TOP TRAVEL DEALS OF THE YEAR P. 124

Money

SPECIAL DOUBLE ISSUE

JANUARY/FEBRUARY 2017 /// MONEY.COM

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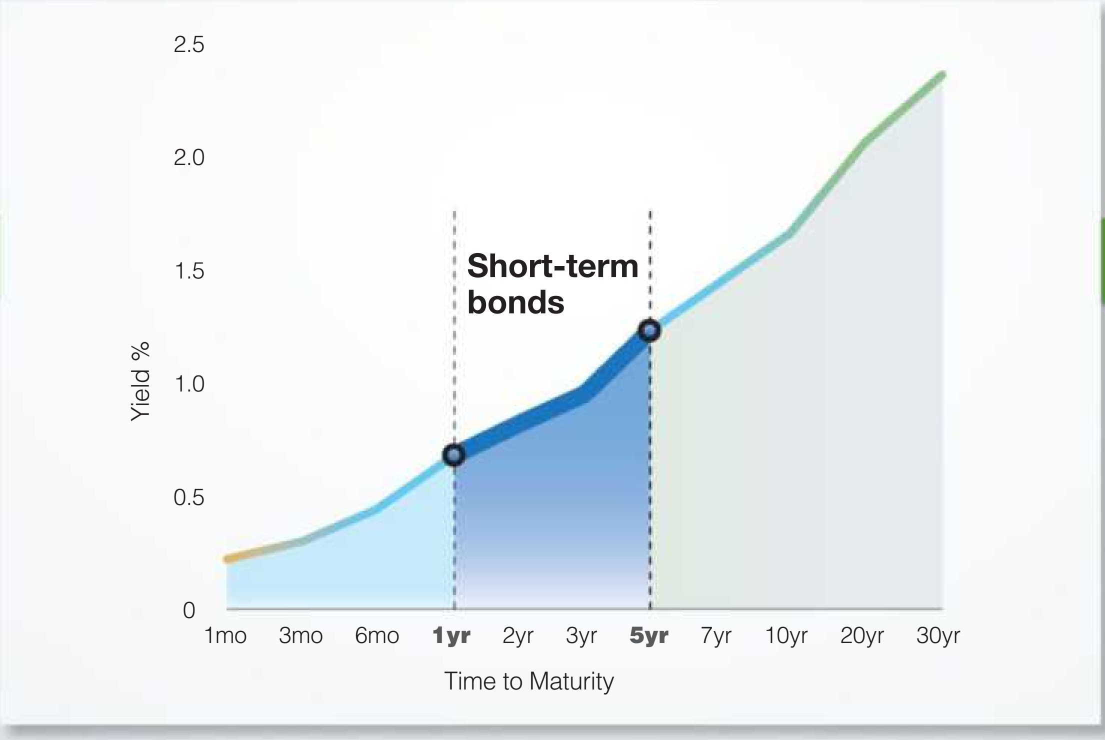
The strong case for short-term bonds as interest rates rise.



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Photograph by THE VOORHES

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BUENOS AIRES

TRAVEL GUIDE 2017: WHAT TO DO WHERE

MONEY's vacation scheduler on page 124 maps out the best deals for a year of adventures—from March wine tasting in Sonoma, Calif., to a Buenos Aires getaway in November. But what should you do once you arrive at each destination? Get expanded hotel and activity listings online at ***money.com/travel.***

CAREER REENTRY

Several employers actively recruit workers who have taken time off to care for a baby. See a list at ***money.com/parents.***

TAKE THE QUIZ

How much do you really understand about bond prices and yields, interest rates, and the Fed? Test yourself at ***money.com/bond-quiz.***

LEWIS ON TRUMP

The bestselling author of *The Big Short* weighs in on how financial regulations might change under President Donald Trump.
money.com/michael-lewis

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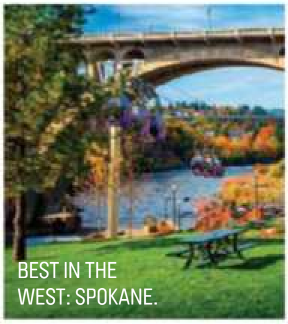

BEST IN THE WEST: SPOKANE.

RE: **BEST PLACES TO RETIRE** [NOVEMBER]

Contrary to your suggestion, I think taxes are one of the least important factors in deciding your best place to retire. Not only is general medical care a priority, but also any specialty care you need. Bike paths are lovely, but how is the local public transportation when you're no longer up for biking? Lower taxes will not, in the long run, make me happier. Being able to live independently, with good medical care, will.

RICHARD FINK, *Andover, Mass.*

BETTING ON RENO

So glad to see Reno on your "Best Places to Retire" list [November]. Right on! We moved to a city near Reno from the San Francisco Bay Area about two years ago and couldn't be happier. As you described, Reno has all you want and need, be it excitement, the outdoors, community feeling, a cute downtown, jobs for those wanting to work, affordability, and tax benefits.

ANGELA PEARCE-JORDAN
Dayton, Nev.

NOT FUNNY

I want to voice my great displeasure in "The Money Champions" [December]. I know you warned that John Oliver's joke might offend, but I was definitely not prepared for a joke of this nature. I do not feel like a prude—I am a family nurse practitioner—but after reading his joke I had to stop eating my breakfast, and I have yet to finish reading the magazine. If you need to warn readers that something is offensive, then you should not publish it.

KRISTINE FRESCHI
St. Louis

A SUNNY OUTLOOK

Jean Tomlinson told a great story in "At Peace in the Sun" [December]. It was so moving. We have a lot to be thankful for on this Thanksgiving Day (the day I read her story) and the rest of the year, for that matter. Keep up the good work.

KEVIN CONNOLLY
No address given

A NOTE TO OUR READERS

First Republic's Business Interest Checking account, included in "The Best Bank for You" [November], is no longer MONEY's selection as best for cash businesses. While the published account terms were technically accurate, the bank has informed MONEY that it does not generally work with cash-based businesses. These businesses may do better with a local community bank or credit union.

COMMENTS ABOUT RECENT STORIES ON MONEY.COM

We're drowning. Cut us loose and let us invest, innovate, own homes, pay taxes, thrive ...

@ADAM_POP
Re: "Student Loan Forgiveness Is Set to Cost Taxpayers Billions More Than Expected"

I kind of agree with her. I wish my grandkids could experience what I did growing up.

@STEVEBE99343818
Re: "Dolly Parton Is Grateful She Grew Up Poor"

They did it this year for a buck. I've had so many Frostys I am ashamed of myself.

MIGUEL RODRIGUEZ
Re: "Wendy's Will Give You Unlimited Frostys Next Year for Just \$2"

CORRECTIONS

"Best Places to Retire" [November] erroneously stated that Spokane's Elson S. Floyd College of Medicine is at Eastern Washington University. It is part of Washington State University.

"The Best Bank for You" [November] contained an incorrect count of states in which Key Bank operates. It is 15, not 16.

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Needs Atte tion
<65% of Goal
Good
81–95%
Goal
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>95% of Goal
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FIRST

The MONEY Do List

Smart moves and key dates to keep in mind right now.

JAN. 1

Resolve to build wealth. Happy 2017! "I'll save more" is a top New Year's pledge. To motivate yourself, sign a contract at StickK.com to cough up money if you fail. And tell a buddy. One study found that sharing goals with a friend boosted success rates by 33%.

JAN. 5–8

Nab a tech deal. As new phones, drones, and other gadgets debut at the Consumer Electronics Show in Las Vegas, keep an eye out for discounted older models, says Marcy Bonebright of DealNews. The price of an Alienware 13 R2 laptop dropped $120 just before last year's CES.

JAN. 17

Pay taxes (yes, already). Attention, freelancers and anyone with big investment income: Your final 2016 estimated taxes are due today. Schedule hassle-free payments at the official Electronic Federal Tax Payment System site (eftps.gov).

JAN. 31

Snare Obamacare. Today's your last chance to get a marketplace health insurance plan for 2017 (healthcare.gov). The penalty for going without coverage: 2.5% of income, or $695 per adult and half that for a child (maximum $2,085).

FEB. 1

Impress your valentine. Planning to buy one-carat diamond studs for your love? Get 0.97-carat jewels instead. You'll save up to 25%, since diamond prices jump at each half-carat point. The 0.03-carat difference will be imperceptible.

FEB. 4–10

Start on your 1040. Check that you've received your tax statements, since most should have arrived by now. A quick refund is just one advantage of filing soon (see "The Early-Bird Dividend," page 27).

FEB. 15

Make a late application. Worried your high school senior won't get into a great, affordable college? Today is the last day to apply to some top-value schools, like Muhlenberg College (No. 87 on MONEY's Best Colleges rankings) and Towson University (No. 242). Find more schools with late deadlines at money.us/late.

FEB. 28

Book a New Year's flight. If 2016 is any indication, now is the best time to buy year-end plane tickets. Christmas and New Year's average airfare was $130 lower this time last year than in early December, according to CheapAir.com. —ATHENA CAO

CLOCKWISE FROM TOP RIGHT: PHOTOGRAPHS BY PHILLIP HAYSON/GETTY; ELIZABETH SIMPSON/GETTY; COURTESY OF MUHLENBERG COLLEGE; SASCHA/GETTY; PETER DAZELY/GETTY; GETTY; RICHARD NEWSTEAD/GETTY; CHUCK CROSS/GETTY

RETIREMENT

Self-Defense Can Ward Off Senior Financial Abuse

A NEW SURVEY OF CAREGIVERS by Allianz Life finds that 37% of seniors have suffered financial abuse—almost double the estimated 20% that the company found in a similar 2014 survey. "Most people think it will never happen to them. But it does," says Debra Whitman, AARP's chief public policy officer. Such abuse can take the form of telemarketing scams, pressure to sign a will, or an empty promise to provide care in exchange for property. Victims of elder financial abuse lose an average of about $36,000, Allianz estimates—often to their own family members.

While regulators and financial companies have launched efforts to curtail the problem, there are several ways seniors can help themselves.

Treat calls cautiously ... Phone scams are on the rise. If a number on caller ID is unfamiliar, don't pick up. If your bank purportedly leaves a message, call the number on your statements, not any number on the voicemail.

... and emails too. Don't directly respond to a company's email asking for information. Instead, go to that company's website and find a customer-service number or an email to make direct contact. Then ask if it contacted you.

Share access—a bit. Many financial institutions let you set up view-only access so that family and friends can check for suspicious activity. Why limit access? Unfortunately, family and friends are not always trustworthy.

Watch for local cons. Crooks often target a particular neighborhood for small-scale scams. To see which types of fraud may be hitting your neighborhood, check out AARP's scam-tracking map at aarp.org/fraudmap.

—MEGAN LEONHARDT

REGRETS: YOU'VE HAD A FEW

When you ask Americans about their financial successes and regrets, the two often overlap.

A new survey by Claris Finance found that 18% of adults said getting a college education was the best money decision they ever made, while 15% said it was buying their first home. But nearly a quarter said college was "a waste" of time, and nearly 20% wished they had chosen a cheaper school.

Nearly 40% of respondents said finally paying off their mortgage or another large debt was the financial achievement of which they were proudest, above "supporting my family" and "putting myself through college."

—MARTHA C. WHITE

QUOTED

"Starting to accumulate wealth is a very discouraging business."

Personal finance author **Jonathan Clements** *on Money.com, explaining that the small size of investment returns can be disheartening for young adults.*

ILLUSTRATION BY TAYLOR CALLERY

Sign up for AARP's financial fraud alerts at ***aarp.org/fraudwatchnetwork.***

HOW TO CHECK UP ON "CHARITABLE" DEALS

Buying a product that supports a nonprofit sounds great, right? But to ensure your purchase is meaningful, ask these questions.

1 DO YOU KNOW WHO WILL GET THE MONEY—AND HOW MUCH? Avoid products that use generic or vague phrases like "a portion of proceeds" will go to charity, says the Better Business Bureau. Instead look for specifics like "50¢ for every item purchased" or "10% of the purchase price"—plus the group or groups that will benefit.

2 DOES THE CONNECTION TO THE CAUSE SEEM AUTHENTIC? Do the charity's mission and the company's products conflict? One classic mismatch: KFC's 2010 "Buckets for a Cure" campaign, which raised money for breast cancer advocacy—and led critics to note the link between obesity (often the result of a high-fat diet) and breast cancer.

3 WOULD YOU BUY WITHOUT THE CHARITABLE TIE-IN? Never buy something just because of its connection to a charity. If you truly care for a cause and want to help, make your donation directly to the organization.
—*KERRI ANNE RENZULLI*

CLOCKWISE FROM TOP RIGHT: PHOTOGRAPHS BY JEREMY SHATAN/GETTY; GETTY (3); TOM PERKINS/GETTY; TONY HUTCHINGS/GETTY

CAREERS

Paid Parent Leave: Rare

Despite the increasing popularity of paid leave programs in the U.S., a new report finds that there's a long way to go.

Just 13% of private-sector employees and 6% of low-wage workers have access to paid family leave, according to Paid Leave for the United States (PL+US), a nonprofit that promotes the adoption of paid leave policies. More than 100 million Americans have no access to paid leave, and one in four mothers goes back to work just 10 days after giving birth, according to PL+US.

The report surveyed the 60 largest employers in the country, concluding that the companies "are not doing enough" on the paid leave front. Of those surveyed, Deloitte, Bank of America, and EY were deemed "standouts," offering 16 weeks of fully paid parental leave for mothers, fathers, and adoptive parents.

The U.S. is one of only a handful of countries not mandating paid maternity leave.
—*ALICIA ADAMCZYK*

1.6% How much women outearn men in similar jobs in Connecticut, one of only three states where women do.

NOTE: *Women also outearn men in Vermont, Rhode Island, and Washington, D.C.* ***SOURCE:*** *PayScale*

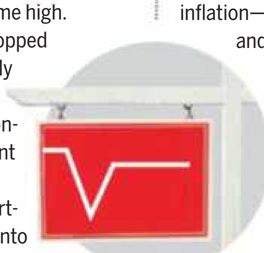
HOME PRICES RETURN TO PRE-CRASH LEVELS

Adjusted for inflation, though, the average is still below the mark set a decade ago.

Homeowners, you're in luck: U.S. real estate prices have reached an all-time high.

September home prices topped their previous peak, set in July 2006, according to the S&P CoreLogic Case-Shiller National Index. The former high point occurred about a year and a half before the subprime mortgage crisis plunged the U.S. into the Great Recession. Prices rose by 5.5% compared with September 2015. Seattle's homes saw the highest price gains, soaring 11% since last year. It was followed by Portland, Ore., where prices jumped by 10.9%, and Denver, with an 8.7% increase.

The spike in home prices—about 16% below their prior peak after adjusting for inflation—is caused by increasing demand and tightening supply. Prices have also been propped up by mortgage rates that fell to a three-year low this year. As a result, competition for homes has become intense. Less than half of buyers are getting the first home on which they make an offer, according to Zillow. —*KERRY CLOSE*



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Economy Clash

THE QUESTION: I'm a full-time student with loans. How do I negotiate paying for vacations with my employed long-term significant other, particularly when my partner sometimes chooses trips outside my budget?

SEE "10 THINGS WE'VE LEARNED" (PAGE 46)

THE READERS

Figure out what you can afford for a given vacation. Begin the negotiations with that number and keep it firm. Then determine where you can go if your partner puts in the same amount. Of course, if he or she wants to put in more for a more exotic trip, you wouldn't be averse to going along, but your partner would cover all the extra costs.

ART LAFEX
Olathe, Kans.

You and your significant other should each year determine how many trips you will take. Divide up the work of researching the costs of each trip. Then rank destinations by taking into account your desire to go and their cost.

ADRIANA COLLINS
San Francisco

Once you make it clear that you're low on funds, your partner may decide to pay all or part of your way, or just decide to go with friends.

JEREMY ALFORD
North Port, Fla.

Do not borrow money for a vacation that you cannot afford. A "staycation" will let you two do something near home.

JAMES WEST
Minneapolis

Find someone else who understands your situation. There's a lack of respect for your financial situation from your significant other. That may never change.

NATHAN SCHWAHN
No address given

THE EXPERT SAYS

This isn't about money; it's about how you make choices together. Every couple develops an expense-sharing pattern over time. If you can't afford that pattern on these trips, research affordable vacations. Then discuss options with your partner, including having your partner pay more than his or her usual share of the cost.

JACQUETTE M. TIMMONS, *financial behaviorist and author of* Financial Intimacy

FACEBOOK QUESTION OF THE MONTH

HOW DID THE 2007 FINANCIAL CRISIS CHANGE YOU?

"I max out my Roth IRA every year and pinch every penny. I was fortunate that it didn't impact my life, but learning about it taught me to be frugal." —TOM MCMORROW

"Taught me that some regulation of financial institutions is good. There has to be a 'sweet spot' that allows them to be creative but prevents extreme gambling behaviors." —STEVE DELILLO

"I vowed to never let the banks make a penny of interest off me." —RYAN MCNALLY

"It taught me to always have a long-term outlook when investing." —SARAH ROGERS

"I think I'm really experienced now that I've been through it all, but I'll probably make a bunch of errors in the coming years and make myself feel stupid again." —PETER PAYNE

"I learned that we need more than one income." —YAIRA LAMBOY

Want solutions to a financial dilemma in your life? Email your question to social@moneymail.com. *To join our reader panel, go to* moneymatterspanel.com.

PHOTOGRAPHS BY ALAMY (LUGGAGE); MICHAEL FLIPPO/ALAMY (BACKPACK)

Trick Out Your Phone

Bestow these magical powers on your current mobile phone to conjure up savings on taxes, telecom, and office equipment. —RICK BROIDA

ROAM CHEAPLY AND EASILY

The next time you head to another country, don't comb the streets for a local SIM card. Instead, just slap a **Know-Roaming** sticker ($30) on your current SIM. Yes, a sticker: It connects your phone to local networks in more than 200 countries, then charges you cheap rates for calls and data. In fact, if you use the WhatsApp app for calls and messages, you won't even have to pay for data.

ADD A SECOND LINE

Your phone can have only one number, right? Wrong: You can add another—a great option if you own a small business or just want a special hotline for your besties to call. **Sideline** establishes a second number via your current phone carrier for free (or $3 per month for a no-ad version). You can carry over a current number, record different voicemail greetings, and create automated text-message replies.

HOST A CONFERENCE CALL

Communicate with a crowd without hitting chat overload. If the group has up to 10 people, **UberConference** will send invitations to the participants immediately or at a scheduled time. Need to wrangle more than 10? Fire up the **FreeConferenceCall.com** app. Like UberConference, it's free and available for both Android and iOS.

TRACK YOUR MILEAGE

If your employer reimburses you for car travel or you claim a deduction on your tax return for miles driven, you need a mileage log. Skip the hassles of manually recording odometer readings and have your phone track your trips instead.

Everlance and **MileIQ** (each $60 per year) rely on your phone's GPS to detect when your car is in motion, then let you categorize trips just by swiping left or right. When you need a mileage report, the apps can generate a PDF or a spreadsheet-ready file suitable for your accounts payable department or the IRS.

REPLACE YOUR SCANNER

When you need to fax, file, or email an actual paper document, skip the scanner or fax machine (if you can find one). Free apps like **Evernote Scannable** and **Microsoft Office Lens** make it a snap—literally—to capture, save, and share printed pages. They also align and sharpen your pages so they look their best.

Faxing them requires a second app, such as **Tiny Fax,** which charges between 25¢ and 60¢ per page, depending on how many credits you buy.

DREAMSTIME (RABBIT AND PHONE); GETTY IMAGES (HAT)

NELY GALÁN
53, VENICE, CALIF.

BACKSTORY: Emigrated from Cuba in 1968.

EDUCATION: BA from Ryokan College; master's degree from Pacifica Graduate Institute.

PROFESSION: Media executive, author of *Self Made*.

VISION: See women become self-made entrepreneurs.

Empowering Woman

NELY GALÁN became an entrepreneur at age 13, when she sold Avon products to her classmates and their mothers: "I wanted to help my family like so many immigrant children do." After fleeing Cuba, the Galáns had ended up in New Jersey, where her parents found factory jobs. Galán built on her early start—intern at *Seventeen* magazine, TV reporter—to become the first woman president of entertainment at Telemundo. In 1994 she opened Galán Entertainment, a TV production company, and in 2012 created the Adelante Movement, a nonprofit that empowers Latina entrepreneurs.

HER STARTUP ADVICE

BUILD A GIANT CUSHION. "Do not even remotely think about starting a business or leaving your job until you have two years of salary saved," says Galán. The first year's worth is for emergencies. The second is what you invest in your business.

BE A STEALTH MENTEE. The person you want for a mentor is likely asked all the time. Instead, read up on someone you admire. Volunteer for their organization and stay late. "I've had a lot of mentors who don't know they've been my mentor," she says.

DON'T QUIT TOO QUICKLY. Before you close the doors, invest in a consultant. "It's counterintuitive, but it's cheaper than starting all over again," says Galán. "You may be onto something but you're not approaching it the right way." —JOAN CAPLIN

PHOTOGRAPH BY KWAKU PHOTOS/COURTESY OF RANDOM HOUSE

For more stories in this series, go to time.com/americanvoices.

Plan

The Early-Bird Dividend

THE START OF THE YEAR OFFERS SOME UNIQUE OPPORTUNITIES TO FEATHER YOUR NEST.

by **Kelley Holland**

PROCRASTINATORS, LISTEN UP. By checking certain financial tasks off your to-do list now instead of leaving them for the last minute, you won't just feel better—you'll also bank some serious coin. Contribute to an IRA in January instead of next April, for example, and you could be sitting on thousands of extra dollars come retirement. "The impact can be significant over time," says Maria Bruno, CFP, a senior investment strategist at Vanguard. Here are six smart first-minute moves to get 2017 off to a profitable start.

Photo illustration by DAVID SCHWEN

FUND YOUR ACCOUNTS

Get a 15-month head start. Nearly one-quarter of all IRA contributions for 2017 won't be made until next April, just before the tax-filing deadline. But you can boost savings by 10% or more if you contribute as soon as the law allows (see the chart below). To take full advantage of the extra months of growth, make sure your money is invested from the get-go in an age-appropriate mix of stocks and bonds or a target-date fund. Vanguard studied how people invest their IRA contributions and found that four months out, roughly two-thirds was still parked in low-earning money-market funds.

Maximize tax benefits. Front-loading your 401(k) is another potentially smart move if you plan to leave your job before the end of 2017 and won't have access to a tax-advantaged savings plan. To speed up your contributions, simply increase your payroll deductions; they will stop automatically when you hit the legal limit ($18,000 in 2017, or $24,000 for those 50 and older). Note, though, that this may cause you to miss out on matching contributions, since some employers spread out their matches over the calendar year. Check whether your company has a "true up" provision that would enable you to get the full amount you're entitled to.

Save on medical expenses. Some high-deductible health plans come with a health savings account, which allows you to contribute pretax money and use it to pay for medical expenses. Front-loading your HSA makes sense if you anticipate big medical bills early in the year, since you would otherwise have to pay out of pocket until you have sufficient funds in the account to reimburse yourself. If you receive a January bonus, your HSA is a good place to put it, says Michael Berry, CFP, head of Voya's advanced planning team. By doing so, he says, you will have more time to realize gains if you invest the money, and any unused funds will carry over to the next year.

PAY UNCLE SAM

Safeguard your refund. More than seven in 10 Americans received tax refunds in 2016, averaging $2,777, according to IRS data. The earlier you file, of course, the sooner you can get your money. Plus, by filing early you limit the amount of time a cyber-thief has to submit a return in your name and make off with your refund. In 2016 the IRS's ID theft filters found fraudulent returns worth $194 million—and those were just the ones the agency was able to catch.

Another potential benefit: If you experienced a financial setback in 2016 and are applying for college assistance through the Free Application for Federal Student Aid, or FAFSA, your return may help you negotiate a better package (see Ask the Expert, page 29).

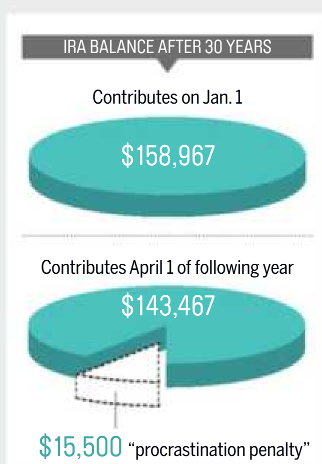
FAST-TRACK TO YOUR GOALS

Get more from charitable donations. Just over 17% of charitable giving in 2015 took place in December, compared with 6% in January, according to Blackbaud, which helps nonprofits manage donor relationships. By giving at the start of the year, you can help your charity be more effective. "If we got 25% of [our individual support] in January instead of in the last quarter, and some of that was earning interest, that's not an inconsequential number. That's putting food in the bellies of our homeless shelter guests," says Dan McGuire, CEO of Homeless Solutions in Morristown, N.J.

Take stock of where you stand. Early in the year is a good time to check on your credit rating. (Many credit card issuers, including American Express, Capital One, and Discover, offer cardholders free FICO scores.) If you're working to improve your credit, regular review could provide the motivation you need. Another smart strategy to implement in the new year: Automate payments for as many credit cards and other bills as possible, since late payments quickly hurt your score.

The Cost of Waiting

Early birds who contribute at the start of the year can pocket thousands more come retirement.



NOTE: Assumes an annual contribution of $5,500 and a real rate of return of 4%. SOURCE: Vanguard

Q

RETIREMENT

If I stop working at 55, can I tap my retirement plan without a 10% penalty?

—YVONNE VARAS, *N.Y.*

A When tapping a 401(k) or 403(b) account, you won't face a 10% early withdrawal penalty if you leave the job after you turn 55 and start withdrawals then (you'll still owe income tax on the money you take out). This so-called rule of 55 is an exception to the usual penalty-free withdrawal age of 59½. (For other common exceptions, see chart.)

If you stop working at that job before age 55, you'll owe the penalty even if you don't begin withdrawals until your 55th birthday. "That's something a lot of people don't understand," says **Mike Piershale, a financial adviser in Crystal Lake, Ill.**

Another caveat, Piershale notes: If you've rolled the funds into an IRA and want to pull money out of *that* account, you'll be assessed the 10% penalty until you turn 59½—no matter when you leave your job.

Under certain circumstances, you can withdraw retirement money penalty-free before you reach age 59½.

EARLY DISTRIBUTION OPTIONS

Circumstance	Traditional/Roth IRA	401(k) or 403(b)
Disability or death	✓	✓
Medical expenses > 10% AGI	✓	✓
Qualified education expenses	✓	✗
Buying a first home	✓	✗

NOTE: *Homebuyer exception capped at $10,000.* **SOURCE:** *Internal Revenue Service*

Q

COLLEGE

My 2016 income will be much lower than in 2015. Which tax return should I use for the FAFSA?

A If your child will attend college in the 2017–18 school year, you must complete the FAFSA using your 2015 income. However, if there's been a significant change in your financial situation, contact the financial aid office of any college your child plans to apply to (or currently attends) for a "professional judgment" review.

Financial aid officers can adjust an application to make it more representative of your current finances, **says Justin Draeger, president of the National Association of Student Financial Aid Administrators.** If you've lost your job or faced unexpected bills, divorce, or death in the family, you might qualify. Be prepared to provide evidence for claims of higher expenses or lower earnings.

Q

INVESTING

What's the best way to manage portfolio rebalancing?

—JOE KNIPPEL

A It's important to rebalance your stock/bond mix when markets throw it out of whack. But shuffle too often and you can run up trading costs and tax penalties.

"Rebalance whenever your asset mix moves about 10% to 15% away from your target," says **Jarrett Solomon of Connecticut Wealth Management in Farmington, Conn.** So if you want 60% of your portfolio in stocks, sell some equities if that figure has risen to 66% or higher. But buy more if a market tumble has pushed your exposure down to 54% or less.

In your 401(k) plan, you can generally make changes with a few clicks on the website or a call to your provider. In a taxable account, consider directing future contributions to lagging sectors rather than selling winners, to avoid a capital-gains tax hit. ◻

Elizabeth O'Brien, Kaitlin Mulhere, and Penelope Wang

Read more answers from Ask the Expert and submit your own question about personal finance at ***money.com/expert.***

Why We Buy Items We Never Wear

A CONSUMER PSYCHOLOGIST EXPLAINS THE IMPULSE TO PURCHASE—AND HOW TO GET IT UNDER CONTROL.

by Kit Yarrow

IF THIS IS THE YEAR you vow to finally tame your stuff, you're not alone. According to Statistic Brain, "getting organized" is the second most popular New Year's resolution (losing weight is No. 1). So you dig into your closet or rummage under the bed, only to find new, unworn clothing and accessories, maybe even with the price tags still attached.

Why do so many of us waste money on clothes we don't wear? If you understand the reasons behind this common consumer impulse, you can stop making purchases that clutter your house while they empty your wallet.

WE FORGIVE A MAJOR FLAW

The scenario typically goes like this: You see something amazing on the sale rack, snap it up, then notice there's one thing not quite right—the sleeves are a little tight, or the color doesn't go with anything else in your wardrobe. But because it's so cheap, you buy it anyway.

That's a classic example of "choice-support cognitive bias," in which we ignore information that doesn't support our desires. We're accustomed to thinking of bargains as a way to save money, but they're also an increasingly popular way to waste money. If an item doesn't work, no price makes it a smart buy.

WE ENGAGE IN FANTASY

When we slip on that fabulous garment, we envision the future: how we'll feel wearing it, where we'll go, what other people will say.

The problem is, our imagination is conjuring a self that may never exist—one who is slimmer or goes camping or takes tropical cruises. By the time we accept the fact that we haven't dropped a size (or, if we have, that our thinner self doesn't actually like what our plumper predecessor picked out), the return window has long since closed.

WE GET TOO ATTACHED

There are shoppers who simply love what they buy too much to risk taking it out of the closet. The phenomenon, called "loss aversion," makes the pain of losing something—in this case a favored garment—much more powerful than the joy derived by wearing it.

Taking care of the things you love makes sense; treating them like museum pieces doesn't. Plus, when you use and enjoy what you own, the temptation to fill the void by acquiring more is diminished.

HOW TO SHOP SMARTER

The saving grace for consumers is the ability to return misguided purchases. So the first recommendation is never to buy iffy items that you can't take back. After that, ask yourself if it truly fits your lifestyle and your existing wardrobe (not to mention your body). In an era when practically everything is discounted all the time, there's no reason ever to feel pressured to buy right now, which means you—and your overstuffed closets—are less likely to pay the price later.

Kit Yarrow, Ph.D., is a professor at Golden Gate University and the author of Decoding the New Consumer Mind *and* Gen BuY.

Illustration by MIKEY BURTON

How to Get Back in the Game

SCORING A NEW JOB AFTER A CAREER TIME-OUT ISN'T EASY, BUT THESE MOVES CAN HELP. *by Kristen Bahler*

THE 2017 JOB MARKET is shaping up to be the hottest in years, with employment on track to hit pre-recession levels by the spring, according to Brookings Institution projections. That's good news for anyone planning to get back into the workforce after a career hiatus.

While résumé gaps don't raise eyebrows the way they once did, returners still face an extra hurdle. Whether you took a break to raise a family, care for an elderly parent, or travel the globe, here's how to make the time off work in your favor.

Get up to speed. While you might be eager to jump back into your old life, take time first to investigate how things have changed in your absence—and how you've changed too. Do you want to return to your previous field? If so, immerse yourself in books, magazines, and industry reports to get an up-to-date view.

Online courses from sites like Coursera.org and Udemy.com are a low-cost or free way to bolster your skills. Certifications are another good résumé booster. Look for ways to add value to your industry while you're brushing up: Write articles, consult for small businesses, or pursue strategic volunteer opportunities, such as offering to mentor young people in the field. "Throw something on your plate that shows you've been busy," says Chicago-area career coach Lauren Milligan.

Network smarter. Don't just tap former bosses and peers for opportunities. "Look to folks who were in junior positions at old jobs," says Carol Fishman Cohen, CEO of iRelaunch, a resource for people reentering the workforce. They've probably risen through the ranks and might be in a position to hire you—or refer you to someone who can.

For returning employees, the best connections can often be found outside your professional circle, notes Lindsay Witcher of outplacement firm RiseSmart. If you've been a stay-at-home mom, for example, tell your kids' school administrators that you're looking for opportunities. The same goes for meet-ups, mommy-and-me classes, and other social groups.

Craft your narrative. Tim Tolan of executive search firm Sanford Rose Associates suggests creating a "talk track" of clear success metrics from your past jobs. Include skills you picked up during the break. If you were helping a sick relative, maybe you created budgets and navigated the hospital system. Sprinkle those accomplishments into your story.

Don't linger on the hiatus. Instead, focus on what you learned that can benefit the employer and why this particular job ignited your passion. "That excitement will translate to the interview," Milligan says.

Explore a trial run. Dozens of companies, including Ford, IBM, and Goldman Sachs, offer "returnships," which are designed for people reentering the workforce after an extended break. These internship-style programs often lead to something more permanent: Between 50% and 90% of participants convert to full-time jobs, Cohen says.

Resources for Returnees

Organizations and websites to ease the transition back to work.

IRELAUNCH.COM Connects returning employees with temporary and full-time jobs.

ONLINECERTIFICATEPROGRAMS.ORG Provides directories of programs by discipline and school.

ELLEVATENETWORK.COM Promotes networking among professional women.

WWW.BLS.GOV/OOH Lists the most in-demand job titles across a range of industries.

Get Your House in Shape This Winter

WINTER IS HERE, which means you're likely to be spending a lot more time indoors. The first few months of the year are a great time to tackle some simple projects around the house that can increase your comfort, cut energy costs, and improve your family's health.

Another plus: January and February are typically slow months for contractors, says Abbe Will, a research analyst at Harvard's Joint Center for Housing Studies, covering the home-improvement and repair market. That said, many of the items on this list are easy DIY tasks, so you can save even more money. —KERRY CLOSE

HOME-IMPROVEMENT CHECKLIST

HEALTH AND SAFETY

- [ ] **UPGRADE SMOKE AND CARBON MONOXIDE DETECTORS.** With the house closed up and the furnace and fireplaces going, it's essential to have working smoke and CO detectors. For around $40, you can get a combination unit that contains both types of sensors. Better still is an interconnected system, which sets off all the alarms in the house when any single unit detects a hazardous condition ($30 to $80 per wireless unit).
- [ ] **CHANGE THE FURNACE FILTER.** Most filters should be replaced every couple of months, an easy DIY task. A simple flat filter costs less than $5 at a home center, but it's worth upgrading to a high-efficiency pleated filter like 3M's Filtrete ($20), which has increased surface area to trap mold spores, pet dander, and other allergens.
- [ ] **VACUUM OUT DRYER AND KITCHEN VENTS.** Now that the rush of holiday-season cooking and cleaning is over, take a look at your dryer and kitchen vents. Removing built-up lint and grease cuts down on fire risk and keeps those systems running more efficiently, which reduces energy costs. It's a job for a pro, who has the equipment to access hard-to-reach ducts. Expect to pay around $100 to $150.

2,900

Number of dryer fires reported every year. Average loss: $9,610.

REPAIR AND MAINTENANCE

- [ ] **TAKE CARE OF THE LITTLE THINGS.** Like contractors, handymen also tend to be less busy in the new year, says Faith Teel of the Handyman Plan, a repair service in Asheville, N.C. A cost-effective strategy is to gang together small projects—dripping faucets, cracked plaster, paint touch-ups—and hire someone to do them all at once. The hourly rate for handyman services on Angie's List ranges from $50 to $100, with an average of $83.
- [ ] **BEEF UP INSULATION.** Adding fiberglass to your attic is one of the highest-value home projects, with a return on investment of 117%, per *Remodeling* magazine (average job cost: $1,268). Sealing air leaks into the attic can save you big, on both energy (up to 15% of your total annual bill) and potential repairs. In cold climates, poorly insulated attics are a chief cause of ice dams, which often lead to expensive roof damage.

$600

Potential annual energy savings from upgrading attic insulation.

HIGH-VALUE UPGRADES

- [ ] **INSTALL SMART METERS.** A programmable thermostat like the one from Nest ($249) will pay for itself, saving about $180 a year in energy costs, according to Energy Star. A smart water meter, like the new Fluid ($259, available in early 2017), can help conserve water and alert you to leaking or burst pipes.
- [ ] **RETROFIT FIREPLACE DOORS.** An open firebox is notoriously inefficient, sucking warm air right up the flue. Adding glass doors ($200 to $800) doesn't detract from the look while making the fireplace much more effective at radiating heat. Doors are also a good safety feature, keeping kids and pets from getting too close to that pretty flame.

SOURCES: U.S. Fire Administration; HouseLogic.com


THE LINCOLN
MOTOR COMPANY

CLEMSON PLACES 900 STUDENTS A YEAR IN CAMPUS INTERNSHIPS.

Score a Great Summer Internship

THE RIGHT PROGRAM CAN GIVE STUDENTS AN EDGE IN THE JOB MARKET—AND SOME CASH TOO. *by Kaitlin Mulhere*

INTERNSHIPS ARE practically a prerequisite for getting hired after graduation these days. Notice that's internships, *plural*. Students should aim to have at least three internships or similar career-prep experiences during their college years, experts say. And that takes planning, especially if they want to land a paid gig.

The payoff is worth the effort. The Center on Education and the Workforce at Georgetown University found that 63% of college graduates who had completed a paid internship received a job offer within six months of graduation, compared with 37% of those in an unpaid internship and 35% of those who didn't have one at all. What's more, graduates who completed a paid internship earned a higher starting salary.

While summer may seem far off, most internship applications come due long before then, and many require lead time for students to write essays or collect recommendation letters. Here's a guide to finding—and getting the most from—an internship. Share it with your undergrad for a good summer for both of you.

CREATE AN ACTION PLAN

Target specific companies and industries. Start by making a list of places or types of jobs you're interested in. Think about the skills you want to develop or the network you want to build. If you don't know where to begin, the campus career-center staff should be able to tell you where students in similar majors interned or got jobs after graduation.

Search for positions online. There are at least half a dozen useful search platforms for internships, covering corporate as well as nonprofit and research opportunities. Some websites, such as WayUp and YouTern, match users with openings customized to their academic qualifications and career interests. Also check the sites of professional associations for industry-specific gigs. (For a listing by field, go to directoryofassociations.com.)

Leverage college networks. "Online opportunities are a great source, but high-touch trumps high-tech, so you need to do both," says Susan Brennan, associate vice president of university career services at Bentley University in Waltham, Mass.

Ask professors in your academic department which internships they consider most useful. If your college doesn't have a formal program to connect working alumni and students, use LinkedIn to reach out to graduates who work in areas you're interested in. Brennan recommends looking for a "warmer contact"—someone you're connected to by an athletic team, Greek organization, or residence hall, for example.

Look close to home. You may be able to find internships right on campus. Clemson University, in Clemson, S.C., places more than 900 students each year in paid campus internships. Mechanical engineering majors, for example, have interned with the facilities department to learn how to conduct energy audits.

Apply early—and often. Filing 10 to 20 applications for summer internships is a reasonable target, says Troy Nunamaker, chief solutions officer at Clemson's Center for Career and Professional Development. The majority of companies accept applications for summer in February and March, though some of the largest employers, particularly financial services, start recruiting in

COURTESY OF CLEMSON UNIVERSITY

the fall. Smaller companies usually take applications right up to the end of the school year.

MAKE THE EXPERIENCE COUNT

What students do during their internships can be more important than where they do it, points out Kelly Eaton, chief academic officer at the Washington Center, a fee-based program that places about 1,500 students a year in the nation's capital. Don't get caught up in applying only to prestigious programs or recognizable companies. Focus instead on where you'll get the most responsibility and hands-on experience.

Eaton recommends asking about the type of assignments you can expect. For example, will you have the chance to work in teams? Will you sit in on company meetings? Whom will you report to, and what are his or her responsibilities with regard to guiding you?

Once you're there, be open to working on a variety of tasks, and make sure to take notes on the assignments you receive, recommends Michael True, senior associate of talent and marketing at Messiah College in Mechanicsburg, Pa., and author of *InternQube: Professional Skills for the Workplace.* Interns often have great ideas, True says, but then fail to listen carefully to instructions for what to do next. Ultimately, students should be able to talk to future internship and job recruiters about what they achieved for the company or how they helped a project succeed.

WEIGH THE COSTS

About 55% of internships today are paid, according to a survey by internship-search website Looksharp. But the odds of getting one of those varies significantly by industry. Internships in politics, entertainment, and journalism are frequently unpaid, as are most positions at nonprofits, while paid gigs are more common in technology and finance. The National Association of Colleges and Employers reports that average hourly pay for interns ranges from $15 for freshmen to $18.50 for seniors.

Labor regulations require unpaid interns to earn an academic credit for the experience. That can be a financial double whammy: not earning money and also having to pay tuition. Yet even a paid internship can be costly. In a major metro area, housing, meals, and transportation can easily exceed $5,000 for a summer.

Ask your career center about financial aid for internships. Recognizing the growing importance of professional experience, college funding tied to career prep has increased in recent years. Pomona College in Claremont, Calif., for example, helped support 98 interns last summer, up from eight in 2011. These awards are competitive, so ask about them early in the spring semester to ensure you do everything needed to qualify.

10 Colleges With Great Career Services

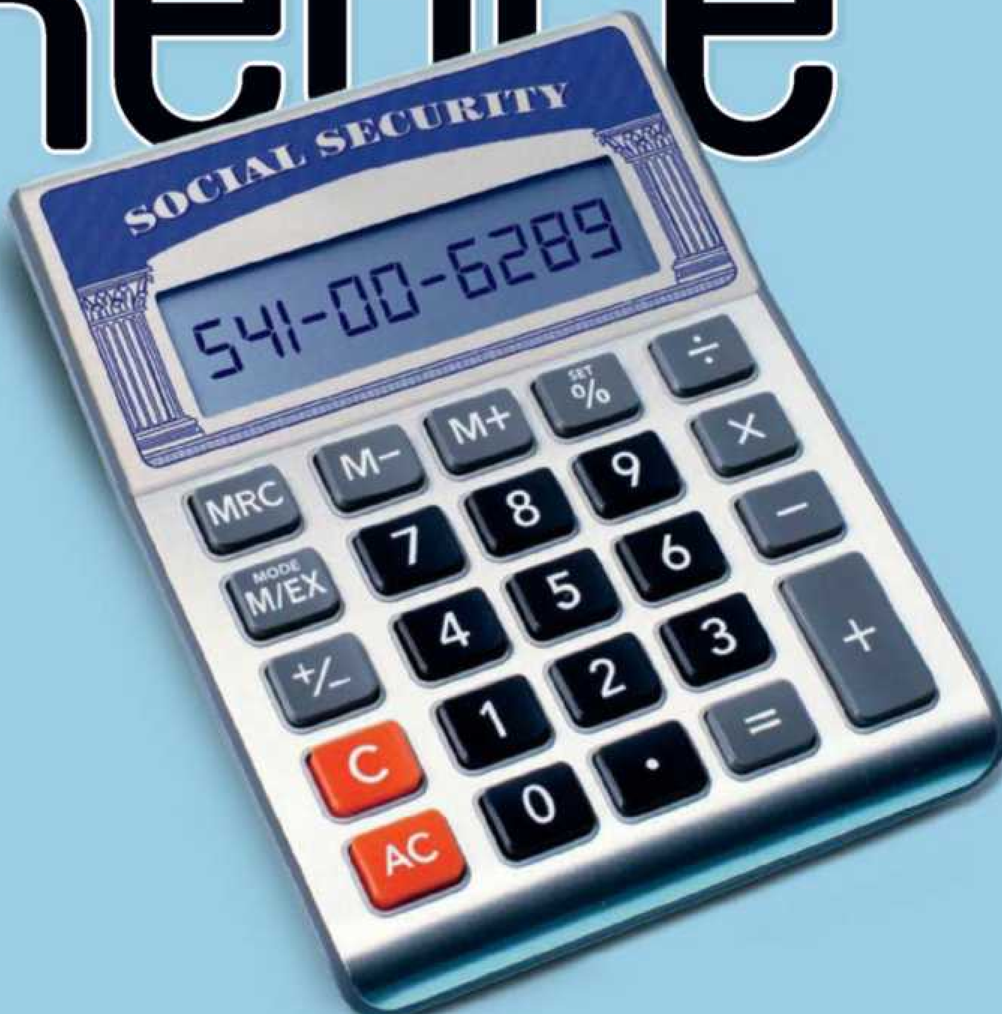
These schools have a strong combination of well-staffed career centers and young alumni who go on to earn higher-than-average early salaries.

RANK	COLLEGES (OVERALL *MONEY* RANK)	UNDERGRADS PER CAREER CENTER STAFF MEMBER	EARLY CAREER EARNINGS
PRIVATE COLLEGES			
1	CALIF. INSTITUTE OF TECHNOLOGY (24)	192	$76,000
2	BABSON COLLEGE (109)	189	$60,000
3	MASS. INSTITUTE OF TECHNOLOGY (11)	189	$74,800
4	HARVEY MUDD COLLEGE (79)	217	$79,700
5	WAKE FOREST UNIVERSITY (92)	116	$50,600
PUBLIC COLLEGES			
1	UNIV. OF MICHIGAN AT ANN ARBOR (2)	476	$59,000
2	UNIV. OF VIRGINIA–MAIN CAMPUS (9)	333	$55,400
3	THE UNIV. OF TEXAS AT AUSTIN (50)	312	$53,000
4	NEW JERSEY INST. OF TECHNOLOGY (178)	370	$55,700
5	UNIV. OF WISCONSIN AT MADISON (63)	385	$50,100

NOTES: *Ranking based on career-center caseloads (two-thirds) and an equal combination of career earnings five years after graduation, earnings adjusted for student body demographics, and earnings adjusted for the majors of graduates (one-third).* ***SOURCES:*** *Peterson's, U.S. Department of Education, PayScale, MONEY calculations*

For more advice on applying to college, visit the MONEY College Planner at ***money.com/colleges.***

Retire



Get Ready for the New Math

AS THE SOCIAL SECURITY RETIREMENT AGE CLIMBS, THE CALCULATION ON WHEN TO CLAIM MAY SURPRISE YOU. *by* **Karen Damato**

IF YOU WILL CELEBRATE your 62nd birthday in 2017 or soon after, you're in the vanguard of a big change in Social Security: Starting with people hitting that milestone in January, the full retirement age (FRA)—that is, when you can collect your entire earned benefit—will creep up from 66 to 67 in two-month increments over the next six years.

You'll still be able to begin your Social Security payments as young as 62. And, like now, you'll be assured of getting a larger check for each month you delay up

Photo illustration by DAVID SCHWEN

to age 70. But here's the rub when the FRA goes up: "At every age along the line you are receiving a smaller benefit" than you would have before, assuming the same work record, says Jim Blankenship, a financial planner and author in New Berlin, Ill.

Surprised? That's not the only unexpected math you may encounter when you're deciding when to claim Social Security, whether you should work longer, and whether you would benefit from a retirement job. To make the smartest decisions, here's what you need to know about the tricky math of Social Security.

WAITING UNTIL AGE 70 TO CLAIM NOW MEANS A SMALLER BONUS

From the perspective of a future retiree, the increase in the full retirement age is a benefit cut, as you can see in the graphic below. Say you want to start collecting at age 65. That is 12 months early if your FRA is 66, but 24 months early if your FRA is 67, meaning you take a bigger haircut.

With an FRA of 66, you can get 75% of your full benefit if you begin at 62; with an FRA of 67, that portion drops to 70%. Similarly, if you claim at age 70, you'll get 124% of your benefit when the FRA is 67, vs. 132% before.

What's behind this shift? The FRA—the age at which you can start collecting without a reduction for early retirement or added credits for delaying—was 65 when Social Security began in 1935. A 1983 law pushed the FRA to 66 for people born between 1943 and 1954 and 67 for those born in 1960 or later.

"That is fair," says Bill Reichenstein, a finance professor at Baylor University, given that life expectancy has been increasing by about one month a year. Without periodic increases in the FRA, Social Security would pay each generation more as a result of longer lives—a financial problem for a system that has to pay for itself over time, he says. (Yes, odds are that Congress will boost the FRA for future retirees whenever it faces up to the looming shortfall in Social Security's funding.)

CHANCES ARE YOU CAN'T COLLECT RIGHT AT AGE 62

Did you know that only around 7% of people can really start Social Security the month they turn 62? While the Social Security Administration, financial planners, and journalists regularly talk about age-62 benefits, people who weren't born on the first or second day of a month can't claim until the month after they celebrate their birthday. If you have an FRA of 67 and start at 62 and one month, you would get 70.4% of your full benefit. And whatever your first month of benefits, you will actually see the first payment in the following month.

A BIGGER PAYCHECK NEXT YEAR MAY NOT BOOST YOUR BENEFIT

If you are approaching retirement after a full career, staying on the job may do surprisingly little to juice your benefit. As you can see in the example on the opposite page, a long-tenured worker who keeps going until 70 vs. retiring at 62 would enjoy a benefit boost of less than 7% based solely on all that toil.

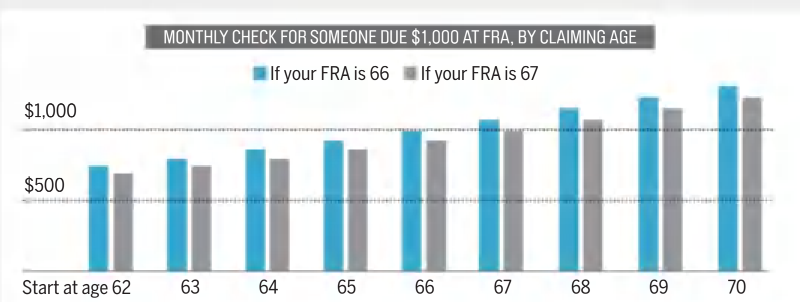
Why is that? For one, your Social Security check is based on your pay in your 35 highest-earning years. A new year's number is at best a small element in that average. Plus, in doing the math, the salary you earned 20 or 30 years ago is adjusted upward to reflect the climb in average wages over time. So what you earn in 2017 or 2018 might not even knock out an earlier indexed number—particularly if you scale back to part-time.

And while that work may have little or no effect on your future Social Security check, Reichenstein points out, you could pay thousands of dollars in Social Security tax on those earnings in the meantime.

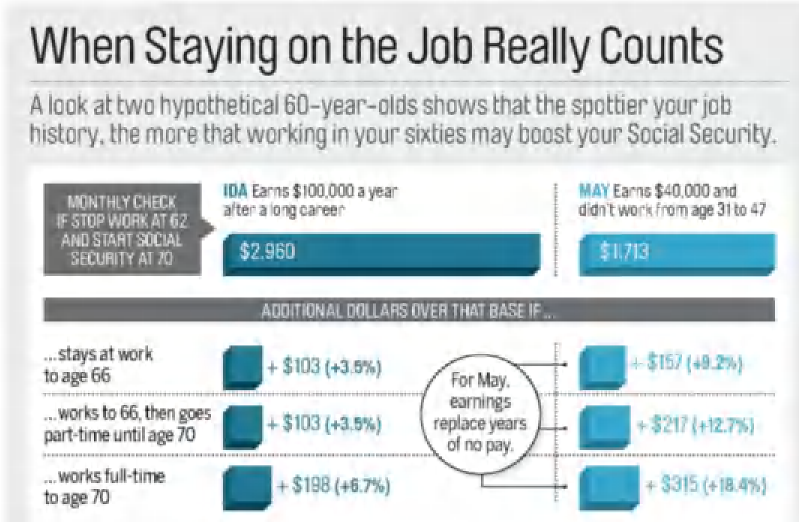
That's not to say a job isn't valuable, though. Continuing to bring home a

What the Age Hike Does to Your Check

Waiting to collect benefits produces a larger monthly payment—but the climb in the full retirement age (FRA) means lower benefits no matter what age you start.



NOTES: FRA is 66 for people born between 1943 and 1954 and then creeps up in two-month increments, reaching 67 for those born in 1960 or later. SOURCES: MONEY calculations using Social Security online tools



NOTES: *Assumes part-time earnings are $25,000 a year for Ida and $15,000 for May; full-time pay remains at current levels.*
SOURCES: *MONEY calculations using Social Security's detailed calculator*

paycheck may be the only way you can afford to put off collecting Social Security—and that deferral is the powerhouse, guaranteed route to increasing your check. Delaying is a worthy goal if you are the higher earner in a couple or a healthy single whose relatives have lived long lives. It helps protect you from outlasting your money and potentially generates higher income for a surviving spouse.

If you're turning 62 in 2017, with an FRA of 66 and 2 months, each year of waiting will boost your payout 6.5% to 8.1%. If you claim at 70, your first check will be about 75% greater than it would have been at 62—before figuring in any cost-of-living adjustments and without you earning even $1 after you turn 62. Those guaranteed increases are "very valuable in a low-interest-rate, low-inflation environment," says James Mahaney, a Social Security specialist at Prudential Financial.

While it can be smart to keep working to reap those rich boosts, conversely, if your nest egg is big enough to cover the gap, you could stop work sooner than expected but still start Social Security later.

WITH A CAREER GAP, EVEN PART-TIME WORK CAN PAY OFF

Retiring in your sixties simply may not be feasible for you, especially if you took breaks from the workforce that are depressing your eventual benefits. If so, you may be among those who can get a noticeable boost to your Social Security from continued labor.

With fewer than 35 years of earnings, staying on the job could make a big difference because your average includes years of zero pay. For a woman who stayed home to raise children, for instance, "every additional year she works, one of those zeros drops off," says Gail Buckner, a vice president at Franklin Templeton Investments.

You can see that in the graphic above, which looks at two hypothetical 60-year-olds dubbed Ida and May, after Ida May Fuller, the first person to collect a monthly Social Security retirement check. To isolate the payoff for continued work alone, not delayed claiming, we assumed each woman would start Social Security at age 70, regardless of when she stopped work. Ida, earning $100,000 after a lengthy career, would get less than a 7% boost to her Social Security by continuing to work full-time from 62 to 70. What's more, she would see no benefit from shifting to part-time work at 66 compared with kicking back altogether at that age.

By contrast, May, earning $40,000 with a career that includes a 17-year break, would get an 18% bigger check from working full-time to 70. And she would see her check grow even if some of her work was part-time. (To analyze your own numbers, download the "detailed calculator" from Social Security's website, ssa.gov.)

What's more, additional pay can be particularly valuable for low earners like May because Social Security replaces a larger percentage of income than it does for high earners. It can also help if you had many years of low wages but are now making close to or more than the maximum pay on which Social Security tax is collected. That cap will be $127,200 in 2017, up from $118,500 in 2016.

One final thought on Social Security math: You generally need to have worked for 10 years to qualify for a benefit on your own record. So if you're shy of that milestone, that's another reason to get out of bed in the morning and keep showing up at the office. □

MARY FOSTER IS DREAMING OF A LESS DEMANDING JOB ON THE WAY TO RETIREMENT.

The Challenge: Making a Job Change on the Road to Retirement

by Kerri Anne Renzulli

THE INDIVIDUAL

MARY FOSTER, *57*

Burlington, Ky. • Single

OCCUPATION: Director of quality assurance at a food-flavoring company.

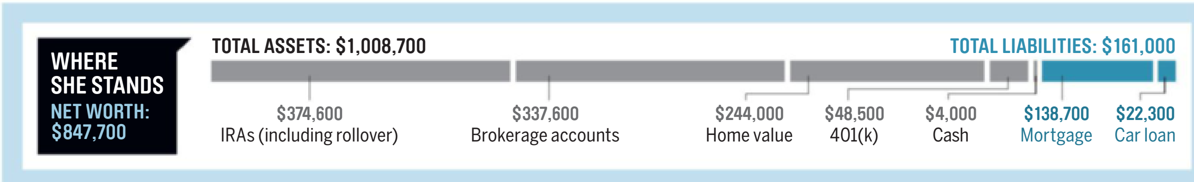
GOAL: To shift into a less demanding job in her field that would be located in Central Florida, the region where she wants to retire in her mid-sixties.

MARY FOSTER IS A MORNING PERSON, which helps make the 5 a.m. start time at her job as a manager at a young food-flavoring company a little easier. Still, the 60-hour workweeks she regularly puts in have started to wear on her.

So much so that the 57-year-old Kentucky resident is contemplating a big change around age 60: She would like to shift to a lower-stress job working 35 to 40 hours a week, even if that requires taking a pay cut. She would also like the job to be in the area where she hopes to retire. That's Central Florida, with its mild winters and proximity to Disney World, her favorite vacation destination.

Foster wants to build a house on a few acres of land where she and her cat, Bananas Foster, can enjoy the privacy and serenity of nature she recalls from

PHOTOGRAPH BY MATTHEW ALLEN



growing up on a Maryland farm. But she is concerned about whether her $800,000-plus nest egg is big enough and how to proceed to make this transition toward retirement a reality.

MAKING THE NUMBERS WORK

From her $121,000 salary, Foster is squirreling away the maximum $24,000 in her 401(k)—including catch-up contributions for those 50 and older—plus $8,400 in other accounts. Orlando financial planner Cary Carbonaro, author of *The Money Queen's Guide,* is confident Foster can afford the job change she wants and a comfortable annual retirement budget of $70,000 (in today's dollars) if she keeps up her current saving rate for now and then times her moves right.

Foster will need to earn at least $70,000 a year from age 60 to 65. At any lower pay, Carbonaro worries that Foster would have to dip into her nest egg early, which Foster is also against. "I want my savings to continue to grow and not have to use it for the next few years—or more," she says.

Carbonaro says Foster should wait to move to Florida until she has a new job locked down. To stay within her budget, the planner suggests Foster spend no more than $225,000 on a home, and she urges her to buy an existing house. "I've never had a client stay on time or within budget when building," the planner says.

Foster isn't ready to eschew building. She'll consider both options and choose based on location, lot size, and price. "I've had a house built for me once before. I know what it is like," she says.

Carbonaro says Foster's portfolio needs a makeover because the investing novice "is in very complicated products and doesn't need to be." Those include managed accounts at a brokerage for which she pays fees of 0.86% a year plus significant fund expenses—without getting much individualized advice. Carbonaro says Foster should look for another adviser who might charge lower fees and use low-cost funds and individual securities, for a combined cost of 1% or less.

Foster might have done better leaving money in a former employer's 401(k) plan, not rolling it into IRAs, the planner adds. "I hate to hear that I've spent more than I've needed to," says Foster. She isn't sure about the need for a complete overhaul but will start by asking more questions of her broker.

> "ANYTIME YOU TRY TO MOVE DOWN THE LADDER ... NO ONE BELIEVES YOU."
>
> —MARC MILLER, CAREER SPECIALIST

HOW TO SCALE BACK AT WORK

When Foster starts looking for her transition-to-retirement job, she should be prepared for some skepticism from potential employers, says Marc Miller, author of *Repurpose Your Career: A Practical Guide for Baby Boomers*. "Anytime you try to move down the ladder, especially for a lower-paid position, no one believes you," he says. "The assumption is that you'll move on as soon as a higher-paying offer comes in."

The good news: Foster's 28-year history in her field, including a stint as president of the Society of Flavor Chemists, means she has a vast network of people she can tap to help her find openings as well as to vouch for her sincerity. "Reach out to all your contacts" and also use LinkedIn to make new connections at potential Florida employers, Miller says. "Ask them about the company, its culture, how stressful the job is," he says.

Stress and long hours are endemic at young companies, Miller notes; he says Foster just might be able to find a less stressful job without a step down the ladder. "That's a good point," says Foster. "If the work hours changed, I'd be very happy to stay in a role like my current one." ◻

Want help on your journey to retirement? Email us at ***makeover@moneymail.com.***

MASTER
YOUR
RETIREMENT

CHASE
PRIVATE
CLIENT

The Martins enjoy a sense of adventure every day.

At Home In The World

THOUGH THEY NEVER INTENDED TO START A MOVEMENT, **TIM** AND **LYNNE MARTIN** ARE INSPIRING A GENERATION TO RETHINK RETIREMENT AS A TRAVEL ADVENTURE.

COMFORTABLY RETIRED in their early 60s, the Martins did something radical: they decided to live their dreams. They sold their house and many of their belongings and with the help of their trusted financial advisor, they invested the proceeds wisely. Combining investment income with retirement savings and Social Security, they set up a monthly stipend and set out to make their home in the world.

More temporary residents than tourists, they settle in, meet new people, and entertain in rented homes. As expert renters, they've also built an ideal rental home they rent out while they travel. Now they're enjoying a satisfying second act, produced in part with their advisor. "We listen to him," Lynne explains. "He helps us live the way we want to while making our money last."

Today, Lynne's book, *Home Sweet Anywhere: How We Sold Our House, Created a New Life, and Saw the World* has been translated into eight languages, proving their message is as worldly as their enviable lifestyle.

CONSIDER THE POSSIBILITIES

Whether retirement is near or far, ask yourself these questions now.

TWO ON THE AISLE? OR ISLE?

Flying solo can be lonely, but far more simple. If you're retiring as a couple, be sure your visions align.

READY FOR A SECOND ACT?

Whatever you've saved, you might find taking a professional encore rewarding in more ways than one.

HAVE YOU SAVED ENOUGH?

While caring for parents, children, or both, you may have fallen short in savings. Consider strategies for catching up.

DID YOU KNOW?

More people over 65 are becoming self-employed.*

* The Bureau of Labor Statistics 2016.

CHASE
PRIVATE
CLIENT

LEARN MORE ABOUT THE MARTINS AND HOW YOU CAN MASTER YOUR OWN RETIREMENT AT
WWW.MONEY.COM/MASTERRETIREMENT

Investor's guide 2017

Your best moves now

10 THINGS THE FINANCIAL CRISIS TAUGHT US

A decade after a housing meltdown sparked a deep recession, a gut-wrenching drop in stock prices, and an unraveling of America's financial system, the lessons of that era can help you invest smarter now.

By **PAUL J. LIM** *and* **TAYLOR TEPPER**

Illustration by **JOSUE EVILLA**

THE GLOBAL FINANCIAL PANIC feels like a lifetime ago. Since the start of the housing and mortgage cataclysm in the spring of 2007, you have voted in three presidential elections, viewed five Olympic Games, and seen 10 iterations of the iPhone come and go. You have also witnessed the Dow plunge more than 7,600 points before tripling in value in a rebound that con-


PUTTING AMERICA TO WORK
PROJECT FUNDED BY THE
American Recovery
LEHMAN BROTHERS

tinues today. You've seen the country's financial regulations rewritten. You've learned of boomtowns turned foreclosure factories (and back again). And you have watched the unemployment rate spike to 10%.

Over the course of the past 10 years, the government took extraordinary steps to stabilize a teetering financial system, the Federal Reserve exercised unprecedented power—and the Great Recession eventually yielded to this not-so-great recovery.

All of that in a decade. The fact that this much time has passed since what's likely the worst economic episode of your lifetime—a turn of events that robbed the economy of $22 trillion—is important, says Francis Kinniry, senior investment strategist at Vanguard. "Ten years offers you some really good perspective," he says, as the crisis is not too recent to be an open wound but not so long ago to be a totally distant memory.

To mark this milestone, MONEY has pulled together the 10 biggest takeaways from the worst financial panic since the Great Depression. Anchored by a timeline of the era's most notable market and economic events, this story highlights the key lessons you need to walk away with, from what long-term investing really means to the best ways to safeguard your retirement and—since real estate is what touched off the meltdown—how your home truly fits into your finances.

And while this crisis is the stuff of history, you can't know when trouble will strike again. Stocks are pricey, interest rates are rising, and a new team in Washington will undoubtedly usher in changes that are hard to forecast. Now as always, you need lessons like these to keep you on the path to wealth, no matter what comes your way.

1

THE LESSON

Stocks Are for the Long Run—the *Really* Long Run

You always knew stocks were a long-term investment. You may not have known just how long until the financial crisis. When the 2007–09 bear market rolled around, it erased all the gains earned earlier in the aughts, leading investors to dub this period "the lost decade."

As it turns out, though, that wasn't the first time equities had lost real value over a 10-year stretch. The same thing occurred in the Great Depression, as well as in the late 1960s. On the other hand, blue-chip stocks have never lost ground in any 15-year period.

Plot your next 15 years: This means that the only time to be 80% or more in equities is "if your time horizon is 15 years or longer," says Stuart Ritter, senior resident for wealth strategy for PNC's asset management group.

At the end of 2007, a third of investors ages 56 to 65 held 80% or more of their 401(k)s in stocks. Today far fewer boomers nearing retirement are that aggressive, but there are still too many: A recent survey by Fidelity found that nearly 10% of 55- to 59-year-old workers have 100% of their 401(k)s in equities.

The 15-year rule applies to younger savers too, but in the opposite way. As an investor, you battle two types of risk: short-term volatility and inflation. To have a reliable shot at staying ahead of inflation over time, you need to keep the lion's share of your money in stocks. Many younger investors are forgetting that. A recent Legg Mason survey found that millennials favor putting more of their savings in cash (24%) than in stocks (19%).

OPENING SPREAD: J. PAT CARTER/ASSOCIATED PRESS (PROTESTER); JIM PRISCHING/ASSOCIATED PRESS (SIGN); DAVID KARP/ASSOCIATED PRESS (LEHMAN, 2); PANDO HALL/GETTY IMAGES (COIN); RICHARD DREW/ASSOCIATED PRESS (TRADER); KIRSTY WIGGLESWORTH/ASSOCIATED PRESS (BRITISH LEHMAN)

A TUMULTUOUS DECADE
How the financial crisis—and the subsequent recovery—unfolded year by year.

FEB. 27 Freddie Mac stops buying subprime mortgages, the first sign of trouble.

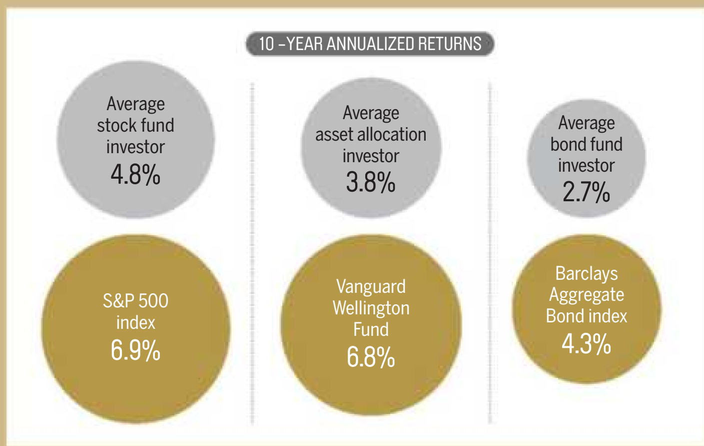
2007

JULY 31 Bear Stearns liquidates two hedge funds. Early hint that mortgage-backed securities are toxic.

OCT. 9 The Dow starts its descent from a high of 14,164.

THE PRICE OF POOR TIMING

Over the past decade, individual investors prone to jumping in and out of stocks and bonds have lagged the market.



NOTES: *Average asset allocation investor holds stock, bonds, and cash. As of Nov. 30, 2016.* **SOURCE:** *Morningstar*

2

THE LESSON

Your Stocks Will Recover Only If You Let Them

When you think of the past decade, scary headlines probably come to mind—not just the mortgage meltdown and Great Recession but also a debt crisis in Europe, the fiscal-cliff federal budget showdown in Washington, and slowing growth in China, all of which triggered steep stock drops at the time. Ugh.

In reality, though, nearly eight of the past 10 years have been bull-market years, and stocks largely recouped their losses, even beginning to set new highs four years ago.

Part of the reason for the disconnect may be that there are actually two sets of returns: "market returns," which you can theoretically obtain by staying the course, and "investor returns," which represent the actual performance of investors who have an unfortunate knack for selling low (in a crisis) and buying high (well after a recovery is underway). Over the past decade the average stock fund investor has underperformed the market by about a third (see chart at left) by panicking rather than holding on for the entire ride.

Make fewer decisions. "Panicking is a result of a person failing to have a plan that accommodates or anticipates the worst-case scenario," says Peter Andersen, CIO of Fiduciary Trust. One simple way to do that is to adopt a hands-off approach. Target-date funds are all-in-one portfolios that give you exposure to stocks and bonds—and rebalance for you over time based on your anticipated retirement date (for more on these retirement plan mainstays, see "Five Ways Your 401(k) Is Helping You Save Better" on page 78).

If you want to fiddle around the edges of your portfolio, anchor it with a balanced fund, such as **Vanguard Wellington** (VWELX), which is on our MONEY 50 recommended list. Despite having about 40% in bonds, Wellington has outperformed the S&P 500 by a percentage point annually over the past 15 years. In 2008, the fund fell 15 points less than the market.

Shift your thinking. Come up with a mental defense system too. When stock prices plunge—and they will—resolve not to look at your account balances. Impose a one-week delay before making any investing moves. Channel your anxiety elsewhere: Go for a walk, organize your desk, or garden.

2008

DECEMBER The Great Recession officially sets in. It will last 18 months.

JANUARY Home prices record 6% annual drop, the biggest on record.

◄ SEPT. 15 Lehman Brothers declares bankruptcy, intensifying the financial crisis.

SEPT. 29 The Dow drops 778 points after House votes down bailout; over four weeks, stocks fall 27%.

▲ SEPT. 30 Citing market fears, FDIC chair Sheila Bair calls for raising $100,000 cap on deposit insurance.

OCT. 3 President Bush signs the Emergency Economic Stabilization Act (a.k.a. the bailout bill).

DEC. 16 The Federal Reserve cuts interest rates to virtually zero.

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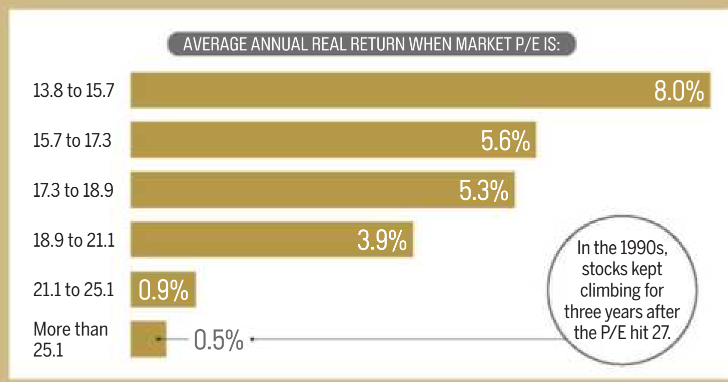
WHAT STOCK PRICES PREDICT

The more expensive equities are, the lower the gains you can expect over the next decade.



THE LESSON

3 Saving Is the Best Lever You Can Pull

Circumstances often influence saving habits, and this past decade was no different. Faced with stock returns about three percentage points lower than average and the worst job market since the Great Depression, scared investors started socking away a greater portion of their disposable income.

As a result, the household savings rate jumped to around 6%, nearly triple the pace before the financial crisis, when workers let the stock market do the heavy lifting.

Don't take your foot off the pedal. That's because return expectations for the coming decade are even more modest. Automate your savings, starting with your workplace plan (for 401(k) strategies, see page 78). Power-save in bursts when life allows—for instance, when college bills are over. Christine Benz, director of personal finance at Morningstar, says working a tiny bit longer can have the same effect. Say you're 50, with $500,000, and are saving 10% of your $100,000 income. If you retire at 65, there's a strong probability your nest egg will cover you to age 83. Work just one more year, and your funds will likely last three more years—the same as if you boosted your savings to 15% starting at 50.

THE LESSON

4 Overpaying Is the Risk—Not Overstaying

In hindsight, one lesson couldn't seem any clearer: Expensive investments are fraught with risk. In January 2007, as the financial crisis was unfolding, the price/earnings ratio for U.S. stocks stood at 27.2 based on 10 years of averaged corporate profits. Not only was that 63% higher than the S&P 500's long-term average, but it also marked one of the few times in history when the market's P/E exceeded 27.

So investors should have seen the writing on the wall, right? It's not quite that simple. Had you kowtowed to historic averages (see chart above) and given up on stocks a decade ago, you would have avoided the messy downturn. But you would have also missed out on the decent 7% annual gains for blue-chip U.S. stocks over the entire 10-year span.

"Simply because the market is overvalued doesn't mean it can't get more overvalued,"

2009

FEB. 17 President Obama signs an $830 billion stimulus bill.

MARCH 9 The Dow bottoms out at 6,547, off 54%, setting stage for bull run.

JUNE 1 General Motors, the 101-year-old carmaker, files for bankruptcy.

JUNE The Great Recession officially comes to a close. Unemployment stands at 9.5%.

MAY 6 The "flash crash": The Dow drops 1,000 points during the day.

WHAT DID YOU LEARN FROM THE FINANCIAL CRISIS? *Tell us at letters@moneymail.com.*

... But those are just averages. You can still make money in pricey markets.

NOTE: Data since 1926. SOURCES: AQR Capital Management, Morningstar

says James Stack, president of InvesTech Research. This is particularly true in a mature bull like today's nearly eight-year-old rally.

Instead of thinking of frothy prices as a red light telling you to stop, view them as a flashing yellow one warning you to proceed with caution. This is especially important today, as the market's P/E is again above 27.

Learn to read the signs. "Valuations represent the margin of safety in the market," says Stack. Translation: High P/Es aren't a signal to avoid all stocks, but rather the most overvalued shares in the market. Today those include utilities and consumer staples, which have soared lately in part because of their attractive dividends but now trade at about a 15% premium to their long-term valuations.

By contrast, health care and parts of the technology sector are trading at or below their historical valuations. In the MONEY 50, two funds with big stakes in health care and tech are **Primecap Odyssey Growth** (POGRX) and **T. Rowe Price Blue Chip Growth** (TRBCX). Also, venture abroad to foreign stocks (see "Four Big Trends You Can Ride for Years" on page 70).

THE LESSON

Ignore the Fed at Your Peril

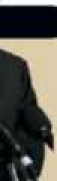
You've probably heard the saying, "Don't fight the Fed," right? Well that's no joke. When it comes to your investments and savings, current Fed chair Janet Yellen and her predecessor Ben Bernanke have been the most influential players on the world stage this past decade. They've managed to keep global stock markets afloat by holding down interest rates, partly by purchasing Treasury securities. And the Fed's sway will remain strong, as the central bank now holds $4.5 trillion in bonds and other assets—up from a mere $900 billion in 2007.

Shorten up. After lifting rates in December for only the second time in nearly a decade, the Fed is signaling that the economy is strong enough to raise rates again this year to bring them closer to normal levels. For stock investors, this isn't necessarily bad news, as rising yields are initially seen as a sign that economic growth is starting to lift, says Burt White, chief investment officer for LPL Financial.

Bond investors, on the other hand, have to play it safe. LPL believes the bond bull market may be over. Rather than taking risks by reaching for yield, focus on short-term bonds that will lose less when rates rise, such as **Vanguard Short-Term Bond** (VBISX) in our MONEY 50.

THIS SPREAD (LEFT TO RIGHT): HELEN H. RICHARDSON/DENVER POST VIA GETTY IMAGES; BILL PUGLIANO/GETTY IMAGES; LAUREN VICTORIA BURKE/ASSOCIATED PRESS; J. PAT CARTER/ASSOCIATED PRESS; BLOOMBERG VIA GETTY IMAGES; LOCKIECURRIE/GETTY IMAGES

2010



JULY 21 The Dodd-Frank Act overhauling financial regulations is signed.

FALL Big banks halt foreclosures after news breaks of faulty due diligence.

DECEMBER Fidelity reports the average 401(k) balance has recovered to pre-crash levels.

2011

MARCH 8 Bowles-Simpson deficit panel warns of fiscal crisis (none materializes).

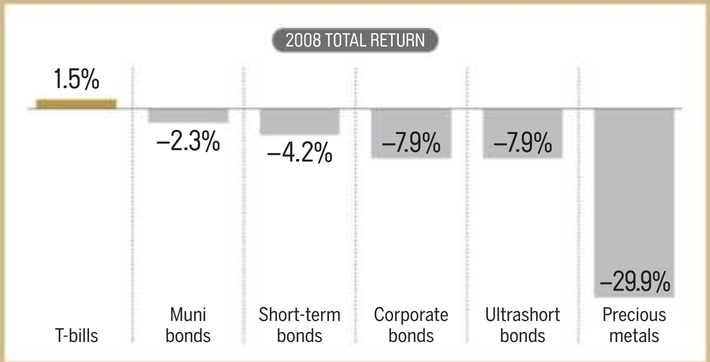
JULY 21 Proposed by Elizabeth Warren in 2007, Consumer Financial Protection Bureau opens.

AUG. 5 Standard & Poor's drops U.S. bond rating for the first time ever.

SEPT. 5 Amid debt crisis in Europe, gold hits record $1,900 an ounce.

UNSAFE HAVENS?

If you strayed from cash to eke out higher yields or turned to gold for safety in 2008, you found out why real cash is the only true refuge.



SOURCES: *Morningstar, Bloomberg*

6

THE LESSON

Doomsday Talk Can Be Just That

In 2009 economist and market strategist Ed Yardeni warned that bond investors would sell U.S. Treasuries en masse in response to the economic stimulus program and the Fed's unorthodox policies. That same year, bond king Bill Gross predicted that rising deficits would cause inflation to hit 3% to 4% soon. In 2010 fund manager John Hussman said the Fed's moves would trigger a collapse in the dollar.

What followed instead was another historic run for bonds—the yield on the 10-year Treasury note fell from 3.9% in 2009 to 1.4% in 2016 before creeping up to 2.5% at year-end. From 2011 to 2015, annual inflation rose just 1.6% on average, the lowest for any five-year period in half a century, according to Ibbotson. And the dollar has strengthened 24% against the euro since 2009, 19% against the yen.

Politically focused forecasts are even less reliable: Last March an analyst at Wedbush posited that if Donald Trump were to become President, stocks would fall by nearly 50%. Since Trump's election in November, the Dow has soared nearly 1,600 points, as Wall Street now thinks a Trump presidency will boost growth through deficit spending and tax cuts.

Tune out the punditry. Don't let alarming narratives distract you from your long-term investing plan. Says Chase Investment Counsel president Peter Tuz: "You need to have the humility to know there's a tremendous amount you do not know, and act accordingly."

7

THE LESSON

Diversification Works. Really

During the worst of the bear market storm, investors began to lose faith in diversification. That's because in 2008, when blue-chip U.S. stocks sank 37%, a whole assortment of other assets fell along with them. Small-company stocks dropped 36%. High-yield bonds lost 26%. Foreign shares dropped 41%. And emerging-markets equities plummeted 49%.

But this misses the point. "Diversification was never intended to eliminate all possibility of a decline," says Greg Schultz, a financial adviser with Burton Enright Welch. "The point is to assure you don't suffer a total loss of capital." And compared with an all-U.S.-equity stake, a thoroughly diversified balanced portfolio of stocks and bonds lost a more modest—but still painful—20% in 2008.

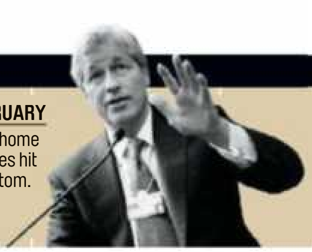
Don't treat all bonds the same. Diversifying your portfolio used to be a fairly simple

2011

SEPT. 21 Fed rolls out Operation Twist in an effort to lower long-term rates and jump-start the housing market.

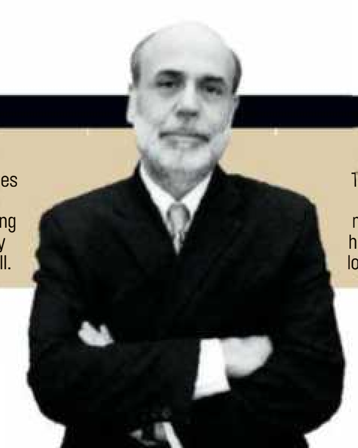
2012

FEBRUARY U.S. home prices hit bottom.



◀ MAY 11 Fears of big-bank safety return as London Whale scandal hits JPMorgan Chase.

SEPT. 13 ▶ The Fed announces third round of quantitative easing as the economy continues to stall.



NOV. 21 The rate on 30-year mortgages hits all-time low of 3.3%.

proposition, a matter of simply splitting your money between stocks and bonds. Today, however, "the ability to say, 'I own bonds and that's automatic diversification,' is no longer the case," says Jason Brady, chief executive at Thornburg Investment Management.

The variety of bonds available to individual investors has soared in recent decades, yet not all of them exhibit bondlike traits. "What people should take from the financial crisis is that not all fixed income offers stock diversification," says Kathy Jones, chief fixed-income strategist at Charles Schwab. "Corporate bonds and high yield in particular have a high correlation to equities."

If your goal is ballast from a market storm, the only assets you can reliably count on are U.S. Treasury bonds and cash, Jones says. With a total-bond-market-type fund, such as MONEY 50 member **Vanguard Total Bond Market Index Fund** (VBMFX), you're good. Nearly half the fund's assets are directly held in government debt, including Treasuries.

Diversify your time too. "The organizing principle of asset allocation is your proximity to needing to spend your money," says Morningstar's Christine Benz. "You want to stage your portfolio based on when you'll need it."

She recommends using a so-called bucket strategy in which you mentally split your funds into three piles. Bucket one has at least one year's worth of living expenses in ultrasafe cash (two years' worth for retirees). In bucket two, stash five years or more of expenses in reasonably stable investments, such as high-quality corporate bonds and dividend-paying stocks. That preserves your third bucket for goals that are at least seven to 10 years away, to use mostly for equities.

THE LESSON

Your Home Is an Asset You Live in, Not On

You'd think that one of the primary lessons of the financial crisis would have been that real estate comes with risks, especially if you have to overextend to buy your home. From the pre-crash housing market peak in April 2007 to the trough in December 2011, the national median home price fell from $197,000 to $152,000, a 23% decline, according to Zillow.

Homeowners in many areas of the country had it far worse. Residential real estate values in Nevada fell by 62%; Miami homes saw a 54% drop. By early 2012 nearly a third of homeowners owed more on their mortgages than their homes were worth. The crash was so severe that it wasn't until November 2016 that home prices fully rebounded to pre-crisis levels, according to the S&P CoreLogic Case-Shiller National Home Index.

Yet many Americans are already prepared to re-embrace real estate as a primary investment. A recent survey by Bankrate.com found that more Americans believe real estate—not equities—will be the best way to invest money not needed for the next 10 years. Here's the right way to think about your home:

Recognize what's truly different. It's hard to compare homes to broad asset classes like stocks and bonds. Why? For starters, most Americans homes are the only asset that

MARCH 6 The Dow passes its pre-recession peak 4½ years after the Lehman Brothers collapse.

2013

◀ JULY 18 Detroit, struggling with $18 billion in debt, files for bankruptcy.

▲ OCT. 16 A 16-day shutdown of the federal government ends, as Congress agrees to raise the debt ceiling.

NOV. 19 JPMorgan Chase pays a record $13 billion fine over the sale of shoddy mortgages.

2014

FEB. 4 S&P downgrades Puerto Rican debt to junk, a blow to many states' muni bond funds.

▲ JUNE 5 The European Central Bank introduces negative interest rates, a drastic step to spur growth.

THIS SPREAD (LEFT TO RIGHT): BLOOMBERG VIA GETTY IMAGES; MANUEL BALCE CENETA/ASSOCIATED PRESS; BLOOMBERG VIA GETTY IMAGES; DE AGOSTINI/GETTY IMAGES; VINCENZO LOMBARDO/GETTY IMAGES requires leverage—that is, a loan—to become an owner. Moreover, while the same stocks and bonds can be bought by different investors in different cities at the same time, homes cannot. And your options for your primary home will be dictated by the town in which you work, which in turn dictates the types of returns you can expect.

Be realistic about potential profits. Sure, Silicon Valley residents may beg to differ, but nationally home prices have delivered rather tepid gains over the long sweep of history. A study of various asset classes by three London Business School professors for Credit Suisse found that between 1900 and 2011, housing delivered gains of just 1.3% annually after adjusting for inflation, which is a quarter of the gains that equities delivered (see chart at right).

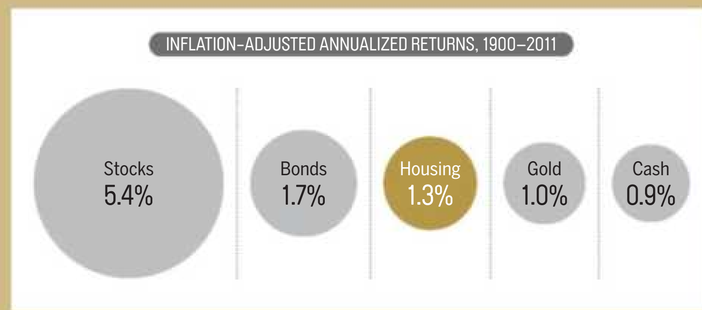
Embrace what's best about home ownership. While houses aren't terrific investments on average, they can play a vital role in your finances—as an instrument of savings. A typical comparison between owning a home and renting will pit mortgage and maintenance expenses against rental costs, and then determine if the money saved by renting can be invested more effectively.

But this assumes that renters will judiciously sock away every last extra dime of the money left over each month. If you own your own home, you don't give yourself an option not to "save" every month by paying your mortgage.

The best part: You don't need any behavioral finance tactics to trick yourself to save. Your mortgage lender will act as an enforcement arm to ensure that you pay yourself. And as a bonus, you live in your savings rather than watch it accumulate in the bank.

HOW YOUR HOME FITS IN

Over the long term, real estate has barely made money after inflation.



SOURCE: *Credit Suisse*

THE LESSON

All Retirement Plans Have a Danger Zone

For one group of savers—those about to step into retirement—the events of a decade ago offer a painful lesson. As noted earlier, in late 2007 a third of workers 55 to 65 held 80% or more of their 401(k)s in equities. In 2008, an 80% stock/20% bond portfolio lost 29%. So if you were 65 then and were set to retire with $1 million, you entered retirement with only $710,000. Even worse, if you were set to tap 4% of your funds for living expenses, you'd have had $670,000 by the time you turned 66.

Play it safe in the danger years. Defend against the ravages of a bear at the onset of retirement by employing a strategy developed by planners Wade Pfau and Michael Kitces. Rather than retiring with 50% in stocks, dial that down to 20% to 40%—and then increase your stock stake by one percentage point a year. You'll miss out on early gains if stocks keep going up, but if stocks drop, you preserve your assets and buy stocks on the rebound.

2014

JULY The number of employed people passes pre-recession levels.

NOV. 12 Six banks are fined $4.3 billion for rigging world currency markets.

DEC. 19 The U.S. Treasury ends Troubled Asset Relief Program (TARP)—the bank bailout—with a $15.3 billion profit.

2015

▲ JULY 5 Greek voters reject a bailout deal from European leaders, raising uncertainty over the euro.

AUG. 26 The Shanghai Composite Index falls 43% from June 12 to Aug. 26, hammering U.S. stocks.

OCTOBER Unemployment drops to 5.0%, the traditional barometer of full employment.

THIS SPREAD (LEFT TO RIGHT): MEDIOIMAGES/PHOTODISC/GETTY IMAGES; WIN MCNAMEE/GETTY IMAGES; UIG VIA GETTY IMAGES; MARK WILSON/GETTY IMAGES

10

THE LESSON

Every Crisis Is Different

The four most dangerous words in investing are "This time it's different." What this means is that whenever you assume certain long-standing rules of investing are no longer applicable, the market has a nasty way of demonstrating that they are.

But there's a corollary to this rule: Next time things *will* be different—at least a little. "While there are always timeless things to be learned from a crisis, the lessons are not always exactly the same," says Lewis Altfest, CEO and chief investment officer for Altfest Personal Wealth Management.

The past decade, for instance, centered on a mania around a specific investment—residential real estate—that led to a mortgage crisis that triggered a broader credit crunch. That led to a massive recession that robbed Americans of their job security and forced them to shore up their savings as a safeguard.

The crisis that directly preceded it shared some of those traits. The tech wreck of 2000–02 also centered on a mania surrounding a particular group of investments—in that case, tech stocks. Some lessons like the need for diversification were the same.

But the bursting of the dotcom bubble was a stock market crisis, not a broader financial and economic one. And you can be assured that the next crisis that besets your portfolio will be a little different.

Don't try to refight the last war. The aftermath of the financial crisis has been plagued by deflationary pressures. The economy has had difficulty getting into gear, leading to falling interest rates and sluggish wage growth. But in recent months, wages have been rising faster than at any time since the Great Recession. Consumer prices are drifting up. And stocks are soaring. "Inflation is going to surprise on the upside," says Altfest.

For bonds, that means shifting from high income to inflation protection (see "Four Big Trends You Can Ride for Years" on page 70).

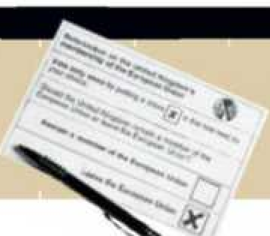
As for stocks, pure income plays, such as high-yielding dividend payers, have gotten frothy, and those shares tend to do poorly as interest rates rise and income investors shift back to bonds. Instead, focus on large, stable companies that dominate their industries and therefore have pricing power, says Stack. These are financially strong companies such as General Electric and Procter & Gamble, both top holdings in the **PowerShares S&P 500 Quality Portfolio ETF** (SPHQ), a member of our MONEY 50 recommended list.

And while you may be tempted to move to gold to combat inflation, don't. Gold is nowhere near the hedge that equities are against rising prices (see chart at left). It's yet another reminder that stocks are indeed for the long run, which is one lesson you can safely borrow from this past crisis.

2016

◀ DEC. 16 The Fed raises interest rates for the first time in nearly a decade.

JAN. 15 Stocks have worst 10-day start to a year in history.



◀ JUNE 23 Britons vote to leave the European Union.

JULY 8 The 10-year Treasury hits a record low of 1.36%.

SEPT. 8 Wells Fargo is fined $185 million for opening unauthorized customer accounts.

▲ NOV. 8 Donald Trump is elected President.

DEC. 14 The Fed raises short-term rates for the second time since the crisis.

The top PICKS for the coming years

The stocks, funds, and ETFs you'll want to own.

TOP PICKS FROM TOP PROS

These fund managers share an extraordinary distinction: They've beaten their peers in the short, medium, and long term. So MONEY turned to them to ask: What's next? These are companies they've picked as stocks for the long run.

By **CAROLYN BIGDA**

CONSISTENCY IS THE RAREST of qualities in the mutual fund world. Managers come and go. So, too, does market-beating performance. But the four stock funds featured on the following pages are among the rare exceptions. In each case, the managers have been in place for a decade or more and have stuck with their investment strategy during that period. What's more, that consistency has paid off throughout the market's ups and downs: Each of the funds has beaten the majority of its peers over the past one-, five-, *and* 10-year periods.

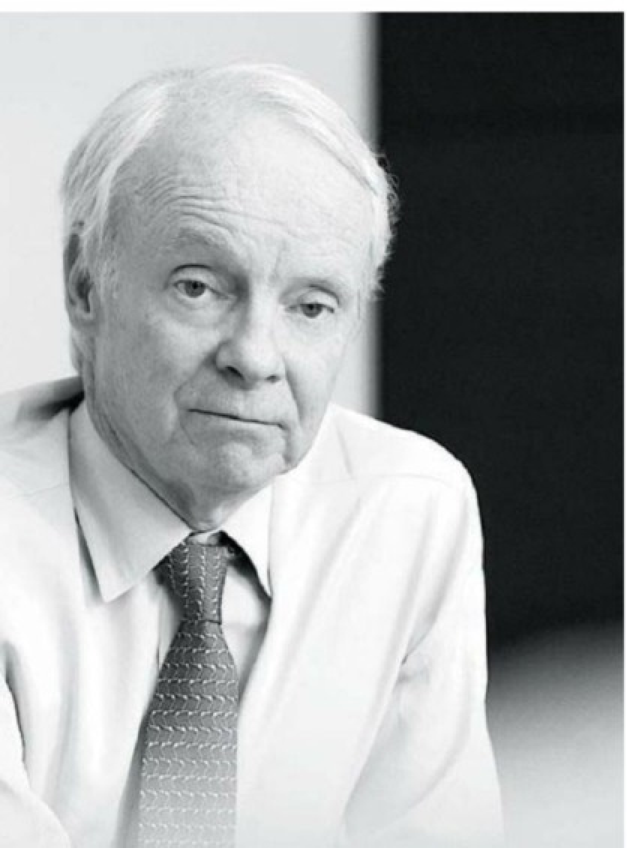
So we decided to ask these extraordinary managers to do what they do best: think about the long term, and share with us the three stocks they feel most confident will outperform for at least the next few years. Follow their lead, and you may come out ahead too.

WILLIAM BROWNE
Tweedy, Browne
Global Value

SUDHIR NANDA
T. Rowe Price QM U.S.
Small-Cap Growth Equity

CHARLES POHL (third from left) AND TEAM
Dodge & Cox Stock

TODD AHLSTEN
Parnassus
Core Equity



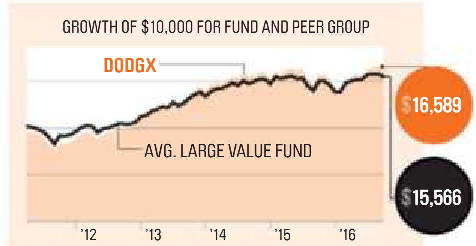
THE PROS

CHARLES POHL AND TEAM

Managing since 1992

DODGE & COX STOCK (DODGX)

EXPENSES: 0.52% MINIMUM: $2,500 5-YEAR ANNUALIZED RETURN: 17.1% 10-YEAR: 6.1%



LAUNCHED IN 1965, Dodge & Cox Stock has a long tradition of buy-and-hold investing. A team of eight managers—some of whom have been with the fund for more than 20 years—looks for shares of large businesses under a temporary "cloud," dampening their prospects, such as low oil prices or near-zero interest rates. The stocks are bought at depressed prices and typically held for six or seven years, allowing time for the air to clear. "You don't know exactly when things will turn around, so you have to have staying power," says chief investment officer Charles Pohl, one of the fund's managers.

To improve the odds of finding success stories, Pohl and his colleagues favor companies that dominate their industries, and that have strong management teams and in-demand products and services. "That helps us get confident about the stock," he says.

Dodge & Cox holds stocks for years.

THE PICKS

CHARLES SCHWAB (SCHW)
$39.61 P/E RATIO: **25.9**

The discount brokerage is attracting new investments, thanks to low-cost offerings such as ETFs. In fact, Schwab's fees are lower than other full-service brokers', so the company continues to take market share, Pohl says. Case in point: Schwab now has more than 10 million brokerage accounts, up 4% from a year ago. Meanwhile, more than 40% of its revenues come from reinvesting its $186 billion in bank deposits and other cashlike accounts into short-term investments. That return now averages 1.73%—roughly half what it did before the financial crisis. Pohl says that once low rates start to rise, Schwab's profits will jump meaningfully.

NATIONAL OILWELL VARCO (NOV) **$37.59**
P/E RATIO: **N.A.**

The stock of this oil-drilling equipment maker has plummeted—along with energy prices and profits—falling 57% since 2014. But Pohl and his team note that global oil supplies are expected to fall short of demand as early as 2018. "At some point supply will have to catch up," Pohl says.

When that happens, National Oilwell Varco should benefit. The firm is the leading supplier of rig equipment used for both offshore and onshore drilling. In recent years, two-thirds of new oil exploration has been done offshore, putting the company in an enviable position for when oil prices recover, Pohl says. Meanwhile, the stock is priced at only 96% of book value (the company's assets minus liabilities), when normally it trades at a premium. "The company is quite cheap relative to its long-term strategic position," he says.

UNION PACIFIC (UNP)
$103.39 P/E RATIO: **18.7**

Low prices for natural gas, coal, and other commodities have weighed on Union Pacific, whose trains transport goods across 32,000 miles of tracks in the Western U.S. Since early 2015, the stock has declined 16%. But Pohl & Co. point out that commodity prices will eventually bounce back. Until then, Union Pacific is taking steps to become more efficient, such as improving scheduling to reduce train bottlenecks. Union Pacific enjoys a profit margin of 21%. But Pohl notes that margins for Canadian railroads, the gold standard for profitability, are as high as 30%. "There's room for improvement, and management's efforts are being masked by a difficult commodities market," he says.

PREVIOUS SPREAD: PHOTOGRAPHS BY ROBERT ASCROFT (NANDA); BRAD WENNER (AHLSTEN); JENNY PFEIFFER/COURTESY OF DODGE & COX (POHL); GREG KINCH/COURTESY OF TWEEDY, BROWNE (BROWNE). THIS SPREAD: JENNY PFEIFFER/COURTESY OF DODGE & COX; COURTESY OF PARNASSUS

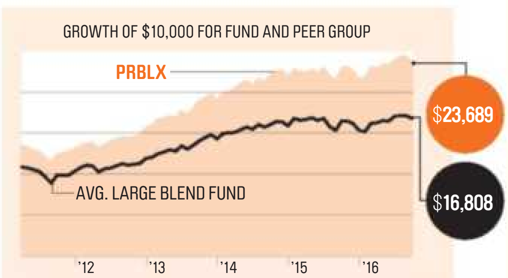
THE PRO

TODD AHLSTEN

Managing since 2001

PARNASSUS CORE EQUITY (PRBLX)

EXPENSES: 0.87% MINIMUM: $2,000
5-YEAR ANNUALIZED RETURN: 14.0% 10-YEAR: 9.2%



IT'S HARD TO PUT Parnassus Core Equity into a box. The fund invests in stocks of large companies, and manager Todd Ahlsten, at the helm for more than 15 years, looks for firms in expanding industries with strong management teams and a competitive advantage. But the stocks must also be priced well relative to their underlying value.

"We look at a range of outcomes for a stock, and we make sure there's more upside than downside before buying," Ahlsten says.

In addition, each company must meet certain environmental, social, and corporate governance principles—a mandate for all funds that are run by Parnassus. What's more, three-quarters of Core Equity's stocks have to pay dividends.

The result is a portfolio of around 40 holdings that, Ahlsten says, targets high-quality companies and serves investors well over the long run.

Parnassus Core Equity looks for undervalued socially responsible stocks.

THE PICKS

CVS HEALTH (CVS)
$76.76 P/E RATIO: **13.1**

CVS is one of the leading retail pharmacies in the U.S., commanding nearly a quarter of the market. And sales at existing stores continue to climb, rising 3.4% in the most recent quarter compared with the year before. The stock has fallen 32% since 2015, however—largely, says Ahlsten, because CVS's pharmacy benefit management business (which negotiates prices for prescription drug plans) has lost customers to competitors. But he's optimistic long term, noting that customer retention was still 96% at the end of the most recent quarter. He also expects that CVS will partner with other PBMs, offsetting recent losses. Wall Street analysts agree, estimating profits will climb an average of 10.9% annually for the next five years vs. 8.2% for other consumer staples stocks.

GILEAD SCIENCES (GILD)
$72.84 P/E RATIO: **6.7**

Gilead Sciences is a biotech company best known for its groundbreaking hepatitis C treatments. But competing therapies have pressured sales, and the stock is off 39% since 2015.

Ahlsten still sees opportunity. Some 31,000 new cases of hep C are diagnosed in the U.S. each year, and roughly half of the 3.5 million Americans infected are unaware they have the virus, creating a "long runway" of demand.

In addition, Gilead makes leading therapies for HIV/AIDS, and the launch of three popular new drugs boosted sales in this category by 21% in the latest quarter, to $3.5 billion, vs. the year before. That, says Ahlsten, helps Gilead generate plenty of cash for research and acquisitions. The stock also yields a healthy 2.5% and trades at about half the industry's average price/earnings ratio of 12.2.

INTEL (INTC)
$33.76 P/E RATIO: **12.0**

PC sales are declining in the mobile era, but Intel isn't slowing down. The chipmaker is focusing on new markets like data centers, cloud computing, and the Internet of things, the catchall term for everyday objects that connect to the web. "The Internet uses a tremendous amount of data, so energy-efficient chips are critical," Ahlsten says. "Intel is one of the few companies with the manufacturing capability to build them."

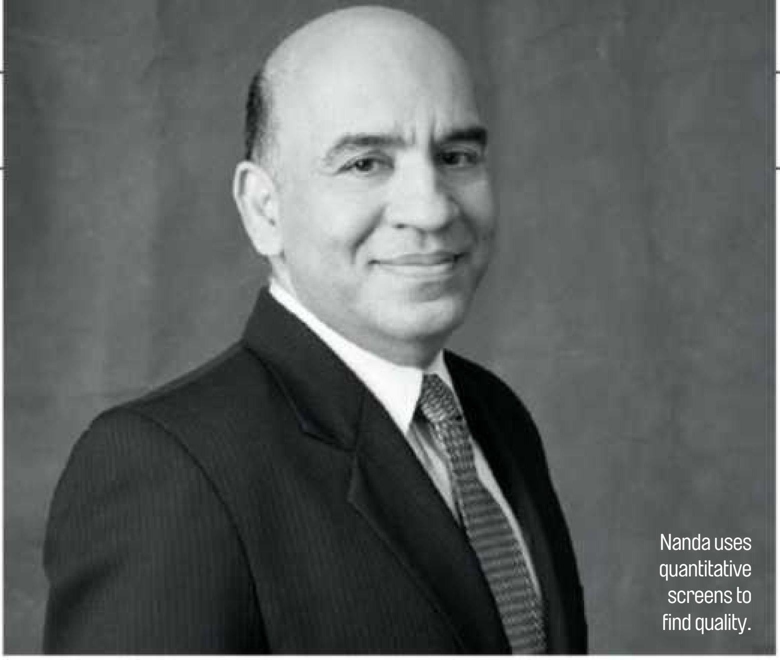
With a P/E that's 20% lower than its peers', the stock is cheap. Still, investors earn a hefty 3% yield, and sales tied to the Internet of things jumped 19% in the last quarter vs. a year ago. Ahlsten says Intel's profits could rise an average of 10% a year for the next decade.

WHAT DO YOU THINK OF THESE PROS' PICKS? *Tell us at letters@moneymail.com.*

THE PRO

SUDHIR NANDA

Managing since 2006

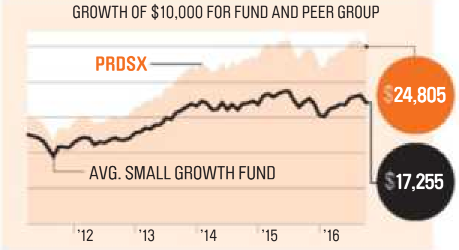


Nanda uses quantitative screens to find quality.

T. ROWE PRICE QM U.S. SMALL-CAP GROWTH EQUITY (PRDSX)

EXPENSES: 0.82% MINIMUM: $2,500
5-YEAR ANNUALIZED RETURN: 14.6% 10-YEAR: 10.0%

GROWTH OF $10,000 FOR FUND AND PEER GROUP



STOCKS OF SMALL GROWTH companies are susceptible to both big highs and big lows. To minimize the impact of those swings on his portfolio, Sudhir Nanda—who has run QM U.S. Small-Cap Growth Equity for the past decade—uses quantitative screens to zero in on quality businesses that outperform over time.

Starting with about 1,200 stocks, he ranks companies by their price relative to free cash flow, the money left over after covering obligations. "You can't manipulate cash flows as much as earnings, so it's a better measure of quality," Nanda says. He also looks for firms with a stable return on equity, as well as a record of smart acquisitions, share buybacks, and dividends. Of the stocks that pass this screen, Nanda and his team use independent research to actively pare the list further, ending up with about 300 holdings.

This approach also minimizes risk, which is one reason the fund has been added to the MONEY 50, our recommended list of funds (see page 64).

THE PICKS

SERVICE CORPORATION INTERNATIONAL (SCI)

$27.04 P/E RATIO: **20.5**

Service Corporation International is the largest provider of funeral services in North America, with more than 2,000 cemeteries and funeral homes. But the company still controls just 16% of the market. "Buying some of the mom-and-pop operators could be a source of growth" as they achieve scale and expand their geographic footprint, Nanda says. Meanwhile, an aging population is driving higher revenues. From 2012 through 2015, so-called pre-need sales (where people pay for their own burial services during their lives) climbed an average of 10.5% annually. Service Corp. was also able to raise the average price of those contracts. In the past quarter alone, that helped boost revenue by $1.9 million. That trend is likely to continue, Nanda says, resulting in more contracts and higher prices per contract.

Over the past decade, the stock has beaten the return on the S&P 500 by nearly five percentage points a year.

THE TORO CO. (TTC)

$53.42 P/E RATIO: **24.1**

Turf equipment maker Toro is broadening, well, its turf. Last year, Toro announced it would buy a German competitor, helping Toro offer service to more sports facilities and agricultural areas. In 2014 it expanded into snow and ice removal with the purchase of BOSS, a maker of snowplows. The acquisitions have helped diversify the business and boosted profits: For the first nine months of 2016, earnings climbed 13% to $201 million. Even though Toro has gained 38.9% over the past 12 months, Nanda believes there's still room for the stock to run. Analysts project that profits will rise an average of 19.5% annually for the next five years. "That's a very healthy rate in a slow-growing economy," Nanda says.

VAIL RESORTS (MTN)

$155.60 P/E RATIO: **27.4**

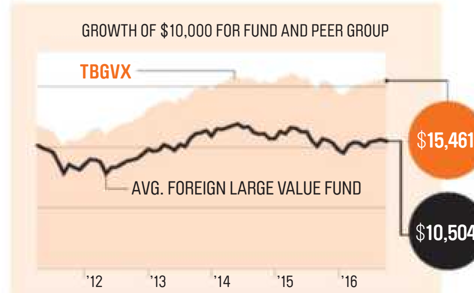
Vail Resorts is the largest ski operator in North America and still growing. In 2016 the company—which runs resorts including Vail and Breckenridge in Colorado, and Park City Mountain Resort in Utah—bought Whistler Blackcomb, Canada's preeminent ski destination. The acquisition is likely to increase visits from both skiers and other vacationers: Whistler is spending $345 million on facilities to attract visitors in any weather conditions, including an indoor sports complex. Not surprisingly, analysts expect profits to be robust, rising an average of 24% annually for the next five years.

Vail, in turn, is rewarding investors. Since initiating a dividend in 2011, the firm has lifted its quarterly payout from 15¢ per share to 81¢. Nanda expects Vail will keep raising that and buying back shares. "Management is making all the right moves," he says.

THE PROS

WILLIAM BROWNE, THOMAS SHRAGER, JOHN SPEARS, ROBERT WYCKOFF, AND TEAM *Managing since 1993*

TWEEDY, BROWNE GLOBAL VALUE (TBGVX)



EXPENSES: 1.38% MINIMUM: $2,500 5-YEAR ANNUALIZED RETURN: 8.0% 10-YEAR: 4.2%

THE SEVEN MANAGERS of this foreign stock fund are champions of value investing. They scour the globe for discounts, often favoring stocks trading below a company's tangible book value (its assets minus its liabilities and nontangible assets). To give themselves plenty of options, the managers will invest in firms large or small without regard to borders; that means U.S. companies are fair game too.

As such, they sometimes wade into stocks that have been beaten up because an event or market scare caused investors to overlook a company's true worth. "In many instances, we feel like the odd man out," says William Browne, who, along with three of the other managers, has been leading the fund since its launch in 1993.

The strategy has worked. Since inception, the fund's average annual return has trounced the MSCI EAFE index of foreign developed stocks, by 3.7 percentage points (adjusted for currency swings)—and with significantly less volatility.


Value hunters at Tweedy, Browne (from left): Spears, Wyckoff, Shrager, Browne.

THIS SPREAD: PHOTOGRAPHS BY ROBERT ASCROFT (NANDA); GREG KINCH/COURTESY OF TWEEDY, BROWNE

THE PICKS

AGCO (AGCO) **$56.82** P/E RATIO: **22.7**

Although this agricultural equipment maker is based in the U.S., roughly three-quarters of its sales are generated overseas. In recent years, low crop prices have limited demand for AGCO's products, which include tractors and combines. The stock is down 12% since 2013.

Tweedy, Browne's managers say AGCO's diversified lineup will help it get through the slump. For example, AGCO sells equipment to pig and poultry farmers—and with consumers in emerging markets eating more meat, sales are rising. While it's unclear exactly when demand for farm equipment will hit bottom, anticipation of that is likely to drive the stock higher in the near term. For AGCO, which commands 45% of Brazil's tractor market and 30% of Europe's, a rebound will boost profits fast. "Those are very valuable positions," says comanager Thomas Shrager.

HYUNDAI MOTOR CO. (HYMLF) **$120.00** P/E RATIO: **3.9** **and KIA MOTORS** (KIMTF) **$35.00** P/E RATIO: **3.4**

Korean automakers used to be the butt of car jokes, thanks to poor engineering. Today sister companies Hyundai and Kia—Hyundai owns 33.88% of Kia, and the two share parts and technology—are having the last laugh. In 2016, Kia got top ranking in J.D. Power's annual U.S. Initial Quality Study. It was the first time in 27 years that a nonluxury brand headed the list. Hyundai came in third.

Such accolades have not protected the automakers from the economic slowdown in emerging markets. The stocks have sold off, and Kia now trades at just 58% of tangible book value; Hyundai at 44%. Browne says investors are overly pessimistic. "These stocks have gotten too cheap," he says. "The cycle will turn."

UNITED OVERSEAS BANK (UOVEY) **$28.55** P/E RATIO: **13.8**

Loan defaults in the oil and gas sector have weighed on this Singapore bank, which is down 26% since 2014. Shrager says the concerns are overdone. UOB has an unusually strong balance sheet with ample reserves for nonperforming loans. And it is growing loans by about 5% a year. "It's generating a healthy amount of income," Shrager says. Meanwhile, the stock is priced at only 1.1 times tangible book value, compared with a long-term median price/book value ratio of 1.5.

NOTE: *As of Dec. 1.* **SOURCES:** *Morningstar, Yahoo Finance*


50

THE 50 BEST FUNDS TO BUY AND HOLD

In 2016 the markets shook, then rattled, before finally getting on a roll—proving again the value of mutual and exchange-traded funds that help smooth out your ride. Here, our list of the funds most likely to deliver steady, stellar long-term gains.

By **CARLA FRIED**

Typography by **RICH MORGAN**

LAST YEAR, INVESTING was like being the proverbial duck in the pond. On the surface, everything may have seemed calm, as a postelection rally on Wall Street pushed stock indexes to record highs. But beneath it all was plenty of rough paddling. The S&P 500 index of blue-chip stocks, which gained nearly 10% in 2016, shed more than 9% at the start of the year. And small-company shares, which soared 17% over the year, nearly fell into a bear market early in 2016.

Markets like this are a great reminder that getting wrapped up in short-term twists and turns can be dangerous to your wealth. Sticking to a well-crafted strategy built to serve goals that are years and decades away remains a winning approach over the long run.

This has always been the focus for the MONEY 50, our handpicked list of the best mutual and exchange-traded funds (ETFs) you can use to construct an affordable and fully diversified portfolio. Our recommended funds have proved their mettle over the long term. The tradeoff: In exchange for consistency and reliability, these funds rarely top the charts in any given year.

To find our MONEY 50 stars, we focus on low-cost funds and long-term returns that match or beat their benchmarks. Given these criteria, index funds and ETFs make up the core of our list—indexing is typically the cheapest way to invest, and data show that few actively managed funds consistently outpace the market.

For those who prefer a human manager at the helm, and for less efficient markets, where smart investors may have an edge, we include actively managed funds. But we insist on veteran managers who look out for their shareholders and have a proven record of delivering strong long-term returns.

Take Sudhir Nanda, lead manager of **T. Rowe Price QM U.S. Small-Cap Growth**, which is making its debut on our list this year (see "Top Picks From Top Pros," on page 58). "We are looking to do well over three, five, and 10 years rather than try to hit a home run and end up striking out," says Nanda.

As for how our list is actually organized, the funds are grouped into three sections. The first part consists of "building block" options—14 low-cost index funds or ETFs designed to serve as the foundation for your portfolio. These funds give you exposure to the broad market and should make up the bulk, or possibly all, of your portfolio.

By contrast, "custom funds" are meant to play a supporting role in your portfolio by allowing you to slightly tilt your strategy toward a particular style (like bargain-hunting value investing) or a type of asset (such as dividend-paying stocks) that you deem attractive. This section is divided between actively managed funds and passively managed funds that offer you an investing tilt through a form of indexing.

Rounding out the list are "one decision" funds—offering full diversification through a single fund such as balanced or target-date retirement portfolios.

LONG TENURE

12.2 YEARS

Average tenure for a MONEY 50 active manager

VS.

5.9 YEARS

Average tenure for all stock-fund managers

SOURCE: *Morningstar*

What's Out

Given our focus on consistent stalwarts, it's typical for more than 90% of the MONEY 50 to stay the same each year. That's again the case for 2017—we are making just three changes to the list. This year we are removing midcap-focused **Ariel Appreciation** (CAAPX) and small-cap funds **Royce Opportunity** (RYPNX) and **Wasatch Small Cap Growth** (WAAEX).

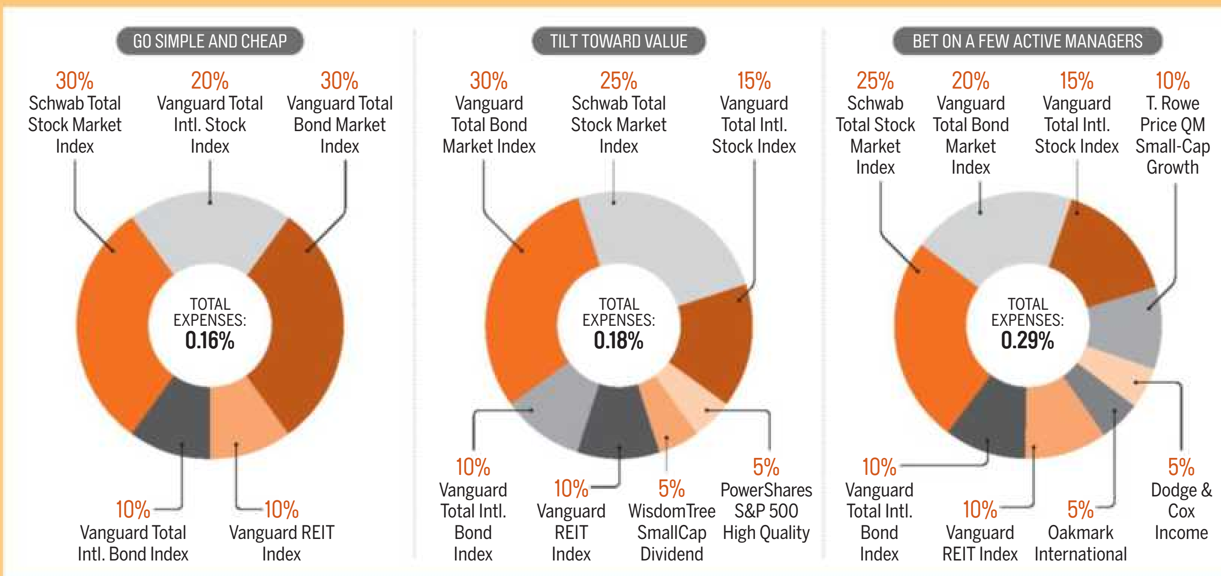
All three are actively managed portfolios run by solid teams of stock pickers and have performed decently over the long run, outpacing their peers over the past decade. But more recently, each has trailed more than half its peers over the past three years. Underperformance, though, isn't the primary reason for removing these funds. Costs are.

All three portfolios charge management fees that run from 1.12% of assets per year to 1.22%, making them among the most expensive portfolios in the MONEY 50. If you own them in a tax-sheltered account, you should consider switching. The funds that are replacing them are significantly cheaper, with an average fee of just 0.43% a year.

Low costs have always been a centerpiece of our decision-making, but never more so than now. Over the next decade, keeping your fees low will be critical, as U.S. stocks and bonds will be hard-pressed to return anywhere near their long-term averages (see "Four Big Trends You Can Ride for

HOW TO USE THE *MONEY* 50

Our recommended list of funds can create simple or complex portfolios—it's your choice.



NOTE: *Moderate allocations shown.* ***SOURCE:*** *Morningstar*

Years," on page 70). Fortunately, the boom in cheap ETFs gives cost-conscious investors more options than ever before.

What's In

PowerShares FTSE RAFI U.S. 1500 Small-Mid (PRFZ). This ETF is the small-cap cousin to **PowerShares FTSE RAFI U.S. 1000** (PRF), which is in the MONEY 50. Unlike traditional index funds, which weight stocks in their portfolios based on size, PRFZ uses fundamental factors such as a company's cash flow, sales, and dividends. This gives the fund a value tilt.

Like the fund it replaces, Royce Opportunity, PowerShares FTSE RAFI U.S. 1500 Small-Mid's emphasis is on super-small companies. It recently held nearly 40% of its assets in microcaps—typically companies with a market value of less than $500 million. Yet PRFZ's 0.39% fee is a third of what Royce Opportunity charges. Over the past 10 years, PRFZ has returned 8.8% annually vs. 7% for Royce Opportunity.

Vanguard Mid-Cap Value Index (VOE). The MONEY 50 already has a midcap index fund, **iShares Core S&P Mid-Cap** (IJH), which provides broad exposure to midsize stocks. By contrast, VOE tracks a midcap index with a decided value tilt. The average holding in this ETF sports a price/earnings ratio of 17.4, vs. 20.6 for iShares Core Mid-Cap. Its 7.7% annualized 10-year return is on par with the record of the fund it replaces, Ariel Appreciation. But its 0.08% fee is one percentage point cheaper.

T. Rowe Price QM U.S. Small-Cap Growth (PRDSX). The QM in the name stands for quantitative management—"quant" funds rely on computer models. Based on the sector weightings of the MSCI Small Cap Growth Index, Nanda and his team choose stocks that rank high on factors such as profitability and valuation.

The team is extremely patient, often holding stocks for more than five years. And their goal is to get shareholders to do the same. "We want to outperform in down markets," says Nanda. "Preventing large drawdowns means compounding higher returns over the long term." Since Nanda took over 10 years ago, the fund's losses in bad markets have been 10% less than the average for small-cap growth funds. And the fund's 10.1% annualized gain ranks in the top 2% of its peers. ◘

LOW FEES

0.8%

Average expense ratio for actively run MONEY 50 stock funds

VS.

1.3%

Fee on average stock fund

SOURCE: *Morningstar*

THE MONEY 50

Use our list of recommended mutual and exchange-traded funds to construct a portfolio that's built to last.

BUILDING-BLOCK FUNDS

These funds and ETFs, which offer you exposure to big chunks of both the U.S. and foreign stock and bond markets, should be used for the core part of your portfolio that you'll hold for years. Because you're seeking broad market exposure, low-cost diversified index funds are your best bet.

FUND NAME (TICKER)	STYLE	ANNUAL EXPENSES (% OF ASSETS)[1]	% TOTAL RETURN 2016[2]	% TOTAL RETURN FIVE YEARS[3]	MINIMUM INITIAL INVESTMENT
LARGE-CAP					
Schwab S&P 500 Index (SWPPX)	BLEND	0.09	9.7	14.3	$100
Schwab Total Stock Market Index (SWTSX)		0.09	10.5	14.3	100
MIDCAP/SMALL-CAP					
iShares Core S&P Mid-Cap ETF (IJH)		0.07	18.1	14.7	N.A.
iShares Core S&P Small-Cap ETF (IJR)		0.07	22.4	16.1	N.A.
FOREIGN					
Fidelity International Index (FSIIX)	LARGE BLEND	0.19	–1.6	5.5	2,500
Vanguard Total International Stock (VGTSX)		0.19	2.6	4.5	3,000
Vanguard FTSE All-World ex-U.S. Small-Cap (VFSVX)	SMALL/MID BLEND	0.31	2.8	5.6	3,000
Vanguard Emerging Markets Stock (VEIEX)	EMERGING MARKETS	0.33	11.7	0.6	3,000
SPECIALTY					
Vanguard REIT Index (VGSIX)	REAL ESTATE	0.26	3.5	11.6	3,000
BOND					
Vanguard Total Bond Market Index (VBMFX)	INTERMEDIATE TERM	0.16	2.3	2.2	3,000
Vanguard Short-Term Bond Index (VBISX)	SHORT TERM	0.16	1.4	1.1	3,000
Vanguard Inflation-Protected Securities (VIPSX)	INFLATION-PROTECTED	0.20	4.7	0.8	3,000
Vanguard Short-Term Inflation-Protected Sec. ETF (VTIP)		0.08	2.4	N.A.	N.A.
Vanguard Total International Bond Index (VTIBX)	WORLD	0.17	4.2	N.A.	3,000

ONE-DECISION FUNDS

Don't want to put together a portfolio on your own? Then use one of these professionally managed funds that hold a diversified mix of stocks and bonds.

FUND NAME (TICKER)	STYLE	ANNUAL EXPENSES (% OF ASSETS)[1]	% TOTAL RETURN 2016[2]	% TOTAL RETURN FIVE YEARS[3]	MINIMUM INITIAL INVESTMENT
Fidelity Balanced (FBALX)	BALANCED	0.56	5.7	9.9	2,500
Fidelity Global Balanced (FGBLX)		1.02	0.5	5.1	2,500
Vanguard Wellington (VWELX)[4]		0.26	8.7	10.4	3,000
T. Rowe Price Retirement Funds (STOCKS/BONDS)	TARGET DATE				
Example: 2020 Fund (TRRBX) 62%/38%		0.66	6.2	8.7	2,500
Vanguard Target Retirement (STOCKS/BONDS)					
Example: 2035 Fund (VTTHX) 82%/18%		0.15	6.5	9.8	1,000

NOTES: [1]Net prospectus expense ratios were used. [2]Total return figures are as of Nov. 30. [3]Five-year returns are annualized. [4]Shares available only through fund company. [5]4.25% sales load. N.A.: Not available or not applicable. ETFs do not have a minimum initial investment. *SOURCES:* Lipper and fund companies

FUND LINGO
HOW TO READ THE TABLES

LARGE-CAP
Invests in shares of firms with stock market values, or market capitalizations, of $10 billion or more

SMALL-CAP and MIDCAP
Invest in smaller companies

SPECIALTY
Invests in assets that don't move in sync with the broad stock or bond market

TARGET DATE
Provides exposure to a mix of stocks and bonds appropriate for your age—and gradually grows more conservative over time

BALANCED
Offers you exposure to a mix of stocks and bonds, but doesn't grow more conservative over time

VALUE
Looks for stocks that are selling at bargain prices

GROWTH
Focuses on companies with fast-growing earnings

BLEND
Owns both growth- and value-oriented stocks

SHORT TERM
Owns bonds that mature in about two years or less

INTERMEDIATE TERM
Owns bonds that mature in two to 10 years

MULTISECTOR
Can buy a variety of different types of bonds—foreign or domestic

INFLATION-PROTECTED
Owns bonds whose value at least keeps pace with the consumer price index

CUSTOM FUNDS

Supplement your core holdings with these funds to tilt your portfolio toward certain kinds of stocks and bonds, diversify more broadly, or play a hunch.

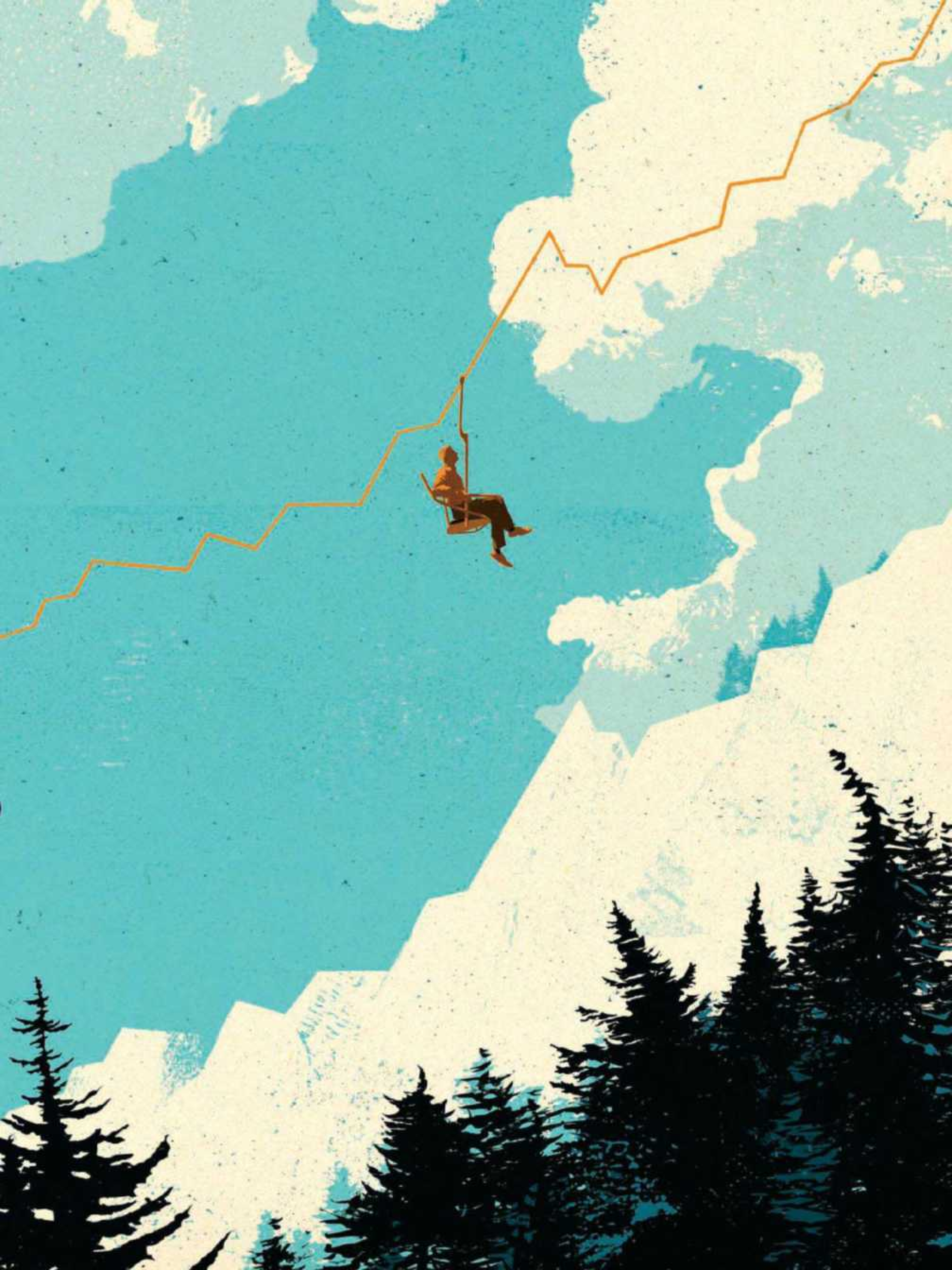
FUND NAME (TICKER)	STYLE	ANNUAL EXPENSES (% OF ASSETS)[1]	% TOTAL RETURN 2016[2]	% TOTAL RETURN FIVE YEARS[3]	MINIMUM INITIAL INVESTMENT
LARGE-CAP					
Dodge & Cox Stock (DODGX)	VALUE	0.52	19.8	17.0	$2,500
PowerShares FTSE RAFI U.S. 1000 ETF (PRF)		0.39	14.8	14.9	N.A.
Sound Shore (SSHFX)		0.93	13.1	15.3	10,000
PowerShares S&P 500 High Quality Portfolio (SPHQ)	BLEND	0.29	12.1	15.1	N.A.
Primecap Odyssey Growth (POGRX)	GROWTH	0.64	7.9	16.3	2,000
T. Rowe Price Blue Chip Growth (TRBCX)		0.71	1.0	15.3	2,500
MIDCAP					
Vanguard Mid-Cap Value (VOE)	VALUE	0.08	14.1	15.6	N.A.
WisdomTree MidCap Dividend (DON)	VALUE	0.38	18.5	16.1	N.A.
T. Rowe Price Diversified Mid-Cap Growth (PRDMX)	GROWTH	0.87	7.5	13.5	2,500
SMALL-CAP					
Vanguard Small-Cap Value ETF (VBR)	VALUE	0.08	21.4	15.9	N.A.
WisdomTree SmallCap Dividend (DES)		0.38	26.5	16.2	N.A.
PowerShares FTSE RAFI U.S. 1500 Small-Mid (PRFZ)	BLEND	0.39	20.9	15.0	N.A.
T. Rowe Price QM U.S. Small-Cap Growth (PRDSX)	GROWTH	0.82	10.9	14.7	2,500
SPECIALTY					
PowerShares International Dividend Achievers ETF (PID)	DIVIDEND	0.58	7.9	2.8	N.A.
SPDR S&P Dividend ETF (SDY)		0.35	17.9	14.3	N.A.
Cohen & Steers Realty (CSRSX)	REAL ESTATE	0.96	1.5	11.5	10,000
SPDR Dow Jones International Real Estate ETF (RWX)		0.59	–2.0	6.9	N.A.
iShares North American Natural Resources ETF (IGE)	NATURAL RESOURCES	0.48	29.2	–0.3	N.A.
FOREIGN					
Oakmark International (OAKIX)[4]	LARGE BLEND	0.95	4.4	9.4	1,000
Vanguard International Growth (VWIGX)	LARGE GROWTH	0.47	1.4	6.4	3,000
T. Rowe Price Emerging Markets Stock (PRMSX)	EMERGING MARKETS	1.24	11.3	1.8	2,500
BOND					
Dodge & Cox Income (DODIX)	INTERMEDIATE TERM	0.43	5.0	4.0	2,500
Fidelity Total Bond (FTBFX)		0.45	5.3	3.4	2,500
Vanguard Short-Term Investment Grade (VFSTX)	SHORT TERM	0.20	2.7	2.3	3,000
iShares iBoxx $ Investment Grade Corp. Bond (LQD)	CORPORATE	0.15	5.3	4.8	N.A.
Loomis Sayles Bond (LSBRX)	MULTISECTOR	0.89	7.4	5.0	2,500
Fidelity High Income (SPHIX)	HIGH YIELD	0.73	13.3	6.5	2,500
Vanguard Intermediate-Term Tax-Exempt (VWITX)	MUNI NATL. INTERMEDIATE	0.20	–0.9	3.0	3,000
Vanguard Limited-Term Tax-Exempt (VMLTX)	MUNI NATL. SHORT	0.20	–0.5	1.1	3,000
Templeton Global Bond (TPINX)[5]	WORLD	0.89	2.9	3.5	1,000
Fidelity New Markets Income (FNMIX)	EMERGING MARKETS	0.86	12.1	6.0	2,500

4 BIG TRENDS YOU CAN RIDE FOR YEARS

Exchange-traded funds are beloved for the ease and speed with which they can be bought and sold. But the real value in ETFs is helping you take advantage of big, sweeping trends that unfold not over months but years.

By **JOHN WAGGONER**

Illustrations by **MARK SMITH**



You can find certain eternal truths in investing: Stay the course. Don't buy on impulse. Use your computer for research, unless you're in the bathtub. Most important, however, is this: Markets look to the future, not the past. And successful investing requires looking far into the future. For insights, we turned to leading fund managers and market sages to determine the big trends that will guide stocks higher over the next decade. Their thoughts follow, along with recommendations for the best exchange-traded funds you can buy to ride these themes.

THE TURNAROUND PLAY

Foreign Stocks Are Due for a Comeback

If you've invested abroad over the past decade, you've lagged the S&P 500 index badly. Sacre bleu! In the past 10 years U.S. equities have gained an average of 6.7% annually. During that same stretch the MSCI EAFE index of foreign companies based in the developed world has lost 1.6% a year, as Europe and Japan have been struggling to grow.

Time to give up? Just the opposite. A decade is an unusually long period for international stocks to lag U.S. shares, which means the coming decade is likely to be much better than the last. "You really can't exclude international much longer," says Sam Stovall, chief investment strategist for the equity research firm CFRA.

–1.6%

Annualized losses for foreign stocks over the past decade

SOURCE: *Morningstar*

There are four main reasons to believe foreign stocks will bounce back. The first is valuations. U.S. and foreign stocks have historically traded on par with one another. But after nearly eight years of a bull market in the U.S. and lousy returns overseas, foreign shares now trade at a 15% discount to domestic equities. This is a big reason Research Affiliates, a respected research firm in Newport Beach, Calif., projects that foreign stocks will gain nearly 6% a year after inflation for the next decade. That's five percentage points better than what the firm expects U.S. stocks to return.

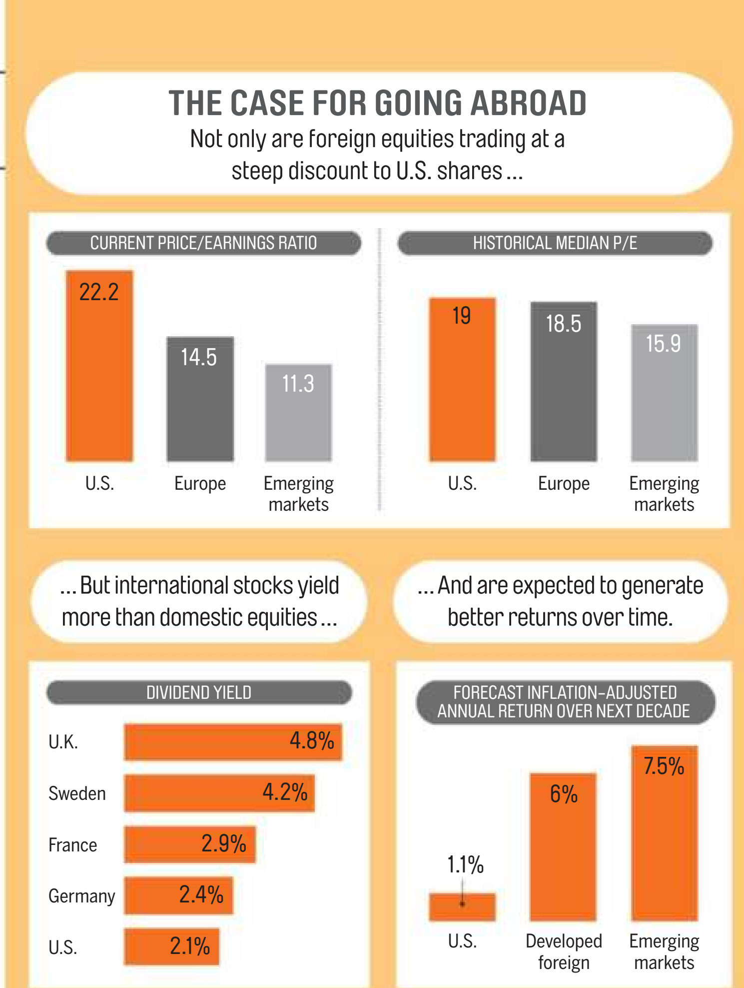
Moreover, there's "reversion to the mean," which is a fancy way of saying that eventually, broad investment categories tend to return to their long-term averages. Though the MSCI EAFE index has lost ground over the past decade, foreign stocks have gained an average of 7.2% a year in the past 40 years.

The next reason is the strengthening U.S. dollar. When the dollar rises in value, returns from overseas stocks for U.S. investors decline. Suppose your Uncle Charlie, a U.S. expatriate, sent you 1,000 euros every year. At the end of 2014 you could have cashed in your 1,000 euros for $1,379, because one euro was worth $1.379. In December 2016 your 1,000 euros would have gotten you just $1,060, because the euro had fallen to $1.06.

Eventually, though, this disadvantage will turn into an advantage. That's because a weaker euro means goods sold by European companies will be cheaper abroad, spurring growth in the eurozone. And as European profits bounce back faster than U.S. earnings this year, stocks there should fare well also.

Finally, there's the emerging markets. Many stocks in the developing markets got clobbered when oil and other commodity prices collapsed in 2015, says Steve Janachowski, CEO of Brouwer & Janachowski, a Tiburon, Calif., financial planning firm. The stocks bounced back by 9% in 2016.

Wealth is spreading in emerging economies, so high-quality companies that cater to the growing middle class should see excellent growth in the next decade. In many cases it is companies in developed international countries that serve emerging-



SOURCES: The Leuthold Group, iShares, Research Affiliates

markets consumers. "You're getting in at a low starting point," Janachowski says.

YOUR BEST ETF OPTIONS

If you already have a modest dose of international equities in your portfolio, increasing that percentage could make sense for the next decade. Research by Vanguard shows that keeping 40% of your stock portfolio in foreign shares offers the best balance of risk, return, and diversification.

If you don't want to constantly worry about what percentage of your equity portfolio to keep in international shares, consider a global fund like **Vanguard Total World ETF** (VT). You'll get a sampling of the entire world's stock markets—including the U.S.—for just 0.14% in expenses a year. The fund currently has about 45% of its assets in international stocks, and seven percentage points of that is in the emerging markets.

If you simply want international exposure, it's hard to argue with **Vanguard All-World ex-U.S. ETF** (VEU), which charges just 0.13% a year. In addition to investing about 15% directly in emerging-markets stocks, this Vanguard fund has as its biggest holding Nestlé, the Swiss multinational that generates more than half its sales in the developing world.

THE ECONOMIC PLAY

Inflation Rises From the Dead

If you remember the 1970s and early 1980s, inflation probably holds a big place in your closet of anxieties, along with those photos of you at the disco. While inflation has been deader than King Tut more recently—the consumer price index (CPI) has advanced just 1.8% a year on average over the past decade, vs. the historical average of 3%—it's not unreasonable to think it could rise from the grave in the next decade. Lewis Altfest, chief investment officer for Altfest Personal Wealth Management, thinks inflation could return to 3% to 4% in the next couple of years.

Why? For starters, inflation has been in hibernation lately because prices tend to flatten or fall during a recession, and fall they did in the Great Recession of 2008. In fact, the CPI fell from December 2008 to October 2009. But inflation isn't just about consumer prices. Normally, when the unemployment rate falls as the job market improves, workers start demanding—and getting—pay raises. By and large, U.S. workers have gotten only nominal wage increases for the past decade. But over the past 12 months, average hourly wages grew 2.8%, the fastest rate since 2009, as the nation's unemployment rate fell to 4.9%. That's roughly what economists consider "full employment."

Add to this the impact of the presidential election. Donald Trump has pledged to spend about $1 trillion to rebuild the nation's infrastructure. He also promises to lower taxes and renegotiate trade deals such as NAFTA. "All three probably mean a higher inflation environment going forward," says

Conor Muldoon, a portfolio manager for Causeway Capital Management.

YOUR BEST ETF OPTIONS

With inflation on the rise, attention naturally turns to Treasury Inflation-Protected Securities, or TIPS. These government bonds can add to their principal every six months, depending on the increase in the CPI. The current yield on TIPS implies that investors expect a 10-year inflation rate of 1.9%, which is about where inflation stood over the past 10 years. This means that if inflation advances faster than that over the next decade, you would do better in TIPS than traditional Treasury bonds of similar maturities. "They are reasonably priced and a good value," says Janachowski.

A good choice: **Schwab U.S. TIPS ETF** (SCHP), which is the cheapest TIPS fund, with a 0.07% expense ratio. A word of caution, though: When the government adds to the principal value of TIPS, it's taxable as income. So in most cases, you will want to keep your TIPS fund in a tax-deferred account such as an IRA.

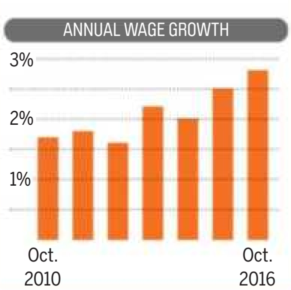
PRICING PRESSURE

While overall consumer prices remain muted, there are two big signs that inflationary pressures are building.

SIGN NO.1

WAGES ARE RISING

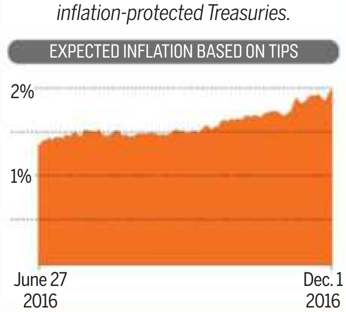
Annually, hourly wages have seen their biggest gains since the end of the Great Recession in 2009.



SIGN NO.2

EXPECTATIONS ARE RISING

The market's view is indicated by the spread between yields on regular and inflation-protected Treasuries.



***SOURCES:** St. Louis Fed, Labor Department*

THE DEMOGRAPHIC PLAY

Health Care Spending Stays Strong

"A long-term trend? It's health care. Nothing else is close," says Dan Wiener, editor of the *Independent Adviser for Vanguard Investors.* U.S. health care spending rose half-a-trillion dollars, to $3 trillion, from 2009 to 2014, according to the latest data from the Department of Health and Human Services. And spending continues to grow: PwC's Health Research Institute projects medical costs to climb 6.5% in 2017, the same rate as in 2016.

And, of course, health-spending growth isn't confined to America. A rising middle class in developing economies abroad, particularly in China, augurs continued growth in medical spending. "The wealthier a country gets, health care spending as a percentage of GDP rises," says Richard Schmidt, a portfolio manager for Harding Loevner. Health expenditures in the emerging markets, in fact, overtook spending in Germany, France, Italy, Spain, and the U.K. in 2010.

Plus, the number of people age 65 and older is expected to hit 604 million, or about 10.8% of the global population, by 2019, according to Deloitte. As people grow older, they need more medical services.

Funds that focus on health stocks are down about 8% over the past year, partly due to uncertainty about how President-elect Trump plans to dismantle Obamacare. "You're looking at a sector trading at a 20% discount to its long-term relative price-to-earnings ratio," Stovall says.

YOUR BEST ETF OPTIONS

Health care is a broad, deep industry whose components range from giant pharmaceutical companies such as Merck to small innovators like Cytokinetics, which is developing therapies for diseases that affect muscle function. You can capture that range of businesses through a single broad-based portfolio like **Vanguard Health Care ETF** (VHT).

This low-cost index fund, which charges a mere 0.09% of assets annually, has beaten a

majority of its peers over the past one, three, and five years. In addition to its large stake in big drugmakers—investments in Johnson & Johnson, Pfizer, and Merck make up nearly a quarter of the fund—Vanguard Health Care holds about 22% of its assets in biotech stocks, the fastest-growing part of the sector.

Despite many ups and downs, biotech is entering an exciting phase. This group of health care stocks is finally beginning to take advantage of the mapping of the human genome. Personalized medicine—matching medicine with your genetic set—is now a reality. Illumina, one company in the Vanguard ETF, can now sequence a human genome for $1,000. The Human Genome Project cost $10 billion.

If you have a greater appetite for risk taking—along with an extremely long time horizon to recover from prolonged bouts of volatility—consider a fund that focuses mostly on biotechs such as **SPDR S&P Biotech ETF** (XBI).

In addition to promising but profitless startups, SPDR S&P Biotech will give you a dose of several big companies like Gilead Sciences, which has a market value of $100 billion thanks to its treatments for HIV and hepatitis C. Fees: a modest 0.35% a year.

THE TIMELESS PLAY

Low-Cost Funds Drive Higher Returns

Low costs. "It's a theme that could thrive and thrive and thrive," says Jim Lowell, editor of the *Fidelity Investor* newsletter. And it's one that's catching on: Investors yanked a net $193.4 billion from actively managed mutual funds in 2016 through October, while plowing $186.9 billion into low-cost index funds.

The mathematics of low-cost investing is simple: The less you pay your fund company, the more you keep for yourself. Consider $10,000 invested in two different funds that each earn a gross market return of 7%. Investment A takes 0.5% in expenses, while Investment B takes 1.5%. After 30 years, Investment A will be worth $66,100. Investment B? $49,800—more than $16,000 less.

And it's not just index funds, or even low-cost actively managed funds, that will keep gaining investors' attention. "My sense is the investment advisory business is seeing some real price competition," Lowell says.

Low costs will become even more important if coming years see returns from stocks and bonds that are below the long-term averages, as Vanguard's Fran Kinniry and other pros expect.

YOUR BEST ETF OPTIONS

If you're a broadly diversified investor, you've got plenty of low-cost options, including those on our MONEY 50 recommended list of funds and ETFs (see "The 50 Best Funds to Buy and Hold" on page 64).

While Vanguard is synonymous with low-cost indexing, you can find many cheaper exchange-traded funds these days from iShares and Schwab. Consider the lowest-cost ETFs on the market: **Schwab U.S. Broad Market ETF** (SCHB), with an expense ratio of just 0.03%; **Schwab U.S. Aggregate Bond ETF** (SCHZ), charging 0.04%; and **iShares Core S&P 500 ETF** (IVV), which costs a mere 0.04% a year. These funds will give you broad exposure at a minor cost.

The right way to MANAGE your portfolio

Make the best use of the smartest investing tools.

5 WAYS YOUR 401(K) IS HELPING YOU SAVE BETTER

These retirement plans are adding new features and services that make it easier to build a big nest egg. But sometimes you should turn away the helping hands and make your own choices.

By **PENELOPE WANG**
Photographs by **THE VOORHES**

Over the past 10 years, a quiet revolution has been transforming the 401(k) landscape. As a result, you're probably saving more consistently and investing in a smarter mix of stocks and bonds, maybe without even knowing it. Employers are increasingly automating financial moves that you might otherwise drag your feet on—who really remembers to boost his contribution percentage every year? And they are offering optional counseling and a variety of nudges—such as retirement readiness scores and prompts to use online calculators—to help you avoid coming up short in later life.

The new benefits are not simply an altruistic gesture from your boss, of course. Some 52% of workers feel financial stress, and 20% of those earning $100,000 or more have trouble meeting household expenses, according to a 2016 PwC survey. That can adversely impact the bottom line: Financial pressure is causing some 60% of employees to have difficulty focusing on work, according to the International Foundation of Employee Benefit Plans, and it is also associated with higher absenteeism.

Meanwhile, workplace savings plans like 401(k)s are playing an even larger role in Americans' retirement preparations as old-fashioned pension plans, which require no action on your part, have become rare outside the public sector. Over the 35 years through 2013, the percentage of private-industry workers covered by a 401(k) and not a pension rose from 7% to 33%, according to the Employee Benefit Research Institute. The percentage who had a pension plan, either with or without a 401(k), fell from 38% to 13%. That makes it all the more important for you to make the right moves with your 401(k).

$178K

Average 401(k) balance for workers ages 55 to 64

SOURCE: *Vanguard*

Below, you'll find strategies to take maximum advantage of five key innovations and new services for 401(k) savers, along with advice about when you should override automatic settings to make even better moves for you. The payoff can be tens of thousands more dollars in your accounts to help you live the retirement life you want.

THE INNOVATION

Embracing Autopilot

Increasingly, the most critical 401(k) decisions—including enrollment, your initial contribution amount, and future increases in saving—require little or no input from you. Some 61% of 401(k)s auto-enrolled workers in 2015, up from 51% in 2010, according to benefits consultant Callan Associates. So unless you opt out, you will be defaulted into the plan, most commonly with 3% of your pay being funneled from each paycheck, Vanguard data show.

You are typically steered to a diversified investment portfolio based on the year you might retire. And the push doesn't end there: Among plans with automatic enrollment, some 81% will also increase your contributions over time, according to Callan—typically by 1% of your pay a year.

Together, these automatic features are turning 401(k)s into something a bit more like a traditional pension, says Lauren Valente, a principal at Vanguard. Except for the guaranteed retirement income, of course.

What's the thinking here? Decades of research in behavioral finance have found that 401(k) investors fare better when employers free them from decisions they aren't ready or eager to make, including giving up dollars now to have more for a future goal. Problem is, many employers play it too conservatively in

setting the initial contribution rate and the speed at which contributions escalate.

YOUR BEST MOVES

Claim all your free money. Auto-enrollment is great to get you in the plan right away, but it can also set you up to leave dollars on the table. Even if you are just starting out in your career, aim to override the default and save enough to get a full matching contribution from your employer, which might be 50¢ for each dollar up to 6% of pay. If you earn $50,000, getting a 3% match rather than 1.5% is another $750 a year.

Turbocharge those annual increases. Many financial pros say you should aim to save 15% of your pay a year, including the employer match. Even if you need to start at a much lower level, make a point to boost what you set aside each year by more than the typical default of 1% of pay. "You need to get to the right savings level as quickly as you can, to avoid losing out on compound growth," says Rob Oliver, a financial planner in Ann Arbor. As shown in the graphic on page 83, a more aggressive schedule could add almost $20,000 to your nest egg in just the first seven years.

Boosting your saving by 2% or 3% of pay a year might sound like a lot, but "if you never see the money, you probably won't miss it," says Eileen Freiburger, a financial planner in El Segundo, Calif. If your plan can't schedule those increases automatically, do it yourself, with a phone call or click, whenever you get a raise or celebrate another birthday.

Don't stop when auto-escalation stops. Your plan is likely to stop increasing your savings rate once you reach 10% of pay, but don't take that as a message from on high that that is enough for you. Higher-income workers may need to save as much as 20% (including a match) to maintain their standard of living in retirement. So make sure to manually raise your savings rate until you hit the maximum dollar amount you can sock away each year, which is $18,000 for most people in 2017. Starting the year you turn 50, you can add another $6,000 annually, yet only 16% of eligible savers make such contributions, Vanguard says.

> "You need to get to the right savings level as quickly as you can, to avoid losing out on compound growth."
>
> ROB OLIVER, FINANCIAL PLANNER

THE INNOVATION

Targeting the Right Investment Mix

These days your primary investment decision is not what to invest in, but whether to opt out of what the plan puts you in. Some 79% of employers now start you out in a target-date fund as a default investment, up from 62% in 2010, according to Vanguard. A target-date fund gives you a preset mix of stock and bond holdings that shifts to become more conservative as you approach retirement.

New employees aren't the only ones being steered in the target-fund direction. More employers are "reenrolling" existing employees, which means shifting your account into the default investments unless you say no. Some 20% of 401(k)s had done a reenrollment at some point as of 2015, up from 12% as of 2013, according to Callan. It is most common when a plan changes its fund lineup, says Lori Lucas, practice leader at Callan.

Research shows that, on average, investors in target-date funds do as well as or better than DIY investors, typically with less risk. Over the five years through 2015, investors who held a single target fund in a 401(k) at Vanguard earned an average of 7.6% a year vs. 7.2% for people calling the shots themselves. Some DIYers did far better than the average, but others did far worse.

Many target funds have become better diversified in recent years, with the addition of emerging-market stocks, foreign bonds, and other asset classes. Even better, fees have come down—the cost of the typical target-date fund is 0.55% vs. 0.67% in 2010, Morningstar reports. And you are increasingly likely to be offered an ultra-low-cost index version.

Still, you need to be aware that some target funds have very different asset allocations than do others geared to workers of the same age, says Andrew Sloan, a financial planner in Louisville. And a fund's perfectly reasonable portfolio allocation might not be right for you based on your personal risk tolerance and other holdings.

YOUR BEST MOVES

Make it the main ingredient. Target funds are meant to be an all-in-one, standalone investment. But only one out of four investors who have a target fund use it for 90% or more of their 401(k) portfolio, according to a recent study by Financial Engines, a 401(k) advice provider. On average, investors who combine target funds with other funds earn annual returns about two percentage points lower than those solely in the age-appropriate target-date funds, says Wei Hu, a vice president at Financial Engines. So either decide to go big on the target fund or just skip it entirely.

Dig a little deeper. You won't go completely wrong with a target-date fund. But particularly as your nest egg grows and retirement approaches, you should look beyond

ARE THERE CHANGES YOU WOULD LIKE TO SEE IN YOUR 401(K)? *Email pwang@moneymail.com.*

DON'T SETTLE FOR SLOW

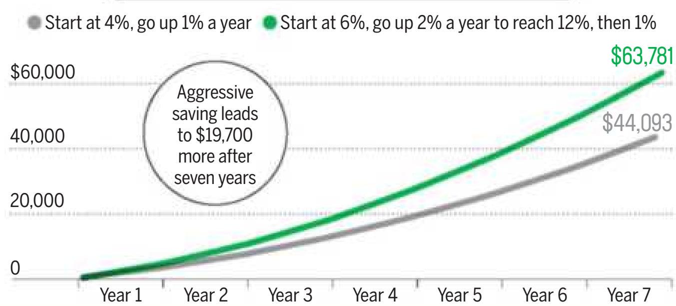
More workers are automatically signed up for 401(k)s ...

PERCENTAGE OF PLANS THAT AUTO-ENROLL EMPLOYEES

51%	61%
2010	2015

... But overriding the default amounts can jump-start saving.

ACCOUNT BALANCE FOR WORKERS WHO START AT $50,000 PAY



NOTES: Assumes 3% annual increases in pay, 5% a year investment returns, and 50% company match on up to 6% of pay. SOURCES: Callan Associates, David Blanchett of Morningstar

the year in a fund's name to understand the amount of risk it takes and decide if it fits your goals. The biggest source of both risk and return is its commitment to stocks, and, as seen in the graphic on page 84, some target funds hold a lot more stocks than others.

If you want to play it safer, switch to a target fund geared to workers who are older than you. You might ditch the year-2030 fund for the one designed for people thinking of retiring in 2025 or even 2020. Conversely, to ramp up risk, opt for a fund intended for younger workers.

Look at your 401(k) as one slice of the pie. You've also got to look beyond your workplace plan to decide if a target fund's mix of stocks and bonds is right for you. For instance, the default fund in your 401(k) may be too aggressive for you if you own a lot of stocks and other risky holdings outside the plan. And if you are married, you and your spouse should be looking at your assets together. A financial adviser or a tool such as Vanguard's Investor Questionnaire (money.us/vanguardiq) can help you decide on the right level of stock exposure for you.

While target funds are handy for many investors, it's also possible you and your spouse will find it easier to tweak your overall asset mix by using individual stock and bond funds in your two plans, says Sloan.

Bypass a target-date fund if fees are high. If your plan offers only high-cost target-date funds—with fees of, say, 1% or more—see if you have other options. "Perhaps your plan has a lower-cost S&P 500 index fund or an inexpensive bond fund," says Freiburger. Check the funds' expenses on your plan's website or the annual expense disclosures your 401(k) provides.

THE INNOVATION

Offering Personalized Investing Assistance

Not sure about the right mix of funds for you or how much you need to save? Your 401(k) probably offers a bunch of online tools to help. And that isn't all. Some 36% of plans offer one-on-one financial advisory services, up from 28% in 2013, according to Callan. That is most commonly a free one-time phone consultation with the financial company that administers the plan.

About 9% of plans offer more extensive service, often for a fee, Callan says. That is typically with a company, such as EY or Goldman Sachs's Ayco unit, that is independent of your 401(k) provider. A subsidy from your employer could result in a lower cost to you than the 1% of assets a year that an outside adviser might charge.

Another type of customized help is so-called managed accounts, in which you pay an investing pro to oversee the investments in your 401(k) based on your personal needs and goals. These accounts are offered by a similar 36% of plans, according to Callan. The advice is often provided by an independent company, such as Financial Engines or Morningstar. Fidelity, a big player in 401(k)s, offers this service as well through a separate division. You will likely pay a fee, such as 0.3% to 0.7% of assets a year; that would be $300 to $700 on a $100,000 account.

YOUR BEST MOVES

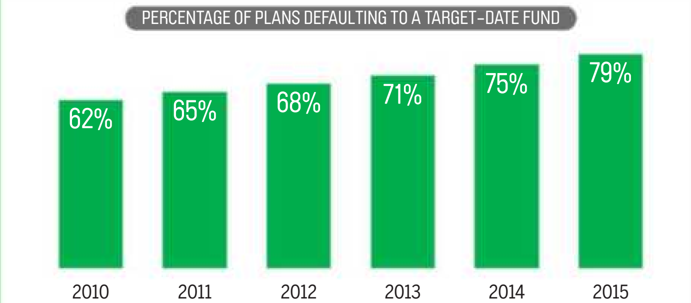
Free advice? Sure! If you are offered a free sit-down or phone call with a qualified pro, go for it. "Getting a second opinion is always useful, and there's little downside," says Freiburger. Make efficient use of the session by gathering your financial data in advance and thinking about your top priorities.

Do your part. About half the people who sign up for managed accounts with Financial Engines don't provide information about outside investments and their goals to personalize the service they get. If you are going to pay for added attention, give the advisory firm the information it requests to design the best portfolio it can for you.

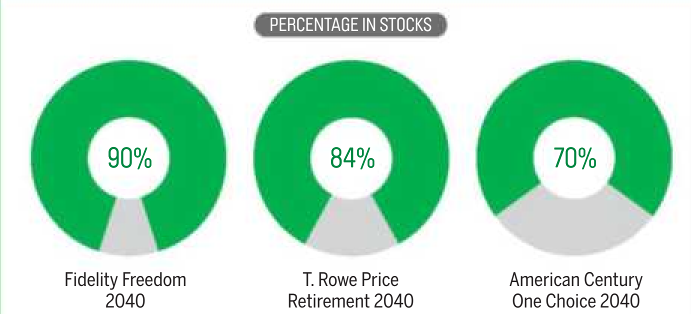
Consider getting extra help if you are within 10 years of retirement. Besides any personalized advice services, your plan probably offers a host of online resources. For instance, some two-thirds of plans offer tools that will help you project your retirement income, an Aon Hewitt survey found. But if you are closing in on retirement, you may benefit from a still more detailed analysis and consultation with a financial planner you hire on your own. For instance, you and your spouse might want help deciding on a possible relocation and a tax-savvy strategy for pulling money out of retirement accounts. (Resources to find an adviser include napfa.org and garrettplanningnetwork.com.)

NOT ALWAYS ON TARGET

While target-date funds are common ...



... Their holdings can vary widely.



SOURCES: *Vanguard, Morningstar*

THE INNOVATION

Helping Heal Your Financial Ills

For many workers, scrambling to cover immediate expenses, let alone periodic emergencies, gets in the way of saving for retirement. Among millennial workers, for instance, some 42% have student loans, PwC found, and 79% of them say this debt has a moderate or significant impact on their ability to meet their financial goals. That's a key reason about 55%

of companies offer some assistance to improve your finances, such as debt management and budgeting tips, according to Aon Hewitt.

Some employers are bringing in third-party companies that specialize in financial wellness services, such as Financial Finesse, PwC, and Morningstar's HelloWallet, typically at no fee to employees. The services can range from online budgeting tools to on-site workshops on reducing debt to individual coaching over the phone from certified financial planners or other pros.

Are financial wellness programs effective? Preliminary data are limited but promising, the Consumer Financial Protection Bureau has found.

YOUR BEST MOVES

Tackle a single challenge first. There's little downside to trying out your employer's financial wellness services. You might focus on a small achievable goal such as starting an emergency fund or figuring out how much house you can afford. "For many people, achieving one goal can encourage them to keep up the progress on other issues," says Kent Allison, a partner at PwC.

Working regularly with a money coach can make a big difference. If your issues are complex, see if your company offers the option of continuing one-on-one assistance from a pro. Most employers foot the bill, but in some cases you may have to pay an additional amount, perhaps $20 a month. Scheduled check-ins and regular encouragement can be a big help. Before signing up, make sure the company providing the guidance isn't selling a service or product.

"Getting a second opinion [from a qualified pro] is always useful, and there's little downside."

EILEEN FREIBURGER, FINANCIAL PLANNER

THE INNOVATION

Making Retirement Income Easier

If you're a boomer approaching retirement age, you are probably starting to think about how you will draw money out of savings to cover expenses after your leave the workforce. Some companies are making it easier for retirees to tap their 401(k)s, such as by letting them sign up for regular monthly checks.

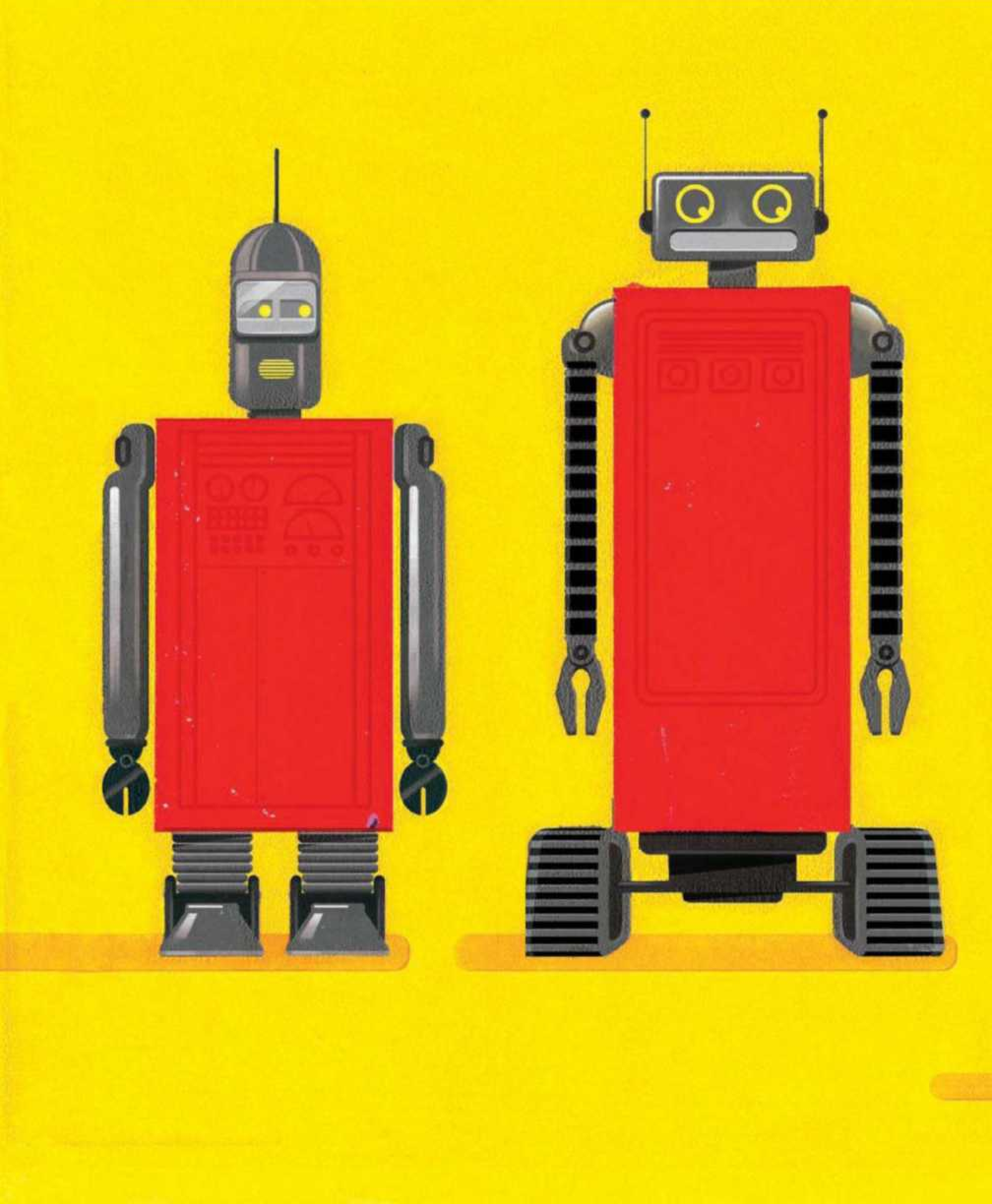
That isn't just to help you. You also have the option to roll money from your workplace plan into an IRA. Some employers are recognizing that a flood of IRA rollovers could shrink the assets in their 401(k) plans, leading fees to go up and hurting younger workers, says Rob Austin, Aon Hewitt's director of retirement research. So they are looking for ways to make it more comfortable for retirees to stay put.

To help retirees make their money last, in 2014 the Obama administration issued a rule intended to nudge 401(k) plans to offer annuities that would provide lifetime income. But so far, employers, who worry about the legal risk if an insurer fails, have shown little interest. Buying an income annuity is generally an irreversible decision; it's a possibility you might want to discuss if you hire a financial adviser.

YOUR BEST MOVES

Don't rush to leave your 401(k). If you work for a large company, you may be paying lower investment fees in your workplace plan than you would in an IRA. If so, look for ways to keep the bulk of your account balance there, even as you start to withdraw dollars. Some 45% of plans let you set up a series of automatic payments, such as monthly checks throughout your retirement, Aon Hewitt reports. If your plan requires you to separately request each withdrawal in a cumbersome process, you might transfer a single large sum to an IRA each year and then withdraw from that.

Scrutinize rollover recommendations. Rolling your money to an IRA could be a good deal for a financial adviser. Make sure you are getting what's best for you: That's probably low-cost index funds, coupled with tax planning advice from an adviser who isn't swayed by commissions, says fee-only adviser Sloan. Given all the help you received from your 401(k) during your working career, you don't want to blow it just as you reach retirement.



THE RIGHT ROBOT FOR YOUR MONEY

Letting a computer control your investment portfolio is no longer in the realm of science fiction. A new generation of automated financial managers—and their human assistants—stands at the ready.

By **MEGAN LEONHARDT** *Illustrations by* **PETE RYAN**

Never heard of a "robo-adviser"? You're not alone. Fewer than half of investors recognize the term, according to a recent poll by Gallup and Wells Fargo. And only 5% of investors say they've used one. But robo-advisers—computer algorithms that invest your money for you—have evolved in a way that could make them a key player in your financial future. First-generation robos, which started to arrive a half-dozen years ago, are adding new features. Well-known names in financial services are launching new automated investment managers. And that gives you a wider selection of robo-advisers to choose from.

A big part of the promise of these digital systems is that they can manage your investments better than you could by yourself. They're the equivalent of a GPS navigation device for your finances: an electronic aid that can map out a better route than you could by fussing with a map and going it alone. And they're cheap: Traditional financial advisers generally charge in the range of 1% to 2% of clients' assets annually in exchange for managing their money, and typically require a minimum of $250,000 to invest. In contrast, the 14 largest robo-advisers charge an average fee of just 0.4% of assets, according to a recent survey by personal finance research site ValuePenguin. And a minimum investment of just one dollar is enough to open your account with some of them.

$71 BILLION
Amount Americans have invested with robo-advisers

SOURCE: Cerulli Associates

But robo-advisers also come with drawbacks and caveats. They're limited in the types of accounts they can manage for you, focusing mostly on IRAs and taxable accounts. They have a relatively brief track record, making it unknown how they will behave in a bear market. Your access to human help may be limited, and the advice you do get won't be as comprehensive as what you could get from a good financial adviser.

With major financial firms Fidelity, Merrill Lynch, and TD Ameritrade among the latest companies to either launch or announce a robo, these services are solidifying their presence in the investment landscape. Not sure whether a robo-adviser is right for you, or what type of robo might serve you best? Here are five essential things to know about robos that will help you guide your decisions.

Robots Have Limited Powers

Before you have a robo-adviser manage your money, you need to understand what types of money these services can manage. If you're saving for retirement in a traditional IRA or a Roth IRA, or if you want to roll over money from a 401(k) or other defined-contribution retirement plan into an IRA, robo-advisers can handle that. And if you want to save in a taxable account for retirement or another goal—say, a down payment on a house—most robo-advisers can take care of that too.

But beyond IRAs and taxable accounts, your choices are more limited. Although Americans have a significant portion of their retirement savings in 401(k) and 403(b) accounts ($7 trillion, compared with $7.5 trillion for IRAs), none of the major robos currently manage money in those retirement accounts. A few, however, offer limited guidance. Personal Capital and Vanguard Personal Advisor Services, for example, will give you advice about how to manage investments in your 401(k)—suggesting an appropriate allocation, say—though neither will actually do the trading for you.

And should you want a robo to manage

your children's college savings, your only choice currently is Wealthfront's 529 college savings account.

You Can Get Human Help ... at a Price

One advantage working with a robo-adviser has over working with a flesh-and-blood one is that, on average, you'll pay less. On an investment of $50,000 earning 7% annually, for example, that difference between the 0.4% average fee for a robo and a 1% fee paid to a human adviser amounts to a difference of $5,000 in your account over 10 years. That's a full 10% of your original investment—not exactly chump change.

But while you pay less for a robo, you also miss out on a key benefit you can get from a human: hand-holding. "Many human financial advisers will tell you that their main role is not a financial adviser, but a psychotherapist," says Christine Benz, Morningstar's director of personal finance. This can be important if you tend to panic when the market drops suddenly. But the human touch can also help at noncrisis times too. An experienced adviser, for example, can suss out your financial goals and challenges in a way that a robot cannot, and tailor a financial plan to match. A traditional adviser can also advise you in areas such as life insurance, estate planning, and budgeting. A robo-adviser might have plenty of good financial advice on its website, but its primary job is to help you with your investments.

That said, robo-advisers are increasingly trying to be the equivalent of a supportive Facebook friend. They'll message you to let you know that your deposits have cleared or that your portfolio is being rebalanced. They'll also keep you posted about market news, such as when Betterment messaged its customers the morning after the presidential election, advising them to stay the course.

And robos are increasingly offering a measure of actual human contact. The more money you have in your account, the more personal and personalized the connection. Robos with low costs and low minimum investments, including Wealthfront, Wise-Banyan, and E*Trade Adaptive Portfolio, will route your questions to one of their financial professionals, who most likely have a securities license and perhaps a certified financial planner designation. Available for free as part of your basic service, they can answer questions on subjects like investment risk and asset allocation. They can give you general advice on subjects such as saving for retirement or starting a college fund. And they can try to calm you down if the market goes nuts.

> "The machine is a purely rational investor. It's the Spock of investing."
>
> TOM O'SHEA, CERULLI ASSOCIATES

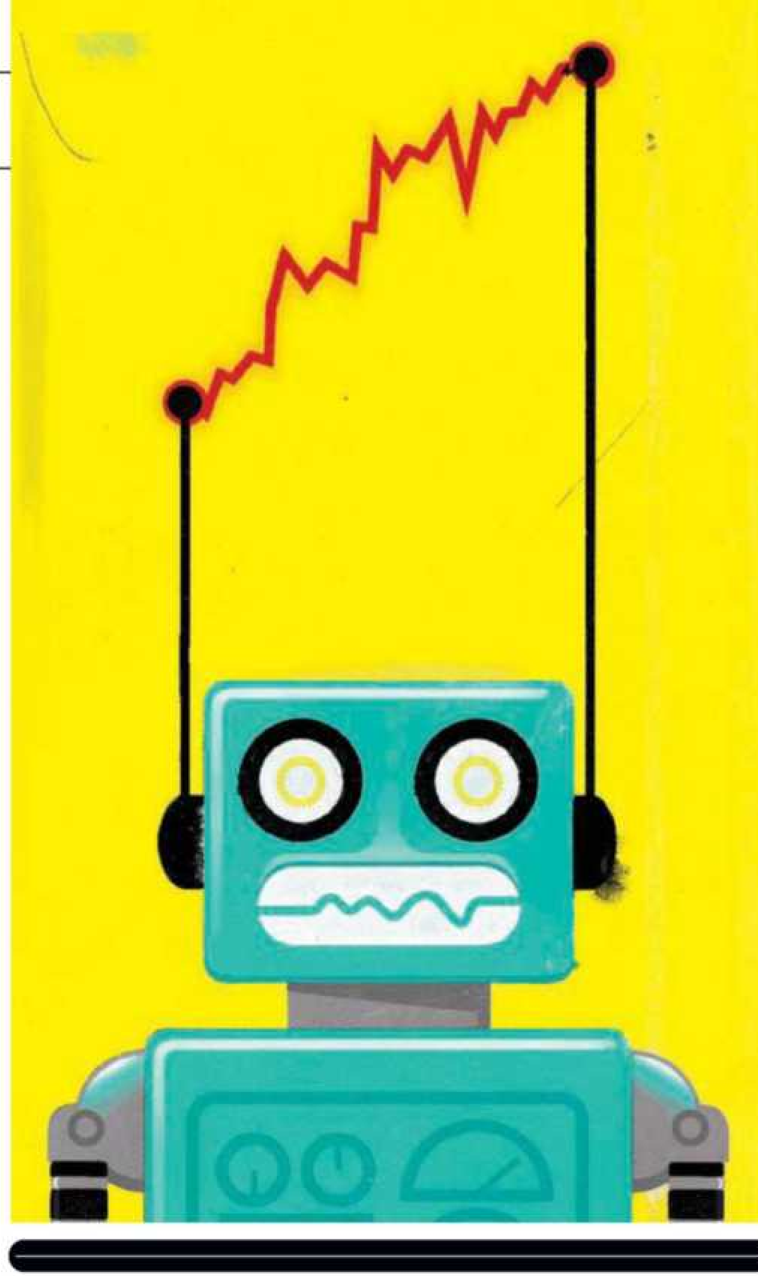
If you want a higher level of service or a more personal touch, you'll have to put more money on the table. Got $25,000? Schwab plans to introduce this year its Intelligent Advisory service, designed to give you access to a team of certified financial planners, available for regular check-ins, who can provide a personalized financial plan. Already, a balance of $100,000 at Betterment or at Rebalance IRA will get you a single, dedicated financial adviser, while the same amount at Personal Capital will get you a two-adviser team. Vanguard's robo-adviser (which has a $50,000 minimum) brings you aboard with a one-on-one talk with a financial adviser who assesses your situation and helps craft a financial plan. Afterward, however, you're served by a 100-adviser tag team, unless your balance hits $500,000. Then a single professional handles your account.

Each Robot Has a Personal Style

While different robo-advisers have similar processes for getting you started, the choices they make for you are more distinctive.

With most robos, you begin by filling out a brief online questionnaire designed to assess your personal situation and your risk tolerance—a streamlined version of the experience you would have with a human adviser. Based on your answers, a robo will recommend a portfolio, usually a basket of low-cost exchange-traded funds.

Once you deposit money in the account,



the robo-adviser goes from advice to actual management. It will buy securities corresponding to its recommended portfolio. On a regular basis, it will rebalance your portfolio, buying or selling ETFs (or other components of your portfolio) so that as certain holdings rise or fall in value, your investments track your ideal mix of assets. Any new money you add will be allocated in the same way.

The number of available portfolio options varies widely. TD Ameritrade, for example, has five portfolios, while WiseBanyan says it has more than 90 variations. And the blend that different robos might advise for the same person won't always match up. The situation is similar to that of target-date retirement funds designed by different mutual fund companies; a fund intended for people retiring in a particular year may have different allocations to stocks and bonds depending on whether your account is with, say, Vanguard or T. Rowe Price.

Consider the allocations devised by 11 different robo-advisers for a hypothetical 40-year-old man with a moderate tolerance for risk, intending to retire at age 67 and rolling over a $100,000 401(k) into an IRA. Suggested portfolios range from a conservative 60% stock allocation from E*Trade Adaptive Portfolio to aggressive 90% stock portfolios from Betterment and Vanguard.

And while most investment portfolios are composed of ETFs, there are some outliers. Vanguard, for example, may employ actively managed funds in client portfolios, and Personal Capital uses individual stocks in the place of stock ETFs or mutual funds. (For more information about portfolio design, cost, and other features of different robo-advisers, see the table on page 92.)

What does this mean for the investment returns you might get from different robos? Unfortunately, performance data is scarce, in part because so many of the robos are relatively new, and because assessing their differences would require studying multiple portfolios from each robo. One attempt to compare robos' performance comes from financial advisory firm Condor Capital, which opened taxable accounts in late 2015 with nine different robo-advisers, adjusting user profiles so it would be assigned portfolios with a 60% stock allocation. Condor reports that the advisers delivered average returns, after fees, of almost 8% through September 2016. (Top performer Schwab Intelligent Portfolios earned 10.2%, thanks largely to holdings in gold, which happened to surge in the first half of the year; last-place Vanguard, earning 5.7%, had less holdings in emerging-market securities, another outperformer in that limited period.) By comparison, the Vanguard Balanced Index Fund (VBINX), which itself has roughly a 60%/40% split, delivered 7.4%, and the S&P 500 index delivered a total return of 7.8%. Although you can't conclude anything about long-term performance from only nine months of data, you can take heart that the results weren't alarming.

But the very customized nature of a robo-adviser limits the value of the 60%/40% comparison. "Your performance is, in many cases, going to be unique to you," says Tom O'Shea, associate director of financial research firm Cerulli Associates.

So how do you know which investment approach is best for you? Take a look at the asset allocations on the following page to get a sense of how relatively aggressive or conservative the different robos are. At many of the robos, you don't have to send in money to see what portfolio you would be placed in; you just fill out the forms and get instant feedback via a suggested mix. So you can sign up with different ones, test-drive the initial experience, and get a feeling as to which robo "understands" your situation best from the questions you answer.

Robots Haven't Yet Been Stress-Tested

It's easy to be satisfied with an investment adviser, whether human or robotic, in a bull market such as the one that has tripled the S&P 500's value since March 2009. So it's no surprise that three-quarters of current robo-adviser customers polled by the investing website Investopedia said they were either satisfied or very satisfied with the performance of their automated investments.

But none of these robos have been tested in a major market downturn such as the financial crisis of a decade ago (see "10 Things the Financial Crisis Taught Us" on page 46). The oldest of the robos, Betterment, didn't launch until 2010.

How will they behave in a similar crisis, or even just a garden-variety bear market? Possibly more calmly than you. "The machine is a purely rational investor. It's the Spock of investing," O'Shea says. When stocks plummeted following the surprising outcome of the U.K.'s Brexit vote last June, Betterment's computers suspended all trading for its portfolios for 2½ hours as the results became apparent. Some individual investors and financial advisers who use Betterment questioned the decision at the time, as well as the company's lack of communication. In hindsight, though, hitting the pause button was a good call, says O'Shea.

You can also take comfort in knowing that robos most likely wouldn't do worse than human financial advisers. "At the end of the day, the algorithms in the robo-advisers do what finance theory tells you to do," says Gauthier Vincent, head of Deloitte's U.S. wealth management consulting practice. "The human advisers are trained the same way. Whether they do it for you or the machine does it for you, it's all based on the same theory. But the machine can apply the theory faster and more consistently."

> "Many human financial advisers will tell you that their main role is not a financial adviser, but a psycho-therapist."
>
> **CHRISTINE BENZ, MORNINGSTAR**

A Robo Might Not Be Your Only Good Choice

At each stage of your life, you have a range of options for managing your money. You could work with a robo-adviser. Or it might make sense to invest your money by other means. Here are some suggestions for how to proceed based on your situation.

IF YOU'RE JUST STARTING OUT

Are you a young adult with sparse savings? In that case, if you go robo, choosing one with a low investment minimum is essential. And because your financial situation most likely isn't too complex, you don't need to pay up for services you don't need, like a holistic financial plan. "In general millennials and new investors don't have a lot of money, so they're fine with a basic robo," says Barbara Friedberg, owner of financial technology review site Robo-Advisor Pros. One good choice, for example, might be WiseBanyan, which has a $1 investment minimum and an average cost of 0.12% annually, making it the lowest-cost robo among the two dozen surveyed by MONEY. One reason the price is so low is that WiseBanyan doesn't charge an advisory fee. You pay for just the

WHAT CAN A ROBO DO FOR YOU?

Among major robo-advisers, the more you have to invest, the more personalized the service you can get.

	NAME	MINIMUM INVESTMENT	HUMAN ADVICE AVAILABILITY	SPECIAL FEATURES AND SERVICES	SAMPLE PORTFOLIO (STOCKS/BONDS/CASH & OTHER)	ANNUAL COST
LEAST AMOUNT OF HUMAN CONTACT	Fidelity Go	$5,000	No investment advice. Account help via phone or online chat	BlackRock iShares ETFs available for taxable accounts	70%/29%/1%	0.35% or 0.38% of assets
	TD Ameritrade Essential Portfolios	$5,000	No investment advice. Account help via phone, chat, or email	Portfolio funds recommended by Morningstar	66/33/1	0.37%
SOME HUMAN CONTACT	E*Trade Adaptive Portfolio	$5,000 (IRA); $10,000 (taxable acct.)	General, via phone, chat, or email	Some actively managed mutual funds	60/39/1	0.50%
	Future Advisor	$10,000	General, via phone, chat, or email	--	82/18/0	0.65%
	Schwab Intelligent Portfolios	$5,000	General, via phone, chat, or email	Relatively cash-heavy portfolios	65/21/14	0.17%
	Wealthfront	$500	General, via phone or email	529 plan management	69/17/14	0.37%
	WiseBanyan	$1	General, via phone or email	Tax-minimization strategy (0.25%/yr. extra)	77/23/0	0.12%
MORE HUMAN CONTACT	Betterment	0	General (< $100,000); personalized, with single adviser ($100,000+)	Tax minimization (for people w/both IRAs and taxable accounts)	90/10/0	0.38%
	Personal Capital	$25,000	Personalized, via video chat (<$100,000); two dedicated advisers ($100,000+)	Individual stocks used in portfolios instead of stock ETFs	76/13/11	0.94%
MOST HUMAN CONTACT	Rebalance IRA	$100,000	Personalized, via an investment adviser and service representative	IRA accounts only	80/20/0	0.70%
	Vanguard Personal Advisor Services	$50,000	Personalized, with an adviser team (<$500,000); single adviser ($500,000+)	Advice, not management, for 401(k)s and 529 accounts	90/10/0	0.50%

NOTE: *Annual cost includes advisory fees and average investment expenses. Sample portfolio is for 40-year-old male rolling over a $100,000 401(k), with moderate risk tolerance and expected retirement age of 67.* ***SOURCES:*** *Individual companies, MONEY reporting*

underlying expense ratios—the annual fees that all mutual funds and ETFs charge to cover costs like management and operations. Instead, WiseBanyan charges for opt-in services like a tax-minimization strategy that probably isn't needed by a young worker in a low tax bracket. What you don't get is a wide selection of accounts; for example, you can't open a joint taxable account.

Another good option is Betterment. It has numerous tools and financial education resources, such as a calculator that shows you how to divvy up your savings between Roth and traditional IRAs. Yes, you can find similar tools on other websites, but Betterment makes them easy to use by housing them in one place and drawing in financial information from non-Betterment accounts so you don't have to input data manually. The robo also makes it easy to save for multiple goals simultaneously—everything from having a safety net to short-term savings accounts for things like next year's beach vacation.

One inexpensive alternative, if you're just saving for retirement, is a target-date fund, which holds stocks and bonds and shifts to become more conservative as you approach retirement. Target-date funds make investing simple, and they'll probably cost you less than a robo. Vanguard's funds, for example, have an average expense ratio of 0.13%. But target-date funds aren't designed for shorter-term goals like funding a down payment for a house or saving money for college.

IF YOU'RE MORE ESTABLISHED

Staring down a major life decision like starting a family or opening your own business? Look for a robo-adviser, such as Personal Capital, that can make personalized recommendations based on your life situation and all your assets, ranging from your 401(k) to your house.

Or maybe just roll your own. If you don't want to (or can't) jump into a robo with an investment on the scale of Personal Capital's $25,000 minimum, you can create your own hybrid adviser. For example, if you just need advice on one-off questions—like how to set up an ABLE savings account for a child who's disabled—you can invest in a more automated robo like Betterment, Wealthfront, or bigger players like Schwab. Then, once you have set up your account, seek out a financial planner who works by the hour to get your toughest questions answered in person. "That solves a lot of robo-related problems," Friedberg says.

It's relatively easy to find these planners through directories operated by the Garrett Planning Network (garrettplanningnetwork.com) or the XY Planning Network (xyplanning-network.com). Another approach is to search the Financial Planning Association's directory (plannersearch.org), filtering results by choosing "Fee only" from the "Compensation" drop-down menu.

> **"You're seeing the beginning, not the end, of these services."**
>
> KENDRA THOMPSON, ACCENTURE

If you're worried about entrusting all your money to a relatively untried automated adviser, invest a small amount of your portfolio and see if you're happy with the experience before going further. "We're seeing a large portion of the American investing population take a portion of their portfolio—not their entire portfolio," says Kendra Thompson, global managing director of Accenture's wealth management unit.

IF YOU'RE A PRE-RETIREE

Are you less than 10 years away from retirement? It's more than likely you'll have complex questions that require in-depth conversations and planning strategies. At this age, if something goes wrong with your investments or another part of your financial plan, you have precious little time to recover. "The stakes at this point are so high—if you screw up your retirement, you could be devastated in your elder years," O'Shea says. You need a higher level of personalized service—one requiring an investment minimum that you most likely can meet after decades in the workforce. In these cases, the upper tiers of service from Vanguard, Personal Capital, and Rebalance IRA, which provide more one-on-one contact, make the most sense. But you might instead seek out a traditional financial adviser.

IF YOU'RE A RETIREE

Despite all their advancements, robo-advisers aren't quite ready to handle your retirement, say experts. That's because retirement finances entail not only sound investment management but also the development of a smart strategy to draw down money from a portfolio in a way that will provide a lifetime of financial support. "Retirement brings the consumer to the edge of where the machines, at least presently, aren't able to help them," says O'Shea.

That might very well change within a few years, given the parade of new robos and other financial technology tools hitting the market. Says Thompson, "You're seeing the beginning, not the end, of these services." ◻

WHAT'S BEEN YOUR EXPERIENCE WITH A ROBO-ADVISER? *Email megan.leonhardt@moneymail.com.*


I HELPED
SERVE
175 FAMILIES

Smart ideas for changing the FUTURE

How to help today's investors—and the next generation.

THE 2017 WASHINGTON WISH LIST

What can the new President and Congress actually accomplish in the year ahead that would really help your finances? MONEY weighs in with nine ideas for the incoming administration.

By KIM CLARK, MEGAN LEONHARDT, ELIZABETH O'BRIEN, *and* IAN SALISBURY

WHEN THE NATION'S LEADERS get down to work in January, sweeping financial reforms could be on the table: an overhaul of the tax code, the repeal of Obamacare, Medicare privatization, and more. The debates may be contentious after such a bruising election season, with any results slow to take effect. But right out of the gate—and potentially with less fanfare and drama—the executive and legislative branches could pull off more modest reforms that we believe would help MONEY readers save, spend, and invest in the smartest ways possible. What follows is our to-do list for the new administration: sensible fixes to our financial laws and regulations that both sides of the aisle could embrace (and in some cases already have). Mr. President and congressional leaders, for your consideration:

THE WISH

Make Auto-Enroll IRAs a Nationwide Program

Why it's needed: More than 30 million full-time employees don't have access to a retirement account at work. Typically, no 401(k) or IRA means no savings: Just 20% of workers without one of those accounts save for retirement, while 90% of workers with a plan sock money away, the Employee Benefit Research Institute reports—a troubling gap.

How Washington can help: California and a handful of other states will soon require employers without plans to enroll workers in one administered by a third party, with contributions made automatically via payroll deductions. (Employees can opt out if they wish.) A nationwide standard would be easier on both employers and workers.

Republicans never warmed to President Obama's proposals for an automatic IRA, but there's support from some in financial services for a system that would minimize regulatory and implementation hurdles, says Melissa Kahn, head of retirement policy for the defined-contribution team at State Street Global Advisors: "The time is right to do this."

THE WISH

Let the Federal Government Negotiate Drug Prices

Why it's needed: In recent years drug costs have been the fastest-growing segment of U.S. health care spending. Medicare isn't immune to the trend: Medications provided under Part D made up 14% of Medicare spending in 2014, up from 11% in 2006. For beneficiaries, that means rising coinsurance, co-payments, and deductibles for prescriptions. According to a recent Kaiser Family Foundation poll, 77% of Americans consider prescription drug costs unreasonable.

How Washington can help: Most developed countries have a national health system, with governments using their purchasing power to negotiate with pharmaceutical companies. The upshot: lower drug prices. Yet federal law prohibits the U.S. government from dealing directly with drugmakers on behalf of Medicare recipients. Opening that door would give pharma an incentive to price products more competitively, experts say. On the campaign trail, candidate Donald Trump backed this longtime Democratic proposal. Already some lawmakers on both sides of the aisle support a smaller step that could still mean big savings: Allow Medicare to negotiate with companies that make pricey specialty drugs that don't have therapeutic alternatives, says Jack Hoadley, research professor at the Health Policy Institute at Georgetown University.

$11 BILLION

Amount returned to consumers by the CFPB since its establishment by Elizabeth Warren five years ago.

SOURCE: Consumer Financial Protection Bureau

$300 BILLION

Amount Trump claimed Medicare could save every year by negotiating drug prices.

THE WISH

Keep the Fiduciary Rule on Track

Why it's needed: The one-third of Americans with individual retirement accounts are vulnerable to conflicted advice from the financial pros who manage their money. The Labor Department estimates that brokers who put IRA investors in high-commission, low-performing funds are costing savers more than $20 billion annually, cutting their returns by an average of one percentage point a year. Under new Labor Department rules, scheduled to take effect on April 10, 2017, advisers who manage retirement funds will be required to adhere to the fiduciary standard, which means they must put a client's interests ahead of their own and recommend the best investments for the investor's needs, not just a suitable one that may pay them a hefty commission.

PREVIOUS PAGE: PHOTOGRAPH BY GETTY IMAGES

How Washington can help: Opponents have long argued that the commission model makes investing more affordable for those with small portfolios who can't pay big management fees, and financial firms and trade organizations have filed lawsuits to stop the rule, citing high costs to implement it. Now the anti-fiduciary forces are urging the new Trump administration to delay or defang the regulation by, say, declining to enforce it. But officials should listen to a surprising alliance of investor groups and firms—including Vanguard and Merrill Lynch—who say to stay the course. Yes, some investors may pay more in fees, but over the long run it's a more transparent way to pay for advice. And once all advisers are charging the same way, competition should drive fees down.

THE WISH

Make It Easier for Families to Manage College Costs

Why it's needed: College has gotten so expensive that almost three-quarters of parents say that it's their No. 1 financial worry. While tackling the high cost of tuition may be too ambitious a goal for D.C., simplifying access to aid and making it easier to repay loans should be easy wins.

The 105-question Free Application for Federal Student Aid (FAFSA)—the main financial aid application—can be so daunting that it scares off at least 400,000 students a year, federal data show. And those who don't fill out the form typically miss out on at least $2,000 a year in grants and $5,500 in low-rate federal loans, according to a study by Michael Kofoed, an economics professor at West Point. Postgraduation, more than 40 million Americans are facing a total of $1.3 trillion in education loans, a burden that gets in the way of home buying, entrepreneurship, and retirement savings.

> "Saving for the future is daunting enough without Washington trying to make it harder."
>
> PAUL RYAN STATEMENT ON THE FIDUCIARY RULE, APRIL 2016

How Washington can help: Simplify the FAFSA and allow students to automatically import more information from federal tax filings and other government programs into the form. For that to happen, Congress would need to act, says Justin Draeger, president of the National Association of Student Financial Aid Administrators (NASFAA). The prospects for that appear good. Sen. Lamar Alexander (R-Tenn.), a longtime simplification advocate, will head the Senate Committee on Health, Education, Labor & Pensions in 2017.

Once you're through school, the government offers eight federal loan repayment choices, including five flexible plans that peg payments to borrowers' income. The Consumer Financial Protection Bureau has found that the applications are so complicated that thousands of eligible students miss out. Trump has come out in favor of automatically enrolling grads in one simple plan: Pay 12.5% of your income for 15 years and then have any remaining debt forgiven. While details need to be worked out, the general idea has won support from college student-body presidents and nonpartisan groups like NASFAA.

THE WISH:

Enable Small Businesses to Thrive

Why it's needed: Americans are an entrepreneurial bunch, launching nearly 680,000 businesses in 2015, according to the Bureau of Labor Statistics. Unfortunately, with the recovery still sluggish, that's about 35,000 fewer than were started in 2006.

How Washington can help: President-elect Trump has proposed allowing anyone reporting business profits on an individual tax return to pay a flat 15% rate. But that measure, sure to incense Democrats, may be painting with too broad a brush, giving tax breaks to everyone who's self-employed rather than tar-

THIS SPREAD: JOE RAEDLE/GETTY (WARREN); CHIP SOMODEVILLA/GETTY (TRUMP); ZACH GIBSON/GETTY (RYAN)

geting the minority of small businesses that create jobs. Less controversial proposals to cut down on paperwork, endorsed by both Hillary Clinton and the U.S. Chamber of Commerce, might have a better shot.

One is to change the threshold for so-called accrual accounting, recognizing sales when they are booked rather than when the money arrives. Because it's a more precise way of tracking business, the IRS requires it for firms with more than $5 million in revenues. But it's a big headache for owners who don't have an accounting department. Raising that floor—Clinton proposed $25 million—could help. The IRS estimates that businesses spend nearly half a billion hours each year complying with depreciation tables in order to write off new equipment and other investments. Many small businesses can deduct investments up to $500,000 immediately. There's bipartisan support for allowing more businesses to take advantage of that perk.

THE WISH

Mandate Paid Family Leave

Why it's needed: The U.S. is the only developed nation that doesn't guarantee paid family leave. Yet such policies can be a win-win. For companies, studies show, paid leave may boost overall productivity. For women, the ability to take a paid break can make the difference between staying in the workforce and leaving, a major factor in future earnings. A 2015 PayScale study found that, controlling for industry and education, single women earned 0.6% less each year than their male colleagues, but when women married and had children, the pay gap jumped to 4.2%.

How Washington can help: Both Clinton and Trump proposed ways for new parents to get time off. The Trump plan, administered as part of unemployment insurance, would guarantee six weeks of paid leave to new mothers.

The idea has flaws: For one thing, it doesn't include fathers. And the benefits—expected to average about $300 a week—could be more generous. "It's a much smaller-scale solution," says Elise Gould, senior economist at the Economic Policy Institute, a left-leaning Washington think tank. "But as long as you don't say, 'We've solved the problem,' you are moving the ball in the right direction."

"We can work with [Trump] on issues that relate to child care."

HOUSE MINORITY LEADER NANCY PELOSI ON *FACE THE NATION*, DECEMBER 2016

PHOTOGRAPH BY MARK WILSON/GETTY

THE WISH

Keep the Consumer Watchdog in Business

Why it's needed: The Consumer Financial Protection Bureau, created as part of the 2010 Dodd-Frank financial overhaul, has had great success, from bringing attention to 2 million phony Wells Fargo accounts and adding fraud protections to payment apps to opening a consumer-complaint database that has logged nearly 700,000 entries to date. In 2016 alone the bureau delivered more than $95 million in relief to consumers.

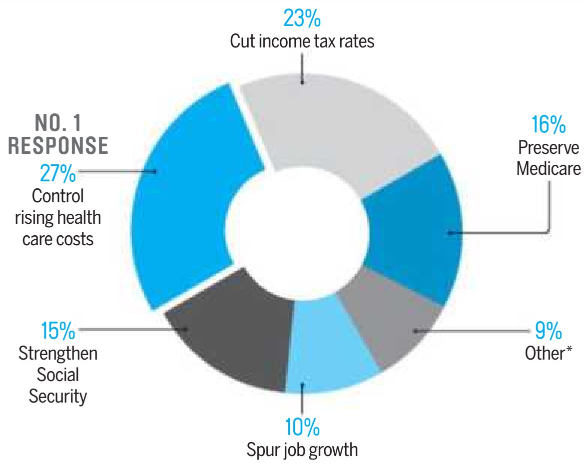
Yet the CFPB has also been hobbled by partisan infighting. One sticking point: Opponents consider it unaccountable to Congress or the President. In fact, in October, a federal appeals court struck down the CFPB's leadership structure, giving the President the right to fire the director—currently Richard Cordray—at will. (Before the ruling, the President appointed the director but could only fire him or her for cause during the five-year term.)

How Washington can help: Install a panel rather than a single director to lead the agency, something that Republicans proposed in a House bill last September. That could slow down the CFPB's policing efforts, but it would give both parties a stake in its efforts, raising the chances for long-term suc-

WHAT HELP DO YOU WANT FROM D.C. IN 2017? *Tell us at letters@moneymail.com.*

WHAT *MONEY* READERS WANT FROM D.C.

We asked, "What is the most important thing the new President and Congress can do to improve your finances?" Your answers:



NOTES: *Poll conducted Nov. 23–29, 2016; 403 respondents. Margin of error +/–5 points; *"Other" includes college affordability, small-business aid, paid leave, and retirement plans.* **SOURCE:** *MONEY Reader Panel*

cess. "You will see more back-and-forth," says Mark Calabria, director of financial regulation studies at the right-leaning Cato Institute. "That will give CFPB more legitimacy."

THE WISH

Help Retirees Get the Most From Social Security

Why it's needed: Choosing the wrong Social Security claiming strategy can prove costly. Advisory firm Financial Engines estimates that the average single retiree could lose more than $100,000 in lifetime benefits by not picking the best option; the average married couple could miss out on $200,000 or more.

Despite these high stakes, the Social Security Administration fails to consistently provide the information you need to make an informed decision, according to a report last fall by the Government Accountability Office (GAO), based on observations at Social Security field offices. Specialists, for example, often failed to tell retirees that waiting to claim would result in higher benefits or to explain the importance of life expectancy.

How Washington can help: Boost staff training and improve written educational materials, which the GAO found lacking. More funding for customer service may be a tough ask. But, notes Cristina Martin Firvida, director of financial security at AARP, "we know that members of Congress in both parties are very aware of constituents' concerns about the reliability and timeliness of services from the Social Security Administration and want to see improvements."

95%

Increase in hour-plus wait times at Social Security offices, 2010 to 2015

SOURCE: *Social Security Administration's Office of the Inspector General*

THE WISH

Let Consumers Know of Data Breaches Faster

Why it's needed: In 2016 there were almost 1,000 data breaches, compromising 35 million personal records, according to the Identity Theft Resource Center. (Businesses suffer too, losing an average of $7 million per breach, according to IBM and the Ponemon Institute.) Trouble is, consumers often don't hear that sensitive financial information might have been exposed until months later.

How Washington can help: Hackers are tough to stop, but Congress could establish national standards for data security, as well as rules for when and how consumers need to be notified of a hack. A 2015 bipartisan bill would have done that but was opposed by some business groups and went nowhere. Will a new administration take up the cause? "During the transition, we've definitely heard rumblings from potential officials that cybersecurity is on the agenda," says Lee Tien, a senior staff attorney at the Electronic Frontier Foundation. ■

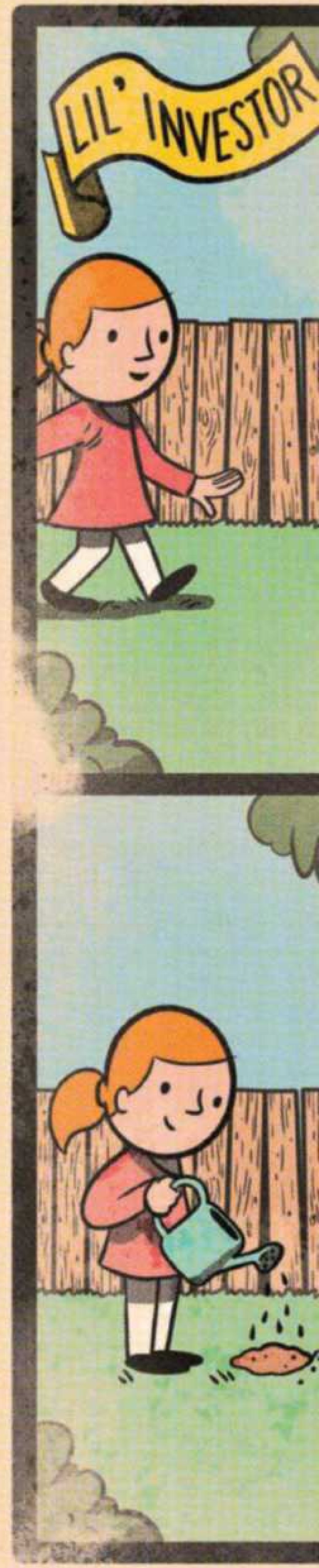
MAKE YOUR KID AN INVESTING GENIUS

Whether your children are toddlers or teens, you can teach them to be savvy investors. Just follow these age-appropriate tips from personal finance guru Beth Kobliner's new book.

By **BETH KOBLINER**

Illustrations by **RYAN SNOOK**

BETH KOBLINER'S BESTSELLER *Get a Financial Life: Personal Finance in Your Twenties and Thirties* taught young adults how to manage money like a grown-up. In this excerpt from her new book, *Make Your Kid a Money Genius (Even if You're Not),* Kobliner, a member of the President's Advisory Council on Financial Capability for Young Americans—and a former MONEY writer—shows how to teach valuable investing lessons to even the youngest children.



A woman once told me she had come up with a great idea to educate her 14-year-old son about investing: She gave him $500, opened a brokerage account in his name, and told him to buy some stocks.

Smart? *Errrrr,* not so much.

If the stocks went down, her kid would be likely to conclude that investing is a sucker's game and avoid the market altogether. That's a problem. If the stocks went up, he'd think he was a genius and start placing bigger, bolder bets. Which could be an even worse problem.

Now, I do think kids should learn about investing. They just need to be taught what really matters, and they need to be taught in ways that correspond to their age and their interests.

You might be tempted to put off investing discussions until your kid is grown up and has money to invest. But don't. Making sure that your child learns the fundamentals early will be a valuable gift. Even if your kid is flat broke, getting comfortable with the market will help him when he does have money.

So get started now, with these easy, age-appropriate lessons.

PRESCHOOL

Plant the Seeds of Knowledge

You can't teach price/earnings ratios to a toddler. But with some other concepts, she can start making important connections between current efforts and subsequent results.

An investment is something that pays off in the future. Get a copy of *The Little Red Hen* and read it to your child. The gist of this old fable: The hen invested the time and effort to turn wheat into bread—sowing the grain, harvesting it, and making the dough. The lazy animals who were her friends blew her off and didn't help until it came time to eat. But that Little Red Hen was no pushover. She refused to share her bread with the slackers, and everyone learned a lesson.

The Little Red Hen was thinking long-term and reaped the rewards of her investment of time and hard work. Introduce the concept of being an "investor" when your kid completes a puzzle or an art project: "Wow, you really invested time and effort—and look at what you've done!"

Investments take many forms. Because young kids have a hard time understanding the concept of the future, wrapping their little minds around investing can be tough. So relate it to something tangible. Help your child plant a garden or put some seeds in a flowerpot. Talk about the time the plant needs to grow and the water you need to "invest" in it so that you get the payoff of a beautiful sunflower or a ripe tomato at the end.

ELEMENTARY SCHOOL

Play the Lottery (Really!)

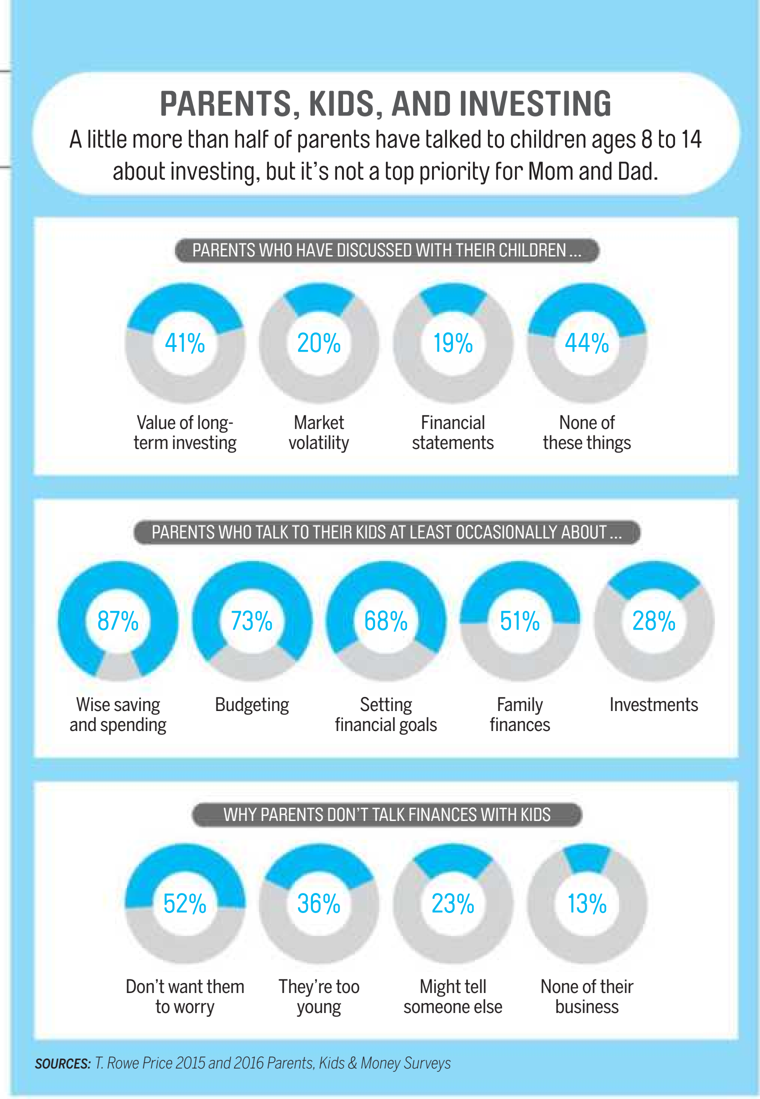
Kids this age are able to absorb more than you might think about simple investing concepts—and are more interested than you'd guess.

A stock is a small piece of a company that you can own. The next time you watch a Disney movie or sip a Coke with your kid, you can use the occasion to teach him about stocks. Start by saying that a lot of the stuff he likes is made by companies. The Coca-Cola Co., for example, makes that drink he loves (but may not be allowed to have very often). It needs money to make that Coke, and to get that money, many companies sell what is called stock. When people buy stock in a company, they own a little piece of it.

Don't put all your eggs in one basket. Tell your kid to imagine opening a restaurant that sells only hamburgers. (That shouldn't be hard.) As long as people really like hamburgers, she'll make lots of money. But what if people hear that some cows got sick, and those people decide that burgers aren't safe to eat anymore? Or what if they want French fries, too, and start going to a restaurant that sells more than just hamburgers? That hamburger-only restaurant could go out of business.

This illustrates the crucial investment concept of diversification. When you buy the stock of a single company—say, Krispy Kreme—you're making a big bet on that one company and the future popularity of doughnuts. If, however, you own stock from many different companies, you're reducing the risk that you'll lose all your money. That's because if some companies' stocks do poorly, some other companies' stocks might do well.

The lottery is not an investment. Ask many kids how to make a lot of money fast, and they'll answer, "The lottery." If your kid has lottery fever, let him learn the hard way. Buy some lottery tickets for him the next time there's a big jackpot. When your kid doesn't win (and he won't), explain that the chance of winning a lottery jackpot can be less than one in 250 million. That's so small, it's a waste of money to play at all.



> "Ask many kids how to make a lot of money fast, and they'll answer, 'The lottery.'"

MIDDLE SCHOOL

Teach the Power of Stocks

Making money is a subject that captures middle schoolers' attention. So show them how their own money can do it for them.

Compound returns can make you rich. When you invest, you can earn returns on the initial money you put in, known as the principal. That's great. But what's really great: If reinvested, your returns can earn returns too—what are known as compound returns. That keeps happening over time, and the longer your money compounds, the faster it grows.

Use the compound interest calculator on Investor.gov as a demo: Let's suppose your child sets aside $7.50 a month starting at age

10, earning an average of 7% a year. By the time she's 65, she would have $51,800. If she didn't begin until age 35, she would have only $8,250. The moral: Starting early pays off.

Doubling your money is a realistic goal—over time. Show your kid the "rule of 72," which is a neat trick for figuring out how many years it will take to double her money if it's earning interest or is invested in the stock market. Divide 72 by the rate your money is earning. The result is the number of years it will take to double your principal. So, for instance, if your investments earn an average of 7% a year, you'll double your money in a little more than 10 years (72 divided by 7 is 10.3). There's a mathematical explanation for this (and if you really love math, do an online search for "rule of 72" and knock yourself out explaining it to your child). But all your kid needs to know now is that the rule works.

Inflation can smother your buying power. This concept can be a yawner, but you can explain it this way: Over time the price of all the stuff we buy tends to increase. For example, today a Hershey bar might cost $1, but in 1970 that same bar might have cost 10¢. So $1 buys you much less today (one chocolate bar) than it did back then (10 bars).

How can your kid protect his money from losing value? By putting it where it will grow at least 3% a year—roughly the average rate of inflation over the past three decades. Since savings accounts pay much less today, that's why investing in stocks is so important.

Stock picking is a losing game. Stock market contests are all the rage: Kids create an imaginary portfolio that tracks real stocks. The idea is that with some research you can pick stock winners. But there's one big problem: Thousands of analysts follow a company's stock trying to predict whether it will rise or fall—and *they* often get it wrong. In order for your kid to pick winners consistently, she'd need to know *more* than all these analysts combined. And that just isn't possible, even if your kid's favorite channel is CNBC.

As mentioned earlier, diversifying—or investing in lots of stocks rather than just one—is a better approach. The simplest way to do that is to invest in a so-called index, which is simply a grouping of stocks, like the Standard & Poor's 500. And the easiest way to invest in an index is to buy what's called a stock index mutual fund, which holds the stocks that make up a particular index.

Girls are investors too. No matter how progressive a parent you are, make sure you aren't subconsciously skipping the investment talk with your daughter. A study out of North Carolina State University and the University of Texas found that parents are much more likely to talk to boys about investing than to girls. And that may have consequences: In a poll of adults ages 22 to 35, just 56% of women had begun saving for retirement, vs. 61% of men.

> "Parents are much more likely to talk to boys about investing than to girls."

HIGH SCHOOL

Get Real About Investing

Many teens have some money from part-time jobs or other sources. You can help your child turn his cash into some practical lessons.

"Young people really want to buy from companies supporting causes they think are worthy."

Taxes and matches are your friends. If your high schooler has a job, have him open a Roth IRA. The money in a Roth grows tax-free, which will make it multiply like crazy, especially if your kid starts early. And a Roth is particularly helpful for someone who will be in a higher tax bracket at retirement age (a safe bet for most teenagers). If your high schooler opens up a Roth, he can withdraw the money that he has put in at any time—without paying any taxes or penalties. (He'll have to pay taxes and penalties, in most cases, on earnings he withdraws before turning 59½; after that, withdrawals are tax-free.)

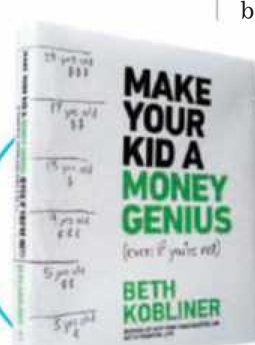
If you can afford it, match your kid's IRA contributions. Say he makes $3,000 over the summer as a lifeguard and puts $500 of that in a Roth. With a $500 match from you he can deposit a total of $1,000. This will not only double his principal, but also prime your kid for the day he gets offered an employer's 401(k) match. The most your kid can deposit, however—his money plus anything you contribute—is what he earned during the year, up to an annual limit (currently $5,500).

Indexing is the best strategy. Okay, so now you know that your kid should put part of his paycheck into a Roth IRA. Then what? He'll need to pick investments that will allow it to grow. Here are two good choices:

Option A is an index mutual fund. As you can explain to your kid, not only do such funds give you diversification, but they also tend to cost less than actively managed funds. And, on average, they do better than funds in which an expert picks the stocks. One inexpensive choice is **Schwab Total Stock Market Index** (SWTSX), which has a 0.09% expense ratio and requires a $1,000 initial investment (unless you set up automatic monthly contributions).

Your kid doesn't have $1,000 to invest? Option B is an index exchange-traded fund, which can have a much smaller initial buy-in than a mutual fund requires. For about $100, he can invest in an ETF like the **Vanguard Total Stock Market** (VTI). Some companies, including Schwab, E*Trade, and Fidelity, offer commission-free ETFs.

You can invest for good. Recent studies have found that young people really want to buy from companies supporting causes they think are worthy. So your kid also might want to sink her money into what are called socially responsible funds. Some don't invest in certain industries, such as tobacco or firearms, while others seek out corporations that treat employees well. Still others focus on companies involved in energy conservation or environmentalism. At SocialFunds.com, find lower-cost funds such as **Vanguard FTSE Social Index** (VFTSX) and **iShares MSCI KLD 400 Social ETF** (DSI). Then your child can feel even better about making money in the market. ◻



Excerpted from Make Your Kid a Money Genius (Even if You're Not): A Parents' Guide for Kids 3 to 23, *by Beth Kobliner. Published by arrangement with Simon & Schuster Inc.*

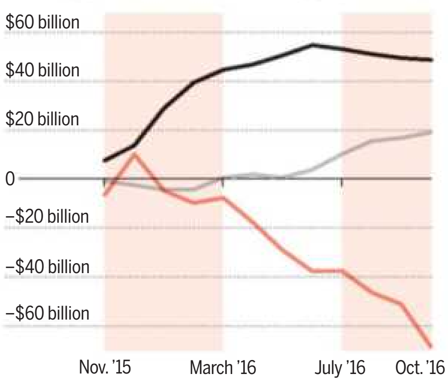
THE FUND R

In 2016 both the stock and bond markets generated gains for investors. Here's the big picture; turn the

THE YEAR IN STOCK FUNDS

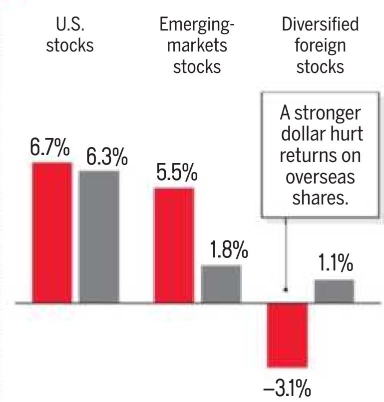
As in 2015, investors favored international over domestic stock funds ...

CUMULATIVE CASH FLOWS: U.S. Emerging markets Foreign



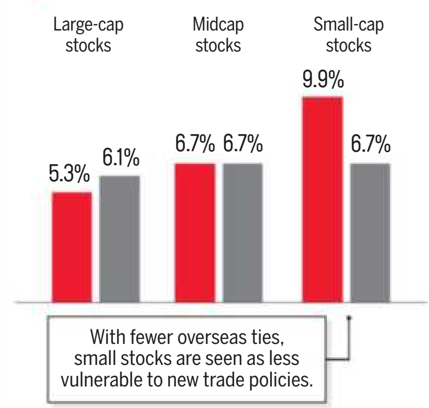
... Even though U.S. stocks performed better.

1-year total return 10-year annualized return



For the second straight year, U.S. small stocks had an edge on bigger names ...

1-year total return 10-year annualized return



EXPENSES MATTER

Low-expense U.S.-stock funds beat costly ones.

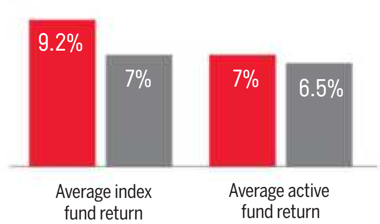
6.9% Average return on low-expense funds

4.2% Average return on high-expense funds

PASSIVE FUNDS GAIN MORE GROUND

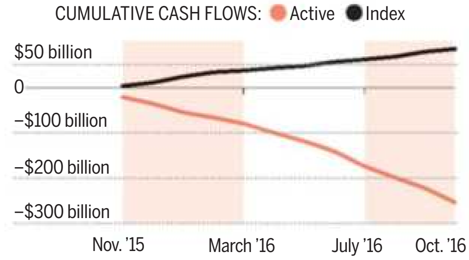
U.S.-stock index funds beat their active counterparts ...

1-year total return 10-year annualized return



... As investors continued moving money into index funds.

CUMULATIVE CASH FLOWS: Active Index



Data compiled by Ian Salisbury

EPORT

page for our detailed scorecard on mutual funds and ETFs.

INSIDE

... But reversing 2015, value beat growth.

LARGE-CAP VALUE FUNDS

9.52%

1-year total return

LARGE-CAP GROWTH FUNDS

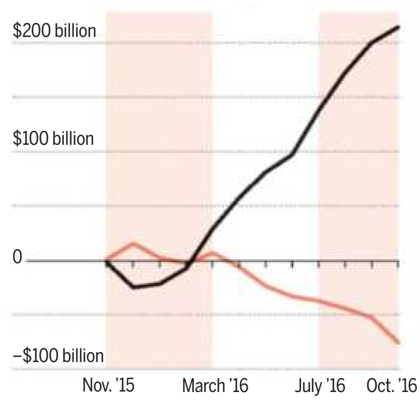
0.95%

1-year total return

THE YEAR IN BOND FUNDS

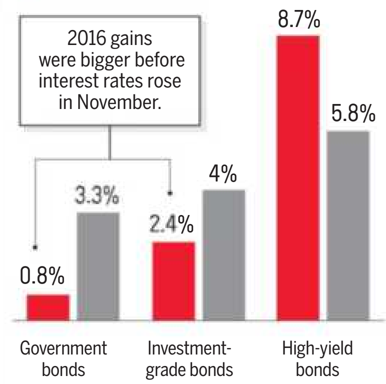
Investors favored bonds over stocks in a big way ...

CUMULATIVE CASH FLOWS: Stock Bond



... As bonds continued their long bull run.

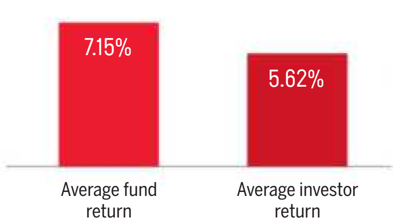
1-year total return 10-year annualized return



INVESTORS VS. FUNDS

Overall, investors trailed stock funds because of poor market timing.

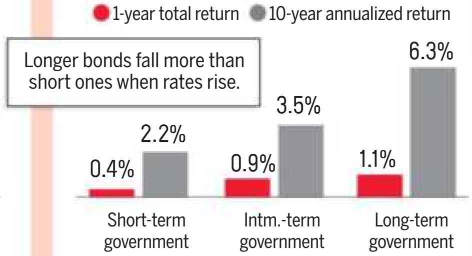
1-YEAR TOTAL RETURN



LONG BONDS BEAT SHORT

Longer-term bonds did better, but barely, as rates headed up.

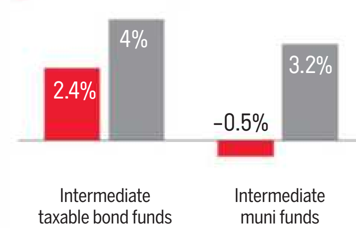
1-year total return 10-year annualized return



TAXABLE VS. MUNIS

Betting on lower tax rates, investors sold tax-exempts.

1-year total return 10-year annualized return



NOTES: *Performance figures are for mutual funds only and through Nov. 30, 2016. Flows include ETFs and are through Oct. 31, 2016. Sector and single-country funds are generally excluded. "Investor returns" are dollar-weighted and measure how the average investor fared. High- and low-expense funds are top and bottom quartiles for expenses among large-cap U.S. funds.* **SOURCE:** *Morningstar*

THE BEST PERFORMERS

Among established mutual and exchange-traded funds utilized by individual investors, these portfolios finished atop their respective category peers over the past one, five, and 10 years, according to figures compiled by the fund tracker Lipper.

LARGE-CAP U.S. STOCK

In 2016, funds that focus on shares of beaten-down blue-chip stocks shone. But over the past decade, large-cap growth funds, which invest in tech shares often found in the Nasdaq 100 index, led the way.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	John Hancock Classic Value (PZFVX)	20.0%	1.19%
2	Dodge & Cox Stock (DODGX)	19.8	0.52
3	Invesco Growth & Income (ACGIX)	17.6	0.84
4	Columbia Select Large-Cap Value (SLVAX)	17.4	1.15
5	Deutsche CROCI Equity Dividend (KDHAX)	17.0	1.08
6	FBP Equity & Dividend Plus (FBPEX)	16.9	1.19
7	Blue Chip Investor (BCIFX)	16.7	1.02
8	Voya Corporate Leaders Trust (LEXCX)	16.6	N.A.
9	Natixis Oakmark (NEFOX)	16.5	1.14
10	Oakmark (OAKMX)	16.5	0.85

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Shelton Nasdaq-100 Index (NASDX)	17.2%	0.49%
2	Dodge & Cox Stock (DODGX)	17.0	0.52
3	USAA Nasdaq-100 Index (USNQX)	16.7	0.57
4	ClearBridge Large Cap Growth (SBLGX)	16.6	1.11
5	Pimco RAE Fundamental PLUS (PIXAX)	16.1	1.23
6	Rydex Nasdaq-100 (RYOCX)	16.0	1.25
7	Natixis U.S. Equity Opportunities (NEFSX)	15.9	1.25
8	Oakmark (OAKMX)	15.8	0.85
9	Fidelity Large Cap Stock (FLCSX)	15.8	0.78
10	Oakmark Select (OAKLX)	15.6	0.95

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Shelton Nasdaq-100 Index (NASDX)	11.2%	0.49%
2	USAA Nasdaq-100 Index (USNQX)	10.7	0.57
3	Rydex Nasdaq-100 (RYOCX)	10.2	1.25
4	Pimco RAE Fundamental PLUS (PIXAX)	10.2	1.23
5	Alger Spectra (SPECX)	10.0	1.34
6	AMG Yacktman Focused (YAFFX)	9.8	1.25
7	AB Large Cap Growth (APGAX)	9.5	1.21
8	AMG Yacktman (YACKX)	9.4	0.74
9	Laudus U.S. Large Cap Growth (LGILX)	9.1	0.75
10	Homestead Growth (HNASX)	9.1	0.95

MIDCAP U.S. STOCK

Thanks to their bigger-than-average stakes in energy, basic materials, and industrial stocks—which led the market in 2016—funds that focus on midsize companies had a banner year.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Hodges (HDPMX)	39.6%	1.32%
2	CM Advisors (CMAFX)	38.4	1.42
3	Clark Fork: Tarkio (TARKX)	27.3	1.00
4	TCW Relative Value Mid Cap (TGVOX)	24.6	0.96
5	AMG Managers Fairpointe Mid Cap (CHTTX)	21.8	1.11
6	Artisan Mid Cap Value (ARTQX)	21.5	1.19
7	BlackRock Mid Cap Value Opportunities (MDRFX)	21.2	1.20
8	Needham Aggressive Growth (NEAGX)	21.1	2.43
9	Meeder Quantex (FLCGX)	20.9	1.50
10	GoodHaven (GOODX)	20.7	1.10

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Hodges (HDPMX)	19.2%	1.32%
2	Aquila Three Peaks Opportunity Growth (ATGAX)	16.8	1.55
3	Eventide Gilead (ETGLX)	16.8	1.38
4	Vanguard Strategic Equity (VSEQX)	16.6	0.21
5	Ariel (ARGFX)	16.4	1.02
6	Clark Fork: Tarkio (TARKX)	15.5	1.00
7	AMG Managers Fairpointe Mid Cap (CHTTX)	15.3	1.11
8	Meeder Quantex (FLCGX)	15.3	1.50
9	Hartford MidCap (HFMCX)	15.2	1.14
10	Fidelity Mid Cap Enhanced Index (FMEIX)	15.0	0.60

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Scout Mid Cap (UMBMX)	10.6%	1.04%
2	AMG Managers Fairpointe Mid Cap (CHTTX)	9.8	1.11
3	Needham Aggressive Growth (NEAGX)	9.6	2.43
4	Transamerica Small/Mid Cap (IIVAX)	9.5	1.31
5	Janus Enterprise (JAENX)	9.3	0.92
6	Eagle Mid Cap Growth (HAGAX)	9.2	1.14
7	Hartford Schroders U.S. Small/Mid Cap Opportunities (SMDIX)	9.0	1.05
8	Lord Abbett Value Opportunities (LVOAX)	8.9	1.17
9	American Century Heritage (TWHIX)	8.8	1.00
10	Columbia Mid Cap Index (NMPAX)	8.7	0.20

SMALL-CAP U.S. STOCK

Funds that invest in small-company stocks thrived over the past decade thanks to big gains in fast-growing tech and biotech names. Last year, though, it was energy shares that gave these funds their lift.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	CM Advisors Small Cap Value (CMOVX)	48.1%	1.29%
2	Needham Small Cap Growth (NESGX)	32.2	2.07
3	Rydex S&P SmallCap 600 Pure Value (RYAZX)	27.9	1.50
4	Highland Small-Cap Equity (HSZAX)	27.4	1.21
5	Rydex S&P MidCap 400 Pure Value (RYAVX)	27.3	1.51
6	Ivy Small Cap Value (IYSAX)	27.1	1.56
7	Columbia Small Cap (CSMIX)	27.0	1.35
8	Royce Opportunity (RYPNX)	26.8	1.17
9	Delaware Small Cap Value (DEVLX)	26.7	1.21
10	AB Small Cap Value (SCAVX)	26.5	1.25

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Victory Integrity Discovery (MMEAX)	17.7%	1.73%
2	Aberdeen U.S. Small Cap Equity (GSXAX)	17.5	1.48
3	PNC Multi-Factor Small Cap Core (PLOAX)	17.4	1.15
4	Oberweis Micro-Cap (OBMCX)	16.7	1.72
5	Hennessy Cornerstone Growth (HFCGX)	16.6	1.15
6	CornerCap Small Cap Value (CSCVX)	16.6	1.30
7	Schwab Small-Cap Equity (SWSCX)	16.1	1.09
8	Vanguard Tax-Managed Small-Cap (VTMSX)	16.0	0.11
9	Zacks Small-Cap Core (ZSCCX)	16.0	1.39
10	Shelton S&P SmallCap Index (SMCIX)	16.0	0.74

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	TFS Small Cap (TFSSX)	10.6%	1.50%
2	Champlain Small Company (CIPSX)	10.2	1.31
3	T. Rowe Price QM U.S. Small-Cap Growth Equity Fund (PRDSX)	10.1	0.82
4	JPMorgan Small Cap Equity (VSEAX)	9.8	1.30
5	Hancock Horizon Burkenroad Small Cap (HHBUX)	9.6	1.35
6	Homestead Small-Company Stock (HSCSX)	9.4	0.87
7	Conestoga Small Cap (CCASX)	9.3	1.10
8	TETON Westwood Mighty Mites (WEMMX)	9.3	1.41
9	Brown Advisory Small-Cap Growth (BIASX)	9.1	1.14
10	Tributary Small Company (FOSCX)	9.1	1.18

NOTES: *Return figures are as of Nov. 30, 2016; five- and 10-year returns are annualized. Institutional share classes and funds with assets below $15 million excluded. Funds in Lipper's multi-cap and S&P 500 index categories are not shown. N.A.: not applicable.* ***SOURCE:*** *Lipper, 877-955-4773*

INTERNATIONAL STOCK

Foreign funds have had a rough decade thanks to slow growth in Europe and Japan. But last year, overseas funds with large stakes in commodity and industrial stocks staged a big comeback.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Fidelity Canada (FICDX)	18.2%	1.15%
2	EuroPac International Value (EPIVX)	16.2	1.75
3	Intrepid International (ICMIX)	14.4	1.40
4	Longleaf Partners International (LLINX)	13.0	1.28
5	Timothy Plan Israel Common Values (TPAIX)	10.4	1.95
6	FMI International (FMIJX)	8.5	0.98
7	Templeton Foreign (TEMFX)	7.8	1.18
8	Schwab Fundamental Intl. Small Company Index (SFILX)	6.9	0.49
9	Fidelity International Small Cap (FISMX)	6.7	1.32
10	Motley Fool Epic Voyage (TMFEX)	6.6	1.13

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Oberweis International Opportunities (OBIOX)	15.7%	1.60%
2	Wasatch International Opportunities (WAIOX)	11.8	2.23
3	FMI International (FMIJX)	11.6	0.98
4	T. Rowe Price International Discovery (PRIDX)	10.8	1.20
5	Fidelity International Small Cap (FISMX)	10.8	1.32
6	Fidelity Advisor International Small Cap (FIASX)	10.5	1.59
7	Fidelity International Small Cap Opportunities (FSCOX)	10.0	1.23
8	American Century Intl. Opportunities (AIOIX)	9.1	1.55
9	Fidelity Overseas (FOSFX)	8.9	1.04
10	Natixis Oakmark International (NOIAX)	8.7	1.31

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Wasatch International Opportunities (WAIOX)	6.5%	2.23%
2	T. Rowe Price International Discovery (PRIDX)	5.3	1.20
3	Fidelity International Small Cap (FISMX)	5.2	1.32
4	Fidelity Advisor International Small Cap (FIASX)	4.9	1.59
5	Tweedy, Browne Global Value (TBGVX)	4.2	1.38
6	American Century Intl. Opportunities (AIOIX)	4.1	1.55
7	Westcore International Small-Cap (WTIFX)	3.8	1.50
8	Columbia Acorn International Class Z (ACINX)	3.8	0.99
9	Schwab Laudus International MarketMasters (SWOIX)	3.4	1.40
10	Ivy International Core Equity (IVIAX)	3.4	1.31

BALANCED

These funds, which offer instant diversification, typically hold around 60% in stocks and 40% in bonds. But balanced portfolios that thrived in 2016 tended to have slightly more in equities than usual.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Dodge & Cox Balanced (DODBX)	15.3%	0.53%
2	FBP Appreciation & Income Opportunities (FBPBX)	13.7	1.08
3	Villere Balanced (VILLX)	11.0	0.89
4	Franklin Balanced (FBLAX)	10.3	1.03
5	CornerCap Balanced (CBLFX)	10.1	1.02
6	Mairs & Power Balanced (MAPOX)	10.0	0.73
7	Lord Abbett Multi-Asset Balanced Opportunity (LABFX)	9.7	1.19
8	Oakmark Equity and Income (OAKBX)	9.3	0.75
9	LKCM Balanced(LKBAX)	8.3	0.80
10	WesMark Balanced (WMBLX)	8.0	1.23

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Dodge & Cox Balanced (DODBX)	13.4%	0.53%
2	American Funds American Balanced (ABALX)	10.8	0.58
3	Columbia Balanced Class Z (CBALX)	10.5	0.79
4	Mairs & Power Balanced (MAPOX)	10.3	0.73
5	Fidelity Puritan (FPURX)	10.0	0.56
6	LKCM Balanced (LKBAX)	9.9	0.80
7	Fidelity Balanced (FBALX)	9.9	0.56
8	Eaton Vance Balanced (EVIFX)	9.6	0.98
9	Vanguard Balanced Index (VBINX)	9.4	0.22
10	FBP Appreciation & Income Opportunities (FBPBX)	9.4	1.08

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Columbia Balanced Class Z (CBALX)	7.4%	0.79%
2	LKCM Balanced (LKBAX)	7.0	0.80
3	Janus Balanced Class T (JABAX)	6.8	0.83
4	Mairs & Power Balanced (MAPOX)	6.8	0.73
5	John Hancock Balanced (SVBAX)	6.7	1.20
6	Oakmark Equity and Income (OAKBX)	6.6	0.75
7	Transamerica Multi-Managed Balanced Class A (IBALX)	6.6	1.12
8	American Funds American Balanced (ABALX)	6.5	0.58
9	Tributary Balanced (FOBAX)	6.5	1.19
10	Waddell & Reed Advisors Continental Income (UNCIX)	6.5	1.12

U.S. GOVERNMENT BOND

Funds that invest in Treasuries and other government securities proved their value in the Wall Street crash of 2008. But rising market yields in 2016 have weighed on their performance lately.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Shelton U.S. Government Securities (CAUSX)	1.5%	0.74%
2	Federated Government Income Securities Inc. (FGOIX)	1.3	0.99
3	Fidelity Government Income (FGOVX)	1.2	0.45
4	WesMark Government Bond (WMBDX)	1.1	1.00
5	American Funds U.S. Government Securities (AMUSX)	0.9	0.63
6	MFS Government Securities (MFGSX)	0.8	0.88
7	Sit U.S. Government Securities (SNGVX)	0.5	0.80
8	Waddell & Reed Advisors Government Securities (UNGVX)	0.5	1.00
9	Sentinel Government Securities (SEGSX)	0.5	0.96
10	First Investors Government (FIGVX)	–0.1	1.19

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Fidelity Government Income (FGOVX)	1.6%	0.45%
2	Federated Government Income Securities Inc. (FGOIX)	1.5	0.99
3	American Funds U.S. Government Securities (AMUSX)	1.4	0.63
4	WesMark Government Bond (WMBDX)	1.2	1.00
5	MFS Government Securities (MFGSX)	1.1	0.88
6	Putnam American Government Income (PAGVX)	1.0	0.93
7	Sit U.S. Government Securities (SNGVX)	1.0	0.80
8	Sentinel Government Securities (SEGSX)	0.7	0.96
9	Shelton U.S. Government Securities (CAUSX)	0.7	0.74
10	First Investors Government (FIGVX)	0.5	1.19

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Putnam American Government Income (PAGVX)	4.3%	0.93%
2	Fidelity Government Income (FGOVX)	3.9	0.45
3	MFS Government Securities (MFGSX)	3.5	0.88
4	American Funds U.S. Government Securities (AMUSX)	3.5	0.63
5	Sentinel Government Securities (SEGSX)	3.4	0.96
6	Sit U.S. Government Securities (SNGVX)	3.2	0.80
7	First Investors Government (FIGVX)	3.1	1.19
8	Federated Government Income Securities Inc. (FGOIX)	3.1	0.99
9	WesMark Government Bond (WMBDX)	2.9	1.00
10	SunAmerica U.S. Government Securities (SGTAX)	2.7	0.99

INVESTMENT-GRADE BOND

While corporate bond funds have produced higher returns than government funds, many of the best performers over the past decade have held long-dated bonds, which come with risks.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Thompson Bond (THOPX)	9.3%	0.71%
2	Lord Abbett Income (LAGVX)	7.6	0.78
3	Columbia Corporate Income (SRINX)	7.6	0.67
4	Federated Bond (ISHIX)	7.2	0.86
5	Invesco Corporate Bond (ACCBX)	7.0	0.90
6	PIA BBB Bond (PBBBX)	6.6	0.15
7	Western Asset Corporate Bond (SIGAX)	6.6	1.03
8	American Funds Corporate Bond (BFCAX)	6.3	0.95
9	Calvert Long Term Income (CLDAX)	6.2	1.25
10	Columbia Limited Duration Credit (ALDAX)	5.9	0.83

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Western Asset Corporate Bond (SIGAX)	6.0%	1.03%
2	Payden Corporate Bond (PYACX)	6.0	0.65
3	Invesco Corporate Bond (ACCBX)	5.3	0.90
4	Lord Abbett Income (LAGVX)	5.1	0.78
5	Oppenheimer Corporate Bond (OFIAX)	5.0	1.01
6	Calvert Long Term Income (CLDAX)	5.0	1.25
7	Delaware Corporate Bond (DGCAX)	4.9	0.94
8	Federated Bond (ISHIX)	4.7	0.86
9	T. Rowe Price Corporate Income (PRPIX)	4.7	0.62
10	Fidelity Corporate Bond (FCBFX)	4.5	0.45

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Calvert Long Term Income (CLDAX)	7.1%	1.25%
2	Vanguard Long-Term Bond Index (VBLTX)	6.5	0.16
3	Lord Abbett Income (LAGVX)	6.3	0.78
4	Delaware Corporate Bond (DGCAX)	6.1	0.94
5	Thompson Bond (THOPX)	5.6	0.71
6	PIA BBB Bond (PBBBX)	5.6	0.15
7	TCW Core Fixed Income (TGCFX)	5.6	0.50
8	MFS Corporate Bond (MFBFX)	5.6	0.82
9	Federated Bond (ISHIX)	5.6	0.86
10	Invesco Corporate Bond (ACCBX)	5.3	0.90

HIGH-YIELD BOND

Funds that invest in low-rated but high-yielding corporate bonds are highly correlated with the stock market. So as equities lifted last year, junk bond funds did too.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Catalyst/SMH High Income (HIIFX)	35.8%	1.45%
2	Franklin High Income (FHAIX)	16.9	0.78
3	USAA High Income (USHYX)	15.7	0.89
4	Northern Multi-Manager High Yield Opportunity Fund (NMHYX)	14.9	0.86
5	T. Rowe Price Credit Opportunities (PRCPX)	14.6	0.92
6	Waddell & Reed Advisors High Income (UNHIX)	14.4	1.01
7	Guggenheim High Yield (SIHAX)	14.1	1.20
8	American Funds American High-Income (AHITX)	14.1	0.71
9	Ivy High Income (WRHIX)	13.9	1.66
10	Lord Abbett High Yield (LHYAX)	13.7	0.94

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Lord Abbett High Yield (LHYAX)	8.5%	0.94%
2	Guggenheim High Yield (SIHAX)	8.4	1.20
3	Fidelity Advisor High Income Advantage (FAHYX)	8.3	1.01
4	Fidelity Capital & Income (FAGIX)	8.3	0.75
5	Waddell & Reed Advisors High Income (UNHIX)	7.9	1.01
6	Loomis Sayles High Income (NEFHX)	7.6	1.10
7	AB High Income (AGDAX)	7.6	0.85
8	Rydex High Yield Strategy (RYHGX)	7.4	1.54
9	Voya High Yield Bond (IHYAX)	7.3	1.07
10	USAA High Income (USHYX)	7.2	0.89

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	AB High Income (AGDAX)	8.1%	0.85%
2	Lord Abbett High Yield (LHYAX)	7.6	0.94
3	Fidelity Capital & Income (FAGIX)	7.6	0.75
4	Waddell & Reed Advisors High Income (UNHIX)	7.2	1.01
5	Ivy High Income (WRHIX)	6.9	1.66
6	Guggenheim High Yield (SIHAX)	6.9	1.20
7	Principal High Yield (CPHYX)	6.8	0.88
8	Transamerica High Yield (IHIYX)	6.8	1.01
9	Columbia High Yield Bond (INEAX)	6.7	1.06
10	Federated High Income Bond (FHIIX)	6.6	1.25

TAX-EXEMPT BOND

High-quality municipal bonds have been paying out higher yields than U.S. Treasuries in recent years—even before the tax advantage—giving muni bond funds good values to choose from.

2016

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Oppenheimer Rochester High Yield Municipal (ORNAX)	4.4%	0.99%
2	Oppenheimer Rochester Limited Term Municipal (OPITX)	3.2	0.92
3	Lord Abbett High Yield Municipal Bond (HYMAX)	2.2	0.83
4	Invesco Short Duration High Yield Municipal (ISHAX)	2.1	0.80
5	Russell Tax Exempt High Yield Bond (RTHSX)	2.0	0.64
6	Oppenheimer Rochester AMT-Free Municipal (OPTAX)	1.9	0.98
7	Hartford Schroders Tax-Aware Bond (STWTX)	1.7	0.46
8	Western Asset Municipal High Income (STXAX)	1.0	0.81
9	Nuveen Inflation Protected Municipal Bond (NITAX)	0.9	0.77
10	MFS Municipal High Income (MMHYX)	0.9	0.67

FIVE YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Oppenheimer Rochester High Yield Municipal (ORNAX)	7.6%	0.99%
2	Oppenheimer Rochester AMT-Free Municipal (OPTAX)	7.2	0.98
3	Eaton Vance High Yield Municipal Income (ETHYX)	6.8	0.86
4	Lord Abbett High Yield Municipal Bond (HYMAX)	6.2	0.83
5	American Funds American High-Income Muni Bond (AMHIX)	6.1	0.67
6	Delaware National High-Yield Municipal Bond (CXHYX)	6.0	0.85
7	T. Rowe Price Tax-Free High Yield (PRFHX)	5.8	0.69
8	MFS Municipal High Income (MMHYX)	5.8	0.67
9	Columbia High Yield Municipal (SRHMX)	5.8	0.66
10	Pimco High Yield Municipal Bond (PYMAX)	5.8	0.86

10 YEARS

RANK	FUND NAME (TICKER)	RETURN	EXP. RATIO
1	Delaware National High-Yield Municipal Bond (CXHYX)	4.9%	0.85%
2	Clearwater Tax-Exempt Bond (QWVQX)	4.7	0.66
3	Nuveen All-American Municipal Bond (FLAAX)	4.7	0.70
4	Western Asset Managed Municipals (SHMMX)	4.6	0.66
5	MFS Municipal High Income (MMHYX)	4.5	0.67
6	First Investors Tax Exempt Opportunities (EIITX)	4.4	1.04
7	Deutsche Managed Municipal Bond (SCMBX)	4.4	0.61
8	T. Rowe Price Tax-Free High Yield (PRFHX)	4.4	0.69
9	BMO Intermediate Tax-Free (MITFX)	4.3	0.56
10	Columbia Strategic Municipal Income (INTAX)	4.3	0.80

THE BIGGEST

These mutual funds and ETFs—ranked in descending order of total net assets under management—represent the largest portfolios in their respective investment categories, according to Lipper. As such, they're the ones you're most likely to own in your portfolio.

LARGE-CAP U.S. STOCK

These funds mostly own shares of companies worth more than $10 billion.

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	**Fidelity Contrafund** (FCNTX)	2.8%	13.1%	7.8%	0.71%
2	**American Funds Growth Fund of Am.** (AGTHX)	7.9	14.6	6.9	0.66
3	**American Funds Investment Co.** (AIVSX)	13.1	14.0	6.4	0.58
4	**Dodge & Cox Stock** (DODGX)	19.8	17.0	6.0	0.52
5	**Amer. Funds Washington Mutual** (AWSHX)	11.5	13.4	6.5	0.58
6	**Amer. Funds Fundamental Investors** (ANCFX)	10.9	14.1	7.1	0.60
7	**T. Rowe Price Growth Stock** (PRGFX)	1.1	14.9	8.0	0.67
8	**Vanguard Windsor II** (VWNAX)	11.7	13.3	5.9	0.26
9	**T. Rowe Price Blue Chip Growth** (TRBCX)	1.0	15.3	8.6	0.71
10	**American Funds American Mutual** (AMRMX)	12.0	12.4	6.7	0.58
11	**Harbor Capital Appreciation** (HACAX)	–1.0	13.5	8.0	0.65
12	**T. Rowe Price Value** (TRVLX)	9.0	15.1	6.7	0.81
13	**Vanguard Growth Index** (VIGAX)	5.0	13.7	8.0	0.08
14	**Oakmark** (OAKMX)	16.5	15.8	8.6	0.85
15	**Vanguard Windsor II** (VWNFX)	11.6	13.2	5.8	0.34

MIDCAP U.S. STOCK

These funds mostly own shares of companies worth $2 billion to $10 billion.

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	**Vanguard Mid-Cap Index** (VIMAX)	10.5%	14.2%	7.6%	0.08%
2	**Fidelity Low-Priced Stock** (FLPSX)	8.2	12.9	7.6	0.88
3	**Vanguard Extended Market Index** (VEXAX)	14.1	14.2	7.8	0.09
4	**Fidelity Extended Market Index** (FSEVX)	14.0	14.1	7.9	0.07
5	**Vanguard Strategic Equity** (VSEQX)	14.8	16.6	7.2	0.21
6	**Fidelity Mid-Cap Stock** (FMCSX)	13.0	13.2	7.1	0.73
7	**Vanguard Mid-Cap Value Index** (VMVAX)	14.1	15.6	N.A.	0.08
8	**Vanguard Mid-Cap Growth** (VMGRX)	0.6	11.1	7.4	0.43
9	**Vanguard Mid-Cap Index** (VIMSX)	10.4	14.0	7.4	0.20
10	**American Century Heritage** (TWHIX)	3.8	11.1	8.8	1.00
11	**Vanguard Mid-Cap Growth Index** (VMGMX)	6.5	12.5	N.A.	0.08
12	**Columbia Acorn** (ACRNX)	10.1	10.8	6.5	0.82
13	**Dreyfus Midcap Index** (PESPX)	17.7	14.2	8.4	0.50
14	**Janus Enterprise** (JAENX)	11.9	14.5	9.3	0.92
15	**Baron Growth** (BGRFX)	6.1	11.1	6.5	1.29

***NOTES:** Return data is as of Nov. 30, 2016; five- and 10-year total returns are annualized. When possible, investor share classes are used. Funds in Lipper's multi-cap and S&P 500 index categories are not shown. N.A.: Not applicable. **SOURCE:** Lipper, 877-955-4773*

SMALL-CAP U.S. STOCK *These funds mostly own shares of companies worth $2 billion or less.*

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	Vanguard Small-Cap Index Adm. (VSMAX)	16.1%	14.5%	8.0%	0.08%
2	Vanguard Small-Cap Value Index Adm. (VSIAX)	21.4	15.9	N.A.	0.08
3	Vanguard Explorer (VEXRX)	11.6	12.9	7.1	0.35
4	T. Rowe Price Small-Cap Value (PRSVX)	24.1	13.2	7.6	0.92
5	Vanguard Small-Cap Gr. Index Adm. (VSGAX)	10.0	12.5	N.A.	0.08
6	Vanguard Small-Cap Index Inv. (NAESX)	16.0	14.3	7.8	0.20
7	Vanguard Tax-Managed Small-Cap (VTMSX)	21.7	16.0	8.7	0.11
8	Vanguard Explorer (VEXPX)	11.5	12.8	6.9	0.49
9	Northern Small Cap Value (NOSGX)	23.2	14.8	7.3	1.01
10	Schwab Small-Cap Index (SWSSX)	18.1	13.9	7.7	0.17
11	T. Rowe Price QM U.S. Small-Cap Gr. (PRDSX)	10.9	14.7	10.1	0.82
12	Vanguard Small-Cap Value Index Inv. (VISVX)	21.2	15.8	7.4	0.20
13	Dreyfus Smallcap Stock Index (DISSX)	21.7	15.7	8.4	0.50
14	Vanguard Small-Cap Gr. Index Inv. (VISGX)	9.9	12.4	8.0	0.20
15	Fidelity Small Cap Stock (FSLCX)	9.7	12.0	6.3	1.00

INTERNATIONAL STOCK *These funds own shares of companies in developed markets overseas.*

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	Vanguard Total Intl. Stock Index Inv. (VGTSX)	2.6%	4.5%	1.0%	0.19%
2	Vanguard Total Intl. Stock Index Adm. (VTIAX)	2.6	4.5	N.A.	0.12
3	Harbor International (HAINX)	–0.5	4.3	2.4	0.76
4	American Funds EuroPacific Growth (AEPGX)	0.2	6.2	2.9	0.83
5	Vanguard International Growth (VWILX)	1.6	6.5	2.9	0.34
6	T. Rowe Price International Stock (PRITX)	0.9	5.4	2.3	0.83
7	Fidelity Diversified International (FDIVX)	–5.3	6.6	1.4	1.00
8	T. Rowe Price Intl. Growth & Income (TRIGX)	–1.7	4.6	0.6	0.84
9	T. Rowe Price Overseas Stock (TROSX)	0.2	5.7	N.A.	0.84
10	Vanguard Developed Markets Index (VTMGX)	–0.0	5.9	1.1	0.09
11	Tweedy, Browne Global Value (TBGVX)	2.4	8.0	4.2	1.38
12	Fidelity International Index (FSIVX)	–1.5	5.4	0.8	0.08
13	Vanguard International Value (VTRIX)	2.9	5.1	0.9	0.46
14	Vanguard International Growth (VWIGX)	1.4	6.4	2.7	0.47
15	Fidelity International Discovery (FIGRX)	–6.8	6.6	1.7	0.99

EMERGING MARKETS *These funds own shares of companies based in developing economies abroad.*

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	American Funds New World (NEWFX)	3.2%	3.8%	3.4%	1.04%
2	Vanguard Em. Mkts. Stock Index (VEMAX)	11.9	0.8	2.3	0.15
3	T. Rowe Price Em. Mkts. Stock (PRMSX)	11.3	1.8	1.9	1.24
4	Fidelity Emerging Markets (FEMKX)	3.9	1.6	1.0	1.05
5	Northern Em. Mkts. Equity Index (NOEMX)	10.9	0.2	1.5	0.31
6	Russell Emerging Markets (REMSX)	11.8	0.8	2.6	1.52
7	Vanguard Em. Mkts. Stock Index (VEIEX)	11.7	0.6	2.2	0.33
8	Driehaus Em. Mkts. Growth (DREGX)	6.1	2.3	3.5	1.65
9	Americans Devel. World Gro. and Inc. (DWGAX)	8.5	N.A.	N.A.	1.32
10	Sanford C. Bernstein Em. Markets (SNEMX)	11.1	1.2	1.2	1.49
11	Virtus Em. Mkts. Opportunities (HEMZX)	1.6	1.5	4.5	1.56
12	Templeton Developing Markets (TEDMX)	16.9	–1.2	0.3	1.57
13	Hartford Schroders Em. Mkts. Equity (SEMNX)	10.5	1.1	2.8	1.21
14	Fidelity Emerging Asia (FSEAX)	7.5	5.2	4.2	1.09
15	Northern Active M Em. Mkts. Equity (NMMEX)	12.7	1.0	N.A.	1.10

BALANCED/TARGET-DATE *These funds give you broad exposure to equities and fixed income.*

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	American Funds American Balanced A (ABALX)	7.4%	10.8%	6.5%	0.58%
2	Vanguard Target Retirement 2025 (VTTVX)	6.0	8.6	5.0	0.15
3	Vanguard Target Retirement 2020 (VTWNX)	5.6	8.0	5.0	0.14
4	Fidelity Balanced (FBALX)	5.7	9.9	5.9	0.56
5	Fidelity Puritan (FPURX)	3.9	10.0	5.9	0.56
6	Vanguard STAR (VGSTX)	5.6	8.7	5.5	0.34
7	Vanguard Balanced Index (VBIAX)	7.5	9.6	6.3	0.08
8	Vanguard Target Retirement 2015 (VTXVX)	5.1	7.1	4.8	0.14
9	Oakmark Equity and Income (OAKBX)	9.3	8.6	6.6	0.75
10	Dodge & Cox Balanced (DODBX)	15.3	13.4	6.0	0.53
11	Vanguard LifeStrategy Mod. Gro. (VSMGX)	5.8	7.8	4.7	0.14
12	Vanguard LifeStrategy Conserv. Gro. (VSCGX)	4.9	6.1	4.3	0.13
13	American Funds American Balanced C (BALCX)	6.6	9.9	5.6	1.38
14	Vanguard Target Retirement 2010 (VTENX)	4.4	5.9	4.6	0.14
15	MFS Total Return (MSFRX)	7.6	9.1	5.3	0.74

U.S. GOVERNMENT BONDS

These funds hold Treasuries and other government-related debt.

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	Fidelity Government Income (FGOVX)	1.2%	1.6%	3.9%	0.45%
2	American Funds U.S. Gov. Sec. A (AMUSX)	0.9	1.4	3.5	0.63
3	MFS Government Securities (MFGSX)	0.8	1.1	3.5	0.88
4	Sit U.S. Government Securities (SNGVX)	0.5	1.0	3.2	0.80
5	JPMorgan Government Bond (OGGAX)	1.4	1.5	4.0	0.75
6	Wells Fargo Government Securities (SGVDX)	1.0	1.4	3.6	0.85
7	Putnam American Gov. Income (PAGVX)	–0.1	1.0	4.3	0.93
8	Prudential Government Income (PGVAX)	1.5	1.6	3.7	0.99
9	American Funds U.S. Gov. Sec. C (UGSCX)	0.1	0.6	2.7	1.42
10	John Hancock Government Income (JHGIX)	1.0	1.7	3.6	0.98
11	Fidelity Advisor Government Income (FVIAX)	0.8	1.3	3.6	0.77
12	First Investors Government (FIGVX)	–0.1	0.5	3.1	1.19
13	WesMark Government Bond (WMBDX)	1.1	1.2	2.9	1.00
14	Fidelity Advisor Government Income (FVITX)	0.9	1.3	3.6	0.76
15	SunAmerica U.S. Gov. Securities (SGTAX)	–1.2	0.1	2.7	0.99

INVESTMENT-GRADE BONDS

These funds invest in the debt of firms with strong finances.

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	Vanguard Total Bond Mkt. Index Adm. (VBTLX)	2.3%	2.3%	4.2%	0.06%
2	Vanguard Total Bond Mkt II Index Inv. (VTBIX)	2.3	2.2	N.A.	0.09
3	Dodge & Cox Income (DODIX)	5.0	4.0	5.0	0.43
4	Vanguard Short-Tm. Inv.-Grade Adm. (VFSUX)	2.8	2.4	3.3	0.10
5	T. Rowe Price New Income (PRCIX)	2.5	2.6	4.4	0.54
6	Vanguard Intm.-Term Inv.-Grade (VFIDX)	3.8	4.2	5.3	0.10
7	Fidelity Total Bond (FTBFX)	5.3	3.4	4.8	0.45
8	American Funds Bond Fund of Am. (ABNDX)	2.5	2.6	3.0	0.60
9	Vanguard Short-Term Bond Index (VBIRX)	1.4	1.2	3.0	0.09
10	Vanguard Intm.-Term Bond Index (VBILX)	2.7	3.2	5.3	0.09
11	Lord Abbett Short Duration Income (LALDX)	3.7	2.9	4.4	0.60
12	Vanguard Short-Term Inv.-Grade Inv. (VFSTX)	2.7	2.3	3.2	0.20
13	Fidelity U.S. Bond Index (FSITX)	2.3	2.3	N.A.	0.05
14	Fidelity Investment Grade Bond (FBNDX)	4.9	2.9	3.9	0.45
15	American Funds Intm. Bd. Fund of Am. (AIBAX)	1.1	1.2	2.3	0.61

HIGH-YIELD BONDS

These funds invest in the debt of firms with poor credit quality (read: higher risk).

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	Vanguard High-Yield Corporate Adm. (VWEAX)	9.8%	6.9%	6.4%	0.13%
2	American Funds Amer. High-Income (AHITX)	14.1	5.7	5.3	0.71
3	Fidelity Capital & Income (FAGIX)	8.9	8.3	7.6	0.75
4	Northern High Yield Fixed Income (NHFIX)	9.1	6.5	5.7	0.81
5	Fidelity High Income (SPHIX)	13.3	6.5	6.5	0.73
6	Vanguard High-Yield Corporate Inv. (VWEHX)	9.7	6.8	6.3	0.23
7	BlackRock High Yield Bond Portfolio (BHYAX)	11.5	7.4	6.8	0.93
8	MainStay High Yield Corporate Bond (MHCAX)	13.9	6.8	6.1	0.96
9	Franklin High Income (FHAIX)	16.9	5.8	5.9	0.78
10	AB High Income (AGDAX)	12.7	7.6	8.1	0.85
11	Harbor High Yield Bond (HYFAX)	10.2	5.6	5.9	0.67
12	Eaton Vance Income of Boston (EVIBX)	10.7	6.7	6.3	1.00
13	Lord Abbett High Yield (LHYAX)	13.7	8.5	7.6	0.94
14	Columbia Income Opportunities (AIOAX)	8.6	6.5	6.5	1.07
15	Ivy High Income (WHIAX)	14.6	7.2	7.7	0.96

TAX-EXEMPT BONDS

These funds own the tax-advantaged debt of cities, states, and public agencies.

RANK	FUND NAME (TICKER)	2016	FIVE YEARS	10 YEARS	EXP. RATIO
1	Vanguard Intm.-Term Tax-Exempt (VWIUX)	–0.8%	3.1%	3.9%	0.12%
2	Vanguard Limited-Term Tax-Exempt (VMLUX)	–0.4	1.2	2.4	0.12
3	Vanguard Tax-Exempt Money Market (VMSXX)	0.3	0.1	0.7	0.15
4	Fidelity Municipal Money Market (FTEXX)	0.1	0.0	0.6	0.40
5	Vanguard Short-Term Tax-Exempt (VWSUX)	0.3	0.7	1.7	0.12
6	American Funds Tax-Exempt Bond (AFTEX)	–0.6	4.0	3.8	0.54
7	Schwab Municipal Money (SWXXX)	0.1	0.0	0.6	0.62
8	Vanguard Long-Term Tax-Exempt (VWLUX)	–0.6	4.3	4.2	0.12
9	Vanguard High-Yield Tax-Exempt (VWALX)	–0.1	4.7	4.4	0.12
10	Franklin Federal Tax-Free Income (FKTIX)	0.2	3.9	4.1	0.62
11	JPMorgan Tax Free Money Market (JTFXX)	0.2	0.1	0.7	0.21
12	Fidelity Municipal Income (FHIGX)	–0.9	3.8	4.1	0.48
13	Franklin High Yield Tax-Free Income (FRHIX)	0.6	4.5	4.1	0.67
14	Sanford C. Bernstein Divers. Muni (SNDPX)	–0.9	1.7	3.0	0.55
15	Fidelity Intm. Municipal Income (FLTMX)	–0.7	2.6	3.5	0.36

3 FAMILY CONVERSATIO

YOU CAN'T AFFORD *NOT* TO HAVE

BY Kerri Anne Renzulli AND Kim Clark

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Talking about money can be notoriously awkward—but avoiding the subject has its own unpleasant consequences. Use these tips to navigate some of the trickiest topics.

"CAN WE AFFORD TO START A FAMILY NOW?"

Stave off conflicts by talking frankly now about your family game plan.

For young couples early in their careers and still paying down college debt, a baby can provide a not-so-adorable case of sticker shock. Failing to discuss in advance how you'll cover new costs may strain your wallet and your relationship—and leave you scrambling to provide the kind of care you want.

PREP WORK

Start by budgeting for the change. You don't need to calculate 18 years of expenses, but focus on the short term. Pensacola, Fla., financial planner Matt Becker recommends Babycenter.com's Baby Cost Calculator, which factors in prices for one-time buys like a crib as well as recurring expenses like diapers. "You can modify it for your own particular situation," he says.

Use it to get a rough baseline estimate, he adds. Then, if you have friends who have recently started a family, ask them about any surprise costs they incurred to get another perspective more closely tied to where you live and your current lifestyle.

Remember that having a baby will cut into some of your spending, like entertainment and dining out, says Seattle financial planner Stacy Gallagher Ployhar.

Also, contact HR to learn what your employer offers in terms of paid and unpaid time off, recommends Los Angeles financial planner Jennifer Hartman. That will help inform how much your income will be hit.

PAIN POINT

$245,340

The current cost of raising a child for the average American family—and that doesn't even include college.

SOURCE: U.S. Department of Agriculture

TALKING POINTS

"I'm worried we won't be able to afford to have a baby for years."

Explain your financial anxieties and ask whether your spouse shares them or has different ones. To understand how the new costs will fit into your existing spending, Becker says, use a budgeting app like Mint.com—and then identify what you could cut down on or give up.

"Do we have any big, expensive goals to hit before we have a child? You always talked about getting a master's degree."

You may be able to reduce some shared anxiety by framing conversations as when to have kids, not if. Do you have anything else you want to achieve—like travel, advanced study, paying off debts—before a child's arrival? Individually, write down three to five projects that could derail your family plans—then compare notes and prioritize to create a timeline, says Hartman. "Listing a few top goals allows for some give-and-take if you disagree on the priorities," she says. Remember, not everything needs to happen right away: Don't set up so many roadblocks that you delay having a child indefinitely.

"My parents both worked when I was a kid, but I want to take at least a few months off, if not longer. What do you think?"

This helps work through a few hot-button issues: the desire to spend time with a baby, family income changes, and the cost of care. Share your own childhood experiences, outline what you'd like to do, and ask your spouse to do the same. Child-rearing approaches can be deeply personal, says financial therapist Amanda Clayman: "There is no easy solution if you disagree."

If one parent is to stay home, discuss both the short-term income hit and the longer-term career impact. If both parents continue to work, you need to think about logistics and the cost of child care. You may need to establish limits on the amount of time you each can take off work.

NEXT STEPS

- [ ] Once you have mapped out a new budget, try living on that reduced amount. This will help you spot problems and make tweaks early on, says Ployhar.
- [ ] Set aside the resulting savings to create a cushion for when the baby arrives. "This will relieve a lot of financial anxiety," says Becker.
- [ ] Could your family get by on a single income if one of you became ill or died? If not, buy life and disability insurance for one or both breadwinners. (And factor those premiums into your post-baby budget.)

ONE FAMILY'S SOLUTION

"I worked with one family that didn't know how they were going to pay for day care," says Becker. "So we dug into their cash flow." They were able to cut back on both home decorating and restaurant costs, he says: "They switched to meal planning to efficiently eat at home. Doing these things cut their spending by several hundred dollars a month, and they were able pay for their daughter's care."

"WHO'S GOING TO PAY FOR COLLEGE?"

Get on the same page as your spouse. Then have a frank talk with your teenager.

Ask parents about their biggest financial worries, and more than 70% cite college costs, according to Gallup. But a shocking number shield their kids from that financial reality. Millions of teens have the mistaken impression that their parents will fully fund any college they select, a T. Rowe Price survey found. A frank conversation in advance can help guide your family's process of applying and paying for college—and prevent financial or emotional crises.

ONE FAMILY'S SOLUTION

"One night after dinner, my parents sat down and went through it all," recalls Daniel Bice, now a freshman at Howard Payne University in Brownwood, Texas. "They taught me how to do a budget, and we went over how much my debt payments would be." He ended up choosing a private college that awarded enough aid to put his final cost below that of many of the public schools he had considered.

His advice for parents: "Most kids my age are just thinking about the next day or two. They don't understand how things like debt will affect them over the long term. So have the student go through it themselves: 'What will happen after I graduate?' Don't do all the work for them."

PREP WORK

Ideally, you and your spouse agree and have been talking to your children all along about planning for college. If not, sit down—by your student's junior year, at the latest—to calculate a family budget and decide how much you can reasonably fund.

What will that be? Each family is different, but the Lumina Foundation suggests families save 10% of discretionary income annually per child, over 10 years. For a two-parent, two-child Indianapolis family earning $100,000 a year, say, that would yield about $80,000—roughly the equivalent of four years of tuition and books per kid, if both go to in-state public schools.

Now talk to your teens—but be in lockstep first, says Tina B. Tessina, a psychotherapist in Long Beach: "Kids are very good at divide and conquer."

PAIN POINT

$200,000

The average cost of putting two kids through an in-state public college. A private school could easily set you back almost twice that.

SOURCE: *The College Board*

TALKING POINTS

"You're getting a lot of mail from colleges. I'd love to hear which schools you are interested in, and what about them excites you."

If this is your first serious college discussion, "don't talk at them, ask," advises Judith Ward, a senior financial planner for T. Rowe Price. That sets the tone "that we are going to work on this together," she says.

To further help them focus on what's important, ask about their career dreams and the paths that might help them get there.

"How much would your top picks cost? Let's work through some of the numbers together."

Help your child use "net price calculators," which show the estimated cost after aid, on the websites of his or her top schools. Ask teens to fill out the forms themselves (they'll need your income and other tax form info). It makes a stronger impression than abstract lines like "college is expensive," says Susan Beacham, author of *O.M.G. Official Money Guide for Teenagers.*

"How would we pay for this?"

Be honest about what you can afford, says Sabrina Lamb, author of *Do I Look Like an ATM?* Point out ways the students can pitch in: taking out low-interest federal loans of $5,500 to $7,500 a year, depending on the student's year in school, or getting work/study or part-time jobs during the school year to raise another $1,000 to $2,500. (Experts recommend limiting work to 12 hours a week.)

If your combined contributions won't reach the expected outlay needed for at least two colleges on the list, add a few lower-cost options, like in-state public schools. Use MONEY's college finder (at money.com/colleges) to screen for high-value, affordable schools that fit your student's academic, geographic, and activity needs.

NEXT STEPS

- [ ] Teach your children how to live on a frugal student's budget. You can start in high school: Give kids both the money and the responsibility for a couple of spending categories, like clothing or car costs, Beacham suggests. Pay the allocation monthly, resisting the urge to bail them out if they go over budget.

- [ ] Put your savings to work. If your child is away at school and no longer driving the family car, you can cut hundreds of dollars a year by updating your auto insurance policy. Many parents also report that their hot-water and food bills plunge when a teen moves onto campus. Use those savings either for tuition or to support any other family financial goals.

“HOW DO WE CUT OFF CASH TO OUR ADULT CHILD?”

Stop putting your own retirement at risk.

Deciding when to let your children stand on their own entirely can be tough—especially when they’re contending with student loans, entry-level salaries, and sky-high rents. But easing your kid’s entry into economic adulthood could be undermining your own financial security. A MONEY survey found that 30% of parents spend at least $5,000 a year helping adult children.

Develop a plan with your spouse to end your financial support the right way, so you can stay on track without causing your child to stumble.

PAIN POINTS

of parents have taken on debt to support adult children.

of parents would keep working longer to support adult children.

SOURCES: *NEFE study, Bank of America Merrill Lynch*

PREP WORK

More than a third of parents don’t know which of their kids’ expenses they’re actually covering, a recent Bank of America Merrill Lynch study found. “Parents don’t always have a good sense of the continued support they are giving,” confirms Charlotte financial planner Cheryl Sherrard.

Create a list of all the ways you’re helping financially. Include any bills that you cover directly, like rent, as well as family cell phone or health insurance plans—and work with your spouse to itemize any other handouts.

TALKING POINTS

“I think we should cut back what we spend on Bill. He needs to become self-sufficient. And I’m not sure we can afford it for much longer.”

Stemming the flow of funds to your child is really about two issues: your child’s ability to become independent and your own well-being. You need to discuss any tradeoffs you’ve made—sacrificing a year of retirement or necessary home repairs, say, or even miring yourself in debt—as well as your child’s attitude toward any money you have already given.

“I know you want to keep helping Elizabeth until she has a stable job, but I think she needs to make her own way. She’ll act more responsibly if it’s her money on the line.”

Your first priority is to make sure you and your spouse are in sync. You can’t have one partner undermining the other by slipping money to your kid on the side.

If you disagree, spell out what troubles you about the support you’ve been giving so far. “Be clear about what is motivating you,” says Ruth Nemzoff, author of *Don’t Bite Your Tongue: How to Foster Rewarding Relationships With Your Adult Children.* “Often it comes down to deeper philosophical differences. Some may feel the best way to help a child is by giving help financially, while others think letting your kid pull himself up by his own bootstraps is best.”

Quell some worries by spelling out the extenuating circumstances under which you would jump back in, says Nemzoff. (A medical emergency? A family member’s destination wedding?)

Use the amounts you have collected to remind your spouse exactly what this support costs you. You'll have a better shot at coming to an agreement if you can show how your other major goals are being endangered. Another issue to raise: How is this giving affecting other family members? Older siblings may resent not having received similar support, while younger siblings may now expect the same handouts.

"I'm worried that if we cut John off completely, he'll fall into debt or wind up in other trouble. But I think we've got to set an end date."

The biggest thing spouses disagree on is how long to give support, says Anchorage financial planner Michael Branham. But unless you set a clear timeline, your exit strategy may never become a reality.

Avoid making your son or daughter go cold turkey, says Sherrard: "Ideally, you should wean your children off your support a little at a time." The one exception, she says, is if you simply can't afford the handouts. Don't go into debt or miss your own bill payments.

Try timing the end of your support to a life event, like college graduation, a birthday, or a new job. Or set a time frame, Branham suggests, tapering off over three to six months. Decide which expenses you'll cover during this transition, and when you'll shift each over—and avoid cash handouts. Each month, ideally, you'll increase the amount your kid is responsible for, until your outlay is zero. This gives him ample time to adjust to all his new financial obligations.

Once you've reached an agreement, you've got to break the news to your kid.

"We need to focus now on our retirement. To help you make the shift, we'll cover the security deposit and the first three months of rent for your new place."

Let your child know that by ending support, you're helping her take a step forward, says Nemzoff. Explain the tradeoffs you've had to make, such as decreasing retirement savings or delaying needed home repairs. If kids knew the impact this support had on their parents' finances, "most adult children would make different choices—or at least be more receptive to not causing further trouble," says Branham.

Then lay out the rules. Spell out what short-term support your child can expect, as well as your plans for the long term. Drill home any deadlines.

Focus on setting your child up to help herself. You could create one-time bounties to jump-start an independent life—helping with a new wardrobe if she gets a new job, for instance, or a security deposit or furniture for an apartment. To create a savings incentive, offer to match part of what she socks away. If you're worried about financial management skills, treat her to a session with a financial planner—expect to spend \$125 to \$350 per hour.

Whatever you decide, stick with it. You want your child to rise to the occasion and not assume that you'll swoop in with a safety net whenever it's needed.

ONE FAMILY'S SOLUTION

"One couple I worked with had different ideas about whether to help their son out with law school," says Nemzoff. "One parent felt the child should pay for the education. He thought the son needed to have some skin in the game. The other parent thought it was ridiculous to make the child take out student loans and pay such high interest when they could afford to help."

They reached a compromise, she says: They would pay half of his tuition, while he would pay the rest plus any other expenses. She adds, "They also had the child do a verbal agreement—saying that if they funded this, then he had to finish the program."

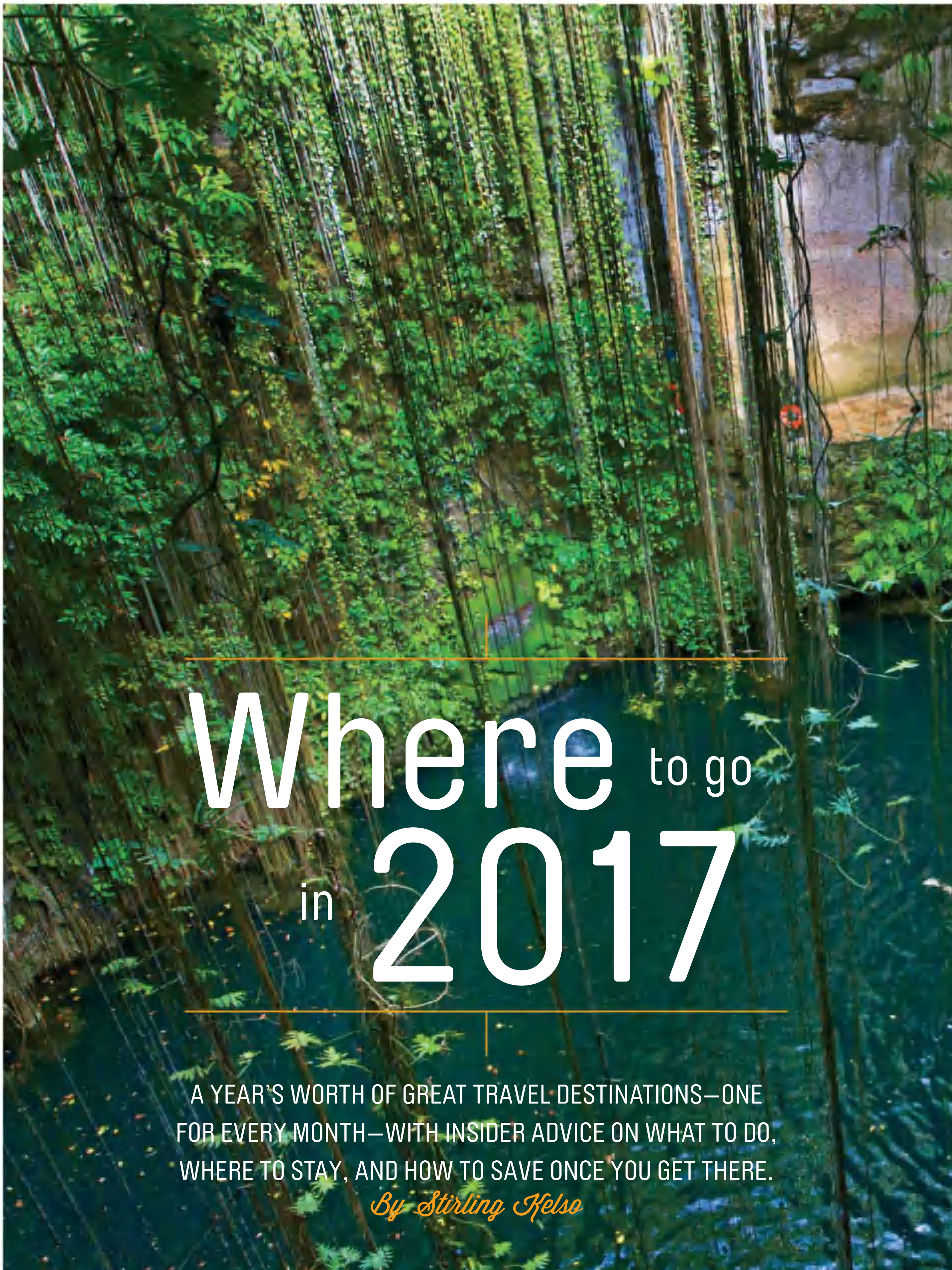
NEXT STEPS

☐ Make it clear that you are ending financial handouts, not advice or emotional support. Let your kid know you're available to help with budgeting problems, loan repayment calculations, career networking blunders, and other challenges. Your child may be tackling many thorny money issues for the first time, and there are several smart ways to lend a hand without doling out cash.

☐ Once the end date is fixed, plan how you'll use the funds that were previously going to your child. Divert the money to plug existing holes—whether paying off debt or bolstering lackluster retirement savings. You're already used to living on a tighter budget, and by putting the windfall to work, you have an opportunity to fast-track your own financial fixes.

MORE TRICKY CONVERSATIONS

This story is part of an ongoing series about how to navigate tricky conversations about money with loved ones. See more online at ***money.com/hot-topics*** and in future issues.



Where to go in 2017

A YEAR'S WORTH OF GREAT TRAVEL DESTINATIONS—ONE FOR EVERY MONTH—WITH INSIDER ADVICE ON WHAT TO DO, WHERE TO STAY, AND HOW TO SAVE ONCE YOU GET THERE.

By Stirling Kelso

COOLING OFF IN IK KIL CENOTE, A NATURAL SWIMMING HOLE ON MEXICO'S YUCATÁN PENINSULA.

January

Road-trip through the Yucatán

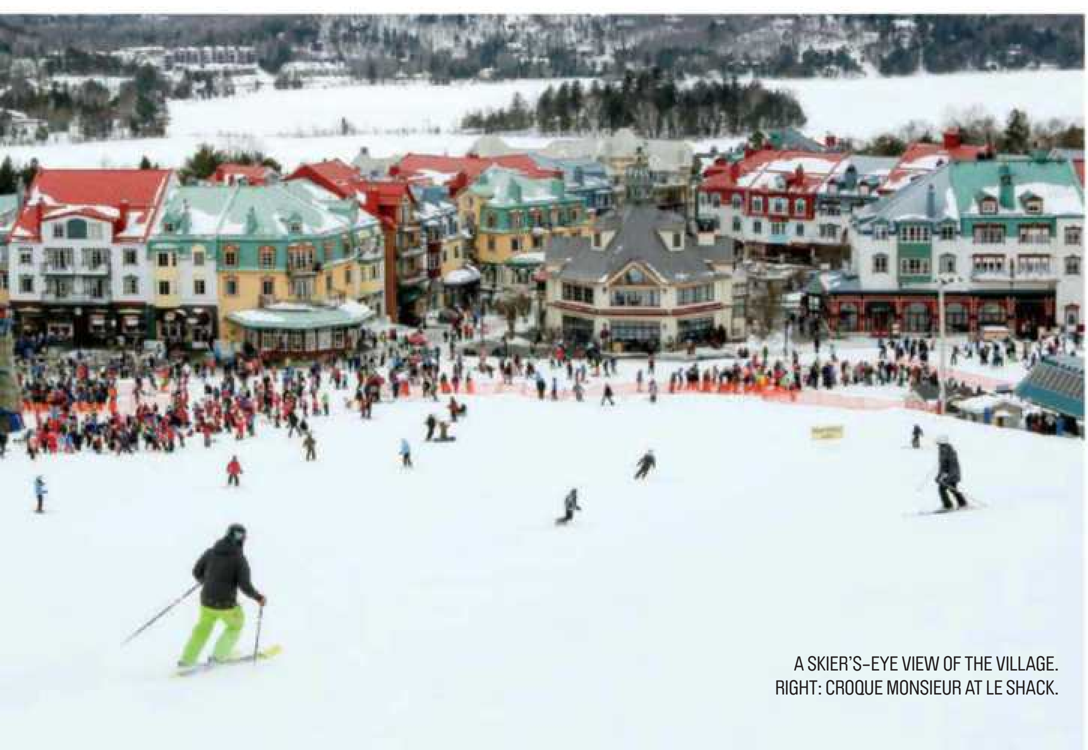
WHY NOW: As the Mayan Riviera fills up with name-brand resorts and restaurants, the Yucatán's interior is the place to go for a taste of authentic colonial Mexico. While January is still considered high season, prices are significantly lower than during holiday months like December and March.

WHAT TO DO: Start in Valladolid, 97 miles west of Cancún and on the way to the famous ruins at Chichén Itzá. This small town has become a beacon of chic. Shop along Calle 41A for made-in-Mexico finds, like Ariane Dutzi's rustic handbags (dutzishop.com). For a taste of local culture, take a free 10 a.m. tour at Casa de Los Venados, a 16th-century residence housing more than 3,000 works of Mexican art. Mérida, another 90 minutes west, is studded with elegant 19th-century mansions and charming squares. The town derived its wealth from henequen fibers, called "green gold" in the 1800s. The last stop, 40 miles back toward Cancún, is Izamal, where buildings lining the 20-square-block historic center are painted a golden yellow. Don't miss the Convento de San Antonio de Padua, a 1561 Franciscan monastery.

SAVE 25% OFF December lodging rates.

HOW TO SAVE: While Mérida has its own airport, flights to Cancún International, three hours away, are cheaper (23% less at press time). Once on the road, take Highway 180 instead of toll road 180D to save the $15 fee. Even high-end accommodations are affordable: In Mérida, one-bedroom villas through Urbano Rentals (urbanorentals.com) start at $150 a night, down from $200 in December. A room and three-course breakfast at Hotel Julamis will run you $59 to $68 a night.

LOCAL'S TIP: John Powell of Urbano Rentals recommends lunch at Apoala, one of the city's best restaurants. "It only costs about $6, including your drink," he says, vs. about $35 a person for dinner.



A SKIER'S-EYE VIEW OF THE VILLAGE. RIGHT: CROQUE MONSIEUR AT LE SHACK.

February

Go skiing in Mont-Tremblant, Quebec

WHY NOW: The U.S. dollar has risen 12% against the Canadian dollar since the beginning of 2015. Plus, Quebec's premier mountain offers some of the best skiing on the East Coast at prices that are already about 30% less expensive than those of competitors like Killington in Vermont.

WHAT TO DO: Hit the slopes! Opt for the Latitude Card (from $42 per day per adult), which shaves up to 37% off regular lift-ticket

OPENING SPREAD: PHOTOGRAPH BY VICTOR KORCHENKO/GETTY

DANCERS IN MÉRIDA'S PLAZA DE LA INDEPENDENCIA. LEFT: CHICHÉN ITZÁ'S EL CASTILLO TEMPLE.

prices. Ski lessons, too, are a steal: Kids can take full-day group classes through Feb. 16 for $100 ($115 starting Feb. 17); in comparison, full-day group lessons at Killington cost $185. Afterward, head into the village for its après-ski scene. "Don't miss Le Shack," suggests Becca Hensley, travel writer with the Canadian Automobile Association magazine. Order the *bavette de bœuf*, a flank steak served with *frites* ($21; leshack.com).

12% appreciation of U.S. vs. Canadian dollar.

HOW TO SAVE: Early February is a great time to go, as it's between Christmas and spring break. Ski-in, ski-out accommodations for a family of four start at $116 to $148, up to 20% less than in December and March. You'll save even more when you stay in town: Rates at the Tour des Voyageurs I, just blocks from a ski lift, start at $97 U.S. (lessuitestremblant.com).

LOCAL'S TIP: Of the mountain's 96 trails, be sure to hit Nansen, a 3.7-mile run that overlooks Lake Tremblant and the village.

THIS SPREAD, CLOCKWISE FROM TOP LEFT: PHOTOGRAPHS BY MATTEO COLOMBO/GETTY; JOHN ELK III/GETTY; DAVID KLEYN/GETTY; GETTY; COURTESY OF LE SHACK; GETTY

March

Sip and stroll in Sonoma, Calif.

WHY NOW: Napa Valley may get more buzz, but Sonoma is just as beautiful—and hotels can be about 40% cheaper, even in this quiet shoulder season. Another plus: "You're more likely to chat with the winemaker in a tasting room and get prime reservations in popular restaurants" than during the summer, says Lauren Krause, owner of Beltane Ranch B&B and vineyard.

WHAT TO DO: Visit some of the area's hundreds of wineries by bicycle. In Healdsburg, rent from Wine Country Bikes (starting at $39 a day; three-day rentals save $10). Cycle to Portalupi (portalupiwine.com) to sample Zinfandels and Pinots paired with local meats and cheeses ($25; reservations required), or taste wines at the counter (three for $10). In the afternoon, store the bikes and explore greater Sonoma. At Iron Horse Vineyards the atmosphere is surprisingly casual for a producer whose sparkling wines are regularly served at White House dinners. Finish the day in nearby Calistoga, where happy hour at Johnny's means $3 sliders, $1.75 oysters, and choice wines by the glass for $6.

SAVE 44% off high-season prices.

HOW TO SAVE: Rates at the h2hotel on the main square in Healdsburg, typically $269 a night, drop to $229 in March when you stay two nights or more (h2hotel.com). Similarly, rooms at the Beltane Ranch, a six-room B&B with olive groves and vineyards, are $20 to $60 cheaper than during high season (rooms start at $185 to $205). While winery hopping, don't forget to ask for coupons that waive the tasting fee (usually $10 to $25) at neighboring establishments.

LOCAL'S TIP: Stop at the Dry Creek General Store, a local fixture in Healdsburg since 1881, for house-made pesto and fresh mozzarella panini ($10).

FRUITS OF THE VINE, BEFORE (ABOVE) AND AFTER.

MAIN STREET IS WHERE IT'S AT. BELOW: A WEST END FESTIVAL.

April

Enjoy small-town life in Greenville, S.C.

WHY NOW: This former textile town is attracting star chefs, craft breweries, independent shops, and new hotels. *USA Today* calls the Blue Ridge Mountain haven "the perfect example of the new South." Now is the time to go, before crowds—and prices—catch up to other Carolina culture capitals like Charleston, S.C., and Asheville, N.C.

WHAT TO DO: Start with a stroll down Main Street, suggests John Nolan, owner of Greenville History Tours. At the landmark 1925 Poinsett Hotel, you can admire original architectural details like coffered ceilings hung with chandeliers. Take advantage of the lunch specials at Soby's on the Side: on Fridays, sandwiches are just $4, down from $7 (sobysontheside.com). For more food savings, download the Vittl app (vittl.co), which offers deals at 35 local restaurants. Dedicate time to exploring Greenville's easily accessible parks. Check out the 40-foot waterfall in Falls Park in the historic West End of downtown. Pack a picnic (southern staple Caviar & Bananas has great gourmet provisions) for a trip to the playgrounds and wildflower gardens of 20-acre Legacy Park. In the past eight years, the city has developed nearly 20 miles of hiking and biking trails.

SPEND $22 LESS per day than in Asheville.

HOW TO SAVE: Get around the city center via a free trolley and solar-powered shuttle; parking on Main Street is also free. Though it costs a little more than the $100 area average for lodging, you'll want to stay downtown to get the most bang for your buck. Starting prices at the Pettigru Place Bed & Breakfast (pettigruplace.com) range from $140 to $170. Or opt for a room at the cheerful and contemporary Swamp Rabbit Inn (swamprabbitinn.com; from $105 to $155).

LOCAL'S TIP: Join the crowds for free music on Main Street every Thursday and Friday night.

May

Hike and beachcomb on the island of Hawaii

WHY NOW: Think you can't afford a Hawaiian vacation? Try the Big Island in May, one of the cheapest months to travel there, as it's after winter's high season but before summer break. Last year flights to Kona International Airport were down 14%, according to Hopper.com. Bonus: Because fewer tourists visit in May than during the summer months, you'll have an easier time finding a stretch of sand to call your own.

WHAT TO DO: The Big Island's terrain ranges from rain forests to stark volcanic landscapes. Punalu'u Black Sand Beach, on the southeastern coast, gets its ebony shine from ancient lava flows. At Papakolea Beach, about 40 miles farther south, the green sand is made of semiprecious peridots, one of only four such beaches in the world. (Note: Papakolea is accessible only via a rugged footpath.) "Hikers shouldn't miss the historic Puu Oo trail off the island's central Daniel K. Inouye Highway, called Saddle Road among locals," says Rob Pacheco, founder of tour operator Hawaii Forest & Trail (hawaii-forest.com). Keep an eye out for rare birds, such as yellow amakihi and endangered akiapolaau.

HOW TO SAVE: Nightly hotel rates are 15% less in May ($214) than in January through April, and 11% less expensive than

LAKE CHAMPLAIN FROM THE BURLINGTON BIKE PATH. RIGHT: THE "BLUE HOUR," JUST PAST SUNSET.

June

Enjoy early summer on Lake Champlain

WHY NOW: While average temperatures in June (mid-70s) are similar to those in July and August, hotel rates are 10% cheaper and 12% less than in fall, according to hotel market data firm STR. Spring season flowers remain in bloom, making it a lovely time to visit.

WHAT TO DO: Get your bearings in Burlington, Vermont's largest city. Families should start at ECHO, a 2.7-acre learning center on the lake, to see sea stars, box turtles, and other freshwater creatures (adults, $14.50; kids, $11.50; echovermont.org). From there it's a short walk to the Community Sailing Center, where you can take a group sailing lesson ($40 an hour) or rent a kayak ($15 per hour). Head north of the city on Highway 2 to explore Alburgh Dunes State Park, a barrier island with long stretches of sandy beach ($4 for adults, $2 for children). Over the bridge on neighboring Isle La Motte, you'll find Saint Anne's Shrine. The religious order welcomes visitors, picnickers, and respectful swimmers—in other words, skip the thong bikini.

SAVE 12% OFF high-season hotel rates.

HOW TO SAVE: Rates at the antiques-filled Inn at Shelburne Farms, seven miles south of Burlington, start at $160 to $175, down $10 to $40 from high season (July through October). In town, rooms at the Willard Street Inn start at $159 to $169, down $20 from peak season.

LOCAL'S TIP: For a good value in Burlington, head to the Skinny Pancake for crepes, says travel writer Nina Fedrizzi. "Order the Jonny, which comes with pulled pork, caramelized onions, and Cabot cheddar cheese" ($11.50).

FREE-DIVING IN KEALAKEKUA BAY. RIGHT: LAVA TREE STATE MONUMENT PARK.

during the summer months, STR reports. You'll beat those averages when you book a garden- or ocean-view two-bedroom for $165 at the Royal Sea Cliff Kona by Outrigger (outrigger.com). Across the island in Hilo, you'll save even more at the classic Hilo Hawaiian Hotel (castleresorts.com). Rooms overlooking the Pacific start at $150; knock off another $25 if you opt for a view of the banyan groves instead.

Flight prices were **DOWN** 14% last year.

LOCAL'S TIP: Pacheco recommends Hawaii Volcanoes National Park ($15 per car for seven days), where you can walk through a lava tube and trek along a crushed-lava road to the ocean.

ST. MARY'S CHURCH KEEPS WATCH OVER THE TOWN. RIGHT: A CARB LOVER'S DREAM.

July

Sightsee on the Baltic in Gdansk, Poland

WHY NOW: There's nothing quite like visiting Europe in the summer, but peak-season prices can break the bank. Not so in Poland. BudgetYourTrip.com notes that even traveling to waterfront Gdansk costs about a third of travel to London or Paris.

WHAT TO DO: Get an overview by taking one of the free walking tours that meet daily (freewalkingtour.com; tips encouraged). Along the cobblestone streets you'll stop by St. Mary's Church, one of the world's largest brick cathedrals, and get a look at the city's iconic symbol, a medieval port crane once used to place masts on ships. Fans of more recent history can visit the European Solidarity Centre ($4; ecs.gda.pl), says Joanna Śliwerska with Warsaw-based tour operator Mazurkas Travel. Get 20% off admission there and at dozens of other sites with the Tourist Card, available at the Gdansk Railway Station or tourist center ($20 for three days). Be sure to catch one of the daily organ recitals in Oliwa Cathedral, home to a world-renowned instrument that dates back to the 1700s.

GET 3x the value vs. other European cities.

HOW TO SAVE: The four-star Radisson Blu Hotel (radissonblu.com) has rates from $165 a night; book more than a month in advance and save another $30. You'll pay 25% less without giving up luxury when you stay outside the city center. At the plush 70-room Dwór Oliwski Hotel & Spa (dworoliwski.pl), in a leafy neighborhood northwest of the old town, prices start at $128. A taxi from there to the city center runs $10 or so.

LOCAL'S TIP: The best place to exchange money is at the "kantors" (currency-exchange offices); you'll pay a lower commission than at banks or Western Unions.

PREVIOUS SPREAD, CLOCKWISE FROM TOP: PHOTOGRAPHS BY JON LOVETTE/ALAMY; DEB SNELSON/GETTY; HAWAII TOURISM AUTHORITY (2); COURTESY OF THE CITY OF GREENVILLE (2)

TREKKING IN THE CLOUD FORESTS OF MONTEVERDE.

August

Visit cloud forests in Costa Rica

WHY NOW: During the "transition months" of May through August, deals are plenty and tourists are few, says Rob Harper, founder of Costa Rican Vacations (vacations-costarica.com). Sure, it rains, but storms tend to pass quickly, and some animals, like turtles and whales, are more in evidence.

WHAT TO DO: Fly into Liberia Airport for easy access to Guanacaste, Costa Rica's largest (and driest) state and most accessible coastline. At El Mangroove Hotel, splurge on a private boat ($150 per person, including lunch and beer and wine; elmangroove.net). Ask the guide to take you past Monkey Head Island, where the rock resembles a gorilla's face. Inland are the jungle parks and biological reserves of Monteverde. At nearby 100% Aventura, you can zip-line through jungle canopies ($50; aventuracanopytour.com). Or conserve cash—

SAVE 30% off high-season hotel rates.

and adrenaline—with the $30 Hanging Bridges tour, during which naturalists lead treks on suspended walkways.

HOW TO SAVE: Rain isn't the only thing that falls in the transition season. Rates drop 30% on average, according to STR Global. A room at the waterfront Mangroove starts at $249 in August vs. $319 December through April. At the Monteverde Cloud Forest Lodge, double rooms are just $106. For the best flight prices, buy plane tickets 21 to 35 days in advance,suggests Hopper.com chief data scientist Patrick Surry.

LOCAL'S TIP: A night walk in Bosque Eterno de los Niños is one of the best wildlife hikes in all of Costa Rica, says Harper ($22; acmcr.org). Watch for long-tailed olingos, owls, and tree frogs.

THIS SPREAD, CLOCKWISE FROM TOP LEFT: PHOTOGRAPHS BY GETTY (2); JI-FANH ZHANG/GETTY; NATALIE TEPPER/GETTY; KUMAR SRISKANDAN/ALAMY; MICHAEL MELFORD/GETTY

WILD PONIES RULE ON ASSATEAGUE. BELOW: A BEACH SHACK, ISLAND STYLE.

September

Get away to Chincoteague Island, Virginia

WHY NOW: Devoted visitors love September here, when temps stay in the high 70s but crowds dwindle and accommodation prices drop by 20% or more. There's not a high-rise hotel or commercial boardwalk in sight on this laid-back barrier island. Instead you'll enjoy open vistas, peaceful bike trails, placid inlets, and, on neighboring Assateague Island, a National Wildlife Refuge best known for its wild ponies.

SAVE UP TO 35% off summer prices.

WHAT TO DO: Grab wheels at the Bike Depot (from $14 per day; refugebikes.com) and head to the beach, about three miles away, or take the bridge to Assateague. The bike path bypasses the car tollbooth, so you'll save the $8 entry fee to the refuge. Keep an eye out for the ponies, believed to be the descendants of horses that swam off a sinking Spanish ship in the 1700s. Climb the Assateague Lighthouse for 360-degree views of the park and water, says supervisory park ranger Michael Dixon.

HOW TO SAVE: Rent a redbrick cottage overlooking the water at Snug Harbor, on the island's tranquil east side, where you can fish or go crabbing from the pier, or kayak to the property's private beach (snugharborva.com). High-season rates ($149 to $289) go down 10% to 20% in September. If you would rather bed down in more modern

digs, opt for the Anchor Inn, where rooms have private balconies and include a continental breakfast; rates start at $107, down from $165 in summer.

LOCAL'S TIP: See the islands from the water on one of Daisey's Island Cruises ($30). You'll spot dolphins and shorebirds as the captain fills you in on the region's seafaring history.


PADDLING ON HARLOW LAKE. BOTTOM LEFT: THE MARQUETTE LIGHTHOUSE.

October

Go leaf peeping in Michigan

WHY NOW: It's the end of high season, but you can still count on quiet roads, red-and-gold vistas, and waterfalls—almost 180 of 'em—in Michigan's Upper Peninsula. Nicknamed the UP, this scenic forested corner offers fall foliage on the cheap: Hotels average $96 in October, according to STR, up to 38% less than in other popular leaf-peeping destinations like Lake Placid, N.Y., and Vermont.

WHAT TO DO: Enjoy the scenery on foot. Wolverine State hikers love the three-mile Bare Bluff trail on Keweenaw Peninsula, which juts into Lake Superior. You'll have to hoof it up several steep inclines as the path makes its way to the top, but you're rewarded with unimpeded views down miles of shoreline, says Andrew Bacon of the Michigan Nature Association. If you would prefer to explore from behind the wheel, drive along roads shaded by maples, red oaks, and evergreens on Highway 41, then take the M26 loop that skirts the Lake Superior shoreline. Visit Marquette, a college town 2½ hours from Keweenaw, where redbrick buildings line downtown streets and the Maritime Museum offers a display on the *Edmund Fitzgerald* and other Great Lakes shipwrecks (admission, $6).

$96 average daily hotel cost.

HOW TO SAVE: At the Birchmont Hotel, you get a two-bedroom suite and kitchenette overlooking Lake Superior for $129; the price drops to $94 for a queen bedroom only. At the Scandinavian-inspired Nestledown Inn (nestledownmarquette.com), rates include breakfast dishes like Dutch pancakes and sausage-and-egg strata ($170 a night).

LOCAL'S TIP: End the day with a pint at Marquette's Ore Dock Brewing Co. Weekly specials are $1 off during happy hour (5 p.m. to 7 p.m.; ore-dock.com).

November

Explore the streets of Buenos Aires

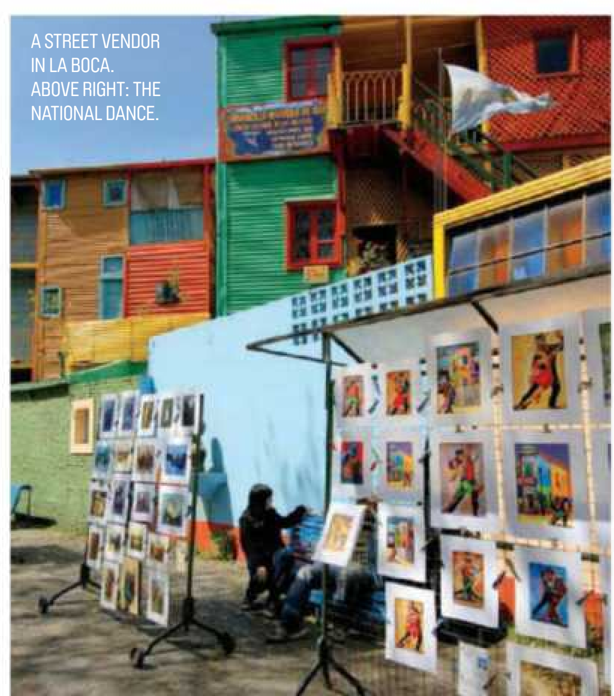
WHY NOW: The Argentinean peso has fallen more than 30% against the dollar in the past 14 months, putting the whole city effectively on sale. In November, approaching summer south of the equator, temperatures hover in the low 70s, an ideal time of year to explore Buenos Aires, which combines European-style architecture with sultry Latin flair.

WHAT TO DO: First-timers should see La Boca, known for its colorful row houses. While there, stroll along El Caminito ("the little walkway"), inspiration for the famous tango of the same name. The Evita Museum, in the leafy Palermo Chico neighborhood, is worth visiting to see former first lady Eva Perón's pristinely preserved wardrobe ($2.50; museoevita.org). On Saturdays the San Telmo Market hums with vendors selling antiques and artisan goods.

HOW TO SAVE: Book a room at Esplendor Plaza Francia in Recoleta; rates start at $88, $40 less than they would have been a year ago (esplendorhoteles.com). Also in Recoleta is Casa Bevant (casabevant.com), where serviced apartment-style accommodations start at $90. To get around, stick to the subway; tickets are 50¢ per ride vs. $2 a mile for taxis, per Numbeo.com.

The peso is **DOWN** **30%** vs. the dollar.

LOCAL'S TIP: Buenos Aires is famous for its beef, but the best steak dinners can be surprisingly expensive. Instead, says Maita Barrenechea, founder of travel agency Mai10, try the small and lively Big Sur (facebook.com/BigSurBA) for a traditional *lomito* steak sandwich.


A STREET VENDOR IN LA BOCA. ABOVE RIGHT: THE NATIONAL DANCE.

CLOCKWISE FROM TOP LEFT: PHOTOGRAPHS BY ALAMY; JOHN W. BANAGAN/GETTY; GETTY; HENRYK SADURA/SHUTTERSTOCK

A GRAND ENTRANCE AT THE BREAKERS. BELOW: THE NEWPORT *NUTCRACKER*. BOTTOM LEFT: HOTEL VIKING.

December

Get in the holiday spirit in Newport, R.I.

WHY NOW: December may just be the City by the Sea's best-kept secret. Sparkling white lights illuminate homes, shops, and restaurants; holiday traditions—blissfully lacking commercial overtones—abound. Best of all, the onetime summer playground of the country's wealthiest families becomes affordable for the rest of us: Prices on hotels and meals fall by as much as 65% in winter.

WHAT TO DO: Make for the Breakers, one of Newport's most famous mansions. The former summer "cottage" of the Vanderbilts "is a stunning example of Gilded Age grandeur during the holidays," says Meaghan O'Neill, founder of regional blog PuddingstonePost.com. There's also a model train that will keep kids occupied for hours. Bundle up and take a walk in the Point neighborhood, where Colonial-era houses sport twinkling holiday decorations. Then get cozy by the fireplace at the 18th-century Clarke Cooke House for a special-occasion dinner ($120 for two; bannistersnewport.com).

HOW TO SAVE: Prices are slashed throughout the city. At the Hotel Viking, for example, rates are $129, down from $379 in the summer. Opt for the Newport Mansions Package ($169 a night), which includes overnight accommodations, breakfast for two, parking, and two tickets to visit the Newport Mansions. At Jo's Bistro (josamerican-bistro.com), a meal and a glass of wine costs $21 from Sunday through Wednesday; entrées alone are typically $25.

SAVE
$250
off summer hotel rates.

LOCAL'S TIP: Buy tickets to see the Newport *Nutcracker,* a local tradition for 15 years. Patrons sit at two rows of tables; opt for the back row to save $15 (adults, $85; children $55; islandmovingco.org).

MORE ONLINE

*For additional expert tips on things to do and ways to save at these destinations, go to **money.com/travel**.*

FROM TOP: PHOTOGRAPHS BY KEVIN FLEMING/GETTY; COURTESY OF ISLAND MOVING CO.; COURTESY OF HOTEL VIKING

Make Saving for Retirement the Right Way Your Most Important New Year's Resolution: Diversify with Physical Gold.

Each and every new year, we all make resolutions: to lose weight, to be a better person, to spend more time with family, or to save more money. In fact, more than 43% of those who make resolutions focus on saving more of their wealth. Sadly, however, fewer than 20% stick with those resolutions long enough to have any impact on the future, and of those, only 8% actually achieve their goals.

Combine this with the fact that our economy is headed for an uncertain future as a result of the historic election, unclear global trade policies, and an unstable geopolitical world, and we have a perfect setting for a volatile market that can make sticking to those financial New Year's resolutions even more difficult.

In the face of such adversity, how do you ensure that your commitment to saving for retirement in a safe and reliable way lasts for the long run?

The answer is simple: Take matters into your own hands and make the smart financial decision to hold a diverse set of assets like physical precious metals to ensure that your retirement is safe. Physical gold and silver coins can provide protection against major financial shocks by creating a strategically balanced portfolio.

"Gold's core value proposition is protection, not appreciation," says Philip N. Diehl, former director of the U.S. Mint and current president of U.S. Money Reserve, one of the nation's largest distributors of government–issued gold, silver, and platinum products. "But unlike other forms of insurance, gold never loses its entire value. When you decide to cash it in, you know it will have held a portion of what you paid for it. Gold has a 40-year track record over most of which it has held its value or appreciated."

WHY PRECIOUS METALS AND GOLD?

Gold is often referred to as "wealth insurance," that can help put you on the path toward a stable retirement future. When the performances of other assets are fluctuating or even crashing like they did in 2008 and 2009, gold and other precious metals have shown to remain relatively stable in part because they are physical assets. In fact, over the last 25 years, gold has consistently outperformed U.S. stocks, commodities, hedge funds, real estate, and private equity. It has weathered seven economic and political crises since 1990, and it offset other losses.

"It's easy for traders to get caught up in short-term, herd-mentality reactions to the market, while the fundamentals of gold support traders with long-term goals of wealth protection," says Diehl. "You treat your retirement as a long-term journey, which makes physical gold an ideal addition to any savings portfolio."

Gold and precious metals are portfolio diversifiers. They offer a balance in a healthy retirement plan, which should include a mix of stocks, bonds, mutual funds, and precious metals. Holding gold can be a long-term strategy, too. In the 10 years leading up to gold's all-time high in 2011, the price of gold went up by 600%, significantly outperforming the three major U.S. stock indexes in that same period of time. In 2,000 years, gold has never been worth zero, and history proves that it can rise in times of economic and political uncertainty.

"Gold's indisputable intrinsic value and status as a long-term store of wealth continue to attract buyers who wish to add insurance to their retirement," Diehl notes.

HOLDING GOLD IS A LONG-TERM STRATEGY AND EASIER THAN EVER BEFORE

It's no longer difficult to add gold to your retirement portfolio, and while there are a variety of ways to add physical gold to your portfolio, one of the simplest ways is with a Self-Directed Precious Metals IRA. The Self-Directed IRA gives individuals additional opportunities that don't exist in traditional IRAs, including the ability to hold hard assets and take advantage of potential tax advantages not available in other retirement vehicles.

In addition, you can choose how you want to diversify your Self-Directed Precious Metals IRA. Individuals can hold official U.S. government gold and silver or choose from a range of additional IRA-eligible coins or bars to hold in an IRA. Any portion of an existing IRA or 401(k) can be transferred or rolled into a gold and silver precious metals retirement account with no tax penalties. As a special bonus, U.S. Money Reserve will pay all costs when you open a Self-Directed Precious Metals IRA and transfer up to $100,000.

"Above all, you control the mix," Diehl says about the Self-Directed Precious Metals IRA. "A money manager isn't making decisions with your hard-earned money. Opening a Self-Directed IRA with physical gold has never been easier, faster, or more flexible than it is today, especially with our highly trained team at U.S. Money Reserve to help our clients every step of the way."

With so much uncertainty in the world, it's time to protect your retirement and your wealth in a way that makes sense. Holding gold and other precious metals is the insurance you need to ensure that your family is taken care of and that your wealth is preserved. Physical gold can be held for generations and passed down through the ages. Make this the one year you stick to your resolution to provide a secure financial future for yourself and your family and diversify with a Self-Directed Precious Metals IRA today. "In an uncertain time, you can turn to the certainty of physical gold." ■

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A Ticket to Write

by Jessica Ullian

AT FIRST, the new coworking space in my neighborhood didn't seem promising. Two doors down the hall from a hypnotist's office, it had a six-seat worktable, one small conference room, and a high-tech coffeemaker that the owner permitted no one else to operate. But the first day was free and the coffee was hot, so I accepted a mug and took a spot at the table one morning late last spring. Even if it didn't work out, I figured, I'd be saving a few bucks on that day's caffeine.

Within weeks, I had happily paid $250 of my hard-won freelance income—a quarter of what I had earned from my last writing assignment—for a 10-pack of day passes.

Why would I pay for a coworking space when I had a public library and five coffee shops all within half a mile of my home? When I left a full-time job in 2009 to write freelance, I considered an office a laughable indulgence. Then I had my first child, and in the eyes of the world my career became the indulgence. Former colleagues referred to me as a new mom, not as a journalist. Friends asked about babysitting rates instead of my assignments. The implication was clear: All my work would now be judged against how much time it took away from my children. As an anxious new parent, I internalized the message. Over the next few years I cut back on my writing to minimize its impact on my family—and, in the process, ensured it wouldn't have any impact at all.

When both of my kids were finally in school, I expected to jump right back into my work. But my writing muscles had atrophied, along with my confidence. Instead of focusing on work, I spent my child-free hours thinking about my home and family obligations. I was in a rut, and I needed to try something new to get out of it.

The first time I walked into the coworking space, I shut the door on everything but my writing. The room was small and quiet, its clean minimalism in sharp contrast to my toy-cluttered house and the loud local cafés. My new colleagues were welcoming and eager to chat about goals, which quickly made me realize how little time I had spent setting them. With the encouragement of my deskmates—who included a writing teacher, an architect, and a media strategist—I began brainstorming, pitching, and publishing again. By the time I used up my first 10-pack (I'm now on my second), I had finished two new paid jobs and signed contracts for three more.

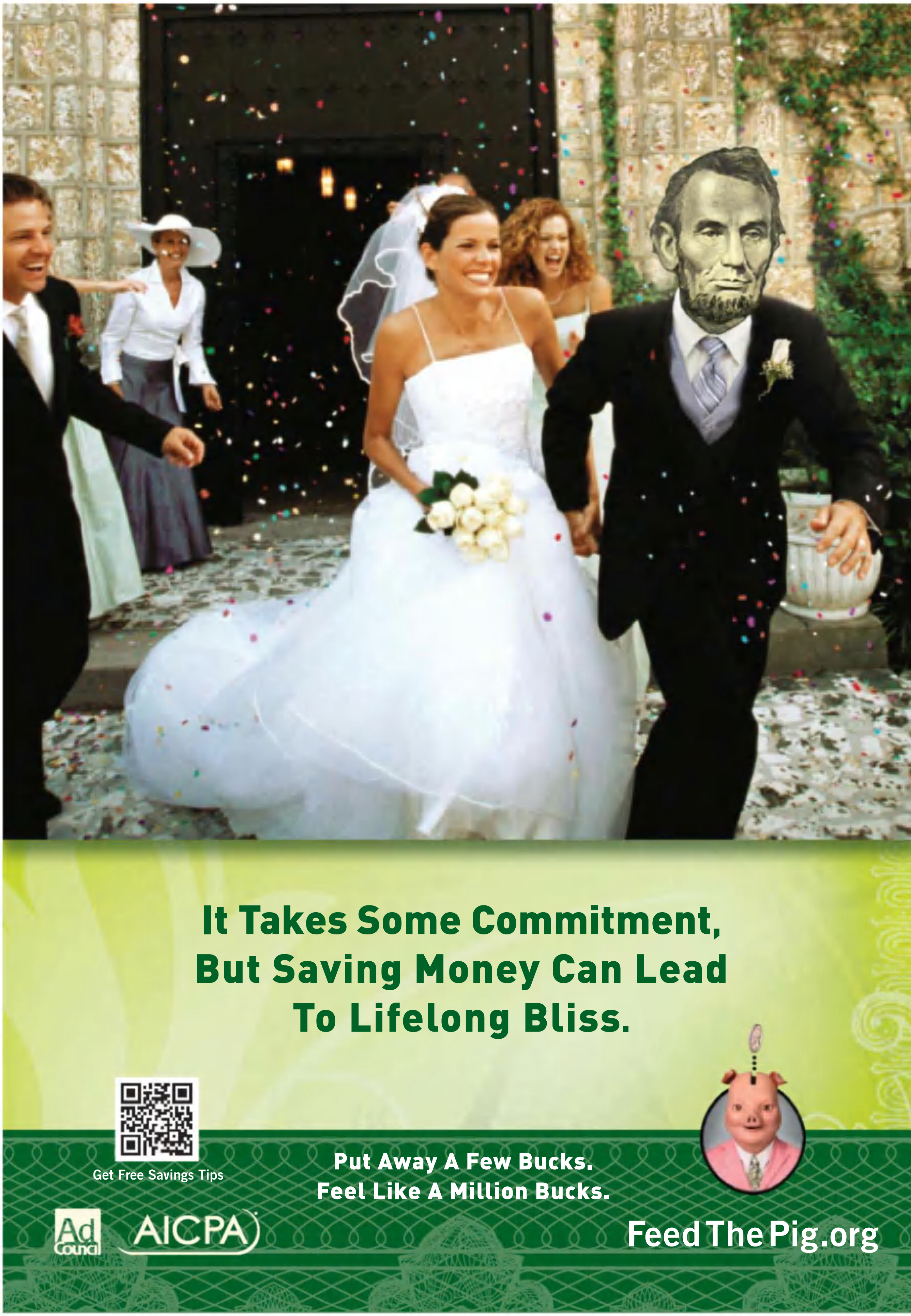
That first $250 I spent on coworking wasn't only an expense. It was an affirmation that working and mothering weren't going to be an either/or choice. My writing deserved my time and attention, and I needed to acknowledge that truth by investing in a workspace that didn't double as a playroom or lunch spot. The money bought me more than a seat at the table; it bought me 10 full days given over to writing. It was worth every penny.

They let me make the coffee now too. ■

Ullian (@jessicau on Twitter) is a Boston-area freelance writer and editor for nonprofit and higher education publications.

ALAMY (CHAIR); GETTY IMAGES (LAPTOP)

Illustration by MARTIN TOGNOLA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