advance what price you're comfortable paying and how inclusive you'd like the ship to be, then pull the trigger when it hits your price point.

## Hotels

**See through sneaky tactics.** While browsing listings on a hotel search site, ignore the urgent messages warning you that you risk missing out on the few rooms left if you don't book now. These claims are often misleading. Research by Consumers' Checkbook found that when booking sites warn about low inventory, they're typically referring to a specific room type with low availability—say, a handicapped-accessible room with a king bed—while rooms in other categories are often still available at similar rates.

## DEALS: Book a Cruise

**Alaska.** As competition to cruise Alaska heats up, you have plenty of options, whether you want to stick to a budget or bask in luxury. On the higher end, CruiseCritic.com recommends Regent's *Seven Seas Mariner* 13-night Alaska cruise, which starts at $8,199 per person on June 4 but folds in food and drinks (including wine and spirits), gratuities, shore excursions and more.

**The Caribbean.** All major cruise lines own private islands in the Caribbean and many are revamping their amenities, which range from snorkeling excursions to zip lines to overwater cabanas, with only fellow cruise guests as company. For example, you can visit Royal Caribbean's Perfect Day at CocoCay in the Bahamas on *Majesty of the Seas,* which departs from New Orleans and starts at $501 for a seven-night cruise on June 13.

**Norway.** A budget cruise is one way to explore a swath of this expensive country. Holland America's 14-day Norse Legends & Viking Sagas starts at $1,669 per person on May 24, and weaves in and out of the fjords carved into the southwestern coast.

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**Pick up the phone when the website sells out.** If the hotel you're eyeing seems to be sold out online, call the sales department or front desk rather than the reservations line, says Henry Harteveldt, travel industry analyst at Atmosphere Research Group. A staff member may be able to rustle up a room that was set aside for, say, a business account.

**Exploit pricing quirks.** For stays of three or more nights—and especially when you are booking multiple hotel rooms in one spot for a family or a group of friends—look up prices for each individual night as well as the total stay. In most cases the rates should be the same, but quirks in hotel revenue software may hike the rate of one big booking. If you find it's cheaper to pay night by night, call the hotel and ask a staffer to link your reservations, says Harteveldt.

**Milk benefits by booking directly.** Hotels often reward loyalty members with reduced rates and freebies, such as Wi-Fi—and signing up for membership is free. At Omni hotels, members on their second stay of two to nine nights can choose a complimentary beverage every day, such as a coffee delivered to their room or a glass of house wine at the bar. At Kimpton hotels, members are eligible for a $30 spa credit. (You can get an extra surprise perk upon check-in, such as free breakfast or complimentary parking, by reciting the "secret password" that Kimpton leaks twice a year through its social media.) The Hoxton, a small chain with branches in Europe and several U.S. cities, lets guests who book directly set their own check-in and check-out times for free with advance notice.

**Get yourself the travel adviser treatment.** If you hold eligible American Express or Chase credit cards, you can book from a selection of upscale hotels through American Express's Fine Hotels & Resorts program or Chase's Luxury Hotel & Resort Collection. You'll receive the same kind of pampered treatment you would have if you had worked with a travel adviser, who can access special perks thanks to his or her relationships—such as free breakfast, room upgrades, early check-in and late check-out—and a special amenity for the property, such as a spa visit, welcome gift or airport transfer.

## DEALS: Stylish Places to Stay

**Florida Keys.** The string of islands that trail off the tip of Florida and end at Key West are awash in high-end hotel openings and reopenings, according to Travelzoo. The Kimpton Key West is slated to open in Key West's historic district in 2020, while the adults-only Little Palm Island Resort & Spa reopens on its private island in March. Campers can also stay in eco-tents in the nearby Everglades National Park for less than $100 a night.

**Morocco.** Luxury lodging is booming: a St. Regis and a Ritz-Carlton are opening in Tamuda Bay, a Ritz-Carlton is debuting in Rabat, and there are new upscale options in Tangier, according to ThePointsGuy.com. We found plenty of rooms for around $150 per night for an April stay at the Hilton Tangier Al Houara Resort & Spa.

**Hong Kong.** Hotels are skimming about 30% off their rates these days, says Henderson, of ThePointsGuy.com, who visited Hong Kong in November and says he felt safe. "The hotels know where the protests will be and tell you which areas to avoid," he says.

## Car Rentals

Before you decide to rent a car, plug your origin and destination points (cities, landmarks and even addresses anywhere in the world) into the search box on Rome2Rio (www.rome2rio.com). The site will calculate routes by plane, train, bus, ferry and car and estimate the price range for each mode of transportation.

**Capitalize on cancellation policies.** Unless you prepay for your car rental, you can typically cancel up until the last minute with no penalty, so you can change plans or trade up for a better deal until the

A ROAD TRIP ALONG THE COAST OF CROATIA LETS YOU TRAVEL AT YOUR OWN PACE WHILE YOU POKE AROUND CHARMING SEASIDE VILLAGES.

MATTHEW MICAH WRIGHT VIA GETTY IMAGES

## DEALS: Road Trip!

**Croatia.** Escape the tourist-laden hot spots of Dubrovnik and Split by taking to the roads, which are in excellent condition and let you poke around tiny villages and glide along the coast at your own pace. It's even doable in the off-season. When Melanie Lieberman, travel editor at ThePointsGuy .com, visited last February, she encountered some frozen roads in the mountains and a dusting of snow, but visited national parks—including the stunning turquoise pools of Plitvice Lakes—and enjoyed balmy temperatures on the coast.

last minute. Eric Simonson, a certified financial planner in Minneapolis who specializes in travel, finds that discounts for prepaying are often slim, meaning "there is no reason to make a reservation that you can't cancel," he says.

**Hand off the bargain-hunting.** Rather than sorting through the car-rental incentives embedded in your memberships, credit cards and loyalty programs, enter your rental dates and location into AutoSlash.com. The site will combine all your available discounts and generate a quote. Or you can enter your existing reservation into its tracking tool and wait for AutoSlash to alert you to a price drop.

**You may want the CDW.** If you have your own auto insurance policy or your credit card benefits include car-rental insurance, it can be tempting to skip the collision damage waiver, which typically costs $10 to $20 per day. But the CDW covers two key charges that your insurance or credit card typically won't cover in full—or at all: loss of use (the daily income the rental company loses while the car is being repaired) and diminished value (the difference in resale value for a car before and after an accident). You'll also save on the headache of dealing with your rental agency if damage *does* occur.

### Smart Spending

**Don't pay unnecessary fees.** Going abroad? Take along a credit card that doesn't charge a foreign-transaction fee, which can add 3% to each transaction. In countries that still largely rely on cash, be judicious about where you use your debit card to minimize fees on cash withdrawals. Avoid currency-exchange kiosks, such as those from Travelex, in favor of a major bank's ATM, which will give better exchange rates.

**Watch out for dynamic currency conversion.** If a merchant gives you the choice between making your transaction in U.S. dollars or local currency, choose local currency. The amount you're charged if you choose dollars includes an exchange rate with a markup, meaning you just paid a sneaky conversion fee. ■

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TAKEAWAY

# Beat the Gift Return Clock

Planning to return a holiday gift? Better get busy. Several big retailers have shortened their deadlines for returns, and some have different rules for different types of items, according to a survey by ConsumerWorld.org. For example, you may have less time to return a big-screen TV than an unwanted sweater. Here are examples of some major retailers' policies. Keep in mind that there are lots of exceptions—some retailers' exchange policies are more than 90 pages long.


**Amazon:** Returns of most items within 30 days qualify for a full refund. Items returned later are subject to a 20% "restocking fee."

**Macy's:** 90 days for most items; shorter deadlines for some items, such as designer clothes and jewelry.

**Bed Bath and Beyond:** 180 days for most items; 90 days for electronics.

**Target:** 90 days for most items, 30 days for electronics and only 15 days for most Apple products.

**Walmart:** 90 days for most items.

**Costco:** No deadline for most items; 90 days for TVs, computers and other electronics.

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