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# Money

DOUBLE ISSUE • JANUARY/FEBRUARY 2018 • MONEY.COM

# INVESTOR'S GUIDE 2018

## YOUR BEST MOVES NOW!

**3 WAYS THIS BULL MARKET COULD END**
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**THE 100 BEST MUTUAL FUNDS AND ETFS**
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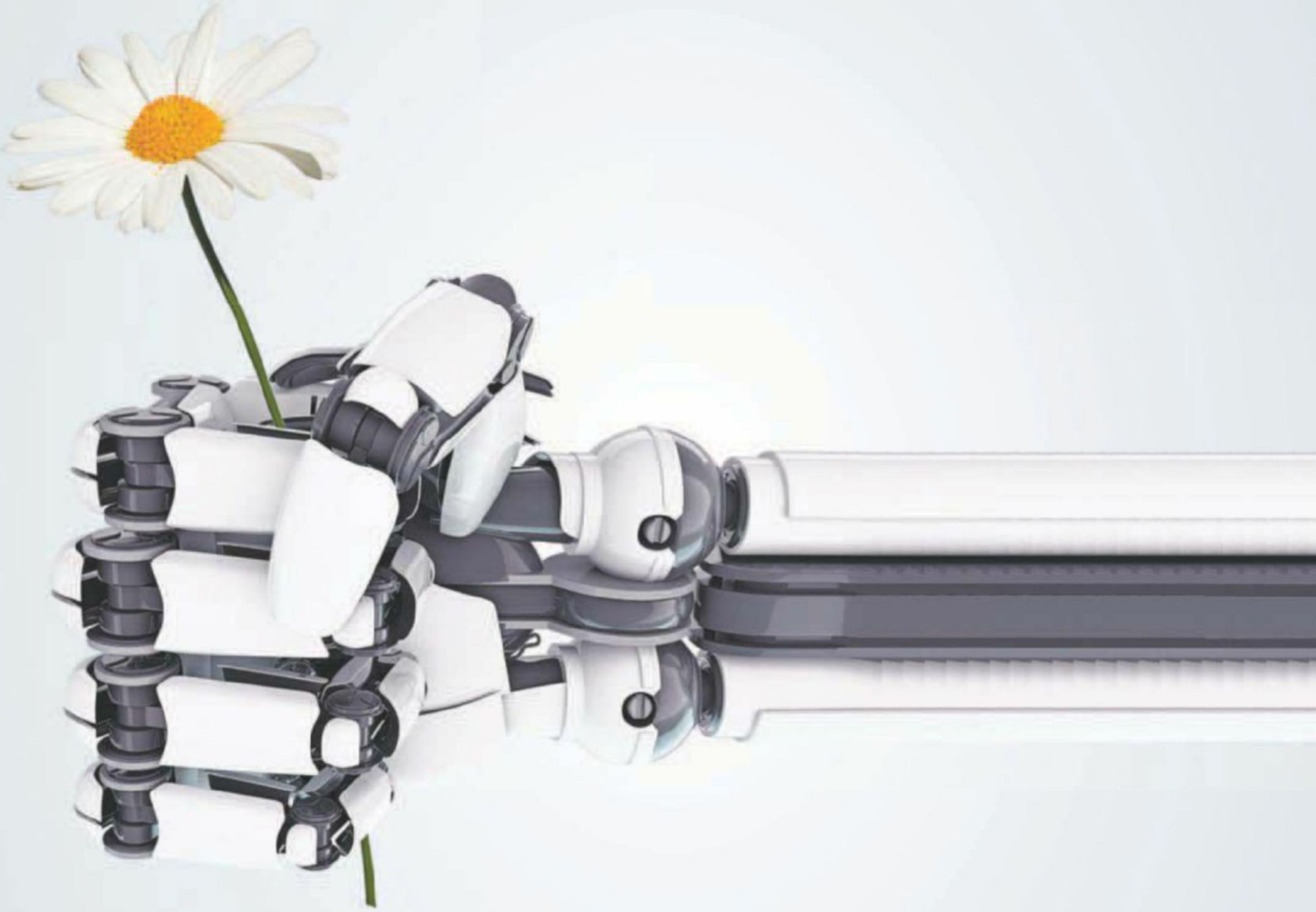
PLUS:
***YOUR BIGGEST RETIREMENT FEAR***
*—and How to Conquer It*



Money FEATURES

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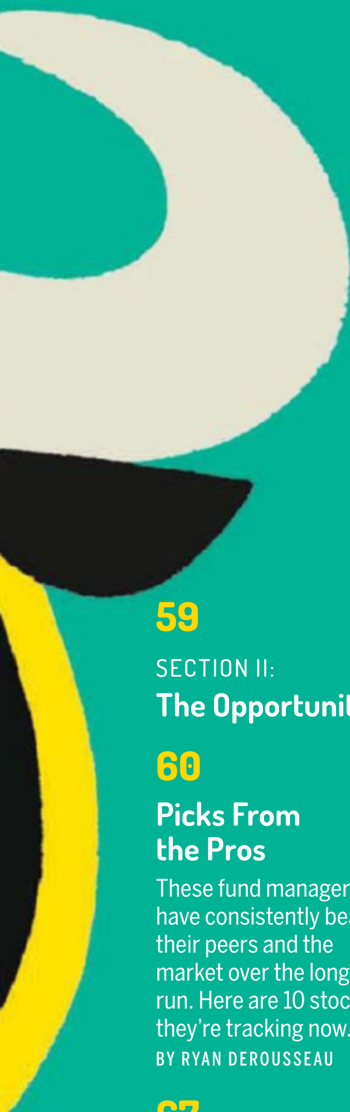
## INVESTOR'S GUIDE 2018





ILLUSTRATION BY **ADRIAN JOHNSON**







The Great Blue Hole in Belize is one of the world's most stunning and affordable natural wonders.

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First impressions still matter. To up your game, see our suit-buying savings tips on page 23.



Cover illustration by JORDAN METCALF

## COLUMNS




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PHOTOGRAPH BY TOM SCHIERLITZ

# Predictions—and Best Wishes—for the Year Ahead

**FOR MOST INVESTORS,** 2017 defied expectations. Will next year bring more of the same?

It's impossible to know, of course. So for this annual investor's guide, we've asked some of the brightest minds in the financial industry to make their best guesses.

The guide kicks off on page 36 with our MONEY roundtable, a panel of market experts discussing the risks and opportunities of a rally that's now nine years old. The market may be reaching new heights, but how stable is it?

On page 60, we've asked the most successful fund managers—those with a track record of beating the market as well as their peers over the long run—to pick the stocks they like for 2018.

And on page 67, Walt Bettinger, the chief executive of Schwab, gives an insider's view of how the financial services industry has changed in the digital age, and where it's going next.

Of course we've also relied on our team of in-house experts, led by investing guru (and deputy editor) Paul J. Lim. As always, you'll find in this issue our annual selection of the 50 best mutual funds. But wait, there's more: This year, MONEY debuts its companion list of the 50 best ETFs. Use these selections to construct a well-diversified portfolio that's built to last; our picks have lower fees and longer-tenured managers than the average fund.

Not sure how to start? On page 86, Lim explains how to use the new MONEY 50/50 list to make an investing plan that's right for you.

Fund tables and market analysis aside, now is also a great time to think about the experiences you'll savor most in the year ahead. Check out page 114 for our roundup of 12 incredible travel destinations that won't kill your budget. In fact, visiting these dozen natural wonders will cost you less than the average international vacation, according to figures pulled from MONEY's Best in Travel database. If you are bold enough to walk the cliff of Trolltunga—see page 120—please send me a picture!

Or maybe 2018 is the year you decide to ditch your things to pursue your best life. If so, you'll draw some inspiration from the extreme downsizers featured on page 106: the 29-year-old data scientist who quit her job to be a full-time rock climber, the New England mom who traded in a three-bedroom colonial for a one-bedroom apartment steps from the beach in California, and the Vancouver dad who manages to live with five children in a 1,000-square-foot condo. They all say this radical change in lifestyle has freed up time and money to embrace their passions.

That's all for now. Thank you for reading, and keep in touch!

Adam Auriemma
EDITOR-IN-CHIEF

@adamauriemma | *Write the Editor:* editor@moneymail.com

TAYLOR JEWELL (AURIEMMA)

PERSONAL CAPITAL

# How's Your Money Doing?

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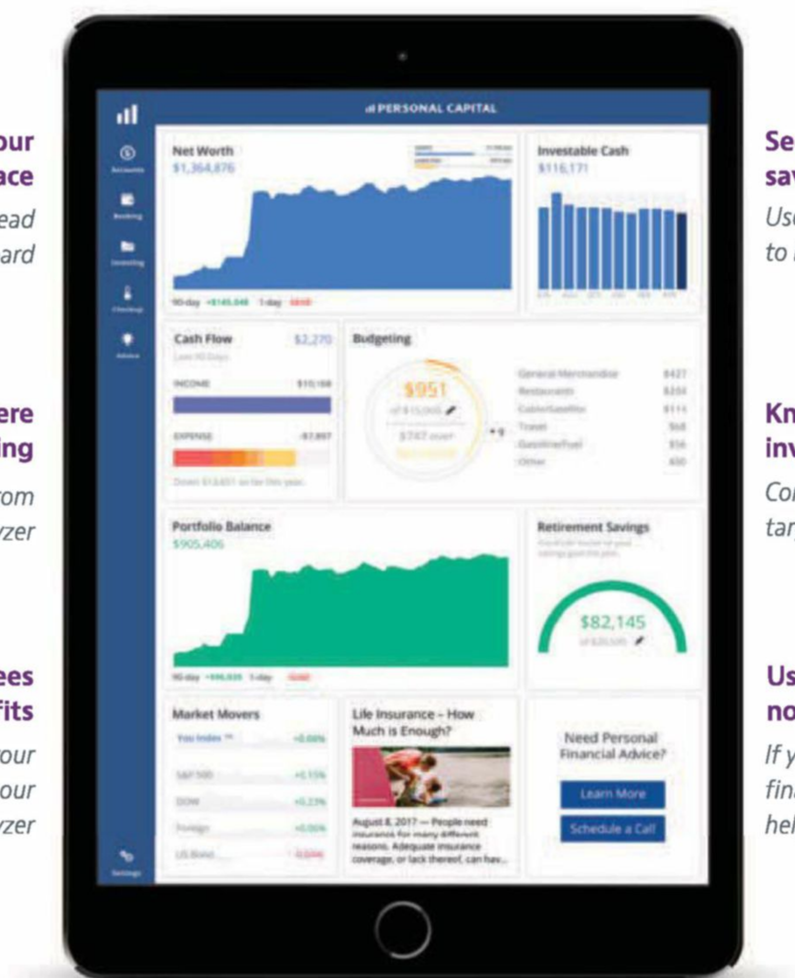


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**RE: THE FIDUCIARY RULE WAS SUPPOSED TO BE GREAT FOR INVESTORS. OOPS** [DECEMBER]


# This is exactly what happened

to me and my wife. My broker talked about "moving money to different accounts" because of the new fiduciary rule—and ended up charging us $2,500 a year more. We are now in the process of transferring our assets to Vanguard—who said they'd seen several people in a similar situation.

**CURT BLICKENSTAFF**, OVERLAND PARK, KANS.

## DELAYED GRATIFICATION

"101 Ways to Make $1,000" [December] suggests waiting one year to start collecting Social Security. The one-year delay in your example represents a loss of $15,600, and that will take 12½ years to recover. One would be nearly 80 before seeing any benefit.

**RICHARD PERRY**
*Washington, N.J.*

**NEWSLETTER**

Want more retirement news and advice delivered to your in-box? Sign up for the Retire With Money newsletter at money.com/newsletters.

## THRIFT-STORE THRIFT

How about trawling the numerous resale shops to save really big ["101 Ways to Make $1,000"]? As I write this, I'm wearing my brand-new Levi's jeans, just purchased from Goodwill for $4 (25% discount for those over 55), which look great with my almost-new, sexy shoes, also $4. I paid with money stored in my Buxton leather wallet (75¢), which I carried in my gently used Coach bag ($19 from the Assistance League).

**GINNY PEREZ**
*Charlotte, N.C.*

### OUR FAVORITE COMMENT

Just passing along that my 1½-year-old daughter loves MONEY magazine! Keep up the good work!

**EVAN HAGEDORN**
FISHERS, IND.


**COMMENTS ABOUT RECENT STORIES ON MONEY.COM**

Re: "It's Already Hard for Middle-Class People to Get a Ph.D. The House GOP Tax Plan Could Make It Impossible."

If this country wants to stay ahead of the curve, especially in the sciences and engineering, we are going to have to figure out a way to get the best and the brightest educated.

KAITLYN LENNOX CHRISTOFF

Re: "This Restaurant Is Automatically Charging 18% Gratuity to Kids Dining Without Adults"

Yes, because kids don't tip. We used to go to Friendly's. I'd bring $1 for a 99¢ ice cream.

BARBARA LOUISE

### CORRECTIONS

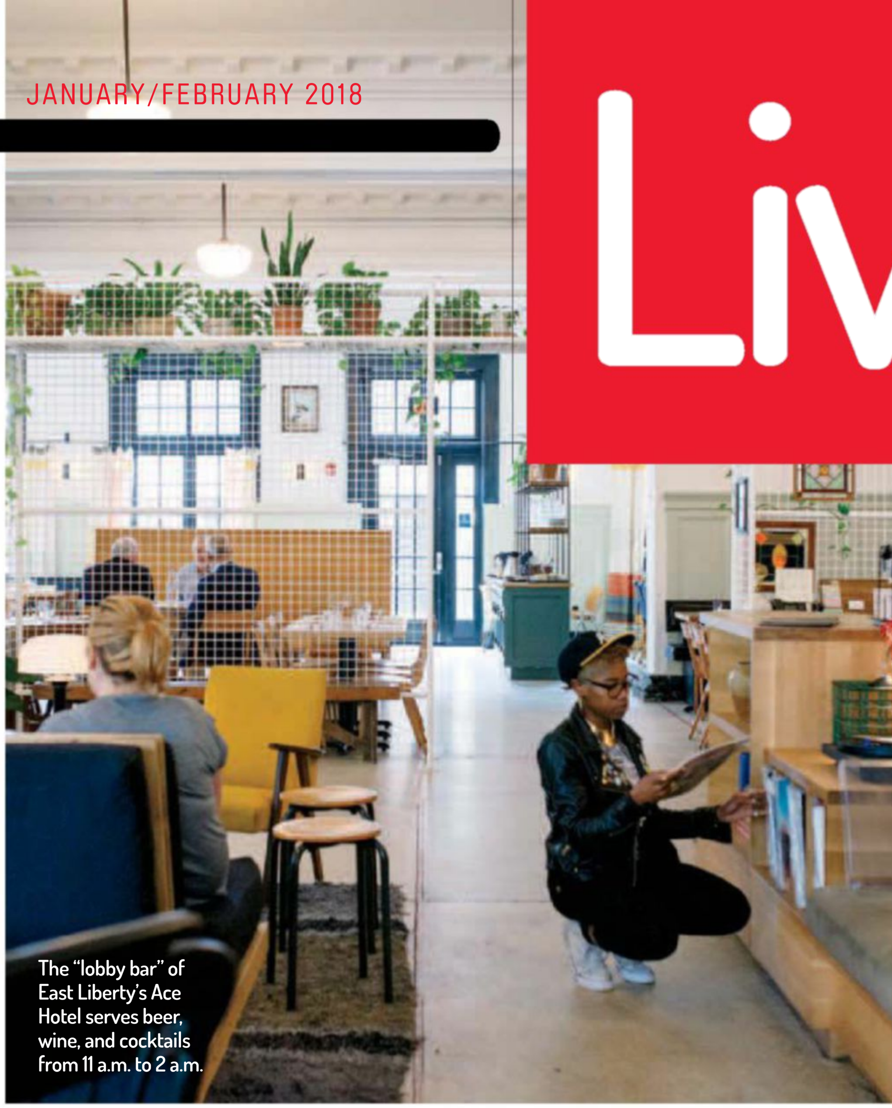
[DECEMBER] "101 Ways to Make $1,000" pointed readers to the website FatWallet, which has shut down. Also, the story should have referred to the IRS's tax deadline as being in mid-April not April 17, since it's not on the same day every year.

[DECEMBER] "Year-End Investment Checklist" mistakenly referred to next year's deadline for making 2017 IRA contributions as April 16. It is April 17.

ILLUSTRATION BY RYAN SNOOK

*Write to MONEY:* ***letters@moneymail.com***

# Live


The "lobby bar" of East Liberty's Ace Hotel serves beer, wine, and cocktails from 11 a.m. to 2 a.m.

KRISTIAN THACKER—THE NEW YORK TIMES/REDUX

## The 10 Coolest Neighborhoods in America Right Now

Forget Williamsburg and the Mission. These are America's next urban hotspots. BY MEGAN LEONHARDT

**TOURIST TRAPS** are a dime a dozen in big cities, but many popular urban destinations have up-and-coming enclaves that serve as cool alternatives to the guidebook staples.

The travel experts at Lonely Planet scouted the areas that will deliver the goods if you're looking to try trendy restaurants, browse artisan wares, and sip some craft brews on your next vacation or work trip. The travel company worked with U.S.-based writers and editors to highlight the hottest emerging neighborhoods in America.

Using those recommendations, MONEY then calculated how much it will cost you to spend a week exploring these worthwhile places to visit. MONEY drew from its Best in Travel database, which includes hotel prices from Hotels.com, plane tickets from airfare prediction app Hopper, and vacation spending from ValuePenguin.

# 1

### EAST LIBERTY AND LAWRENCEVILLE (PITTSBURGH)

Cost to spend a week for two: **$2,448**

Thanks to a booming tech scene, this quintessential steel town has reinvented itself recently, with an influx of new bars, restaurants, and hotels. "Pittsburgh won't be the first American city to beep on your cool-o-meter, but its eastern neighborhoods might just be the sleeper hit your hipster sensibilities have been craving," says travel writer and TV host Brandon Presser.

Speaking of hotels, check out the Ace Hotel in East Liberty. Housed in a former YMCA, the Ace preserved the old-school gym where guests can play cornhole, Ping-Pong, and video games.


Avondale's Revolution Brewing.


San Diego seen from Point Loma.

## 2. AVONDALE (CHICAGO)

Cost to spend a week for two: **$2,728**

➤ This section of northwest Chicago has a "scruffy, artsy, lived-in magic," says travel writer and Chicago resident Karla Zimmerman. Check out the Morris B. Sachs Building, a very cool Art Deco–inspired structure—and don't miss the picture-perfect St. Hyacinth Basilica.

## 3. POINT LOMA (SAN DIEGO)

Cost to spend a week for two: **$2,518**

➤ There's more to this California town than the spectacular views. On Point Loma's southern tip you'll find the Cabrillo National Monument, a 144-acre national park that offers several lighthouses to explore, as well as miles of trails to hike, and a visitor center that details the history of the area.


Ethan Stowell's pizza joint.

East Nashville's Tomato Art Fest.

## 4. FRELARD (SEATTLE)

Cost to spend a week for two: **$2,834**

➤ This mini neighborhood, its name coined by Frelard Pizza Co. owner Ethan Stowell, is a foodie's delight, brimming with restaurants and bars. "It's the perfect place to refuel on a day spent exploring beyond Seattle's main tourist sights," says Valerie Stimac, a Seattle-based travel writer and editor.

## 5. EAST NASHVILLE (NASHVILLE)

Cost to spend a week for two: **$2,832**

➤ If you're looking for something other than the honky-tonks Nashville is famous for, head to East Nashville, where tattoos, street murals, and alternative music venues are far more common, says Evan Godt, an East Nashville resident and Lonely Planet editor.

### 6. CAPITOL RIVERFRONT AND YARDS PARK (WASHINGTON, D.C.)

Cost to spend a week for two: **$3,118**

➤ These once-gritty areas are now home to the Nats' stadium.

### 7. SUNSET PARK (BROOKLYN)

Cost to spend a week for two: **$3,303**

➤ Brooklyn hipsters have moved on from Williamsburg.

### 8. SOUTH FIRST STREET (AUSTIN)

Cost to spend a week for two: **$2,586**

➤ Check out Bouldin Creek Café and Torchy's Tacos.

### 9. MONTAVILLA (PORTLAND, ORE.)

Cost to spend a week for two: **$2,532**

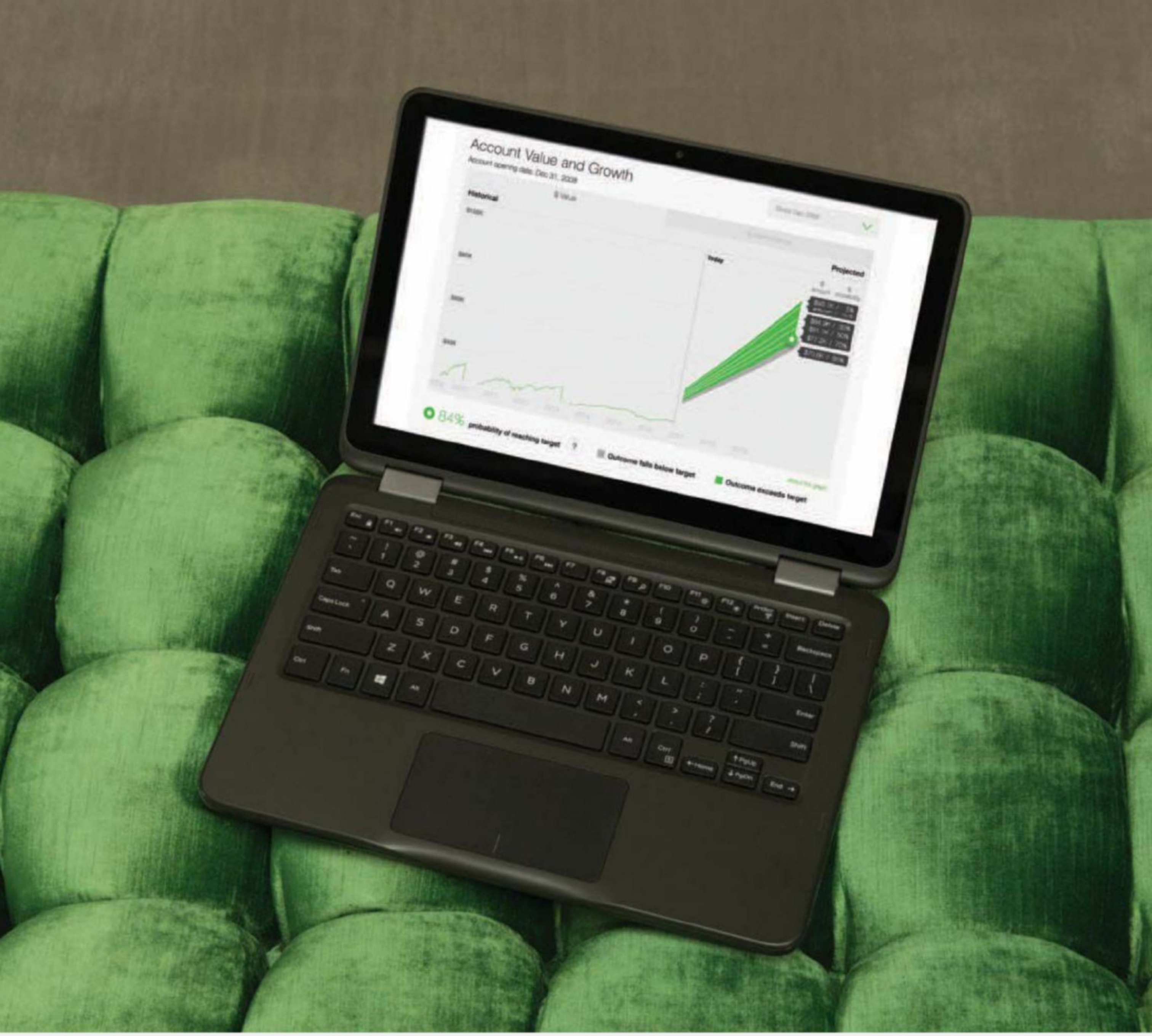
➤ Montavilla's linchpin is the recently refurbished Academy Theater.

### 10. RIVER NORTH (DENVER)

Cost to spend a week for two: **$2,350**

➤ Old warehouses play host to hopping bars, restaurants, and galleries. ■

AVONDALE: COURTESY OF REVOLUTION BREWING; POINT LOMA: SEAN PAVONE—GETTY IMAGES; FRELARD: GEOFFREY SMITH—LONELY PLANET IMAGES; EAST NASHVILLE: EVAN GODT—LONELY PLANET IMAGES


Account Value and Growth
Historical
Projected
84% probability of reaching target
Outcome falls below target
Outcome exceeds target

# Find Out How Much It Costs to Give Birth Across the U.S.

Prices for medical services vary, depending on where you live.

BY ELIZABETH O'BRIEN

**CHILDBIRTH** is one of the most common ways that families interact with the medical system—about 85% of American women have given birth by their mid-forties. And any stay in the hospital leaves patients vulnerable to sky-high bills in the U.S., a country where a Band-Aid can cost hundreds of dollars on an inpatient bill.

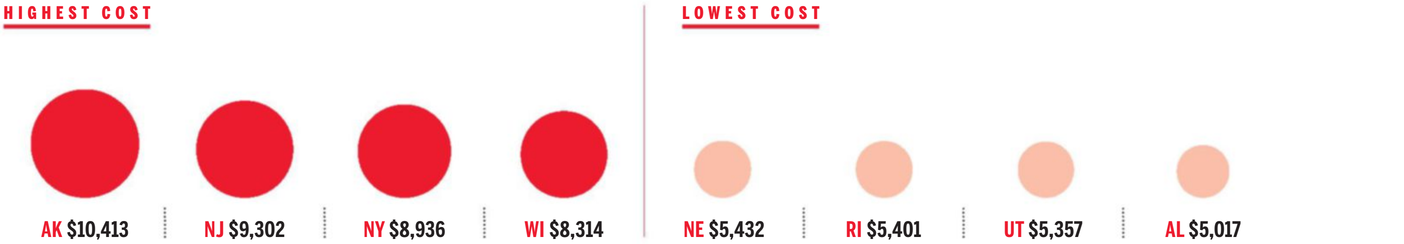
MONEY asked FAIR Health, an independent nonprofit organization, to pull numbers on the cost of giving birth in each state. Its prices represent an estimate of the amount that insurers agree to pay doctors and hospitals, known in the industry as the "negotiated" or "allowed" rate, for childbirth-related care. The numbers, from 2016 and 2017, are based on actual claims data and include the total episode of care, from the obstetrician's fee (which generally includes prenatal care) to the hospital facility fee and the anesthesiologist's fee. They exclude the price of caring for the newborn, which is typically billed separately and can add considerably to parents' overall tab.

Prices are highest in Alaska, whose location makes it a bit of an outlier, says Fred Bentley, vice president at consulting firm Avalere. Most goods cost more in that state, since they have to be flown there. And services generally cost more too: For example, to attract doctors to work in Alaska, local hospitals might need to pay higher salaries than facilities in the lower 48 states, and those costs get passed along to patients, Bentley says.

Regulatory differences among the states can also contribute to medical price variations, says Katy B. Kozhimannil, associate professor at the University of Minnesota School of Public Health, who focuses on maternity care. There's also price variability within each state.

"There's a fixed cost to being ready to deliver a baby at any time," Kozhimannil says.

## Average Price for Vaginal Delivery



Rural hospitals serve fewer patients than urban ones and thus need to raise their prices to spread their fixed costs over a smaller patient population, she notes. Competition is also a factor: In areas where there's a dominant health care system, prices tend to be higher than in areas without a big player that wields such negotiating power with insurers, Bentley says.

But most births shouldn't break the bank, experts say. While having a child is a momentous event for the parents, from a medical point of view it's usually very routine, says Carol Sakala, director of Childbirth Connection programs at the National Partnership for Women & Families. "It's mostly healthy moms and healthy babies, so these costs are pretty shocking from that point of view," Sakala says.

Across the board, C-sections cost more than uncomplicated vaginal deliveries. That's because a C-section is major surgery, which involves the use of an operating room and the presence of more medical personnel, each of whom can bill for services. What's more, women who have C-sections usually stay in the hospital for longer than those with uncomplicated vaginal deliveries—typically 72 to 96 hours vs. 24 to 48—and that increases the hospital's facility fee. Once American women have one C-section, they have a nearly 90% chance of delivering their next baby the same way, so the costs multiply for both mothers and the health system overall, Sakala says.

Your own costs are generally a percentage of your insurer's negotiated amount. Your outlay will depend on a number of factors, including whether your medical providers are inside or outside your health plan's network, and whether or not you've hit your deductible for the year. Those who have no insurance at all are usually charged a higher amount than the negotiated rate.

If you encounter an out-of-network doctor, then your tab could potentially be much higher. Some plans cover out-of-network doctors at a lower rate than in-network doctors, while others have no standard out-of-network coverage at all. If your plan is one of the latter, and an out-of-network anesthesiologist comes in to give you an epidural, then you could be in for a shock. (Some states, such as New York, have passed laws to protect patients from this type of surprise medical bill.)

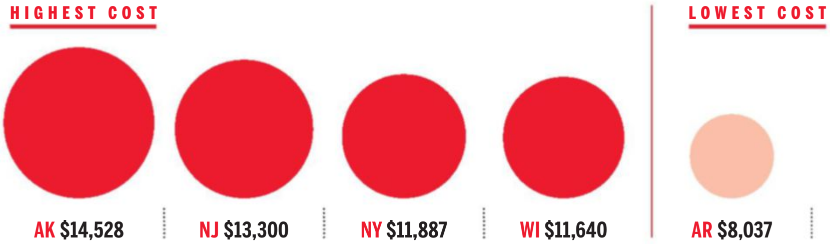
Health insurance plans usually set a ceiling on patient spending in a given year, which is meant to limit patient exposure to catastrophic expenses. For 2018 plans on the Obamacare marketplace, it's $7,350 for an individual plan and $14,700 for a family plan. But this out-of-pocket maximum, as it's called, applies only to covered services. And if standard out-of-network care isn't covered by your plan, then you're not protected by this cap if you receive such care.

Regardless of where you live, American women pay more to have a baby than residents of any other country. The highest prices in the U.S. were more than double those of the second-most-expensive country, Switzerland, according to a 2015 report from the International Federation of Health Plans that looked at the price insurers paid for both vaginal delivery and cesarean sections; the lower-range prices in the U.S. were still higher than Switzerland's.

Even if your insurance covers most of your tab, you should care about high medical prices. That's because there's no free lunch, in the hospital cafeteria or elsewhere: As insurers and employers pay ever-escalating prices, they eventually pass their costs down to you in the form of higher premiums and deductibles. ■

PHOTOGRAPH BY GARY BRYAN—GETTY IMAGES

## Average Price for C-Section




*For the full list, go to* ***money.com/birth.***

# How Do You Know When You're in the Upper Middle Class?

Most of us have thought about the question. And we each have a different answer.

**BY KAITLIN MULHERE**

**ARE YOU A MEMBER** of the upper middle class?

It's not exactly easy to say.

The majority of Americans think they're middle class—even if they don't really know what defines the group. Income may be the clearest defining characteristic: The Pew Research Center put the parameters at $35,294 to $105,881 in 2010, a range it said encompasses about half the U.S. population. And in 2016, the median household income was $59,039, according to the U.S. Census Bureau.

By that formulation, the upper middle class might be the fourth-highest income quintile—the one above the middle but below the wealthiest. Those households range from $74,875 to $121,017 in income nationally.

But of course the relative strength of your income depends on where you live. In New England, the Census Bureau says, median income jumps to $70,077. In the central southeast states, it falls to $47,356. That means an upper-middle-class salary in Tennessee might barely qualify as middle class in Massachusetts.

There are other ways to think about the matter.

Some loosely define the middle class through homeownership—the median income of homeowners ($73,313) is roughly 80% higher than the income of renters. In that case, perhaps upper middle class means owning a home valued

WHAT MAKES YOU UPPER MIDDLE CLASS, ACCORDING TO REDDIT USERS.

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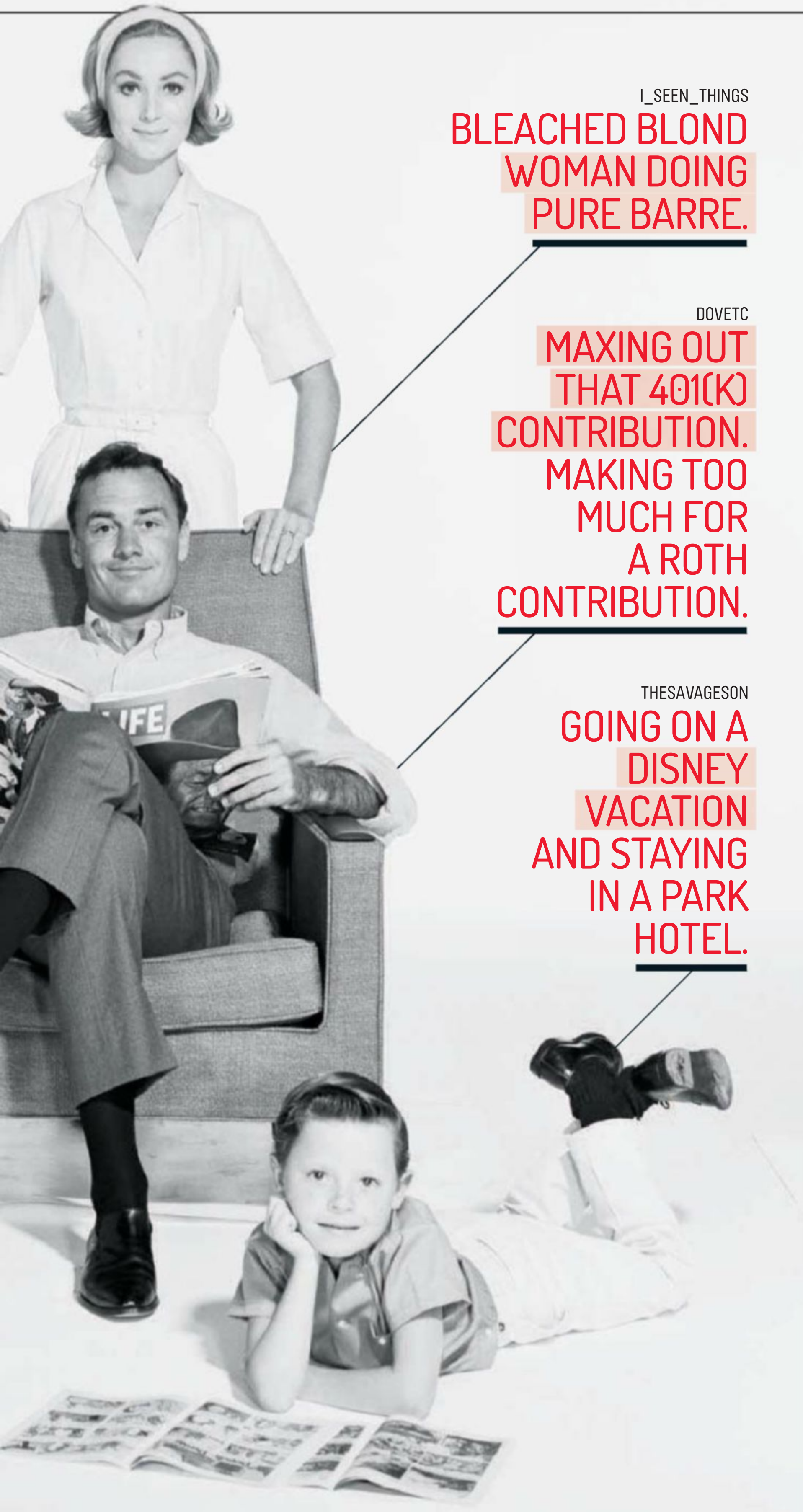
16-YEAR-OLD GETS MOM'S HONDA FIT WITH 50,000 MILES, SO MOM CAN BUY A BRAND-NEW CR-V.

TOM KELLEY ARCHIVE—GETTY IMAGES



I_SEEN_THINGS

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DOVETC

**MAXING OUT THAT 401(K) CONTRIBUTION. MAKING TOO MUCH FOR A ROTH CONTRIBUTION.**

THESAVAGESON

**GOING ON A DISNEY VACATION AND STAYING IN A PARK HOTEL.**

above the median price of $201,900, according to Zillow. Here again, though, geography matters. In major metropolitan areas, sky-high rents place homeownership outside the reach of even many professional workers.

Eighty-nine percent of Americans think having a secure job is a requirement of being in the middle class, and 86% think the ability to save is a key element, according to a Pew survey.

And a four-year college degree is often considered a prerequisite for maintaining a middle-class lifestyle—bachelor's degree recipients, on average, earn much more over a lifetime than peers with less education—but there are exceptions.

So maybe the upper middle class is defined less by hard numbers than by behavior. That's the approach users of popular online discussion board Reddit used when they took up the question on a wildly popular subreddit (or online conversation) earlier this year.

Do you buy groceries without looking at the price tag? Do you pay off your bills each month without worrying?

You can see more of their ideas at left—or send us your own at letters@moneymail.com.

Heavy-equipment operation pays well and doesn't require a degree.

DANIEL ACKER—BLOOMBERG VIA GETTY IMAGES

# 5 Careers That Pay $75,000 Without a Bachelor's Degree

New data show that your area of study, not your degree level, most influences future pay.

BY KAITLIN MULHERE

**WANT TO SNAG A WELL-PAYING JOB** without putting four or more years into a bachelor's degree? Your best bet may be through college programs that teach you how to build and fix things.

That's one of the takeaways of a new analysis of postsecondary degrees and labor market outcomes (translation: worker pay) from the American Enterprise Institute and College Measures.

For the past several years, College Measures has tracked wage data for graduates of eight states' certificate, associate's degree, and bachelor's degree programs. The new report, released in October, is based on data from Florida, Texas, and Tennessee.

In Florida, six of the 16 programs with the highest-paid graduates are from associate's degree and apprenticeship programs offered by community colleges or technical training centers.

Overall, out of more than 1,300 degree programs in Florida, the authors found 488 that produce graduates with median salaries of at least $49,400—Florida's median household income—five years after completing a degree. Among the 48 available apprenticeship programs, nearly half have median graduate earnings above that threshold—as do 45% of the 180 associate in science degrees and 44% of the 644 bachelor's degrees from the state's public universities.

Meanwhile, bachelor's degrees weren't enough to keep graduates out of the lowest-income jobs: 24 bachelor's degrees, along with 16 associate's degrees and two apprenticeship programs, had median salaries under $25,000—just under the median salary for a worker with only a high school education. Many of those bachelor's degrees were in fields known for low salaries, including performing arts, cinematography, and anthropology; four of those low-paying programs were tied to early childhood education.

The findings drive home a key point the report makes for assessing higher-education outcomes: When it comes to salary, what you study really does matter.

In Texas, the authors focused on longer-term returns on investment—specifically, the estimated 20-year earnings above what a high school graduate can expect to earn, minus the cost of the program, for various fields of study at specific colleges. Again, the level of degree wasn't the determining factor: Of the 39 Texas programs where the return on investment was more than $1 million, 19 were associate's degree programs, six were certificate degrees, and 14 were bachelor's degree programs.

Both the Texas and Florida findings shared a common thread: Nearly all of the high-paying fields are technical, or related to engineering, health sciences, or business. In fact, the words "technician" or "technology" appear in two-thirds of the programs with high return on investment.

Of course, there is some risk in paying for a degree that trains you for a specific, niche job. When the labor market shifts or when the available jobs for those skills dry up, so too will demand for your expertise.

But in truth, nobody in the current economic environment should assume that skills he or she has now will be sought after in 25 years, says Mark Schneider, president of College Measures and one of the report's authors. That's as true for accountants and lawyers—two jobs that are increasingly being automated—as it is for elevator technicians and oil-rig operators, he argues.

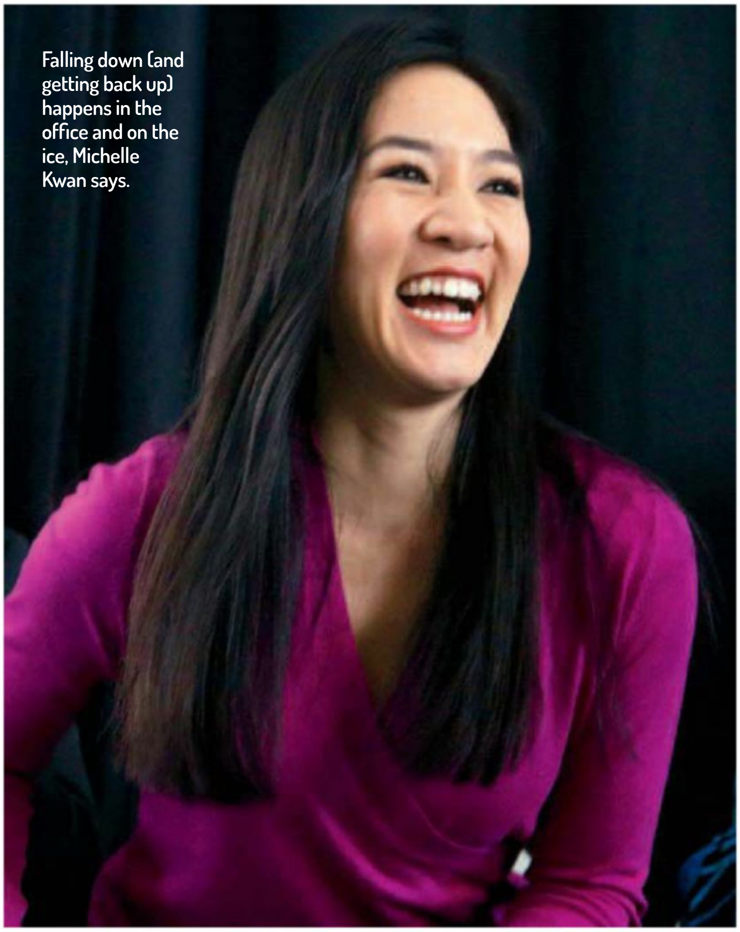
"Everybody is going to be at risk, and everyone has to figure out how to stay contemporary in their skills," he says.

## FLORIDA PROGRAMS WITH THE HIGHEST MEDIAN EARNINGS

Data on what 2010–2011 graduates of public Florida institutions earned in 2016.

| FIELD OF STUDY | DEGREE/TRAINING | MEDIAN EARNINGS |
|---|---|---|
| Elevator constructor/mechanic | Apprenticeship | $106,900 |
| Electrical and communications engineering technician | Associate in Science | $91,700 |
| Millwright (installing and repairing machinery) | Apprenticeship | $82,500 |
| Heavy-equipment operation | Apprenticeship | $81,000 |
| Fire prevention and safety technician | Associate in Applied Science | $76,400 |

***SOURCE:*** *College Measures*



Falling down (and getting back up) happens in the office and on the ice, Michelle Kwan says.

# How Playing Sports Can Pay

You don't need to be an Olympian to reap sports' many rewards. BY JENNIFER CALFAS

**A BOARD MEMBER** of the Special Olympics, a diplomat, and a former coordinator for Hillary Clinton's 2016 presidential campaign, Michelle Kwan tells MONEY she has not stopped following her passions—a career strategy that has been greatly aided by the lessons she learned while ice-skating.

But you don't have to be an Olympic medalist or World Champion figure skater to learn those lessons. Kwan says playing any kind of sport can be the secret to success.

"I would encourage people to participate in sports," Kwan says. "You don't have to dream of being an Olympic or a professional athlete."

Kwan cited a study that found a hefty majority of executives—particularly among women in C-suite-level positions—play or have played some kind of sport. Some 96% of female C-suite executives surveyed by Ernst & Young said they had played sports.

Kwan says she faced a number of hardships while a competitive figure skater that have informed her career today. For instance, there were the routines when she fell in front of millions of viewers. Or when she missed out on the top Olympic honor, including the time she took home the silver medal at the 1998 Olympics in Nagano, Japan, where she had been favored to win the gold.

The setbacks she experienced on the world stage only made her hardships during graduate school at Tufts University several years later seem more manageable, Kwan says.

After competing in the Olympics twice, Kwan went on to earn her undergraduate and graduate degrees and became a diplomat for the United States as a public advocacy envoy through the U.S. State Department. Kwan is currently working on the 2019 World Summer Games through the Special Olympics in Abu Dhabi.

"The grit and perseverance that you learn in sports—that is a life lesson," Kwan says. ■

FROM TOP: STEPHAN SAVOIA—AP/REX/SHUTTERSTOCK; WONG MAYE-E—AP/REX/SHUTTERSTOCK



# Look Good for Less

## A men's style expert offers five tips for buying an affordable suit that doesn't look cheap.

BY PAUL SCHRODT

**WHEN YOU PROJECT SERIOUSNESS, you're taken more seriously. But how can you make the right impression with your suit, whether at a job interview or in your current office (or even out to a social event), without spending money like you've already reached the C-suite? It's doable, but you should put in research and pay attention to details to make sure you don't screw it up. We talked to Max Berlinger, a men's style writer for *GQ* and the *New York Times,* to get advice on how to find the perfect inexpensive suit that you can wear just about anywhere.**

### TAILORING, TAILORING, TAILORING.

The most important part of any suit is how it fits you. "If you want a starter suit, just find a cheap one—Express, Armani Exchange, DKNY, Kenneth Cole, and Topman all have options in the $200 to $300 range—and take it to a tailor," Berlinger says. That last step is key no matter the price, he adds, unless you happen to have model proportions (in which case, good for you). "Rip out a page from your favorite magazine and bring it in and show the tailor. Pictures are super helpful."

### CONSIDER THE MID-BUDGET SUIT.

If you're willing to shell out a bit more, you can do very well. "Suitsupply and J. Crew are great options and have basic starter suits for around $500 with better fabrics," Berlinger says. Launched in 2000, Suitsupply is popular among young men looking for smart, pragmatic suits with convenience. You can even design your own on the company's website. Both brands offer tailoring, though Berlinger says you'd do fine with a trusted local pro.

### PAY ATTENTION TO THE DETAILS.

Fabric can be a dead giveaway for a cheap suit. Synthetics like polyester are significantly less costly than natural materials (you can find a synthetic suit for under $200), but they also get shiny with wear. "In a dream world, a tropical wool is ideal," Berlinger says, referring to a lightweight wool. "But you're unlikely to find that on the lower end of the price spectrum. I prefer flatter, matte fabrics." A blend of wool or cotton with some synthetic fiber would do the trick if possible.

### STICK TO BASICS.

If you're looking for a take-it-everywhere kind of suit, you should really go with only one of two colors: Buy a navy blue (Berlinger's favorite) or charcoal-gray variety. Nothing black (which can make you look like a limo driver). Notched lapels are ideal as they're the most versatile, while peaked lapels are more formal, and shawl collars are for men "who have a few suits," Berlinger says. The good news is that these kinds of standard suits are widely available, which means it's easy to find one that's wallet-friendly.

### PHONE A FRIEND.

"Lastly, bring a stylish friend—your best-dressed guy friend or a lady friend who is into fashion and reads all the magazines," Berlinger says. "Chances are you have someone like this in your life, and chances are they'll love to go shopping with you (buy them lunch!). It's good to have someone who likes to shop help you navigate and give you that boost when you're thinking of buying something that may feel outside of your comfort zone." There's nothing like a nice assist, especially when it's free.

PHOTOGRAPH BY **TOM SCHIERLITZ**


# Under-the-Radar Countries Where You Can Retire for Cheap

Pack your sense of adventure: In many places, your Social Security check can go further abroad.

BY ELIZABETH O'BRIEN

Malacca was once an ancient trading post but is now a Unesco World Heritage site in Malaysia.

PHOTOGRAPH BY TUUL & BRUNO MORANDI—GETTY

**TRAVEL TOPS THE BUCKET LIST FOR MANY** retirees. But what if your wanderlust is of the more permanent variety?

According to the Social Security Administration, some 400,000 retired workers collect their benefits abroad, with the average monthly amount among all beneficiaries landing at $1,369. That figure can stretch a lot further in many places outside the U.S.

So where are the next big destinations?

MONEY asked International Living, an Ireland-based publishing company that writes for Canadians and Americans on retiring overseas, to name four ultracheap, under-the-radar retirement destinations. Cost isn't their only attraction, of course. They're rich in culture and surrounded by gorgeous scenery, and some offer amenities that can't be bought in the U.S. at any price.

But just because you're retiring in a vacation spot, whether that's Fort Lauderdale or Lisbon, doesn't mean you're on a permanent vacation. You'll still have to make—and stick to—a budget (one that includes airfare home for as many trips as you plan to make). You'll still have to obtain medical care.

Living abroad comes with some red tape, in terms of obtaining a visa and other requirements. Residency rules vary greatly by country. If you're not up for leaving the country every three months to renew your visa, then maybe Vietnam isn't for you. And while Malaysia is extremely affordable by U.S. standards, you'll have a better chance of scoring a permanent resident visa if you're rich.

Speaking of paperwork, keep in mind that living abroad doesn't exempt you from U.S. tax obligations. Here are International Living's four off-the-beaten-path picks, chosen especially for MONEY readers.

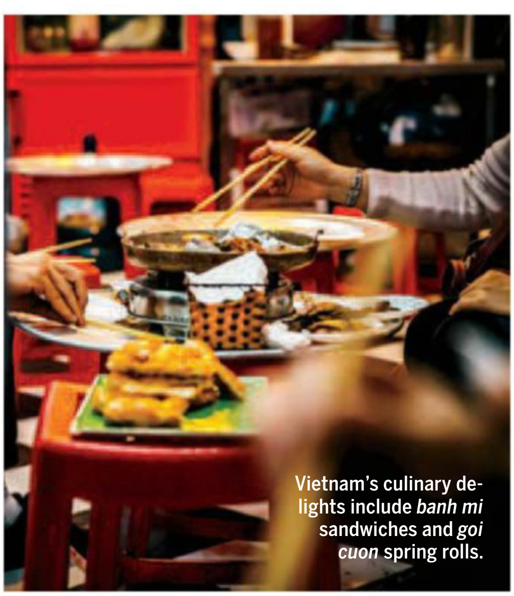
A swimming pool overlooks a sandy beach in Portugal's Algarve region.

## Portugal

Fast facts about Lisbon:

$1,578 · $0.96/1 mile · $5

Old World European charm abounds in Portugal, where a couple can live comfortably from about $2,200 a month in Lisbon and just $1,700 a month in the country's smaller cities. While it faces the Atlantic, the country has a Mediterranean heart, with a laid-back lifestyle and delicious cuisine. Retirees typically hold Type I visas, whose requirements include proof of private health insurance valid in Europe, proof of sufficient funds to support daily life, and a criminal background check. After five years' residence, you can apply for a permanent resident visa. Urban areas have good health care, the U.S. State Department says.



Vietnam's culinary delights include *banh mi* sandwiches and *goi cuon* spring rolls.

## Vietnam

Fast facts about Ho Chi Minh City:

$1,133

$0.99/1 mile

$13

While Vietnam has long attracted budget backpackers and young techies, the Southeast Asian nation is also gaining ground among retirees. The South has warm, tropical weather year-round, while the North experiences four seasons and even occasional snow. Many foreigners have settled in Ho Chi Minh City (formerly Saigon) in the South and the capital Hanoi, in the North, but smaller cities such as Da Nang in the center are also becoming popular. The country is well known for its friendly people; its healthy, inexpensive cuisine; and its low cost of living. A couple can live a middle-class lifestyle on less than $2,000 a month anywhere in the country, and even on less than $1,000 in smaller cities.

Vietnam does not have a retiree visa. U.S. citizens are offered a multiple entry visa but are required to leave the country once every 90 days and again at the end of the year to obtain a new visa. The country offers permanent resident visas in limited cases, such as to relatives of current permanent residents. Expats have new medical care options in the internationally accredited hospitals in Hanoi and Ho Chi Minh City.

## Peru

Fast facts about Cuzco:

$371

$2.24/1 mile

$8

Peru may be best known for tourist destinations like Machu Picchu, but the South American country also has plenty to offer retirees. A retired couple can live well in Peru on $1,500 a month, especially outside major city centers, according to International Living. Then there's the varied topography, from white-sand beaches to frozen Andean peaks and Amazon rain forests. Arequipa, Peru's second-largest city, is popular for its moderate temperatures and 300 days of sunshine a year. Beach lovers, meanwhile, flock to the colonial city of Trujillo in the northwest.

To qualify for Peru's retirement visa, you need to prove a permanent monthly income of $1,000, or $1,500 for couples. The visa is indefinite and doesn't require annual renewal. Medical care is generally good in Lima, the capital city, and adequate in other major Peruvian cities, according to the U.S. State Department's website. While violence against foreigners is infrequent, violent robberies have been on the rise, the site says.

**Above: A boat carrying tourists passes diners along the Malacca River.**

**Below: A woman strolls through a souvenir shop near Machu Picchu, Peru.**

## Malaysia

Fast facts about Malacca:

$446

$0.59/1 mile

$15

Many locals speak English in this former British colony, whose diverse influences include Malay, Chinese, and Indian cultures. Popular areas for retirees include the island of Penang, with its charming capital city of George Town; Kuala Lumpur, the national capital with a big-city feel, and the ancient trading post of Malacca, a Unesco World Heritage site that's also home to five-star golf resorts. In Penang a couple can live very well on $2,500 a month, International Living says. If you don't need a beach view, you can live on less than $2,000.

Malaysia offers a 10-year renewable visa, known as Malaysia My Second Home, to applicants who meet certain income and asset criteria: If you are age 50 and above, you must show liquid assets of about $83,500 and a monthly income of $2,386 or better. Permanent residence is available to qualifying high-net-worth individuals, certain professionals, and spouses of Malaysian citizens. Malaysia is a destination for medical tourism in Asia, with many Western-trained doctors offering low-cost care. A word of warning, though: U.S. citizens are advised to use caution when traveling to the Sabah region because of the threat of kidnapping for ransom and other violence, according to the U.S. State Department.

**Fact key:** Monthly rent for 3-bedroom apartment | Taxi cost/ 1 mile | Bottle of wine

***SOURCE:*** *Numbeo.com*

# What People Fear Most About Retirement

Don't want to outlive your savings? Then don't leave it up to chance. Take these steps to make sure your money lasts as long as you do. BY WALTER UPDEGRAVE

**THERE'S NO SHORTAGE OF THINGS TO WORRY ABOUT** when it comes to your retirement security: inflation eroding your purchasing power; health care costs breaking your budget; market slumps wreaking havoc on your investing strategy.

But one concern looms especially large: depleting your nest egg prematurely.

When Allianz recently asked some 3,000 people which they fear most—death or outliving their savings in retirement—nearly two-thirds chose running out of money.

After all, many people simply haven't saved enough to maintain their current lifestyle in retirement. Based on figures from the Federal Reserve's 2016 Survey of Consumer Finances, the Boston College Center for Retirement Research estimates that the median combined 401(k) and IRA account balance for working households nearing retirement was $135,000—and that's just among the roughly half of families who have retirement accounts. It's about enough to generate just $600 a month in lifetime income for a couple.

You're less likely to outlive your savings if you tackle some simple financial planning exercises, ideally well before you actually retire.

Even those who've managed to save much more must still ensure their assets will last.

Here's how to meet that challenge:

### UNDERSTAND JUST HOW LONG YOU'LL BE RELYING ON YOUR SAVINGS.

It's hard to pace your spending correctly if you don't have a realistic idea of how many years you're likely to be around. Some 61% of those surveyed recently by Financial Engines underestimated the average life expectancy of a 65-year-old man by five-plus years.

One way to estimate your longevity is to go to the Actuaries Longevity Illustrator tool. Plug in your age, sex, and a self-assessment of your health, and the tool will gauge how likely you are to live to various ages.

For example, the tool shows that an average 65-year-old nonsmoking man in excellent health has a 42% chance of living another 25 years to age 90 and a 22% probability of living another 30 years to age 95.

### TAP YOUR NEST EGG AT A 'REASONABLE' RATE.

If you want a decent shot that your money will support you 30 or more years, a reasonable strategy is to start with a withdrawal rate

T_KIMURA—GETTY IMAGES

somewhere between 3% and 4%, and then be prepared to raise or lower withdrawals based on market conditions and your nest egg's current balance.

So, for example, if your retirement account balance drops on a market slump, you could pare withdrawals for a while.

You can take a systematic approach to adjusting withdrawals or you can play it by ear, so to speak, by periodically going to a tool like T. Rowe Price's Retirement Income Calculator and seeing how many years your savings are likely to last if you continue withdrawing money at your current pace, and then raise or lower withdrawals as necessary.

### CONSIDER BUYING GUARANTEED INCOME.

One way to ensure you won't outlive your money is to devote a portion of your savings to an immediate annuity. A 65-year-old woman who invests $150,000 in such an annuity would receive about $775 a month for the rest of her life, starting immediately.

If you think you've got enough income for now but want to be sure you won't run short later on, you can invest in a longevity annuity, a type of annuity with payments that start in the future. A 65-year-old woman who invests $50,000 in a longevity annuity today would begin receiving payments of about $1,400 a month beginning at 85.

Keep in mind that in return for guaranteed income you typically no longer have access to the money you invest in these types of annuities. So you'll want to be sure you have adequate outside savings.

## What About Surprise Costs? 3 Ways to Make Sure You're Ready

**You've saved diligently and built an impressive nest egg, and now you're ready to call it a career. Great, just one question: Do you really know how much you'll have to shell out each year to cover your expenses?**

**DEVELOP A REAL RETIREMENT BUDGET.** Once you're within five to 10 years of leaving your job, you need a concrete sense of your future retirement expenses.

The best way to do that: Create a retirement budget that details your expenses, line by line, item by item. You won't be able to predict costs down to the penny (or even to the dollar, for that matter). But the idea is to make the best estimate that you can.

Budgeting tools like BlackRock's Retirement Expense Worksheet let you enter upwards of 50 different expense items in eight broad categories.

The tool also distinguishes between essential living expenses, such as housing, food, and transportation, and discretionary outlays, such as entertainment.

By seeing how much of your income is required to fund essential expenses vs. discretionary items, you can better see how much wiggle room you have to pare your spending in the future and avoid depleting your assets.

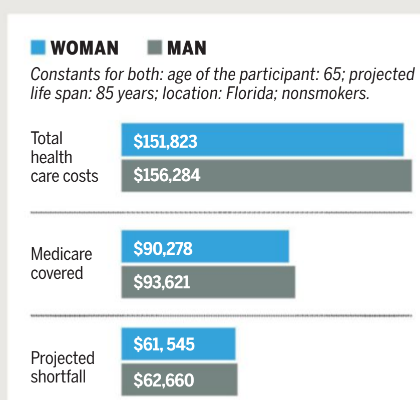
**HOME IN ON HEALTH CARE.** According to the Bureau of Labor Statistics' 2016 Consumer Expenditure Survey, health care ranks as the third-largest expense behind housing and transportation for households 65 and older, accounting for 13% of annual spending on average.

You can get a general sense of how much you might need to budget for health care in retirement by going to AARP's Health Care Costs Calculator. You enter such information as your age, sex, and any health issues you may have, and the calculator estimates the total costs you'll pay over the course of retirement, breaking that figure down into the portion covered by Medicare and the amount you'll have to foot on your own.

**THINK ABOUT THE LIFE YOU HOPE TO LEAD IN RETIREMENT.** Do you expect to continue living in your current home or do you plan to downsize to smaller, less expensive digs? Do you hope to work part-time? Volunteer? Mull over these questions before you retire. They'll help you get a better handle on the expenses you'll face and thus the income you'll need to meet them. Also, grappling with them makes it more likely that your time in retirement will be fulfilling.

### Lifetime Health Care Costs

These projections are for individuals in good health. Costs mount with chronic conditions.




*SOURCE: AARP Health Care Costs Calculator*


Roz Warren in her home near Philadelphia.

# I Took All My Money Out of Stocks, and It Feels Amazing

A freelance writer and part-time librarian has decided to take her chips off the table. BY ROZ WARREN

**DO I THINK THE STOCK MARKET IS** about to crash? Am I afraid that with Donald Trump at the helm of our ship of state the economy is at risk of going down like the *Titanic*?

Sure, that could happen. But that's not why I took my dough off the table.

Back in the early 1980s, I inherited $50,000. At the time, that was so much more money than I'd ever had before that I decided I'd better educate myself about financial matters.

After much research, I put that money—and a percentage of the money I've made since as a writer and part-time librarian—into a low-cost index fund. Specifically, I invested in a Vanguard balanced fund that invests 60% of its assets in the stock market and 40% in bonds.

And I left it there.

This turned out to be a good strategy. Back then, the S&P 500 index of U.S. stocks was at 208. Now it's closing in on 2,600.

Nevertheless, I cashed it all in last week.

Now all my money is stashed in U.S. Treasuries, Treasury Inflation-Protected Securities (or TIPS bonds), and laddered CDs, which, in the years to come, I can count on to earn me essentially nada.

Why would I do this?

I once figured out exactly how much money I would need to live on—not lavishly, but comfortably—for the rest of my life. I promised myself that once I had that amount, I would actually do just that—take my money out of the market and live on it for the rest of my life.

Last week, I reached that goal.

I'm 62. I've spent decades caring about the market. I counted on it to make me enough money so that I'd be able to cash in my chips

PHOTOGRAPH BY COLIN LENTON

and walk away when I hit retirement age.

And so it did.

And now? It's time for this librarian to declare victory and get the hell out.

The day after I cashed out, the market soared, as if to say, "Ha-ha, Roz, the joke's on you."

Did I feel some regret?

Of course I did! Had I waited just a day, my bank account would be fatter than it is now. But that's not the point. The point is no longer amassing as much money as I can. It's peace of mind.

And that's what I've got.

Timing is everything. But you can't time the market. I have no idea whether it's about to go up or down. But I no longer care.

I now have enough money to live on for the rest of my life with absolutely no concern about what the market is up to. The Dow Jones industrial average could zip up to 30,000 (and I hope for the sake of those of you who are still in the game that it does). Or it could crash and burn tomorrow.

Not my problem. That part of my life is over. I'll never again experience the elation of a market that is rocketing into the stratosphere. Or that sick feeling you get as the market is "correcting" and your net worth is circling the drain.

All done.

But if the market totally tanks tomorrow, you ask, and stocks become such a crazy bargain that I'd be a fool not to put at least some of my money back into that mutual fund that served me so well, wouldn't I?

Of course I would! I'm no fool. Plus, the one thing I've learned about the market over the past three decades is "what goes down, eventually comes back up." But until that happens, I'm staying put. And if it never happens? I'm still set.

So how much money have I got? I'm not exactly a millionaire. But I do have a nest egg in the high six figures, a modest home with no mortgage, and zero debt. That might not impress you, but it's good enough for me.

Now that I've made my nut, I have no big plans to buy a yacht or travel around the world or even splurge on a few extra outfits from Eileen Fisher.

I plan to continue to work at my local public library and write essays. Which is to say that I'll continue to do the work I love, which provides me with a small but steady income. (And, at age 70, I'll start collecting Social Security, which, both because I'm an optimist and because I believe in the lobbying power of the AARP, I fully expect to be, like me, alive and well.)

I'm not saying you should follow my lead. You could be more of a risk-taker than I am. (Most people are.) Or more worried about inflation. (I'm betting on the TIPS to shelter me from that.) You might have more expenses, or more people who rely on you financially. Your own goal could be to leave a bucket of money to your heirs. (I'm leaving that task to my wealthy ex-husband, although I do expect to leave the kids at least enough to help put my grandchildren through college.)

Whatever your financial goal is, I hope you reach it.

The stock market has been very good to me. Without money in the market, there's no way that this part-time library worker and freelance writer would now have enough money to live on into her nineties.

But, as the song goes, you've got to know when to hold them and know when to fold them.

And for me, the time to fold them has come. So I'm out of here. I've taken my chips off the table. Good luck to those who remain in the game, and best wishes for a soft landing.

## It's Not for Everyone

After this essay ran online, a few readers wrote to MONEY to let us know how upset they were to see it on our site. Are we not aware of the dangers of market timing? Don't we know retirement savings should be evaluated based on how much income the funds will generate, not whether they have hit a fixed dollar amount? How could we be so irresponsible as to recommend this kind of move to our readers?

The truth is ... we didn't.

Warren didn't try to time the market. She made a long-term plan, backed up by a lot of research. (She is, after all, a librarian.) She did her math, set a goal, waited until she reached it, and then followed through. And she could do that largely because her spending needs are modest, her home is paid off, and she's got no debt.

That's amazing—for her.

But as they say: Your mileage may vary. All MONEY's readers have different lifestyle choices, levels of debts and assets, and risk factors. We never recommend that people make impulsive decisions about their money, or react emotionally to market shifts.

But we do want you all to make a plan—with a good financial planner, if you don't feel up to doing it yourself—and stick to it.

Our philosophy has long been that money, with a little "m," is best used to buy happiness. And Warren says now that she's got enough money to sustain her, she's happier without a stake in the stock market. "The point is no longer amassing as much money as I can," Warren writes. "It's peace of mind." *—Rachel F. Elson*

# INVESTOR'S GUIDE 2018

SECTION I

## THE RISKS



ILLUSTRATION BY **JORDAN METCALF**





# TAKING STOCK

## OF THE PRECARIOUS

# BULL MARKET

The stock market may be reaching new heights, but how stable is it? To find out, MONEY brought together some of the smartest people in the investment world and asked them to deconstruct the risks and opportunities in this bull market, which is about to turn nine.

ILLUSTRATION BY **ELLA COHEN**

**SARAH KETTERER**

*Chief executive officer and portfolio manager for Causeway Capital*

THE BIG TAKEAWAY: "I think the market, globally, has become narrow and euphoric and completely blindsided to risks."

## "I THINK ALL OF THESE MARKETS ARE OVERVALUED ... PULLED UP BY TECHNOLOGY EUPHORIA."

—SARAH KETTERER, CAUSEWAY CAPITAL

# Can the bull market keep going?

**A YEAR AGO THERE WERE REAL CONCERNS** that this bull market, the second-longest rally in history, was about to hit the proverbial wall. Rather than being gassed, though, domestic stocks raced ahead by more than 20% last year while many foreign equities did even better.

Did the bull truly get a second wind? And can it keep chugging along throughout the year and beyond? To help determine that, MONEY gathered a panel of market experts who run the gamut from being "cautiously optimistic" about stocks to being "bearish" in the long term. Joining the conversation, an edited version of which follows, were:

**Rob Arnott**

Chairman and chief executive of the asset management firm Research Affiliates and manager of the Pimco All Asset Fund

**Sarah Ketterer**

Chief executive and portfolio manager for Causeway Capital

**Jim Paulsen**

Chief investment strategist for the Leuthold Group

**Liz Ann Sonders**

Chief investment strategist for Charles Schwab

**Floyd Tyler**

President and chief investment officer for Preserver Partners and manager of the Preserver Alternative Opportunities Fund

In their own words, here are the risks—and opportunities—that they see for the year ahead:

ROBYN TWOMEY—REDUX

**MONEY: We entered 2017 with a big question hanging out there: "Can the bull market—which was about to turn eight years old—keep going?" We learned the answer was a decided yes. So let's ask it again: Can the bull market, which is now about to turn nine, keep going in 2018?**

**Rob Arnott:** Speaking as a bear, of course the bull market can continue. It continues until it doesn't.

**Liz Ann Sonders:** I've been bullish for the whole bull market, and I remain so. But I think we're in or entering the latter part of the cycle, both in terms of the economy but also the market. So I think we have to start to be mindful of some of the risks.

**Jim Paulsen:** I agree a lot with what Liz Ann said. When I look forward, I don't really see the elements of a bear because I don't really see the elements of a recession. Not that you can't have a bear market without a recession, but it's not all that frequent.

I certainly see, increasingly, the elements of a rougher environment in 2018. I think you do want to be a little more conservative.

But I still don't necessarily see the end of the bull.

**Sonders**: It looks more like a '97 kind of period than an end-of-'99 kind of period. I'm not suggesting valuations aren't stretched, but when you look at the more egregiously overvalued stocks, circa 1999, I do think it's a bit different this time.

**MONEY: If this is more like '97 than 1999 or 2000, is it too early to become defensive?**

**Sonders:** Well, I don't think one should ever make investment decisions based on a moment in time. The one benefit to the environment we're in is that it affords investors the opportunity to be disciplined, to use diversification to their benefit, and to actually rebalance on a more frequent basis.

Rebalancing is such an awesome tool that very few investors use appropriately.

**Arnott:** I would endorse the comments about rebalancing.

That's one of the simplest forms of free money people can get their hands on, and most people don't. The temptation in a bull market is to buy more. The temptation in a bear market is to get out, which is the wrong thing to do.

The other source of free money is diversification. In a bull market, you regret having anything in diversifying assets, because those diversifying assets are holding you back. Then when the markets turn, you regret having too little in diversifying assets.

The sensible thing is to always have a decent slug of diversifying assets and stay the course with them. Don't flinch.

**Floyd Tyler:** It has to be true diversification, right—and not just small-caps and large-caps? That's not going to help you at all.

**Arnott:** Owning different flavors of domestic equities is not diversification.

**Tyler:** Right.

## How frothy is this market?

**Arnott:** What I find fascinating is the dispersion in valuations. In the U.S., you have stocks at a Shiller P/E [a price/earnings ratio based on 10 years of averaged corporate profits] of 31, verging on 32 now. In Europe the Shiller P/E is half that. In the emerging markets, the Shiller P/E is what, 14?

**Sonders:** I'm not going to suggest that the market is inexpensive by any means. But just looking at the U.S., the Shiller P/E has been in overvalued territory for pretty much this entire bull market. And it was pretty much overvalued during the entire 1990s bull market.

**Arnott:** I don't want to leave the impression that I think Shiller P/E ratios are useful for market timing. They're not. But they do exhibit a remarkable correlation with subsequent 10-year returns.

**Sonders:** Absolutely.

**Arnott:** I look at today's Shiller P/E and don't draw a conclusion that the end of the bull is imminent. I do draw a conclusion that there are pretty high odds for a "lost decade" for equities going forward.

## Where are the best opportunities?

**MONEY: Are there greater opportunities abroad because of valuations and other considerations?**

**Arnott:** I would say absolutely yes. You look at the top 10 stocks in world market capitalization in 1990, and eight of the top 10 were in Japan. Was that a great time to buy Japan? I don't think so. In 2017, eight of the top 10 are in the U.S. Is that a great time to concentrate your investments in the U.S.? I don't think so.

**Tyler:** I would agree except maybe with one exception—the United Kingdom. The U.K. looks like it's headed for a moderate recession. Other than that, I certainly would be shopping more outside the U.S. than in the U.S. We're tilted toward continental Europe and then Asia, and a little bit of Australia. We certainly think that if you have to allocate capital, and you want to do that responsibly, you should be shopping more outside the U.S.

**Sarah Ketterer:** I'm not sure I would say, "Put your portfolio abroad, and you're all going to be fine." I don't agree with that. I think all of these markets are overvalued ... pulled up by technology euphoria. Look at the emerging markets. By far the best-performing stocks [last year] came from software services, technology, semiconductors. I think this market globally has become narrow and euphoric and completely blindsided to risks.

**Arnott:** I would say the best bargains are in the emerging markets. It's not the low-hanging fruit that it was 20 months ago. Compared to the rest of the world, it still offers some very good deals. I would go in with my eyes wide open. If there's a U.S. bear market, there will be a sympathy bear market in emerging markets. I'd

ROBYN TWOMEY—REDUX

**ROB ARNOTT**

***Chairman, chief executive, and portfolio manager for Research Affiliates***

THE BIG TAKEAWAY: **"I'm a long-term bear. In the short term, the market could go up, down, or sideways. But we see the long-term bargains elsewhere than in the U.S."**

## "THE BEST BARGAINS ARE IN THE EMERGING MARKETS."

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"WE'RE TILTED TOWARD CONTINENTAL EUROPE AND THEN ASIA AND A LITTLE BIT OF AUSTRALIA."

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**FLOYD TYLER**

*Founder, president, and chief investment officer for Preserver Partners*

THE BIG TAKEAWAY: **"I'm warily invested right now ... If you have to allocate capital, and you want to do that responsibly, you should be shopping outside the U.S."**

keep dry powder, and I'd be ready to pounce if there are renewed bargains.

**Paulsen:** If we're now at a crossroads and turning toward some sense of reinflation, I think it does two things. It's going to benefit international economies much more than the United States in terms of earnings performance.

But I also think a 3% inflation rate has a special property in the United States. Below 3% inflation, every 1% increase in the inflation rate leads to a rising P/E multiple. But once you cross over 3% inflation, every 1% increase causes P/E ratios to decline by two points. There's a toggle switch in the United States in the financial markets around the 3% inflation rate.

## Where are the bargains?

**Paulsen:** If we're all sort of cautious, where do we go to be cautious? Do you go to the traditional defensive plays—utilities and [consumer] staples stocks and telecoms and bonds?

**Sonders:** Jim, that's a great question, because a lot of those classic value areas like you mentioned—utilities, telecom stocks—there's no value there. That's kind of a conundrum right now.

**Tyler:** I think, broadly speaking, you're right. There's a lot of overvaluation in some of the typical [defensive] areas. But I think you'd have to look for discounting situations, event-driven situations. If you look at real estate investment trusts, for instance, they're broadly overvalued. But there's starting to be some interesting things in self-storage REITs and maybe some of the mall REITs. I just think we have to be more flexible, more opportunistic than we historically have been in looking at some of those areas.

**Paulsen:** I struggle with where to go too. The energy sector I think does offer a lot of attractive attributes. Both the relative price of energy stocks now relative to the market, and the relative price of oil relative to non-energy commodity prices, have both collapsed down back to very low levels. Fundamentally, energy has some defensive stock characteristics, like high dividend yields.

**MONEY: Should investors shift from the fast "growth" part of the market toward overlooked "value" stocks?**

**Paulsen:** I do think some of that makes sense. Going back a little on tech and moving a little toward oil might be an example of that.

**Arnott:** I'm a big fan of tactical asset allocation, which is over-rebalancing. When markets move to an extreme, take the opposite tack. But a cautionary note: Tactical asset allocation requires a cast-iron stomach. You're going to be so wrong, and so uncomfortable until you're right, that you're going to look and feel like an absolute idiot until you're right.

**Sonders:** The value-growth gap is huge. In fact you can go back, interestingly, to 1999 to see a gap [in performance between growth stocks and value stocks] that's similar to where we are today.

**Arnott:** The other thing that's interesting, if you look at [global] growth vs. [global] value stocks through the third quarter, on a 10-year basis growth has beat value by just over [three percentage points] per annum for 10 years. How much did it win by at the peak of the [late '90s] tech bubble? 2.9% per annum for 10 years.

I think that a tilt toward value makes sense. Doing a little bit of over-rebalancing makes sense. The one place where I think an aggressive value bet makes sense is in the emerging markets. That's where the spread between growth and value is at historic extremes.

## Is inflation coming back?

**Paulsen:** We're very close to having a third quarter in a row of 3%-plus GDP growth, which is an extreme rarity for this recovery. We're pushing a 4% unemployment rate, 3% wage growth, and we've already got rising inflation expectations.

**MONEY: Are we now fully clear of all deflationary fears?**

**Paulsen:** Saying "fully" scares the heck out of me. But yeah, I lean more toward the view that we probably are seeing some sense of reinflating in the world. It's not just a U.S. phenomenon. Core inflation is accelerating around the globe. It isn't a matter of having runaway inflation like the 1970s, but just a little inflation.

**Arnott:** Does that raise the risk of a policy error from the central bankers?

ANDREA MORALES

**Paulsen:** Well, it could.

**Sonders:** Yeah, I agree. And I think that there is sort of a two-part risk looking ahead in terms of monetary policy. The risk is either that inflation picks up and the Federal Reserve stays incredibly loose and continues to let asset bubbles inflate, or the Fed [raises rates] too quickly and risks a recession being sooner than we all have probably anticipated at this point.

## What could trigger a selloff?

**MONEY: There's been very little volatility in the market lately. If we do see a pullback in stock prices, what do you think would trigger it?**

**Tyler:** Well, it could be a geopolitical event. It could be maybe four or five rate hikes. It has to be something that leads to forced selling, so something that causes a lot of redemptions and it just starts to sort of spiral.

**Arnott:** I think looking for a trigger is always dangerous, because catalysts by definition are always a surprise. What was the proximate catalyst that caused the tech bubble to roll over and die? Here it's been 17½ years, and I still have yet to hear a credible explanation of a specific catalyst that caused that tech bubble to die, other than gravity. I think looking for catalysts is dangerous.

There will be a correction at some point, and there will be a bear market at some point, and whether

“IF WE'RE ALL SORT OF CAUTIOUS, WHERE DO WE GO TO BE CAUTIOUS?”

—JIM PAULSEN, THE LEUTHOLD GROUP

**JIM PAULSEN**

*Chief investment strategist for the Leuthold Group*

THE BIG TAKEAWAY: **“I don't really see the elements of a bear because I don't really see the elements of a recession ... [But] I'm more cautious than I've been in a while.”**

SONDERS: BEN BAKER—REDUX; PAULSEN: GLEN STUBBE—MINNEAPOLIS STAR TRIBUNE/ZUMAPRESS.COM

"IT LOOKS MORE LIKE A '97 KIND OF PERIOD THAN AN END-OF-'99 KIND OF PERIOD."

—LIZ ANN SONDERS, CHARLES SCHWAB

**LIZ ANN SONDERS**

*Chief investment strategist for the brokerage Charles Schwab*

THE BIG TAKEAWAY: "I've been bullish for the whole bull market, and I remain so. But I think we're in or entering the latter part of the cycle. So I think we have to start being mindful of some of the risks."

the correction comes first or the bear market comes first is anybody's guess. I think it's high odds that next year we'll see a correction or a bear market.

## So to sum up, how do you really feel?

**Sonders:** I'd call myself a late-stage bull. Maybe that's cautiously optimistic.

**Tyler:** I'm warily invested right now.

**Ketterer:** We're focusing our efforts on very well capitalized companies globally because they may very likely hold their value even in rougher markets ahead. We're reducing portfolio risk—then preparing for an opportunity to add extremely high-quality companies, especially in emerging markets, with any type of market pullback.

**Arnott:** I'm a long-term bear, and I have a relatively indifferent view on a short-term basis. In the short term, the market could go up, down, or sideways. We'll opportunistically respond to those moves, but we see the long-term bargains elsewhere than in the U.S.

**Paulsen:** I'm more cautious than I've been for a while. I would be aggressive again if we get some kind of [stock market correction], and I'm still not convinced we're headed for a recession. Otherwise, I'm going to be fairly cautious—more cautious than I've been recently I guess.


2009-?

## 3 WAYS THIS

# BULL MARKET

## COULD END

Trying to guess when the second-oldest bull market in history will meet its maker is a parlor game. But if you understand the process by which this bull is likely to die, you'll know how to hedge your portfolio the right way.

By **PAUL J. LIM**

ILLUSTRATION BY **ADRIAN JOHNSON**

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**IT'S SAID THAT BULL MARKETS** don't die of old age, which explains why this market keeps chugging along despite being more than twice as old as the average rally. But if that's true, what *do* bull markets die of?

Up until a few years ago, many investors thought this bull would be gored by the same force that weighed on the global economy in the aftermath of the financial crisis: deflation. Deflation is that rare circumstance in which the economy can't seem to gain any traction, and prices and sentiment keep slipping. "That's the type of market you saw in the 1930s, when there was a total loss of confidence," says James Stack, president of InvesTech Research and a market historian.

Today, however, investor confidence and the economy have healed sufficiently that market watchers are now expecting a different—and more predictable—denouement to history's second-oldest rally.

"The economy has evolved into a more traditional expansion like the ones last seen at market tops in the 1960s and 1970s," says Stack. And absent a major bubble forming in a large sector of the economy—like housing in 2007 or tech stocks in the late 1990s—conventional wisdom says this bull will end in one of these three predictable ways:

## Scenario No. 1: The Economy Did It

**"BULL MARKETS DON'T DIE** of old age, they die of fright," says Sam Stovall, chief investment strategist with the investment research firm CFRA and author of *The Seven Rules of Wall Street*. And what bull markets fear most isn't the shock of war or political crisis, but recessions.

Two-thirds of all bull markets since World War II have ended in anticipation of an economic contraction. Still other downturns that didn't precede official recessions, like the 1966 bear market, were at least triggered by the fear of a slowdown that came close.

If that's the case, you might assume that Wall Street has little to worry about now, since most traditional indicators are signaling that the economy is doing just fine and isn't likely to shrink in the next year or two.

Take housing starts. Historically, real estate construction has been a terrific indicator of the economy because it takes months to construct a new home. And homebuilders are reluctant to break ground if they fear the economy may slump several months down the road.

Every recession since 1960 was preceded by a double-digit decline in housing starts, according to Stovall. Yet in October housing starts rose by double digits—13.7%, to be exact—indicating that construction firms aren't betting on a slowdown in the economy in 2018.

What's more, "we've seen some

of the best manufacturing numbers in recent months, and corporate profits are still climbing," says John Lynch, chief investment strategist for LPL Financial. He notes that historically the economy tends to slip into recession two years after corporate earnings have peaked.

### Why You Should Still Worry:

**WHILE FEW ECONOMISTS** are predicting a recession anytime soon, you have to remember that the stock market is a forward-looking indicator, meaning stock slides precede recessions or slowdowns—not the other way around.

And often it can take months after a selloff before the economy begins to slide. The average bear market, in fact, has typically begun 7½ months prior to the start of an official recession, according to CFRA.

Sometimes the lag time is even greater. The 2000–2002 bear market began a full year before the economy officially slid into a recession.

"By definition, bull markets peak when bullish optimism is very high," says Stack. And in many cases it's hard to know a recession is looming until it's almost here.

### Another Concern:

**"THE ECONOMY TYPICALLY** slips into a recession four years after the first Federal Reserve rate hike," says Lynch. (For the record, Lynch's firm, LPL, does not believe a bear market is imminent and thinks stocks will rise 8% to 10% in 2018.)

However, because the Fed has been so slow to raise rates, people forget that the central bank actually started lifting rates in late 2015. Four years after that would put a possible recession start date in late 2019. And if stocks foreshadow recessions up

> "BULL MARKETS PEAK WHEN BULLISH OPTIMISM IS VERY HIGH."
> —JAMES STACK, PRESIDENT OF INVESTECH RESEARCH

to a year before, that means a bear could be lurking at the end of 2018.

### How You Can Hedge Your Bets:

**FAVOR HIGH-QUALITY STOCKS.** Don't assume the next downturn will automatically be a bear market—or a big bear such as the 2007–2009 meltdown or the 2000–2002 tech wreck, where more than half the market's value was erased.

If the next downturn is a pullback (a 5% to 10% decline) or a correction (10% to 20% fall in prices), it may take only two to four months for stock prices to climb their way back, if history is any guide, Stovall says.

So rather than undoing your entire investment, focus on ways you can stay invested while protecting yourself a bit more.

High-quality stocks are a good place to look if you're worried about the economy. "When the seas get rough, sailors prefer a better-made boat," says Stovall. They particularly gravitate to shares of companies with little debt, healthy balance sheets, and strong competitive advantages that can withstand stormy economies.

Not only do high-quality shares hold up better in a downturn, they also tend to outperform in the latter stages of a bull market (speculative shares of lower-quality companies, by contrast, tend to thrive at the start of new bull markets).

On our MONEY 50 list of recommended exchange-traded funds (see story on page 86), there's the **PowerShares S&P 500 High Quality ETF** (SPHQ).

Another way to get at quality is to look for companies with a strong track record of being able to make and grow their dividend payments through thick and thin for more than a quarter-century, such as those shares found in the S&P Dividend Aristocrats Index, says Stovall.

You can gain exposure to those names through the **SPDR S&P 500 Dividend ETF** (SDY) on our MONEY 50 recommended list. An added bonus: This fund keeps more than a third of its assets in defensive sectors such as consumer staples, health care, and utilities, which don't require a strong economy to thrive.

## Scenario No. 2: **The Fed Did It**

**"BULL MARKETS DON'T DIE** of old age. Sometimes, they get murdered," says Terri Spath, chief investment officer for Sierra Investment Management. "I hate to point the finger, but I think it will be the Fed."

How is that likely to happen—given that inflation remains historically low and given that the Federal Reserve has been lifting rates at a snail's pace over the past two years?

Simple: Central bankers at the Fed have publicly stated that they believe there will be around two or three more rate hikes in 2018, bringing the so-called Federal funds rate, which banks charge one another on overnight loans, to around 2% or so next year.

But as Floyd Tyler, president and chief investment officer of Preserver Partners, said in MONEY's roundtable conversation (see story on page 36), a downturn might be spurred simply if the Fed becomes a bit more aggressive than expected—"maybe four or five rate hikes."

### Why You Should Worry:

**A POLICY MISSTEP** that triggers a bear would be nothing new. The markets have a knack for testing newly installed Fed chairmen.

It happened to Alan Greenspan, who became chairman in August 1987, at the end of an economic cycle. The Greenspan-led Fed proceeded to raise interest rates just before the October 1987 crash.

Similarly, Ben Bernanke assumed the Fed chairmanship in 2006 toward the end of another economic cycle as the central bank was hiking rates—and just before the 2007–2009 bear market.

Fed governor Jerome Powell, who is President Trump's nominee to replace Janet Yellen, would similarly be stepping into his role in the latter stages of a business cycle while the Fed is already raising rates.

Spath says the Fed doesn't even have to make a big error—for instance, by raising rates too aggressively—to spook the markets. Simply raising rates unexpectedly or communicating their intentions poorly "could create volatility as rates rise."

To be sure, many bulls argue that historically the Fed got into trouble only by raising short-term rates above 4%. Today the Federal funds rate is less than 2%. So the Fed has a long way to go to derail this market.

But Spath warns that it's risky to assume that rates have to get all the way back to the levels at which they used to spook investors.

"Inflation is lower and GDP growth is lower and yields are lower," she says. So why couldn't a lower-than-average Fed funds rate scare the market this time?

### How You Can Hedge Your Bets:

**FAVOR BALLAST** over bounce when it comes to your stocks.

In a market that starts getting choppy, "it's important to carry a portfolio that has ballast. So don't ignore the more stodgy sectors, like consumer staples," which aren't sexy but offer diversification in difficult times, says Stack.

There's another reason to focus on these so-called Steady Eddies. While shares of boring companies that get left behind in bull markets tend to fall less in down markets, they also do better over very long periods of time.

"In the past 20 years, you would have increased your compound annual growth rate from 7.4% up to 8.2% by switching to low-volatility stocks while at the same time reducing your portfolio's annual volatility by 30%," Stovall says.

For exposure to steady blue-chip U.S. stocks, look at the **iShares Edge Min Vol USA ETF** (USMV).

For exposure to small-company stocks, consider the **SPDR SSGA U.S. Small Cap Low Volatility Index ETF** (SMLV). And for exposure to international equities, go with **iShares Edge MSCI Min Vol EAFE ETF** (EFAV).

## Scenario No. 3: The Market Has a Wile E. Coyote Moment

**BULL MARKETS DON'T DIE** of old age. But sometimes "they act like a cartoon character who's run off a cliff. Once they realize there's nothing supporting them, they start to drop," says Jack Ablin, chief investment officer for BMO Private Bank.

On Wall Street there's a formal name for this phenomenon. It's called a "Minsky moment," named after the late economist Hyman Minsky, who studied boom-and-bust cycles in the financial markets and argued how unstable bull markets can be after a long run.

A Minsky moment was blamed in part for the global financial crisis, when investors took on ever more debt to make speculative investments in houses and mortgage securities without worry until it eventually reached a tipping point when every investor did start to worry.

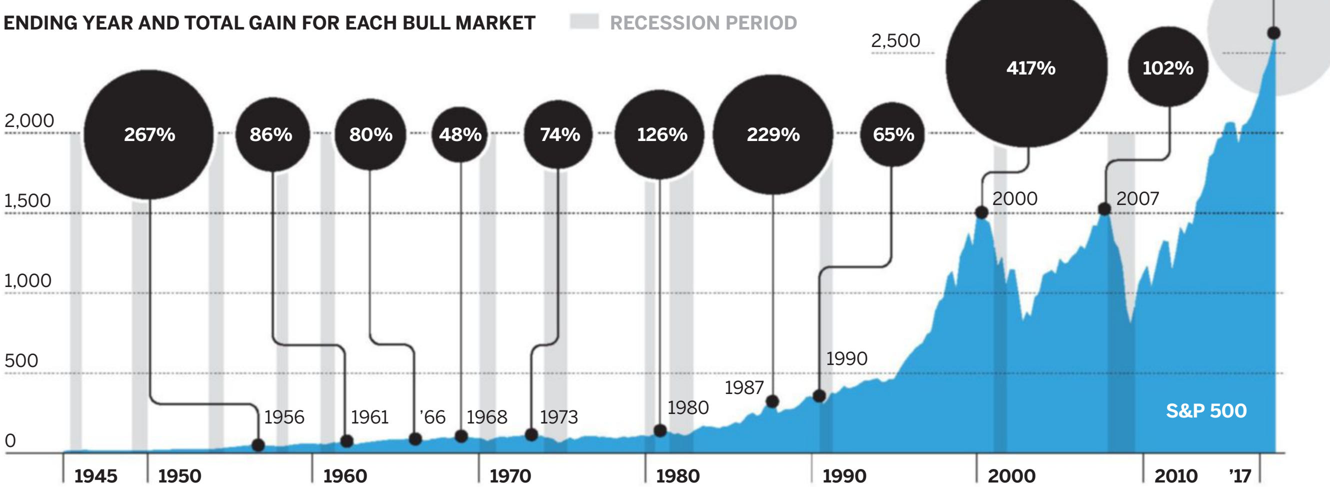
The bulls would argue that there's little chance of a similar Minsky moment today because this economy lacks the level of imbalances and excesses witnessed during the financial crisis years. But before you grow too confident, be careful.

### Why You Should Worry:

**THE ECONOMY** is by no means in a mania like the housing craze in 2007 or the dotcom craze in 1999,

## Rallies and Recessions

The vast majority of bull markets since the end of World War II have ended just before the start of a economic downturn.




* MARCH 9, 2009 TO DEC. 6, 2017 SOURCES: NBER; S&P GLOBAL; BLOOMBERG

but there are plenty of economic imbalances.

For instance, American consumers have $1.021 trillion in revolving debt (such as credit card balances) outstanding, which is the most ever. This beats the previous record of $1.02 trillion set in April 2008, at the height of the mortgage meltdown.

American investors have also taken out a record $550 billion in "margin debt" to juice their stock market portfolios. The use of borrowed money to buy stocks is nothing new. But history shows that when investors get hopped up on debt to buy stocks, that's usually a sign of a market top.

In 2000, for instance, margin debt as a percentage of GDP was 2.8%, a record then. Today, that ratio has risen to 2.99%.

A Minsky moment, though, needs another factor to get investors to notice that there's nothing supporting the rally. And that realization could be anything from rising fear brought about by a geopolitical event or the bursting of an unrelated bubble elsewhere in the economy. Does Bitcoin come to mind?

### How You Can Hedge Your Bets:

**MAKE SURE** your foundation is strong. In a full-blown Minsky moment, the bottom tends to fall out from under the market. That means minor tweaks around the edges of your portfolio may not be enough to offer you much protection.

"Investors need to make sure their asset allocation is set appropriately, not just for the next five to six quarters but for the next five to six years," says Ablin.

He points out that "in the last four or five years, stocks have become the new bonds." Ablin is referring to the fact that investors have grown so comfortable with the stock market lately that they've been swapping out their staid, low-yielding bonds with faster-growing and higher-yielding stocks.

But if you want to prepare for a possible turn in the market, you have to reassess those moves—and get around to rebalancing your portfolio back to a more conservative mix.

If you started out with a moderate 60% stock/40% bond portfolio five years ago and failed to rebalance since then, you'd now have a much more aggressive 75% stock/25% bond portfolio. Plus, the bull market is more vulnerable now to a Minsky moment than it was half a decade ago.

To be sure, Rob Arnott, chairman of Research Affiliates, notes that "the temptation in a bull market is to buy more" (see story on page 36).

But toward the end of a bull, less is more.

# HOW WE GOT HERE

Ten years later, the worst economic calamity since the Great Depression continues to shape American life.

By IAN SALISBURY

IT'S BEEN A DECADE since the financial crisis, and we've come a long way. Or maybe not.

At this time 10 years ago, the Dow was still within sight of its Oct. 9, 2007, record high. Few suspected that within months rapidly declining home prices would trigger a stock- and bond-market panic that would decimate Americans' retirement accounts and spell failure for storied corporations including Lehman Brothers, Merrill Lynch, and General Motors, among others.

Since then, the economy—at least as measured by stock prices and unemployment—has gradually returned to normal. But in other ways we are still getting back on our feet. For middle-class earners, median real (adjusted for inflation) wages only eclipsed their pre-crisis peak in 2016. Meanwhile home prices in cities from Chicago to Miami have still not recovered. Ditto employment in sectors like manufacturing.

But perhaps even more important are the psychological wounds. The sight of Washington bailing out America's richest and (supposedly) smartest investment banks sparked a crisis of confidence in authority and expert opinion that continues to shape our world today.

That understandable anger is almost certainly a key reason why in 2016 America chose for the first time in history a President with no military or government experience, who promised to overturn the way things are usually done in Washington.

So now, after a decade's worth of reflection on the economy's annus horribilis, let's look at where it has brought us.

## 2008


## 2009

Then–GM CEO Fritz Henderson.

**Jan. 11**
Following the worst year on record for home prices, Bank of America agrees to buy struggling mortgage lender Countrywide Financial.

**March 16**
Bear Stearns is sold to JPMorgan.

**Sept. 7**
U.S. government seizes Fannie Mae and Freddie Mac.

**Sept. 14**
Bank of America buys Merrill Lynch; **Lehman declares bankruptcy.**

**Sept. 16**
Government bails out AIG. Reserve Primary Fund "breaks the buck."

**Sept. 29**
House votes down bailout bill; in response, Dow drops 778 points.

**Nov. 4**
Barack Obama elected U.S. President.

**Dec. 11**
Hedge fund manager Bernard Madoff arrested.

**Feb. 17**
**Obama signs $787 billion stimulus package.**

**Feb. 19**
CNBC's Rick Santelli calls for a "Tea Party" in response to plan to aid homeowners.

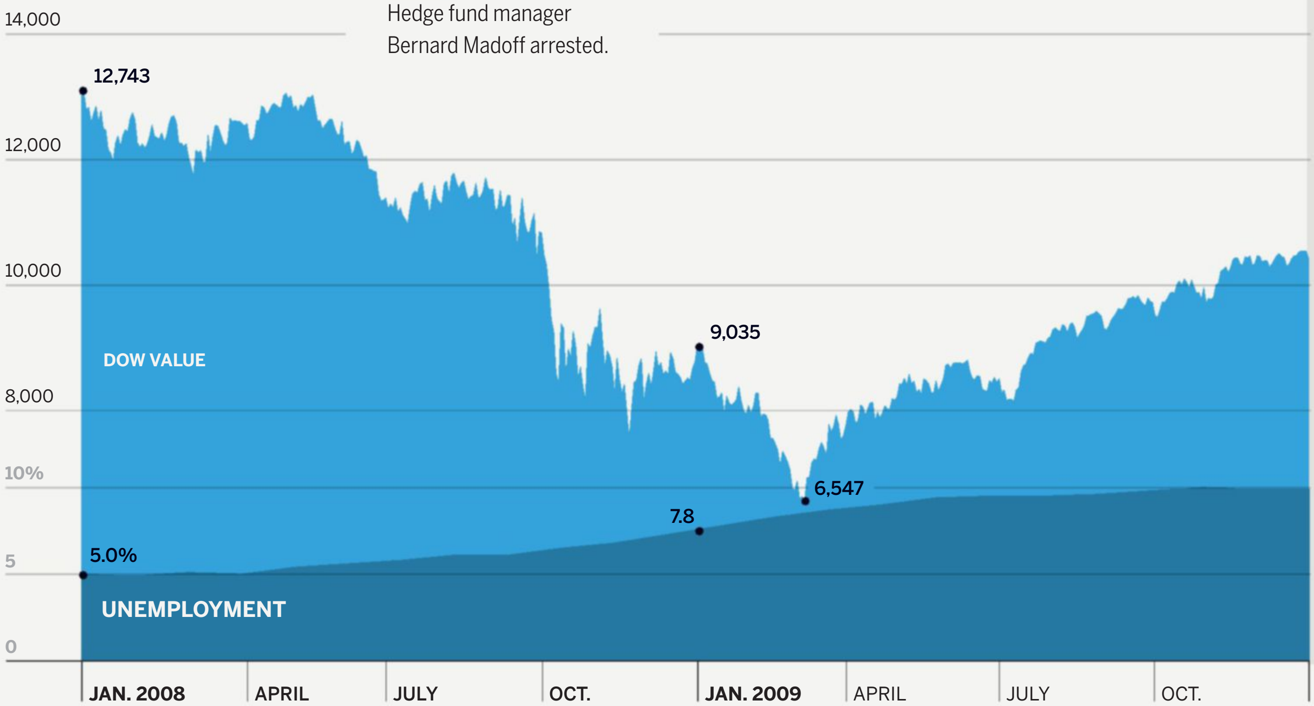
**March 9**
Dow hits low of 6,547; that month the market's 10-year P/E hits a generation low of 13.3.

**April 30**
Chrysler files for bankruptcy; **GM follows four weeks later.**

**June**
After 18 months, Great Recession ends, and economy begins growing again.

**October**
Unemployment peaks at 10%.

**Oct. 16**
Billionaire investor Raj Rajaratnam is charged with insider trading.




2008: OLI SCARFF—GETTY IMAGES; 2009: CHARLES OMMANNEY—GETTY IMAGES; 2009, HENDERSON: ANDREW HARRER—BLOOMBERG VIA GETTY IMAGES

## 2010

## 2011

Kit Harington as Jon Snow.

**Jan. 12**
**Haiti earthquake kills more than 200,000.**

**Jan. 27**
**Apple introduces iPad.**

**March 23**
Affordable Care Act signed.

**April 20**
Rig explosion results in BP oil spill in Gulf of Mexico.

**May 6**
Flash crash: Dow drops 1,000 points, then recovers minutes later. Rapid-fire computer trading blamed.

**July 21**
Dodd-Frank financial reform bill is signed.

**July**
Uber launches in San Francisco.

**Jan. 25**
**Revolution in Egypt.**

**March 11**
Tsunami hits Japan, prompting Fukushima Daiichi nuclear reactors to melt down.

**May 2**
Osama bin Laden killed.

**April**
***Game of Thrones* debuts.**

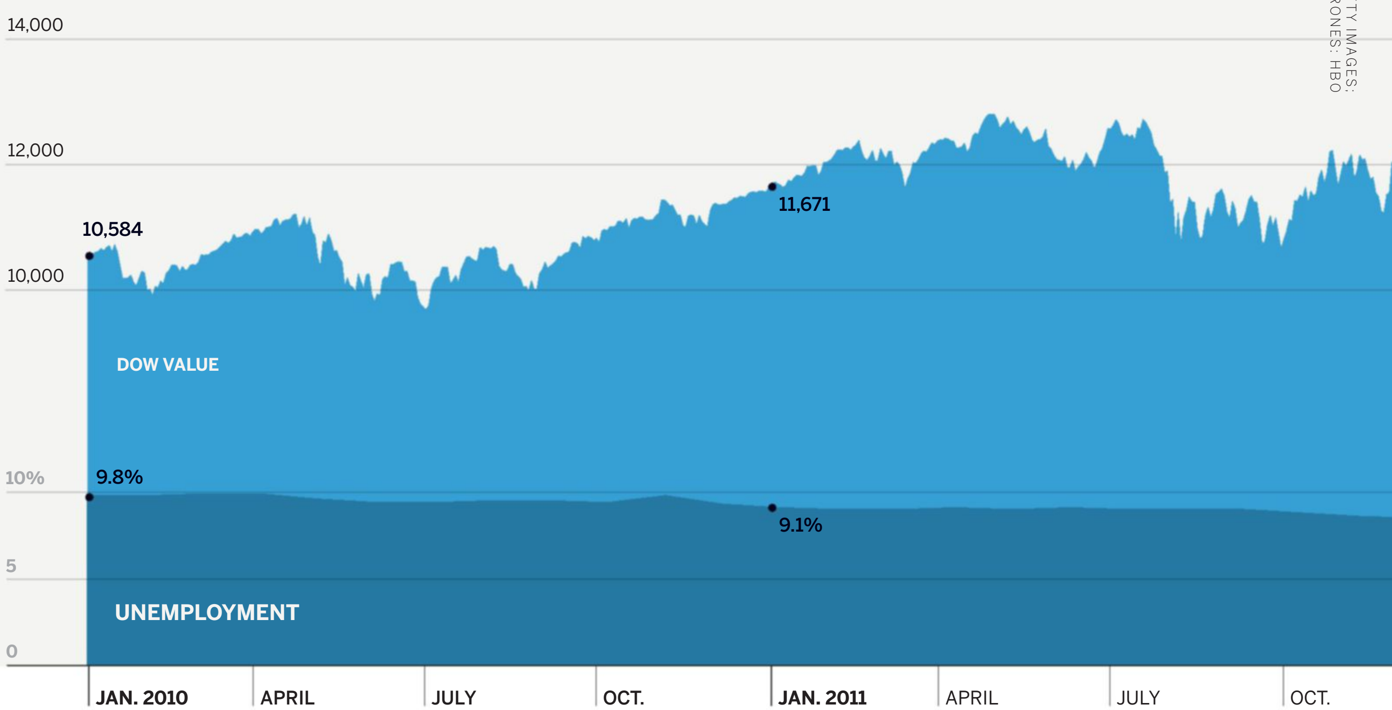
**July 21**
EU bails out Greece, but problems in Italy and Spain loom.

**Aug. 5**
S&P downgrades U.S. as debt ceiling controversy rages in Congress.

**Sept. 5**
Gold peaks at $1,900 per ounce.

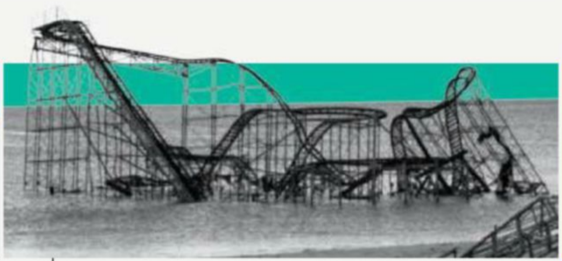
**Oct. 5**
Steve Jobs dies.

2010: GODONG—UIG VIA GETTY IMAGES; 2010, JOBS: JUSTIN SULLIVAN—GETTY IMAGES; 2011: PETER MACDIARMID—GETTY IMAGES; 2011, GAME OF THRONES: HBO



## 2012

## 2013


**March**
Home prices bottom out.

**May 18**
**Facebook IPO pegs 28-year-old Mark Zuckerberg's wealth at $20.3 billion.**

**September**
Fed embarks on QE3 bond-buying program; Tinder launches.

**Oct. 29**
Hurricane Sandy hits East Coast.

**Nov. 6**
Obama defeats Mitt Romney to secure second term.

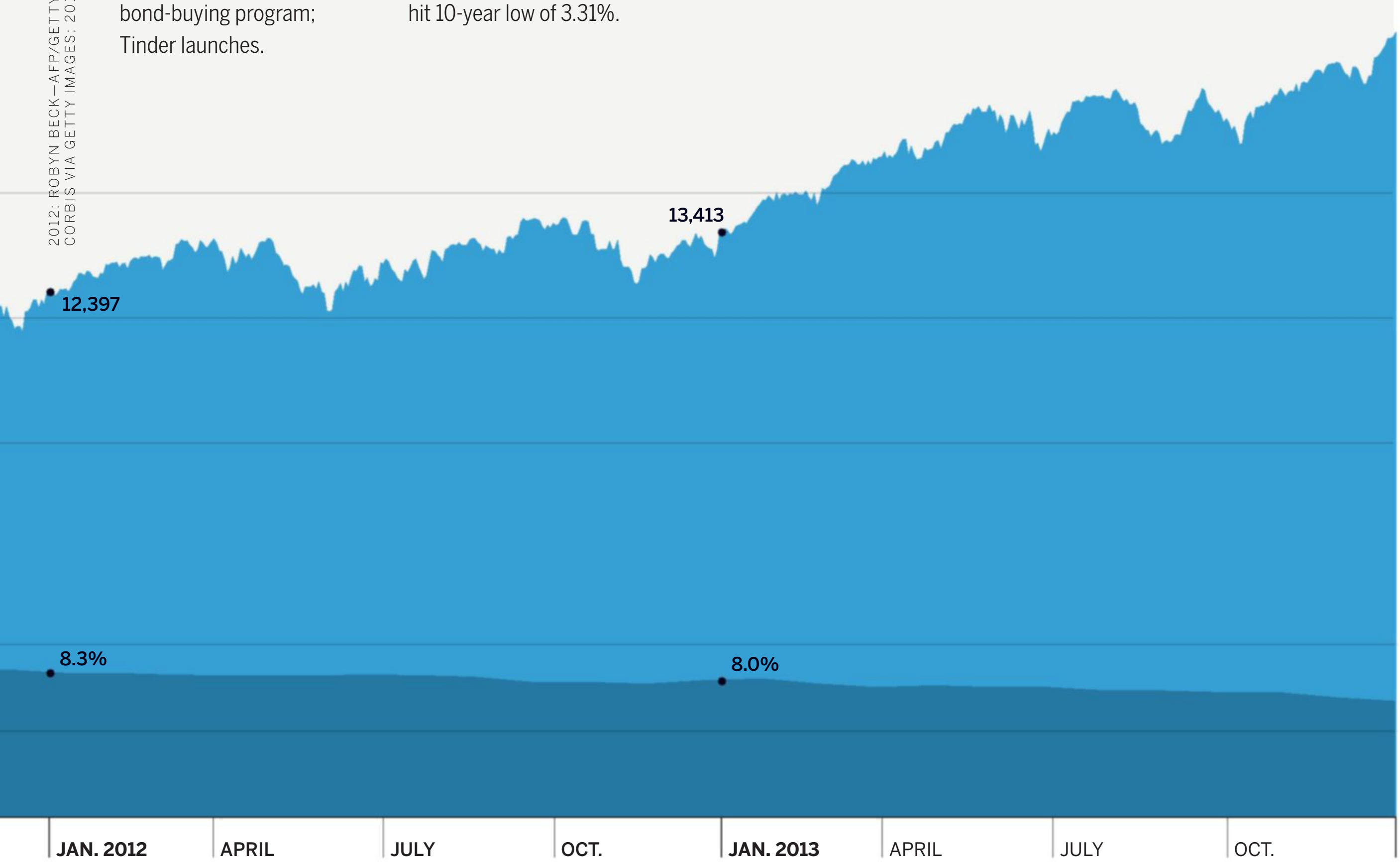
**November**
30-year mortgage rates hit 10-year low of 3.31%.

**March 5**
Dow closes at record for first time since 2007.

**March 13**
**Pope Francis elected.**

**April 15**
Boston Marathon bombing.

**Oct. 1**
Obamacare website launches; federal government shuts down for 16 days over budget standoff.




2012: ROBYN BECK—AFP/GETTY IMAGES; 2012, SANDY: JULIE DERMANSKY—CORBIS VIA GETTY IMAGES; 2013: VINCENZO PINTO—AFP/GETTY IMAGES

## 2014


**Feb. 4**
Janet Yellen becomes Fed chair.

**April**
Thomas Piketty's *Capital* is unlikely No. 1 bestseller.

**June**
Oil hits $107; over next six months, price will drop by half.

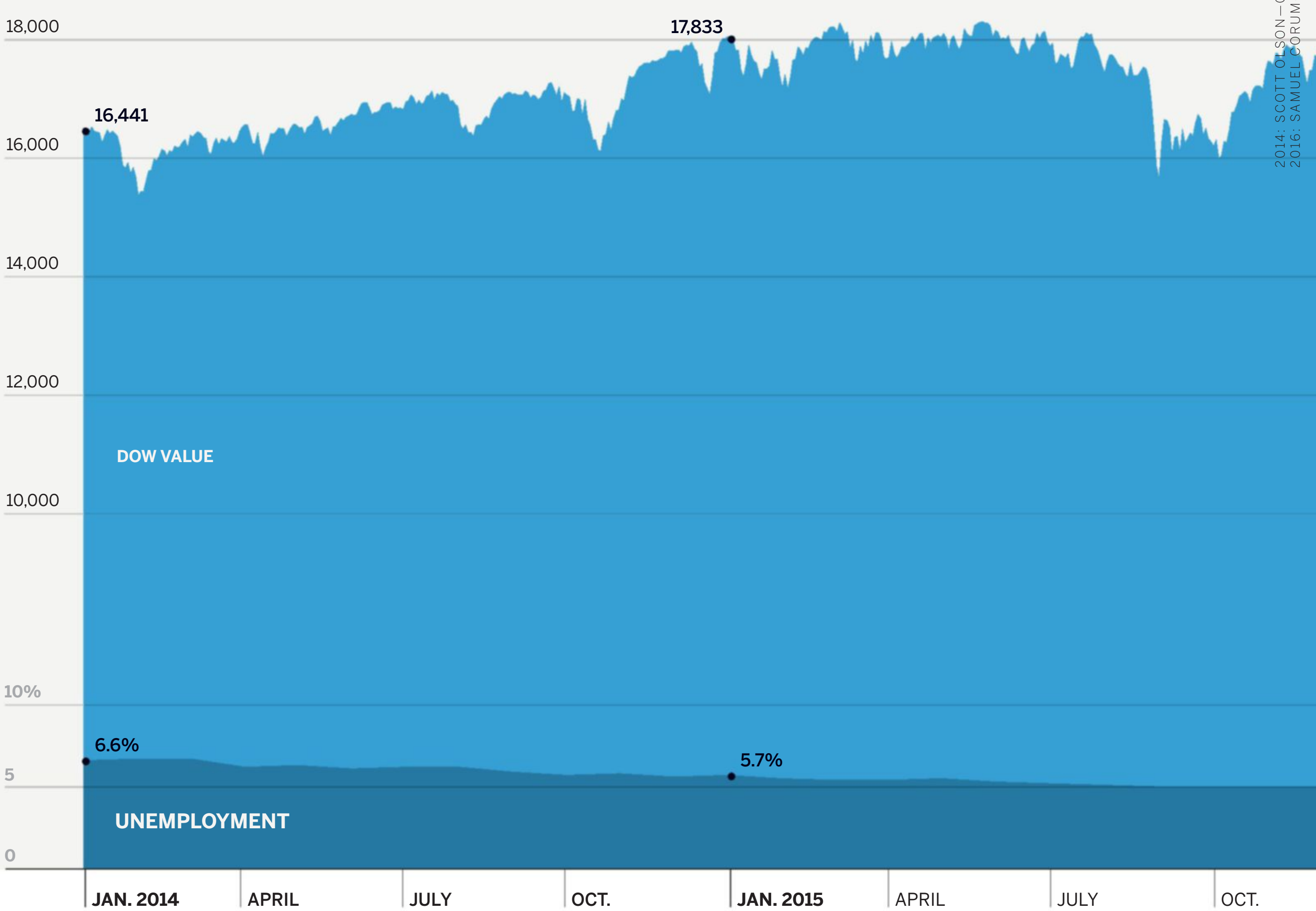
**Aug. 9**
**Michael Brown killed in Ferguson, Mo.**

## 2015

**June 26**
**SCOTUS makes same-sex marriage legal across U.S.**

**Dec. 11**
Film *The Big Short* hits theaters.

**Dec. 16**
Federal Reserve raises short-term interest rates for first time since the financial crisis.




2014: SCOTT OLSON—GETTY IMAGES; 2015: ASTRID RIECKEN—THE WASHINGTON POST/GETTY IMAGES; 2016: SAMUEL CORUM—ANADOLU AGENCY/GETTY IMAGES; 2017: FIONA GOODALL—GETTY IMAGES

## 2016


## 2017

**January**
U.S. unemployment dips below 5% for first time since the financial crisis.

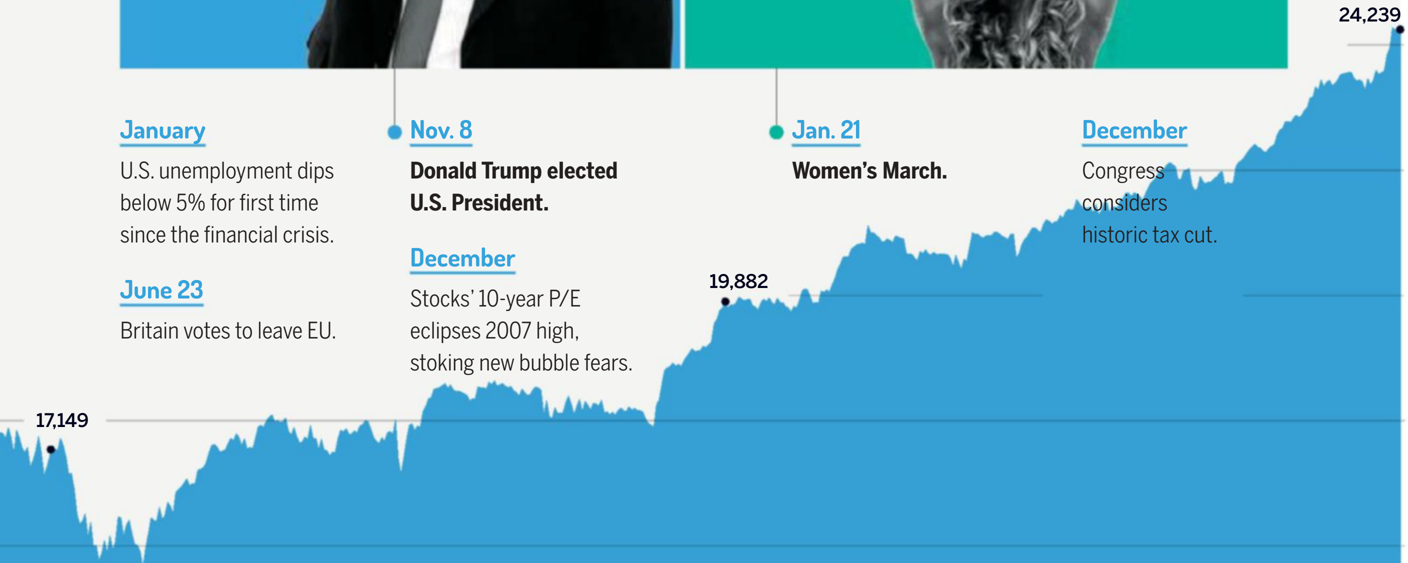
**June 23**
Britain votes to leave EU.

**Nov. 8**
**Donald Trump elected U.S. President.**

**December**
Stocks' 10-year P/E eclipses 2007 high, stoking new bubble fears.

**Jan. 21**
**Women's March.**

**December**
Congress considers historic tax cut.




# How a typical $100,000 portfolio would have fared

While the financial crisis was terrifying for investors, those who stayed the course came out ahead.

**ASSUMES $100,000 ON JAN. 1, 2008**

| | MARCH 2009 | 2012 | 2015 | TODAY (11/1/17) |
|---|---|---|---|---|
| 90% STOCKS / 10% BONDS | $58,956 | $109,986 | $170,675 | $227,453 |
| 70% STOCKS / 30% BONDS | $67,311 | $115,080 | $165,203 | $209,210 |
| 50% STOCKS / 50% BONDS | $76,507 | $119,384 | $158,311 | $190,250 |

***SOURCE**: Morningstar*

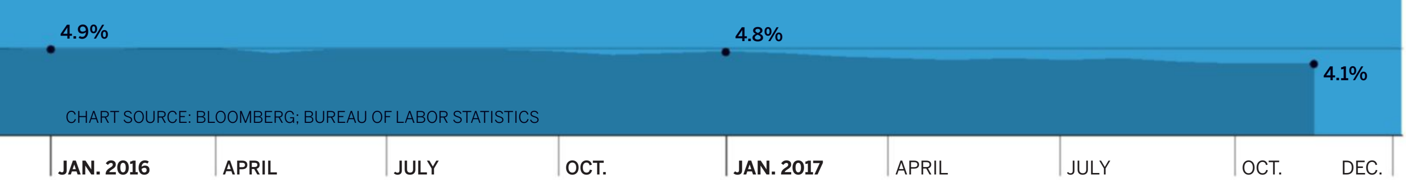



CHART SOURCE: BLOOMBERG; BUREAU OF LABOR STATISTICS


synchrony BANK
WHY BE AVERAGE? STAND OUT.
GO WAY BEYOND AVERAGE WITH OUR CONSISTENTLY GREAT RATES.
Choose Synchrony Bank and enjoy award-winning products—with rates above the national average,* the safety of FDIC insurance and the rewards of our Perks program. Whatever you're working forward to, why settle for average? With Synchrony Bank, you can count on more.
What are you working forward to?
12-Month CD
1.65% APY*
$2,000 minimum opening deposit
High Yield Savings Account
1.30% APY*
no minimum balance
Visit us at synchronybank.com or call 1-800-753-6592.
*Annual Percentage Yields (APYs) are accurate as of 12/1/17 and subject to change at any time without notice. Fees may reduce earnings. Visit synchronybank.com for current rates, terms and account requirements. Offers apply to personal accounts only:
CDs: A minimum of $2,000 is required to open a CD and must be deposited in a single transaction. A penalty may be imposed for early withdrawals. After maturity, if you choose to roll over your CD, you will earn the base rate of interest in effect at that time.
HIGH YIELD SAVINGS: Rates are variable and subject to change any time without notice after the account is opened. No minimum opening deposit required.
NATIONAL AVERAGE: National Average APYs are based on specific product types of top 50 U.S. banks (ranked by total deposits) provided by Informa Research Services, Inc. as of 11/1/17. CD Rates: Average APYs are based on certificate of deposit accounts of $25,000. High Yield Savings Rates: Average APYs are based on High Yield Savings Accounts of $10,000. Although the information provided by Informa Research Services, Inc. has been obtained from the various institutions, accuracy cannot be guaranteed.
FDIC INSURANCE: FDIC Insurance up to $250,000 per depositor, per insured bank, for each ownership category.
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MONEY

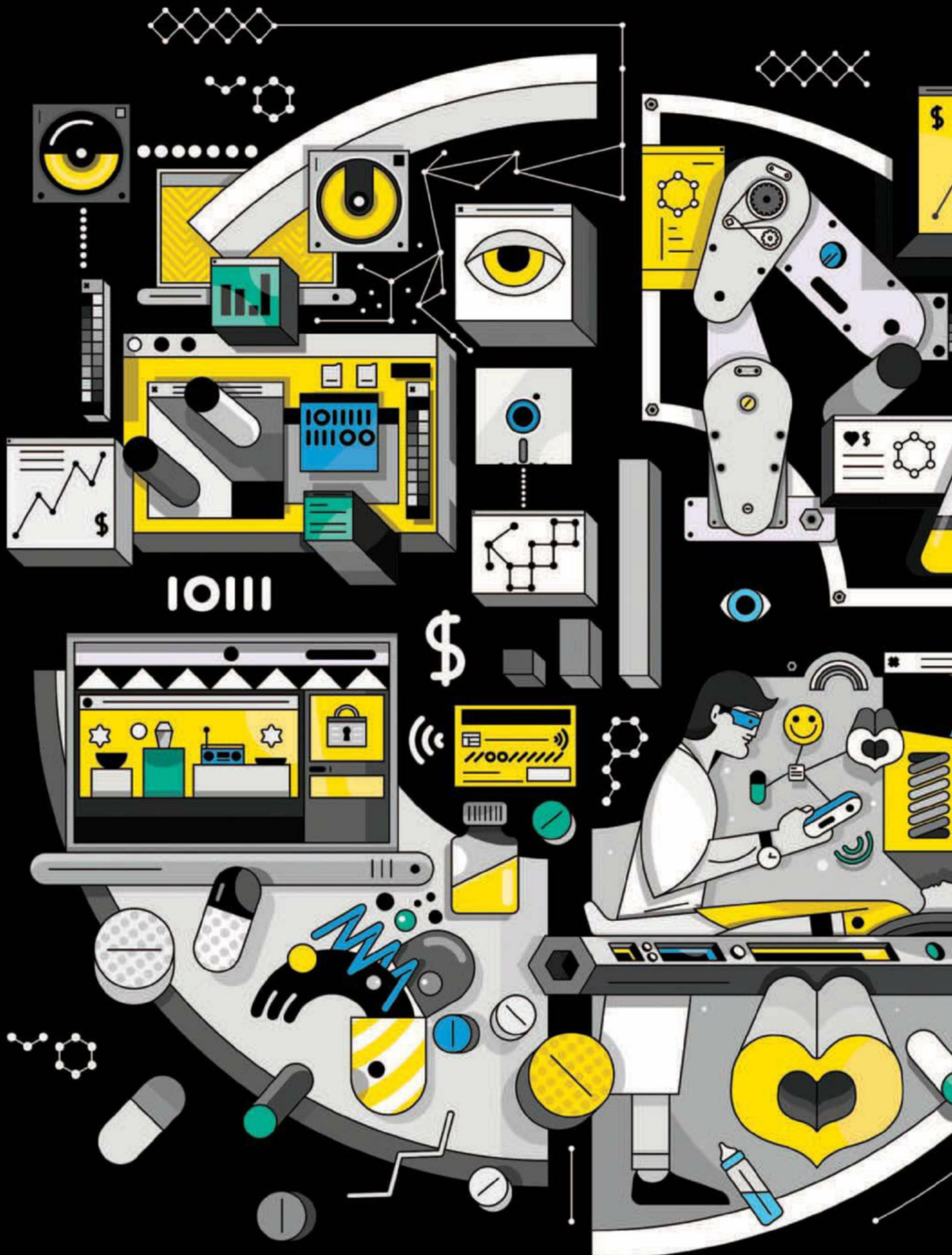
# INVESTOR'S GUIDE 2018

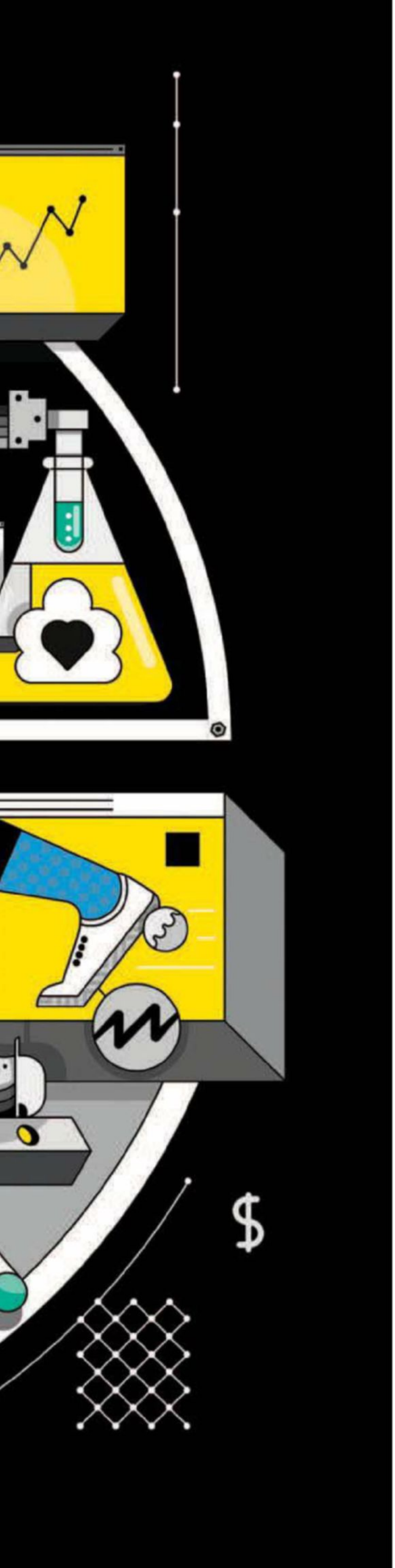
SECTION II

## THE OPPORTUNITIES



ILLUSTRATION BY **JORDAN METCALF**









# PICKS FROM THE PROS

These fund managers have consistently beaten the market by staying true to their process. Here are the stocks their process is pointing to now.

By RYAN DEROUSSEAU

ILLUSTRATION BY JAMIE CULLEN

**HOW CAN YOU TELL** which stocks are likely to outperform? One simple way is to ask professional stock pickers with a history of beating the market.

So that's what we did. To find such pros, MONEY screened for stock fund managers who have not only outperformed a majority of their category peers consistently over time—over the past three and five years—but who have also beaten the stock market indexes they're measured against.

To stay ahead of the pack, stock pickers need something more than a good track record and skills: They need a disciplined process that will help them and their investment teams replicate their performance year after year.

Some of the fund managers profiled here demand a minimum level of profitability from stocks for several straight years before they'll even consider investing. Others require a high degree of financial efficiency or revenue growth.

We asked the pros who run these funds what stocks their process is identifying now. Here's what they recommend:

## BLUE-CHIP STOCKS

The Pros:

# ERIC SCHOENSTEIN AND TEAM


FUND: **Jensen Quality Growth (JENSX)**

FIVE-YEAR ANNUALIZED RETURNS: **16.0%**

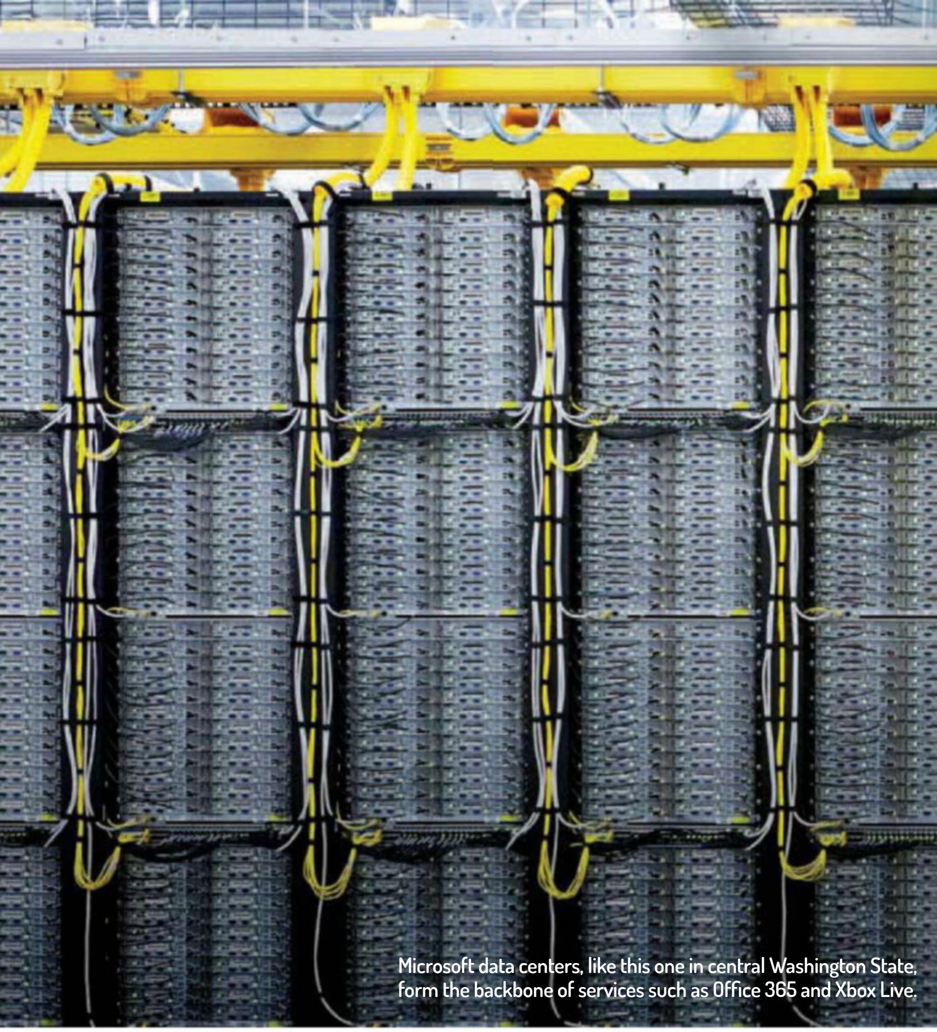
EXPENSE RATIO: **0.88%**

MINIMUM INITIAL INVESTMENT: **$2,500**

**WHEN A FUND** manager announces his retirement, like Jensen Quality Growth's Robert Zagunis did last year, you should typically worry about how the fund will run under new leadership. That's not the case for Jensen. Eric Schoenstein has helped manage the fund with Zagunis since 2002, and five others on the investment committee have tenures of at least nine years.

Plus, Jensen has a consistent process. Companies must have a 15% return on equity (a high standard of profitability) each year for 10 consecutive years in order to qualify for Jensen's consideration. This cuts the investment pool down

SCHOENSTEIN: COURTESY OF JENSEN INVESTMENT



Microsoft data centers, like this one in central Washington State, form the backbone of services such as Office 365 and Xbox Live.

from thousands of names to 230. They've taken a stake in 27 of those companies. Don't expect many utilities and energy stocks. Consumer and health care stocks typically dominate. The strategy often lags in rallies, but it served as a safer bet in the 2008 crash, when the fund fell 12 percentage points less than other blue-chip stock funds, according to Morningstar.

## The Picks:

**Becton, Dickinson & Co. (BDX)**
This medical supply firm made a big splash in 2017 when it agreed to its largest acquisition ever, a $24 billion purchase of competitor C.R. Bard. That's nearly double the revenues Becton claimed in 2016. Schoenstein likes the company's scale, which helps it control prices on its syringes and vials, especially as it rolls out innovations to improve safety. While the stock is not trading at a discount to the broad market, BDX offers security since a downturn will have little impact on demand for hospital supplies.

**Microsoft (MSFT)**
While tech enthusiasts swoon over hot startups or the latest e-commerce fad, Schoenstein believes those plays ignore the downside. Instead, Jensen placed 5% of its stake in Microsoft because of the relationship the software giant has with businesses, creating "a steadiness" to its revenues, he says.

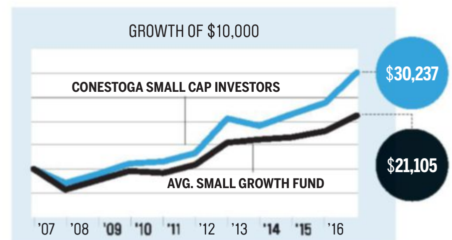
Microsoft's growth comes largely from its cloud-computing services. While Amazon Web Services garners much of the attention in the cloud space, Microsoft expects its commercial cloud business to become a $20 billion revenue stream over the next 12 months. If that holds, it would be a 57% increase from the previous year's expectations.

MICROSOFT: MICHAEL CLINARD; MITCHELL AND MONAHAN: COURTESY OF CONESTOGA CAPITAL ADVISORS

## SMALL STOCKS

**The Pros:**

# ROBERT MITCHELL AND JOSEPH MONAHAN




FUND: **Conestoga Small Cap (CCASX)**

FIVE-YEAR ANNUALIZED RETURNS: **17.6%**

EXPENSE RATIO: **1.10%**

MINIMUM INITIAL INVESTMENT: **$2,500**

**MANAGERS OF** small-company stock funds face a unique challenge: If they're truly successful, investors will fill their coffers with new money. But because these managers invest in tiny businesses, finding enough good stocks to spread around all that new money can be a challenge.

Conestoga comanagers Robert Mitchell and Joseph Monahan are facing this now, as assets have ballooned to over $1.4 billion after the fund beat its benchmark index by three percentage points annually.

New investors may soon be restricted from the small-cap fund. But Conestoga created the SMid Cap Growth Fund (CCSMX). Both funds take the same long-term view, with the managers assessing a company's potential over three to five years. Before buying, Mitchell and Monahan want to see a 15% return on invested capital—a high degree of efficiency—and prefer to invest in management teams with a 10% or more ownership stake.

### The Picks:

**Align Technology (ALGN)**
This maker of clear dental braces has seen sales climb 125% in the seven years since Conestoga first invested in the stock. It has done this by building a 25% market share among adults.

But teens dominate braces, accounting for 75% of sales. Align's teen market share: just 3%. With new campaigns targeting teenagers (and their parents' credit cards) and orthodontic work, Monahan believes case volume will rise 15% annually over the next three years.

**WageWorks (WAGE)**
If you're enrolled in a health savings or flexible spending account at work, there's a good chance WageWorks runs it. Clients include 71 *Fortune* 100 firms, and the company enjoys a 95% annual retention rate.

The stock isn't dirt cheap, but the shares are priced similarly to WageWork's slower-growing rival ADP.

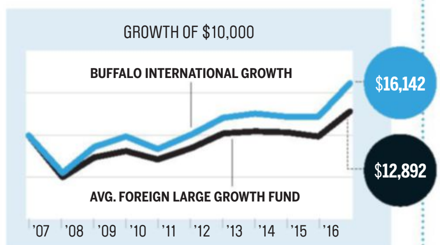
**Omnicell (OMCL)**
Cabinets may not seem like an important cog in hospitals, but Omnicell makes ones that manage medicines flying in and out of them, helping cut theft and waste.

Its newest cabinet offers automation and fingerprint controls, but their development nicked profit margins, says Monahan. As Omnicell scales up, he thinks margins will rebound.

## FOREIGN STOCKS

The Pro:

# NICOLE KORNITZER




FUND: Buffalo International (BUFIX)

FIVE-YEAR ANNUALIZED RETURNS: 9.5%

EXPENSE RATIO: 1.05%

MINIMUM INITIAL INVESTMENT: $2,500

**AT BUFFALO FUNDS,** managers start with around 25 big trends that the firm thinks will shape the long-term economic future, and then they invest in companies they think stand to benefit from those trends.

This long-term focus means that Buffalo International Fund comanager Nicole Kornitzer won't get sidetracked by what she views as short-term crises, such as Great Britain's surprising decision to leave the European Union. In fact, she used the post-"Brexit" selloff as a buying opportunity overseas.

The trends Buffalo homes in on aren't region specific, but Kornitzer must translate the impact they will have internationally.

Take the rise of the middle class in the developing world. "That's not [necessarily] on the pulse of a U.S. company" unless that business has emerging-markets exposure, says Kornitzer.

For Kornitzer, this demographic trend points to greater demand for things such as health care and luxury goods and international travel—all trends she's focused on in her fund, which has beaten 95% of its peers over the past decade.

### The Picks:

**Grifols (GRFS)**
Kornitzer likes this Spanish pharmaceutical company—which collects plasma (the liquid portion of blood) and manufactures plasma-based products—in part because it lacks real competition.

And though 60% of Grifols's sales come from the U.S., the firm is targeting China and other parts of Asia for growth. It

KORNITZER: COURTESY OF BUFFALO FUNDS

Hanging luxury garments at the Yoox headquarters near Bologna, Italy.

YOOX: CARLO FURGER—COURTESY OF YOOX; ISHIDA: COURTESY OF MATTHEWS ASIA

has experienced a 31% surge in sales over the past two years in areas outside the U.S. and European Union. But Kornitzer advises buying the B shares offered in the U.S., as they trade at a 30% discount to the A shares in Spain.

**Yoox Net-a-Porter (YXOXY)**
While Amazon dominates online sales in the U.S., luxury goods remain one of the few areas the e-commerce giant has yet to conquer. Yoox—an Italian fashion e-tailer that runs, among other sites, Net-A-Porter.com, commands 10% of the online luxury market. And "no competitor comes close to its size and breadth of products," says Kornitzer.

Buffalo believes this luxury e-commerce trend dovetails with rising global wealth. In its 2020 growth plan, Yoox expects a 2% gain in market share. If that's achieved, that would equate to a 20% annual revenue burst.

**EMERGING-MARKET STOCKS**

The Pro:

# TAIZO ISHIDA


FUND: **Matthews Asia Growth (MPACX)**

FIVE-YEAR ANNUALIZED RETURNS: **10.9%**

EXPENSE RATIO: **1.14%**

MINIMUM INITIAL INVESTMENT: **$2,500**

**WITH THOUSANDS OF** companies in Asia to choose from, how does Matthews Asia Growth begin winnowing the field? Lead manager Taizo Ishida uses a simple formula: He focuses just on publicly traded firms that have reported three straight years of double-digit revenue growth.

That screen drops the number of stocks to about 200. After that, Ishida evaluates each company, uncovering those he thinks can grow earnings 20% or more per year, over the next decade. Really, though, he's trying to identify companies that will grow from "$1 billion to $10 billion," he says.

This approach ensures his fund looks entirely different from index funds, which are tilted toward Japan. Matthews, for instance, only keeps 38% of its assets in Japan, vs. 67% for index funds. Meanwhile, the fund holds a 58% stake in rapidly developing parts of Asia, like India and China. The results: Matthews Asia returned 6% a year for the past 10 years, vs. 1.4% for the MSCI index. ■

**The Picks:**

**Pigeon (PGENY)**
In the early 2000s, this Japanese baby-bottle maker realized the risks of being tied to Japan's low birth rate. So Pigeon moved into China, where mothers give birth to over 17 million babies a year. China now accounts for 32% of sales.

Pigeon sold the idea that Japanese products are safer. "People love them," says Ishida. It's not a cheap stock, but Pigeon is now expanding into India, where average births per year surpass 25 million.

**Shenzhou International Group (SHZHY)**
There's a good chance you've never heard of Shenzhou, but you'll recognize its clients: Nike, Adidas, Puma, and Uniqlo account for 80% of this garment producer's revenues.

When Ishida invested in the company in 2010, it had a market value of $1.5 billion. That's now $12 billion. With a 20% profit margin and a new factory in Vietnam, Ishida expects sales to keep growing at a 15% annual clip.

**M3 (MTHRF)**
Ishida calls health care the "most exciting sector in Asia" because of a growing middle class looking for quality care. M3 connects doctors to new drugs, providing information.

By reaching doctors directly, it reduces the need for sales reps, a huge cost-saver. With 4 million docs signed up, sales grew 21% over the past year, and the firm is targeting France, Japan, and the U.S.

THE Q&A

# SCHWAB'S CEO SURVEYS THE LANDSCAPE

**Walt Bettinger**, chief executive of the 46-year-old brokerage firm, weighs in on index fund pricing trends, artificial intelligence, the years-long bull market, and the new forces remaking the financial services industry.

Interview by ADAM LASHINSKY

**CHARLES SCHWAB,** the discount brokerage, went public 30 years ago and has since ridden repeated waves of financial cycles and a thorough reordering of the personal finance industry. Its CEO, Walt Bettinger, calls the modern Schwab a "no-tradeoffs firm": a low-cost brokerage that has high-touch service, with a human-plus-machine "robo-advisory" offering, and inexpensive passive investments including exchange-traded funds. Bettinger, who still labors under the watchful eye of executive chairman Charles Schwab, has strong views on Schwab's money-back guarantee, the company's pricing strategy, and how the renegade-turned-incumbent firm uses artificial intelligence. If Bettinger has a regret, it's that American savers still lack the necessary financial literacy to secure their futures. Our sister publication *Fortune* sat down with Bettinger this fall. Below is an edited transcript.

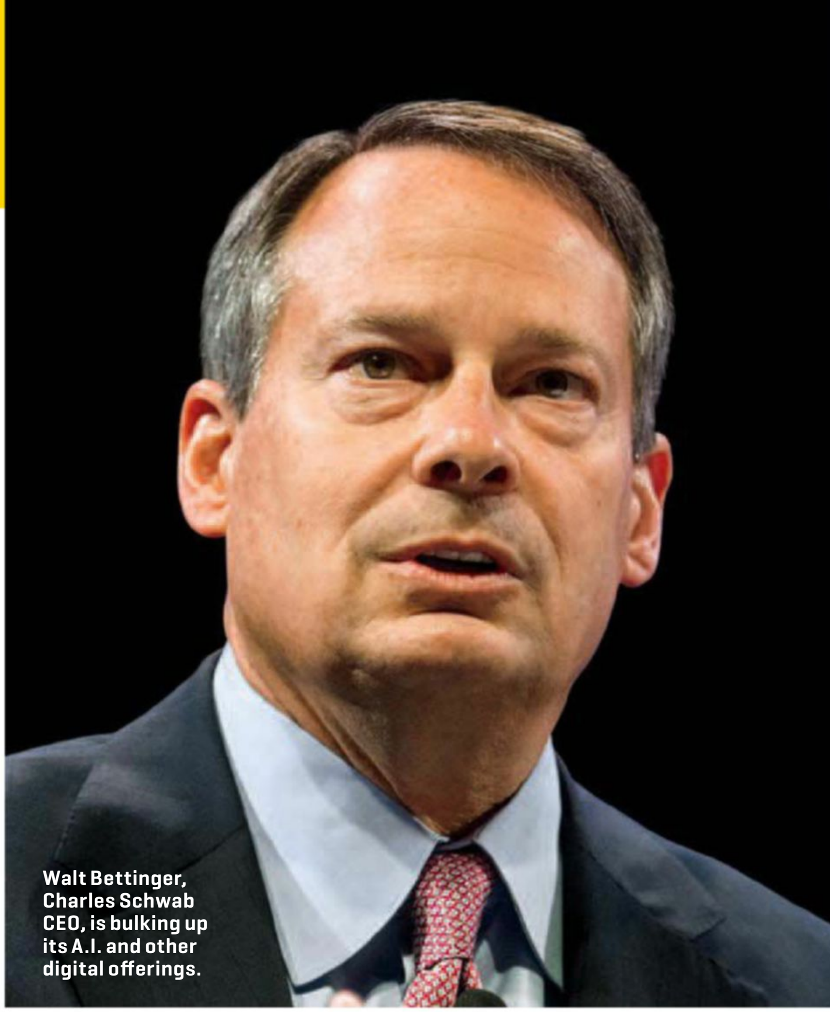
**What is Schwab's overarching approach to financial services on behalf of clients?**
Our core strategy is around creating a no-tradeoffs type of firm. It's offering pricing on commodity products like index mutual funds and ETFs that is as low or in many cases lower than anyone else in the industry, yet combined with hundreds of branches around the country. Two years ago J.D. Power ranked us No. 1 in *full service* for brokerage. Who would have thought 40 years ago Charles Schwab would be No. 1 in full-service brokerage?

**In each of your major business lines you have more narrowly focused competitors. Why is your comprehensiveness superior?**
The main businesses we're in are all complementary. We're not building widgets and then marketing investments. They all leverage the same infrastructure. One of our greatest advantages is our scale. At $3.2 trillion in assets, we operate the firm on 17 basis points of cost. Our nearest publicly traded competitor, TD Ameritrade, is about 10 basis points above that. And the wealth-management divisions of traditional full-service firms, Bank of America and Morgan Stanley, are about three times that. That's why we're growing so much faster, because we're leaving more money in the pocket of the client.

**You speak about challenging the status quo. What do you mean by that?**
Let's play a word association game. I tell you that you want the lowest cost index fund, who do you say?

**Vanguard.**
Okay, but that's not right. Our index funds are as low or lower. Here's another. I say you want the absolute premier service and advice in the industry. This time I'm not going to have you say a name because whatever name you say, we [add more assets each] year than that firm. This is challenging the status quo.

When you work in an industry you're going to have more knowledge about how the sausage is made than the person who buys the sausage. The internal expense rate of an ETF is the same no matter how much you buy. So why is it that when it comes to index mutual funds, if you go with $500 you will pay the biggest names in the industry four and five times what you would pay if you bought $5 million? It's an example of taking advantage of knowing how the sausage is made to extract more from the client. We looked at that and made the decision earlier this year to eliminate all the share classes on our index mutual funds.



Walt Bettinger, Charles Schwab CEO, is bulking up its A.I. and other digital offerings.

> WHEN YOU'RE RESPONSIBLE FOR CUSTODY OF $3.2 TRILLION, TECHNOLOGY HAS TO BE AT THE FOREFRONT OF VIRTUALLY EVERYTHING YOU DO."

[In other words: to charge the same price no matter the volume purchased.]

**This must have been a painful decision.**
In 2017 we've given up just under $400 million in annualized revenue via price reductions to clients. And we did just under $2.2 billion of revenue last quarter. So this year alone we'll give up somewhere between 4% to 5% of our gross revenue [to deliver] a better value to the consumer.

**Why give up easy money?**
We have a long-term time horizon, which means we're looking to continue to build our scale. This causes consternation on Wall Street, but there's nothing I would like more than to see the 27 or 28 basis points that we take from clients in revenue today go down to 24 or 22. We'll keep lowering our cost because that's going to continue to grow our overall top line, because more consumers will want to do business with us. And it'll continue to improve our profitability because we'll use technology to become more and more efficient.

**How do you think about investing in technology?**
When you're responsible for custody of $3.2 trillion, technology has to be at the forefront of virtually everything you do. And not just for efficiency, but also for minimization of errors and processing, for protecting clients' information, security of their personal information and their assets.

Then you have to back it all up with a guarantee. If you're unhappy with any experience you have at Schwab, we'll give you your money back. Commission, fee, even your advisory fee if you're using us for advisory services and you're unhappy with the advisory services we provide. We give you your money back.

**That's a nice human touch. But aren't the robots going to take over eventually, particularly at giving advice?**
Digital advice is a credible product. People will put money into a digital advisory solution. Our clients are putting about a billion dollars net every month into [what we call] Intelligent Portfolios. But it is just a product. What our clients tell us is that to have a real relationship, it's going to be more than just technology.

That's why from the moment we introduced Intelligent Portfolios we said the product is going to have 24/7/365 access to speak with live licensed professionals. We never believed that the notion of people staying with a plan during difficult times in the market was a given.

STUART ISETT—FORTUNE GLOBAL FORUM, 2015

**How are you using artificial intelligence?**
Artificial intelligence is utilized much more for service experiences. We have a saying at Schwab that we use our data to serve, not to sell. That's the greatest opportunity for artificial intelligence. I'll give a very simple example: You call up one of our call centers, and you have a concentrated position in XYZ stock because you worked there for 35 years. Our computers can listen to that call, interpret what you are saying, and reach right back out to you with an option strategy that gives you some downside protection in the event that that individual stock runs into problems.

**Charles Schwab**
After setting up shop in San Francisco in 1971, Schwab built his namesake company into an investing behemoth, pioneering the discount brokerage concept in the U.S.

**And your contention is that the computer is a better listener than a person?**
How can you listen to tens of thousands of phone calls every day in real time and be able to rapidly offer a strategy? You were simply just expressing an issue to us, and now we can come back and give you a potential solution that would make sense for you.

**Did you design or buy that?**
There are components of it that you buy, but the overall concept and approach are things that we built ourselves. That's where I see intelligence creating value. Anyone telling me that they've got the latest and greatest way to time the market, beat the market, outperform the market, I say, Come on, people have been selling us those stories for a hundred years.

**But aren't you like a pharmacy that also sells cigarettes? Stock pickers can't beat the market, yet you still sell individuals stocks.**
If I have a grocery store and I think a certain brand of ketchup is better than another brand, I'm not going to just completely refuse to give the second one any shelf space. I might not put it on the end of my aisle, but I'm still going to allow you to pick the kind of ketchup you want.

**Let's shift to the economy. We're eight years into a bull market. What's the game plan for its inevitable end?**
From a client standpoint, it's really about planning. It's about asset allocation and keeping your costs low. We don't believe it's possible for people at scale to beat the market and predict the market and know when to get in and out of the market. Where most individual investors get in trouble is when the market goes down and they can't stand the pain so they leave. Then they either don't get back in or they wait until the market's turned and gone way up and then get back in. That's what really crushes individual investors.

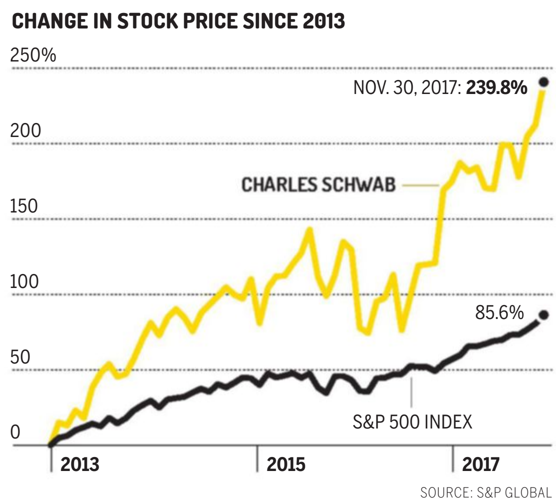
Now from a firm standpoint, our business model is designed with natural hedge. When the market is going up as it has been of late, we generate more revenue from our advisory fees. When the market goes down, clients tend to move money out of the market, despite our best recommendations, into cash. And we can make money on the [moving back to] cash side.

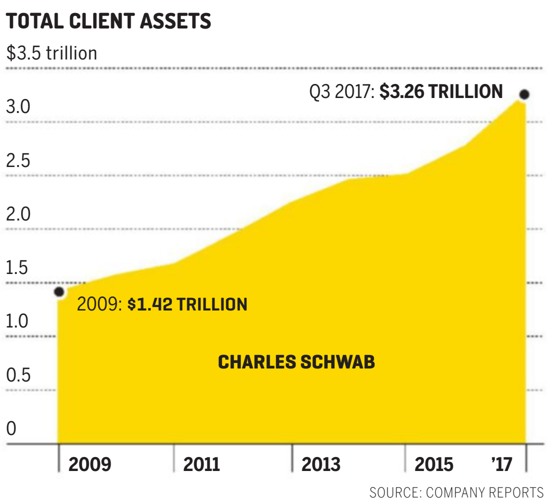
**But that didn't stop 2008 to 2009 from being an incredibly painful and disruptive time for Schwab, right?**
ZIRP, the time of "zero interest rate policies," was incredibly painful for us because interest rates went so low and clients moved to cash in record numbers. In order to ensure that they weren't getting a zero yield or a negative yield on their money funds, we waived all our fees. That's the one environment that is very difficult for us, although we still maintained profitability throughout the entire time. In those three years after the financial crisis, we grew our assets by $530 billion. Merrill Lynch, Morgan Stanley, E*Trade, Ameritrade added together grew by about $320 billion. So you're also preparing for down times in the way you run your firm in good times. It's why our balance sheet is 70% U.S. Treasuries and

> "THERE IS SO MUCH WE CAN DO AROUND FINANCIAL EDUCATION FROM A SOCIETAL STANDPOINT THAT I THINK WOULD HAVE A TREMENDOUS IMPACT."

DANIEL ACKER—BLOOMBERG/GETTY IMAGES

## Schwab Rising




government-backed paper today. Because we don't want to take credit risk. Our clients know that in tough times we're a safe port.

**Let's end on an existential note. For all of Schwab's and the financial industry's success, people still don't save enough, and they're still financially insecure.**
It's probably one of the biggest and most complex questions in the investing industry. In our capitalistic society owners are rewarded to a greater extent than lenders. And yet, we as a society have not created a system that encourages the masses of our population to be an owner rather than a lender.

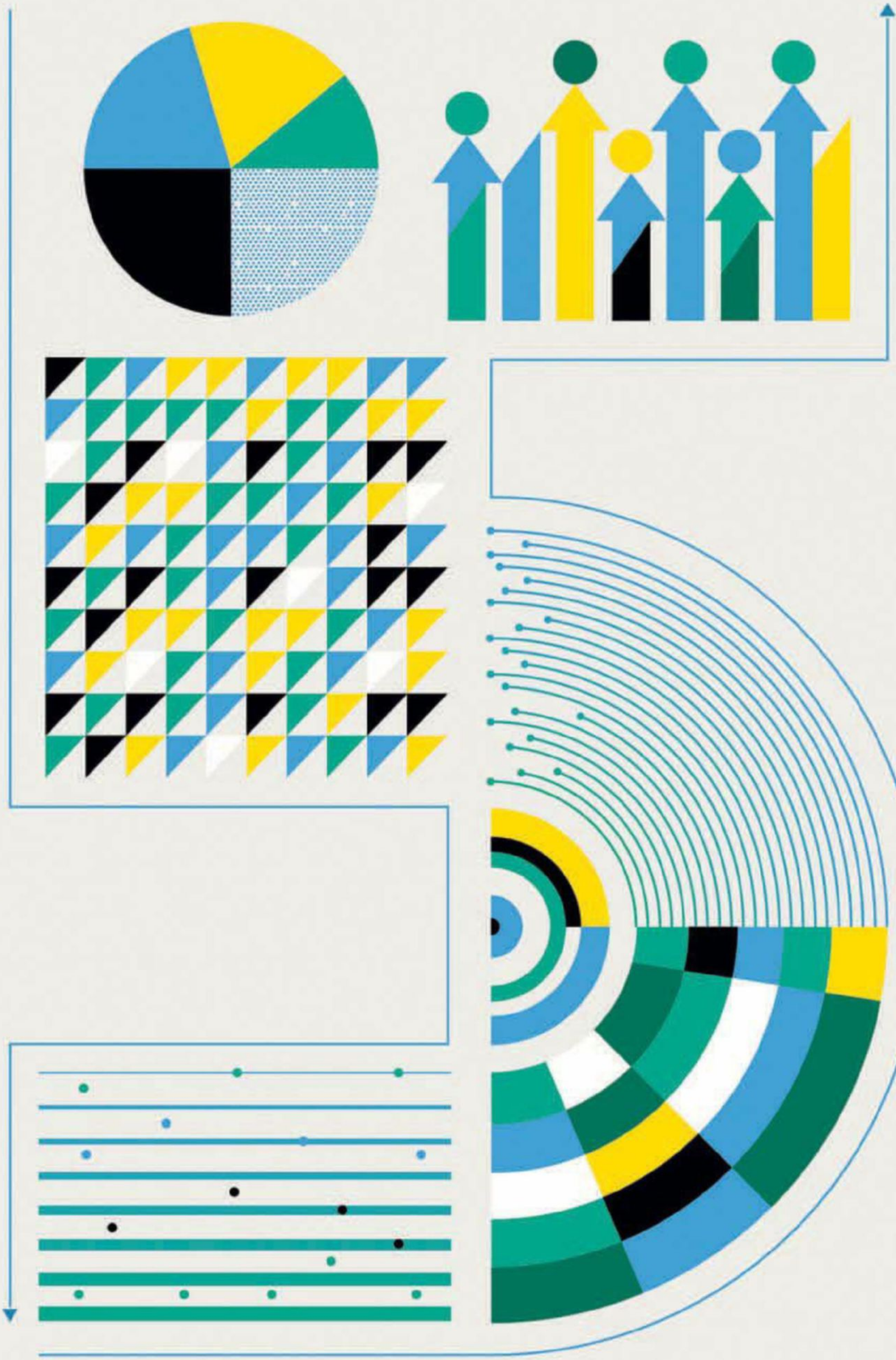
**Are you using "lender" to refer to workers?**
Yes. People who don't save, aren't able to save, or whatever little they do save goes into a passbook or a CD or something. They're lending their wealth to people who are owners. We as a society haven't done a good job of educating people on the opportunity differences between the two approaches. And we have an enormous issue that just has to do with teaching people about finance.

I think we would all agree, at least all of us who work in this industry, that these should be required programs in school. When I was in school I had home economics. I learned how to make a vest, and I learned how to cook macaroni and cheese. Now the vest part I'm not so sure about, but the macaroni and cheese benefited me in college. Still, I would have probably been better off to understand, How does a credit card work? How does compound interest work? Why is it not a great thing to have to pay someone 19% interest because I spent more than I had? There is so much we can do around financial education from a societal standpoint that I think would have a tremendous impact. But we haven't yet been able to get that on a broad scale through our academic institutions.

**But what can Schwab do?**
We can try to make it part of our corporate strategy, the education going on in schools, in workplaces, things we do in the Boys & Girls Clubs of America, which we're a national sponsor of. Ideally you want an ever-shrinking percentage of the population who can't come up with money needed to live.

It's very difficult from a corporate standpoint to change where society is unless we start at the beginning. And start with people at a younger age.

*This article originally appeared in the Dec. 15, 2017, issue of* Fortune *magazine.*



# 5 BIG ECONOMIC TRENDS TO BET ON FOR THE COMING YEAR

Since stocks move in anticipation of the economy, you have to look at likely developments in the coming year to make smart decisions now.

By **JOHN WAGGONER**

ILLUSTRATION BY **MARTIN AZAMBUJA**

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**ON A DAY-TO-DAY BASIS,** Wall Street seems to have the attention span of a gnat. One day, stocks sell off because of perceived gridlock in Washington or another crisis in North Korea. The next day, equities are just as likely to rebound because iPhone sales are going through the roof or Amazon just found another industry to disrupt.

It all sounds random. But over time, there's a method to the market's madness. Events that reflect or affect the direction of the economy will always move stocks.

Last year, for example, global equities in general and Chinese shares in particular soared by more than 20%, foreshadowing the reacceleration of the Chinese economy.

But with the global economic cycle maturing, "there are going to be fewer growth surprises" going forward, says Richard Turnill, global chief investment strategist for BlackRock.

So you'll have to choose your targets more carefully, and take note of the big investment trends that are expected to arise in 2018, such as rising interest rates, blockbuster breakthroughs in health care, and accelerating international growth—just to name a few.

## 1. U.S. INTEREST RATES RISE

### The Trend

**IF YOU SMELL INFLATION** in the air, you have a better nose than most people. The consumer price index has risen just 2% over the past 12 months, according to the Bureau of Labor Statistics. That's well below the long-term average of 3%.

Nevertheless, economists expect the Federal Reserve to nudge short-term rates higher at least twice more in 2018, bringing the key short-term Federal funds rate to just below 2%.

Why would the Fed push rates higher if inflation isn't rearing its ugly head? Partly because the Fed wants to be proactive, and inflation tends to rise when unemployment is low. As of October, unemployment fell to 4.1%, the lowest since 2000. And the Fed's main tool for fighting recessions is cutting rates—a tactic of limited use when rates are hugging zero.

### What It Means for You

**IF YOU'RE A SAVER,** a higher Fed funds rate means modestly higher savings rates. "If you shop around, you might be able to do better than 2% on a one-year CD at some point in 2018," says Greg McBride, chief financial analyst for Bankrate.com.

Don't make the mistake of buying long-term certificates of deposit, though, McBride says. Periods of rising rates can last a long time. Right now, the rate difference between one-year and five-year CDs isn't much, and locking into a 2% yield for more than a year can look foolish if short-term rates start climbing back to their historical norms.

Rising short-term rates could also nudge up returns for long-suffering money-market mutual fund investors. Currently the Vanguard Prime Money Market Fund yields 1.2%. Two or more rate hikes could lift top-performing money funds above the 2% mark.

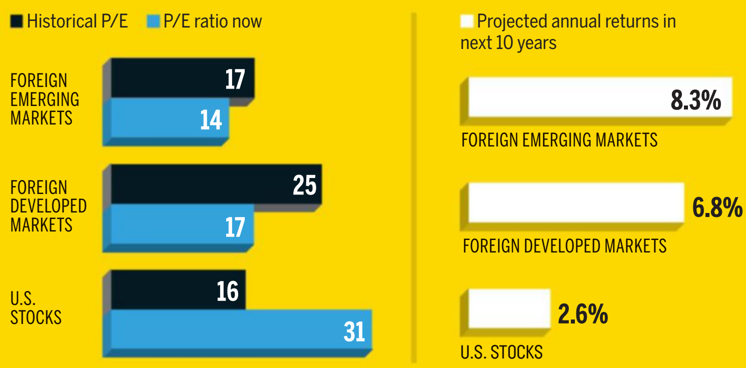
There is a dark side to higher savings rates, though—and that's higher interest rates on home-equity loans, credit cards, and adjustable-rate mortgages.

And a 2% yield could even temper stock gains. Frustrated income investors have been pouring money into dividend-paying stocks for years just to get the payout. But dividend-paying stocks tend to fall out of favor when rates are rising and bonds start to offer higher yields than stocks.

## Foreign Advantage

Because international shares are trading at substantial discounts to their long-term levels ...

... Foreign equities are expected to produce far bigger gains than U.S. shares over the next decade.




***NOTES:*** *Price/earnings ratios are based on 10 years of averaged profits. Historical valuations are median values, referring to the midpoint over the past two decades.* ***SOURCE:*** *Research Affiliates*

# 2. ECONOMIES OVERSEAS REBOUND

### The Trend

**"AMERICA FIRST"** isn't just a political slogan. For much of the past decade, it turned out to be a smart way to manage your portfolio. The S&P 500 index of blue-chip stocks gained an average 8.3% a year in the past decade since the worst of the global financial crisis, while the MSCI Europe, Australasia, and Far East (EAFE) index of foreign shares gained less than 2% a year. Investors who ventured into the volatile emerging markets such as China and Brazil earned less than 1%.

But U.S. stocks are no longer the only belles at the ball. International markets hopped out of bed and started dancing in 2017, as economies abroad accelerated faster than the U.S. EAFE stocks were up 23% last year while the emerging markets rose more than 30%.

"One of the trends that we see is the continuing improvement of global economic growth," says Stephen Wood, chief market strategist for North America at Russell Investments. Indeed, while the U.S. economy is expected to grow 2.5% this year, global GDP is forecast to grow 3.2%.

### What It Means for You

**"PEOPLE SHOULD BE** using the strong rally in the U.S. to fund a global rebalancing strategy," says Wood. In other words, it's time to take some profits from your U.S. exposure to buy foreign.

Where to start? Foreign shares based in developed markets such as Europe and Japan look relatively attractive. The price/earnings ratio for foreign shares, based on 10 years of corporate profits, currently stands at a modest 17, which is 33% lower than their historical valuation. By contrast, U.S. shares trade at a P/E ratio of 31, which is 90% higher than their historical median.

Meanwhile, the European Commission, which is responsible for managing the day-to-day business of the European Union, predicts the EU grew at its fastest pace in a decade in 2017 and should grow faster yet in 2018.

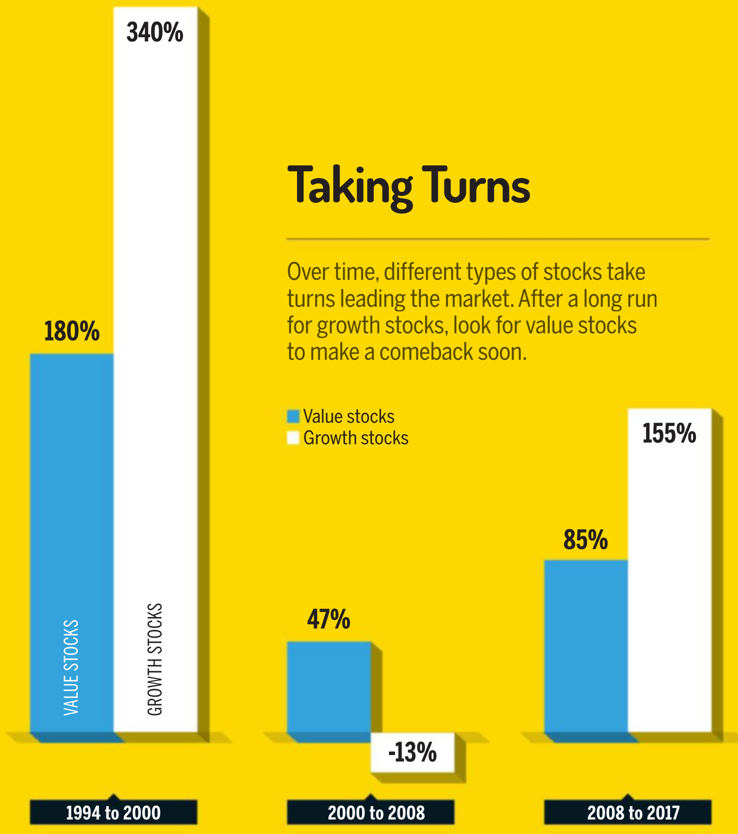
On our MONEY 50 recommended list of mutual funds, **Oakmark International** (OAKIX) is a top-rated portfolio that invests nearly 80% of its assets in undervalued European stocks. The fund has outperformed more than 95% of its peers over the past five, 10, and 15 years.

Emerging markets should also continue producing gains—though probably not as big as last year's, especially if the dollar were to gain strength (a strengthening dollar reduces the gains of Americans investing abroad while a weakening dollar amplifies your gains). For long-term investors who can stomach the risk, emerging markets offer the best growth potential, says Robert Doll, chief investment strategist for Nuveen.

On the MONEY 50 recommended fund list, go with **T. Rowe Price Emerging Markets Stock** (PRMSX), which has beaten more than 85% of its peers over the past one, three, and five years. If you prefer a single fund to cover all the foreign markets, **Vanguard Total International Stock** (VXUS) brings you the world for just 0.11% a year.

## Taking Turns

Over time, different types of stocks take turns leading the market. After a long run for growth stocks, look for value stocks to make a comeback soon.




***NOTE:*** *Based on S&P 500 growth stock index and S&P 500 value stock index.* ***SOURCE:*** *Morningstar*

## 3. ASSETS REVERT TO THE MEAN

**IN THE LONG RUN,** two things are certain: One is that we're all dead, as economist John Maynard Keynes pointed out. And eventually, outperforming and underperforming investments will return to their long-term average performance.

This phenomenon—called "reversion to the mean"—is something you should keep in mind in 2018 as you review your portfolio.

For example: U.S. equities are divided into two basic groups: "growth" stocks, which are shares of fast-growing companies that often trade at a premium to the broad market, and "value" stocks, or shares of beaten-down or overlooked companies that are trading at discounts. Over the past decade, the average growth stock has returned 159% vs. just 89% for value.

Sooner or later, value investing will start to outperform growth, says Sam Stovall, chief investment strategist at the research group CFRA. "Don't be surprised if we see a reversion to value," Stovall says.

On our MONEY 50 recommended list of ETFs, **PowerShares FTSE RAFI U.S. 1000** (PRF) tilts toward blue-chip value stocks. The typical holding in the fund trades at a P/E ratio of 19, which is a 10% discount to the broad market.

Other areas that might be due for a resurgence:

**> Energy funds.** Still stinging from the collapse in oil prices that began in 2014, energy funds and energy master limited partnership funds are among the few categories in the red for 2017. Even a modest upturn in energy prices could help these funds regain ground. On the MONEY 50 ETF list, you can go with **iShares North American Natural Resources ETF** (IGE), with more than 80% in energy.

**> Inflation-protected bond funds.** Inflation has been deader than Cleopatra's coffin, and the average inflation-adjusted bond fund has actually lost 0.5% a year for the past five years, according to Morningstar. But Wall Street could be underestimating long-term inflation: The 30-year projected inflation rate on Treasury Inflation-Protected Securities, or TIPS, is 1.9%—well below the long-term average of 3%. As a hedge, check out **Vanguard Inflation-Protected Securities** (VIPSX).

## 4. HEALTH CARE REMAINS HEALTHY

**IF ANY SECTOR** of the economy should have been roiled last year, it was health care. Republicans mounted an unsuccessful attempt to repeal the Affordable Care Act and then continued efforts to chip away at it.

Nevertheless, health care funds soared in 2017, posting average gains of more than 20%. Betsy Lind, investment analyst at Orbis Investment Management, isn't surprised. "The health care system is such a complicated Rube Goldberg system. It's hard to change."

A diversified health care fund has some potent medicine to keep its stamina up. The first is demographics (see "5 Big Demographic Trends to Bet on for the Coming Decade" on page 78). Not only is the baby-boom generation getting older, requiring more health care, more households are achieving middle-class status globally, which means they can afford more treatment. The number of people who can afford Western-style health care in China and India is growing by 5% to 10% a year, and that means growing global demand for new drugs, treatments, and devices.

The second is the revolution in genetic diagnostics and therapy. That's why Lind says the promising segment of health care is large-cap biotechnology, such as **Gilead Sciences** (GILD), with treatments for HIV and hepatitis, and **Celgene** (CELG), working on cancer therapies. It's been 15 years since the completion of the Human Genome Project, and companies are only now beginning to convert advances in genome-sequencing into actual therapeutics. The biggest biotech and pharmaceutical companies are well positioned to capitalize on these developments.

To capture both the domestic and international opportunities in this sector, consider **iShares Global Healthcare ETF** (IXJ), which counts Swiss drugmaker **Novartis** (NVS) among its top holdings as well as Gilead Sciences and Celgene.

## 5. THE NEW NORMAL SETS IN

**THE SOARING STOCK MARKET** in 2017 belies a more subdued reality: The U.S. economy is in the late stages of a longer-than-expected expansion and remains mired in subpar growth. Meanwhile, both the stock and bond markets—because of their frothy prices and outsize gains in recent years—are expected to deliver below-average gains over the coming decade.

Research Affiliates, for instance, projects that both U.S. blue-chip stocks and core bonds will return less than 3% a year over the next decade—a fraction of their historical gains.

There's little investors can do about the market. But in a low-return environment, it's more important than ever to preserve what little you do earn.

The good news: In 2017, most of the major mutual fund providers—including Charles Schwab, Fidelity Investments, and Vanguard—dropped the expense ratios on their exchange-traded funds. That means you can now cobble together a portfolio of U.S. stocks, foreign equities, taxable bonds, and money-market securities for less than 0.25% of assets a year.

Currently Morningstar lists 39 ETFs with expense ratios of 0.10%, all of which could serve a useful function in your portfolio. On our MONEY 50 recommended list of ETFs, the **Vanguard 500 ETF** (VOO) and **Schwab U.S. Broad Market ETF** (SCHB) both offer you exposure to a broad market index for 0.04% of assets a year or less. Similarly, you can get access to the total fixed-income market through **Vanguard Total Bond Market ETF** (BND) for just 0.05% a year.

A study by Morningstar found that low costs consistently lead to better after-fee performance—when it comes to broad stock market funds, sector funds, foreign funds, bond funds, and balanced funds.

The world changes minute by minute, but in the investment world, there's precious little that you can predict or control. Low fees are one tool you can use to improve your performance. So why wouldn't you?

## 5 BIG DEMOGRAPHIC

# TRENDS

## TO BET ON FOR THE COMING

# DECADE

**If investing is for the long term, you have to know the big developments unfolding over the next few years and decades—like these key social and generational trends.**

**By SARAH MAX**

ILLUSTRATION BY **MARTIN AZAMBUJA**

**IN 1751, BENJAMIN FRANKLIN** wrote the 18th-century equivalent of a listicle. His essay "Observations Concerning the Increase of Mankind, Peopling of Countries, etc." outlined two dozen ways in which marriages, births, deaths, race, labor, and other demographic trends would impact the country. Franklin, it turns out, was ahead of his time.

Today investment strategists and economists know all too well that demographics play a profound role in the fortunes of economies, markets, industries, stocks, and ultimately investors. It stands to reason that if investing is about figuring out what the world might look like in a decade or two—so you can determine who the winners and losers will be before it becomes clear—you can't ignore cultural, social, and generational patterns when it comes to your portfolio.

Without appreciating the cultural and economic significance of the baby boomers, for instance, investors would have had a hard time anticipating the consumer boom of the 1980s and '90s. And without recognizing China's industrial revolution, investors would have been hard-pressed to predict the bull market in commodities in the 2000s.

"The point is to invest in themes humanity cannot ignore," says Dave Haviland, lead portfolio manager at Beaumont Capital Management.

What are such themes going forward? Here are five generational, social, and cultural trends that are likely to have a big impact on the global economy—and your portfolio—in the years to come.

## 1. MILLENNIALS TAKE ROOT

### The Trend

**"EVERY MAJOR EXPANSION** and [big] bull market has been driven by a baby boom entering its household-formation years," says Dan Wantrobski, director of research at Janney Montgomery Scott.

While much has been written about how millennials have been slow to leave the nest, Americans born between 1982 and 2000 already make up the biggest group of homebuyers, accounting for more than a third of all purchases, according to the National Association of Realtors. And that's with the youngest members of this generation still in high school.

Over the next 15 years, as millennials enter their prime nesting years, the number of new households being formed is expected to reach all-time highs, Wantrobski says.

### The Opportunities

**THE COMING OF AGE** of millennials bodes well for the overall economy, but it's a particular boon for real estate, which has been gradually healing since the mortgage meltdown and financial crisis.

An obvious way to tap into this shift is to bet on homebuilders, says Haviland, who counts **iShares U.S. Home Construction ETF** (ITB) among his recent holdings.

Thanks largely to millennials, between 1.3 million and 1.35 million new households are expected to be

**THE MILLENNIAL HOMEBUILDER BUMP**

Contractors work on the frame of a home under construction at the D.R. Horton Express Homes Magma Ranch development in Florence, Ariz. As millennials begin forming households, demand for new homes is expected to rise.

CAITLIN O'HARA—BLOOMBERG VIA GETTY IMAGES

created annually over the next five years, according to forecasts by Morgan Stanley. That's 30% higher than the long-term average annual increase. Meanwhile, the inventory of listed homes for sale is near a 20-year low. Something has to give.

Among the biggest holdings of iShares U.S. Home Construction ETF are **D.R. Horton** (DHI), **Lennar** (LEN), and **PulteGroup** (PHM), the country's three largest homebuilders.

But it's not just home construction that stands to benefit. "When you have any large population [group like millennials], it dictates the tempo of society," says William Smead, founder of Seattle-based Smead Capital Management.

In addition to Lennar, Smead owns shares of **Home Depot** (HD), the world's biggest home-improvement retailer, and **JPMorgan Chase** (JPM), the country's second-largest originator of home mortgages, which stand to benefit as twentysomethings put down roots.

"The categories that performed well over the last several years—think craft beer, travel, social media—appealed to single people," Smead says. For cues into the next decade "just follow a couple with a 2- and 4-year-old around, and you'll get a good idea," he says.

## 2. BOOMERS TAKE DRUGS

### The Trend

**IT'S NO SECRET** that baby boomers—the more than 70 million Americans born between 1946 and 1964—are getting older. "There are 10,000 boomers retiring every day, and between 2000 and 2060 the number of people over the age of 65 is expected to double," says Haviland of Beaumont Capital.

While that has huge implications for financial services, as retired investors remake their portfolios, a more immediate impact is being felt in a different sector: health care.

"It's almost mathematically impossible for there not to be a huge increase on prescription pharmaceuticals," says Smead of Smead Capital.

### The Opportunities

**SPENDING ON** prescription drugs in the U.S. is indeed expected to climb—4% to 7% a year through 2021, according to QuintilesIMS Holding. That's more than twice the recent annual pace of inflation and well in excess of the projected 2.2% growth rate for the U.S. economy during that stretch.

Though health care has been among the better-performing sectors of the market in recent years, the full impact of this demographic tailwind is still underappreciated, market watchers say. So if you're relying on an S&P 500 index fund as the core of your portfolio, you may want to supplement the 14% exposure that such index funds have to this sector.

Among the top holdings in Smead's fund, **Smead Value** (SVFAX), are

**Amgen** (AMGN), whose Repatha cholesterol drug is linked to a 20% reduction in heart attack and stroke risk; and **Walgreens Boots Alliance** (WBA), the retail pharmacy chain that also has a stake in the drug distributor AmerisourceBergen.

Haviland uses exchange-traded funds, not stocks, to build strategic portfolios. His picks for health care include the **SPDR S&P Biotech ETF** (XBI). One of the fund's top holdings is **AbbVie** (ABBV), whose key drug Humira is used for the treatment of rheumatoid arthritis. By 2040, more than 26% of adults—or 78 million people—will be diagnosed with some form of arthritis, according to the Centers for Disease Control and Prevention.

# 3. CITIES SWELL

## The Trend

**IN AMERICA, CITIES** are enjoying a resurgence as empty-nesters are downsizing from their big suburban homes and moving back downtown. But overseas, urbanization is taking place on a much larger scale.

Asia and Africa, for instance, are in the midst of a massive migration to city centers. By 2025 more than half the world's population will live in Asian cities, according to the United Nations. "We are living in a unique point in history where the pace of urbanization is unprecedented," says Taimur Hyat, chief strategy officer for PGIM, the global investment management businesses of Prudential Financial. "Every year, 60 million to 70 million additional people move to cities." That will require serious infrastructure, he says, to the tune of $50 trillion in spending through 2030.

## The Opportunities

**WHILE A GOOD DEAL** of this money will be spent in a traditional manner—to construct roads and sewer lines—other forms of infrastructure that stand to benefit include data centers and logistics and storage facilities that support e-commerce.

The trend toward urbanization goes hand in hand with the emergence of a growing middle class in many developing countries. And when that occurs, economies tend to shift from an export-driven focus to domestic-driven growth.

"One billion emerging-market consumers are expected to join the middle class by 2025," Hyat says, adding that this should boost demand for goods and services that middle-class consumers in the West already enjoy. This paves the way for opportunities in everything from e-commerce to financial services.

Top holdings among the **Prudential Jennison Global Opportunities Fund** (PRJAX), for example, include **Tencent Holdings** (TCEHY), China's largest Internet service provider, which is also a social media and instant messaging company; and **Alibaba Group** (BABA), China's largest e-commerce company, which is also a leading cloud-computing firm.

If you're looking for more general exposure to global infrastructure, there's **Guggenheim S&P High Income Infrastructure ETF** (GHII), which invests in high-yielding stocks tied to the global infrastructure build-out.

# 4. THE GENDER GAP NARROWS

## The Trend

**INVESTORS NEED** only read recent headlines about sexual harassment scandals—from Hollywood to Washington to Wall Street—to understand the push for gender equality is reaching a tipping point.

To be sure, the gender gap still exists. In the U.S., women tend to earn a little over 80¢ for every dollar a man with similar experience earns. Among younger women, the gap is narrower. In 2015, women 25 to 34 earned nearly 90¢ for every dollar men made, according to the Bureau of Labor Statistics.

Meanwhile, women are making big strides in education. Between now and 2026, roughly 23 million more women than men are expected to go to college, according to the National Center for Education Statistics. Add to this the fact that technology is making salaries more transparent, and it's clear the gap is likely to narrow over time.

## The Opportunities

**COMPANIES THAT DO WELL** on gender equality—with strong representation of women on their boards and in senior management—tend to enjoy higher returns on equity, lower stock volatility, and more consistent dividend payouts, studies show.

Part of the reason: A more diverse and less-hostile workplace often goes hand in hand with lower

**INDIA GOES DIGITAL**

Employees working on their laptops at Xiaomi Corp. headquarters in Bengaluru, India.

DHIRAJ SINGH—BLOOMBERG VIA GETTY IMAGES

turnover and higher levels of employee satisfaction. It's also associated with better innovation and customer relationships.

Betting on gender equality is hard because companies aren't required to disclose gender data. But there are funds that focus on companies leading the charge. The **Pax Ellevate Global Women's Index Fund** (PXWEX) and **SPDR SSGA Gender Diversity Index ETF** (SHE) focus on firms that rank high on gender diversity on their boards and in their C-suites.

# 5. INDIA ENTERS THE DIGITAL AGE

## The Trend

**CHINA HAS BEEN** the focal point for emerging-market investors over the past decade. But India, whose economy is far less developed, could lead the way over the next. A recent Morgan Stanley Research report projects India is on track to be the fastest-growing economy over the next decade thanks in part to the effects of digitizing its still predominantly cash-based economy.

Since introducing its national identification program in 2010, India has enrolled most of its 1.3 billion citizens, laying the groundwork to increase access to banking and digital payments while modernizing its archaic tax system. Another benefit: "Banks can now lend," says Barrington Pitt Miller, global financials analyst and portfolio manager with Janus Henderson. "As you formalize the economy it allows banks to extend more credit to existing customers and a broader set of new customers" including individuals and microbusinesses.

While banks and financial services firms stand to benefit, Miller says, it's also good for retail, e-commerce, and other consumer companies that are likely to prosper from the freer flow of capital.

## The Opportunities

**INDIA HAS BEEN** a mainstay of emerging-market equity funds for years. But Indian shares make up less than 9% of the MSCI Emerging Markets Index, vs. about 30% for Chinese equities. This, despite the fact that India is expected to surpass China as the world's most populous country by 2024, according to UN estimates.

Other reasons to be bullish on India: The country's millennials are starting to enter the workforce in a meaningful way, with the number of young people who are in the labor pool expected to nearly double to 680 million by 2027, according to UN estimates. That's why "GDP growth in India is starting to hockey stick," says Miller.

If you already own a broad emerging-market fund like **Vanguard FTSE Emerging Markets ETF** (VWO), you can supplement that with a country-specific fund such as **Matthews India** (MINDX), which invests about a third of its assets in financial firms that stand to benefit directly from the digitized economy. ■

MONEY

# INVESTOR'S GUIDE 2018

SECTION III

# THE TABLES



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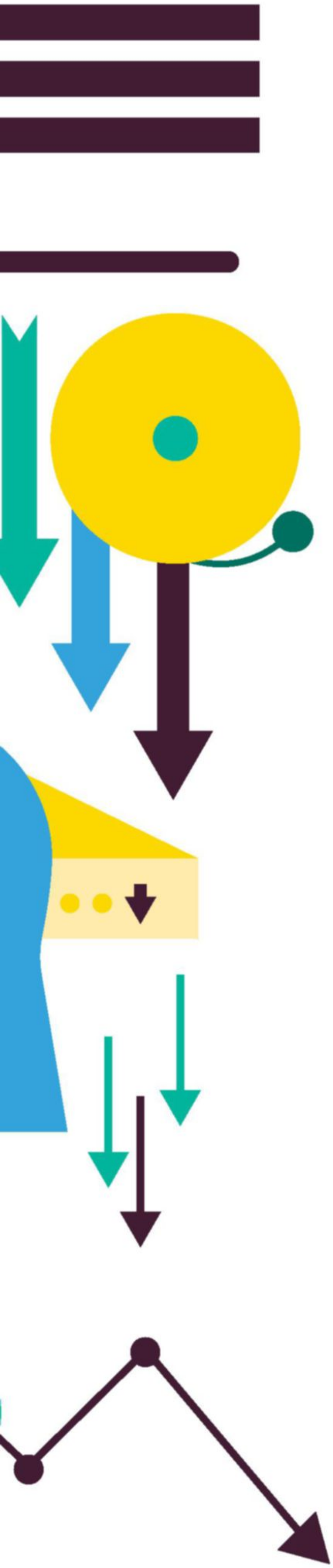


# THE 50 BEST MUTUAL FUNDS AND 50 BEST ETFs

Our recommended list of mutual funds and ETFs expands to reflect the growing popularity of—and opportunities in—index funds.

By PAUL J. LIM

ILLUSTRATION BY **PATRICK HRUBY**

**THE MONEY 50** has never been about the hottest or trendiest investments. Just the opposite: Our list of recommended mutual and exchange-traded funds was designed to help you construct a well-diversified portfolio that's built to last for years to come.

But this focus on fad-free, buy-and-hold investing doesn't mean the MONEY 50 can't or shouldn't evolve with the times. More than a decade ago, it was actually the MONEY 65, and then the MONEY 70. Over time, though, as fewer and fewer actively managed funds kept pace with the market, the list shrank.

The investment landscape continues to change today—and so, too, does the MONEY 50—or shall we say the new MONEY 50/50.

Two broad trends have come to dominate the fund universe over the past decade: the triumph of low-cost indexing, and the rise of exchange-traded funds (which is a related trend since most ETFs are index portfolios).

Neither trend is going away, says John Rekenthaler, vice president of research for Morningstar. "Investors have realized the advantages of indexed strategies," he says. So too have fund companies, as a flood of new index funds and ETFs have come to market, giving investors more options than ever.

To reflect this new landscape, MONEY has expanded the MONEY 50 into two lists: the MONEY 50 recommended mutual funds and the MONEY 50 recommended ETFs.

## The Same List—Times Two

**THE BASIC CONCEPT** of the MONEY 50 remains the same. Our recommended list is broken out into three groupings: "building-block funds" for the core of your portfolio, offering you broad exposure to stocks and bonds; "custom funds" to help you tilt toward specific strategies, such as value or dividend investing; and "one-decision funds," which are single funds offering you exposure to both equities and fixed income.

The only difference is, instead of one list encompassing a mix of 50 mutual funds and ETFs, we now have two separate lists—the top 50 mutual funds and the best 50 exchange-traded funds to own.

Why did we make this change? For starters, there's now a critical mass of more than 2,000 ETFs listed on U.S. exchanges—enough to create a fully diversified portfolio of stocks, bonds, real estate, and commodities using only ETFs.

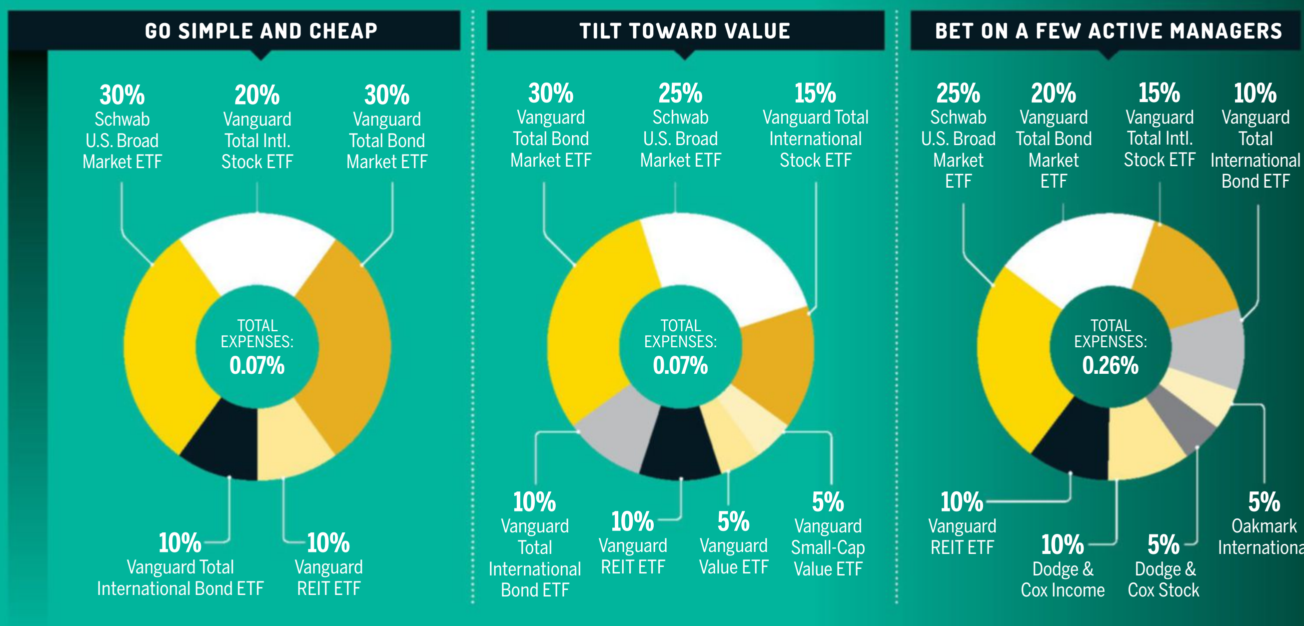
Plus, while we recognize that some investors are comfortable using traditional mutual funds, we understand others may prefer to streamline their financial relationships. Because ETFs are bought and sold like individual stocks on an exchange, you need only one brokerage account to construct an all-ETF portfolio.

How did we go about making these changes?

**> We preserved as much as possible.** Our intention was never to blow up our existing list. The MONEY 50 wasn't broken; it was simply less complete than it could have been.

## How to Use the MONEY 50/50

Combine our recommended funds to fit your goals. Here are three sample portfolios:




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

Plus, since these funds are meant to be held for the long run, our philosophy all along has been to change the list as little as possible—except, for instance, when funds close to new investors, when managers retire or are replaced, or if a fund simply falls flat over time.

In fact, as we doubled our total number of recommended funds and ETFs, we removed only two funds (more on that in a moment).

**> Where possible, we mirrored funds and ETFs.** While mutual funds and ETFs differ in structure, some asset managers like Vanguard, Fidelity, and Schwab offer investors similar funds in mutual- and exchange-traded-fund form. So if there were mutual funds on our original list with sister ETFs, we kept the fund on our recommended fund list and tried to add the exchange-traded version to our ETF list.

The original MONEY 50, for instance, included **Vanguard Total Bond Market Index** (VBMFX), which offers exposure to the broad U.S. fixed-income market. It remains on our MONEY 50 fund list. And for our recommended ETF list, we added **Vanguard Total Bond Market ETF** (BND).

This mirroring wasn't always possible. For instance, while the **Schwab S&P 500 Index Fund** (SWPPX) remains a key building-block fund on our funds list, Schwab doesn't offer a pure S&P 500 index ETF. (It does run a U.S. large-cap stock ETF, but one that tracks a more obscure benchmark.)

So for our ETF list, we chose the exchange-traded version of a tried-and-true fund you're probably familiar with—**Vanguard 500 Index** (VOO).

**> In most, but not all cases, cheaper was better.** One of the reasons why MONEY has historically favored index funds is that their low fees create less drag on your total returns. So where possible we screened for the lowest-cost index funds and ETFs. The **Schwab U.S. Broad Market ETF** (SCHB), new to our ETF list, charges fees of just 0.03% of assets annually, which ties for the cheapest ETF available.

However, we also understand that fees aren't the be-all and end-all. For starters, when comparing really inexpensive funds against one another, differences can be extremely slight in dollar terms.

A fund with an expense ratio of 0.03% will cost you $3 for every $10,000 you invest a year. While your natural inclination may be to choose the 0.03% fund over a fund charging 0.04%, that difference amounts to only $1 more in fees a year for every $10,000 you invest.

There's another reason to think bigger picture, especially when it comes to ETFs. For real estate funds on our ETF list, we wound up selecting **Vanguard REIT ETF** (VNQ), which charges annual fees of 0.12% of assets. For this asset class, that's a really good deal.

However, the **iShares Core U.S. REIT ETF** (USRT) is technically cheaper, with an expense ratio of just 0.08%. So why didn't that fund make our list? The iShares fund has total assets of just $298 million, vs. $35 *billion* for VNQ. When it comes to ETFs, size does matter, as ETFs that have trouble attracting sizable assets are at risk of being liquidated. We're not saying iShares will do that with USRT, which has been around for a decade. However, the odds are virtually nil that a $35 billion fund will be shuttered.

## Passive Is the New Active

**IF YOU LOOK** at the tally of "Added Funds" and "Added ETFs" to the right, you'll notice that the vast majority of the new portfolios in our MONEY 50/50 lists are passively run index funds.

This doesn't necessarily mean MONEY is opposed to "active management." However, there are more ways to try to beat the market than simply going with a traditional fund led by a stock picker.

Enter so-called fundamental index funds. Like traditional index funds, "fundamental index funds" track a market benchmark and are passively run. But traditional index funds track benchmarks like the S&P 500 that are market-cap weighted. This means that the bigger a stock's market value is, the more sway it has on the traditional index fund.

Fundamental index funds work differently. They track market benchmarks that are weighted not based on size, but on fundamental "factors" such as dividends or valuations or earnings growth

Many of these factors—such as low valuations or high dividend growth or low volatility—have been shown to beat the broad market over the long run. This, combined with relatively low expense ratios, make fundamental index funds an ideal way to try to beat the market.

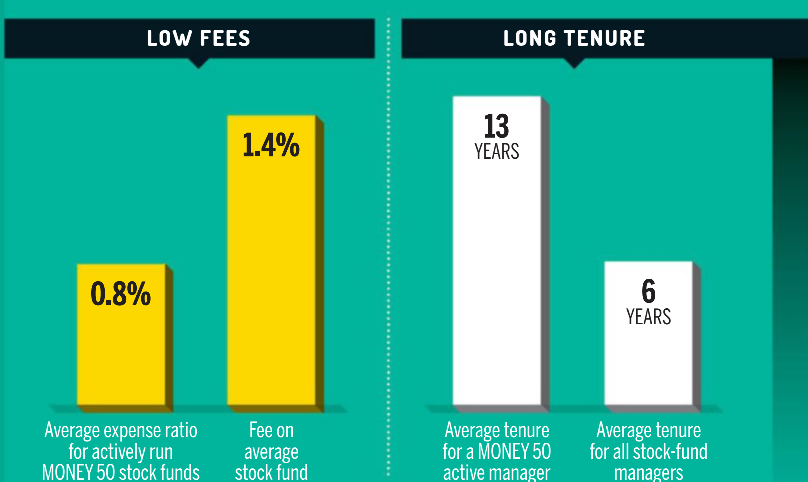
That's why you'll find a number of them on our new MONEY 50/50 lists. On our funds list, we added **Schwab Fundamental U.S. Small Co. Index Fund** (SFSNX), which has outperformed the Russell 2000 index of small-company stocks over the past five and 10 years. And in our ETF list, we added several more, including **iShares Edge MSCI Min Vol USA ETF** (USMV), which focuses on "Steady Eddie" stocks, and **WisdomTree U.S. LargeCap Dividend** (DLN), which weights stocks based on dividend payouts.

## Active Is the New Passive

**WHILE ETFS ARE** synonymous with indexing, not all ETFs are passively managed. The ranks of actively managed ETFs are small but growing, and we added two such funds to the bond section of our list.

Why bonds? While indexing has been shown to be a smart bet when it comes to U.S. stocks, foreign

## The Advantage of MONEY 50 Funds




SOURCE: Morningstar

equities, and real estate investment trusts, the same isn't necessarily true for some parts of the fixed-income world. A majority of actively managed bond funds focusing on intermediate-term debt, global bonds, and munis have beaten their respective benchmarks over the past five years, according to S&P.

The two actively managed bond ETFs we added are both run by Pimco, one of the largest fixed-income investors in the world. **Pimco Active Bond ETF** (BOND) and **Pimco Enhanced Short Maturity Active ETF** (MINT) have both beaten around 80% of their peers over the past five years.

## Other Changes

**IN THE COURSE** of tweaking our MONEY 50/50 lists, we decided to replace two existing funds.

**SPDR Dow Jones International Real Estate** (RWX) was an early entry into the global real estate category. But other entrants have recently come to market charging much lower fees. **Vanguard Global ex.-U.S. Real Estate ETF** (VNQI) sports an expense ratio of just 0.15%, vs. 0.59% for RWX. Plus, SPDR Dow Jones International Real Estate has also lagged 94% of its peers over the past five years and 84% over the past decade.

We also removed **PowerShares International Dividend Achievers** (PID), which has lagged more than 90% of its peers over the past three and five years. In its place: **Vanguard International Dividend Appreciation ETF** (VIGI), which charges less than half the fees of PID and invests in both the developed and emerging markets.

### ADDED FUNDS

**Vanguard Mid-Cap Index** (VIMSX)
**Schwab Small Cap Index** (SWSSX)
**Vanguard Short-Term Inflation-Protected Securities** (VTIPX)
**Schwab Fundamental U.S. Large Company Index** (SFLNX)
**Vanguard Value Index** (VIVAX)
**Vanguard Mid-Cap Value Index** (VMVIX)
**Vanguard Mid-Cap Growth Index** (VMGIX)
**Vanguard Small Cap Value Index** (VISVX)
**Schwab Fundamental U.S. Small Co. Index** (SFSNX)
**Vanguard Small Cap Growth Index** (VISGX)
**T. Rowe Price Dividend Growth** (PRDGX)
**Vanguard International Dividend Appreciation** (VIAIX)
**Vanguard Global ex.-U.S. Real Estate Index** (VGXRX)
**Fidelity Select Natural Resources** (FNARX)
**Fidelity Corporate Bond** (FCBFX)

### ADDED ETFS

**Vanguard 500 ETF** (VOO)
**Schwab U.S. Broad Market ETF** (SCHB)
**iShares Core MSCI EAFE ETF** (IEFA)
**Vanguard Total International Stock ETF** (VXUS)
**Vanguard FTSE All-World ex-U.S. Small Cap ETF** (VSS)
**Vanguard FTSE Emerging Markets ETF** (VWO)
**Vanguard REIT ETF** (VNQ)
**Vanguard Total Bond Market ETF** (BND)
**Vanguard Short-Term Bond ETF** (BSV)
**Schwab U.S. TIPS ETF** (SCHP)
**Vanguard Total International Bond ETF** (BNDX)
**iShares Core Aggressive Allocation ETF** (AOA)
**iShares Core Growth Allocation ETF** (AOR)
**iShares Core Moderate Allocation ETF** (AOM)
**iShares Core Conservative Allocation ETF** (AOK)
**SPDR SSGA Global Allocation ETF** (GAL)
**Vanguard Value ETF** (VTV)
**WisdomTree U.S. LargeCap Dividend** (DLN)
**iShares Edge MSCI Min Vol USA ETF** (USMV)
**Vanguard Growth ETF** (VUG)
**Vanguard Mid-Cap Growth ETF** (VOT)
**Vanguard Small-Cap Growth ETF** (VBK)
**Vanguard International Dividend Appreciation ETF** (VIGI)
**iShares Cohen & Steers REIT ETF** (ICF)
**Vanguard Global ex.-U.S. Real Estate ETF** (VNQI)
**PowerShares FTSE RAFI Developed Markets ex-U.S.** (PXF)
**iShares Edge MSCI Min Vol EAFE ETF** (EFAV)
**SPDR S&P Emerging Markets Small Cap ETF** (EWX)
**Fidelity Total Bond ETF** (FBND)
**Pimco Active Bond ETF** (BOND)
**Pimco Enhanced Short Maturity Active ETF** (MINT)
**Vanguard Short-Term Corporate Bond ETF** (VCSH)
**iShares iBoxx $ High Yield Corporate Bond** (HYG)
**Vanguard Tax-Exempt Bond ETF** (VTEB)
**SPDR Nuveen Bloomberg Barclays Short-Term Muni** (SHM)
**PowerShares International Corporate Bond** (PICB)
**SPDR Bloomberg Barclays Emerging Markets Local Bond** (EBND)

### ETFS REMOVED

**SPDR Dow Jones International Real Estate** (RWX)
**PowerShares International Dividend Achievers** (PID)

# THE MONEY 50 MUTUAL FUNDS

## Use our list of recommended mutual funds to construct a well-diversified portfolio for the long term.

### BUILDING-BLOCK FUNDS

These mutual funds expose you to broad swaths of the stock and bond markets, and should be used to construct the core part of your portfolio that you'll hold for years. Because you're simply seeking basic exposure, low-cost index funds are your best bet here.

| FUND NAME (TICKER) | STYLE | ANNUAL EXPENSES (% OF ASSETS)[1] | % TOTAL RETURN 2017[2] | % TOTAL RETURN FIVE YEARS[3] |
|---|---|---|---|---|
| **LARGE-CAP** | | | | |
| Schwab S&P 500 Index (SWPPX) | BLEND | 0.03 | 20.5% | 15.6% |
| Schwab Total Stock Market Index (SWTSX) | ↓ | 0.03 | 19.9 | 15.5 |
| **MIDCAP/SMALL-CAP** | | | | |
| Vanguard Mid-Cap Index (VIMSX) | BLEND | 0.18 | 18.0 | 15.2 |
| Schwab Small Cap Index (SWSSX) | ↓ | 0.05 | 15.1 | 15.0 |
| **FOREIGN** | | | | |
| Fidelity International Index (FSIIX) | LARGE BLEND | 0.16 | 23.5 | 8.2 |
| Vanguard Total International Stock Index (VGTSX) | ↓ | 0.18 | 24.8 | 7.5 |
| Vanguard FTSE All-World ex-U.S. Small-Cap Index (VFSVX) | SMALL/MID BLEND | 0.27 | 26.5 | 8.9 |
| Vanguard Emerging Markets Stock Index (VEIEX) | EMERGING MARKETS | 0.32 | 26.7 | 3.8 |
| **SPECIALTY** | | | | |
| Vanguard REIT Index (VGSIX) | REAL ESTATE | 0.26 | 5.1 | 9.9 |
| **BOND** | | | | |
| Vanguard Total Bond Market Index (VBMFX) | INTERMEDIATE TERM | 0.15 | 3.0 | 1.8 |
| Vanguard Short-Term Bond Index (VBISX) | SHORT TERM | 0.15 | 1.1 | 0.9 |
| Vanguard Inflation-Protected Securities (VIPSX) | INFLATION-PROTECTED | 0.20 | 1.9 | –0.3 |
| Vanguard Short-Term Inflation-Protected Sec. (VTIPX) | ↓ | 0.16 | 0.6 | 0.0 |
| Vanguard Total International Bond Index (VTIBX) | WORLD | 0.15 | 2.3 | N.A. |

### 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 2017[2] | % TOTAL RETURN FIVE YEARS[3] |
|---|---|---|---|---|
| Fidelity Balanced (FBALX) | BALANCED | 0.55 | 15.8 | 10.7 |
| Fidelity Global Balanced (FGBLX) | ↓ | 1.02 | 19.1 | 6.7 |
| Vanguard Wellington (VWELX)[4] | ↓ | 0.25 | 13.3 | 10.8 |
| T. Rowe Price Retirement Series (Stock/Bond Allocation) | TARGET DATE | | | |
| Example: 2020 Fund (58%/42%) (TRRBX) | ↓ | 0.63 | 15.0 | 9.3 |
| Vanguard Target Retirement Series | | | | |
| Example: 2035 Fund (77%/23%) (VTTHX) | ↓ | 0.15 | 17.7 | 11.0 |

*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. ***SOURCES:*** *Lipper, Morningstar, and fund companies*

## FUND LINGO
HOW TO READ THE TABLES

**LARGE-CAP**
Owns shares of companies with stock market values, or market capitalizations, of $10 billion or more

**SMALL-CAP AND MIDCAP**
Owns smaller companies

**SPECIALTY**
Owns 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 diversify more broadly and to tilt toward certain types of stocks and bonds.

| FUND NAME (TICKER) | STYLE | ANNUAL EXPENSES (% OF ASSETS)[1] | % TOTAL RETURN 2017[2] | % TOTAL RETURN FIVE YEARS[3] |
|---|---|---|---|---|
| **LARGE-CAP** | | | | |
| Dodge & Cox Stock (DODGX) | VALUE | 0.52 | 15.5% | 16.4% |
| Schwab Fundamental U.S. Large Company Index (SFLNX) | | 0.25 | 14.9 | 14.7 |
| Vanguard Value Index (VIVAX) | | 0.18 | 15.3 | 15.3 |
| Sound Shore (SSHFX) | | 0.91 | 15.1 | 15.4 |
| Primecap Odyssey Growth (POGRX) | GROWTH | 0.66 | 31.5 | 19.5 |
| T. Rowe Price Blue Chip Growth (TRBCX) | | 0.72 | 36.5 | 18.9 |
| **MIDCAP** | | | | |
| Vanguard Mid-Cap Value Index (VMVIX) | VALUE | 0.19 | 14.8 | 15.8 |
| Vanguard Mid-Cap Growth Index (VMGIX) | GROWTH | 0.19 | 21.8 | 14.5 |
| T. Rowe Price Diversified Mid Cap Growth (PRDMX) | | 0.87 | 24.1 | 15.8 |
| **SMALL-CAP** | | | | |
| Vanguard Small Cap Value Index (VISVX) | VALUE | 0.19 | 11.1 | 15.5 |
| Schwab Fundamental U.S. Small Co. Index (SFSNX) | BLEND | 0.25 | 12.4 | 15.3 |
| Vanguard Small Cap Growth Index (VISGX) | GROWTH | 0.19 | 21.5 | 14.0 |
| T. Rowe Price QM Small-Cap Growth (PRDSX) | | 0.81 | 22.0 | 16.7 |
| **SPECIALTY** | | | | |
| T. Rowe Price Dividend Growth (PRDGX) | DIVIDEND | 0.64 | 19.2 | 15.0 |
| Vanguard International Dividend Appreciation (VIAIX) | | 0.35 | 26.2 | N.A. |
| Cohen & Steers Realty (CSRSX) | REAL ESTATE | 0.96 | 7.1 | 10.6 |
| Vanguard Global ex.-U.S. Real Estate Index (VGXRX) | | 0.35 | 22.4 | 6.4 |
| Fidelity Select Natural Resources (FNARX) | COMMODITY | 0.84 | –6.9 | –0.1 |
| **FOREIGN** | | | | |
| Oakmark International (OAKIX) | LARGE BLEND | 1.00 | 27.3 | 11.4 |
| Vanguard International Growth (VWIGX) | LARGE GROWTH | 0.46 | 41.6 | 11.5 |
| T. Rowe Price Emerging Markets Stock (PRMSX) | EMERGING MARKETS | 1.26 | 38.6 | 6.8 |
| **BOND** | | | | |
| Dodge & Cox Income (DODIX) | INTERMEDIATE TERM | 0.43 | 3.9 | 3.0 |
| Fidelity Total Bond (FTBFX) | | 0.45 | 3.8 | 2.7 |
| Vanguard Short-Term Investment Grade (VFSTX) | SHORT TERM | 0.20 | 2.0 | 1.7 |
| Fidelity Corporate Bond (FCBFX) | CORPORATE | 0.45 | 5.9 | 3.4 |
| Loomis Sayles Bond (LSBRX) | MULTISECTOR | 0.91 | 6.7 | 3.8 |
| Fidelity High Income (SPHIX) | HIGH YIELD | 0.72 | 7.9 | 5.4 |
| Vanguard Intermediate-Term Tax-Exempt (VWITX) | MUNI INTERMEDIATE | 0.19 | 3.6 | 2.2 |
| Vanguard Limited-Term Tax-Exempt (VMLTX) | MUNI SHORT | 0.19 | 1.7 | 1.0 |
| Templeton Global Bond (TPINX)[5] | WORLD | 0.93 | 4.0 | 2.2 |
| Fidelity New Markets Income (FNMIX) | EMERGING MARKETS | 0.86 | 9.1 | 4.4 |

# THE MONEY 50 ETFs

## Use our list of recommended exchange-traded funds to construct a well-diversified portfolio that's both cost-effective and built to last.

### BUILDING-BLOCK ETFs

These exchange-traded funds expose you to broad swaths of the stock and bond markets, and should be used to construct the core part of your portfolio that you'll hold for years. Because you're simply seeking basic exposure, low-cost index funds are your best bet here.

| FUND NAME (TICKER) | STYLE | ANNUAL EXPENSES (% OF ASSETS)[1] | % TOTAL RETURN 2017[2] | % TOTAL RETURN FIVE YEARS[3] |
|---|---|---|---|---|
| **LARGE-CAP** | | | | |
| Vanguard 500 ETF (VOO) | BLEND | 0.04 | 20.2% | 15.7% |
| Schwab U.S. Broad Market ETF (SCHB) | | 0.03 | 19.8 | 15.6 |
| **MIDCAP/SMALL-CAP** | | | | |
| iShares Core S&P Mid-Cap ETF (IJH) | | 0.07 | 15.9 | 15.4 |
| iShares Core S&P Small-Cap ETF (IJR) | | 0.07 | 13.8 | 16.8 |
| **FOREIGN** | | | | |
| iShares Core MSCI EAFE ETF (IEFA) | LARGE BLEND | 0.08 | 24.7 | 8.8 |
| Vanguard Total International Stock ETF (VXUS) | | 0.11 | 24.9 | 7.5 |
| Vanguard FTSE All-World ex-U.S. Small-Cap ETF (VSS) | SMALL/MID BLEND | 0.13 | 26.7 | 8.9 |
| Vanguard FTSE Emerging Markets ETF (VWO) | EMERGING MARKETS | 0.14 | 26.8 | 4.0 |
| **SPECIALTY** | | | | |
| Vanguard REIT ETF (VNQ) | REAL ESTATE | 0.12 | 5.1 | 10.1 |
| **BOND** | | | | |
| Vanguard Total Bond Market ETF (BND) | INTERMEDIATE TERM | 0.05 | 3.0 | 1.9 |
| Vanguard Short-Term Bond ETF (BSV) | SHORT TERM | 0.07 | 1.2 | 1.0 |
| Schwab U.S. TIPS ETF (SCHP) | INFLATION-PROTECTED | 0.05 | 2.0 | −0.3 |
| Vanguard Short-Term Inflation Protected ETF (VTIP) | | 0.07 | 0.7 | 0.1 |
| Vanguard Total International Bond ETF (BNDX) | WORLD | 0.12 | 2.1 | N.A. |

### ONE-DECISION ETFs

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

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|---|---|---|---|---|
| iShares Core Aggressive Allocation ETF (AOA) | BALANCED | 0.25 | 18.5 | 10.8 |
| iShares Core Growth Allocation ETF (AOR) | | 0.25 | 14.6 | 8.6 |
| iShares Core Moderate Allocation ETF (AOM) | | 0.25 | 10.9 | 6.1 |
| iShares Core Conservative Allocation ETF (AOK) | | 0.25 | 9.0 | 4.8 |
| SPDR SSGA Global Allocation ETF (GAL) | | 0.35 | 16.8 | 7.3 |

*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. SOURCES: Lipper, Morningstar, and fund companies*

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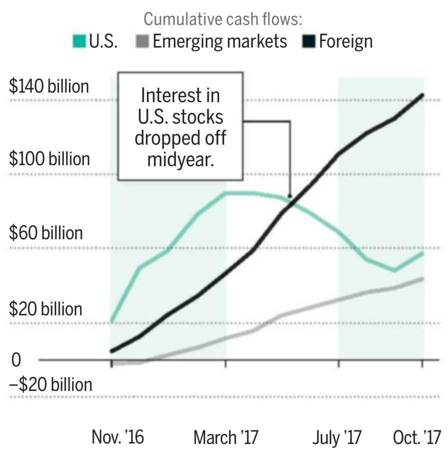
|---|---|---|---|---|
| **LARGE-CAP** | | | | |
| PowerShares FTSE RAFI U.S. 1000 ETF (PRF) | VALUE | 0.39 | 14.1% | 15.0% |
| Vanguard Value ETF (VTV) | | 0.06 | 15.2 | 15.5 |
| WisdomTree U.S. LargeCap Dividend (DLN) | | 0.28 | 16.6 | 14.2 |
| iShares Edge MSCI Min Vol USA ETF (USMV) | BLEND | 0.15 | 18.6 | 14.8 |
| PowerShares S&P 500 High Quality ETF (SPHQ) | | 0.29 | 17.3 | 16.0 |
| Vanguard Growth ETF (VUG) | GROWTH | 0.06 | 26.6 | 15.9 |
| **MIDCAP** | | | | |
| Vanguard Mid-Cap Value ETF (VOE) | VALUE | 0.07 | 14.9 | 15.9 |
| WisdomTree U.S. MidCap Dividend (DON) | | 0.38 | 13.6 | 16.0 |
| Vanguard Mid-Cap Growth ETF (VOT) | GROWTH | 0.07 | 21.8 | 14.6 |
| **SMALL-CAP** | | | | |
| Vanguard Small-Cap Value ETF (VBR) | VALUE | 0.07 | 11.2 | 15.6 |
| WisdomTree U.S. SmallCap Dividend (DES) | | 0.38 | 9.0 | 15.4 |
| PowerShares FTSE RAFI U.S. 1500 Small-Mid (PRFZ) | BLEND | 0.39 | 14.2 | 15.5 |
| Vanguard Small-Cap Growth ETF (VBK) | GROWTH | 0.07 | 21.6 | 14.1 |
| **SPECIALTY** | | | | |
| SPDR S&P Dividend ETF (SDY) | DIVIDEND | 0.35 | 14.6 | 15.2 |
| Vanguard Intl. Dividend Appreciation ETF (VIGI) | | 0.25 | 26.6 | N.A. |
| iShares Cohen & Steers REIT ETF (ICF) | REAL ESTATE | 0.34 | 5.2 | 9.8 |
| Vanguard Global ex.-U.S. Real Estate ETF (VNQI) | | 0.15 | 23.0 | 6.4 |
| iShares North American Nat. Resources ETF (IGE) | COMMODITY | 0.48 | −4.6 | −0.3 |
| **FOREIGN** | | | | |
| PowerShares FTSE RAFI Developed Mkts. ex-U.S. (PXF) | LARGE VALUE | 0.45 | 22.2 | 8.5 |
| iShares Edge MSCI Min Vol EAFE ETF (EFAV) | LARGE BLEND | 0.20 | 21.2 | 9.1 |
| SPDR S&P Emerging Markets Small Cap ETF (EWX) | EMERGING MARKETS | 0.65 | 29.1 | 5.6 |
| **BOND** | | | | |
| Fidelity Total Bond ETF (FBND) | INTERMEDIATE TERM | 0.45 | 3.1 | N.A. |
| Pimco Active Bond ETF (BOND) | | 0.55 | 4.5 | 2.7 |
| Pimco Enhanced Short Maturity Active ETF (MINT) | SHORT TERM | 0.35 | 1.8 | 1.1 |
| iShares iBoxx $ Investment Grade Corp. Bond (LQD) | CORPORATE | 0.15 | 5.9 | 3.3 |
| Vanguard Short-Term Corporate Bond ETF (VCSH) | | 0.07 | 2.2 | 1.9 |
| iShares iBoxx $ High Yield Corporate Bond (HYG) | HIGH YIELD | 0.49 | 5.8 | 4.5 |
| Vanguard Tax-Exempt Bond ETF (VTEB) | MUNI INTERMEDIATE | 0.09 | 4.0 | N.A. |
| SPDR Nuveen Bloomberg Barclays S/T Muni (SHM) | MUNI SHORT | 0.20 | 0.9 | 0.6 |
| PowerShares International Corporate Bond (PICB) | WORLD | 0.50 | 12.5 | 0.9 |
| SPDR Bloomberg Barclays Em. Mkts Local Bond (EBND) | EMERGING MARKETS | 0.40 | 12.2 | −0.5 |

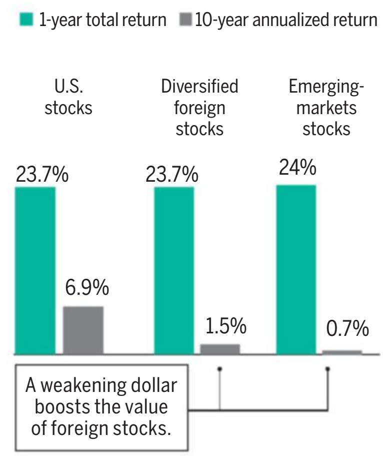
# THE FUND REP

## THE YEAR IN STOCK FUNDS

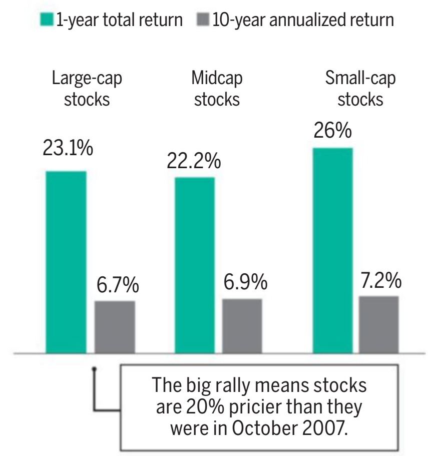
As in 2016, investors favored international over domestic stock funds ...




... as stocks around the world rallied.




For the third straight year, small stocks had an edge on bigger names ...




## EXPENSES MATTER

Low-expense stock funds beat costly ones.

**23.6%**

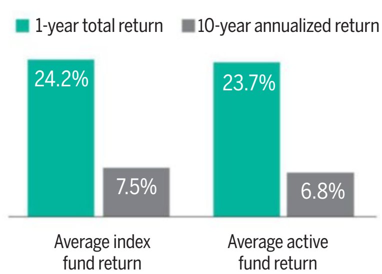
Average return on low-expense funds

**23.3%**

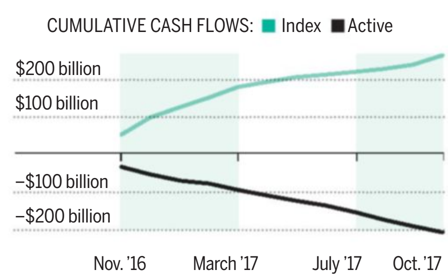
Average return on high-expense funds

## PASSIVE VS. ACTIVE

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




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






DATA COMPILED *by Ian Salisbury*

# ORT...

## Stocks everywhere rallied in 2017 as the U.S. bull market entered its ninth year.



...but reversing 2016, growth beat value.

LARGE-CAP VALUE FUNDS

**19.6%**

1-year total return

LARGE-CAP GROWTH FUNDS

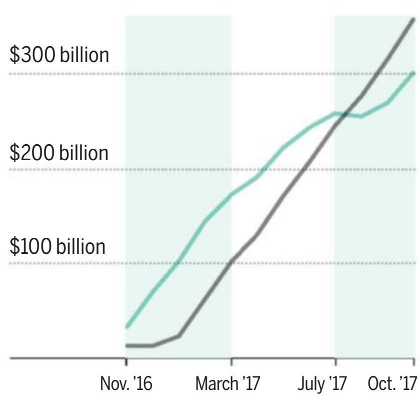
**26.9%**

1-year total return

### THE YEAR IN BOND FUNDS

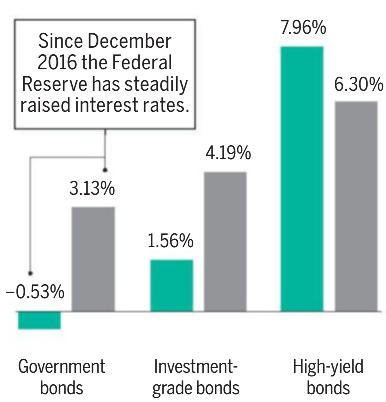
Investors favored bonds over stocks...

CUMULATIVE CASH FLOWS: Stock Bond




...but fear of rising interest rates dragged on bond returns.

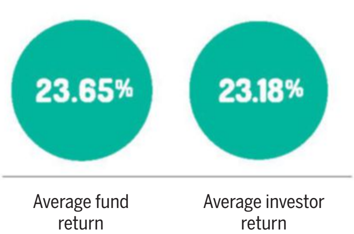
1-year total return 10-year annualized return




### INVESTORS VS. FUNDS

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

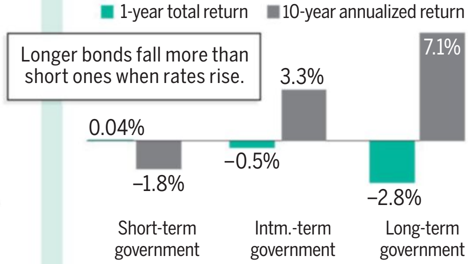
1-YEAR TOTAL RETURN




### SHORT BONDS BEAT LONG

Investors in short-term bonds were rewarded for their caution.

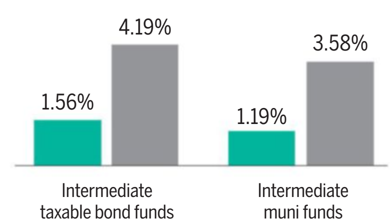
1-year total return 10-year annualized return




### TAXABLE VS. TAX-EXEMPT

Lower tax rates could make tax-exempts less attractive.

1-year total return 10-year annualized return




***NOTES:*** *Performance figures are for mutual funds through Oct. 31, 2017. Flows include ETFs. 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 funds used 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 2017, funds that focus on shares of blue-chip companies soared. Large-stock funds with big stakes in the technology sector did particularly well—not just last year but over the past decade.

**2017**

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Transamerica Capital Growth A (IALAX) | 44.0% | 1.23% |
| 2 | Morgan Stanley Institutional Growth A (MSEGX) | 43.8 | 0.92 |
| 3 | Baron Fifth Avenue Growth (BFTHX) | 41.5 | 1.00 |
| 4 | Touchstone Large Company Growth (TLGYX) | 37.9 | 0.98 |
| 5 | Homestead Growth (HNASX) | 37.9 | 0.95 |
| 6 | JPMorgan Large Cap Growth (OLGAX) | 37.7 | 0.94 |
| 7 | American Century Focused Dynamic Growth (ACFOX) | 36.6 | 1.03 |
| 8 | T. Rowe Price Blue Chip Growth (TRBCX) | 36.5 | 0.72 |
| 9 | John Hancock Blue Chip Growth (JBGAX) | 35.9 | 1.14 |
| 10 | Harbor Capital Appreciation (HACAX) | 35.7 | 0.65 |

**FIVE-YEAR ANNUAL**

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Morgan Stanley Institutional Growth A (MSEGX) | 19.9% | 0.92% |
| 2 | Shelton NASDAQ-100 Index (NASDX) | 19.7 | 0.49 |
| 3 | USAA Nasdaq-100 Index (USNQX) | 19.7 | 0.54 |
| 4 | Transamerica Capital Growth A (IALAX) | 19.6 | 1.23 |
| 5 | Homestead Growth (HNASX) | 19.4 | 0.95 |
| 6 | Edgewood Growth (EGFFX) | 19.3 | 1.39 |
| 7 | Rydex NASDAQ-100 (RYOCX) | 18.9 | 1.29 |
| 8 | T. Rowe Price Blue Chip Growth (TRBCX) | 18.9 | 0.72 |
| 9 | Fidelity Blue Chip Growth (FBGRX) | 18.5 | 0.70 |
| 10 | Natixis U.S. Equity Opportunities A (NEFSX) | 18.3 | 1.18 |

**10-YEAR ANNUAL**

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Shelton NASDAQ-100 Index (NASDX) | 12.6% | 0.49% |
| 2 | USAA Nasdaq-100 Index (USNQX) | 12.2 | 0.54 |
| 3 | Rydex NASDAQ-100 (RYOCX) | 11.6 | 1.29 |
| 4 | AB Large Cap Growth A (APGAX) | 11.2 | 1.00 |
| 5 | Homestead Growth (HNASX) | 11.1 | 0.95 |
| 6 | Fidelity Blue Chip Growth (FBGRX) | 11.1 | 0.70 |
| 7 | ProFunds NASDAQ-100 (OTPIX) | 10.8 | 1.54 |
| 8 | Transamerica Capital Growth A (IALAX) | 10.6 | 1.23 |
| 9 | Morgan Stanley Institutional Growth A (MSEGX) | 10.5 | 0.92 |
| 10 | T. Rowe Price Blue Chip Growth (TRBCX) | 10.5 | 0.72 |

## MIDCAP U.S. STOCK

Thanks to sizable stakes in technology, health care, and industrial stocks—which were among the market's leaders in 2017—funds that focus on midsize companies had a strong year.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | BlackRock Mid-Cap Growth Equity A (BMGAX) | 35.5% | 1.39% |
| 2 | ClearBridge Select A (LCLAX) | 35.0 | 1.52 |
| 3 | Tocqueville Opportunity (TOPPX) | 34.7 | 1.26 |
| 4 | Baron Partners (BPTRX) | 33.2 | 1.78 |
| 5 | DF Dent MidCap Growth (DFDMX) | 33.1 | 0.98 |
| 6 | Virtus KAR Mid-Cap Growth A (PHSKX) | 32.0 | 1.40 |
| 7 | Harbor Mid Cap Growth (HIMGX) | 31.6 | 1.24 |
| 8 | Carillon Eagle Mid Cap Growth A (HAGAX) | 30.4 | 1.12 |
| 9 | AB Discovery Growth A (CHCLX) | 29.9 | 0.99 |
| 10 | Alger Mid Cap Growth A (AMGAX) | 29.6 | 1.33 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Tarkio (TARKX) | 19.4% | 1.00% |
| 2 | BlackRock Mid-Cap Growth Equity A (BMGAX) | 18.5 | 1.39 |
| 3 | Hodges (HDPMX) | 18.2 | 1.18 |
| 4 | Eventide Gilead A (ETAGX) | 18.0 | 1.46 |
| 5 | William Blair Small-Mid Cap Growth (WSMNX) | 17.5 | 1.35 |
| 6 | Baron Partners (BPTRX) | 17.3 | 1.78 |
| 7 | Carillon Eagle Mid Cap Growth A (HAGAX) | 17.0 | 1.12 |
| 8 | Hartford MidCap A (HFMCX) | 16.8 | 1.16 |
| 9 | Vanguard Strategic Equity (VSEQX) | 16.7 | 0.18 |
| 10 | MassMutual Select Mid Cap Growth (MEFAX) | 16.4 | 1.28 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Carillon Scout Mid Cap (UMBMX) | 11.4% | 1.03% |
| 2 | William Blair Small-Mid Cap Growth (WSMNX) | 10.4 | 1.35 |
| 3 | Meeder Quantex (FLCGX) | 10.4 | 1.54 |
| 4 | Wells Fargo Special Mid Cap Value A (WFPAX) | 9.8 | 1.20 |
| 5 | MassMutual Select Mid Cap Growth A (MEFAX) | 9.8 | 1.28 |
| 6 | Carillon Eagle Mid Cap Growth A (HAGAX) | 9.8 | 1.12 |
| 7 | Columbia Mid Cap Index (NMPAX) | 9.7 | 0.20 |
| 8 | Northern Mid Cap Index (NOMIX) | 9.7 | 0.16 |
| 9 | MassMutual Select Mid Cap Growth (MEFNX) | 9.5 | 1.43 |
| 10 | Shelton S&P MidCap Index (SPMIX) | 9.5 | 0.58 |

## SMALL-CAP U.S. STOCK

While funds that invest in small-company stocks lagged blue-chip funds last year, small-capitalization stock funds with big exposure to tech and other fast-growing segments of the market thrived.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Victory RS Small Cap Growth A (RSEGX) | 36.1% | 1.40% |
| 2 | Frontier Timpani Small Cap Growth (FTSCX) | 35.9 | 1.25 |
| 3 | Baron Discovery (BDFFX) | 35.8 | 1.35 |
| 4 | Conestoga SMid Cap (CCSMX) | 35.0 | 1.15 |
| 5 | Wasatch Micro Cap (WMICX) | 34.3 | 1.67 |
| 6 | Federated Kaufmann Small Cap (FKASX) | 33.7 | 1.36 |
| 7 | Alger SMid Cap Focus A (ALMAX) | 32.5 | 1.35 |
| 8 | Westcore Small-Cap Growth II Institutional (WTSLX) | 32.4 | 1.15 |
| 9 | Virtus KAR Small-Cap Core A (PKSAX) | 32.3 | 1.37 |
| 10 | Virtus KAR Small-Cap Growth A (PSGAX) | 31.7 | 1.49 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Oberweis Micro-Cap (OBMCX) | 21.8% | 1.65% |
| 2 | Towle Deep Value (TDVFX) | 19.7 | 1.20 |
| 3 | Virtus KAR Small-Cap Growth A (PSGAX) | 19.5 | 1.49 |
| 4 | Federated MDT Small Cap Core A (QASCX) | 18.8 | 1.15 |
| 5 | William Blair Small Cap Growth (WBSNX) | 18.2 | 1.50 |
| 6 | Bridgeway Small-Cap Growth (BRSGX) | 18.1 | 0.94 |
| 7 | Aberdeen U.S. Small Cap Equity A (GSXAX) | 18.0 | 1.30 |
| 8 | Fidelity Small Cap Growth (FCPGX) | 17.9 | 1.09 |
| 9 | Victory RS Small Cap Growth A (RSEGX) | 17.7 | 1.40 |
| 10 | Federated Kaufmann Small Cap A (FKASX) | 17.7 | 1.36 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Virtus KAR Small-Cap Growth A (PSGAX) | 12.0% | 1.49% |
| 2 | Conestoga Small Cap (CCASX) | 11.5 | 1.10 |
| 3 | T. Rowe Price QM U.S. SmCp Growth (PRDSX) | 11.4 | 0.81 |
| 4 | Virtus KAR Small-Cap Core A (PKSAX) | 10.7 | 1.37 |
| 5 | Victory Sycamore Small Company Opp. A (SSGSX) | 10.6 | 1.26 |
| 6 | Vanguard Tax-Managed Small-Cap Adm. (VTMSX) | 10.4 | 0.09 |
| 7 | Dreyfus Smallcap Stock Index (DISSX) | 10.1 | 0.50 |
| 8 | Columbia Small Cap Index A (NMSAX) | 10.0 | 0.45 |
| 9 | CornerCap Small Cap Value (CSCVX) | 9.9 | 1.30 |
| 10 | Shelton S&P SmallCap Index (SMCIX) | 9.8 | 0.74 |

**NOTES:** *Return figures are as of Nov. 30, 2017; five- and 10-year returns are annualized. Exchange-traded funds and funds in Lipper's multi-cap and S&P 500 index categories are not shown. Funds with assets below $15 million excluded. N.A.: not applicable.* **SOURCE:** *Lipper, 877-955-4773*

## INTERNATIONAL STOCK

After a rough decade, thanks in large part to the European debt crisis, funds that focus on foreign shares staged a major comeback in 2017, delivering better returns than many U.S. equity portfolios.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Prudential Jennison Intl. Opportunities A (PWJAX) | 47.2% | 1.26% |
| 2 | Morgan Stanley Inst. Intl. Opportunity A (MIOPX) | 46.2 | 1.35 |
| 3 | Marsico International Opportunities (MIOFX) | 43.5 | 1.77 |
| 4 | Delaware International Small Cap A (DGGAX) | 42.2 | 1.43 |
| 5 | Vanguard International Growth (VWIGX) | 41.6 | 0.46 |
| 6 | American Century Intl. Opportunities (AIOIX) | 41.1 | 1.54 |
| 7 | Morgan Stanley Inst. Intl. Advantage A (MFAPX) | 40.4 | 1.35 |
| 8 | PNC International Growth A (PIGAX) | 39.8 | 1.12 |
| 9 | Manning & Napier Rainier Intl. Discovery (RISAX) | 37.8 | 1.41 |
| 10 | Royce International Premier (RYIPX) | 37.4 | 1.44 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Morgan Stanley Inst. Intl. Opportunity A (MIOPX) | 16.6% | 1.35% |
| 2 | Manning & Napier Rainier Intl. Discovery (RISAX) | 14.9 | 1.41 |
| 3 | Fidelity International Small Cap (FISMX) | 14.7 | 1.34 |
| 4 | Fidelity Adv. International Small Cap A (FIASX) | 14.3 | 1.61 |
| 5 | Virtus KAR International Small-Cap A (VISAX) | 14.0 | 1.60 |
| 6 | T. Rowe Price International Discovery (PRIDX) | 13.9 | 1.20 |
| 7 | Victory Trivalent Intl. Small-Cap A (MISAX) | 13.9 | 1.36 |
| 8 | Vanguard International Explorer (VINEX) | 13.5 | 0.41 |
| 9 | Goldman Sachs Intl. Small Cap Insights A (GICAX) | 13.4 | 1.30 |
| 10 | Morgan Stanley Inst. Intl. Advantage A (MFAPX) | 13.2 | 1.35 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Oakmark International (OAKIX) | 6.5% | 1.00% |
| 2 | T. Rowe Price International Discovery (PRIDX) | 6.5 | 1.20 |
| 3 | Goldman Sachs Intl. Small Cap Insights A (GICAX) | 6.3 | 1.30 |
| 4 | Pimco StocksPLUS Intl. (U.S. Dollar-Hedged) A (PIPAX) | 6.3 | 1.21 |
| 5 | Fidelity International Small Cap (FISMX) | 6.1 | 1.34 |
| 6 | Fidelity Adv. International Small Cap A (FIASX) | 5.8 | 1.61 |
| 7 | Vanguard International Explorer (VINEX) | 4.9 | 0.41 |
| 8 | Fidelity Intl. Capital Appreciation (FIVFX) | 4.8 | 1.14 |
| 9 | Victory Trivalent Intl. Small-Cap A (MISAX) | 4.6 | 1.36 |
| 10 | Lord Abbett Intl. Opportunities A (LAIEX) | 4.6 | 1.27 |

## BALANCED

These funds, which offer instant diversification, typically hold around 60% of their assets in stocks and 40% in bonds. But balanced portfolios that were slightly more aggressive tended to outperform in 2017.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Value Line Income & Growth (VALIX) | 22.7% | 1.16% |
| 2 | Plumb Balanced (PLBBX) | 22.5 | 1.30 |
| 3 | Virtus Strategic Allocation A (PHBLX) | 19.2 | 1.15 |
| 4 | Fidelity Puritan (FPURX) | 17.7 | 0.55 |
| 5 | T. Rowe Price Balanced (RPBAX) | 17.4 | 0.64 |
| 6 | Columbia Capital Allocation Mod. Aggressive A (NBIAX) | 17.3 | 1.16 |
| 7 | Janus Henderson Balanced A (JDBAX) | 17.2 | 0.94 |
| 8 | Sit Balanced (SIBAX) | 17.1 | 1.02 |
| 9 | Vanguard STAR (VGSTX) | 17.1 | 0.32 |
| 10 | JPMorgan Diversified A (JDVAX) | 16.4 | 1.22 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Wells Fargo Div. Capital Builder A (EKBAX) | 14.7% | 1.14% |
| 2 | Dodge & Cox Balanced (DODBX) | 12.4 | 0.53 |
| 3 | Plumb Balanced (PLBBX) | 11.7 | 1.30 |
| 4 | Fidelity Puritan (FPURX) | 11.0 | 0.55 |
| 5 | American Funds American Balanced A (ABALX) | 11.0 | 0.60 |
| 6 | Boston Trust Asset Management (BTBFX) | 10.8 | 0.95 |
| 7 | Value Line Income & Growth (VALIX) | 10.7 | 1.16 |
| 8 | Fidelity Balanced (FBALX) | 10.7 | 0.55 |
| 9 | BlackRock Balanced Capital Fund A (MDCPX) | 10.6 | 0.92 |
| 10 | Columbia Balanced (CBALX) | 10.5 | 0.75 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Janus Henderson Balanced (JABAX) | 7.5% | 0.84% |
| 2 | Columbia Balanced A (CBLAX) | 7.4 | 1.00 |
| 3 | LKCM Balanced (LKBAX) | 7.4 | 0.81 |
| 4 | American Funds American Balanced A (ABALX) | 7.2 | 0.60 |
| 5 | Boston Trust Asset Management (BTBFX) | 7.1 | 0.95 |
| 6 | Wells Fargo Div. Capital Builder A (EKBAX) | 7.0 | 1.14 |
| 7 | Fidelity Puritan (FPURX) | 7.0 | 0.55 |
| 8 | Transamerica Multi-Managed A (IBALX) | 6.9 | 1.08 |
| 9 | Vanguard Balanced Index (VBINX) | 6.9 | 0.19 |
| 10 | Value Line Income & Growth (VALIX) | 6.8 | 1.16 |

## U.S. GOVERNMENT BOND

Funds that invest in U.S. Treasuries and other government debt offered ballast in the wake of the financial crisis. But thanks to gradually rising rates, their performance has been modest lately.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Pimco Long-Term U.S. Government A (PFGAX) | 6.9% | 1.00% |
| 2 | Morgan Stanley U.S. Government A (USGAX) | 2.3 | 0.87 |
| 3 | Fidelity Government Income (FGOVX) | 1.9 | 0.45 |
| 4 | Putnam American Government Income A (PAGVX) | 1.8 | 0.94 |
| 5 | Wells Fargo Government Securities A (SGVDX) | 1.8 | 0.86 |
| 6 | Prudential Government Income A (PGVAX) | 1.8 | 1.02 |
| 7 | JPMorgan Government Bond A (OGGAX) | 1.8 | 0.75 |
| 8 | HC Capital U.S. Government Fixed Income (HCUSX) | 1.8 | 0.21 |
| 9 | MFS Government Securities A (MFGSX) | 1.6 | 0.88 |
| 10 | Federated Government Income A (FGOAX) | 1.6 | 1.00 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Pimco Long-Term U.S. Government A (PFGAX) | 2.2% | 1.00% |
| 2 | Morgan Stanley U.S. Government A (USGAX) | 1.6 | 0.87 |
| 3 | Fidelity Government Income (FGOVX) | 1.2 | 0.45 |
| 4 | Prudential Government Income A (PGVAX) | 1.2 | 1.02 |
| 5 | Wells Fargo Government Securities A (SGVDX) | 1.1 | 0.86 |
| 6 | American Funds U.S. Government A (AMUSX) | 1.0 | 0.65 |
| 7 | Federated Government Income A (FGOAX) | 1.0 | 1.00 |
| 8 | JPMorgan Government Bond A (OGGAX) | 0.9 | 0.75 |
| 9 | Putnam American Government Income A (PAGVX) | 0.9 | 0.94 |
| 10 | John Hancock Government Income A (JHGIX) | 0.88 | 0.98 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Pimco Long-Term U.S. Government A (PFGAX) | 6.4% | 1.00% |
| 2 | Putnam American Gov. Income A (PAGVX) | 3.7 | 0.94 |
| 3 | JPMorgan Government Bond A (OGGAX) | 3.6 | 0.75 |
| 4 | Fidelity Government Income (FGOVX) | 3.4 | 0.45 |
| 5 | Prudential Government Income A (PGVAX) | 3.4 | 1.02 |
| 6 | John Hancock Government Income A (JHGIX) | 3.2 | 0.98 |
| 7 | Wells Fargo Government Securities A (SGVDX) | 3.2 | 0.86 |
| 8 | Fidelity Advisor Government Income A (FVIAX) | 3.1 | 0.77 |
| 9 | American Funds U.S. Government A (AMUSX) | 3.0 | 0.65 |
| 10 | MFS Government Securities A (MFGSX) | 3.0 | 0.88 |

## INVESTMENT-GRADE BOND

While government bonds eked out only modest gains last year, high-quality corporate bond funds produced significantly better results in 2017, thanks largely to the improving economy.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Delaware Extended Duration Bond A (DEEAX) | 9.8% | 0.96% |
| 2 | Vanguard Long-Term Bond Index (VBLTX) | 8.7 | 0.15 |
| 3 | Calvert Long Term Income A (CLDAX) | 7.8 | 0.92 |
| 4 | Schroder Long Duration Investment-Grade (STWLX) | 7.6 | 0.39 |
| 5 | Payden Corporate Bond (PYACX) | 7.6 | 0.65 |
| 6 | Pimco Investment Grade Corporate Bond A (PBDAX) | 6.9 | 0.91 |
| 7 | Invesco Corporate Bond A (ACCBX) | 6.6 | 0.90 |
| 8 | Natixis Loomis Sayles Investment Grade (LGBNX) | 6.3 | 0.47 |
| 9 | Delaware Corporate Bond A (DGCAX) | 6.3 | 0.94 |
| 10 | AMG Managers Loomis Sayles Bond (MGFIX) | 6.3 | 0.99 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Payden Corporate Bond (PYACX) | 4.85% | 0.65% |
| 2 | Morgan Stanley Inst. Corporate Bond A (MIGAX) | 4.67 | 1.00 |
| 3 | Delaware Extended Duration Bond A (DEEAX) | 4.52 | 0.96 |
| 4 | Western Asset Corporate Bond A (SIGAX) | 4.34 | 0.95 |
| 5 | Schroder Long Duration Investment-Grade (STWLX) | 4.28 | 0.39 |
| 6 | Western Asset Corporate Bond (LCBPX) | 4.18 | 1.17 |
| 7 | Invesco Corporate Bond A (ACCBX) | 4.15 | 0.90 |
| 8 | BMO TCH Corporate Income (MCIYX) | 4.12 | 0.60 |
| 9 | Lord Abbett Income A (LAGVX) | 3.94 | 0.78 |
| 10 | Pimco Investment Grade Corporate Bond A (PBDAX) | 3.92 | 0.91 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Delaware Extended Duration Bond A (DEEAX) | 8.8% | 0.96% |
| 2 | Calvert Long Term Income A (CLDAX) | 7.3 | 0.92 |
| 3 | Pimco Investment Grade Corporate Bond A (PBDAX) | 7.0 | 0.91 |
| 4 | Vanguard Long-Term Bond Index (VBLTX) | 6.9 | 0.15 |
| 5 | Delaware Corporate Bond A (DGCAX) | 6.5 | 0.94 |
| 6 | Lord Abbett Income A (LAGVX) | 6.5 | 0.78 |
| 7 | Invesco Corporate Bond (ACCHX) | 6.0 | 0.65 |
| 8 | PIA BBB Bond (PBBBX) | 5.9 | 0.15 |
| 9 | MFS Corporate A (MFBFX) | 5.8 | 0.81 |
| 10 | Federated Bond A (FDBAX) | 5.8 | 0.86 |

## HIGH-YIELD BOND

It's not surprising that funds investing in low-rated but high-yielding corporate bonds produced big gains last year. High-yield "junk" bonds are highly correlated with the stock market, which soared in 2017.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Fidelity Capital & Income (FAGIX) | 11.0% | 0.73% |
| 2 | Fidelity Adv. High Income Advantage A (FAHDX) | 10.1 | 1.04 |
| 3 | Fidelity Global High Income (FGHNX) | 10.1 | 1.14 |
| 4 | Fidelity Adv. Global High Income A (FGHAX) | 9.8 | 1.36 |
| 5 | Pioneer Global High Yield A (PGHYX) | 9.5 | 1.19 |
| 6 | Diamond Hill High Yield A (DHHAX) | 9.3 | 0.98 |
| 7 | Aberdeen Global High Income A (BJBHX) | 8.9 | 1.04 |
| 8 | Victory High Yield A (GUHYX) | 8.7 | 1.00 |
| 9 | Legg Mason BW Global High Yield A (LBHAX) | 8.6 | 1.17 |
| 10 | Catalyst/SMH High Income A (HIIFX) | 8.5 | 1.47 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Fidelity Capital & Income (FAGIX) | 7.6% | 0.73% |
| 2 | Fidelity Adv. High Income Advantage A (FAHDX) | 7.2 | 1.04 |
| 3 | Lord Abbett High Yield A (LHYAX) | 7.2 | 0.88 |
| 4 | Morgan Stanley Inst. High Yield A (MSYPX) | 7.1 | 1.00 |
| 5 | Guggenheim High Yield A (SIHAX) | 6.8 | 1.23 |
| 6 | MassMutual Premier High Yield A (MPHAX) | 6.7 | 1.10 |
| 7 | Federated High Yield Strategy (FHYSX) | 6.7 | 0.03 |
| 8 | PIA High Yield (PHYSX) | 6.3 | 0.76 |
| 9 | Prudential High Yield (PHYQX) | 6.3 | 0.41 |
| 10 | American Beacon SiM High Yield Opp. (SHYPX) | 6.2 | 1.19 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Fidelity Capital & Income (FAGIX) | 8.3% | 0.73% |
| 2 | AB High Income A (AGDAX) | 8.3 | 0.85 |
| 3 | Lord Abbett High Yield A (LHYAX) | 8.3 | 0.88 |
| 4 | Ivy High Income A (WHIAX) | 8.0 | 0.97 |
| 5 | Waddell & Reed Adv. High Income A (UNHIX) | 7.6 | 1.04 |
| 6 | Prudential High Yield A (PBHAX) | 7.5 | 0.81 |
| 7 | Guggenheim High Yield A (SIHAX) | 7.5 | 1.23 |
| 8 | BlackRock High Yield Bond A (BHYAX) | 7.4 | 0.94 |
| 9 | Fidelity High Income (SPHIX) | 7.3 | 0.72 |
| 10 | MassMutual Premier High Yield A (MPHAX) | 7.2 | 1.10 |

## TAX-EXEMPT BOND

As the economy has improved, so too has the financial health of cities and states. As a result, bond funds that focus on municipal debt—especially higher-yielding muni bonds—have been producing sizable returns.

### 2017

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Dreyfus High Yield Municipal A (DHYAX) | 11.4% | 0.87% |
| 2 | Nuveen High Yield Municipal A (NHMAX) | 10.3 | 0.88 |
| 3 | AB High Income Municipal A (ABTHX) | 8.6 | 0.87 |
| 4 | Principal Opportunistic Municipal A (PMOAX) | 8.6 | 0.95 |
| 5 | Nuveen Strategic Municipal Opp. A (NSAOX) | 8.2 | 0.83 |
| 6 | American Century High-Yield Municipal (ABHYX) | 8.1 | 0.60 |
| 7 | AMG GW&K Municipal Enhanced Yield (GWMNX) | 8.0 | 1.00 |
| 8 | City Nat. Rochdale Muni. High Income (CNRNX) | 8.0 | 0.80 |
| 9 | Transamerica High Yield A (THAYX) | 7.9 | 0.91 |
| 10 | Delaware National High-Yield Municipal A (CXHYX) | 7.8 | 0.85 |

### FIVE-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Nuveen High Yield Municipal A (NHMAX) | 5.6% | 0.88% |
| 2 | MainStay High Yield Municipal (MMHVX) | 4.7 | 0.90 |
| 3 | Clearwater Tax-Exempt Bond (QWVQX) | 4.7 | 0.65 |
| 4 | Transamerica Intermediate Muni A (TAMUX) | 4.5 | 0.68 |
| 5 | American Funds American High-Income Muni A (AMHIX) | 4.4 | 0.67 |
| 6 | Eaton Vance High Yield Municipal Income A (ETHYX) | 4.4 | 0.89 |
| 7 | Oppenheimer Rochester High Yield Municipal A (ORNAX) | 4.4 | 1.09 |
| 8 | Goldman Sachs High Yield Municipal A (GHYAX) | 4.3 | 0.85 |
| 9 | Dreyfus High Yield Municipal A (DHYAX) | 4.2 | 0.87 |
| 10 | Columbia High Yield Municipal (SRHMX) | 4.1 | 0.66 |

### 10-YEAR ANNUAL

| RANK | FUND NAME (TICKER) | RETURN | EXP. RATIO |
|---|---|---|---|
| 1 | Delaware National High-Yield Municipal A (CXHYX) | 5.7% | 0.85% |
| 2 | Clearwater Tax-Exempt (QWVQX) | 5.6 | 0.65 |
| 3 | Nuveen All-American Municipal A (FLAAX) | 5.3 | 0.73 |
| 4 | MFS Municipal High Income A (MMHYX) | 5.2 | 0.66 |
| 5 | T. Rowe Price Tax-Free High Yield (PRFHX) | 5.1 | 0.69 |
| 6 | BlackRock Municipal High Yield Municipal A (MDYHX) | 5.0 | 0.92 |
| 7 | American Funds American High-Income Muni A (AMHIX) | 5.0 | 0.67 |
| 8 | Prudential Muni High Income A (PRHAX) | 4.9 | 0.87 |
| 9 | Vanguard High-Yield Tax-Exempt (VWAHX) | 4.9 | 0.19 |
| 10 | Putnam Tax-Free High Yield A (PTHAX) | 4.9 | 0.83 |

# THE BIGGEST

These mutual funds—ranked in descending order of 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) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Fidelity Contrafund (FCNTX) | 31.8% | 16.4% | 9.0% | 0.68% |
| 2 | American Funds Growth Fund of America A (AGTHX) | 24.7 | 16.1 | 8.2 | 0.64 |
| 3 | Dodge & Cox Stock (DODGX) | 15.5 | 16.4 | 7.2 | 0.52 |
| 4 | American Funds Investment Co. of America A (AIVSX) | 17.6 | 14.8 | 7.4 | 0.60 |
| 5 | American Funds Washington Mutual A (AWSHX) | 18.3 | 14.6 | 7.8 | 0.58 |
| 6 | American Funds Fundamental A (ANCFX) | 21.1 | 15.4 | 7.9 | 0.62 |
| 7 | T. Rowe Price Growth Stock (PRGFX) | 34.1 | 18.0 | 10.0 | 0.68 |
| 8 | Vanguard Windsor II Adm. (VWNAX) | 14.5 | 13.3 | 6.7 | 0.25 |
| 9 | T. Rowe Price Blue Chip Growth (TRBCX) | 36.5 | 18.9 | 10.5 | 0.72 |
| 10 | American Funds American Mutual A (AMRMX) | 16.4 | 13.4 | 7.9 | 0.60 |
| 11 | Vanguard Growth Index Adm. (VIGAX) | 26.9 | 15.9 | 9.5 | 0.06 |
| 12 | Harbor Capital Appreciation (HACAX) | 35.7 | 17.8 | 10.0 | 0.65 |
| 13 | T. Rowe Price Value (TRVLX) | 18.9 | 15.6 | 8.3 | 0.82 |
| 14 | Fidelity Blue Chip Growth (FBGRX) | 34.9 | 18.5 | 11.1 | 0.70 |
| 15 | Vanguard Value Index Adm. (VVIAX) | 15.4 | 15.5 | 7.3 | 0.06 |

## MIDCAP U.S. STOCK

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

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Vanguard Mid-Cap Index Adm. (VIMAX) | 18.1% | 15.4% | 8.8% | 0.06% |
| 2 | Fidelity Low-Priced Stock (FLPSX) | 18.4 | 13.8 | 9.0 | 0.68 |
| 3 | Vanguard Mid-Cap Value Index Adm. (VMVAX) | 15.0 | 15.9 | N.A. | 0.07 |
| 4 | Vanguard Strategic Equity (VSEQX) | 12.9 | 16.7 | 9.0 | 0.18 |
| 5 | Fidelity Mid-Cap Stock Fund (FMCSX) | 17.7 | 14.7 | 8.3 | 0.58 |
| 6 | Vanguard Mid-Cap Growth Index Adm. (VMGMX) | 21.9 | 14.7 | N.A. | 0.07 |
| 7 | Vanguard Mid-Cap Growth (VMGRX) | 22.1 | 13.1 | 8.2 | 0.36 |
| 8 | American Century Heritage (TWHIX) | 21.5 | 12.8 | 7.0 | 1.00 |
| 9 | Columbia Acorn Fund (ACRNX) | 25.3 | 13.0 | 8.0 | 0.86 |
| 10 | Fidelity Mid Cap Index Prem. (FSCKX) | 17.3 | 15.2 | N.A. | 0.05 |
| 11 | Dreyfus Midcap Index (PESPX) | 15.5 | 14.9 | 9.5 | 0.50 |
| 12 | Baron Growth (BGRFX) | 27.3 | 13.4 | 8.2 | 1.30 |
| 13 | Hartford MidCap A (HFMCX) | 23.1 | 16.8 | 9.1 | 1.16 |
| 14 | Northern Mid Cap Index (NOMIX) | 15.8 | 15.3 | 9.7 | 0.16 |
| 15 | Franklin Small-Mid Cap Growth A (FRSGX) | 22.2 | 13.7 | 7.6 | 0.95 |

***NOTES:*** *Return data is as of Nov. 30, 2017; five- and 10-year total returns are annualized. When possible, investor share classes are used. ETFs and 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) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Vanguard Small-Cap Index Adm. (VSMAX) | 15.8% | 15.1% | 9.6% | 0.06% |
| 2 | Vanguard Extended Mkt. Index Adm. (VEXAX) | 17.5 | 15.1 | 9.2 | 0.08 |
| 3 | Fidelity Extended Market Index Prem. (FSEVX) | 17.6 | 15.1 | 9.2 | 0.07 |
| 4 | Vanguard Small-Cap Value Index Adm. (VSIAX) | 11.3 | 15.6 | N.A. | 0.07 |
| 5 | Vanguard Explorer Adm. (VEXRX) | 22.0 | 15.2 | 8.8 | 0.34 |
| 6 | Vanguard Small-Cap Growth Index Adm. (VSGAX) | 21.6 | 14.2 | N.A. | 0.07 |
| 7 | T. Rowe Price Small-Cap Value (PRSVX) | 14.7 | 14.3 | 9.5 | 0.92 |
| 8 | Vanguard Tax-Managed Small-Cap Adm. (VTMSX) | 13.7 | 16.8 | 10.4 | 0.09 |
| 9 | T. Rowe Price QM U.S. SmCp Gro. (PRDSX) | 22.0 | 16.7 | 11.4 | 0.81 |
| 10 | Northern Small Cap Value (NOSGX) | 8.6 | 14.9 | 9.3 | 1.01 |
| 11 | Schwab Small-Cap Index (SWSSX) | 15.1 | 15.0 | 9.4 | 0.05 |
| 12 | Fidelity Small Cap Index Prem. (FSSVX) | 15.3 | 15.2 | N.A. | 0.05 |
| 13 | Fidelity Small Cap Growth (FCPGX) | 27.9 | 17.9 | 9.5 | 1.09 |
| 14 | Dreyfus Smallcap Stock Index (DISSX) | 13.0 | 16.3 | 10.1 | 0.50 |
| 15 | Royce Premier (RYPRX) | 23.7 | 12.0 | 9.0 | 1.16 |

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

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | American Funds New World A (NEWFX) | 29.8% | 6.9% | 3.0% | 1.08% |
| 2 | Vanguard Emerging Mkt. Index Adm. (VEMAX) | 26.9 | 4.0 | 0.9 | 0.14 |
| 3 | T. Rowe Price Emerging Mkt. Stock (PRMSX) | 38.6 | 6.8 | 1.4 | 1.26 |
| 4 | Fidelity Emerging Markets (FEMKX) | 42.1 | 7.8 | 0.4 | 1.01 |
| 5 | Northern Emerging Mkt. Equity Index (NOEMX) | 33.1 | 4.4 | 0.7 | 0.31 |
| 6 | Russell Investments Emerging Mkt. (REMSX) | 31.4 | 4.7 | 1.6 | 1.47 |
| 7 | American Funds Dev. World Growth & Income A (DWGAX) | 23.4 | N.A. | N.A. | 1.33 |
| 8 | Sanford Bernstein Emerging Markets (SNEMX) | 30.3 | 5.4 | 0.3 | 1.50 |
| 9 | Fidelity Emerging Asia (FSEAX) | 41.7 | 9.7 | 2.2 | 1.16 |
| 10 | Driehaus Emerging Markets Growth (DREGX) | 37.9 | 7.1 | 2.8 | 1.47 |
| 11 | Templeton Developing Markets A (TEDMX) | 36.7 | 4.2 | 0.5 | 1.58 |
| 12 | Northern Active M Emerging Markets (NMMEX) | 31.4 | 4.9 | N.A. | 1.11 |
| 13 | Baron Emerging Markets (BEXFX) | 34.1 | 8.5 | N.A. | 1.38 |
| 14 | Seafarer Overseas Growth and Income (SFGIX) | 22.6 | 7.0 | N.A. | 1.02 |
| 15 | Fidelity Emerging Mkt. Index Prem. (FPMAX) | 32.7 | 4.8 | N.A. | 0.13 |

## INTERNATIONAL STOCK
These funds own shares of companies in developed economies overseas.

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Vanguard Total Int. Stock Index (VGTSX) | 24.8% | 7.5% | 1.4% | 0.18% |
| 2 | Oakmark International (OAKIX) | 27.3 | 11.4 | 6.5 | 1.00 |
| 3 | American Funds EuroPacific Growth A (AEPGX) | 29.3 | 9.2 | 3.4 | 0.85 |
| 4 | Harbor International (HAINX) | 20.8 | 5.6 | 1.7 | 0.79 |
| 5 | Vanguard International Growth Adm. (VWILX) | 41.8 | 11.7 | 4.4 | 0.33 |
| 6 | Vanguard Developed Mkt. Index Adm. (VTMGX) | 24.3 | 8.7 | 1.9 | 0.07 |
| 7 | T. Rowe Price International Stock (PRITX) | 25.8 | 8.4 | 3.0 | 0.84 |
| 8 | T. Rowe Price International Value Equity (TRIGX) | 19.5 | 7.1 | 1.1 | 0.85 |
| 9 | T. Rowe Price Overseas Stock (TROSX) | 25.6 | 8.7 | 2.4 | 0.84 |
| 10 | Fidelity Diversified International (FDIVX) | 25.2 | 9.0 | 2.0 | 1.05 |
| 11 | Fidelity International Index Prem. (FSIVX) | 23.6 | 8.1 | 1.6 | 0.06 |
| 12 | Tweedy Browne Global Value (TBGVX) | 14.2 | 8.0 | 4.6 | 1.38 |
| 13 | Vanguard International Value (VTRIX) | 25.6 | 7.9 | 1.6 | 0.43 |
| 14 | Fidelity International Discovery (FIGRX) | 29.6 | 9.2 | 2.2 | 1.00 |
| 15 | Fidelity Overseas (FOSFX) | 27.7 | 11.4 | 2.0 | 1.03 |

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

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | American Funds American Balanced A (ABALX) | 13.9% | 11.0% | 7.2% | 0.60% |
| 2 | Vanguard Target Retirement 2025 (VTTVX) | 14.7 | 9.4 | 5.6 | 0.14 |
| 3 | Vanguard Target Retirement 2020 (VTWNX) | 13.0 | 8.6 | 5.5 | 0.14 |
| 4 | Fidelity Balanced (FBALX) | 15.8 | 10.7 | 6.7 | 0.55 |
| 5 | Vanguard Balanced Index Adm. (VBIAX) | 13.0 | 10.1 | 7.0 | 0.07 |
| 6 | Vanguard STAR (VGSTX) | 17.1 | 9.8 | 6.4 | 0.32 |
| 7 | Fidelity Puritan (FPURX) | 17.7 | 11.0 | 7.0 | 0.55 |
| 8 | Vanguard Target Retirement 2015 (VTXVX) | 10.6 | 7.3 | 5.1 | 0.14 |
| 9 | Dodge & Cox Balanced (DODBX) | 10.7 | 12.4 | 6.7 | 0.53 |
| 10 | Vanguard LifeStrategy Moderate Growth (VSMGX) | 13.9 | 8.6 | 5.3 | 0.14 |
| 11 | Oakmark Equity and Income (OAKBX) | 13.5 | 10.0 | 6.7 | 0.79 |
| 12 | Vanguard LifeStrategy Conservative Growth (VSCGX) | 10.1 | 6.5 | 4.7 | 0.13 |
| 13 | American Funds American Balanced C (BALCX) | 13.1 | 10.1 | 6.3 | 1.38 |
| 14 | MFS Total Return A (MSFRX) | 11.1 | 9.4 | 5.8 | 0.74 |
| 15 | Janus Henderson Balanced (JABAX) | 17.3 | 10.0 | 7.5 | 0.84 |

## U.S. GOVERNMENT BONDS

These funds hold Treasuries and other government-related debt.

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Fidelity Government Income (FGOVX) | 1.9% | 1.2% | 3.4% | 0.45% |
| 2 | American Funds U.S. Government A (AMUSX) | 1.4 | 1.0 | 3.0 | 0.65 |
| 3 | MFS Government A (MFGSX) | 1.6 | 0.7 | 3.0 | 0.88 |
| 4 | Sit U.S. Government (SNGVX) | 1.1 | 0.6 | 2.6 | 0.80 |
| 5 | JPMorgan Government A (OGGAX) | 1.8 | 0.9 | 3.6 | 0.75 |
| 6 | Wells Fargo Government A (SGVDX) | 1.8 | 1.1 | 3.2 | 0.86 |
| 7 | Putnam American Government Income A (PAGVX) | 1.8 | 0.9 | 3.7 | 0.94 |
| 8 | Prudential Government Income A (PGVAX) | 1.8 | 1.2 | 3.4 | 1.02 |
| 9 | WesMark Government Bond (WMBDX) | 1.2 | 0.7 | 2.5 | 1.01 |
| 10 | John Hancock Government Income A (JHGIX) | 1.2 | 0.9 | 3.2 | 0.98 |
| 11 | First Investors Government A (FIGVX) | 1.0 | 0.3 | 2.6 | 1.19 |
| 12 | Fidelity Advisor Government Income A (FVIAX) | 1.5 | 0.8 | 3.1 | 0.77 |
| 13 | AIG U.S. Government A (SGTAX) | 0.5 | −0.3 | 2.1 | 0.99 |
| 14 | Federated Government Income (FGOIX) | 1.6 | 1.0 | 2.7 | 1.00 |
| 15 | Pimco Long-Term U.S. Government (PFGAX) | 6.9 | 2.2 | 6.4 | 1.00 |

## INVESTMENT-GRADE BONDS

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

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Vanguard Total Bond Market II Index (VTBIX) | 3.0% | 1.8% | N.A. | 0.09% |
| 2 | Vanguard Total Bond Mkt. Index Adm. (VBTLX) | 3.1 | 1.9 | 3.9 | 0.05 |
| 3 | Dodge & Cox Income (DODIX) | 3.9 | 3.0 | 5.0 | 0.43 |
| 4 | Vanguard Short-Term Inv.-Grade Adm. (VFSUX) | 2.1 | 1.8 | 3.0 | 0.10 |
| 5 | T. Rowe Price New Income (PRCIX) | 3.6 | 1.9 | 4.2 | 0.54 |
| 6 | Vanguard Interm.-Term Inv.-Grade Adm. (VFIDX) | 3.9 | 2.8 | 5.1 | 0.10 |
| 7 | Fidelity Total Bond (FTBFX) | 3.8 | 2.7 | 4.9 | 0.45 |
| 8 | American Funds Bond Fund of America A (ABNDX) | 3.0 | 1.9 | 2.9 | 0.62 |
| 9 | Vanguard Short-Term Bond Index Adm. (VBIRX) | 1.1 | 1.0 | 2.4 | 0.07 |
| 10 | Vanguard Interm.-Term Bond Index Adm. (VBILX) | 3.5 | 2.1 | 5.0 | 0.07 |
| 11 | Lord Abbett Short Duration Income A (LALDX) | 2.2 | 2.1 | 4.1 | 0.60 |
| 12 | Fidelity Investment Grade Bond (FBNDX) | 3.5 | 2.2 | 4.1 | 0.45 |
| 13 | Fidelity U.S. Bond Index Prem. (FSITX) | 3.0 | 1.9 | N.A. | 0.05 |
| 14 | American Funds Interm. Bond Fund of Am. A (AIBAX) | 1.0 | 0.7 | 2.0 | 0.62 |
| 15 | T. Rowe Price Short-Term (PRWBX) | 1.4 | 0.9 | 2.2 | 0.46 |

## HIGH-YIELD BONDS

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

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Vanguard High-Yield Corporate Adm. (VWEAX) | 6.8% | 5.4% | 7.0% | 0.13% |
| 2 | Fidelity Capital & Income (FAGIX) | 11.0 | 7.6 | 8.3 | 0.73 |
| 3 | American Funds American High-Income A (AHITX) | 6.6 | 4.5 | 5.9 | 0.69 |
| 4 | Fidelity High Income (SPHIX) | 7.9 | 5.4 | 7.3 | 0.72 |
| 5 | Northern High Yield Fixed Income (NHFIX) | 7.0 | 5.2 | 6.4 | 0.81 |
| 6 | MainStay High Yield Corp. Bond A (MHCAX) | 5.8 | 5.5 | 6.5 | 0.95 |
| 7 | Franklin High Income A (FHAIX) | 6.6 | 4.3 | 6.5 | 0.77 |
| 8 | AB High Income A (AGDAX) | 7.4 | 5.8 | 8.3 | 0.85 |
| 9 | Prudential High Yield (PHYQX) | 7.3 | 6.3 | N.A. | 0.41 |
| 10 | BlackRock High Yield Bond A (BHYAX) | 7.5 | 6.0 | 7.4 | 0.94 |
| 11 | Lord Abbett High Yield A (LHYAX) | 8.1 | 7.2 | 8.3 | 0.88 |
| 12 | Harbor High Yield Bond (HYFAX) | 6.2 | 4.7 | 6.4 | 0.67 |
| 13 | USAA High Income (USHYX) | 6.3 | 5.5 | 7.1 | 0.84 |
| 14 | Ivy High Income A (WHIAX) | 6.9 | 5.6 | 8.0 | 0.97 |
| 15 | Waddell & Reed Advisors High Income A (UNHIX) | 6.2 | 5.7 | 7.6 | 1.04 |

## TAX-EXEMPT BONDS

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

| RANK | FUND NAME (TICKER) | 2017 | FIVE YEARS | 10 YEARS | EXP. RATIO |
|---|---|---|---|---|---|
| 1 | Vanguard Interm.-Term Tax-Exempt Adm. (VWIUX) | 3.7% | 2.3% | 4.0% | 0.09% |
| 2 | Vanguard Ltd.-Term Tax-Exempt Adm. (VMLUX) | 1.8 | 1.1 | 2.2 | 0.09 |
| 3 | Vanguard Municipal Money Market (VMSXX) | 0.7 | 0.2 | 0.4 | 0.15 |
| 4 | Vanguard Short-Term Tax-Exempt Adm. (VWSUX) | 1.0 | 0.6 | 1.4 | 0.09 |
| 5 | Fidelity Municipal Money Market (FTEXX) | 0.5 | 0.1 | 0.3 | 0.40 |
| 6 | JPMorgan Tax Free Money Market (JTFXX) | 0.6 | 0.2 | 0.4 | 0.21 |
| 7 | Vanguard High-Yield Tax-Exempt Adm. (VWALX) | 6.7 | 3.7 | 5.0 | 0.09 |
| 8 | Vanguard Long-Term Tax-Exempt Fund Adm. (VWLUX) | 5.2 | 3.2 | 4.7 | 0.09 |
| 9 | American Funds Tax-Exempt Bond Fund of Am. A (AFTEX) | 4.5 | 2.6 | 4.2 | 0.53 |
| 10 | Schwab Municipal Money Fund (SWXXX) | 0.3 | 0.1 | 0.3 | 0.57 |
| 11 | Franklin Federal Tax-Free Income A (FKTIX) | 2.6 | 2.1 | 4.1 | 0.62 |
| 12 | Fidelity Municipal Income (FHIGX) | 5.4 | 2.9 | 4.5 | 0.46 |
| 13 | Sanford Bernstein Diversified Municipal (SNDPX) | 2.4 | 1.2 | 2.9 | 0.46 |
| 14 | T. Rowe Price Summit Municipal Intermediate (PRSMX) | 3.4 | 2.1 | 3.9 | 0.50 |
| 15 | Fidelity Intermediate Municipal Income (FLTMX) | 3.7 | 2.0 | 3.6 | 0.35 |

# Extreme Downsizers!

**BY ELIZABETH O'BRIEN**

People are ditching their things to pursue their passions. Here's how they make it work.

How often do you catch yourself daydreaming about living your best life in retirement? And more important: How often do you wish you could start now?

Some people are figuring out how to pursue their passions today, instead of waiting until their golden years. And there's a common thread to their efforts: radical downsizing, which frees up time and money to embrace their favored lifestyle now, not in some distant future.

MONEY spoke with three downsizers who are living out their dreams in smaller places—or, in one case, a minivan. Here's how they're making it work—along with tips for how to downsize in your own life.

ILLUSTRATION BY MICHAEL BYERS

DATA CRUNCHER TO ROCK CLIMBER


1

# The Data Scientist Turned Rock Climber

**LIKE MOST MILLENNIALS,** Lauren Ford counts housing as her biggest monthly expense. But her housing money goes straight into her gas tank.

That's because Ford, 29, lived out of her 2003 Chevy Astro van for most of 2017.

"It's got my whole life in it," she says.

In August 2017 she quit her job as a quantitative analyst for real estate firm Trulia and began rock climbing full-time. She's got enough money saved for at least six months of climbing, maybe more. Here's how this millennial made her dream a reality.

### PLAN AHEAD

Ford grew up in the Bay Area and spent several years in San Francisco after graduating from college. She earned a good salary as a quantitative analyst, but she also paid high Bay Area rents.

In 2015 she moved to Truckee, Calif., near Lake Tahoe. She worked remotely for Trulia, still making her Silicon Valley salary but paying just $650 a month to live in a four-bedroom home with roommates. She pocketed her savings and is now living off those funds. Her monthly expenses run about $1,500 for gas, groceries, campsite fees, and gear purchases. The specialized climbing shoes she wears retail for about $185, and the metal stoppers that she puts into cracks in the rock cost about $75 each.

### KEEP IT SIMPLE

Ford quickly learned the cardinal rule for living in a tight space: Keep only items you use every day. While she has storage space underneath her mattress, there's room only for essentials.

When she realized she lived exclusively in her climbing clothes, Ford ditched the cute outfits she brought. Out went the extra spatula she packed: She needs just one to make the nutritious

1. Lauren Ford in the back of the minivan that doubles as her living quarters. 2. Ford climbing in Squamish, British Columbia.

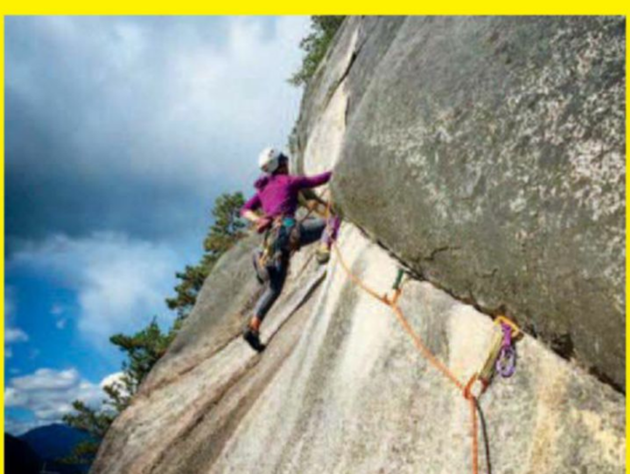
lentil meals she cooks on the Coleman two-burner stove in the back of her van when she's at a campsite. One item she can't live without: her bicycle, which is crucial for accessing hard-to-reach climbing locations and for bypassing car traffic in national parks.

Entertainment is simple. Her Internet connection isn't strong enough for streaming Netflix or Spotify, so most evenings she hangs out with fellow camping friends. And she isn't worried about taking a break from work. After all, as a data scientist, she's got one of the most in-demand skills in today's economy. Not only that, but her job is one that can frequently be done anywhere. If her savings run low, she could likely find a remote, part-time job that allows her to keep climbing.

While she's no longer earning a paycheck, Ford's not dipping into her 401(k) to fund her adventures. If she did that, she'd have to pay an early withdrawal penalty to the Internal Revenue Service—not to mention that she'd be draining her future savings.

The extra effort that her lifestyle entails is a tradeoff she's happy to make, she says: "Being able to go wherever I want, whenever I want, is amazing, and the downsizing and minor frustrations are worth it."

ALL PHOTOS COURTESY OF SUBJECTS



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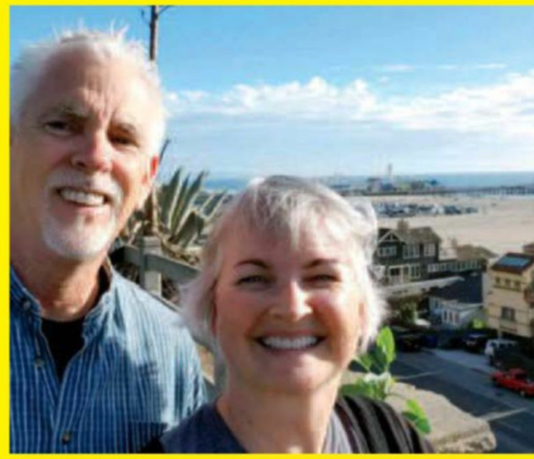
Do you have your own downsizing success story? Share it with MONEY: letters@moneymail.com





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## The Former New Englander Turned Beach Dweller

**LONG BEFORE MARIE KONDO** became a household name, Laura Matthews was asking herself which possessions she really loved. The self-employed book editor, 55, moved cross-country several times, always using the decluttering tactics that the Japanese organizing guru recently made famous: keeping only items that "spark joy," in Kondo's phrase.

Matthews's latest move, in 2009, was her biggest yet. She downsized from the three-bedroom house in Massachusetts where she raised two teenagers as a single mother to a one-bedroom apartment near the beach in Santa Monica. That involved ridding herself of everything from couches to Christmas wrap. "I only took things I loved," Matthews says.

Matthews has since upsized her living space to a 1,200-square-foot, two-bedroom apartment that she shares with her partner, Jon MacCulloch, 61, an engineer turned massage therapist, 13 blocks from the beach. The couple rent out their

Previous page: 1. Jon MacCulloch and Laura Matthews near their home in Santa Monica. 2. The inside of Laura Matthews's current apartment, just blocks from the Pacific Ocean. 3. A former house in Massachusetts.

3

second bedroom regularly through Airbnb, which covers at least half their monthly rent and ensures that their own financial footprint remains small.

## DITCH SENTIMENTALITY

When she was preparing for her move, Matthews tried to interest her then-college-age daughter in one of her couches. Her daughter demurred. "I was shocked to find out [she] has different taste," Matthews says.

Turns out Matthews likes colorful furniture, while her daughter prefers beige. Instead of taking it personally and hoping for a change of heart, Matthews quickly moved on. She offloaded the couch to a local fraternity whose members were more than happy to cart it away and give it a new home.

Over the course of about four months, Matthews parted with possessions through the sharing website Freecycle.org or sold them for a modest price on Craigslist.org. She found, to her delight, that her belongings went to those in that stage of their lives when they could put them to best use. This made it much easier to part with sentimental items.

For example, she passed along a vintage chest of drawers that had been her father's when he was a child. The family who picked it up had two young boys and planned to restore the old piece for them. A newlywed couple took the dining set that Matthews had when she was first married. She gave away her grandfather's custom-made desk—a heavy piece from the 1920s that she had already carted across the country and back again—to a local theater company that wanted to use it as a prop. Knowing it was going to a good home, "I could let it go," Matthews says.

One could argue that Matthews had particularly good luck, but in order to find the best recipients for her items, she had to take a leap of faith and post them online. The local, thrifty sensibility helped.

"New Englanders love a deal," Matthews says.

## TRADE YOUR SPACE FOR FREEDOM

Matthews hardly feels confined by her cozy quarters. On the contrary, it's liberating to live small, she says. She loves looking around her apartment and seeing only items that give her pleasure. She doesn't miss the yard work she had in Massachusetts, or the feeling that she was working just to pay a big mortgage.

Matthews's enthusiasm for her new lifestyle has proved infectious: Both her sister and sister-in-law downsized after watching her go through the process and come out happily on the other side.

Since she and MacCulloch live below their means, they can afford to spend more on their passions: good food and travel. When they want to go to Europe, they just lock their door and go. "Everything I'm doing now, I'm doing just for me," Matthews says.

2

1,000 SQUARE FEET, FIVE KIDS

THIS PAGE AND OPPOSITE: ALL PHOTOS COURTESY OF SUBJECTS

1

# The Passionate Urbanite

**LIKE MANY YOUNG COUPLES, ADRIAN** Crook and his wife moved from the city to the suburbs when they had their second child. Six years and three kids later, Crook divorced and moved back downtown into a 1,000-square-foot condo—with five young roommates.

"You're told you can't do that when you have kids," says Crook, 42, of Vancouver. Indeed, the Crook clan happily bucks the conventional wisdom that children need a yard and a bedroom of their own.

The family lives small and saves big on time and money. Crook recalls weekends given over to Home Depot when he lived in the suburbs. Now he rents his condo and isn't tempted by renovations as he was when he owned a 2,500-square-foot house.

Crook, who works from home as a self-employed video game consultant, plows the time he saves into his business and into spending time with his children, ages 5 to 11, who live with him two weeks a month. The family doesn't own a car and enjoys the city's many attractions by foot, bicycle, or public transportation. Favorite haunts include the Vancouver Art Gallery, which

1. Adrian Crook with his five kids at the pool. 2. The Crook boys' bedroom overlooking Vancouver.

2

1,000 SQUARE FEET, FIVE KIDS

3

## Desire to Downsize? Start Here

The act of downsizing can be a daunting prospect. Yet living small can result in big savings in your housing costs, including mortgage, property tax, insurance, plus utility and maintenance fees.

And selling your excess stuff can also free up some cash to help cover your moving costs. Various apps, such as Letgo and 5miles, allow you to post items for sale within your local area (arranging for payment with the buyer is up to you). Local Facebook groups where you can sell your stuff are popular too, as is the Facebook Marketplace. And of course, there's always Craigslist to get your items in front of a lot of eyeballs, both locally and nationally. If you have high-priced items, you can also post them on estate-sale websites such as Everything but the House.

So, how much is your stuff worth? "A quick look at what others are asking for something similar will give you a sense of a smart price to ask," says Alec Oxenford, a Letgo cofounder. "With memorabilia and jewelry, a package deal often makes sense for both sides."

Here are some sample prices for recently sold items:

- Michael Kors leather bag: **$62**
- iPhone case: **$12**
- North Face jacket: **$77**
- West Elm coffee table: **$168**
- MacBook Air: **$518**
- Trek mountain bike: **$167**
- Chanel classic flap bag: **$3,850**
- Ebony black Steinway Model M grand piano: **$25,700**
- Vintage vinyl record collection (150 albums): **$651**
- Mid-century modern "womb" chair and ottoman: **$5,000**
- Hermès canvas and leather Kelly handbag: **$5,500**
- Rolex 18K yellow gold 2.56 CTW (carat total weight) diamond bezel Day-Date wristwatch: **$18,250**
- Antique English mahogany wardrobe: **$5,205**
- Vintage Western comic books from the 1940s and '50s: **$770**

holds free family events on Sundays, and the local parks.

"My life is actually cheaper than yours—and a lot more streamlined," he says.

### LIVE CONSCIOUSLY

While Crook is glad his lifestyle saves him money, he's hardly settling for the best he can afford. Instead, he has actively chosen a minimalist approach and the smaller carbon footprint and relatively few belongings that it entails. He believes tight quarters foster empathy in his children and feels that urban living will help them to develop into socially conscious, independent young people.

He explains the tradeoff to his children, telling them that the reason they're able to enjoy fun activities within walking distance of their home—whether that's seeing a parade, ducking into the city's main library, or sampling Vancouver's best hot chocolate—is because they live with less space and less stuff.

### BUILD UP AND EMBRACE MULTIFUNCTIONALITY

In cities where land is limited, like New York and Vancouver, architects build upward. The same goes for apartment dwellers with limited storage space. Crook's three boys sleep in a custom-made triple bunk bed that takes full advantage of his apartment's high ceilings. Toys occupy the bottom rows of the big Ikea bookshelf that rests against one living room wall.

Crook's room features a Murphy bed that also contains a pull-down desk, and his daughters share a bunk bed whose lower level morphs into a desk during the daytime. This multifunctional furniture saves space and also makes the bedrooms more inviting for daytime activities, so the living room doesn't see all the action. "We really just believe it's more about experiences you have than about what you accumulate," he says.

3. Adrian Crook's daughter cleaning a hard-to-reach space.

PHOTO COURTESY OF SUBJECT



**SOURCES:** *First six items from Letgo; remaining eight items from Everything but the House*

# 12 MIND-BLOWING

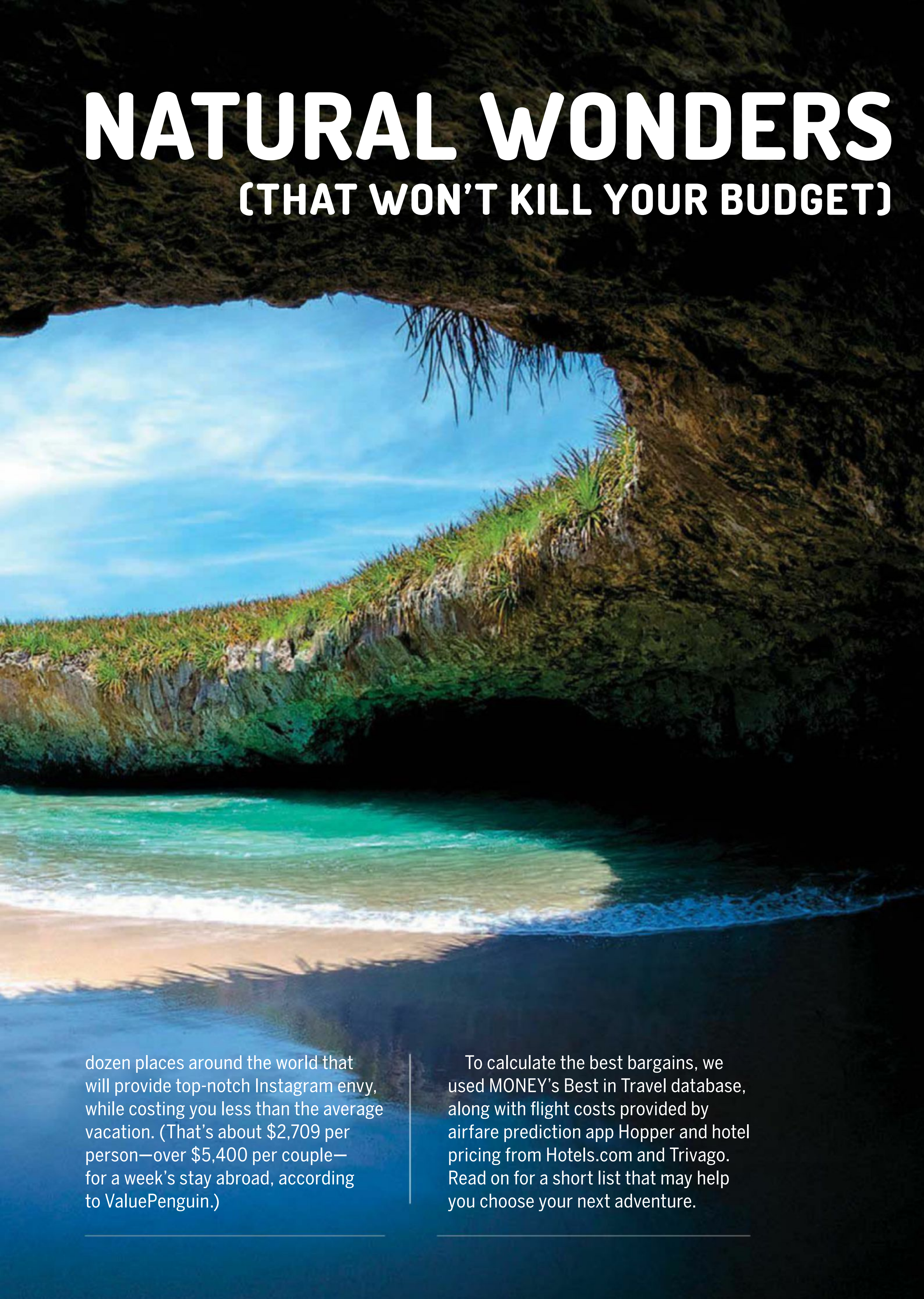
BY MEGAN LEONHARDT

Visitors must swim or kayak to reach Mexico's Hidden Beach.

**A**re you an adventure hound who lives for trips that test your physical limits? Have you fantasized about glorious sunsets along a particularly secluded beach? Or maybe you just want a landscape (or seascape) that appears otherworldly.

There are so many natural wonders to explore when planning your next dramatic destination, it can be daunting to pick just one. But with the help of Lonely Planet's recent guidebook, *50 Natural Wonders to Blow Your Mind,* MONEY has narrowed down the list to a

# NATURAL WONDERS
## (THAT WON'T KILL YOUR BUDGET)



dozen places around the world that will provide top-notch Instagram envy, while costing you less than the average vacation. (That's about $2,709 per person—over $5,400 per couple—for a week's stay abroad, according to ValuePenguin.)

To calculate the best bargains, we used MONEY's Best in Travel database, along with flight costs provided by airfare prediction app Hopper and hotel pricing from Hotels.com and Trivago. Read on for a short list that may help you choose your next adventure.

# HIDDEN BEACH, MARIETA ISLANDS

**Country:** Mexico

**Total cost of a week for two:** $3,135

**01**

About 300 miles south of Cabo San Lucas lie the Marieta Islands, a small group of uninhabited islands with pristine beaches and an abundance of wildlife. Nestled within this nature sanctuary is Hidden Beach, also sometimes called Lovers' Beach—a cavernous crater that Lonely Planet reports was formed by military testing on the islands in the 1900s. The best way to get here is to book a boat trip out of nearby Puerto Vallarta, where hotels run an average of $149 per night, according to Hotels.com. Vallarta Adventures offers a three-hour tour ($149 for adults) that stops at the beach (weather permitting) and gives you a chance to snorkel among the unique caves and rock formations on these islands.

PREVIOUS SPREAD: PHOTOGRAPH BY MIGUEL NARANJO—LONELY PLANET. THIS SPREAD, FROM LEFT: YANN ARTHUS-BERTRAND; SARA WINTER—GETTY IMAGES

# SALAR DE UYUNI

**Country:** Bolivia

**Total cost of a week for two:** $3,238

# 02

Imagine seeing white as far as the eye can see. It's possible in Bolivia, home to the world's largest salt flat—an expanse that stretches across 4,050 square miles. Visit during the rainy season (December to April) to experience the area's stunning mirror effect, which occurs when the surface is covered with a thin layer of water. Start your journey by flying into La Paz: Flights average $757 from the U.S., according to Hopper. From there, you can take a bus ($7 to $15) or a shuttle flight (starting at $39) to the Cochabamba region. You'll want to stay in Uyuni, where you can find a tour of the salt flats.

**◀An aerial view of Hidden Beach shows its isolation.**

**▼Salar de Uyuni is the largest salt flat on the planet.**

# 03 SPOTTED LAKE

**Country:** Canada

**Total cost of a week for two:** $3,394

FROM LEFT: PHOTOGRAPH BY ROBERT OLENICK—GETTY; PNIESEN—GETTY

As summer dawns in British Columbia, the warmer weather transforms a seemingly ordinary lake into what some have called the "most magical place in Canada." The Spotted Lake, which is about five football fields wide, gets its polka-dotted look from the heavy minerals contained within its waters. These mineral deposits arrive with spring snowmelt but are revealed by summer evaporation. To experience the magic for yourself, make your base six miles away in the town of Osoyoos, in B.C.'s popular Okanagan Valley—about 250 miles east of Vancouver. The average hotel room here runs just over $150 per night, according to Hotels.com.

▲ For hundreds of years, British Columbia's indigenous Syilx people have considered Spotted Lake a sacred site.

▶ Don your diving gear to get the best experience at Belize's Great Blue Hole.

# 04 GREAT BLUE HOLE

**Country:** Belize

**Total cost of a week for two:** $3,570

Made famous by Jacques Cousteau, who named it one of the top places to scuba dive in the world, Belize's Great Blue Hole is home to crystal-clear waters, beautiful coral reefs, and giant stalactites. Essentially a giant sinkhole 50 miles off the coast, this natural wonder is hard to get to—you'll need a boat charter for the day. Back on shore, spend your nights in the genteel Fort George district of nearby Belize City, where hotels average $183 a night, according to Hotels.com.

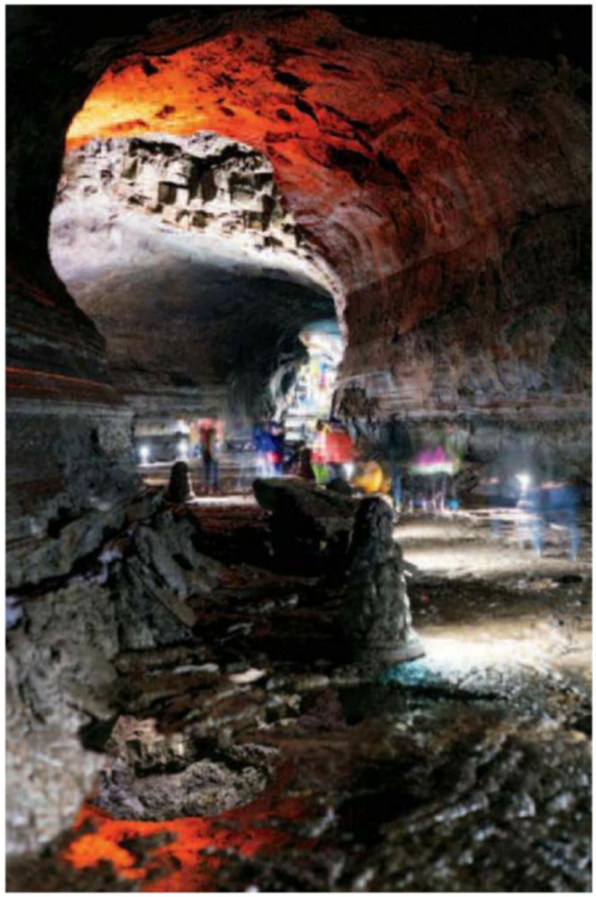
# TROLLTUNGA

# 05

**Country:** Norway

**Total cost of a week for two:** $3,822

Perched almost 2,300 feet above the pristine Lake Ringedalsvatnet, the cliff of Trolltunga looks almost identical to the awe-inspiring Pride Rock from Disney's *Lion King.* The lookout is the end point of an arduous 10- to 12-hour hike from the town of Skjeggedal; it's accessible only from mid-June through the beginning of September, when the conditions are clear. Seeking more scenic wonders? Just south of Trolltunga is the 2,000-foot Langfoss Waterfall. To get to Skjeggedal—a good jumping-off point for both sites—fly into Oslo and then take the train to Voss (around $150 roundtrip), continuing on by bus.



# 06

# MANJANGGUL LAVA TUBE

**Country:** South Korea

**Total cost of a week for two:** $4,082

On the island of Jeju—which is about 50 miles south of the Korean peninsula—you'll find a warren of tunnels and caves formed 3,000 years ago by a volcano. The most popular is the Manjanggul Lava Tube, a five-mile-long cavern littered with volcanic stalactites, shelves, and bridges. After a day of hiking through the caves, check out the picturesque Gwaneumsa Temple, a Buddhist holy site just outside the main city of Jeju.

# 07

# SAGANO BAMBOO FOREST

**Country:** Japan

**Total cost of a week for two:** $4,090

On the outskirts of the bustling city of Kyoto is an oasis of calm: the Sagano Bamboo Forest. The green stalks tower above you as you wind through the various paths and gardens. The park has seen an increasing number of visitors in recent years (entry is free); to take in the forest's quiet rustling, plan to visit in early morning or late evening, and avoid weekends completely. Flights to Kyoto are about $829 on average, according to Hopper, but they regularly go on sale, so set up a fare alert to score a deal.

▲ **The Manjanggul volcanic cavern is about 5.5 miles long.**

◀ **Winter weather makes the 10-hour-plus hike to Trolltunga impassable.**

▶ **The Japanese government has classified the Sagano forest as a national soundscape.**

FROM LEFT: PHOTOGRAPH BY GOSIEK-B—GETTY; CHRISTIAN KOBER/ROBERTHARDING—GETTY; ABDERAZAK TISSOUKAI—500PX/LONELY PLANET

What spots are on your bucket list? Tell us at **letters@moneymail.com.**

# BEACH OF CATHEDRALS

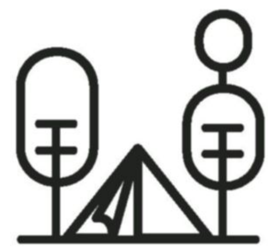
**Country:** Spain

**Total cost of a week for two:** $4,152

▶ Consult a tide chart before visiting these Spanish beach formations.

08

Along the northern coast of Spain, millennia of tides and currents have carved the cliffside of the Beach of Cathedrals—also known as Praia de Augas Santas ("Beach of the Holy Waters")—into what looks like a string of Gothic arches. Stroll along this beach at low tide to take in the stone formations, rocky cliffs, and exposed caves. While you explore the coast, try making the lively port town of Ribadeo your base. It's just six miles away, and a night there will run you about $100 on average, according to Hotels.com.



## Staying in the U.S.?

You can see plenty of amazing wonders without pulling out your passport. See ***money.com/wonders*** for a list of destinations.

FROM TOP: PHOTOGRAPH BY JAN WLODARCZYK—ALAMY; CULTURA/REX/SHUTTERSTOCK

# AURORA BOREALIS

**Country:** Iceland

**Total cost of a week for two:** $4,244

**09**

**The best time to catch the aurora is between September and March.**

One of the best places to take in the breathtaking Northern Lights is in Iceland. The country is also one of the world's trendiest emerging vacation spots—thanks in part to increased flights to Reykjavík—making this one of the easier natural wonders to check off your bucket list. If you're looking for a guide, companies such as Gateway to Iceland can take you to the best viewing spots (tours start at $85). Visit this island nation between October and March for the best chance to view the phenomenon, and while you're there, make time to relax in the famed thermal hot springs.

## 10

# GIANT'S CAUSEWAY

Rising out of the North Atlantic, the Giant's Causeway will make you believe in the mystical. This natural wonder is made up of roughly 40,000 interlocking basalt columns that jut out of the sea to create a landscape you won't soon forget. Legend has it that Irish giant Fionn mac Cumhaill built the causeway to reach Scotland, where a spectacular sea cave on Staffa Island has similar basalt columns. Make Belfast your base, then head up to the coast of Antrim to see the causeway. If you find the region looks vaguely familiar, credit the *Game of Thrones* TV series, which has filmed some scenes in the area.

**Country:** Northern Ireland **Total cost of a week for two:** $4,252

## 11

# LIVING BRIDGES OF CHERRAPUNJI

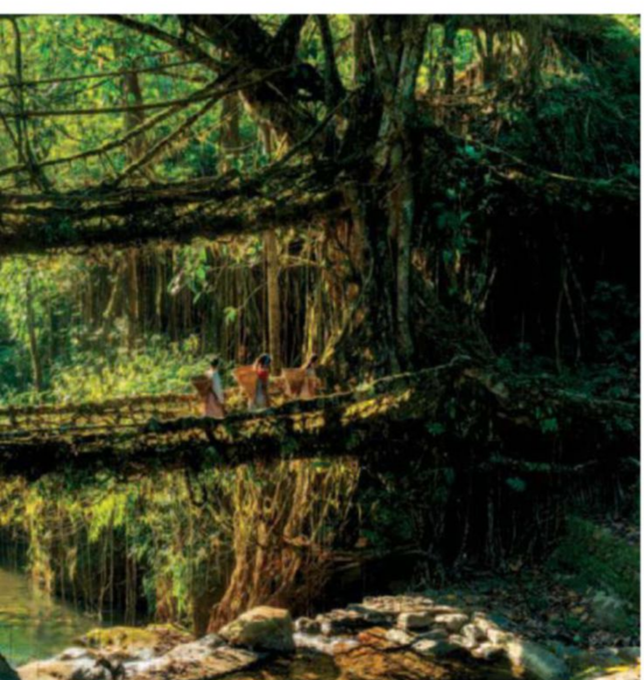
**Country:** India **Total cost of a week for two:** $4,334

Swift rivers crisscross the dense, tropical jungles of Meghalaya in northeast India. To navigate them, the native Khasi devised an ingenious solution, weaving the thick branches and roots of the living rubber trees into bridges that still stand firm today. The Living Bridges of Cherrapunji look like the stuff of fantasy, but visitors can actually climb across many of them—there's even a double-decker living-root bridge. Spending the night in a local lodge will set you back about $79, on average, according to Trivago.

▲ Basalt columns reach up from the sea toward the Northern Ireland cliffs.

▶ These rubber trees are located in one of India's rainiest regions.

CLOCKWISE FROM LEFT: PHOTOGRAPH BY PETER UNGER—LONELY PLANET IMAGES/GETTY; JAMES RONAN—EYE EM/GETTY; NATURE PICTURE LIBRARY—ALAMY



# PLITVICE LAKES

**Country:** Croatia

**Total cost of a week for two:** $4,368

12

▲ Swimming is prohibited at this Croatian park but hiking is encouraged.

Known for waterfalls and cascading lakes, Plitvice Lakes National Park in central Croatia features magnificent vistas and turquoise pools. Lonely Planet suggests you spend about six hours hiking around the park to explore all the various lakes and natural landmarks; alternatively, you can trim your walking time by taking the park's free boats and shuttle buses. Stay in the nearby city of Zadar, a quirky port town that boasts everything from Roman ruins to modern art installations. Hotels here cost about $142 a night, according to Hotels.com.

**Candid conversations with people we love.**

The MONEY talk with

# Brita Filter

How a New York City drag queen makes a living.

BY WILL LINENDOLL

Jesse Havea, 30, as Brita Filter.

**MONEY: Let's start simple: How did you get into drag?**

**BRITA FILTER:** I was doing a production of *Cinderella,* and I got cast as a stepsister. I thought it was the most amazing thing. I had always wanted to be a drag queen, so I learned, and then I came to New York City.

I love performing. I get to bring people together. That's my job. People come [to my shows] to escape, and I take them on an adventure for two hours and help them forget about their problems. I mean, it's not that serious—I'm a man in a dress. But I'm entertaining as hell!

**Is it tough to earn a living as a drag queen?**

I would say [I make] around $250 a night between my booking fee and tips. The most money I've made in one night was $600. There were some big ballers up in the club that night, which is great because I just go and buy more drag!

**How much does a look cost, from head to toe?**

A specific look costs between $700 and $1,000. Today I would say my outfit costs $800 or $900.

There's two wigs, because I need height so that [my hair] is in proportion to my body. These two wigs were $50 each, and then it was $50 to get it styled, so that's $150. The earrings are $4.50. Each pair of lashes cost $25, so that's $50. I'm wearing two of them because it's all about being extravagant.

The dress was $400, and that's not including the stones that are on it, because those were all extra. My shoes were $75. The boot covers came with the dress. I'm wearing six pairs of tights; those each cost $16. I'm wearing a cushion on my hips so that it gives me more of a feminine figure—I bought a mattress online for $100 and cut it up. My bra was $50.

And then the makeup: It costs me $35 every single time I do my face. That includes moisturizers and skin care products and makeup and eye shadow. I can't use cheap makeup, because CoverGirl doesn't cover boy.

**What has been the biggest struggle in your career so far?**

Not sleeping enough! It takes so much time and energy and money to make all of this happen. Sometimes my biggest struggle is not having enough money. There are all these amazing ideas in my head that I can't really do, because it costs so much.

**On a recent episode of your TV show *Shade: Queens of NYC,* you met with drag queen Paige Turner to talk finances. Are you handling your money differently now?**

Oh, totally! I would get all my money and stick it in a pile over there, and when I needed it, I would spend it. But after I had that meeting with Paige I have gotten so much better at it. I am truly keeping track and trying to make sure not to spend more than what comes in. ■

*With reporting from Mercedes Barba*

*Shade: Queens of NYC* airs on Fusion TV.

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