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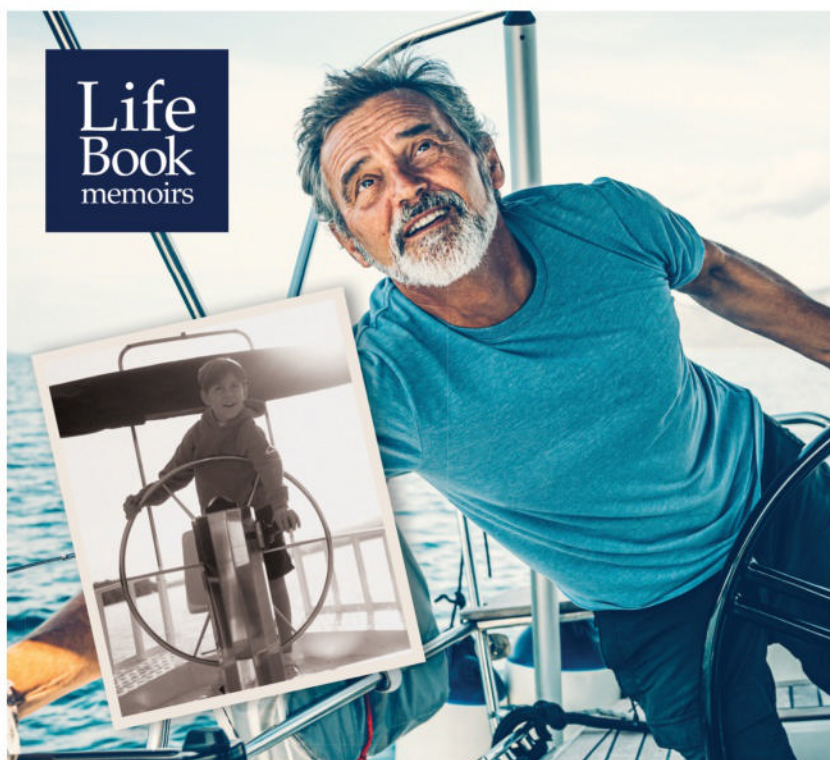
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### → Figuring Out the Taxes on Your Social Security Benefits

Uncle Sam can tax up to 85% of your benefits, so it's good to know how those taxes are calculated. [kiplinger.com/kpf/tax-benefits](http://kiplinger.com/kpf/tax-benefits)

### → 67 Dividend Aristocrats for Dependable Growth

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# Letters

## Social Security Strategies

I believe that individuals and couples should consider legislative risk as part of their Social Security claiming strategy (“When Should You File for Social Security?” April). The 2023 Social Security Trustees Report projects that the combined Old-Age and Survivors Insurance and Disability Insurance (OASDI) trust fund reserves will be depleted in 2034. If Congress doesn’t act to address the shortfall, there would be enough taxes coming in to pay only about 80% of scheduled benefits. I will turn 70 in 2034, and I will most likely start my benefits before that, as I’m concerned that they will be reduced as a result of years of governmental inaction to address the trust fund shortfalls.

**Kyle Butler, Santa Rosa, Calif.**

I had always planned to wait as long as possible to claim Social Security and hopefully get the



maximum benefit at age 70. But after I retired at age 62, I had to sell part of my investment holdings to cover regular expenses. Each sale would generate a long-term capital gain, raising my federal and state taxes. I decided near age 65 to start taking Social Security benefits, which partially covered my expenses and lessened my need to sell my holdings.

**Clifford Scharff, East Elmhurst, N.Y.**

other purchase with the bank’s Premium Rewards card (\$95 annual fee). I have yet to find another issuer with a stronger cash-back offer.

**Cosmo P. DeStefano, North Andover, Mass.**

You should have included the Amazon Store Card. Amazon Prime members get 5% cash back for essentially all Amazon purchases—an obvious best choice for frequent customers.

**Roger Meece, Pensacola, Fla.**

## A TAX HIT FOR LANDLORDS

Homeowners who rent out their homes need to be tax-smart (“How to Be a Successful Landlord,” April). Owners who sell their homes are eligible for a \$500,000 capital-gains tax exclusion if they are married filing jointly (\$250,000 if single) and have lived in their home for at least 24 months of the five years prior to the sale. If a homeowner sells their home after renting it out for more than three of the past five years, they would be liable for the full taxes on any gains.

**Daniel S. Cohen, Millburn, N.J.**

## FREE TAX ASSISTANCE

As a volunteer with the AARP Tax-Aide program, I was pleased to see it referenced in “You May Pay More to File Your Taxes” (April). One point of clarification: This service is not limited to senior citizens. In fact, many of the taxpayers we help are not yet senior citizens. There are certain limitations on the types of returns we can process, but the assistance is available to all taxpayers, regardless of their age.

**Burt Newbry, via e-mail**

## CORRECTIONS

The Consumer Financial Protection Bureau’s proposed rule to cap overdraft fees would apply to financial institutions with more than \$10 billion in assets (“Overdraft Fees May Shrink,” April).

Microsoft had \$228 billion in sales in the fiscal year that ended in June 2023 (“Will These Market Leaders Stay on Top?” April).

If you’re single, you are eligible for the 0% tax rate on long-term capital gains in 2024 if your taxable income is \$47,025 or less (“11 Ways to Grow Your Wealth,” May). ■

## REWARDING CREDIT CARDS

“The Best Rewards Credit Card for You” (April) included some sound suggestions, but I think your list is missing one exceptional offering. If you qualify for Bank of America’s Preferred Rewards Platinum Honors Tier—which requires a minimum balance of \$100,000 across all BofA deposit accounts and Merrill investment accounts—you can earn 3.5% cash back on dining and travel purchases and 2.625% back on every

**CONTACT US:** Letters may be edited for clarity and space, and initials will be used on request only if you include your name. Send to Kiplinger Personal Finance, c/o Future US LLC, 130 West 42nd Street, 7th Floor, New York, NY 10036, or send an e-mail to [feedback@kiplinger.com](mailto:feedback@kiplinger.com). Please include your name, address and daytime telephone number.

# The Battle Against Natural Disasters

**O**N a recent trip to see my family in Ohio, I passed through the communities surrounding Indian Lake, a recreational area and summertime destination for boating, fishing and camping. A few weeks before, a tornado had ripped through, taking three lives and inflicting heavy damage on homes and businesses. Piles of debris were all that remained in much of a village where mobile homes once stood. Nearby, many houses had collapsed or were missing their roofs and windows.

The destruction presented me with a sobering reminder of the toll that severe weather can take. And more natural disasters are no doubt on the way this year. About 1,200 tornadoes hit the U.S. annually, according to the National Oceanic and Atmospheric Administration. Hurricane season in the Atlantic Ocean starts June 1, and researchers at Colorado State University expect the 2024 season to be “extremely active,” predicting that 23 named tropical storms, including 11 hurricanes, will form.

**Insurance challenges.** Natural disasters are becoming more extreme, so sufficiently insuring your property is as important as ever. But the effects of severe weather and climate events have also contributed to hefty increases in homeowners insurance premiums lately, and some home-

owners have become underinsured as they cut back on coverage to lower their premiums. Worse, about 7% of American homeowners have no insurance, according to the Consumer Federation of America. At Indian Lake, many of the people who lost their homes were uninsured, Ohio governor Mike DeWine said in a press conference. In California, which has experienced record-setting wildfires in recent years, and hurricane-prone Florida, some insurance companies have stopped offering policies, narrowing the options for residents in these high-risk areas.

In March, the National Association of Insurance Commissioners, which represents state insurance regulators, put out a call to more than 400 property insurers to provide a host of data on policy features and pricing. The request could equip regulators with information they can use to help more consumers get access to affordable coverage.

Although you may not be able to avoid paying more for insurance than you did a couple of years ago, you can take steps to counteract rising premiums without sacrificing the coverage that you need. In the article that starts on page 42, we walk you through measures you can take to trim your costs for both homeowners insurance and auto insurance, because car owners have seen spikes in their auto premiums, too.



**Disaster preparedness.** Maintaining insurance coverage is only one aspect of disaster readiness. If you haven't put together an emergency kit, you can collect essentials such as bottled water, batteries, flashlights and first-aid items (for a full list of items to include, see [www.ready.gov/kit](http://www.ready.gov/kit)). Find a secure place—such as a fireproof home safe—to store identifying documents for you and members of your family, such as Social Security cards, birth certificates, passports and marriage licenses.

In case disaster strikes and you need to make an insurance claim, create an inventory of your belongings. Especially for items of significant value, include the date you bought them and the purchase price.

Finally, it's a good idea to brush up on what to do in the aftermath if you find yourself caught up in a disaster. See page 52 for advice. **■**

**The effects of severe weather and climate events have contributed to hefty increases in homeowners insurance premiums.**

*Lisa Gerstner*

**LISA GERSTNER, EDITOR**  
LISA.GERSTNER@FUTURENET.COM



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# Ahead

↓  
TOPIC  
A



GETTY IMAGES

## IS IT TIME TO SWITCH BANKS?

Small institutions often offer the best savings yields, but credit cards from big banks come with valuable perks. **BY SANDRA BLOCK**

**L**ARGE banks provide vast ATM networks, advanced technology and a wide array of products. But when it comes to interest rates on savings accounts, they're often overshadowed by small banks and credit unions. While a number of local institutions and internet banks recently offered rates of 5% or more on savings accounts and money market deposit accounts, in-

terest rates on some large banks' accounts have barely budged since the Federal Reserve Board started hiking short-term rates in March 2022.

A 2023 research paper published by the UCLA Anderson School of Management concluded that customers of large banks are willing to accept low rates on their savings in exchange for other benefits large banks provide. Small banks are com-

pelled to offer higher rates on deposits in order to stay competitive, the economists found. The economists also concluded that customers of small banks are more price-sensitive than large-bank customers, who typically have higher incomes and live in urban areas. Small banks and credit unions tend to charge lower fees for monthly account maintenance and overdrafts, too.

Large banks have also benefited from inertia, says Ken Tumin, founder of DepositAccounts.com, a website owned by LendingTree. Many customers of large banks don't pay attention to what they're earning on their savings after they open an account, providing little incentive for banks to raise rates, he says.

If you're looking for a higher yield on your savings, check out accounts from internet banks, which offer many of the best deals (see page 53 for a list of the highest-yielding savings and checking accounts). These institutions can offer extremely competitive rates because they don't have to spend money on brick-and-mortar branches.

The Fed left interest rates unchanged at its March meeting but signaled that it will likely cut rates

to a recent analysis by the Consumer Financial Protection Bureau. For example, the median interest rate for people with good credit was 28.20% for large credit card issuers compared with 18.15% for small issuers, according to the CFPB.

While that's a significant difference, carrying a balance on a credit card with an 18% interest rate is no bargain, says Ted Rossman, senior analyst for CreditCards.com. Before March 2022, when the Federal Reserve Board embarked on a series of rate hikes in an effort to throttle inflation, it was possible to find credit cards that charged as little as 6% or 7%, but that's no longer the case, he says.

Instead of hunting for a low-rate credit card, Rossman says, endeavor to pay off your card's balance every month so that you avoid interest

## FORTUNATELY, THERE'S NO NEED TO PLEDGE FIDELITY TO ONE BANK OR CREDIT UNION.

later this year. If that happens, institutions of all sizes will lower their rates, too. Look for rates on high-yield online accounts to fall first, Tumin says. Some online banks have already reduced rates on certificates of deposit in anticipation of a Fed rate cut.

Fortunately, there's no need to pledge fidelity to one bank or credit union. You may choose, for example, to locate your checking account at a small bank or credit union that doesn't charge a monthly fee and invest your emergency savings in a high-yield online savings account. (See the box at right for tips on how to switch bank accounts.)

### Choosing the right credit card.

Generally, interest rates on credit cards from small and medium-size banks and credit unions are lower than rates on cards issued by large financial institutions, even for borrowers with good credit, according

altogether. Consumers who don't carry a balance can come out ahead with the numerous perks that rewards credit cards from big banks offer, such as frequent-flier miles and cash back on a variety of purchases. (To see a list of our favorite rewards cards, go to [kiplinger.com/kpf/creditcards](https://www.kiplinger.com/kpf/creditcards)). While the CFPB found that credit cards from large banks were more likely to charge annual fees, there are plenty of major credit cards—including some with generous rewards structures—that charge no annual fee.

Big banks are also more likely to offer balance-transfer deals with an interest rate as low as 0% for a specific period. While these offers provide a way to reduce the interest you pay on your debt, they make sense only if you pay off the balance before the 0% window expires. Otherwise, you'll likely end up paying a double-digit rate on the remaining balance. **1**

### DEAR JOHN

## HOW TO BREAK UP WITH YOUR BANK

Switching to a bank or credit union that offers a higher yield on your savings could significantly increase the amount of interest you earn. However, the process may take several weeks. What you need to do:

- Open the new account before closing the old one. You may be able to do this online. Make sure your initial deposit is large enough to avoid low-balance fees.
- Contact your employer (or the Social Security Administration, if you're receiving benefits) and arrange to have direct deposits switched to your new account. Make sure you include all accounts, such as TreasuryDirect, that deposit funds periodically.
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INTERVIEW

# TURNING 65: NOT WHAT IT USED TO BE

A record number of Americans will hit the milestone this year, and they're living their best lives. **BY SANDRA BLOCK**



**More than 4 million baby boomers will turn 65 in 2024—the largest number of people in U.S. history to reach this milestone in a single year. How are boomers reinventing aging and retirement?** When Social Security was set in motion in 1935, the life expectancy in the U.S. was only 63. If people were fortunate enough to reach their 65th birthday, they had a couple more years before their batteries wore out. It was not a time to go back to college, or to fall in love again if you were widowed or divorced. You didn't even need all that much money saved because you were only going to live a little while.

Flash forward to today, when turning 65 means you have several years before you start thinking of yourself as entering the later parts of your life. There are all kinds of new role models. We see Harrison Ford returning to the role of Indiana Jones at age 81. Oprah Winfrey is still going strong at 70, and if Warren Buffett, who is in his nineties, were available to give me counseling on my investment portfolio, I wouldn't say, You're too old. I'd say, I'm a lucky guy.

**How do today's 65-year-olds differ from their parents when they were the same age?** They see that longevity has risen. Their parents might have believed they'd live to be 70 or 75, while most boomers think they'll live to be 80 to 85 or older. They're also more used to reinventing themselves than their parents. The boomer generation changed majors in college, relocated for jobs and went through multiple marriages. The idea of trying something new is part of their DNA. They're battling ageist stereotypes, demanding to remain on the playing field. Their kids are taking notes. They're growing up with the idea that today's older men and women don't want to go off to the sidelines.

**Aren't many 65-year-olds worried about outliving their savings, particularly given the cost of long-term care?** Eighty-one percent of older people we've surveyed say this is the best time of their lives or that the best times are still in front of them. At the same time, when we ask people what they're most worried about, what rises to top is health and long-



**KEN DYCHTWALD** is a psychologist, author of 19 books and chief executive officer of Age Wave, a research and consulting firm that focuses on the aging population.

term-care costs. People have begun to realize that we haven't created a version of longevity where our health spans match our life spans. We spend more money than any country in the world on health care, yet people in 39 countries live longer than we do. We have a large number of people living longer lives, but they're not necessarily able to work or enjoy themselves. What this demands is that people be more mindful and thoughtful about their financial futures and

what they're going to need when they're no longer working.

**Your research shows that having a strong sense of purpose enhances seniors' sense of well-being and can even reduce the risk of Alzheimer's. How do you define a sense of purpose, and how can seniors achieve that goal?** For some people, purpose means faith; as people grow older, they're turning to spiritual and religious ideals. A second bucket into which purpose falls is doing good for others. Studies show that people who volunteer are happier, healthier and live longer, yet only 24% of our retired population volunteer. For the third bucket, people who have spent their lives taking care of kids and pleasing the boss want to do what they like, whether that's fishing, becoming a teacher or learning how to play guitar.

In the U.S., retiring boomers are going to have 3.9 trillion hours of free time over the next 20 years. The economy may switch from being product-oriented to more experience-oriented. If you're an investor or in a customer-service industry, here's a group that has time and money to spend on wonderful experiences. **■**

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# IF YOU'RE OUT OF WORK, DON'T FALL FOR A PHONY JOB OFFER

The rise in layoffs has created fertile ground for employment-related scams.

BY SANDRA BLOCK

**R**EPORTS of job-related scams to the Better Business Bureau more than doubled in 2023 from a year earlier, according to data from the organization's Scam Tracker, an online tool that allows consumers and businesses to report fraud and fraud attempts. Meanwhile, the Federal Trade Commission logged reports of more than 107,000 fraudulent business and job opportunities in 2023, with losses of about \$491 million.

Fraudsters are using artificial intelligence and social media to target people who are looking for work, and their tactics are increasingly sophisticated. Many of the schemes offer "work from home" opportunities, an old scam that has

taken on new life now that more people than ever work remotely. Some scammers go so far as conducting fake 45-minute in-

terviews, according to the FTC. The perpetrators profit by eliciting personal information that can be used to commit identity theft or by asking victims for up-front payments. Both are red flags, the FTC says. If a recruiter asks for your Social Security or bank account number before providing details about the position, the job offer is a scam. If you are not sure whether an advertised position is legitimate, contact the company through a website or phone number you know is

## The Top 10 Riskiest Scams

The Better Business Bureau calculates a risk index for scams based on the volume of reports it receives, the percentage of reports that led to monetary losses, and the amount of monetary losses.

RANK	SCAM TYPE	BBB RISK INDEX	MEDIAN LOSS
1	Investment/cryptocurrency	520.9	\$3,800
2	Employment	445.9	1,995
3	Online purchase	244.9	71
4	Home improvement	201.2	2,073
5	Romance	151.4	3,600
6	Advance fee loan	57.2	900
7	Phishing/social engineering	56.5	300
8	Credit repair/debt relief	29.4	1,000
9	Tech support	25.5	500
10	Travel/vacation/timeshare	23.6	543

SOURCE: Better Business Bureau

## CALENDAR JUNE 2024



**1**

June is the start of the summer wedding season. While it may not be romantic, it's important to get your finances in order before you head down the aisle. Consider consulting a certified financial planner to help you manage your joint finances. Even if you're not wealthy, a prenuptial agreement could safeguard your financial security in the event of divorce. For more on prenups, see page 62.

**17**

If you owe estimated taxes, your payment for the second quarter of 2024 is due today. It's also the deadline for citizens living and working abroad, as well as members of the military who are on duty outside the U.S., to file their 2023 federal tax return. Those taxpayers can request a four-month extension to file their tax return, but remember: If you owe, an extension doesn't give you more time to pay your tax bill.



legitimate, not the link that the questionable recruiter provided.

**Other popular scams.** For its annual ranking of riskiest scams, the BBB evaluates them based on three factors: the volume of reports it received, the percentage of reports that involved monetary losses and the amount of monetary losses reported. As in the past, investment swindles, including those involving cryptocurrency, topped the BBB's ranking of riskiest scams, with victims reporting median losses of \$3,800 in 2023. Victims were often urged to buy, trade or store digital assets in fraudulent exchanges, the BBB says.

For the first time, social media was the most common method perpetrators used to contact victims who reported a monetary loss. Social media was often used to perpetrate romance scams, with median losses rising more than 150% since 2022. Fraudsters typically hijack photos and information from real people to create fake profiles on online dating sites, which are then used to build relationships with their targets.



Some persuade victims to invest in cryptocurrency; others request cash for fictional emergencies. In 2022, nearly 70,000 people reported to the FTC that they lost money to romance scams, with losses totaling \$1.3 billion. Regulators say actual losses are likely much larger because many victims are reluctant to acknowledge that they've fallen for a romance hoax.

Credit-repair and debt-relief scams made the top 10 list for the first time since the BBB launched its Scam Tracker tool

↑  
**Some scammers go so far as conducting fake 45-minute job interviews, according to the FTC.**

in 2016. In a typical scam, victims are told they must pay an up-front fee for a variety of services, including removing negative items from their credit reports or negotiating with credit card companies to eliminate debt. (For more on credit-repair schemes, see “Clean Up Your Credit Reports,” on page 48.)

A request for an up-front fee before services are provided is a big red flag, the Consumer Financial Protection Bureau says. Likewise, the CFPB says any business that claims it can remove accurate information on your credit report is fraudulent. Legitimate credit counselors can help you improve your credit, but they won't promise to wipe away credit-report blemishes that are supposed to be there.

Loan-forgiveness scams are also on the rise, as outlaws target individuals who are struggling to pay their debts. In March, the FTC sent \$1.4 million in refunds to more than 27,000 student loan borrowers who paid hundreds of thousands of dollars in illegal up-front fees to a bogus outfit that promised to lower their monthly loan payments. ❏

## → DEAL OF THE MONTH:

The start of summer is a great time to find deals on activewear, says Julie Ramhold, consumer analyst with DealNews.com. Look for sales at big-box stores, along with price cuts on name brands such as Lululemon. Discounts could be 40% to 50%, depending on the brand.

30

Today is the final day to file the FAFSA (Free Application for Federal Student Aid) for the 2023–24 academic year. Though many states, along with many colleges and universities, impose earlier deadlines, this could be your last chance to secure federal aid or student loans for this academic year. To apply, you need to create an account or log in to your existing account at [www.studentaid.gov](http://www.studentaid.gov) to access the FAFSA form.

# Briefing

INFORMATION ABOUT  
THE MARKETS AND  
YOUR MONEY



## NEW RULES FOR REAL ESTATE AGENTS COULD LOWER COMMISSIONS

→ A high-profile lawsuit is changing how real estate agents are compensated. In mid March, the National Association of Realtors announced an agreement to pay \$418 million in compensatory damages to home sellers and adjust certain commission practices.

The deal resulted from two high-profile class-action lawsuits and a number of similar lawsuits in other jurisdictions. They all questioned the practice of requiring seller's agents to specify the commission being

offered to buyer's agents when listing a property on a multiple listing service (MLS), a database that real estate agents and brokers use to share information about homes on the market. Currently, listing agents and sellers set the price, and sellers pay for the commission of both listing and buyer's agents. These lawsuits argue that this arrangement, known as cooperative compensation, inflates commission rates, which have generally held at 5% to 6% for years now.

Commissions aren't likely to disappear, but significant changes are coming. Listing agents will be banned from offering commission splits to buyer's agents on an MLS. The rule change leaves it open for individual home sellers to negotiate with a buyer's agent outside of the MLS platforms. Buyer's agents will be required to enter into contracts with clients to establish pay and services provided up front. These changes will take effect in mid July, amid the summer selling season.

The changes could upend the real estate industry. Home buyers are likely to be more price-conscious when they select an agent, and they might opt to save money by not using an agent at all or by paying a smaller fee in exchange for fewer services. When buyers make a bid on a home, they might try to negotiate for the sellers to subsidize the commission paid to the buyer's agent. Some sellers would be hesitant to cover these fees. If they have multiple offers, they could opt to offer less compensation—or none—for buyer's agents.

New commission rules could reduce home prices in the long run. While buyers don't directly pay for commissions, they do pay for them indirectly through the higher prices sellers seek to cover the fees they pay to agents. **RODRIGO SERMEÑO**

## AIRLINE BAG FEES ARE GOING UP

Several airlines have recently boosted the fees to check luggage, often with an increase of \$5 per bag. Here's a rundown of policies for domestic flights on airlines that have raised prices:

- **Alaska Airlines:** \$35 for the first bag; \$45 for the second bag.
- **American Airlines:** \$35 for the first bag if you pay the fee online, or \$40 if you pay at the airport; \$45 for the second bag.
- **Delta Air Lines:** \$35 for the first bag; \$45 for the second bag.
- **JetBlue:** During peak travel periods (including most of the summer), \$40 for the first bag if you pay the fee at least 24 hours before departure, and \$60 for the second bag (\$50 and \$70, respectively, if you pay within 24 hours of departure). During off-peak periods, fees are \$5 to \$10 lower.
- **United Airlines:** \$35 for the first bag for travelers who pay at least 24 hours before departure, and \$45 for the second bag (\$40 and \$50, respectively, if you pay within 24 hours of departure).

LISA GERSTNER



# \$7

The maximum price customers pay for an item at Dollar Tree, following a recent increase of the store's price ceiling. Most items, however, will maintain a \$1.25 price tag.

FROM THE KIPLINGER LETTER

## Last-Minute Push for Environmental Regulations

The Biden administration is finalizing as many new regulations as possible ahead of the 2024 presidential election, faced with the possibility that Joe Biden will not be returning to the White House for a second term. Expect a focus on energy and climate regs.

One recently completed regulation involves new emissions requirements for power plants. Coal-fired power plants—both new and existing—will be required to close or cap emissions via

co-firing with natural gas or employing carbon capture technology. Similar requirements will affect new natural gas plants, which must cap emissions by hydrogen co-firing or carbon capture.

A recently finalized rule for auto-makers ramps up limits on tailpipe emissions more slowly than the proposal unveiled last year. It also gives the auto industry greater flexibility to meet the requirements with hybrid instead of electric vehicles.

## INVESTORS UPVOTE THE REDDIT IPO

→ The initial public offering of shares in social media company Reddit was one of the most anticipated IPOs of 2024. On March 20, the company priced its IPO at \$34 per share, and the shares (symbol RDDT) opened for trading the next day at \$47, closing at \$50. The shares closed as high as \$65 in the days following the IPO; they traded at \$49 at the end of March, giving the firm a market value of \$7.8 billion.

In the fourth quarter of 2023, Reddit averaged 73 million daily active unique users and 267 million weekly active unique users. It has yet to make a profit, however, recording a net loss of \$90.8 million in 2023, an improvement from its \$158.6 million loss in 2022. Revenues were \$804 million in 2023, up from \$666.7 million in 2022.

Individual investors should not rush to buy Reddit stock. IPOs tend to have strong first-day showings, but gains for the first year are generally weak. Since 2020, according to Trivari-ate Research, an investment research firm, three-year returns for the average IPO, measured from the first-day closing price, have lagged the average returns for stocks in the same industry by 30%. KAREE VENEMA

# YIELD



**We found enticing yields in nine categories, ranging from 3% to 12%, depending on risk.**

**BY ANDREW TANZER**

# DDS



## TO POUNCE ON

back to normal, which means back to a world we haven't seen in 15 years," says Simeon Hyman, global investment strategist at ProShares.

A case in point: You can now earn a real yield (that is, the yield after inflation) of about 2% on ostensibly risk-free Treasuries and other high-quality bonds—and much more in riskier high-yield bonds. Stocks and energy-infrastructure securities provide both income and a growing stream of dividends, a quality that is especially important in providing protection against consumer prices mercilessly on the rise. Even-higher yields are available from closed-end funds and business development companies.

This guide will help you identify attractive income-producing investments in nine different categories,

The inflation rate is down considerably but still a bit sticky, staying around 3%, and the economy continues to power ahead. Yet the Fed has signaled that it expects to cut rates three times in 2024—it just hasn't said when it will embark on its rate-cutting cycle. So now we're waiting.

While we wait, some enticing yields are on offer across a wide range of asset classes for income-hungry investors—and, for a change, that includes bonds, a core income-producing asset. "One overarching theme is that fixed income is kind of

**I**T almost feels as though we're all Fed watchers now. From March 2022 to July 2023, the Federal Reserve Board hoisted the federal funds rate (the rate banks charge each other for overnight loans) by 5.25 percentage points in a bid to crush inflation.

ranging from low-risk, plain-vanilla securities to more-complex, higher-risk and potentially higher-return investments. (Although yields and risk usually move higher in lockstep, that's not the case this year, and we've listed investments roughly in the order of ascending risk.) Before you embark on your quest for income, keep a few considerations in mind. You should have a financial plan in place that specifies long-term portfolio allocations. Everyone's financial situation is different, but generally you should ensure that you keep sufficient cash and equivalents on hand to cover six months of living expenses before investing in high-risk/high-return assets. Prices, yields and other data are the latest available as of March 31.

### 5%: SHORT-TERM ACCOUNTS

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Yields on short-term, fixed-income accounts and securities follow movements in the Fed's short-term interest rates. That means relatively attractive yields are available on cash and other short-term, liquid assets in today's higher-interest regime.

**THE RISKS:** The game will change when the Fed starts cutting rates later this year, which is its stated intention. "Money market rates could go down tomorrow if rates decline," says Lew Altfest, chief investment officer of Altfest Personal Wealth Management. Andy Kapyrin, a partner at Corient, says, "Investors are overeager to stay in cash and thus risk missing an opportunity if the Fed cuts rates."

**HOW TO INVEST:** Kapyrin recommends deploying some of the cash into one- to five-year bonds, which would lock in today's yields for a longer period than, say, the overnight rates on money market funds. Of course, because this category is mostly cash equivalents likely

earmarked for emergency reserves or to meet short-term liabilities, you want to play it safe.

One exchange-traded fund Kapyrin cites is **Vanguard Short-Term Treasury (symbol VGSB, \$58, yield 4.7%)**, which invests in one- to three-year government paper and has a duration—a measure of interest-rate sensitivity—of 1.9. That means if rates were to rise (or fall) one percentage point, the fund would lose (or gain) roughly 1.9%. (Prices and interest rates move in opposite directions.)

If you seek less interest rate sensitivity, **Vanguard Ultra-Short Bond (VUSB, \$50, 5.1%)**, which invests in a variety of government and corporate investment-grade bonds,

surely, government agencies (mortgage-backed securities, for example) and corporations. These assets provide income without dramatic price fluctuations and, generally speaking, provide portfolio diversification because they tend to move out of sync with stocks.

**THE RISKS:** Interest rate spreads between corporate bonds and Treasuries are remarkably narrow by historical standards. "There is little spread for taking credit risk," says Kapyrin. That said, there's also a risk of inertia in keeping too much cash. "People could certainly have money in cash at 5%," says Abhijeet Patwardhan, manager of **FPA New Income (FPNIX, 4.7%)**.

## Many investors will still want to stash some of their cash in a money market mutual fund, which is a popular parking place for money you're waiting to deploy.

has a duration of just under 1. Investors who want to stick with ostensibly risk-free government debt can consider **Goldman Sachs Access Treasury 0-1 Year (GBIL, \$100, 5.2%)**, which tracks an index of Treasury obligations with a maximum remaining maturity of one year.

Many investors will still want to stash some of their cash in a money market mutual fund, which is a popular parking place for money you're waiting to deploy. **Vanguard Federal Money Market (VMFXX, 5.2%)** consistently outperforms its counterparts, largely due to a rock-bottom expense ratio of 0.11%.

### 5%–7%: INVESTMENT-GRADE BONDS

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The core of a typical fixed-income portfolio is made up of investment-grade bonds issued by the U.S. Treas-

“But the cost of doing that is if the market rallies and rates come down a lot, I think those people will regret not having locked in higher yields that were available.”

**HOW TO INVEST:** Investment-grade fixed income is a vast and diverse universe with many different strategies. FPA New Income, for example, is a fund with superb risk management that focuses on preservation of capital as well as generating income. Patwardhan says the fund's duration of 2.7 is its highest in 20 years and that the current portfolio is dominated by securitized debt, because that's where he sees the best risk-adjusted investment opportunities. In the fourth quarter of 2023, he snapped up agency residential mortgage-backed securities.

Altfest also spots value in non-agency mortgage-backed securities because he thinks that homeowners

who have lived in their houses for years and have built up home equity are a solid credit risk. He likes Jeffrey Gundlach's *Doubleline Total Return Bond (DLTNX, 5.4%)*, which invests in both agency- and non-agency mortgage-backed securities and has a duration of 5.9.

You can find a higher yield in *VanEck CLO (CLOI, \$53, 6.8%)*, an actively managed ETF subadvised by PineBridge Investments. Collateralized loan obligations are loans—broadly syndicated bank loans, for instance—that are pooled together and securitized. Fran Rodillosso, head of fixed income ETF portfolio management at VanEck, observes that with investment-grade CLOs (about three-fourths of the fund's holdings are rated A or above), you can pick up one to two percentage points in yield compared with what's available in corporate bonds with the same credit rating.

#### 4%–7%\*: MUNICIPAL BONDS

Issued by state and local governments, muni bonds pay interest that is free from federal taxes—and for bonds issued in your state of residence, free from state and local taxes, too. High-quality, investment-grade munis tend to follow movements in the Treasury market and, like Treasuries, tend to perform well in a recession.

**THE RISKS:** The main risks aren't about creditworthiness. "The liquidity of most state and local issuers is at historical highs, due to robust revenues and all the money the federal government gave them," says Jeff Timlin, a tax-exempt bond manager at Sage Advisory. Instead, the main issue may be high valuations, in part reflecting the constrained supply of munis and the very strong demand for them in the market. John Miller, head of First Eagle's high-yield team, notes that the \$4 trillion muni market has scarcely grown in decades.



"One reason munis are outperforming is pure scarcity value," he says.

**HOW TO INVEST:** To calculate your tax-equivalent yield and compare it to the yield of a Treasury or other taxable bond, subtract your federal income tax bracket rate from one, then divide a muni bond's yield by the result. Thus, the tax-equivalent yield for a muni yielding 3% would be 3.95% for someone in the 24% tax bracket, or 4.76% for a taxpayer in the top, 37% federal bracket. Timlin says that in today's interest rate environment, investment-grade munis generally don't make sense for investors unless they're in the 35% or 37% tax bracket.

There are some pockets of value, however. Because investors are crowding into shorter-term muni bonds, their prices are least attractive relative to taxable bonds. But venturing further out on the maturity spectrum can be rewarding. Jim Colby, a muni bond manager at VanEck, says that munis become attractive relative to Treasuries at maturities of about 10 years, and the yields become increasingly alluring the further out you go on the yield curve. Consider: For muni bonds

rated AA and AAA with maturities of one to 10 years, the current yield ratio to Treasuries is 55% to 60%, compared with a norm of 75% to 80%, according to Miller. But for 30-year maturities, the ratio is above 80%.

Another area with value, says Colby, are high-yield muni bonds, often backed by revenue from a sports stadium, public hospital or the like. Their yields are an attractive two to three percentage points above investment-grade munis. Historically, the default rate for high-yield munis is a small fraction of that of high-yield corporates, and the recovery rate is much higher.

You can gain exposure to a well-diversified basket of high-quality munis by investing in a national muni fund. *Vanguard Tax-Exempt Bond (VTEB, \$51, 3.4%)* holds more than 10,000 bonds from across the land, nearly all rated A or higher. It's an intermediate bond fund with a duration of 6 and a rock-bottom expense ratio of 0.05%. The tax-equivalent yield is 4.5% for someone in the 24% federal bracket, or 5.4% for a 37%-bracket taxpayer.

The high-yield muni market is about 15% of the muni universe, and

\*Tax-equivalent yields for investors in the 24% federal tax bracket.

most of the bonds aren't even rated because they tend to be smaller issues to support local infrastructure. Active management in such a fragmented market calls out for a seasoned muni bond veteran like Miller, manager of **First Eagle High Yield Municipal (FEHAX, 5.1%)**. Miller was previously head of the muni bond department at Nuveen, a muni powerhouse, before he decamped to First Eagle. Converted from a taxable bond fund, the high-yield tax-exempt fund has soared 4.2% since Miller took the helm at the start of 2024. The tax-equivalent yield for a taxpayer in the 24% bracket is 6.7%.

If you prefer a shorter-duration, passively managed fund, consider **VanEck Short High Yield Muni (SHYD, \$22, 3.8%)**; Colby is a comanager.

### 6%–9%: HIGH-YIELD TAXABLE BONDS

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Also known as junk bonds, high-yield corporates are issued by firms with sub-investment-grade ratings. As compensation for lending to these higher-risk businesses, investors receive higher yields than investment-grade bonds offer. Junk bonds move more in sync with stocks than with Treasuries and are less sensitive to interest rate swings than high-quality bonds with the same maturity.

High-yield bonds have really come into their own in recent years. “High yield has become a very established, accepted asset class that investors are no longer fearful of,” says Ray Kennedy, co-manager of Hotchkis & Wiley High Yield Fund. “It’s not your parents’ high-yield asset class.” Liquidity and transparency have substantially improved, default rates have remained tame, and risk-adjusted returns have been better than those of investment-grade bonds and several other asset classes.

**THE RISKS:** The risk of default is the main concern. For now, default

rates are a relatively modest 2% to 4%, according to Kennedy, but would rise if the economy were to tip into a recession.

**HOW TO INVEST:** High-yield bonds quite likely merit some allocation in your fixed-income portfolio. “The role in high yield is to achieve higher long-term returns than the rest of your income portfolio but with a lower correlation with interest rate movements,” says VanEck’s Rodilosso.

Because you also want to sleep soundly at night when investing in these riskier credits, it pays to employ a defensive manager who minimizes downside risk. “You make more by losing less,” says Carl Kaufman, who has run **Osterweis Strategic Income (OSTIX, 6.1%)** since 2002. He likes the current set-up for shorter-term bonds, given the inversion of the yield curve (with shorter-term securities yielding more than longer-term ones). “You can get some nice yields at the short end without taking the risk of the long end of the curve,” Kaufman says. The longer the maturity, the higher the chance of default and the greater the interest rate sensitivity. The fund’s duration is 1.7.

David Sherman, founder of and portfolio manager for Crossing-Bridge Advisors, has compiled an outstanding risk/return profile over many years with his short-duration high-yield funds. “We’re 100% bottom-up, disciplined value investors,” Sherman says. “The first investment decision is ‘do no harm.’” His **CrossingBridge Low Duration High Yield (CBLDX, 8.2%)** is one of only a handful of bond funds to make money in 2022, a disastrous year for fixed income. The fund’s duration is generally around 1.

**Riverpark Strategic Income (RSIIX, 9.1%)**, which Sherman also manages, has a slightly higher duration of about 1.5 to 2 and an equally

stellar risk-management record. The fund has only one-third of the average volatility and maximum drawdown of the high-yield bond category. The portfolios are mainly U.S. credits, but Sherman scours the globe and has a particular affection for Nordic bonds.

### 3%–5%: DIVIDEND STOCKS

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Dividend-paying stocks play an important income role in a diversified portfolio. Unlike fixed-income investments such as Treasuries and corporate bonds, dividend distributions paid by healthy corporations can increase each year, making the payouts a potent way to maintain the purchasing power of a long-term portfolio. They’re particularly valuable in an inflationary environment such as we have today.

**THE RISKS:** Stocks tend to be much more volatile than high-quality bonds and suffer more in a recession. Some investors make the mistake of reaching for the highest yields, which can be an indication a company is in distress or lacks promising growth prospects.

**HOW TO INVEST:** The oil patch is generally a good place to hunt for yield. John Buckingham, editor of *The Prudent Speculator*, likes **Devon Energy (DVN, \$50, 4.9%)**, an independent exploration and production firm, for its high-quality domestic assets, improving balance sheet, and focus on profitability and dividend distributions. Another of his picks is **Air Products & Chemicals (APD, \$242, 2.9%)**, a member of the Kiplinger Dividend 15, the list of our favorite dividend payers. Founded in 1940, Air Products is one of a handful of players in the highly consolidated and growing industrial gas industry. The company has increased its dividend for 42 consecutive years.

Core investment banking activities such as mergers and acquisitions





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and initial public offerings are coming alive again, and that should benefit generous dividend payer **Morgan Stanley (MS, \$94, 3.6%)**, says Jay Hatfield, founder and CEO of Infrastructure Capital Advisors. If you prefer to invest in a diversified basket of dividend stocks, consider **Schwab US Dividend Equity (SCHD, \$81, 3.5%)**. The fund, a member of the Kiplinger ETF 20 list of our favorite ETFs, offers both a relatively high yield and a solid track record of boosting dividends each year.

Save some room for foreign stocks, which offer significantly higher yields than do their counterparts at home. Jay Hill of Tweedy, Browne notes that European companies prefer to return money to shareholders through dividends, whereas many U.S. firms prefer share repurchases. Tweedy's Thomas Shrager points to Swiss-based pharmaceutical giant **Roche Holding (RHHBY, \$32, 4.4%)**, which trades as an American depositary receipt, as an example. Roche has boosted dividends 37 straight years, and Shrager sees a solid drug-development pipeline that should

underpin growth in sales and earnings for years to come.

For a diversified overseas portfolio, consider **Vanguard International High Dividend Yield (VYMI, \$69, 4.9%)**, whose top holdings are Toyota, Novartis (another Swiss pharmaceutical) and Shell.

### 4%–6%: REAL ESTATE INVESTMENT TRUSTS

Because REITs are required to distribute at least 90% of their taxable income each year, they offer relatively high yields. REITs can raise rents when leases expire, which makes these real-asset businesses a strong inflation hedge in today's environment of rising prices.

**THE RISKS:** REITs tend to underperform in periods of rising interest rates because they typically carry high debt loads and face increasing competition from the higher yields available on fixed-income investments.

**HOW TO INVEST:** The REIT industry has expanded and diversified dra-

matically to include tech-oriented subsectors such as data centers and cell towers, along with e-commerce warehouses, self-storage facilities and health care properties. In recent months, the financial media have been filled with doom-and-gloom articles about the growing number of bankruptcies of city-center office buildings emptied out by the increasing popularity of remote and hybrid employment. That narrative is somewhat distorted in that office space represents only about 5% of the REIT universe, and some of the urban developers are doing fine.

"I think people are making a big mistake about offices by not distinguishing between A+ properties and B and C" properties, says Hatfield. He notes that REITs, as public companies with mostly fixed-rate debt, are much better capitalized than privately owned office towers, which may have floating-rate debt. He likes the largest office owner, **Boston Properties (BXP, \$62, 6.2%)**.

Another controversial sector is brick-and-mortar retail. Michael Elliott, a REIT analyst at CFRA



Research, favors **Simon Property Group (SPG, \$152, 5.2%)**, the largest shopping mall owner, for its focus on class-A malls with the industry's highest sales per square foot. Another of his picks is **VICI Properties (VICI, \$29, 5.8%)**, a gaming REIT that owns casinos and resorts in Las Vegas, including Caesars Palace, MGM Grand and The Venetian.

If you prefer to hold a diversified REIT sector fund, here are two very different choices: **Vanguard Real Estate (VNQ, \$84, 4.1%)** is a low-cost, passively run index fund with a basket of 159 securities. Actively managed **Fidelity Real Estate Income Fund (FRIFX, 5.9%)** holds an unusual combination of REITs, REIT corporate debt and commercial mortgage-backed securities.

"I have found that allocating to different real estate security types has helped deliver less volatility, higher income and a similar return profile compared to funds that focus on real estate stock investing," says Bill Maclay, the Fidelity fund's manager. Today, Maclay says he finds better value in real estate debt, which is "attractively priced, with the highest yields in more than a decade." One of his current areas of focus is high-yield mortgage-backed securities secured by warehouse properties.

### 5%–8%: MIDSTREAM ENERGY INFRASTRUCTURE

Midstream companies process, store and transport oil and natural gas around the nation through pipelines. Their place is in between upstream companies (energy producers) and downstream firms, which make finished products such as liquefied natural gas.

The industry has performed well the past few years and remains in a sweet spot. Because capital investment needs are modest, the firms are gushing cash flow, which they use to reduce debt levels and increase divi-

dend distributions and share buybacks. "The beauty of this story now is that it's [about] cash flow ... and the return of money to shareholders," says Greg Reid, a comanager of Westwood Salient MLP & Energy Infrastructure, who says the average pipeline company yields about 6% and is increasing cash flow by 5% to 6% a year.

**THE RISKS:** The largest risk is an economic slump, which would cut energy consumption and reduce volumes moved through the energy infrastructure. Inflation is less of a challenge because, unlike in many other industries, pipeline operators

## Business development companies invest in small and growing firms that are typically too small to access bank lending.

can generally pass on higher costs to customers each year through inflation escalators built into long-term contracts.

**HOW TO INVEST:** Midstream energy is composed of both master limited partnerships and corporations (also known as C corps). Yields tend to be higher for MLPs, which distribute most of their income each year but issue K-1 forms, which can be somewhat cumbersome at tax time, to limited partners (that is, investors).

Your first decision is whether you are willing and able to handle the K-1s annually. If you are, then there's an attractive yield available in **Energy Transfer LP (ET, \$15, 8.1%)**, whose operating cash flow is quickly expanding, notes Stewart Glickman, an energy analyst at CFRA. Many fund managers, such as Hatfield, at Infrastructure Capital Advisors, are particularly drawn to natural gas. "The U.S. is the Saudi Arabia of natural gas, which is good for pipelines," says Hatfield, who recommends **Enterprise Products Partners LP (EPD, \$29, 6.9%)**.

Simon Lack, comanager of Catalyst Energy Infrastructure Fund, likes **Williams (WMB, \$38, 4.9%)**, which operates, among other assets, the Transco pipeline, a 10,000-mile pipeline system that extends from south Texas to New York City and transports about 15% of the country's natural gas. If you seek a higher yield, then Lack recommends **Enbridge (ENB, \$36, 7.5%)**, a conservatively managed Canadian company and the sector's largest player by market value.

Or, for a diversified sector holding, consider Lack's fund itself. **Catalyst Energy Infrastructure Fund (MLXIX, 6.0%)** pays monthly dividends and

avoids the need to issue K-1s by keeping its MLP weighting in the fund to less than 25%.

### 9%–10%: BUSINESS DEVELOPMENT COMPANIES

Business development companies invest in small and growing firms that are typically too small to access bank lending. Congress devised the BDC structure in 1980, and the effect has been to "democratize access to the private-credit asset class," says Steve Boehm, a partner at the law firm of Eversheds-Sutherland who has advised many of the largest BDCs over the past 25 years. As with similar investments aimed at high-net-worth individuals and institutional investors, BDCs are currently a hot asset class, says Boehm.

Most BDC loans to small, private firms are secured, first- or second-lien variable-rate loans with interest rates that adjust when lending rates change. A BDC can trade at a premium or discount to the net asset value of its investment portfolio, which is reappraised quarterly. Like

REITs, BDCs are required to distribute at least 90% of their taxable income each year. Because this is ordinary income (that is, not qualified dividend income eligible for lower tax rates), a tax-deferred retirement account is a natural home for these high-yielding investments.

**THE RISKS:** BDCs often use borrowed money to make loans to their portfolio companies. That leverage can goose returns as long as portfolio loans are solid and BDCs can lend at higher rates than at which they borrow. But it can magnify losses in net asset value if the reverse comes to pass. Another challenge is that lending rates may have peaked this cycle, which would constrain earnings growth for BDCs.

## Closed-end funds raise money through an initial public offering, then invest the money in stocks, bonds, master limited partnerships and other financial assets.

**HOW TO INVEST:** There's very wide variation among BDCs' sizes, quality of management and portfolios. Because these are private, high-yield loans with a risk of default, Alex Seleznev, founder of Capital Squared Financial, suggests a low-single-digit allocation to the asset class. "This is an aggressive component of someone's income-oriented portfolio," he says.

Seleznev is attracted to **Ares Capital (ARCC, \$21, 9.2%)**, by far the largest company in the industry by market value. "Size matters in BDCs," he says. This is true particularly because BDCs, which must distribute nearly all their earnings, need ready access to capital markets that may be unavailable to small players. Robert Dodd, a BDC analyst at investment firm Raymond James who has covered the industry since 2006, notes that Ares has steadily increased its book value (a critical metric for him because it measures

the quality of a BDC's loan portfolio) and has never cut its dividend in the 20 years since it went public.

"There's a level of consistency over a long period of time," he says.

Dodd also recommends **Sixth Street Specialty Lending (TSLX, \$21, 8.6%)**, whose portfolio consists nearly entirely of first-lien loans. Ares, which almost never trades at a discount to net asset value, is currently at an 8% premium, and Sixth Street at a 26% premium; both have total leverage ratios (borrowed money as a percentage of assets) of about 50%, which is typical.

If you'd rather diversify your BDC portfolio, you can choose between a market-weighted index-tracking fund, **VanEck BDC Income (BIZD,**

**\$17, 10.3%)**, and an actively managed one, **Putnam BDC Income (PBDC, \$34, 9.2%)**. Putnam's BDC fund, launched in 2022, is managed by Michael Petro, who has invested in BDCs for more than 15 years.

### 4%–12%: CLOSED-END FUNDS

Closed-end funds raise money through an initial public offering, then invest the money in stocks, bonds, MLPs and other financial assets. Trading on an exchange, shares of closed-end funds will fluctuate in price according to investor demand and can trade at a discount or premium to the per-share value (or net asset value) of the fund's underlying assets.

**THE RISKS:** Most closed-end funds use borrowed money, or leverage, to invest in portfolio assets. Leverage can work both ways, boosting price

returns in up markets but amplifying losses in net asset value when markets decline.

**HOW TO INVEST:** Municipal bonds account for about one-third of the closed-end fund market. Muni-focused closed-end funds have struggled a bit over the past year due to the inverted yield curve, which undermines the ability of fund managers to borrow at attractive short-term rates and invest for the long term. But herein lies an opportunity, says Steve O'Neill, a portfolio manager at RiverNorth Capital Management. At some point, the yield curve will uninvert as the Fed cuts interest rates. In the meantime, says O'Neill, closed-end muni funds trade at nearly a record discount to net asset value and in the 95th percentile of cheapness by discount over the past 25 years.

One of O'Neill's picks is **BlackRock MuniYield (MYD, \$11, 5.7%)**, which sells at a 9% discount to net asset value and has a 35% leverage ratio, which is about average. The tax-equivalent yield is 7.5%. If you prefer no leverage, he recommends **Nuveen Municipal Value (NUV, \$9, 4.0%)**, which trades at a 7% discount. Tax-equivalent yield: 5.3%.

Not surprisingly, higher yields are available on leveraged taxable investments. John Cole Scott, chief investment officer of Closed-End Fund Advisors, likes **FS Credit Opportunities (FSCO, \$6, 12.0%)**, which invests mainly in senior floating-rate secured loans, trades at a 15% discount and has 33% leverage. Scott is also keen on **Brookfield Real Assets Income (RA, \$13, 11.0%)**, which invests in corporate debt and asset-backed securities in the infrastructure, real estate and natural resource sectors. Brookfield sells at a 13% discount to net asset value and carries a modest 17% leverage ratio. ■

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# 10 GREAT ACTIVE ETFs

Exchange-traded funds aren't just index-trackers anymore.

BY NELLIE S. HUANG

INVESTORS weren't ready for actively managed exchange-traded funds back in 2008, when the first one launched. That ETF, a short-term bond strategy called Bear Stearns Current Yield, closed before its first-year anniversary as the financial crisis was unfolding, without having attracted much money. Times have changed. Active ETFs, through which managers target individual stocks instead of broader indexes, are pulling in billions these days.

Over the past 12 months through the end of March, actively managed ETFs have garnered \$157 billion, or 22% of all net ETF inflows (the sum

of money deposited minus money that's withdrawn). A decade ago, active ETF strategies claimed just 2% of all net inflows, says Aniket Ullal, head of ETF data and analytics for investment research firm CFRA Research, with the bulk of assets going into far more popular index-tracking ETFs.

The embrace of active ETFs is reflected in a surge of both demand and supply. Many advisers now prefer ETFs to mutual funds because ETFs tend to be more tax efficient. And advisers want access to ETFs that employ the same active mutual fund strategies they use in client portfolios. Mutual fund firms are now meeting those demands. "After many years of ETFs pulling in more money than mutual

funds, the big fund companies have had to enter the ETF space," says Ullal.

That partly explains the accelerated pace of new active ETF launches: Of the 327 actively managed diversified stock ETFs in the U.S. today, almost half were launched over the past two years.

We took a closer look at the offerings in U.S. diversified stock funds to find the best new active ETFs available today. The funds we highlight below are diversified; none are sector funds or so-called thematic funds that invest in a particular trend, such as clean energy or artificial intelligence. (For more on sector investing, see "Street Smart," on page 35.) All returns and data are through March 31.



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**AVANTIS U.S.  
LARGE CAP VALUE  
AVANTIS U.S.  
SMALL CAP VALUE**

The folks at Avantis have a specific definition of value. “We want good prices but also good profits. We target that intersection,” says Phil McInnis, the firm’s chief investment strategist. Profitability and a low price, he adds, are “good proxies” for expected return rates.

So far, so good. Since its September 2021 launch, Avantis U.S. Large Cap Value has returned 12.5% annualized, outpacing the S&P 500 index and the lion’s share of the ETF’s peers (funds that focus on bargain-priced large-company stocks). Top holdings in the large-cap value fund, which charges a 0.15% expense ratio, include Meta Platforms, JPMorgan Chase and Costco Wholesale. Despite the big run-up in Meta shares, the

stock “still ranks high on value and profitability. It doesn’t get the highest ranking on those measures, but it’s a big company and we factor in market cap to determine weight in the portfolio,” says McInnis.

Avantis U.S. Small Cap Value launched in September 2019 and has a longer track record that’s equally bright. The small-company value fund, which charges a 0.25% annual expense

were wood-products and materials maker Boise Cascade, retailer Abercrombie & Fitch and SM Energy.

**CAPITAL GROUP  
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CAPITAL GROUP GROWTH**  
Capital Group is the firm behind the well-regarded American Funds suite of mutual funds,

## THE EMBRACE OF ACTIVE ETFs IS REFLECTED IN A SURGE OF BOTH DEMAND AND SUPPLY.

ratio, has returned 11.0% annualized over the past three years. That’s better than 91% of its peers (funds that focus on small, value-priced companies). It also beat the 0.1% annualized loss in the Russell 2000, an index of small-company stocks. At last report, the top three stocks in the fund

which have been sold mostly through advisers. With the 2022 launch of active ETFs, however, the firm’s strategies are now available to any investor.

Like the mutual funds, the ETFs are managed in the Capital System way—in which multiple managers divide a fund’s assets

### MUTUAL FUND DOUBLES

## HAVE WE MET? YOUR NAME SOUNDS FAMILIAR

It isn’t unusual these days to find an exchange-traded fund version of a standout active mutual fund strategy. In fact, two members of the Kiplinger 25, the list of our favorite active mutual funds—**Fidelity Blue Chip Growth** and **T. Rowe Price Dividend Growth**—are also available as ETFs, run by the same skilled managers.

But the ETFs aren’t exact clones of the mutual funds. They can’t be, in part, because the mutual funds have greater latitude to invest in certain securities than the ETFs, such as stakes in companies that haven’t gone public yet. For example, Fidelity’s Sonu Kalra, who runs the Blue Chip Growth mutual fund and ETF, owns a stake in the

private company Space Exploration Technologies, better known as Elon Musk’s SpaceX, in the mutual fund but not in the ETF.

But ETF replicas are worth considering. The ETFs boast slightly lower expense ratios, for a start, compared with their mutual fund counterparts. Plus, there’s no minimum to buy ETF shares at most brokerage firms. (Fidelity has no minimum investment required for its mutual funds, but T. Rowe Price funds have a minimum initial investment of \$2,500.) Finally, the long(ish)-term returns are similar. Over the past three years, returns for the ETF and mutual fund versions of Fidelity Blue Chip Growth are the same: 9.7% annualized.

We’re carefully watching this trend of good active mutual funds opening ETF siblings. One new offering in particular has caught our eye: **T. Rowe Price Capital Appreciation Equity**. The ETF gives you access to the prowess of David Giroux, a star manager whose highly rated stock-and-bond mutual fund, T. Rowe Price Capital Appreciation, is closed to new investors. The ETF holds only stocks—almost 100 securities, which is more than the 40 to 60 names typically found in the balanced mutual fund, says a Price spokeswoman. But both leverage the fundamental, bottom-up investment approach of the firm’s extensive research team (and Giroux, of course).

and run each sleeve independently. But the Capital Group ETFs are not clones of existing American Funds products.

Capital Group Core Equity aims for long-term growth of capital and income. The fund's six managers can invest in companies of any size, but the portfolio holds mostly large-company stocks, a mix of fast growers and blue-chip dividend payers. Microsoft, Amazon.com, Broadcom and General Electric are among the fund's top five holdings. "The goal is to offer a smoother ride for investors," says Zahid Nakhoda, an ETF specialist with Capital Group. Since its inception in February 2022, Core Equity has returned 13.3% annualized, better than the 11.8% average annual gain in the S&P 500. Its expense ratio is 0.33%.

Capital Group Growth and Capital Group Dividend Value are often paired together in a portfolio, says Nakhoda. Over the past two years, a 50-50 combination of the Growth and Dividend Value ETFs has returned 12.2% annualized, beating the S&P 500 by an average of nearly three percentage points per year. The Growth fund holds, not surprisingly, some of the market's best performers of late, including Meta Platforms and Netflix, but Regeneron Pharmaceuticals, Visa and Intuitive Surgical are also among the top 10 holdings. Top holdings at Dividend Value include Microsoft, British American Tobacco, Carrier Global and Broadcom. The Growth ETF has a 0.39% expense ratio; Dividend Value, 0.33%.

### FIDELITY ENHANCED LARGE CAP CORE

This fund is designed to serve as a core holding in a portfolio—



much like an index fund. But it aims to beat its underlying benchmark, the S&P 500, with less risk by using a proprietary quantitative model. Over the past three and five years, Fidelity Enhanced Large Cap Core has beaten its benchmark on an annualized-return basis, with less volatility. The fund charges a 0.18% expense ratio.

Computers drive the stock picking, employing machine learning and natural language processing, for instance, but it isn't a "black box," says Mike Hagopian, a portfolio specialist who works closely with the firm's Enhanced suite of funds. The model focuses on the usual fundamental stock measures, such as valuation, growth and

### LESS FOR UNCLE SAM

## A TAX-FRIENDLY OPTION

Tax efficiency has been a big draw for ETF investors. The advantage comes from the way ETF shares are created and redeemed. Mutual funds must sometimes sell underlying securities to meet shareholder redemptions. That can trigger a capital gains distribution, which is shared by all fund shareholders. (Mutual funds are required by law to pay out any realized gains to shareholders at least once a year.)

ETFs, on the other hand, don't actually buy and sell the underlying securities in their portfolios. Instead, the ETFs hand over baskets of securities to third parties—institutional investors and market makers called authorized participants—for redemptions when shareholders in the fund sell shares;

or the ETFs receive baskets of securities when shareholders buy shares and new shares must be created. No cash changes hands between the ETF and the authorized participants during these so-called in-kind transactions, and because of that, the ETF isn't as likely as a mutual fund to make a capital gains distribution. (You're still liable for capital gains taxes when you sell shares.)

According to an October 2023 study by T. Rowe Price, 47% of mutual funds, on average, distributed capital gains to their shareholders during the five-year period from the start of 2018 through 2022. By contrast, only an average of 7% of ETFs distributed gains.



## EXPERTS AT THE HELM

Unlike indexed ETFs, these funds have portfolio managers doing the stock-picking.

Fund	Symbol	Price	Year-to-date return	2-year annualized return	Expense ratio
Avantis U.S. Large Cap Value	AVLV	\$64	11.7%	11.3%	0.15%
Avantis U.S. Small Cap Value	AVUV	94	28.7	10.3	0.25
Capital Group Core Equity	CGUS	31	33.2	11.5	0.33
Capital Group Dividend Value	CGDV	33	32.6	14.1	0.33
Capital Group Growth	CGGR	32	43.1	11.1	0.39
Fidelity Blue Chip Growth	FBCG	38	51.3	13.0	0.59
Fidelity Enhanced Large Cap Core	FELC	30	31.9	10.4	0.18
Putnam Focused Large Cap Value	PVAL	36	31.1	14.0	0.56
T. Rowe Price Capital Appreciation Equity	TCAF	30	9.7	—	0.31
T. Rowe Price Dividend Growth	TDVG	38	20.7	7.8	0.50

### Indexes

S&P 500	10.6%	9.5%
Russell 2000	5.2	2.9

As of March 31, 2024. —Fund not in existence for entire period. SOURCE: Morningstar Direct.

quality, but it also homes in on atypical measures, such as spending on research and development, intellectual property assets and what current activity in the options market says about a particular company's shares.

The aim is to find reasonably priced shares in a company with strong prospects, growing earnings and a stock price with upward momentum, all relative to peers. "There isn't a singular characteristic or factor that defines our favorites," says Hagopian, "but we look at the overall picture."

### PUTNAM FOCUSED LARGE CAP VALUE

Only 44 stocks fill this ETF's portfolio, and that's by design. "We want to own the best stocks within each sector," says Lauren DeMore, who comanages the

fund with Darren Jaroch. They favor companies with strong cash flows and the ability generate and increase dividends for investors, but DeMore is quick to add that there isn't "one sound bite or even a few bullet points" that characterize stocks in the portfolio.

The managers recently added to their stake in Citigroup. Shares in the financial services company typically trade at a discount relative to peers because historically it has underperformed. But Citi chief Jane Fraser is working to improve the company's profitability, in part by reducing expenses. "That's what we're playing for," says DeMore.

The fund's secret sauce is the managers' "maniacal attention" to risk, says DeMore. They take their time building the portfolio. "We own stocks for an average of five years, and it takes us about

an average of six months to become comfortable adding a new name to the fund," says DeMore. Insurance giant American International Group, ExxonMobil, and investment firm Apollo Asset Management were top holdings at last report.

The ETF opened in May 2021, though it's worth mentioning that the managers have been running the strategy as a separately managed account since 2016. Since the ETF launched, its 14.5% annualized return has beaten the 10% gain in the S&P 500. "We aim to be consistently good, not occasionally great," says DeMore. The ETF charges 0.56% in expenses. **■**

*The author owns a long-term position in Fidelity Blue Chip Growth ETF. Contact her at [Nellie.Huang@futurenet.com](mailto:Nellie.Huang@futurenet.com).*

# ARE STOCKS IN A BUBBLE?

Here's how to spot one—and how to tell when it pops.

BY NELLIE S. HUANG

**T**HE meteoric rise of a handful of tech stocks has many investors wondering whether the stock market is in a bubble. Bubbles have been the bane of investors since tulips took off in the 1600s, and they rarely end well. Obvious in retrospect, bubbles are notoriously difficult to recognize when you're in one.

Here's what we do know: The so-called Magnificent Seven (Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia and Tesla) led the S&P 500 charge upward in 2023. And so far in 2024, the broad benchmark's gains have been ferocious.

But some of the Magnificent Seven are already taking a breather or perhaps even deflating. Tesla shares have lost 29% since the start of 2024; Apple stock has struggled, too. "I think the bubble is already fading," says Francois Trahan, an economist and president of the Macro Institute, who says he was "hesitant" to use the term bubble until recently.

**A long history.** There's an asset bubble almost every decade. In addition to the 1630s Dutch tulip bulb craze, notable examples include the Nifty Fifty group of blue-chip companies in the late 1960s, Japanese assets (real estate, stocks) in the late 1980s and, of course, the dot-com boom in the late 1990s. Most are driven by the arrival of a life-changing

technology (the computer, the internet, artificial intelligence) or the belief that there's a permanent scarcity of goods.

"Bubbles usually follow a period of easy money," much like we've seen in recent years, says Trahan, "which leads to a rebounding economy and a feeling of prosperity. That's usually when speculation kicks in. I'd say we have followed this historical pattern very well so far."

Past market bubbles have shared three key traits as they neared extremes. First, there's a sizable gap between the price of the asset that's bubbling up and its fundamental value. Second, the buying frenzy expands to include everyone (your mail carrier, say, or your mother). And third, there is rampant

speculation, often amplified by trading with borrowed funds, as with margin accounts.

But the biggest common denominator of all bubbles is greed and the prevailing belief that soaring prices are justified because "this time things are different," says Trahan. "You can believe that AI is real and it's going to change the world—the same way that the internet changed the world. But that doesn't mean that Nvidia stock is going to go up forever."

Before a bubble pops, price volatility rises substantially as assets trade more on momentum and less on fundamental measures. That's when the bubble enters its "greater fool" stage, with buyers pushing prices to even more extreme levels be-



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cause they believe a new buyer will pay an even higher price.

The party typically ends after central banks raise interest rates. But the decline doesn't happen immediately. For instance, the Federal Reserve began raising rates in June 1999, but the dot-com bubble didn't peak—and pop—until early March 2000. Higher rates burst the bubble in Japan, too. The first interest rate hike came in March 1989; in December of that year, the Nikkei 225 peaked, and the bubble popped. And the Nifty Fifty bubble met its end when the Fed aggressively raised rates between January 1973 and April 1974.

There are usually ample signs that an investment craze is overheating. Price-earnings ratios based on expected earnings rise to unsustainably high levels. The S&P 500's P/E, currently 22, is 29% above its long-term average. "That's a concern," says Sam Stovall, chief investment strategist at CFRA Research, but it's nowhere near the benchmark's P/E of 27 in late 1999, just before the dot-com bubble peaked.

Declining earnings estimates are another "warning signal," says Stovall. Watch for less-than-encouraging company guidance for future quarters. "If we can hear optimism from company managers regarding future growth and we see numbers coming in better than expected," that would be a sign that the good times will continue, says Stovall. But when the talk turns less confident, it might be time to leave the party.

**Did you hear a pop?** When a bubble deflates, it's often unclear whether the market is experiencing a pullback (a 5% to 9.9% decline), a correction (a 10% to 19.9% drop) or the start of a bear market (a decline of 20%

or more), says Stovall. Some investors view early declines as buying opportunities, only to see prices to fall further.

Confusion persists until everything starts dropping in price, and then it often feels as if there's no place to hide. The stocks that had been highfliers suffer the most, of course. Defensive areas of the market tend to hold up better. In calendar year 2000, for instance, the year the dot-com bubble burst, the S&P 500 lost 9%, but top-performing sectors included health care (up 37%), utilities (up 57%), financials (up 25%) and consumer staples (up 17%). "When the going gets tough, the tough

the Nikkei 225 peaked in 1989; the index only this year recovered its 1989 peak level. And for the 10-year period after the dot-com bubble deflated, the S&P 500 lost 1% on average per year.

So, where are we now? Is it time to cut and run? Or should we continue to invest in this rally? Savita Subramanian, head of U.S. equity strategy at BofA Global Research, remains optimistic. "The S&P 500 lacks signs of a bubble," she says. "In our view, this bull market has legs."

But Stovall, who is bullish for the long term, nonetheless sees "tiny bubbles" that are beginning to concern him. The S&P 500 recovered all of its bear-market

## THERE ARE USUALLY AMPLE SIGNS THAT AN INVESTMENT CRAZE IS OVERHEATING.

go eating, drinking and smoking. And when they overdo it, they go to the doctor," quips Stovall.

Bonds tend to do well, too. "Money will flock to bonds" or even bond-like stocks, such as utilities, after a bubble pops, says Trahan. "That's usually the place to be." In 2000, as U.S. stocks cratered, the Bloomberg U.S. Aggregate Bond index, a high-quality benchmark of U.S. corporate and government debt, gained 11.6%. It would go on to deliver a 6.3% annualized return over the next decade.

Some burst bubbles have led to long stretches of poor performance known as lost decades, during which stock markets stagnate and economic growth slows. After the 1929 stock market crash, for instance, a drought in market returns lasted through 1939. Japan experienced several decades of slow economic growth and negative stock returns after

losses on January 19, he notes. And since then, stocks in companies of all sizes, styles and sectors are in positive territory. "This rising tide has most assuredly lifted almost all boats," says Stovall, adding, "we're due for a pullback."

**The best defense.** This is a good time to remind yourself of time-honored investing tenets, such as diversification. Lisa Shalett, chief investment officer for Morgan Stanley Wealth Management, suggests diversifying your portfolio now with exposure to U.S. bonds and non-U.S. equities. Consider an equal-weighted S&P 500 index fund, which holds all of the stocks in the benchmark in equal proportion, so you're not so overweight with highfliers. Or explore assets that zig when stocks zag, such as hedge funds or alternative assets. ■

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# DEALING WITH MANAGER CHANGES

KIPLINGER 25 UPDATE BY NELLIE S. HUANG

**W**HEN a key manager leaves an actively managed fund you own, it's a good time to give the investment a fresh look, but it doesn't always mean it's time to unload shares. Three funds in the Kiplinger 25 have undergone a recent change in management. But we've chosen to stick with those funds for now, for reasons we'll explain. Returns are through March 31, unless otherwise noted.

When Dominic Rizzo stepped in to run T. Rowe Price Global Technology fund in April 2023, it was his first time at bat as a manager. But he had been part of Price's tech-stock analyst team since 2018, helping to make key investments in many of Price's diversified stock funds. Plus, he specialized in chip companies, a sector that was poised to improve at the time. We chose to keep the fund in the Kip 25 and watch it closely. So far, so good. Since Rizzo took over in early 2023, the fund has gained a cumulative 45%, handily beating the S&P 500 and the Nasdaq Composite indexes.

**A deep-enough bench.** Since the start of 2020, four seasoned managers have left Dodge & Cox Stock. Though the fund's remaining seven managers aren't newbies—three have been at the helm for over a decade—it marks a new era of sorts. We're not worried, though. Dodge & Cox managers work as a team to pick securities. And the fund has done relatively well so far: Its two-year 8.2% annualized return beat 65% of its peers (funds that focus on value-priced shares in large companies), though it lagged the 9.5% annualized return of the S&P 500.

Finally, though two managers at Brown Capital Management International Small Company left in 2023, two of the remaining three comanagers have been at its helm since the fund's 2015 launch—key contributors, in other words, to the fund's standout five-year annualized return, which beat 84% of its peers (foreign small- and mid-cap growth funds). **■**

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## THE NEW KIPLINGER 25

Everything you need to know about our favorite actively managed, no-load mutual funds.

U.S. Stock Funds	Symbol	Annualized total return			Yield	Expense ratio
		1 yr.	5 yrs.	10 yrs.		
<b>DF Dent Midcap Growth</b>	DFDMX	21.8%	9.6%	10.4%	0.0%	0.87%
<b>Dodge &amp; Cox Stock</b>	DODGX	25.6	13.6	11.1	1.4	0.51
<b>Fidelity Blue Chip Growth</b>	FBGRX	51.3	20.5	17.3	0.0	0.69
<b>Heartland Mid Cap Value</b>	HRMDX	16.2	12.0	—	0.6	1.10
<b>Mairs &amp; Power Growth</b>	MPGFX	31.9	13.8	11.1	0.7	0.63
<b>T. Rowe Price Dividend Growth</b>	PRDGX	20.5	12.9	12.0	1.1	0.64
<b>T. Rowe Price Int US Sm-Cap Gr</b>	PRDSX	23.4	9.9	10.0	0.0	0.80
<b>T. Rowe Price Small-Cap Value</b>	PRSVX	16.4	8.4	7.5	0.6	0.82
<b>Primecap Odyssey Growth</b>	POGRX	23.7	11.4	11.8	0.4	0.66
<b>Vanguard Equity-Income</b>	VEIPX	18.6	11.1	10.2	2.7	0.27

International Stock Funds	Symbol	Annualized total return			Yield	Expense ratio
		1 yr.	5 yrs.	10 yrs.		
<b>Baron Emerging Markets</b>	BEXFX	7.8%	0.9%	2.3%	0.4%	1.4%
<b>Brown Cap Mgmt Intl Sm Co</b>	BCSVX	14.1	7.6	—	0.0	1.31
<b>Fidelity International Growth</b>	FIGFX	18.6	10.0	7.5	0.4	0.92
<b>Janus Henderson Gbl Eq Inc</b>	HFQTX	9.8	6.2	4.3	3.8	0.98

Specialized Funds	Symbol	Annualized total return			Yield	Expense ratio
		1 yr.	5 yrs.	10 yrs.		
<b>Fidelity Select Health Care</b>	FSPHX	10.6%	9.8%	10.5%	0.0%	0.69%
<b>T. Rowe Price Global Technology</b>	PRGTX	45.4	11.4	15.3	0.0	0.95
<b>TCW Enhanced Commod Strat</b>	TGABX	16.7	8.9	8.2	2.4	0.25

Bond Funds	Symbol	Annualized total return			Yield	Expense ratio
		1 yr.	5 yrs.	10 yrs.		
<b>Baird Aggregate Bond</b>	BAGSX	2.5%	0.6%	1.7%	4.1%	0.55%
<b>Dodge &amp; Cox Income</b>	DODIX	4.1	1.9	2.5	4.6	0.41
<b>Fidelity Interm Muni Income</b>	FLTMX	4.9	1.9	2.3	3.1	0.36
<b>Fidelity Strategic Income</b>	FADMX	8.1	3.0	3.2	5.3	0.66
<b>T. Rowe Price Floating Rate</b>	PRFRX	11.2	4.9	4.0	8.3	0.78
<b>Vanguard Emerg Markets Bond</b>	VEMBX	13.5	4.4	—	7.0	0.55
<b>Vanguard High-Yield Corporate</b>	VWEHX	9.0	3.7	4.1	6.4	0.23
<b>Vanguard Short-Term Inv-Grade</b>	VFSTX	4.8	1.7	1.8	5.0	0.20

Indexes	Annualized total return			Yield
	1 yr.	5 yrs.	10 yrs.	
S&P 500-STOCK INDEX	29.9%	15.0%	13.0%	1.4%
RUSSELL 2000 INDEX*	19.7	8.1	7.6	1.4
MSCI EAFE INDEX†	15.3	7.3	4.8	3.0
MSCI EMERGING MARKETS INDEX	8.2	2.2	2.9	2.9
BLOOMBERG U.S. AGG BOND INDEX#	1.7	0.4	1.5	4.9

AS OF MARCH 31, 2024. \*Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Direct, MSCI, S&P Dow Jones Indices. Yields listed for bond funds are SEC yields, which are net of fees; stock fund yields are the yield for the past 12 months.

# A Sector Investing How-To

**STREET SMART BY JAMES K. GLASSMAN**

**A**SSET managers such as Vanguard, State Street and BlackRock have made it easy to own individual sectors of the stock market through low-cost mutual and exchange-traded funds. But are they good investments?

The funds offer a simple way to diversify. For example, if your stock portfolio is heavy on shares of individual technology and energy companies, balancing those holdings with ETFs in sectors such as real estate and health care can provide a smoother ride. And a sector fund could make sense if you have a strong conviction that a particular area of the economy, such as finance, is underappreciated and will accelerate as investors recognize its true value.

I have been analyzing long-term data on Select Sector SPDR ETFs, which are managed by State Street and based on indexes that are subsets of the S&P 500 index, the large-company benchmark. Some of the results are striking.

As you can probably guess, one sector has been a standout performer: technology. For the past 10 years, the average annual returns of seven out of the nine sector funds I studied fell into a narrow range, from 8.2% to 12.3%, but the Technology Select Sector SPDR averaged 20.7%. The tech fund was dominant throughout the decade: It was the

top-performing sector fund in four of the past 10 calendar years and ranked in the bottom half only twice.

But you might be surprised at how some companies that most of us consider technology holdings are classified by S&P (and, therefore, State Street). For example, *Amazon.com* (symbol *AMZN*, \$180), which returned an average of 26.8% over the past 10 years, is in the consumer discretionary sector ETF, and Alphabet, *Netflix* (*NFLX*, \$607) and Meta Platforms, the former Facebook, are all in the communications services sector fund. (Stocks and funds I like are in bold; prices and other data are as of March 31 unless otherwise noted.)

Not including such stocks is a real drawback. That's why I prefer *Invesco QQQ Trust* (*QQQ*, \$444), which owns the largest Nasdaq companies, including all of the SPDR omissions. The ETF carries an expense ratio of 0.2%, compared with 0.09% for the State Street funds, an insignificant difference.

The other outlier over the past 10 years has been energy. The SPDR fund returned an average of just 4.6%. The sector was highly volatile, ranking first in three of the past 10 calendar years and last in six.

Although the returns of sector funds are scattered over 10 years, they converge over very long periods. State Street introduced the original nine sector ETFs in December 1998. (Real estate was added in 2015;



communications services in 2018.) On average, during the 25 years ending in December 2023, the sector funds in existence—with one exception—returned between 6.8% and 9.5%. The laggard was the financial ETF, at just 5.1%. Banking suffered badly in the 2008–09 recession, and low interest rates during the entire period hurt profitability. Tops over 25 years was the consumer discretionary category, which edged out tech, health care and industrials (all within nine-tenths of a percentage point of the leader).

The *Consumer Discretionary Select Sector SPDR* (*XLY*, \$184), which ranked second over the past 10 years, includes automobiles, hotels, restaurants, entertainment and many retailers. There's much to like in this sector, which performs well when the economy is strong, but the fund itself has become top-heavy, adding to risk by subtracting the benefits of diversification. The two leading holdings—Amazon and Tesla—account for 36% of the fund's assets. Tesla's miserable performance at the start of 2024 was a major reason the fund trailed the S&P 500 by seven percentage points for the year to date. Still, I am recommending the

**One reason to own a sector fund is a strong belief that an area of the economy is currently underappreciated.**

ETF for its powerful portfolio, including *McDonald's (MCD, \$282)*, *Starbucks (SBUX, \$91)*, *Home Depot (HD, \$384)* and several homebuilders.

One revelation from an examination of sector performance is that every ETF has rotten years. In 2022, tech finished eighth out of the nine original categories. Health care was second among the sector ETFs in 2014 and 2015 but last in 2016. You simply cannot predict how a sector will perform from year to year.

For that reason, I believe a popular investment strategy called sector rotation is foolish. The idea is that you create a portfolio with disproportionate weight in certain sectors during particular phases of the business cycle and then move out of them as economic and market conditions change. For example, sector rotation favors utilities during the early stages of a recession and consumer staples during a late recovery. The strategy generates fees and time-wasting activity as you switch holdings, and there's no evidence that it works.

"At best," an academic paper titled "The Myth of Business Cycle Sector Rotation" found, "conventional sector rotation generates modest outperformance, which quickly diminishes

## Tech has become the main engine of the U.S. economy. But I also like out-of-favor financials. And health care looks promising.

after allowing for transaction costs and incorrectly timing the business cycle." Timing the business cycle is a futile endeavor. In 2022, most economists predicted a recession was coming the next year. But gross domestic product rose 2.5% in 2023, a rate that beat the average for the decade before COVID-19 hit.

There are, however, good reasons for investors to put more emphasis on particular sectors. Technology has become the main engine of the U.S. economy. But I also like ETFs based on sectors that are out of favor, especially *Financial Select Sector SPDR (XLF, \$42)*, which returned an annual average of 10.9% over 10 years—compared with 12.9% for *SPDR S&P 500 (SPY, \$523)*, nicknamed "Spiders," which reflects the entire large-cap benchmark.

The financial SPDR fund has its own odd characteristics. Its top holding, at 13.1%, is *Berkshire Hathaway (BRK.B, \$421)*, even

though Warren Buffett's company invests half its assets in tech (mainly Apple) and about one-fifth in finance (nearly all in insurance). Owning a bit of Berkshire, however, is never a bad idea. The rest of the fund is conventional: JPMorgan Chase (JPM), Visa and the like. Another good choice is *Vanguard Financials (VFH, \$102)*, which is more broadly diversified and has a similar 10-year record.

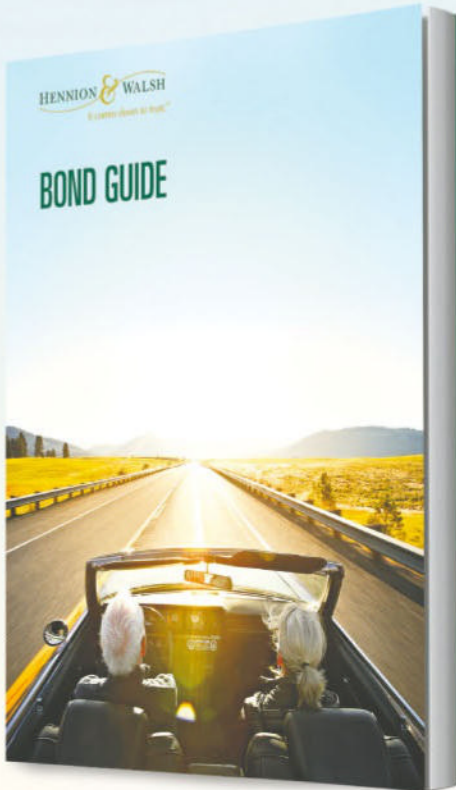
My other preference for the next 10 years or so is *Healthcare Select SPDR (XLV, \$148)*. The population is getting older, therapies are getting better, and artificial intelligence will make care cheaper. BlackRock has ETFs that drill even deeper, such as *iShares U.S. Medical Devices (IHI, \$59)*, whose top holdings include *Intuitive Surgical (ISRG, \$399)*, which manufactures minimally invasive surgical systems such as da Vinci.

Many investors, especially those with time horizons of 20 years or more, don't need sector funds at all. Unless you need to balance a portfolio or have a strong belief in a certain part of the economy, you can get diversification the old-fashioned way simply by owning an S&P 500 fund such as Spiders or *Fidelity 500 (FXAIX)*, a mutual fund that returned an average of 13% annually for the past 10 years, beating every sector fund except technology. **■**

*James K. Glassman chairs Glassman Advisory, a public-affairs consulting firm. He does not write about his clients. Of the stocks and ETFs mentioned, he owns Amazon.com, Berkshire Hathaway, Starbucks, Invesco QQQ Trust and SPDR S&P 500. Reach him at JKGlassman@gmail.com.*



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# CONSIDER MORTGAGE-BACKED BONDS

## MUTUAL FUND SPOTLIGHT BY KIM CLARK

**T**HE housing market remains challenging for home buyers and sellers. But it presents opportunities for investors.

Consider securities issued by the Government National Mortgage Association, known as Ginnie Mae, which backs bonds made up mostly of pools of mortgages on single-family homes. Ginnie Mae securities are guaranteed by the federal government, meaning investors can count on getting their principal back. Over the past 20 years, mortgage-backed securities have typically yielded half a percentage point more than similar Treasury offerings, says Rob Haworth, senior investment strategy director for U.S. Bank Wealth Management.

### INTERMEDIATE-TERM GNMA FUNDS

Funds are ranked by their one-year returns.

	Symbol	Annualized total returns		Max. sales charge	Exp. ratio	
		1 yr.	5 yrs.			
1	<b>PIMCO GNMA and Government Secs A</b>	PAGNX	3.0%	-0.2%	3.75%	1.74%
2	<b>BNY Mellon US Mortgage A</b>	GPGAX	1.9	-0.6	4.50	0.80
3	<b>Fidelity GNMA@</b>	FGMNX	1.9	-0.4	none	0.45
4	<b>T. Rowe Price GNMA</b>	PRGMX	1.8	-0.5	none	0.62
5	<b>Vanguard GNMA Inv</b>	VFIIIX	1.8	-0.3	none	0.21
6	<b>Victory Government Securities</b>	USGNX	1.8	0.6	none	0.53
7	<b>BlackRock GNMA Inv A</b>	BGPAX	1.8	-0.7	4.00	1.13
8	<b>Voya GNMA Income A</b>	LEXNX	1.6	-0.3	2.50	0.83
9	<b>Payden GNMA</b>	PYGNX	1.4	-0.9	none	0.45
10	<b>DWS GNMA A</b>	GGGGX	1.3	-0.8	2.75	0.83
<b>Bloomberg U.S. Aggregate Bond</b>			1.7%	0.4%		
<b>Category average*</b>			1.4	-0.6		

**Vanguard GNMA (symbol VFIIIX)** sports a low expense ratio and ranks in the top third of its category in three of the past five years. It notched a total return of 5.2% in 2023, compared with 4.3% for an index of intermediate Treasury securities. The fund yields 3.3%. If the Federal Reserve cuts rates as expected this year, the resulting increase in the price of the portfolio's bonds (bond prices move in the opposite direction of interest rates) should push the fund to a total return on par with last year's, says fund manager Brian Conroy. (For more fixed-income ideas, see "Yields to Pounce On," on page 18.) **■**

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## 20 LARGEST STOCK AND BOND MUTUAL FUNDS

Funds are ranked by asset size.

### STOCK MUTUAL FUNDS

Name	Symbol	Assets† (billions)	Annualized total return		Max. sales charge
			1 yr.	5 yrs.	
1 <b>Vanguard Total Stock Mkt Idx Adm</b>	VTSAX	\$1,172.0	33.9%	14.4%	none
2 <b>Vanguard 500 Index Admiral</b>	VFIAX	654.0	34.4	15.2	none
3 <b>Fidelity 500 Index@</b>	FXAIX	534.0	34.4	15.2	none
4 <b>Vanguard Total Intl Stock Index Admiral</b>	VTIAX	346.1	15.7	6.3	none
5 <b>American Funds Growth Fund of Amer A</b>	AGTHX	276.0	44.2	14.8	5.75%
6 <b>American Funds American Balanced A</b>	ABALX	223.1	20.2	8.7	5.75
7 <b>American Funds Washington Mutual A</b>	AWSHX	181.5	30.1	13.2	5.75
8 <b>American Funds Europacific Growth A</b>	AEPGX	141.1	16.6	6.8	5.75
9 <b>American Funds Fundamental Invs A</b>	ANCFX	137.1	36.5	13.6	5.75
10 <b>American Funds New Perspective A</b>	ANWPX	136.0	26.5	12.6	5.75

**S&P 500 INDEX** 29.9% 15.1%

**MSCI EAFE INDEX** 15.3 7.3

### BOND MUTUAL FUNDS

Name	Symbol	Assets† (billions)	1 yr.	Yield	Max. sales charge
			total return		
1 <b>Vanguard Total Bond Market Index Adm</b>	VBTLX	\$208.7	2.3%	4.5%	none
2 <b>PIMCO Income A</b>	PONAX	143.4	8.4	4.6	3.75%
3 <b>American Funds Bond Fund of Amer A</b>	ABNDX	82.6	1.7	4.3	3.75
4 <b>Dodge &amp; Cox Income I</b>	DODIX	73.1	5.0	4.6	none
5 <b>Vanguard Inter-Term Tx-Ex Inv</b>	VWITX	71.9	3.5	3.2	none
6 <b>Fidelity U.S. Bond Index@</b>	FXNAX	57.8	2.2	4.4	none
7 <b>Vanguard Short-Term Investment-Grade Inv</b>	VFSTX	54.5	5.2	5.0	none
8 <b>PIMCO Total Return A</b>	PTTAX	53.3	3.6	4.5	3.75
9 <b>Metropolitan West Total Return Bd M</b>	MWTRX	51.9	2.0	4.1	none
10 <b>JPMorgan Core Bond A</b>	PGBOX	45.3	2.1	3.9	3.75

**BLOOMBERG U.S. AGGREGATE BOND INDEX** 1.7% 4.9%

**ICE BOFA US MUNICIPAL SECURITIES INDEX** 2.4 3.1

AS OF MARCH 31, 2024. \*Funds that primarily invest in intermediate-term securities issued by the Government National Mortgage Association (GNMA). †For all share classes combined. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Morningstar Direct, ICE.



# Dividends Are on the Way Back

INCOME INVESTING BY JEFFREY R. KOSNETT

**S** AVERS and investors have few causes for complaint. But one frustration is the sluggish pace and shrunken heft of dividend increases. Although U.S. companies have more than \$2 trillion in cash, scads of firms that not long ago raised dividends by 10% a year have morphed into relative misers: The median annualized increase within the S&P 500 dwindled to 6% in the fourth quarter of 2023. Look at ProShares S&P 500 Dividend Aristocrats (symbol NOBL), an equal-weighted exchange-traded fund of 68 stocks with 25 consecutive years or more of raises. From 2015 to 2020, the fund hiked its payout by 11.5% a year. Since the start of 2021, that fell to 5.4%, limited by near-freezes from one-time cash spigots like Kimberly-Clark. Apple is not an Aristocrat but clings to a habit of raising quarterly dividends each year by just a penny a share. UPS, soon to join the Aristocrats, also just hiked its payout by one cent a quarter.

I asked around and got explanations—or excuses. One is that cash is so valuable, with interest rates up, that companies are hoarding it. Another is that a large cohort of CEOs expected a recession and refused to commit to high dividends that would be impossible to freeze or cut without an uproar. And there is the ever-present fixation with buybacks de-

spite a new 1% federal tax and the sky-high valuations of so many shares. Hence, the payout ratio—the percentage of earnings paid as cash dividends—has held at around 30% since the pandemic. It was 43% as recently as 2015 and 2016 and above 50% for much of the past 50 years.

**Signs of a comeback.** As rates fall and cash yields eventually drop, tax-qualified dividend income will become relatively more valuable. Investors will press companies to pay up. Meta Platforms (formerly Facebook) chipped some ice with a first-time 50-cent quarterly dividend this year—hardly a gusher, as Meta is handing out just \$5 billion a year from its \$45 billion of free cash flow. Salesforce followed with a similar initial cash payout. More encouraging: unexpectedly large early-2024 raises by old-timers such as Archer-Daniels-Midland (11.1%) and Sherwin-Williams (18.2%), as well as 25% from Exelon's power-generation spin-off Constellation Energy. John Deere has been raising dividends twice a year, its latest pair of hikes totaling 17.6%. Walmart stepped up with a 9.5% raise. S&P Dow Jones Indices reports more increases and fewer cuts so far in 2024 than in the same months of 2023, though overall payouts are still creeping rather than leaping.

For a longer-term view, I consulted Dan Peris, who manages the Federated Hermes Strategic Value



Dividend Fund and is to dividend literature what the late John le Carré was to spy novels. In a new book, *The Ownership Dividend: The Coming Paradigm Shift in the U.S. Stock Market*, Peris predicts that higher payout ratios are inevitable—his target is 50%—and insists “the bloom is off the buyback rose.” Competition from higher fixed-income yields will encourage fatter dividends. But Peris also says that company bosses are revisiting the idea that shareholders should be partners in the business rather than adversarial share-sellers—and plying them with hard cash is central to this plan. Meta’s payout, he says, is a “green shoot” and “symbolic.” With a yield of 0.4%, Meta is not an income investment and may never be, but its move clears the way for other new-generation firms that are serious about growth but also aspire to average or above-average dividend yields. And that would be a breakthrough. (For more on dividend investments, see “Yields to Pounce On,” on page 18.) ■

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**As rates fall and yields drop, dividends will become more valuable, and investors will press companies to pay up.**

# GET IN ON JAPAN'S RALLY

## ETF SPOTLIGHT BY KIM CLARK

**A**FTER years of stagnation, the Japanese stock market is booming again. The Nikkei index of 225 large Japanese companies finally surpassed its 1989 peak in mid March. It has returned 13% in the first three months of 2024, outpacing the 10.6% return for the S&P 500.

“This is still the early stages” of a rally in the world’s second-largest stock market, says Ben Powell, chief Asia Pacific investment strategist for the BlackRock Investment Institute. A smidgen of inflation has replaced the deflation that long sapped the Japanese economy, allowing companies to raise prices and profits. “It is hard to exaggerate the impact that has on equities,” Powell says. Japanese stocks are trading at about 16 times expected

earnings, lower than the S&P 500’s price-earnings ratio of almost 22. (Data are as of March 31).

You may own Japanese stocks already if you hold an international index fund. Japan makes up almost 17% of Vanguard’s Total International Stock (symbol VXUS, \$60), a member of the Kiplinger ETF 20, the list of

our favorite exchange-traded funds. For deeper exposure, consider a fund focused on Japan’s small companies, which should disproportionately benefit from an improved domestic economy.

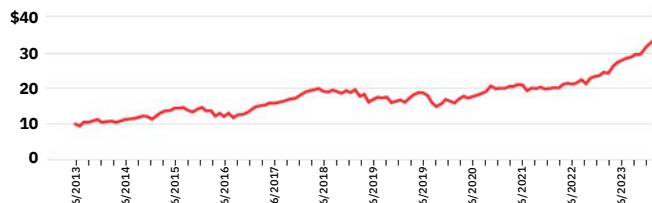
**WisdomTree Japan Hedged SmallCap Equity (DXJS, \$33)** is hedged against fluctuations in the yen, so you don’t have to worry about currency swings. The fund holds shares in 726 Japanese companies, which have an average market value of about \$1 billion. WisdomTree also offers an unhedged version of the fund, Japan SmallCap Dividend Fund (DFJ, \$77). Both charge an expense ratio of 0.58%. **■**

Contact the author at [Kim.Clark@futurenet.com](mailto:Kim.Clark@futurenet.com).

## WisdomTree Japan Hedged SmallCap Equity

### PERFORMANCE SINCE INCEPTION

Weekly closing prices (June 28, 2013–March 31, 2024)



### TOP FIVE HOLDINGS

Horiba	1.2%
Toyo Tire	0.8
Daido Steel	0.8
Tokyo Seimitsu	0.7
Dmg Mori	0.6

**0.58%**  
Annual  
Expense Ratio  
\$58 annually on a  
\$10,000 investment

### SECTOR BREAKDOWN\*

Industrial	27.6%
Consumer Discretionary	17.6
Technology	14.8
Basic Material	13.6
Financial Services	8.1
Consumer Defensive	7.6
Health Care	4.1
Real Estate	2.8
Communications	1.8
Utilities	1.3
Energy	0.9

### SELECT CURRENCY-HEDGED JAPAN ETFs

Ranked by assets

	Symbol	Price	Assets (millions)	Expense ratio	Annualized total return	
					1 yr.	5 yrs.
WisdomTree Japan Hedged Equity	DXJ	\$109	\$4,662	0.48%	62.9%	20.1%
Xtrackers MSCI Japan Hedged Equity	DBJP	75	388	0.47	53.5	16.9
iShares Currency Hedged MSCI Japan	HEWJ	42	319	0.50	54.0	16.7
WisdomTree Japan Hedged SmallCap Equity	DXJS	33	67	0.58	46.2	14.4
Franklin FTSE Japan Hedged	FLJH	31	50	0.09	53.0	16.9
MSCI Japan U.S. Dollar Hedged Index					<b>50.5%</b>	<b>17.4%</b>

As of March 31. \*May not total 100% due to rounding. SOURCES: Morningstar Direct, Yahoo Finance, WisdomTree.

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MONEY

# CUT YOUR BILLS FOR AUTO AND HOME INSURANCE



Protecting your car and home  
is getting a lot more costly.  
Use these tips to minimize  
the pain of rising premiums.

BY DAVID RODECK

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**C**ONSUMERS have been battling higher prices everywhere, but rate hikes for automobile and homeowners insurance have been especially nasty. Premiums in both markets skyrocketed over the past couple of years. “It has been a historic period of increases,” says Stephen Crewdson, senior director of insurance intelligence at data analytics company J.D. Power. “Our data goes back 30 years, and I’ve never seen something like this.”

The average price of car insurance spiked more than 20% over the 12 months ending in February 2024 and more than 38% since 2020, according to the consumer price index. Insurers requested an average premium rate increase of 11.3% for homeowners insurance in 2023, but that impact is not spread evenly nationwide. Some states, including New Jersey, Utah and Vermont, still have relatively affordable homeowners insurance markets, but others, such as Colorado, New Mexico and Texas, are dealing with much more expensive premiums. In California and Florida, homeowners are struggling just to find coverage.

Given that auto and home insurance are essentially mandatory, these premium increases may feel particularly painful. Nearly every state requires drivers to have at least basic liability auto insurance coverage to pay for damage they cause to others in accidents. Lenders typically require homeowners with a mortgage to buy insurance. And even if you own your home outright, it’s not wise to leave your property unprotected.

Although the hikes might seem like a money grab, insurers are also getting hammered. The U.S. property insurance industry lost \$38 billion in 2023, the largest underwriting loss in a decade, according to A.M. Best, a credit-rating agency that specializes in the insurance industry.

What's causing all this havoc in the insurance markets? Is there any relief in sight? And what can you do to trim your costs?

## WHY AUTO INSURANCE PREMIUMS ARE RISING

**More crashes.** To understand the auto insurance market, you need to go back to 2019, says Crewdson. “That was the last relatively normal year for auto insurance.” In 2020, the pandemic hit. Suddenly, people started driving much less as they stopped commuting, going on vacation and seeing friends and family. “Miles driven went down, so claims went down.”

Because insurers collected more than they paid in claims, they returned that money to consumers through refund checks and reduced premiums. But in 2021, drivers returned to the road—and so did car accidents. Dangerous driving has increased post-pandemic, with more people speeding, driving recklessly and becoming distracted with mobile devices and in-vehicle screens. “People are looking down when they drive now,” says Jeff Schlitt, owner of Schlitt Services, an independent insurance agency in Vero Beach, Fla.

The result has been more crashes and claims. Car crash fatalities were up more than 10% in 2022 compared with 2020, according to the most recent data available from the National Highway Traffic Safety Administration.

**More-expensive repairs.** “Vehicles are built with all these new safety features, which is great but adds to the cost,” says Schlitt. “It used to cost \$300 to replace a broken windshield, but now it can cost over \$1,000 with all the technology.”

Auto repair shops still deal with inflation, supply chain issues and labor shortages. They are passing on these costs to consumers and their insurers. Repairs are taking longer as garages wait on parts, meaning auto insurance

policies must provide policyholders with longer vehicle rentals.

Finally, used cars have been retaining more of their value post-pandemic because of higher demand. If you total your car, most auto insurance policies pay the value of your vehicle on the day of the crash. Because used vehicles are worth more, on average, than they used to be, they are more expensive for insurers to replace.

**More lawsuits.** If you cause an accident, you're liable for covering the repairs and medical bills of the injured parties. Inflation has pushed up these costs for insurers as well.

These days, people are more likely to sue and to be awarded much larger settlements for their injuries than in the past. Auto insurance policies usually cap what they pay for lawsuits against you at \$500,000 if you buy the maximum coverage. You might buy an umbrella policy with additional liability coverage to protect against lawsuits beyond your auto liability limit. As seven-figure settlements become more common, umbrella insurance costs are also rising.

## TIPS TO SAVE ON AUTO INSURANCE

Auto insurance premiums are increasing as insurers adjust to this perfect storm of issues. “Our industry operates slowly on these numbers. Aggregating takes time,” says J.D. Power's Crewdson. Auto insurers should be pricing these factors into policies, slowing future rate increases. But how can you save money until then?

**Check for discounts.** “Insurers offer many discounts that consumers don't know about,” says Crewdson. Taking a defensive driving course or installing an antitheft device on your vehicle are often ways to save money. If you have a student driver, you may get a discount if he or she earns good grades at school.

You could also qualify for discounts by paying your premium annually and opting for electronic statements. Finally, depending on the insurer, you might get a lower rate if you're older than 55, a military member or veteran, a federal employee, or a member of certain academic, professional and trade organizations.



GETTY IMAGES (INCLUDING PREVIOUS PAGE)

**Save with safe driving.** Many insurers offer discounts if you agree to use a telematics system to monitor your driving habits—through either an app you download on your phone or a device you temporarily plug into your vehicle’s diagnostic port. “You agree to have the insurer ‘ride around’ with you for 90 days,” says Schlitt, the insurance agent from Florida. The app or device checks for risky behaviors such as hard stops, quick acceleration and driving after midnight, when the roads are more dangerous because of drunk drivers.

Most insurers will give you a premium credit of at least 10% just for agreeing to the test, says Schlitt. And companies usually don’t penalize bad driving; they just withhold the discount for drivers who don’t meet the safety standards.

If you work remotely and aren’t commuting every day, you could set up a mileage-based auto insurance policy. Your premium depends on how many miles you drive each month, so people who spend little time on the road can save.

**Pay for minor repairs out of pocket.**

Auto insurance companies increase your rates for every claim you make. You may come out ahead in the long run by paying for small repairs out of pocket. “If you call roadside assistance or make a claim to repair a crack in a window, that didn’t count in the past, but today it does. Only use your insurance when you truly need it,” says Schlitt.

**Estimate insurance costs before buying a car.**

Before you purchase a new vehicle, check how much it would cost to insure, suggests Matt Hagen, a director at Assurance IQ, an online insurance marketplace. Newer vehicles with more technology are more expensive to insure, he says. So are sports cars, which have higher accident rates on average.

**Drop rental coverage if you have a backup.** If you have more than one vehicle available, consider dropping your auto policy’s rental coverage, which provides you with a car to drive if yours is in the shop for a lengthy repair. Instead, drive the backup vehicle.

**Increase your deductible.** The deductible is what you pay out of pocket before insurance kicks in. Raising your deductible lowers your monthly premium. Make sure to keep enough money in savings to cover your deductible in case of an accident.

**Remove collision coverage from old vehicles.** If you’re driving an old vehicle that isn’t worth much, consider dropping the collision and comprehensive coverage while keeping liability. Your insurance would pay to repair the damage you cause to others but not to repair or replace your vehicle. “If you can afford a down payment on a new vehicle after a crash, this strategy could make sense,” says Hagen. You must have paid off the car first, as lenders require you to maintain insurance when you have an outstanding auto loan.

## WHERE TO SHOP FOR THE BEST RATE

Switching to a different insurer can be an effective way to save money on premiums. “My general advice is if you’re not satisfied with your premiums, shop around,” says Stephen Crewdson, senior director of insurance intelligence at data analytics company J.D. Power. Most major insurance companies let you get quotes online or over the phone within minutes. You could also work with an independent agent who represents multiple insurers. “They might quote you 15 insurers at once,” says Crewdson. At TrustedChoice.com, you can search for local independent agents.

Another way to shop rates is through websites such as Insure.com, Insurify.com and TheZebra.com. After you fill out a short application, they can pull numerous local quotes. If you belong to membership groups such as AAA or Costco, check their discounted insurance programs as well.

When shopping rates, use an apples-to-apples comparison, says Matt Hagen, a director at Assurance IQ, an online insur-

ance marketplace. For example, if your current auto policy offers \$300,000 in total bodily injury liability coverage for accidents you cause, make sure the new, “cheaper” quote doesn’t include only the state minimum, which usually provides much less protection. If you cause an accident with damage beyond your liability coverage, you could be sued and required to make up the difference with your savings or a wage garnishment.

Bring up all your policies when comparing quotes with an agent, who may find a combination of coverage that leads to a better deal. “You might pay less by increasing the liability on your auto and home insurance to reduce the cost of the umbrella coverage,” says Jeff Schlitt, owner of Schlitt Services, an independent insurance agency in Vero Beach, Fla.

Finally, ensure the price is low enough to make the switch worthwhile. Insurers consider loyalty when quoting rates and might not offer the best deals to people who switch every year, says Schlitt.

**Bundle multiple policies with one insurer.** Insurers offer discounts if you buy multiple types of insurance from them. For example, if you purchase auto, home, boat and/or life policies from one insurer, you could qualify for a discount on all the premiums. If you want umbrella insurance, you usually get a lower premium by buying it from the same company that handles your auto insurance, says Schlitt.

## WHY HOMEOWNERS INSURANCE IS GETTING MORE EXPENSIVE

**Disasters nationwide.** Homeowners insurance premiums are rising primarily for one reason: The country is being hit with increasingly intense natural disasters, such as hurricanes, blizzards and wildfires, and dealing with the aftermath is getting more expensive. “It’s happening everywhere, even in places that don’t come to mind right away. A hailstorm in the Midwest might not make national news, but it could still create massive damage,” says Crewdson.

Rising costs from inflation, labor shortages and supply-chain issues mean home repairs have become more expensive. If you rent your home and buy renters insurance, you’re likely seeing an increase in premiums, too.

In California and Florida, the insurance market has become so challenging that many homeowners struggle to buy insurance. “If you have a roof that’s more than 15 years old in Florida, your odds of getting insurance are nil,” says Mike Moran, executive director of Florida PACE, a public agency that provides financing for hurricane-resistant home improvements. “For many people, it’s not a question of saving money but figuring out how they can even get home insurance.”

**Regulatory issues.** Though more-costly disasters are the root cause



of insurance woes in California and Florida, government and regulatory issues haven’t helped. “Compare these states to Texas,” says Crewdson, who notes the state “has also seen rising premiums and a streak of natural disasters, but insurers haven’t left the market.”

California’s Department of Insurance restricted insurers from raising premiums to compensate for higher costs. In response, insurers pulled out of areas vulnerable to wildfires. California has since started allowing future rate increases, which could encourage insurers to return.

In Florida, there were problems with contractors running roofing insurance scams. The contractors would offer homeowners a free roof by finding signs of storm damage, though the damage wasn’t enough to justify an insurance claim. The contractors would then sue insurers for refusing payment, hoping to get a large settlement in court far beyond the cost of the roof. Even though Florida represented just 8% of national homeowners claims in 2019, it accounted for more than 76% of all litigation claims. “Carriers took big losses, and the money went to

attorneys, not to repair homes,” says Schlitt.

In 2023, Florida passed significant tort reform. There are signs that insurers are returning to the market, slowing down rate increases, and even reconsidering coverage for homes with older roofs, says Schlitt. For example, six new property insurers entered the Florida market in January. But there’s still a backlog. He expects it will take a couple of years for markets to stabilize.

## TIPS TO SAVE ON HOMEOWNERS INSURANCE

While changes to address regulatory and legal issues could help in markets that are facing those difficulties, the country is still dealing with more natural disasters. So what can you do to qualify for a more affordable policy?

**Use all possible discounts.** Insurers may offer discounts for paying your premium annually instead of monthly, switching to paperless statements, being a nonsmoker, being a loyal customer, avoiding claims for several years, and bundling your homeowners insurance with other policies, such as auto, boat and life.



**Keep your home safe.** Taking steps to protect your home can prevent costly claims and qualify you for other discounts. For example, insurers give credit for setting up a fire-alarm and home-security system. You could also set up leak-detection devices to catch flooding early. If your heating, plumbing and electrical systems are getting up there in age, consider replacing them for another discount. Finally, you could save by removing a dangerous “attractive nuisance,” such as a trampoline, pool or treehouse.

**Invest in home hardening.** Home-hardening renovations protect your property against the most severe local risks. In a fire zone, you could replace your roof, deck and walls with fire-resistant materials. In an area vulnerable to hurricanes, you might replace the roof with one more resistant to wind and leaks, buy a sump pump for the basement, and install

stormproof doors and windows.

“You see a photo after a hurricane. Five homes are flattened, while one looks untouched. These home-hardening methods work,” says Moran, from Florida PACE. Insurers may require these upgrades in especially risky areas. Making the investment increases your chances of qualifying for a policy and possibly getting better rates. (For information on programs that help homeowners pay for home hardening, see the box below.)

**Raise your deductible.** Increasing your deductible reduces your monthly premium, though you’ll pay more out of pocket when filing a claim. If you use this strategy, ensure you’ve saved enough cash in a “deductible fund” first, recommends Hagen, from Assurance IQ.

**Improve your credit score.** In some states, insurers can consider your credit score when setting insurance

premiums. By improving your credit, you can save on your home and auto insurance premiums. To boost your score, make your monthly loan and credit card payments on time, and limit your credit card balances to no more than 30% of your available credit.

**Don’t cancel coverage.** With the cost of insurance soaring, 16% of Americans are considering canceling their homeowners or renters insurance, according to a 2023 survey from Assurance IQ. “I would strongly urge consumers to rethink this decision. The long-term risk can outweigh the immediate financial gain,” says Hagen. Insurers consider whether you maintain ongoing coverage as a factor in their decisions. “Not only are you putting your home at risk, but going without insurance can hurt your ability to qualify in the future.” **M**

*For questions or comments, e-mail [feedback@kiplinger.com](mailto:feedback@kiplinger.com).*

## HELP WITH RENOVATIONS THAT COULD LOWER PREMIUMS

Coming up with the money for home-hardening renovations isn’t always easy. For example, a new roof might cost well over \$10,000. State government programs could help you pay for improvements.

**Florida.** The My Safe Florida Home Program provides cash grants to homeowners to strengthen roofs and upgrade doors, windows and garages. For every \$1 you spend on hurricane-mitigation measures, you could qualify for up to \$2 of additional government money to pay for the upgrades, up to a maximum of \$10,000. This program has limited funding each year and prioritizes low-income applicants. Applications are currently closed but will reopen with new funding on July 1.

With the Florida PACE program, you can borrow up to 100% of the cost of qualifying home improvements using a fixed-interest loan secured by your home. There is no credit check to qualify. The cost of paying the loan back is added to your annual property tax bill.

**California.** The California Wildfire Mitigation Program provides financial assistance to low- and moderate-income households to help pay for home-hardening upgrades against fire. It’s a pilot program in only a few counties, but the California government plans to expand it in the future.

**Oregon.** Oregon launched a Fire Hardening Grant program for

homes or businesses damaged by fire in 2020 and 2021. Eligible homeowners could receive up to \$6,000 in cash grants for fire-hardening improvements.

**FEMA flood-mitigation grants.** The Federal Emergency Management Agency offers annual grants to areas affected by severe flooding. State governments can apply for these grants and then provide funds to homeowners to invest in flood-mitigation improvements. For example, in 2022, Louisiana, Mississippi, New Jersey and Pennsylvania homeowners were eligible for \$60 million in grants under this program. Check with your state’s housing department to see whether FEMA funds are available.

# CLEAN UP YOUR CREDIT REPORTS

Complaints about errors have shot up. Here's why—and how to fix them.

BY SARAH BRADY

**H**AVE you looked at your credit reports lately? If you haven't, you might be in for a surprise.

Credit reports are notoriously prone to errors, but in the past few years the errors seem to be more ubiquitous and harder to fix. According to records from the Federal Trade Commission, the total number of consumer complaints regarding credit-report issues jumped more than fourfold between 2019 and 2023, from 165,000 to 711,802.

Yet that figure represents just a fraction of the problems people had with their credit reports. Research from the Consumer Financial Protection Bureau indicates that the nationwide consumer credit-reporting companies—Equifax, Experian and TransUnion—receive millions of disputes annually regarding the completeness or accuracy of information on credit reports.

**Why have complaints skyrocketed?** One reason is that there was a major uptick in identity theft from 2020 to 2022. This crime, which can leave a victim's credit in shambles, is responsible for the majority of credit-report complaints that consumers file.

At the same time, the public gained substantially greater access to free credit reports. Until 2020, the three credit-reporting companies granted consumers

only one free report per year, as they are required to do by law. But in response to the COVID-19 pandemic, the companies began providing free access once a week. The change has given consumers a chance to see and report credit damage much closer to real time.

**Why is it so difficult to fix your reports?** According to the Fair Credit Reporting Act, credit-reporting companies must assure “maximum possible accuracy” in your reports. But if you ask the companies to fix an error, they might tell you to take up the issue with the *furnisher*—that is, the credit card company, lender or debt collector that provided the information in question. That often makes sense, because furnishers are the ones responsible for providing information regarding credit card balances, monthly payments and other details about your debt. However, many times consumers report that a furnisher will simply refer them back to the credit-reporting company.

On top of that, *credit-repair* companies have muddied the waters for everyone. If you're on TikTok, you may have seen influencers promoting these businesses; there are more than 40,000 in the U.S. Many credit-repair companies are one-person operations, and they're operating in an industry filled with scammers. According to these companies, their main job is to help

customers by disputing negative information on credit reports. However, their services are superfluous because you can dispute incorrect information yourself. In fact, most people can file a dispute in just a matter of minutes—for free. Nonetheless, the growing credit-repair industry rakes in billions of dollars in annual revenue by promising to get accurate, negative information (say, a collection account for a debt the consumer truly owes) removed from credit reports and then inundating the credit-reporting companies with disputes and hoping something will stick.

**How do credit-reporting companies respond?** In short, they don't. The companies are not required to investigate “frivolous or irrelevant” disputes, and they generally ignore claims submitted by third parties. Unfortunately, anyone who uses a template to write their dispute letter or whose claim resembles a third-party submission in some other way could easily have their claim dismissed. In just one month in 2020, the Consumer Financial Protection Bureau found that about half of all legitimate disputes were dismissed for this reason.

On top of that, your options for recourse have become weaker. Despite giving consumers more free credit report access in 2020, Experian, Equifax and TransUnion adopted new policies the same year that made it easier to



dismiss disputes as third-party submissions. In cases in which the CFPB intervened, consumers got relief in less than 2% of complaints in 2021, compared with 25% in 2019.

**What should you do?** You might be tempted to give up before you even look at your credit reports, but there are more reasons than ever to keep a watchful eye on them. If you're not monitoring your reports, you might not discover damaging errors or identity theft until you have a mortgage application declined, you're turned down for rental housing or you fail a background check for a new job.

Instead of waiting for a credit report error to interrupt your plans, try reviewing your reports on a regular basis—and far in advance of applying for a new apartment or credit, so you have extra time to clean up any mess you may find.

For free weekly copies of all three of your credit reports, visit the federally authorized

website [www.annualcreditreport.com](http://www.annualcreditreport.com). While other free services, such as Credit Karma and CreditWise, can be useful for accessing your credit scores, AnnualCreditReport.com is the only place where you're guaranteed by law to see full copies of your reports from all three credit-reporting companies.

When you read your credit reports, look carefully for details that don't belong. If you've experienced identity theft, you might find accounts that aren't yours or "hard inquiries" for new accounts you didn't apply for. Other material errors to note include an incorrect Social Security number, a wrong date of birth, someone else's name appearing on your reports, or payments incorrectly reported as late.

You should include all of those errors on a list of items to dispute. You might find other, legitimate negative records you would like removed from your credit reports, such as paid-off collection debt or a recent bankruptcy, but the dispute process is meant to

↑  
**Instead of waiting for a credit report error to interrupt your plans, review your reports on a regular basis.**

rectify only inaccurate or incomplete information.

#### **Tips for a successful dispute.**

For each error in your credit reports, try to determine whether the credit-reporting company or the furnisher is the source of the problem. If, for example, the error pertains to a credit card account that rightfully belongs to you, the furnisher (in this case, the credit card company) is likely responsible and might resolve the issue if you reach out to it directly. If the furnisher refuses to correct the error, follow up by disputing it with the credit-reporting company. However, if the error pertains to your identity, or an account that doesn't belong to you appears on your report, start with the credit-reporting company instead. You should initiate a dispute with each credit-reporting company that shows the incorrect information.

Before you reach out to any party, though, gather any documents that support your claim. Useful documentation might include a copy of a bank statement showing your on-time payment; an identity theft report outlining how you were affected by a crime (go to IdentityTheft.gov to create the report); or an e-mail from a debt collector confirming a payment arrangement.

To find out where to file your dispute, take a look at the dispute disclaimer near the end of the credit report. You'll see that you have the option to contact the credit-reporting company online, by mail or by phone. The fastest way to file is online, but this option can limit your ability to provide details and makes it difficult to prove that you even filed. For those reasons, the safest option is to submit your dispute by certified mail,

with a return receipt requested.

When you write out the details of your dispute, make sure to include the consumer identification or report number on the credit report, details that identify each account in question, and a clear statement of what needs to be fixed. While referring to a template letter for disputes can give you an idea of how to format your letter, it's best to use your own words because boilerplate language might get your dispute flagged as a third-party submission. To increase the chances that your dispute will be successful, send copies of your dispute documents directly to the furnisher via certified mail as well.

Once you file a dispute, the credit-reporting company has up to 45 days to contact the furnisher and investigate your claim. During that time, the credit-reporting company might request more information from you. Once the investigation ends, the company has four business days to block items on your reports that resulted from identity theft, as long as you submit proof

of your identity, a copy of an identity theft report and a statement clarifying which info does not belong on your reports. In total, a credit-reporting company has five days to inform you of its decision. If a furnisher fixes an error as a result of your dispute, that furnisher has to provide each of the credit-reporting companies with updated information.

**What comes after a dispute?**

Even if you take all the right steps when you file a legitimate dispute, it could be dismissed. Plenty of valid disputes appear to be ignored by the credit-reporting companies, and unfortunately, there isn't a big fix on the horizon. However, if you disagree with the decision, there are additional actions you can take.

Although filing a complaint with the CFPB appears to have become less effective in providing relief, it may still be worth a try. The CFPB shares complaints with the corresponding credit-reporting company or furnisher, and that party must respond within 60 days. You can submit complaints about credit-reporting

issues at [ConsumerFinance.gov](http://ConsumerFinance.gov) or by calling 855-411-2372.

You can also add a written statement to your credit report to explain the error (you submit your statement directly to the reporting company). Adding a statement won't fix the error or improve your credit scores, but creditors may see it when they review your reports in the future. Just be sure to note when the negative item is due for removal from your report, because you'll need to delete your statement after that date. If you don't, you could end up unnecessarily alerting future creditors to a past credit problem.

For unresolved errors that significantly damage your credit scores or make it difficult to qualify for new credit, further action may be warranted. If the credit-reporting company or the furnisher has failed to fix outdated, incorrect or unverifiable information in your reports, you may be able to file a lawsuit against them.

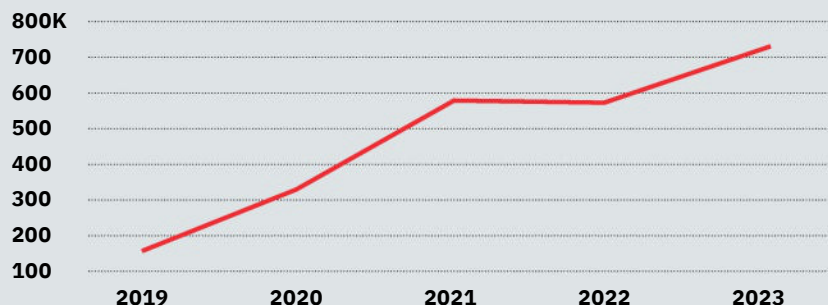
In 2020, Lisa Hill-Green did just that. After Experian dismissed two of her legitimate disputes, Hill-Green brought a class-action lawsuit against the company on behalf of herself and some 10 million other consumers who'd been affected. In 2023, Experian settled the suit for a reported \$22.45 million.

To find out whether you have a legal case against a credit-reporting company, consult an attorney. Contact the American Bar Association ([www.americanbar.org](http://www.americanbar.org) or 800-285-2221) or visit [ConsumerAdvocates.org](http://ConsumerAdvocates.org) to find an attorney who has experience handling credit-reporting cases. **📌**

*For questions or comments, please send an e-mail to [feedback@kiplinger.com](mailto:feedback@kiplinger.com).*

**A DRAMATIC RISE IN CREDIT-REPORT COMPLAINTS**

Over the past several years, the number of consumer complaints to the government involving credit reports has more than quadrupled. An increase in identity theft and the expansion of free access to credit reports—allowing consumers more opportunity to catch problems—have contributed to the climb.



SOURCE: Federal Trade Commission

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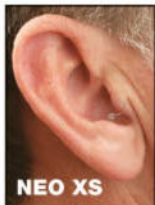
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At 50% smaller than our previous model, the NEO XS measures only 15mm long and is virtually invisible. And, at only \$397 for a pair, you won't find a better hearing aid.



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for a pair



Actual size

OR

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NEO

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# BOUNCING BACK FROM A NATURAL DISASTER

KIPLINGER ADVISOR COLLECTIVE BY LYNNETTE KHALFANI-COX

**A**N unprecedented number of major natural disasters struck the U.S. in 2023, with a record 28 weather or climate disaster events incurring losses that topped \$1 billion each, according to the National Centers for Environmental Information. The disasters, including Hurricane Idalia in Florida and wildfires in Hawaii, claimed the lives of hundreds of people, and countless homes, businesses, cars and other personal property were ruined.

As we enter the season when natural disasters commonly hit the U.S., now is a good time to review what to do in the aftermath in case you're caught up in one of these events.

**Put your physical and mental health first.** Focus on your physical and emotional well-being, then concentrate on financial matters. To protect yourself and your family, you may have to evacuate to a designated area or move to a safe location within your home. To cope emotionally, lean on connections such as neighbors, community-based organizations, friends, family and mental health professionals.

**Document the damage.** Once it's safe to do so, take photos and videos of the damage to your property and belongings. Get estimates for repairs and replacements. Keep all receipts. This documentation is crucial for filing insurance claims and applying for disaster aid. Also create an inventory of damaged or destroyed items, noting brand names, purchase dates and estimated values. Save copies of the documentation in online storage or at another safe location.

**File insurance claims immediately.** Notify your insurance company of any property damage or loss. Provide documentation and push for fair reimbursement for repairs, replacements and temporary living expenses. Understand what your policy covers, what exclusions exist and how to advocate for your needs. If an initial settlement offer from an insurance company seems low, be prepared to negotiate and provide evidence to justify a higher amount. Get any denials or discrepancies addressed in writing.

**Apply for FEMA disaster assistance.** The Federal Emergency Management Agency provides grants and

low-interest loans to help disaster victims recover. You may get assistance with housing, repairs, medical costs and more. Apply as soon as possible for FEMA assistance online at [DisasterAssistance.gov](https://DisasterAssistance.gov), via the FEMA mobile app or by calling the FEMA helpline at 800-621-3362.

**Get help from nonprofit groups.** Religious groups and community organizations may have funds or volunteers to make repairs to your home, replace belongings or meet other needs. Seek out a local Red Cross agency ([www.redcross.org](https://www.redcross.org)), which can provide cash assistance for food, clothing or shelter. You can also contact disaster help groups such as Team Rubicon (<https://teamrubiconusa.org>) and the National Voluntary Organizations Active in Disaster ([www.nvoad.org](https://www.nvoad.org)).

**Contact utility providers and lenders.** Request payment plans, waived late fees or new due dates, if needed. Lenders may offer reduced payments or loan modifications after disasters. Stay in communication with them to avoid any unpaid debt going to collection and damaging your credit rating.

**Trim expenses where possible.** If the effects of a natural disaster are straining your finances, reduce discretionary expenses, such as cable bills and dining out. Try calling providers to negotiate lower rates. **K**



**LYNNETTE KHALFANI-COX** is CEO of TheMoneyCoach.net LLC, author of *Bounce Back: The Ultimate Guide to Financial Resilience* and a member of the Kiplinger Advisor Collective, a professional organization for personal finance advisers, managers and executives.



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# Fighting Credit Card Late Fees

BY ELLA VINCENT

**T**HE Consumer Financial Protection Bureau has finalized a rule that caps fees for late credit card payments at \$8, a significant reduction from the recent average of \$32. The rule faces legal challenges from banking and business groups, including the American Bankers Association and the U.S. Chamber of Commerce. Among other claims, the groups argue in a lawsuit that the rule prevents card issuers from charging fees that are high enough to deter customers from making late payments.

Regardless of whether the CFPB rule survives, you can take steps to avoid late payments altogether. “Let technology help you,” says Matt Schulz, chief credit analyst at LendingTree and author of *Ask Questions, Save Money, Make More*. Set up alerts through your card issuer’s phone

## RATE UPDATES

**For the latest savings yields and loan rates, visit [kiplinger.com/links/rates](https://kiplinger.com/links/rates). For top rewards cards, go to [kiplinger.com/kpf/rewardscards](https://kiplinger.com/kpf/rewardscards).**

app or by e-mail or text message to notify you of upcoming payment due dates. Or implement automatic transfers from your bank account to pay your credit card bill by the due date each month. Periodically log in to your online account to make sure the payments are correctly processed.

**What to do if you pay late.** If your payment is 30 days or more past due, the card issuer will likely share with the nationwide credit-reporting companies (Equifax, Experian and TransUnion) that the account is delinquent—and that will damage your credit score. So make sure to pay an overdue bill as soon as possible.

The issuer may waive a late fee upon request, especially if you’re a longtime customer or otherwise have a clean payment record. “Negotiate with your credit card issuer. They don’t want to lose you as a loyal customer,” says Schulz. **■**

Reach the author at [Ella.Vincent@futurenet.com](mailto:Ella.Vincent@futurenet.com).

## TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of March 26	Minimum investment	Website
Gabelli U.S. Treasury MMF (GABXX)	5.41%	\$10,000	gabelli.com
DWS Govt & Agency MF (DTGXX)*	5.39	1,000	fundsus.dws.com
T. Rowe Price Cash Res (TSCXX)*	5.29	2,500	troweprice.com
Columbia Govt MMF (IDSXX)*	5.28	2,000	columbiathreadneedleus.com

Tax-Free Money Market Mutual Funds	30-day yield as of March 25	Tax eq. yield 24%/35% bracket	Minimum investment	Website
Fidelity Municipal MMF (FTEXT)	3.18%	4.18%/5.20%	\$1	fidelity.com
BNY Mellon Ntl Muni (MOMXX)	3.13	4.12/5.11	10,000	bnymellon.com
Amer Cent T-F MMF (BNTXX)	3.08	4.05/5.03	2,500	americancentury.com
Fidelity Tax-Exempt MMF (FMOXX)*	3.07	4.04/5.02	1	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of April 1	Minimum amount	Website
My Banking Direct (N.Y.)†	5.35%	\$500	mybankingdirect.com
Brilliant Bank (Kan.)†#	5.33	1,000	brilliant.bank
Vio Bank (Okla.)†#	5.30	100	viobank.com
Newtek Bank (Fla.)†	5.25	0	newtekbank.com

Certificates of Deposit 1-Year	Annual yield as of April 1	Minimum amount	Website
CFG Bank (Md.)	5.40%	\$500	cfg.bank
Alliant CU (Ill.)†&	5.40	1,000	alliantcreditunion.org
First Flight FCU (N.C.)&	5.38	10,000	efirstflight.com
TotalDirectBank (Fla.)†	5.35	25,000	totaldirectbank.com

Certificates of Deposit 5-Year	Annual yield as of April 1	Minimum amount	Website
Credit Human (Texas)&^	4.70%	\$500	credithuman.com
First Internet Bank (Ind.)†	4.55	1,000	firstib.com
First Nat Bank of America (Mich.)†	4.53	1,000	fnba.com
Pima FCU (Ariz.)&	4.50	250	pimafederal.org

\*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. &Must be a member; to become a member, see website or call. ^CD term is 36 to 59 months. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

## TOP-YIELDING CHECKING

Must meet activity requirements\*

Account Issuer	Annual yield as of April 1	Balance range^	Website
Pelican State CU (La.)&	6.05%	\$0–20,000	pelicanstatecu.com
Andrews FCU (Md.)&	6.00	0–25,000	andrewsfcu.org
Oklahoma Central CU (Okla.)&	6.00	0–10,000	oklahomacentralcreditunion
Orion FCU (Tenn.)&	6.00	0–10,000	orionfcu.com

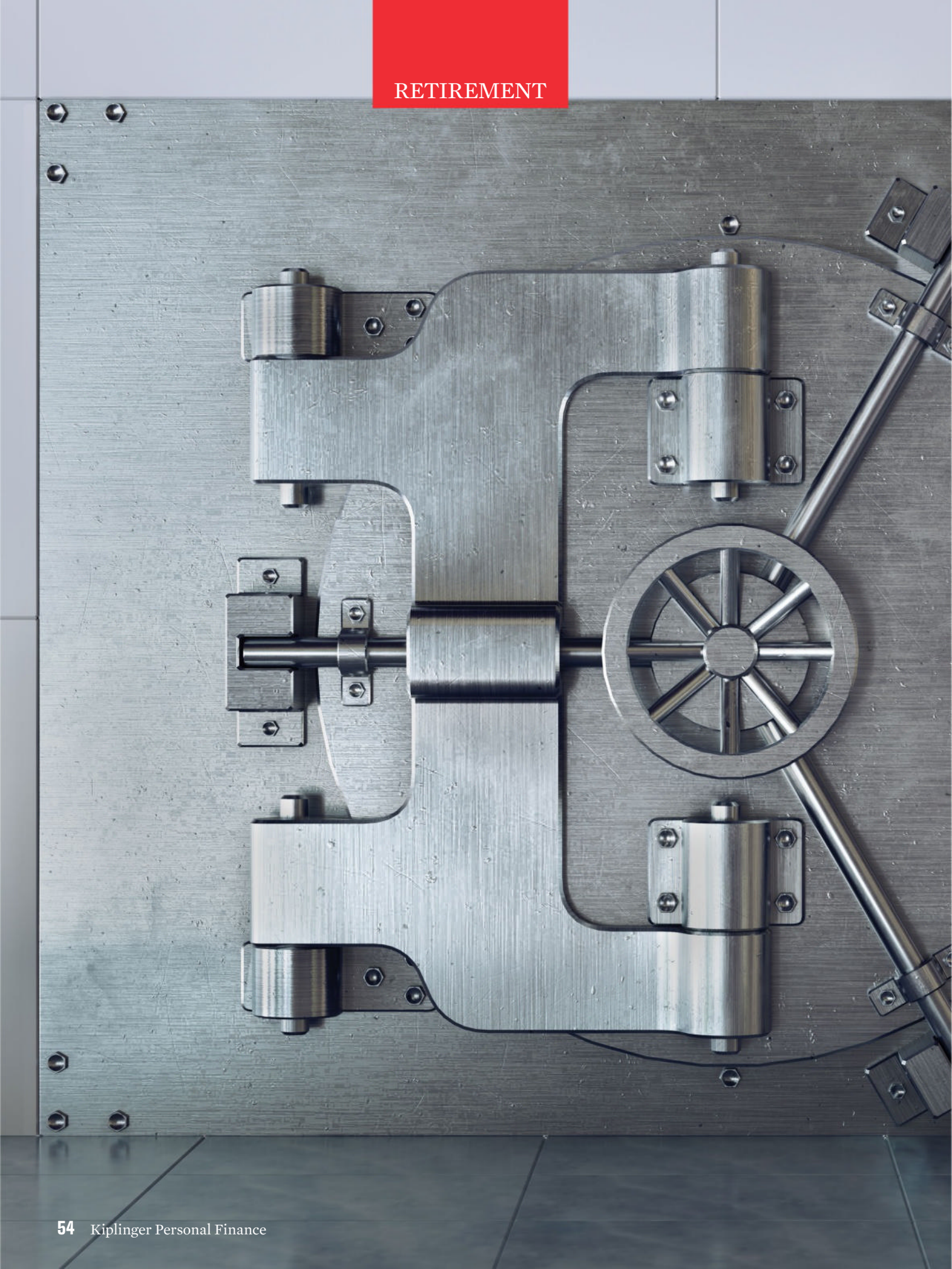
\*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. ^Portion of the balance higher than the listed range earns a lower rate or no interest. &Must be a member; to become a member, see website. SOURCE: DepositAccounts.

## YIELD BENCHMARKS

	Yield	Month ago	Year ago
U.S. Series EE savings bonds	2.70%	2.70%	2.10%
U.S. Series I savings bonds	5.27	5.27	6.89
Six-month Treasury bills	5.36	5.27	4.94
Five-year Treasury notes	4.34	4.17	3.60
Ten-year Treasury notes	4.33	4.19	3.48

As of April 1, 2024. EE savings bonds purchased after May 1, 2005, have a fixed rate of interest. Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase. Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase. Source for Treasuries: U.S. Treasury

RETIREMENT







# 5 WAYS TO CATCH UP ON RETIREMENT SAVINGS

If you're in your highest-earning years, you can make up for lost time.

BY SANDRA BLOCK

**Y**OU'VE no doubt heard from multiple sources (including Kiplinger) that the key to retirement security is to save early and often. Thanks to the value of compound interest, even small contributions to a 401(k) or other retirement savings plan when you're starting out will add up significantly over time.

However, there's math and then there's reality. Young workers have multiple demands on their finances, from student loan payments to the rising cost of child care. It's not unusual for individuals in their twenties and thirties to put their savings on hold, or limit the amount of their contributions, until those obligations begin to diminish and they reach their highest-earning years.

But just as it's never too late to start strength training, it's never too late to save for retirement. Here are some strategies you can use to turbocharge your savings.

### **CATCH-UP CONTRIBUTIONS**

The easiest way to ramp up your retirement savings is to make catch-up contributions to your 401(k) or other employer-provided plan. In 2024, if you're 50 or older, you can contribute an extra \$7,500 in addition to the \$23,000 maximum 401(k) contribution, for a total of \$30,500. If you have a traditional IRA or Roth IRA, you can contribute an additional \$1,000 beyond the standard \$7,000 limit for those younger than 50, for a total contribution of \$8,000 in 2024.

If your employer-provided plan offers a Roth 401(k)—and most large plans do—consider dedicating at least a portion of your catch-up contributions to that account, especially if you already have a large balance

in a tax-deferred plan. Although contributions to a Roth 401(k) are after-tax, withdrawals are tax-free as long as you're 59½ or older and have owned the account for at least five years. And you can contribute to a Roth 401(k) regardless of your income level. By contrast, to be eligible to contribute the maximum amount

to a Roth IRA in 2024, your modified adjusted gross income (adjusted gross income with certain deductions added back) must be less than \$146,000 if you're single or less than \$230,000 if you're married and file jointly. Contributions begin phasing out above those amounts, and you can't put any money into a Roth IRA once your income reaches \$161,000 if you're single or \$240,000 if you're married and filing jointly.

In the past, you had to take required minimum distributions from Roth 401(k) plans when you reached the age that triggers RMDs for traditional IRAs and 401(k)s (currently 73). But the law known as SECURE Act 2.0, a broad package of changes to rules governing retirement and retirement savings plans, eliminated that requirement, effective this year.

Starting in 2026, some workers who want to make 401(k) contributions may have to put some of them



in a Roth 401(k), whether they like it or not. A provision in SECURE Act 2.0 will require workers age 50 or older who earned \$145,000 or more in the previous year to funnel catch-up contributions to Roth 401(k) plans. The change was originally scheduled to take effect this year, but the IRS postponed implementation of the rule after plan providers and employers—particularly those who don't yet offer a Roth 401(k)—said they needed more time to prepare. (For more, see “A Disappearing Tax Deduction,” Nov. 2023.)

### AFTER-TAX CONTRIBUTIONS

If you've maxed out on catch-up contributions (or you aren't yet old enough to make them), you may want to consider making after-tax contributions to your 401(k), assuming your employer allows them. In 2024, you can save up to \$69,000 in combined employee and employer contributions, or \$76,500 if you're 50 or older.

Like contributions to a Roth 401(k) (or Roth IRA), contributions are after-tax, but earnings are only tax-deferred; you'll pay taxes on them at ordinary income tax rates when you take withdrawals. Given that, you may be wondering why you'd use this strategy instead of simply investing extra savings in a taxable brokerage account (which we'll discuss later).

Here's why: With a strategy that has been dubbed the “mega backdoor Roth IRA,” you may be able to convert those after-tax contributions to a Roth IRA or, if your plan offers one, a Roth 401(k). Once the money is in a Roth, earnings will grow tax-free, and withdrawals will be tax-free as long as you're 59½ and have owned the Roth for at least five years. And you won't be required to take RMDs from the account. “That's the promised land,” says Ed Slott, founder of IRAhelp.com. “It's way better off than a brokerage account.”

Now for the caveats, and there are quite a few. First, your plan must

allow both after-tax contributions and what's known as in-service distributions, which allow employees to withdraw funds from their plans while they're still working. While the IRS permits after-tax contributions and in-service distributions, plans aren't required to provide them. Only about one-fourth of companies allow after-tax contributions, although it's more common among large employers.

An even bigger hurdle is the IRS nondiscrimination rule, which limits the amount some high earners can contribute to their 401(k) plans. The IRS requires 401(k) plans to pass certain tests to ensure that the plan doesn't favor highly compensated employees over lower-paid workers.

**If you've maxed out on catch-up contributions (or you aren't yet old enough to make them), you can make after-tax contributions to your 401(k), assuming your employer allows them.**

Plans are subject to two anti-discrimination tests, one that measures pre-tax and Roth contributions by both types of employees, and a second that measures employer matches, profit-sharing and after-tax contributions. Because highly paid employees are typically the only workers who can afford to make after-tax contributions, it's difficult for many companies—especially small and medium-size businesses—to pass the second test, says Ian Berger, an IRA analyst with IRAhelp.com.

These restrictions don't apply to solo 401(k) plans, which are primarily used by self-employed business owners, Berger notes. Participation in a solo 401(k) plan is limited to the business owner (and in some instances, his or her spouse), so the anti-discrimination rules don't apply. If your plan allows it—and not all solo 401(k) plans do—you can make after-tax contributions up to the maximum allowed and do an in-plan Roth con-

version or roll over the funds into a Roth IRA (see the box on page 59 for more on retirement plans for the self-employed).

The mega backdoor Roth has been in the political crosshairs since news reports revealed that PayPal co-founder Peter Thiel used the strategy to shield billions of dollars in shares of a pre-initial public offering from taxes, potentially forever. Lawmakers have proposed prohibiting individuals from converting after-tax contributions to a Roth, but none of the initiatives have been enacted into law.

Because the mega backdoor Roth is complex—and not for everyone—consider consulting with a certified financial planner who has experi-

ence working with high-income investors to determine whether this strategy is right for you.

### BROKERAGE ACCOUNTS

Taxable brokerage accounts are sometimes overlooked as retirement savings tools because they're, well, taxable. But there are solid arguments for adding a brokerage account to your retirement toolkit, particularly if you've taken advantage of all of the available tax-advantaged accounts.

Funds invested in a taxable account are unencumbered by early-withdrawal penalties, making them a good option for someone who wants to retire early (although if you're behind on retirement saving, that may not be realistic). You don't have to take distributions after you reach a specific age as you do with traditional IRAs. And unlike tax-advantaged accounts, taxable brokerage accounts don't come with annual limits on the amount you can invest.



### **If your goal is to leave a legacy, a taxable account could provide an important component of your estate plan.**

Although gains on your investments are taxable, you can take steps to minimize the tax bill. As long as you hold investments in your taxable account for more than a year, gains will qualify for a long-term capital gains rate that's likely lower than your income tax rate—the rate that applies to short-term gains for investments held in your account for one year or less. Most taxpayers pay 15% on long-term capital gains, and if your taxable income is low enough—in 2024, \$47,025 or less if you're single or \$94,050 or less if you're married and file jointly—you qualify for a 0% rate on long-term capital gains. (Single filers with taxable income of more than \$518,900 and joint filers with income of more than \$583,750 are subject to the maximum 20% rate; those with income that falls between the 0% and

20% thresholds pay the 15% rate.)

When determining how to invest funds in a mix of taxable and tax-advantaged accounts, you can lower your overall tax bill by using a strategy known as asset location. Exchange-traded funds are good choices for your taxable accounts, because many are index funds, which tend to generate less in capital gains distributions compared with actively managed mutual funds. Even active ETFs tend to be more tax-efficient than mutual funds because of the way they are structured.

Because interest payments from municipal bonds and municipal bond funds are often exempt from federal taxes—and in some cases from state and local levies—munis are also good choices for your taxable account.

Meanwhile, other bonds and bond funds are better candidates for your tax-deferred accounts because inter-

est is taxed at your ordinary income tax rate, which could be as high as 37% if you're earning a high income. Sheltering interest-generating investments in your tax-deferred accounts will enable you to postpone paying taxes on that money until you retire and start taking withdrawals. Actively traded mutual funds that throw off a lot of taxable capital gains distributions are also better suited for your tax-advantaged accounts. Funds that offer the potential for a high rate of return, such as those that invest in small- and mid-capitalization stocks, are good candidates for your Roth accounts because you'll be able to take advantage of long-term, tax-free growth.

If your goal is to leave a legacy, a taxable account could provide an important component of your estate plan. On the day you die, your investments will receive what's known as a step-up in basis, which means the cost basis of the investments—the amount you paid for them—will be adjusted to their current market value. If your heirs turn around and

sell the investments, they'll owe little or no tax on those appreciated assets.

### HEALTH SAVINGS ACCOUNTS

Health savings accounts are primarily viewed as a way to cover your unreimbursed medical expenses, but they also provide a tax-advantaged way to save for health costs in retirement.

Contributions to an HSA are pretax (or tax-deductible if your HSA is not provided through your employer), funds grow tax-free, and withdrawals are tax-free as long as the money is used for eligible health care expenses. If you have an individual health insurance plan, you'll be allowed to contribute up to \$4,150 in 2024. For family coverage, you can contribute up to \$8,300. If you'll be 55 or older at the end of the year, you can put in an extra \$1,000 in catch-up contributions.

To qualify for an HSA, your health plan must have a deductible of at least \$1,600 for individual coverage or \$3,200 for a family plan. The plan must limit out-of-pocket expenses to \$8,050 for self-only coverage or \$16,100 for family coverage.

If you have enough disposable income to pay for your current health care expenses out of pocket and avoid taking withdrawals from your HSA, you can get the most out of your HSA's triple tax advantage, says Nilay Gandhi, a certified financial planner and senior wealth adviser with Vanguard Group. As long as you invest at least a portion of your HSA funds in the stock market—an option that most large plans offer—the money will grow tax-free, and withdrawals will be tax-free as long as the money is used for qualified expenses.

You can use HSA funds to pay for medical costs that Medicare doesn't cover, as well as monthly premiums for Medicare Part B and Part D and Medicare Advantage plans. You can also use distributions to pay a portion of long-term-care insurance premiums; the amount you can withdraw tax-free depends on your age. Once you turn 65, you can take penalty-free withdrawals for non-medical purposes, although you'll pay taxes on the money (non-medical withdrawals before age 65 are subject to taxes and a 20% penalty). Unlike IRAs, though, there are no required minimum distributions for HSAs, so you can allow the funds to grow throughout retirement. **■**

*You can contact the author at [Sandra.Block@futurenet.com](mailto:Sandra.Block@futurenet.com).*

### WHEN YOU'RE THE BOSS

## USE YOUR SIDE HUSTLE TO SAVE MORE

If you have a side gig or own a business, you can funnel more of your income into tax-advantaged accounts, even if you have a 401(k) plan through your day job.

A SEP IRA allows individuals with freelance, consulting or other types of self-employment income to set up IRAs for themselves and their employees (if they have them). For 2024, you can contribute the lesser of 20% of your net income from self-employment or \$69,000 to a SEP IRA. As long as your SEP IRA and employer-provided 401(k) are unaffiliated, you can save up to the maximum—including after-tax contributions—in both, for a total of \$138,000 in 2024, or \$145,500 if you're 50 or older (SEP IRAs don't allow catch-up contributions).

Even if you don't expect to invest anywhere near that much in your

SEP, the account provides a convenient and tax-advantaged way to supplement your retirement savings. A SEP is straightforward to set up, easy to maintain and widely available from financial services firms. Legislation enacted in 2022 allows SEP providers to offer a Roth option, but it may be a while before providers make the administrative changes necessary to offer a Roth SEP IRA.

Another option is a solo 401(k), which is designed for businesses in which the only employee is the owner (and possibly a spouse). The solo 401(k) has a dual contribution structure. As an employee, you can make elective deferrals up to the standard 401(k) limit, which is \$23,000 in 2024, with catch-up contributions of up to \$7,500, allowed for those 50 and older. As

an employer, you can also contribute up to 25% of your compensation. The combined total cannot exceed \$76,500.

If you have a solo 401(k) and an employer-provided 401(k), you can't double up on employee contributions. Employee contributions are capped at the maximum allowed for employee deferrals—\$23,000 in 2024, plus catch-up contributions. (This rule also applies if you contribute to two employer-provided plans.) For example, if you are younger than 50 and contribute \$23,000 to your employer-provided plan, you may be unable to make employee contributions to your solo 401(k). However, you could still make employer contributions in your solo 401(k) of up to 25% of your compensation, up to the maximum amount.

# Fundamentals

## FIVE GREAT TOOLS FOR DIY INVESTORS

Get help picking stocks or funds, managing your portfolio, and more.

**PRACTICAL PORTFOLIO BY KIM CLARK**

**D**O-it-yourself investors may not have the backing of a big Wall Street firm when it comes to managing their portfolio, but plenty of free tools are available that can make it seem that way. Of course, you have to be picky about the sources of investing tools and research. You can find a lot of bad actors on the web. And many sites offer great-sounding free tools that quickly turn into pestering sales pitches. So we gathered recommendations from professional investors and veteran Wall Street watchers and did our own tests to find free tools that provide real help without being too annoying. Here are five worth exploring.

**Portfolio tracker: EquityStat.** It takes only a few seconds to register for EquityStat.com. Once you're in, you can quickly build your portfolio. Just enter the names or symbols of your stocks, bonds or funds and the date you purchased each of them. EquityStat will calculate total returns over various time frames and supply more than 30 other measures, including yield, valuation and more. You can use the site to generate IRS Form 8949, detailing your securities sales over the year, or get shareable summaries so you can brag (or complain) about your portfolio to friends or on social media.

Rob Berger, a retired securities attorney and investment vlogger, appre-

ciates the clean and simple interface. There are no ads or prods to sign up for a paid version. Karl Swierenga, owner of the site, says that's because EquityStat has been a labor of love since he launched it in 2015. The site doesn't sell user information or make any effort to profit from users. Swierenga's long-term plan is to charge for some services or host ads. But he says the soonest that might happen would be December 2024.

of factors, such as management fees, minimum investment size, and ratings and classifications from research firm Morningstar.

Investors can also type in the names or symbols of up to three funds to get head-to-head comparisons of fees and historical returns. Christopher Cybulski, a certified financial planner based in Austin, Texas, recommends the site to his clients who are do-it-yourself types.

### THERE ARE A LOT OF BAD ACTORS ON THE WEB, SO BE PICKY ABOUT YOUR SOURCES OF INVESTING TOOLS AND RESEARCH.

**Fund screener: Finra Fund Analyzer.**

One of the most powerful tools is also one of the easiest and safest to use. The Financial Industry Regulatory Authority, the self-regulatory body for the brokerage industry, has created a comprehensive search tool that allows you to screen for just about any type of mutual or exchange-traded fund, and you don't have to register to explore it. Go to [https://tools.finra.org/fund\\_analyzer](https://tools.finra.org/fund_analyzer), enter the kind of fund you're looking for (one specializing in energy shares, say, or perhaps value-priced stocks) into the search box at the top, and Finra will search its database of some 28,000 exchange-traded products and mutual fund share classes to find a match for your terms. You can screen the results for a variety

"It is simple to use, and it is not biased," he says. Nor is it a front for marketing. He also likes the way the analyzer offers what he considers to be the most important data—especially performance and expenses—but doesn't overwhelm users with the minutiae offered by costly professional sites. "Not every piece of information is valuable," he says.

**Stock screener: FinViz.** The landing page at FinViz.com is packed with red and green graphs and small-type tables that may appear somewhat daunting. But it's worth taking a few minutes to click over to the screener tab and start exploring the powerful 76-factor stock screening options. For example, you can select a list by



sector, dividend yield, company size, and how much upside analysts see from a stock's current price. You can also sort your list by all kinds of valuation and financial strength ratios, including price-earnings, price-earnings divided by earnings growth (also known as the PEG ratio), and debt-to-equity. The free site doesn't require a sign-in. It is advertising-supported, so ads pop up frequently. And some tools that you might want to use, such as a back-testing option, are behind a paywall.

**Portfolio analyzer: Portfolio Visualizer.** You don't have to register to use the free portfolio analysis tools at [PortfolioVisualizer.com](https://PortfolioVisualizer.com). The site has a lot of handy tools for testing out various portfolios. Matteo Hoch, a financial planner in Las Vegas, says the site is his favorite free investing tool because it is easy to quickly enter a list of stocks or funds and then test the portfolio to see how it would have performed in the past, or how it might perform under market stress. The free opti-

mization tool, for example, will show how to adjust your holdings to reduce expected volatility. You can also run free "Monte Carlo" simulations, which test out a portfolio's performance over hundreds of possible economic and market environments, allowing you to estimate how long your money would last under different withdrawal scenarios. The site reserves some useful options, such as being able to save or export your optimization tests, for its paid versions.

**Asset allocation: Research Affiliates Asset Allocation Interactive.** Many investment research firms reserve their data and models for paying customers. Research Affiliates, however, has hosted its free tool for about a decade (<https://interactive.researchaffiliates.com/asset-allocation>). It focuses on how best to divvy your money among asset classes and investing styles, but not individual stocks, bonds or funds. The tool's basic scatterplots and graphs don't require a login.

But you do need to register to explore other tools, such as one that shows past returns, including adjusting for inflation, of portfolios with different weightings of, say, large U.S.-based companies, small companies based in emerging markets, or various bond and commodity options. You can also view your portfolio's expected volatility and returns according to the firm's models.

Although Christopher Sidoni, chief investment officer of Pennsylvania-based Gibson Capital, LLC, has access to many expensive professional investment tools, he often uses the free Research Affiliates site because it provides otherwise hard-to-find analyses of foreign markets and allows him to check his recommendations against the firm's well-regarded prediction models. For example, the tool's valuation-based model currently predicts that large U.S. companies, which enjoyed spectacular stock price increases in late 2023 and early 2024, will return an average of less than 1% per year after inflation over the next decade. Alternatively, the model based on dividend yields and expected growth predicts a more bullish 4% inflation-adjusted annual return. Both models see higher returns from emerging markets, where stocks on average trade at less than 12 times their expected earnings per share—far below the average of 22 for the S&P 500 index.

The site doesn't offer any premium services. And it has no ads—even for funds based on Research Affiliates' recommended strategies. That's because the site is just aimed at making people aware of the firm's work, and, says Jim Masturzo, chief investment officer for multi-asset strategies, "part of our mission is investor education." ■

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# Prenups: Not Just for Celebrities

A prenuptial agreement helps protect your assets in a divorce.

**FAMILY FINANCES BY ELLA VINCENT**

**P**RENUPTIAL agreements are popular with wealthy celebrities, but plenty of ordinary couples are taking steps to protect their assets in case their marriage ends in divorce. Some 20% of American couples have a prenup, and 50% of Americans said they support the use of prenups, according to a 2023 Harris Poll, up from 42% in 2022.

Julia Rodgers, a family law attorney who co-founded Hello Prenup ([www.helloprenup.com](http://www.helloprenup.com)), a website that helps users create a do-it-yourself prenuptial agreement, says a prenup is particularly important for couples who

have children from a previous marriage. Baby boomers will leave an estimated \$80 trillion in assets to their millennial and Generation Z children through 2045, according to Cerulli Associates, a research and consulting firm. “If you want to keep your wealth in the family and not lose it in a divorce, you should protect it with a prenup,” Rodgers says.

If your marriage ends and you don’t have a prenup, a divorce court determines how your assets will be divided, and divorce laws vary by state. “By having a prenup, you decide the rules for yourself,” Rodgers says. “Without a prenup, you’re letting the state decide for you.”

**Prenup essentials.** In a prenuptial agreement, each person must disclose all of their financial information, including assets and debts. Assets that should be listed in a prenup include bank accounts, investments, real estate, small-business holdings, jewelry and other valuables. Assets designated as separate property in the prenup can’t be divided with your spouse in the event of a divorce. Assets that aren’t designated as separate will be considered marital, or community, property and split 50-50 in a divorce. Although your Social Security payments are not considered community property, you can use the prenup to protect retirement plans and accounts such as pensions, 401(k)s and IRAs, says Kristen Marinaccio, a family law attorney with Brach Eichler LLC in Roseland, N.J.

Amanda Singer and Brad Farrow, who were married in 2020, decided to keep their retirement accounts as separate property in their prenup but designated their investment accounts as community property. Singer, a family law attorney in San Diego, says their prenup also stipulates that the percentage of her business that’s designated as community property will increase every five years that the couple is married.

In addition to determining how to divide assets, a prenup can help you split up your debts. If you and your future spouse don’t want to be liable for each other’s student loans, credit card balances and other debts in the

**Beyoncé and Jay-Z, whose combined net worth tops \$1 billion, have an extensive and well-documented prenup.**





event of a divorce, your prenup can clarify that you want to keep your debts separate.

**Spousal support.** If you earn more than your spouse or vice versa, you can specify in your prenup how much support the lower-earning spouse will receive if you divorce. You can also spell out whether the support will be provided in a lump sum or monthly payments, along with how long you'll need to be married before a specific amount of support is provided, Marinaccio says.

Singer and Farrow's spousal support agreement is based on a percentage of the difference in income between the higher- and lower-earning spouse. For example, if the difference between their salaries is \$30,000, the lower-earning spouse could get 10% of the difference, or \$3,000 a month, in spousal support. They also limited how many years spousal support will be provided, based on a percentage of the number of years they're married. If they divorce after 20 years, for example, the lower-earning spouse can only collect spousal support for 10 years.

Child support or child custody

can't be included in a prenup because that must be settled by a family court judge. You also can't include day-to-day non-financial matters, such as how to divide chores.

If your marriage ends and you're unhappy with the terms of the prenup, you can contest it in a family court. The court can void the prenup if it finds that the agreement gives one of the divorcing spouses an unfair advantage, Marinaccio says. However, challenging a prenup is difficult. In most cases, you must demonstrate that it would leave you destitute or that you signed it under duress.

Once you've drawn up a prenup, both you and your partner should sign it, and you should also have it notarized. In some states, such as Florida, an attorney must review the prenup in order for it to be valid.

#### **Prenups can cross state lines.**

If you live in one of the nine community-property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin), a prenup can override community-property laws that require you to split your assets

and debts 50-50 in a divorce. A prenup will also override laws in states that require equitable distribution of assets based on both partners' incomes.

If you're planning to move after your marriage, you can include a "choice of law" clause that lets you choose which state will enforce your prenup. For example, if you sign your prenup in New York and stipulate that you want your prenup enforced under that state's prenup law, the prenup will be enforced according to New York law even if you divorce after moving to New Jersey.

In addition, the Uniform Premarital Agreement Act can help you make your prenup binding in multiple states. The UPAA has been enacted in 28 states and Washington, D.C. (find the full list of states at [www.prenuppros.com/uniform-premarital-agreement-act](http://www.prenuppros.com/uniform-premarital-agreement-act)). The act creates a unified standard for prenups that can be enforced in participating states. You should consult a lawyer to see how each state will interpret your prenup, especially if you live in a state that hasn't enacted UPAA. **K**

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#### **PRICE TAG**

### **What a Prenuptial Agreement Costs**

Hiring a family law attorney to draw up a prenuptial agreement can cost from \$1,000 to \$10,000, depending on the complexity of the contract. Hello Prenup ([www.helloprenup.com](http://www.helloprenup.com)) charges \$599 per couple, plus \$50 for notarization, for a program that guides

you and your intended spouse through detailed questionnaires about your assets, debts, inheritances and more. You can ask an attorney questions for an extra \$99 per partner. If you want an attorney to represent you, conduct a thorough review and digi-

tally sign your prenup, it's an additional \$699 each.

Rocket Lawyer ([www.rocketlawyer.com](http://www.rocketlawyer.com)) provides a template you can use to create a prenup. The cost is \$19.99 a month after a seven-day free trial. Another DIY option is Law Depot ([www.lawdepot.com](http://www.lawdepot.com)),

which offers a downloadable prenuptial agreement. You can sign up for a one-week free trial; after that the cost is \$33 a month.

If you use one of these services, consider paying a lawyer to review your prenup to make sure it's enforceable.

# THE PROS AND CONS OF 403(B) PLANS

Employees may be able to make extra catch-up contributions, but fees can be high.

## BASICS BY EMMA PATCH

**M**ILLIONS of public school employees, along with some employees at colleges and universities, hospitals, charities, and other nonprofit organizations, use 403(b) plans to save for retirement. As is the case with employer-provided 401(k) plans, 403(b) plans are tax-advantaged. Contributions are typically deducted from your paycheck and invested, providing an important source of income in retirement. Pretax contributions will reduce your taxable income, and your investments will grow tax-deferred until you retire. If your plan offers a Roth option, contributions are after-tax, but withdrawals will be tax-free as long as you're 59½ or older and have owned the account for at least five years.

And as with 401(k)s, employers may offer a matching contribution to a 403(b) up to a certain threshold (a maximum 3% of your salary, for example). Most public schools don't offer a match, but if your employer provides one, consider contributing at least enough to earn it.

Most pensions for teachers who work 30 years or more replace 50% to 70% of their salary, so a 403(b) can fill the gap, says Dan Otter, cofounder of 403bwise, a nonprofit that advocates for better retirement plans for K-12 teachers.

But 403(b)s have some key characteristics that make them unique—and sometimes less than desirable.



**Perks and pitfalls.** Certain benefits that 403(b)s offer aren't available with other types of employer-provided plans. The regular contribution limit is the same as with 401(k) plans—\$23,000 in 2024 for workers younger than 50. And employees age 50 or older can make \$7,500 in catch-up contributions to a 403(b) this year, just as those who have a 401(k) can. But some employers permit longtime employees to make additional catch-up contributions to a 403(b). If you've been with an employer for at least 15 years and you've made an annual average contribution of less than \$5,000 per year, you can contribute an additional \$3,000 per year, up to a lifetime maximum catch-up contribution of \$15,000.

You can take advantage of the 15-year rule even if you're younger than 50. For those who are 50 or older, the IRS will apply contributions above the regular limit first to the 15-year rule, then to the standard catch-up contribu-

tion limit. If your employer allows these extra catch-up contributions, "they can be a great way to boost your tax-smart retirement savings plan," says Noah Damsky, a certified financial planner based in Los Angeles.

On the downside, 403(b) plans aren't subject to the Employee Retirement Income Security Act (ERISA), which means employers don't have the same fiduciary obligations as companies that offer 401(k) plans, Otter says. As a result, many teachers are offered anywhere from 20 to 100 different plans, often provided by insurance agents promoting high-cost variable annuities, says Nicholas Bunio, a CFP based in Philadelphia. Though many 403(b) plans have lackluster offerings, the problem really lies with plans for employees in K-12 public schools, he says. In 2022, the Securities and Exchange Commission fined Equitable Financial \$50 million for providing misleading statements and omitting information about fees for variable annuities it sold to investors, most of whom were teachers and other school staff.

You can find out which school districts are doing right by their employees with 403(b) plans by using the search tool at [www.403bwise.org/education/vendor-search-tool](http://www.403bwise.org/education/vendor-search-tool). If your only option is a plan filled with high-cost products, consider investing in a Roth IRA instead.

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↑  
**Many teachers are offered anywhere from 20 to 100 different plans, often provided by insurance agents promoting high-cost variable annuities.**

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# GET THE MOST OUT OF YOUR COLLECTIBLES

**I**f you're a fan of *Antiques Roadshow*, you've probably fantasized about discovering that your grandmother's chafing dish is worth more than your car. But just because an item is old and cherished doesn't mean it's valuable. Here's a guide to assessing your collectibles—and to selling or donating the stuff you don't want to keep.

BY EMMA PATCH

## JEWELRY

If you think your grandmother's engagement ring or your great-grandfather's pocket watch is valuable, seek out an appraisal so that you can adequately insure it against loss, theft or damage. If you're interested in selling the item, hire an accredited appraiser who will research and analyze the market, says Lynn Magnusson, one of the few appraisers in the country to hold accreditations with the American Society of Ap-

praisers, the Appraisers Association of America and the International Society of Appraisers. An accredited researcher will assess comparable sales at auctions, jewelry stores and jewelry dealers. Bringing in a third party to vouch for the item's value in the form of an official appraisal will increase the likelihood you'll receive a fair price when you sell.

If you're primarily looking to insure objects you plan to keep, you'll want to get the replacement value,



which an appraiser can provide by researching the cost of replacing your item with a new one (or a version that's as close to the item as possible). If you want to donate jewelry to charity and deduct the donation on your tax return, ask the appraiser to provide the item's fair market value, which is "the price that property would sell for on the open market between a willing buyer and a willing seller, with both having reasonable knowledge of the relevant facts," according to the IRS.

You should fact-check an appraisal by reviewing the report and verifying that your appraiser noted any characteristics that could affect the jewelry's value. If you see any errors, let your appraiser know and ask for a correction. Make sure the appraiser takes the jewelry's maker into account because that's the most important characteristic used to determine its value. "Similar to artwork, it's always about the artist," Magnusson says. For example, buyers will pay a premium for a gold brace-

let from Tiffany & Co. as opposed to a gold bracelet from Macy's.

The next quality to consider is scarcity. Appraisers will assess the piece's provenance, or origin, to determine how rare it may be. If the piece is from the collection of a historical figure or celebrity, such as Catherine the Great or Elizabeth Taylor, it could carry significant value.

Inherent qualities of an object, such as the quality of the metal and stones, will also affect its value. For example, an appraiser will assess the "four Cs" of a diamond: carat weight, color grade, clarity grade and cut grade. The Gemological Institute of America, which crafted this method,

### ← Coin grading institutions will assess a coin's value based on its rarity.

is the standard resource for jewelry appraisals. Appraisers typically use characteristics developed by the GIA to determine the value of gems and assess the metals.

Finally, a piece of jewelry should never be worth less than the sum of its parts. A buyer can always scrap the gold or silver and sell it to a refinery or remove the diamonds and sell them to a diamond dealer. You can search for the spot price of precious metals at a website such as [www.kitco.com](http://www.kitco.com). However, keep in mind that the precious metal in jewelry is typically mixed with other elements for color and/or strength, Magnusson says. For example, 14K gold jewelry is made up of 58.3% pure gold and 41.7% alloy. Shop around at jewelry stores and dealers to get the best price.

### COINS

Unlike jewelry, which is often subject to wear from use, coins usually maintain their quality over time once they've been graded and valued because the grading process typically involves storing them as collector's items. Institutions such as the Professional Coin Grading Service and Numismatic Guaranty Company grade

GETTY IMAGES (ABOVE AND PREVIOUS PAGE)

→  
**An authenticated Hank Aaron autographed bat with case, listed at \$800 at [www.bmccollectibles.com](http://www.bmccollectibles.com).**



coins on a scale reflective of their condition. These companies will preserve the coin in a plastic case in a process known as slabbing. The cost to have coins slabbed depends on the type of coin and can range from \$25 to \$300 per coin. If you submit an entire collection for grading, you may be able to get a discount.

Coin grading institutions will assess a coin's value based on its rarity. So, for example, a colonial coin (one issued in the British colonies before they became U.S. states), a limited issue coin or an uncirculated coin in mint condition may earn a higher grade than a more common coin in the same condition. You can get a sense of how rare your coins are through the Professional Coin Grading Service's price guide, which lists prices for all types of American and colonial coins ([www.pcgs.com/prices](http://www.pcgs.com/prices)). The Numismatic Guaranty Company also has a price guide for coins from around the world ([www.ngccoin.com/price-guide/world](http://www.ngccoin.com/price-guide/world)).

Once you've determined the value of your coins, there are a number of marketplaces to turn to if you'd like to sell. "Coins are a very active marketplace," Magnusson says. You can sell coins to a local dealer or take them to coin shows, such as the American Numismatic Association's National Money Show or the World's Fair of Money, where you can shop your collection to different dealers.

As with any other collection, you can also offer it for sale at online marketplaces such as eBay or Facebook Marketplace. If you choose this route, you'll need to assume the responsibility of photographing, listing and managing negotiations with potential buyers. If you own a high-value coin or collection, you may want to turn to an auction house, such as Heritage Auctions ([www.ha.com](http://www.ha.com)) or Stack's Bowers Galleries ([www.stacksbowers.com](http://www.stacksbowers.com)), where you're more likely to find buyers who can afford big-ticket purchases.

### SPORTS MEMORABILIA

Many sports fans have collected jerseys, equipment, stadium seats, trophies and baseball cards. As is the case with other collectibles, condition will play a key role in valuing your sports memorabilia, along with name recognition if the item is associated with a particular athlete or sporting venue. An autographed item may yield a high value as well, depending on who penned it.

Some items, such as baseball cards, will get the best value at specialized auction houses, says Thomas Ruggie, a certified financial planner based in Orlando and owner of a multimillion-dollar sports memorabilia collection. Baseball cards, like coins, are graded and slabbed, which makes them easier to value and store than some other types of sports memorabilia.

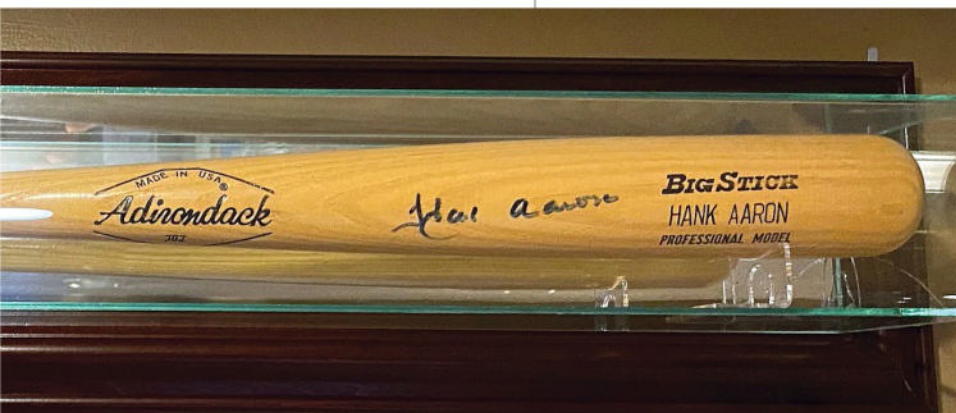
## Passing On Collectibles to the Next Generation

If you plan on leaving your collection to your heirs, make sure they're interested in taking it on and understand what the assets are worth. Leave them copies of any verification documents, appraisals and photographs, as well as notes on recent sales of comparable items. A listing price of a single similar item won't reflect its selling power as well as an average calculated from recent sales of multiple similar items, so consider keeping a log of recent sales of items that share characteristics with your collectibles. Search for your item on eBay using the advanced search option and filtering for only sold and completed items.

Diligent estate planning will help your heirs understand how to handle, preserve, insure, sell or donate the items. If you'd like to leave your collection to multiple heirs, obtain an appraisal of the total value of the collection and a breakdown of the cost of individual items so that you can make gifts of equal dollar value, if that's what you want to do.

Keep thorough notes on the characteristics that render the items valuable. For example, if you plan to leave your heirs some of your sports memorabilia, indicate whether they are signed or have been used in a famous game. Kovels Antique Trader ([www.kovels.com](http://www.kovels.com)) provides a price guide to a wide range of collectibles and antiques.

COURTESY OF BMC COLLECTIBLES.COM (BELOW)



## Rewards

To authenticate your memorabilia, you'll generally need to find someone who specializes in the specific type of item, Ruggie says. Look for accreditations such as Professional Sports Authenticator (PSA). Some companies use photo-matching technology to verify that an item belongs to a particular player, team or era in a given sport. If you have photos of the item being used in a game, that should also help in the authentication process.

### ART

To get a sense of whether you have a high-value piece of artwork, first determine whether it's a print or an original. If you suspect it's a print, look for an edition number at the bottom of the piece. Some prints are valuable if the image is desirable, the artist is acclaimed or the edition length is limited. If a print run is small, then its relative rarity enhances its value.

It can be difficult to tell the difference between a limited-edition print and a reproduction print, says Peter Held, an art appraiser accredited with the American Society of Appraisers. "If you look at the surface closely with a magnifying glass and see a dot matrix pattern, that's a reproduction print. And generally, those are a lot less valued than an original

print made by an artist," he says.

If you have an original work, consider its provenance to determine whether it may be a high-value piece. Look for its origin in receipts or other records from the purchase. If you have trouble reading the artist's signature, try photographing it and using Google Lens—a tool that searches online for images similar to your photo—to help you determine which artist it may be.

If you suspect your art is valuable, find an accredited art appraiser with appraisal societies such as the ASA ([www.appraisers.org](http://www.appraisers.org)), the Appraisers Association of America ([www.appraisersassociation.org](http://www.appraisersassociation.org)) and the International Society of Appraisers ([www.isa-appraisers.org](http://www.isa-appraisers.org)). Once you select an appraiser, you'll probably be asked to identify the artist and provide documents, such as photographs, receipts and records of exhibits or publications that featured the artwork. Then the appraiser will use auction databases to compare the work with recorded sales. If the artist was represented by a gallery, the appraiser may ask the gallery for comparable sales to come up with a range of values for the work.

If you want to donate your artwork to a museum, the appraiser will contact the museum curator or registrar, depending on who is han-

dling the donation, to acquire information you'll need for tax purposes. An appraiser will fill in IRS Form 8283 for non-cash charitable gifts for you to use when filing your tax return so you can deduct the contribution (if you itemize).

The cost to appraise a work of art ranges from \$500 to thousands of dollars, based on the time, type of appraisal needed and complexity of the market for the property, among other things. In addition to assessing value, some appraisers may point you to the best market for sale, whether it's a gallery, an auction house or a private dealer, says Held. Market research alone with no appraisal may cost less, he says.

### FINE CHINA

A complete set of fine china will typically earn you a better price than an incomplete one, but incomplete sets or even single pieces may be worth more than you expect. Many websites sell single pieces of china to buyers who want to replace items that were lost or damaged. If you're looking to sell a single item or an incomplete collection, check out sites such as Classic Replacements ([www.classicreplacements.com/sell-your-china-crystal-and-silver-to-us.html](http://www.classicreplacements.com/sell-your-china-crystal-and-silver-to-us.html)) and Replacements Ltd. ([www.replacements.com/sell-to-us](http://www.replacements.com/sell-to-us)).

## Tips for Treasure Hunters

One man's trash can be another man's treasure, but sometimes it's just another man's trash. Facebook Marketplace and eBay feature thousands of listings every day, and you never know what you might find from sellers seeking to do some spring cleaning. But verifying an item's authenticity can prove challenging online.

Scavenging at estate sales for high-

value items may take more time and effort, but you can bring a magnifying glass to search for characteristics that may not be detectable online, such as the clarity of a gem, the resolution of an art print or the condition of a piece of fine china. Negotiate the price if you can. The selling power of collectibles varies with changing market conditions. Research recent sale prices of

items that are similar to the one that interests you, taking into account whether you plan to resell it or keep it. If you can, get an appraiser on the phone to assess the value. If you can't manage that, try using tools such as Google Lens to search online for images similar to a photograph of the item, which could help you identify an artist's signature or a maker's mark.



Before you accept a selling price, do some research to determine your item's value. As is the case with most collectibles, consider condition, rarity, quality and maker. Since china is subject to wear and tear, search for cracks, chips and scrapes. Look for a maker's insignia or a label identifying the material—French porcelain, for example. If the china is from a name-brand maker, research how similar sets or pieces have sold recently on secondary marketplaces, such as Facebook Marketplace and eBay. Sometimes certain brands become popular and sell for higher-than-usual retail prices, Magnusson says. For example, Pyrex collections from the mid 20th century that are adorned with kitschy patterns are very popular now. A 1950s Pyrex collection recently sold on eBay for \$1,300.

### RARE BOOKS AND ARCHIVES

If you have a collectible book or document, an appraiser who specializes in rare books, manuscripts and archives can help you authenticate its value. But the fee to have an appraiser research the value and provide a report could run as high as \$2,500, so before you hire one, try to get a sense of what your item or collection is worth by assessing it for any valuable characteristics. If you determine that an appraisal is worthwhile, seek out an appraiser who follows the Uniform Standards of Professional Appraisal Practice, says John Henley, a rare books, archives and manuscripts appraiser with the ASA.

Generally speaking, condition is the most important consideration when valuing these items, Henley says. There are only a few exceptions to this. For example, if you have a Gutenberg Bible that's in rough condition, you're still going to get a lot of money for it, he says, because even a

damaged Gutenberg is very valuable. Otherwise, if the book's boards—the rigid flat sheets that form the central component of the book cover—are detached, the pages are soiled or it has fire damage, its value will be significantly diminished.

Recognition will also influence a book's value. If there was significant media buzz about the book at one time, that could drive up the value. Scarcity will do the same, but not

copy or was given to a close associate or editor. If it was part of a famous collection, that could also increase its association value.

For documents, content is king, Henley says. If you own a document or archive with objectively interesting or intriguing content, that will increase its value. Content also matters when it comes to documents signed by someone with name recognition.

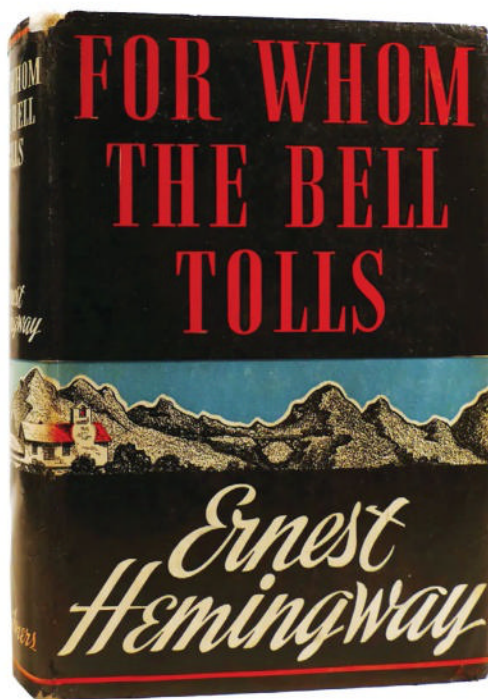
For example, a letter signed by F. Scott Fitzgerald will be more valuable than a hotel registry signed by Fitzgerald, Henley says.

### PROTECTING YOUR COLLECTIBLES

Whether you're starting a collection or preserving one, your high-value items may not be included in a standard homeowners or renters insurance policy. You can get a rider on your policy to cover certain items, but riders won't always cover the entire replacement value of an item. Another option is a separate insurance policy designed for collectibles. You'll typically need an appraisal to verify the value of items you want to insure, and annual premiums will be based on a percentage of their value—typically about 1%.

To shield against damage and loss, store your collectibles safely. Artwork should be protected from exposure to light and dust. Delicate items, such as fine china, may be better suited for display than use. If you're buying an item for your collection, ask the seller how they recommend preserving your collectible. Cool temperatures and moderate humidity will help preserve your item's condition. Attics and basements are not typically ideal locations for storing your valuables. **■**

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**A first edition of Ernest Hemingway's *For Whom the Bell Tolls* is priced at \$2,649.95 at [www.rarebookcellar.com](http://www.rarebookcellar.com).**

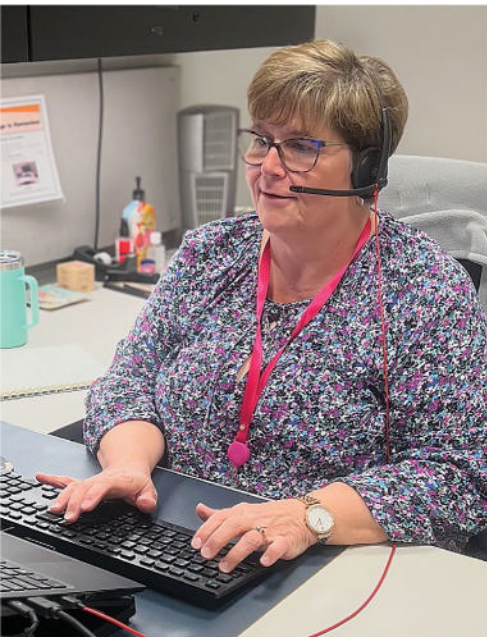
always, Henley says. Sometimes, an archive or manuscript can have what's called "discovery" value, meaning there's something within it that affects our understanding of history. Similarly, a compelling social history can enhance a collectible's "association" value. For example, an appraiser might ask whether a book was the author's working

# Paying It Forward

## SUPPORT FOR PEOPLE WHO HAVE SERIOUS ILLNESSES

This advocate connects patients with resources and helps them navigate the health care system.

INTERVIEW BY EMMA PATCH



**What is the Patient Advocate Foundation?** We're a nonprofit organization that offers case management services and financial aid to Americans with chronic, life-threatening and debilitating illnesses. We provide free case management to about 15,000 to 18,000 patients annually.

**Who is eligible to get help from a patient advocate?** We assist people who are in the process of getting screened for a serious health condition, who are in active treatment for one or who finished treatment within the past six months. We provide our services over the phone, and

patients all over the U.S. can call us. Or family members or friends can contact us on their behalf.

### What does a case manager do?

We do a lot of different things for patients. We search for resources for those who can't afford their rent, transportation, food or utilities, and we try to get them access to prescribed medical treatment that they may need.

For patients who have become disabled, we assist with completing the application for Social Security disability benefits.

We also help patients understand what their health insurance covers, get approvals and payments from their insurance, and appeal denials for claims. We help them apply to programs for financial assistance with co-payments and coinsurance. Some hospitals have charities, for example, for patients who can't afford their bills. Sometimes we talk with a patient's employer to make sure the patient knows the options with their employee benefits, such as COBRA [a federal law that generally lets you extend group coverage for up to 18 months after you leave a job]. If a patient doesn't have insurance, we try to get them enrolled—say, in Medicaid or Medicare, if they are eligible.

**What strategies do you use to help patients when interacting with medical providers?** We ask medical providers questions about the patient's care, often on a conference call, and try to help the patient understand what the doctor is saying. For example, if a doctor ordered a PET scan, we ask, why did you order the scan? What do you anticipate finding on the scan that would allow this patient to get treatment?

### Did you have any health care experience prior to your advocacy work?

I was a clinical coordinator at a physician's office for about 20 years. I was also a surgical technologist in an operating room. I saw patients every day, but I didn't know what happened to those patients when they went home. After we told someone they had cancer, for example, what if they couldn't afford their treatments? Were they going to show up to their appointments? I always wondered what was going to happen to them. As a case manager, it's very rewarding to know that you've helped somebody.

### What do you wish more people understood about the work you do?

A lot of people who call us think that we just give out money, so to speak. But the solution isn't always financial. We want to empower patients to be better advocates for themselves and to help them in the long run, so we try to dig deeper into the situation and find long-term fixes for their issues. We connect patients to support groups. And if there is a financial burden, we try to lift that burden by finding the right resources. ■

**BETH SCOTT**  
Case manager with  
the Patient Advocate  
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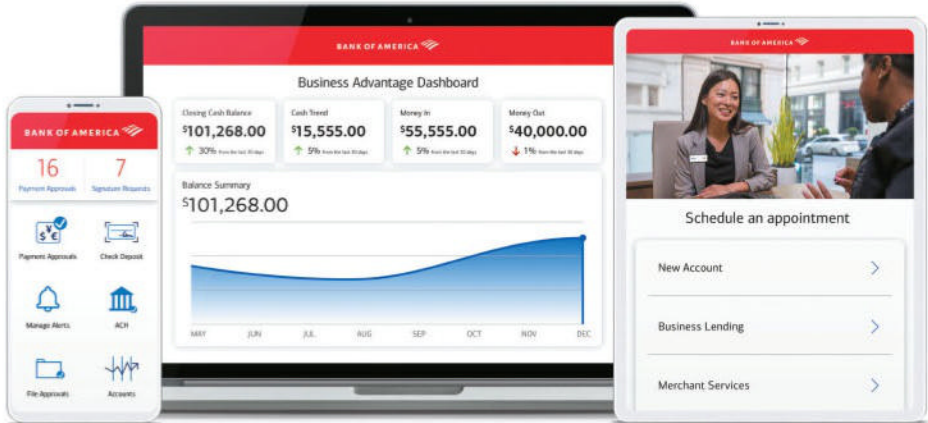
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