ANNUAL FORECAST ISSUE

Kiplinger's

PERSONAL FINANCE

MONEY SMART LIVING

WHERE TO INVEST IN 2018

- Why stocks have room to run p 46
- A tougher year for bonds p 56
- 8 great stocks to buy now ... and 5 clunkers to sell p 54

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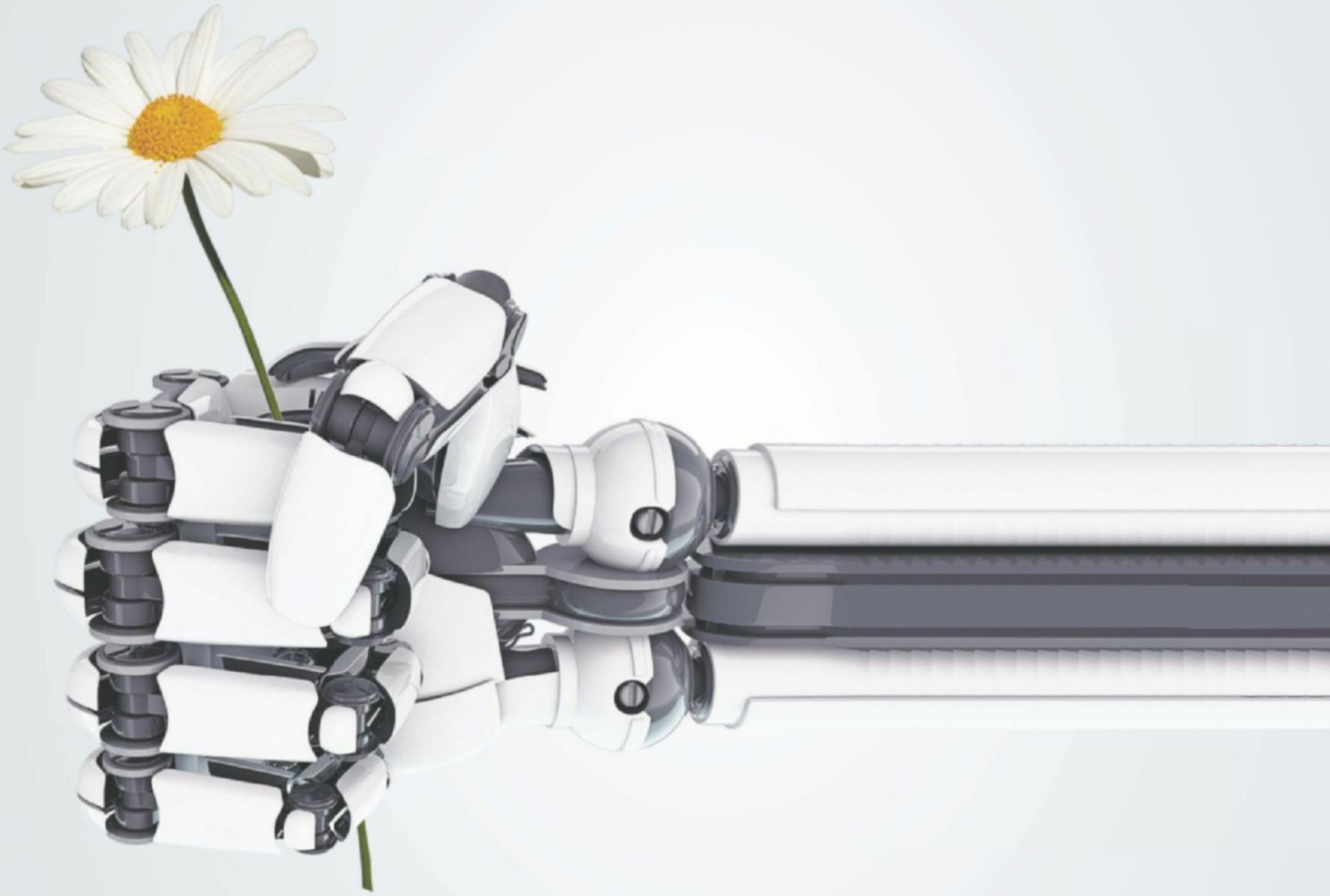
On the front lines with the scam police p 26

Travel: How to beat the crowds (and save money) p 64

"We are late in the bull-market cycle, but no one can call the end."

Samantha Azzarello, J.P. Morgan Asset Management p 49

JANUARY 2018



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KIPLINGER'S PERSONAL FINANCE
FOUNDED 1947

VOL. 72 NO. 1

AVOID THE CROWDS WITH A SAFARI IN A PRIVATE GAME PARK, SUCH AS SOUTH AFRICA'S SHAMWARI GAME RESERVE. PAGE 64

AHEAD

MONEY

INVESTING

LIVING

IN EVERY ISSUE

ON THE COVER: Photograph: Poon Watchara-Amphaiwan.
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COURTESY SHAMWARI GAME RESERVE

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Kiplinger's Investing for Income

In 2016, *Kiplinger's Investing for Income* editor Jeff Kosnett put his decades of experience reporting and writing about real estate investment trusts to work to create what he called a REIT Dream Team. In the October 2017 issue, Jeff revealed the performance of his 10 picks: an average total return of 13.4%, close to double the average REIT return over the same period. **Three of his selections returned more than 30% for the year.**

To see all of Jeff's picks, plus his analysis, visit:

kiplinger.com/go/reitpicks

We'll e-mail you a PDF of the story, plus a special offer for new subscribers to *Kiplinger's Investing for Income*.

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Discover the eight things you must know about retiring to Florida, including how to insure your home against storm damage and how to save on taxes if you maintain a second home elsewhere.

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TAX CHANGES COMING?

We break down the GOP tax-overhaul proposals to help you understand the potential impact on your pocketbook.

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BEST FUNDS FOR 401(K)s

Rebalancing your retirement portfolio to start the new year? We pick 25 top-performing mutual funds that rank among the most popular funds found in 401(k) plans.

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Mark Solheim

FROM THE EDITOR

The Next Generation

We're introducing a new column this month aimed at, and written by, millennials.

One of my top priorities as editor of this magazine—and one of the toughest challenges I face—is reaching a younger demographic. It's no secret why fifty- and sixtysomethings turn to us. You're trying to figure out how to retire with enough money to maintain your preretirement lifestyle and cover health care costs without worrying about running out of money. (I worry about that, too. After we help you achieve your goals, will you drop your subscription?) But how does a personal finance magazine appeal to a new generation in need of a solid education in the fundamentals?

As a start, we're introducing a new column this month, "Millennial Money" (see page 24). It will be written by the millennials on our staff, who will address the financial concerns that they and their peers are grappling with. Millennials, who are roughly 20 to 36 years old, number more than 75 million—and now outnumber baby boomers. But they grew up with the internet, in a world where publishers give information away, so paying for a print publication isn't high on their list of priorities. Many of them came of age during the Great Recession, which cast a pall on their job prospects and delayed home buying. (Maybe you had a boomerang kid living in your basement, too?) It also produced a lot of skepticism about long-term prospects for the stock market.

As we planned the new column, I asked our millennial staffers about their biggest financial concerns. Many of their friends are stymied by crushing student loan debt. That's the topic of our inaugural column, written by our most seasoned millennial writer, Lisa Gerstner. Lisa didn't have to worry about student loans because she got a full-ride scholarship to college. But, she says, "If my husband and I have kids, I can hardly imagine how much we'll have to save to make a dent in our children's education expenses."

Retirement security is high on the list. Tom Blanton, a reporter, worries about having enough money saved to retire by age 65 to 75. "That's a concern because I decided to pursue a career in a lower-paying field I enjoy [journalism] instead of a higher-paying field I don't enjoy," he says. A couple of other staffers brought up a related issue: whether Social Security will be around when they retire.

Some said they doubted they could attain the lifestyle of their parents. "The idea of traveling, buying a home, having a family, paying for health care and pouring as much as we can into our 401(k)s can feel very overwhelming," says Yajaira St. Fleurant, a designer who has just started a family. That sums up the anxieties of my millennial son, who is in grad school, and daughter, who is still an undergraduate. My son, who taught English in Asia for five years following college, says he may be forced to move abroad again to afford the life he wants.

As you know, the right mix of know-how and discipline will get millennials to the financial finish line. If you have adult children, or nieces or nephews or grandchildren, I'm asking for your help to spread the financial gospel. You can share our new column at kiplinger.com/links/millennials.

Whither the market? That's the question we ask every year in the January issue. Executive editor Anne Smith, who supervises our investing coverage and wrote the cover story that begins on page 46, says nearly all of the market pundits she interviewed agree that the bull has more room to run—but also raised some red, or at least yellow, flags. Anne also cowrote and edited "Ride Along With the Scam Police," on page 26, a revealing look at how government agencies protect us from ID theft and scams targeting investors and seniors. ■

Mark Solheim

MARK SOLHEIM, EDITOR
MSOLHEIM@KIPLINGER.COM
TWITTER: @MARKSOLHEIM

Financially Fit After 60

In the article about helping aging parents with their finances, you generalize that people over age 60 decline in their ability to manage financial tasks ("Money Help for Aging Parents," Nov.). Don't let Warren Buffett or Jamie Dimon hear that.

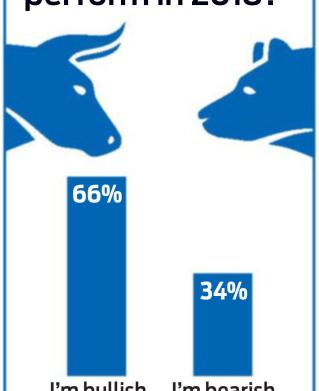
TREV HOLMAN
ALPINE, CALIF.

Paying for Part B. Janet Bodnar's experience of signing up for Medicare and health insurance mirrors my own ("Living in Retirement," Dec.). I second her wise advice to be prepared and give yourself plenty of time.

M.J. CARDAMONE
POTTSVILLE, PA.

Q READER POLL

How will the stock market perform in 2018?



For *Kiplinger's* take on the market outlook for 2018, turn to page 46.

SOURCE: POLL SURVEYED 187 *KIPLINGER'S* READERS.

I'd like to add to Janet Bodnar's advice on applying for Medicare Part B. If you are not yet receiving Social Security, you will be billed directly for Part B because the premium cannot be deducted from your benefit. You may pay by credit card (there's no fee), and you have the option to pay monthly, quarterly, semiannually or annually. If you pay for Part B in advance and later apply for Social Security, you will receive a refund for your prepayment.

KATHRYN ASHE
OLYMPIA, WASH.

It's a gas. As a resident half of the year of the Big Island of Hawaii, where gas is expensive, I read David Muhlbaum's column on gas quality and prices with great interest ("Drive Time," Nov.). Then I did some testing of my own. I filled up at brand-name Top Tier gas stations and compared my mileage with a fill-up at Costco, where gas is about 50 cents a gallon less. I noticed slight increases in fuel economy after filling up at brand-name stations, but they don't come close to covering the higher cost of gas. Is Costco's gas considered Top Tier?

SCOTT ENGERS
ANN ARBOR, MICH.

DAVID MUHLBAUM REPLIES: You're in luck. Costco participates in the Top Tier program. Go to the Top Tier website to see if the vendor you want is on its list (www.toptiergas.com/licensedbrands).

Can't buy happiness. It was refreshing to read about supersavers Tracey and Kirk Calloway ("Then and Now," Nov.). It seems as if the more people earn, the more they spend on bigger homes and expensive cars. But not the Calloways, who live frugally and well within their means and have figured out that bigger and more expensive doesn't buy happiness.

RAINA KORBAKIS
EAST LANSING, MICH.

Learning the lingo. Just read your column in which you mention that your mother didn't know the difference between the acronyms *ETF* and *CFP* ("From the Editor," Nov.). I'm guessing an ETF is an electronic funds transfer and a CFP is a certified financial planner. Correct?

M.A.
POTOMAC FALLS, VA.

MARK SOLHEIM REPLIES: Good guess. A CFP is a certified financial planner. An ETF is an exchange-traded fund. (Got that, Mom?)

CORRECTION

In our November issue, we erroneously republished the top 10 largest stock mutual funds and index returns from a previous issue ("Fund Spotlight"). We apologize for the error. ■

LETTERS TO THE EDITOR

Letters to the editor may be edited for clarity and space, and initials will be used on request only if you include your name. Mail to Letters Editor, Kiplinger's Personal Finance, 1100 13th St., N.W., Washington, DC 20005, fax to 202-778-8976 or e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.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Periodical postage paid at Washington, DC, and at additional mailing offices. Subscription prices: In U.S. and possessions $23.95 for one year, $39.95 for two years, $54.95 for three years. Additional international postage: $17.00 per year. Single-copy price: $4.99.

TOPIC A

YOUR STATE TAX BILL MAY GO UP

States are searching for ways to close yawning deficits. But there's good news: Estate taxes are on their death bed. BY SANDRA BLOCK

FOR ALL THE TALK ABOUT tax reform, unless your personal situation changed last year, you won't see much difference in your 2017 federal tax bill. But your state tax bill could be another story. Faced with yawning budget deficits and deteriorating infrastructure, several states raised taxes on everything from income to gas in 2017, and more increases could be in the offing for 2018.

In Illinois, for example, lawmakers voted to increase the state's flat-rate income tax to 4.95%, from 3.75%, effective July 1, 2017. In Kansas, to help close the state's budget gap, lawmakers voted to roll back some of the income tax cuts enacted in 2012. The rollback increased the top 2017 income tax rate from 4.6% to 5.2%; in 2018, the top rate will rise to 5.7%.

Other fiscally challenged states considered income tax hikes in 2017, and those debates are likely to continue this year. In Delaware, Democratic lawmakers proposed raising taxes on residents who earned more than $60,000 a year and eliminating itemized deductions. Those proposals were defeated, but the legislature voted to raise taxes on real estate transfers, cigarettes and alcohol.

Alaska, long a low-tax haven, is facing a $3 billion budget deficit as a result of falling oil prices. Gov. Bill Walker has proposed an income or state sales tax to help close the gap (Alaska has neither). Other states that derive most of their tax revenue from energy companies may need to consider similar measures if energy prices remain low, says Scott Drenkard, director of state projects for the Tax Foundation.

Even if you live in a state that's not facing a budget shortfall, there's a good chance you're paying more at the pump than you were a year ago. Indiana, South Carolina, Tennessee and West Virginia raised state gas taxes effective July 1, 2017. In May, Montana adopted a bill that will phase in higher gas taxes over five years.

But 2017 also illustrated the challenges facing lawmakers who propose tax hikes. Maine lawmakers

ILLUSTRATION BY DAVE URBAN

rolled back a 3% tax surcharge on income exceeding $200,000 that had been narrowly approved by voters in November 2016.

The end of estate taxes?
One state tax that is fading into the sunset is the estate tax, and Congress's plan to eliminate the federal estate tax could hasten its demise. New Jersey's estate tax will disappear on January 1. Thirteen other states and the District of Columbia continue to impose an estate tax, but a growing number are increasing the amount of assets that are exempt. In New York, for example, the exemption rose to $5.25 million from $4.19 million on April 1, 2017; beginning in 2019, it will match the federal exemption, which is currently $5.6 million.

But states could find it much more difficult to impose an estate tax if the federal estate tax dies. States rely on the feds to enforce the tax, Drenkard says. They may decide it's not worth hiring administrators to collect a tax that typically brings in less than 1% of overall revenue, he says.

Others aren't so sure. State and local governments took in about $5 billion from estate, inheritance and gift taxes in 2015, according to the Tax Policy Center at the Urban Institute. Though that's nowhere near what states collect from other taxes, "it's real money," says Richard Auxier, research associate for the Tax Policy Center. "If you get rid of it, you have to find a replacement."

INTERVIEW

HOW TO BE A SMARTER INVESTOR

Don't overreact to new information, and don't let your biases impair your decisions.

Raife Giovinazzo is a partner and portfolio manager at Fuller & Thaler Asset Management, a firm that invests based on behavioral finance principles. He earned his PhD under Richard Thaler, who is the principal at the firm and winner of a 2017 Nobel prize for his work in behavioral economic theory.

Behavioral economics tells us that markets don't behave rationally. Why not? Humans ultimately make the decisions that drive the market, and humans aren't perfect. It's not that we're stupid or overly emotional. It's just that being human means that sometimes we're going to make mistakes.

Your Fuller & Thaler Behavioral Small-Cap Equity Fund (symbol FTHNX) has been one of the best performers in its category. How does the fund apply behavioral economic theory? Broadly speaking, we want to buy a stock when it's mispriced, either because investors are underreacting to good news, such as better-than-expected earnings, or overreacting to long-term, negative sentiment surrounding a company.

When do investors tend to underreact? One common scenario is when people have strong preconceived notions. Take Domino's, for instance. Starting in 2010, it rolled out the "apology" ad campaign. The company admitted its pizza was lousy and pledged to improve it. Investors thought that Domino's pizza couldn't be fixed. But Domino's changed the recipe, and the campaign worked. Earnings started to improve dramatically, but investors were slow to change their expectations. That's what we call "anchoring and adjustment." When people try to make forecasts, they generally latch on to a convenient number and adjust from there, but usually not sufficiently. That created an opportunity for us to buy the stock.

How might a stock market overreaction play out? People tend to overreact to vivid, emotional stories, and pervasive media coverage can bias investors against a stock. In 2016, we bought stock in Bob Evans at about $38 a share. Investors were pessimistic about the company's restaurants and the restaurant business as a whole. But they were ignoring the Bob Evans packaged foods business, which was a gem. The company sold its restaurant business last January, and in September, Post acquired the packaged foods business for $77 a share.

How can investors avoid being tripped up by their own biases? Being aware of them is the first step. And honestly, the best thing anyone can do for their investments is not look at them. If you're absolutely convinced you're right about something, you'd better be, because you're unlikely to listen to new information.
RYAN ERMEY

PHOTOGRAPH BY MARGO MORITZ

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RETIREMENT

HIGHER INFLATION HAS ADVANTAGES

Modest cost-of-living increases will benefit seniors and savers in 2018.

INFLATION REMAINS AT historic lows, but a modest uptick in 2017 means retirees will get a small raise, and workers will be able to save more money in tax-favored retirement accounts.

Social Security beneficiaries will get a 2% cost-of-living adjustment in benefits this year, the largest increase since 2012. That raises the average monthly payout for a retiree by $27, to $1,404. The maximum monthly payout for someone retiring at full retirement age (currently 66) is $2,788, up about $100.

However, there's a good chance that most, if not all, of the increase will be consumed by higher Medicare premiums, which in most cases are deducted from Social Security benefits before the money hits your bank account. The basic Medicare premium will likely be $134 a month in 2018, or $25 more than the average premium paid by most enrollees in 2017. If you're getting the average hike in Social Security, that would leave just $2 more a month.

For those still saving for retirement, contribution limits for 401(k) and other employer-provided retirement savings plans will increase by $500. Maximum contributions to health savings accounts will go up, too. Limits for traditional and Roth IRAs will remain at $5,500 ($6,500 if you're 50 or older).

But for high-income workers, there's a downside to inflation. Workers will pay Social Security taxes on up to $128,700 in earnings, up from $127,200 in 2017. That means workers who earn more than the 2017 limit will fork over up to an additional $93 to Uncle Sam.

RIVAN STINSON

$101 INCREASE

Social Security Benefits

Maximum monthly benefit for those claiming at age 66 goes up to $2,788

$500 INCREASE

401(k) Contribution Limits

You can put away up to $18,500 ($24,500 if you're 50 or older)

$150 INCREASE

HSA Contribution Limits

Families can stash up to $6,900 in an HSA; singles can contribute $3,450, or $50 more than in 2017

NO EXCUSES

PAY LESS TO GET FIT

If your goals for the new year include getting into better shape, you'll find plenty of free and low-cost ways to shed a few pounds without thinning out your wallet.

Start by looking for free fitness events and classes in your community. The November Project (www.november-project.com) holds free public workout events for people of all fitness levels in about two dozen cities across the country. Runners (and aspiring runners) can log some mileage during Parkrun's free, timed and noncompetitive Saturday morning runs (see www.parkrun.us for locations). You'll also find free workout classes at some retailers; Lululemon stores, for example, have free yoga classes.

If gym workouts are more your speed, take advantage of free trials to find a gym you like. Once you do, ask the manager if the club will match a competitor's price. If you're just starting a fitness routine, consider a month-to-month membership. You'll usually earn a discount by signing a contract, but that won't save you any money if you give up partway through the year.

You may also be able to get someone else to foot the bill—or at least part of it. Many employers and health insurance plans (including some supplemental Medicare plans) offer discounts or reimbursements for gym memberships.

KAITLIN PITSKER

RETIREMENT

A NEW MILITARY SAVINGS OPTION

A recently introduced plan is a better deal for non-career members of the armed services.

MANY MEMBERS OF THE military will have to make a big decision in 2018: whether to stay with the military's longtime retirement program or move to a new system that combines features of a pension with a retirement savings plan.

The current military retirement system provides a generous lifetime pension, starting at 50% of your base pay, if you stay in the service for 20 years. But if you leave before 20 years, you get nothing—and only 19% of military members stay longer than 20 years.

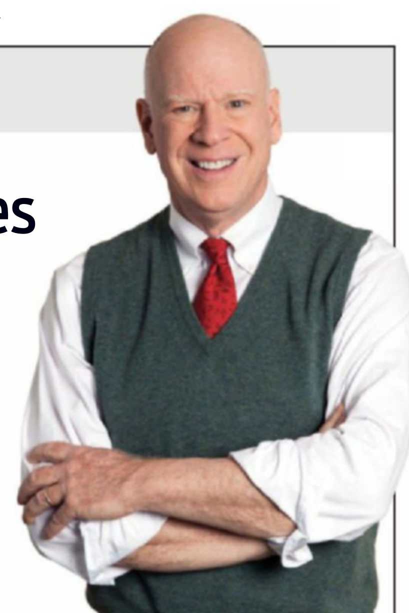
The new system reduces the pension payouts to 40% of your base pay if you stay for 20 years (or 60% if you stay for 30 years), but you'll also get an automatic contribution of 1% of base pay to the Thrift Savings Plan after 60 days of service. You'll receive matching contributions for the next 4% of your pay, which are yours to keep after two years.

Everyone who joins the military in 2018 or later will be enrolled in the new system. If you joined the military from 2006 through 2017, you have from January 1 to December 31, 2018, to opt in to the new plan. If you don't do anything, you'll remain in the old plan. Current service members who switch into the new plan can keep the matching contributions right away.

If you don't plan to stay in the military for 20 years, you'll come out ahead with the new system. The calculators at www.usaa.com/brs and http://militarypay.defense.gov/blendedretirement can help.

KIMBERLY LANKFORD

MONEY & ETHICS // KNIGHT KIPLINGER



Are incentives to lure new businesses fair to current employers?

Q I read that communities in 54 states and territories (including a few in Canada and Mexico) are vying to be the site of Amazon.com's second headquarters, offering lavish tax breaks, up-front grants and free land to entice the Seattle-based retailer. I own a small but growing business in one of these cities, and although it's no Amazon, I'd love—but am not likely to get—the same deal. Am I being reasonable in feeling a little resentful?

A Yes, you are, and local officials should listen carefully to this frequent complaint from established businesses that see financial incentives showered only on newcomers.

Amazon or any other firm considering a new location should base its decision not on the freebies it can demand for itself alone, but on the general business climate of a state—a climate in which all businesses, existing and newly arrived, can thrive.

That means a climate of low-to-moderate corporate taxes (on earnings, inventory, property and so on) and workers' compensation costs, flexible labor laws, plus easy and speedy permitting. Thinking of its employees, a business should consider the total tax burden on their personal income and estates, too.

As for the local officials trying to lure a new business, they shouldn't offer anything to the new arrival that they aren't willing to offer their current businesses. Job growth and spending at an existing firm should be worth just as much in incentives as new jobs and capital investment brought in from outside. Shown proof of those new hires and capital spending, the local taxing authority can simply rebate to the growing business some of the taxes it paid the year before. Is the city offering free public land to a relocater? If so, why shouldn't it offer the same deal to a local business that needs to expand its site, perhaps at a municipal office park or incubator?

And every incentive deal, whether to an established business or a newcomer, should include enforceable methods for recapturing public funds in the event that the promised job creation doesn't pan out.

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LISE METZGER

AN INCONVENIENT TRUTH

EXPECT HIGHER RATES FOR HOME INSURANCE

Losses in states hard hit by natural disasters are pushing up premiums.

HOMEOWNERS IN CALIFORNIA, TEXAS AND other states hit by natural disasters in 2017 may see a modest increase in their homeowners insurance rates when their policies renew, even if their locale was unscathed. When insurance companies file rate-increase requests with insurance regulators—which appears likely—they must do it on a statewide basis. Meanwhile, homeowners in hard-hit areas could face much higher risk-adjusted rates when their policies come up for renewal, and some may not be able to get coverage at all.

To re-shop coverage, homeowners should start with other private-market insurers. As a last resort, they can turn to their state-run plan, such as Citizens Property Insurance in Florida and Louisiana. Homeowners should think twice before buying a policy from specialty insurers, says Robert Hunter, director of insurance for the Consumer Federation of America. Although premiums are lower, the policies offer skimpier coverage. Premiums for flood insurance through the National Flood Insurance Program are unlikely to rise anytime soon. Congress extended the NFIP through December 8, 2017, and is expected to renew it, but without major reforms that would raise premiums. **PATRICIA MERTZ ESSWEIN**

CALENDAR 01/2018

TUESDAY, JANUARY 2

First trading day of 2018. For our take on the investing outlook, turn to page 46.

MONDAY, JANUARY 8

Make good on your resolution to shape up your finances. Start by updating your estate plan and rebalancing your portfolio (see page 58). Use our tax withholding calculator at kiplinger.com/links/withholding to determine whether adjusting your withholding could get you bigger paychecks instead of one large tax refund in the spring. (For more New Year's resolutions and how to make them stick, see page 72.)

▲ SUNDAY, JANUARY 14

Valentine's Day is a month away. Shop post-holiday sales for discounted clothing, jewelry and watches. At the end of the month, preorder flowers for 20% to 25% off from 1-800-Flowers and Teleflora.

SUNDAY, JANUARY 28

On Data Privacy Day, ensure your personal information is secure online and on your computer. Update your devices' software whenever new versions are released, routinely change social media passwords, and avoid giving your Social Security number to websites. For more tips, visit www.us-cert.gov/ncas/tips.

WEDNESDAY, JANUARY 31

Today is the deadline for employers to send out W-2 and 1099 forms. Consider preparing a tax return as soon as possible. You'll be that much closer to receiving a refund, which averaged $2,763 in 2017. Filing early can also help prevent identity thieves from stealing your tax refund. **THOMAS H. BLANTON**

DEAL OF THE MONTH

Find discounted smart watches and fitness trackers that will help you reach your New Year's resolution to get in shape. You can expect to find price cuts on brand-name products, including the Fitbit Alta HR and Apple Watch Series 2, says Brent Shelton, shopping expert for DealCrunch.com.

ISTOCKPHOTO.COM (2)

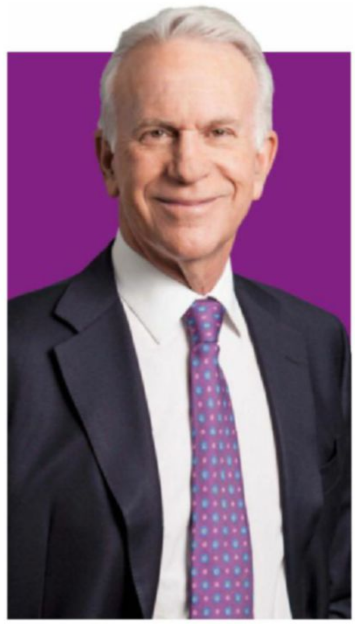
JAMES K. GLASSMAN | Opening Shot

My Top 10 Stock Picks for 2018

My 10 choices for 2017 beat their benchmark by the widest margin since 1993, when I began this annual exercise. Two stocks more than doubled. There were eight winners, two losers and a whopping average total return (price increase plus dividends) of 43.5%, compared with 23.6% for Standard & Poor's 500-stock index. With no guarantee that my winning ways will persist—and a good chance that next year my picks will revert to the mean—here is the 2018 list, chosen, as usual, from the selections of experts, with a stock of my choosing thrown in. Returns and other data are as of October 31. I own none of the 2018 recommendations.

The first selection, by tradition, goes to the top stock picker of the previous year. That would be Parnassus Endeavor (symbol PARWX), one of my all-time favorite mutual funds. Jerome Dodson, its founder and manager, owns only 32 stocks, all of them meeting his qualifications for socially conscious investing. Dodson's 2017 winner was Micron Technology (MU), which returned 158%. It remains one of the fund's top eight holdings. Over the first three quarters of 2017, Dodson added only six stocks, and of these, his biggest investment was in **UNITED PARCEL SERVICE** (UPS), a steady performer benefiting from the sharp rise in online sales. UPS carries a price-earnings ratio of 19, based (like all P/Es noted here) on consensus analysts' estimates for 2018 earnings. The stock has a dividend yield of 2.8%.

The second 2017 stock that more than doubled, Take-Two Interactive Software (TTWO), a maker of video games, originated in the portfolio of Wasatch World Innovators (WAGTX). In 2017 the fund added **KORNIT DIGITAL** (KRNT), an Israeli maker of high-speed printers for the textile industry, to its top 10 assets. Kornit stock is down nearly 30% since July, pummeled by investors when a huge expected order failed to materialize. The setback, however, may be only temporary, and at this price, investors can afford to wait for business to pick up. Be aware that Kornit, with a tiny market capitalization (price times shares outstanding) of $525 million, will be volatile.



LISE METZGER

Citigroup, one of America's four largest banks, was crushed in the Great Recession but has nearly doubled since early 2016.

Fidelity Contrafund (FCNTX) is simply the greatest giant mutual fund in the world. Manager Will Danoff's top holding is **FACEBOOK** (FB), which trades at a forward P/E of 31. That's not high for a company that increased its revenues in the third quarter by 47% over the previous year. In the wake of revelations about Russian spending on election ads, Facebook has warned investors that increased spending to protect its network from manipulation will eat into profits in the near term, but patient investors will be rewarded.

Terry Tillman has been a stock picker on this list for the past six years, and he has beaten the S&P every time. In 2017, he returned to his selection of both 2014 and 2015, Salesforce.com (CRM), a cloud-based software company that helps businesses manage customer relations. Tillman moved midyear from Raymond James & Associates to SunTrust Robinson Humphrey. He still loves cloud companies, considering them both good values and potential takeover targets. He continues to rate Salesforce a buy, but I think it's getting boring as a pick. Another of his cloud-based buy recommendations stands out: **HUBSPOT** (HUBS), whose software-marketing platforms help companies attract visitors to their websites and convert them to customers. HubSpot, based in Cambridge, Mass., is not profitable yet but should be soon. Sales are forecast by analysts to rise 31% in 2018.

At Raymond James, analysts Brian Gesuale and Ryan Rackley rate **CUBIC** (CUB) a strong buy. The company's diverse lineup includes providing combat training for the armed services and the defense industry, and making automated fare systems for mass transit. In October, Cubic won a contract in New York City that will allow bus and subway commuters to pay by waving their smartphones. If the firm meets analysts' targets, by 2020 revenues will rise

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1. Live Oak Bank Savings Annual Percentage Yield (APY) is valid as of 11/1/2017. No minimum opening balance or deposit required to open. Rates may change at any time without prior notice, before or after the account is opened. No minimum balance to open, but customers must have a balance of $0.01 to earn interest. You may make up to 6 withdrawals from your Live Oak Bank Savings account per statement cycle, including preauthorized, automatic and telephone transfers.

2. National statement savings average rate courtesy of Bankrate.com's Passbook & Statement Savings Study, as of 10/11/2017; survey is compiled semi-annually in April and October.

by one-third and the stock by one-half.

My micro-cap maven, Dan Abramowitz, of Hillson Financial Management, in Rockville, Md., chose CPI Aerostructures (CVU) for 2017 and was rewarded with a return of 38.5%. For 2018, he likes **THE GOLDFIELD CORP.** (GV). The company provides electrical construction and maintenance services for the utility industry. It has a market cap of just $146 million. Abramowitz writes that Goldfield reported record revenues and earnings in 2016, but that sales and earnings declined in the first half of 2017 due to the completion of some large projects. The stock's subsequent sharp decline is one reason Abramowitz likes it now. He says the stock is "cheap on an absolute basis and relative to the peer group.... Any kind of infrastructure bill or tax reform out of Washington would be gravy."

It's a rare stock that gains top marks from the *Value Line Investment Survey* in three categories: timeliness, safety and financial strength. **MCDONALD'S** (MCD) just hit this trifecta. *Value Line* analyst Matthew Spencer forecasts earnings will rise at a 9.5% annualized rate for the next three to five years. With a P/E of 25, McDonald's isn't cheap, but it has a lot going for it: strength in China, successful introductions of premium sandwiches in the U.S. and more-efficient technology everywhere.

In my November 2017 column, I extolled the virtues of the few great managers of mutual funds with long track records and an effective personal stock-picking style. On the very short list were Bill Nygren and Kevin Grant, who have run Oakmark Fund (OAKMX) since 2000. The large-cap fund's top holding is **CITIGROUP** (C), one of America's four largest banks. The stock was crushed in the Great Recession but has nearly doubled since early 2016. With a P/E of 13, it remains attractive. The stock now yields 1.7%, and the dividend should rise briskly.

Lululemon Athletica, an athletic clothing manufacturer and retailer, provides the best way for investors to buy into fitness trends.

I'm a believer in Matthew 25 (MXXVX), a mutual fund whose name refers to a biblical passage that seems to encourage investing. Financial columnist Barry Ritholtz had some fun in the *Washington Post* a few years ago, disparaging the fund's name as a "gimmick or shtick." But you can't knock its returns. The fund's performance over the past 10 years puts it at the top of its category (diversified, large-company stock funds), and it has landed in the top 20% of similar funds for six of the 10 years. Matthew 25 has minimal turnover and, in fact, added no new names to the portfolio in 2017. So let's go with the longest-held of its 21 stocks: **POLARIS INDUSTRIES** (PII), first purchased in 2000 and still among the top 10 holdings. Polaris makes snowmobiles and other recreational vehicles. The company's sales jumped 25% in the quarter ending September 30 compared with a year earlier, and even though the stock shot up 15% in a single day, shares still appear underpriced.

My own choice for 2017, Amazon.com, performed exceptionally, returning 39.9%. I am still a fan for the long run. But for 2018, I like **LULULEMON ATHLETICA** (LULU), an athletic clothing manufacturer and retailer that provides the best way for investors to buy into yoga and fitness, trends that will only keep rising. I'm passionate about Lulu, a company with an almost cult-like following among customers that has no debt, a hefty profit margin and prospects for double-digit earnings and revenue growth for 2018.

I'll conclude with three warnings: These 10 stocks vary in size and industry, but they are not meant to be a diversified portfolio. I expect the stocks to beat the market in the year ahead, but I do not believe in holding shares for less than five years, so think of these as long-term investments. I am just offering suggestions here. In the end, the choices are yours. ■

The List

WHAT'S IN FOR 2018

Glassman's 10 stocks represent a diverse group of sectors, from financials to industrials to tech. In market value, they range from giant (Facebook) to tiny (Goldfield Corp.).

Company	Symbol	Source	Recent price	Market value (billions)	Price-earnings ratio*	Yield
Citigroup	C	Oakmark	$74	$194.3	13	1.7%
Cubic Corp.	CUB	Gesuale and Rackley	55	1.5	32	0.5
Facebook	FB	Fidelity Contrafund	180	522.9	31	0
The Goldfield Corp.	GV	Abramowitz	6	0.1	NA	0
HubSpot	HUBS	Tillman	87	3.2	NM	0
Kornit Digital	KRNT	Wasatch World Innovators	16	0.5	56	0
Lululemon Athletica	LULU	Glassman	62	8.3	25	0
McDonald's	MCD	Value Line	167	135.2	25	2.4
Polaris Industries	PII	Matthew 25	118	7.4	22	2.0
United Parcel Service	UPS	Parnassus Endeavor	118	101.7	19	2.8

As of October 31, 2017. *Based on estimated earnings for the next four quarters. NA Not available. NM Not meaningful. SOURCES: Yahoo Finance, Zacks Investment Research.

JAMES K. GLASSMAN IS THE AUTHOR, MOST RECENTLY, OF *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE.* HE OWNS SHARES OF AMAZON.COM. YOU CAN REACH HIM AT JGLASSMAN@KIPLINGER.COM.

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SUCCESS STORY

Cops Rescue Hometown Bakery

Nine policemen buy a doughnut shop and help revive their hometown's main street.

PROFILE

WHO: Alan "Bubba" White, 54 (interviewed), and Greg "Ryno" Rynearson, 55

WHERE: Clare, Mich.

WHAT: Owners, Cops & Doughnuts

You're both policemen? Retired. Ryno and I grew up together and served in Clare, our hometown of 3,100 people in central Michigan.

And you bought a bakery? We did, with seven other Clare cops. The joke around town is that we were having lunch one day and heard that the doughnut shop was closing, so the police department sprang into action. But the truth is, we were worried about what would happen to our little town when the bakery closed. At the time, in 2009, our downtown already had 11 empty storefronts. Ryno said, "Why don't we buy the bakery?" Everyone laughed. Then we realized we had an opportunity to play up the stereotype of cops and doughnuts.

How did you finance the business? The first year, we leased the bakery for $12,000. Each owner put in $1,500. We had an option to buy the building, equipment, inventory and recipes for $160,000. By year-end, it was obvious we should buy, so we took a loan from a local bank.

Word spread quickly? A reporter with AP interviewed us. The story went national, then international. Our web hits went from seven to 70,000 in one day. Pretty soon, the phone rang off the hook. You couldn't find a place to park downtown, and we couldn't make product fast enough.

What do you make? Doughnuts and other baked goods, made from scratch with the best ingredients. We make them big. Our apple fritters are the size of a puppy, and our Long Johns have twice the usual amount of filling. Plus, the Clare location serves breakfast and lunch.

How do you manage the business? We are all equal partners, and we have a monthly owners meeting. It's like nine brothers working together—sometimes sniping but always looking out for one another. Two people were elected managing members to make decisions for the group. And we hired a chief operating officer, who hires general managers for the bakeries.

You've expanded? We've bought five other bakeries in Michigan and Indiana. To buy three of the locations, we borrowed $400,000. We paid for the next two from cash flow. We have 167 year-round employees. In 2016, we had gross sales of more than $4.3 million. We expect gross sales of $5.7 million in 2017, with a payroll of $1.9 million.

Your marketing is fun. Yeah, our best ideas come from sitting around a fire with a six-pack. Ryno and I do videos, and we've learned that goofy and funny works [to see videos and order online, go to www.copsdoughnuts.com].

How's Clare doing? For the first time in my life, Clare has no empty storefronts.

Do you think you'll ever retire again? Driving around, making appearances, giving talks, shaking hands, giving out free Bubba hugs—I can do it forever. **PATRICIA MERTZ ESSWEIN**

pesswein@kiplinger.com

PHOTOGRAPH BY ANDY WAKEMAN

LISA GERSTNER | Millennial Money

How to Tame Your Student Loans

LISE METZGER

Most retirees aren't concerned with building a credit history. By the same token, twenty- and thirtysomethings don't think much about annuities. That's why we're carving out a space to address the concerns of younger readers. It will be written by staffers who are members of the millennial generation—considered to be roughly ages 20 to 36—and who are themselves dealing with issues ranging from budgeting to buying a home to saving for long-term goals.

To kick off our column, we're tackling a topic that has become a defining characteristic of our generation: student loan debt. Bachelor's degree recipients are estimated to carry an average debt burden approaching $40,000 per borrower at graduation. Parents are shouldering some of the burden, too, with an average $21,000 of college debt.

Thanks to a scholarship, I was fortunate to graduate from college debt-free. But many of my peers express regret about the amount of debt they took on, saying that if they could do it all over again, they'd skip the advanced degree or consider alternative paths. "The loans feel like a constant burden and drain, with no end in sight," says Amber Richter, 32, whose undergraduate and law-school loans add up to six figures. "I worry all the time about saving—or lack thereof—for retirement and my children's education."

To kick off our column, we're tackling a topic that has become a defining characteristic of our generation: student loan debt.

Nate Hamm, 34, racked up more than $300,000 in debt following podiatry school. Now a self-employed podiatric surgeon, his income and family size (he's married with two kids) qualify him to make no payments under an income-based plan. He'd pay nearly $3,000 a month if he were on the standard plan. But he is making payments on a $127,000 loan he took out to start his business. "I know I'm a lot more stressed than my parents ever were about their college education," he says. "It keeps me up at night sometimes."

Matthew Lesser, 32, carries $135,000 in student loan debt and has chosen to work for a nonprofit organization so he can qualify for the Public Service Loan Forgiveness program, which forgives the remaining balance on direct federal loans for borrowers who are employed at eligible organizations after they make 120 monthly payments. He has eight years to go. In the meantime, he's juggling his $385 monthly loan payment along with a mortgage, credit card debt and all his other expenses. (We explain federal student loan repayment options at kiplinger.com/links/rightway.)

Budgeting and student loans. Aggressively paying down student debt works for some but isn't the right move for everyone. Andrew Damcevski, a certified financial planner at RhineVest, in Cincinnati, says that some young people are inclined to "put every last penny toward student loans, and they completely neglect their future in terms of saving." At a minimum, aim to meet any match your employer provides on contributions to a 401(k) or other work-based retirement plan. You should also build an emergency fund that covers at least six months' worth of living expenses. If you have high-rate credit card debt, wipe it out before directing more cash to student loans.

Of course, your essential expenses are also part of the picture. A simple and popular budget guideline is the 50-20-30 rule: up to 50% of your take-home pay goes to essentials, 20% to whittling debt and adding to savings, and 30% to discretionary items, such as dining out, shopping, charitable giving, and streaming or cable TV. A budgeting app such as Mint can help you see where your money goes.

It may be worth getting help to hash out a plan. Certified financial planners who are members of the XY Planning Network (www.xyplanningnetwork.com) focus on younger clients, have no minimum asset requirements and offer virtual services (say, meeting via video chat). ■

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Ride Along With the SCAM POLICE

Fighting fraud is a huge job. Here's what it's like on the front lines.

CHANCES ARE, YOU MAY HAVE BEEN SWINDLED AT SOME point in your life, or you know someone who has. Nearly half of consumers surveyed recently by Stanford University's Center on Longevity and the Finra Investor Education Foundation reported being a victim of financial fraud in the previous year—a far higher tally than earlier surveys indicated. No socioeconomic or demographic group is immune. "Men and women, college students and retirees, rich and poor—all are potential targets," the report's authors found. Nearly 40% of victims never told anyone about the fraud. // Estimates are problematic, but Americans are thought to lose some $50 billion a year to financial scams. And there are indirect costs: bounced checks, late fees, trouble meeting monthly expenses and even bankruptcy. So it's not surprising that the emotional cost of fraud is also high, with 50% of victims reporting severe stress and more than one-third citing depression. The toll is compounded for senior victims, who have little time to make up for lost resources. "When elderly people lose their life savings, they lose hope," says Ricky Locklar, an investment fraud investigator at the Alabama Securities

PHOTOGRAPH BY JEFF WOJTASZEK

MICHAEL BANNON AND TOM RORVIK PROTECT SENIORS IN BUCKS COUNTY, PA.

Commission. "To me, those crimes are worse than someone robbing the corner drugstore at gunpoint."

Sadly, the scam police are busier than ever. To find out what it's like on the front lines, we spent some time with the investigators and consumer advocates who fight investment fraud, identity theft and financial abuse of the elderly. Here's what we learned.

ROOTING OUT INVESTMENT FRAUD

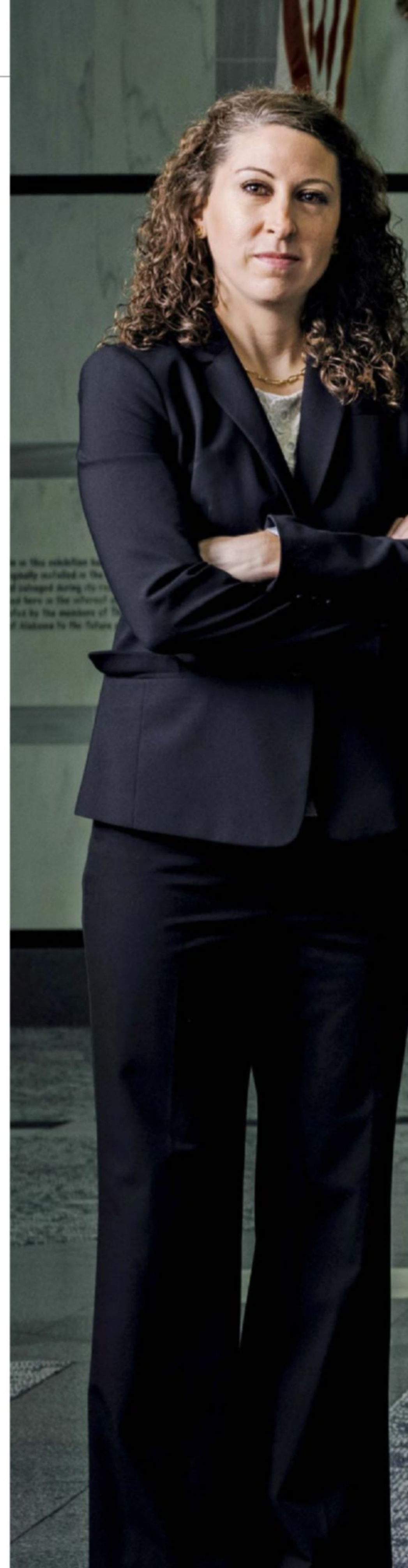
Think of the securities regulators at the Alabama Securities Commission—based a stone's throw from the state capitol in Montgomery—as literally cops on the beat. The 13 investigating agents are sworn officers of the law. They've all been to a police academy, many are retired from previous careers in the local police department, and they carry guns. Although the commission mostly relies on local uniformed law enforcement to make arrests, the securities regulators in Alabama are among only a handful of state securities authorities with the power to slap on the handcuffs. That could explain the slight precinct-house vibe you feel in the ASC's government-issue offices, where the mission is fighting white-collar crime but the dress code runs more to khakis and open-collar shirts than to suits.

Senior special agent Locklar, in the enforcement division, and colleague Mike Gantt, the other senior special agent in the unit, worked as homicide detectives in the Montgomery municipal police department—Locklar for nearly a decade, Gantt for almost two. "I've had enough violent crime for two lifetimes," says Gantt. But he says the crimes he investigates now are no less egregious. "I had one case that ruined 16 families," he says, recalling a recent Ponzi scheme. It involved a lawyer who took money from clients to invest in sham real estate and other "deals," paying early clients with funds from newer victims. The lawyer, who ended up stealing $10.5 million, was sentenced to 20 years, five of which were to be served behind bars.

The commission can bring both civil and criminal charges against those accused of breaking the rules or defrauding investors. An inside joke explains who gets hit with what kind of charge: "You lie, cheat or steal, you go to jail. Everything else we'll work out with an administrative order," says commission director Joseph Borg, who is also president of the North American Securities Administrators Association. Sanctions in the latter scenario might include a fine or a cease and desist order, for example. In the fiscal year ending September 30, the commission secured nine administrative orders, 11 arrests and nine criminal convictions, resulting in an estimated 42 years of jail time and nearly $3 million in restitution to victims.

Of course, Alabama is just one state, and the states are just one layer of securities regulation. Altogether, state regulators conducted more than 4,300 investigations for the most recent year reported, resulting in 1,606 administrative actions and 241 criminal proceedings. The Securities and Exchange Commission is the federal regulator for securities markets. It has authority to bring only civil cases but collaborates on enforcement issues with its state counterparts as well as with criminal prosecutors nationwide. The Financial Industry Regulatory Authority, or Finra, is the industry's regulatory body, overseeing more than 600,000 brokers. It can levy fines, suspend or bar firms or individuals from the industry, and order restitution.

To understand how the layers fit together, think of it this way, says Borg: Finra is like a neighborhood watch with patrols on every corner, surveilling brokers. If Finra sees misconduct, the broker might be fined, or the case might be referred to a state regulator. Big cases are referred to the SEC. The SEC is like the Federal Bureau of Investigation—it takes on the big cases but doesn't typically get involved with burglaries on the street



PHOTOGRAPH BY ROB CULPEPPER


AT THE ALABAMA SECURITIES COMMISSION, AMANDA SENN, RICKY LOCKLAR AND JOSEPH BORG FIGHT INVESTMENT FRAUD.

(or the investing equivalent). "We're the local cops and sheriffs in the counties," says Borg. The Commodity Futures Trading Commission is another federal layer. It polices the derivatives market, including options, futures and other products.

Skin in the game. With five lawyers on staff, the Alabama Securities Commission prosecutes many cases in-house that other regulators might hand off to the Department of Justice, a district attorney or a U.S. attorney. At the ASC, says Borg, "the cases start here, they're investigated here, and the same people who work the case show up at trial. We've got more skin in the game."

Like their investigator colleagues, some of the ASC's lawyers came to securities fraud from grittier pasts. Greg Biggs keeps a memento from a particularly grizzly murder prosecution: a replica of a reconstructed skull that figured prominently in a case involving a lethal blow to the head and an attempt to cover it up by way of a bulldozer. These days, Biggs occupies a large and, by choice, windowless office with stacks of folders on the floor and giant whiteboards on the walls marked with flow charts tracking his cases. "I'm the guy for high-yield, prime bank fraud, and unfortunately, I'm covered up with work," he says.

In a prime bank scheme, perpetrators solicit targets with the promise that their money will be invested in high-yield, bank-issued securities that are not available to the general public. Victims may be stretching for yield in a low-interest-rate climate or desperately seeking funding for projects of their own—prime bank targets are often businesspeople with a dream. Investors are taken in by sophisticated financial terms and name-dropping of well-known institutions. Sports stars or other celebrities are often portrayed as fellow investors.

One such case started with a man who masqueraded as an international financier, while working out of an auto-detailing shop in Baldwin

County. Over the better part of seven years, the case has uncovered a vast web of coconspirators and resulted in felony convictions in Alabama, Arizona, California and Italy.

Hurricanes Harvey, Irma and Maria promise to wreak more havoc by spawning follow-on frauds, says ASC director Borg. "The best scams are ripped right out of the headlines," he says. State regulators have warned investors not to put their money in investment pools or bonds to help storm victims; water-removal or purification technologies; electricity-generating devices; or real estate remediation.

Concerns are also mounting in regulatory circles about "binary option" schemes and initial coin offerings. With binary options, investors bet online that a stock, index, currency or other asset will trade above or below a specific price at a certain time—a yes-or-no proposition that might last only minutes. Investors have complained about high-pressure sales tactics, unauthorized charges on credit cards used on binary options websites, and demands for excessive fees when investors ask to withdraw their money.

Initial coin offerings are riding a wave of Bitcoin notoriety to peddle virtual currency tokens with the promise of outsize returns, either in the coins themselves or in projects funded by their sale. In September, the SEC charged a man and two companies with defrauding investors via two such offerings. One touted the "first-ever cryptocurrency backed by real estate." The other was purportedly backed by diamonds.

Kiss the money goodbye. Restitution orders or no, it's rare that swindled investors get their money back. Tom Clement, a retired federal government contractor in Elberta, Ala., is one of the lucky ones. Clement invested more than $500,000 in a company called Polymer Global, which claimed to have a breakthrough rubber-recycling technology. Clement was promised returns on the order of 50%.

But the returns never materialized, and the securities were never legally registered. Three men were indicted in the case; two pleaded guilty, and one jumped bail and fled to Mexico. He was arrested in California in 2012, then returned to Alabama and ordered to make restitution. But it wasn't until this past July that Clement was repaid in full. "I feel sorry for investors in California who have no hope of getting their money back," he says.

Some cases strain credulity. One featured a portable breast-cancer screener that was actually a doctored stud finder of the sort carpenters use. "You can't make this stuff up," says Amanda Senn, the commission's general counsel and a ball of energy who works at a stand-up desk when she's not traveling to one of Alabama's 67 county courthouses. She mentions an electrical engineer who was among the victims taken in by a pitch to invest in a gadget that supposedly saved energy by allowing 220-volt lines to be plugged into 110-volt sockets. "We have victims from all walks of life—doctors, lawyers, engineers, brilliant people. These are crimes of trust," says Senn. That's why affinity fraud, which occurs when scammers exploit the trust and friendship of people with whom they have something in common—attending the same church, say—is the bane of stock cops everywhere.

The demographic profile of a typical investment-fraud victim might surprise you: college-educated, self-reliant, earning an above-average income. The crooks succeed because they're good at what they do, and they are relentless. Ask the ASC about the guy hawking the "no-risk, completely safe" gold-trading scheme. Even as the man sat in criminal court, awaiting arraignment, he worked his phone, seeking new targets. The irritated judge revoked the man's bond, and he waited 11 months in jail before pleading guilty and receiving five years' probation.

Greg Biggs is frustrated by such light sentences, a function of the overcrowding in the state's prisons. Says

KipTip

How to Invest Safely

Recognize the art of the con. Scammers succeed with financially sophisticated victims because investment fraud is a crime of persuasion. Be wary of high-yield, low-risk offers, as well as anything with a guarantee. Question anyone who claims a special credential, experience or affiliation to gain credibility.

Resist pressure. Con artists exert social pressure by claiming that other savvy investors—whether celebrities or members of your church—are already on board. Don't be swayed by small favors, such as a cut-rate commission or a free meal, and don't be rushed by claims of limited supply designed to create a false sense of urgency. Learn about persuasion tactics by playing Finra's interactive "Con 'Em If You Can" game at www.conemifyoucan.org.

Do a background check. You can find information about registered securities firms and brokers, including employment history, licensing status, criminal events, investor complaints and pending investigations, at https://brokercheck.finra.org. If you're working with an adviser, check out https://adviserinfo.sec.gov for information about a firm and key personnel, including certain disciplinary actions. You can also search for an individual to view that person's professional background and conduct. At www.nasaa.org, you'll find your state securities regulator, through which you can access extensive employment, disciplinary and registration information about a broker or investment adviser. Check out commodities, futures or foreign exchange dealers at www.nfa.futures.org/basicnet.

Research the pitch. Use the SEC's Edgar database to research securities (www.sec.gov/edgar.shtml), or check them out with your state regulator.

Biggs: "You see someone who's got a degree and is smart enough to know better, who slicks people out of their savings, destroying their lives. And he goes inside for a few months. It's frustrating. But there's nothing I can do—except try to slow 'em down a little bit." **ANNE KATES SMITH**

GUARDING YOUR IDENTITY

On any given day, you might find U.S. Secret Service senior special agent Matt Hayes on the other side of the globe, wearing a black suit and an earpiece serving on a security detail to protect a politician or another VIP. Today, on his home turf of Charlotte, N.C., Hayes is on a lesser-known but crucial Secret Service mission: cracking down on financial crimes. Tomorrow, he'll request a federal search warrant allowing him to examine laptops seized in an investigation. The next day, he'll meet with a local police detective to discuss identity-theft cases and visit gas stations to check fuel pumps for "skimmers"—devices criminals affix to payment terminals to steal customers' credit and debit card data. Wherever he is, Hayes picks up his phone or laptop in spare moments, following up on cases and fielding calls and e-mails from police officers, bank fraud investigators and other detectives who help catch the perpetrators.

Skilled investigators such as Hayes, an 18-year Secret Service veteran, don't lack for work. Financial fraud is a big business, in part because the up-front costs are low. Criminals can buy stolen payment-card information for a few bucks per card on black-market internet forums. By spending a few hundred dollars more on equipment found on sites such as Amazon.com or eBay, crooks are on their way to transferring the stolen data to counterfeit cards.

And the penalties are often light compared with those for other types of crime. In federal courts, the theft of $150,000 might earn the culprit a couple of years in prison, says Hayes.

■ U.S. SECRET SERVICE AGENT MATT HAYES INVESTIGATES ID THEFT IN CHARLOTTE, N.C.

Crooks lower their chances of being caught by drifting from city to city or from state to state, keeping under the radar because the financial damage is relatively small in each area.

In one case, for which Hayes was recognized by the Charlotte-Mecklenburg police department, a group of criminals traveled to small towns within a few hours of Charlotte and used stolen information to apply for lines of credit at retail stores and to finance car purchases. Hayes, along with detectives from the U.S. Postal Inspection Service and the Charlotte police, noticed that the suspects repeatedly appeared in bulletins from various local law enforcement entities. Fraud losses in that case tallied more than $250,000. The ringleader got almost eight years in federal prison.

Gas station gold. The U.S. is transitioning to credit and debit cards embedded with microchips and to chip-enabled payment terminals. The reason: The technology prevents crooks from using a skimmer to intercept data they could use to produce counterfeit cards. But the switchover to the new system isn't complete. Gas pumps in particular are still vulnerable—and skimming is on the upswing as crooks make last-ditch attempts to steal card data. So, after a lunch of North Carolina barbecue, Hayes climbs into a black government-issue SUV and heads to a gas station where skimmers have been pulled from the pumps four times in a nine-month period. Located in an affluent Charlotte neighborhood, the station is convenient for commuters who need to fuel up on their way downtown.

Hayes retrieves keys from the station attendant and unlocks the compartment housing the payment terminal on each fuel dispenser, starting with the one farthest from the station's convenience store. Pumps on a station's outskirts, where a thief can slip in a skimmer unnoticed, are prime targets. Typically, there are no signs of tampering with the locks; criminals find or make keys that fit. Hayes pokes at the wiring inside, looking for a small circuit board covered in tape

PHOTOGRAPH BY LIZ NEMETH

or insulation wrap—the telltale sign of a skimmer. The gizmo collects and stores payment-card information—including the PIN for a debit card—and has a tiny Bluetooth antenna attached. A thief need only come near with a Bluetooth-capable device to grab the data. Hayes finds no skimmers today.

Although gas-pump skimmers are usually invisible to customers, you may be able to spot an ATM skimmer (on machines that aren't yet upgraded for chip transactions) by pulling on the card reader slot. If it moves, that's an indication that a thief has glued or taped on an overlay that collects card data. The fraudsters who skim cards at ATMs for a living are often nomadic, says Hayes, driving old minivans with temporary license tags that they can purchase online. Hayes hit pay dirt with one such van, spotted by a patrol officer in a Greensboro hotel parking lot. When Hayes and his counterparts arrested the suspects, they found cloned payment cards in their vehicles and skimmer components in their hotel rooms. Eventually, the main suspect was prosecuted by the feds for skimming crimes in four states.

Back at the office, Hayes brings out an array of confiscated devices that were used to make counterfeit cards: a printer that can emblazon images of payment cards (or driver's licenses) onto blank cards; a magnetic-stripe reader/writer, which transfers stolen card data from a computer to the new cards; an embossing machine, to imprint names and numbers on the cards; and a machine that fastens silver or gold foil onto the embossed characters for a polished look. Hayes lays out several fake cards. Other than a thin white line around the border and a smooth signature line on the back—a genuine card's signature line typically has a slightly raised or rough texture—the cards are almost indistinguishable from the real thing.

Beware of breaches. Skimming isn't the only way to steal your ID. Thieves who get ahold of your name, Social Security number and birth date can open credit card and bank accounts, apply for loans, file for a tax refund—even rent an apartment. Crooks gather such sensitive data through the many breaches in the past several years (the recent hack at credit agency Equifax, for one, exposed the SSNs, birth dates and addresses of as many as 146 million people) or by buying data on the dark web, stealing mail or tricking victims into handing it over in phishing schemes. In the $250,000 ID theft case mentioned above, one of the criminals' sources was a medical office worker who sold employee and patient biographical data for just $10 a person.

In another case, a suspect filed fraudulent tax returns in the names of 61 people and had the refunds sent to cohorts so he could collect the checks without the IRS knowing his address. He altered the checks so they would yield higher dollar amounts, then deposited them in bank accounts he'd opened in the corresponding victims' names. He'd wire money from account to account, creating a convoluted trail for detectives to follow. But he used his home internet connection to file the tax returns, and the associated IP address linked him to the crime. His personal computers contained fake W-2 tax forms as well as evidence affirming his identity, including information on his personal bank accounts, driver's license and passport—plus photos of his college graduation.

Social media is sometimes a crook's undoing. "We've found in the last year or so that these suspects post photos of themselves holding guns and cash," says Hayes, noting that many of those who engage in financial fraud schemes also have violent criminal histories. Just down the hall from Hayes's office, the evidence vault holds about 50 guns seized in investigations. The lion's share of public attention may be focused on violent crimes involving drugs or murders, but Hayes emphasizes that law enforcement takes financial crime and identity fraud just as seriously. "We understand that

KipTip

Keep Your Data Secure

Play it safe at the ATM. Cover the keyboard with your hand when you enter your PIN—a camera may be recording your keystrokes, which thieves can later match with your payment-card data.

Check bank and credit card accounts. At least once a week, look for suspicious charges. Sign up to receive alerts when your bank account balance falls below a threshold you specify, say, or when a charge higher than a certain amount goes through on your card.

Head off ID thieves. Go to www.annualcreditreport.com to get free yearly reports from each of the three major credit bureaus. Check for accounts you don't recognize and other red flags. Or enroll in a service that monitors your credit reports. If you're worried about a breach, consider placing a freeze on your reports with each bureau. New creditors will be unable to view them, minimizing the chances that thieves will be able to open new credit accounts in your name (see "Your Equifax Defense," Dec.).

Watch for tax and medical ID theft. Fight tax ID theft by filing your tax return as early as possible. Doing so may block any thieves who want to use your Social Security number to file a return in your name and collect a refund. Signs of medical ID theft include treatments or services you never used appearing on bills or explanations of benefits.

Don't fall for phishing expeditions. Be on guard for phone calls or e-mails from fraudsters posing as representatives from your bank, the IRS or other entities. If you're unsure of an e-mail or text message, don't click on links within it, which could install malware on your device or lead to a scam website.

financial crime affects everybody," he says. "It's not a matter of *if* you become a victim. It's a matter of *when*."
LISA GERSTNER

FIGHTING SENIOR SCAMS

A carnival atmosphere fills the lobby of the Lower Bucks Hospital, in Bristol, Pa. The local radio station is broadcasting live, the free coffee is flowing, and the room is packed with retirees visiting dozens of booths to gather information about local services.

It's the seventh annual senior expo, hosted by state representative Tina Davis. One of the most popular booths is sponsored by the Bucks County Department of Consumer Protection. A constant stream of people stop by to pick up the bright-red "Helpful Contacts to Stop Scammers" guide, with instructions for stopping robo calls, telemarketers and spam e-mails, and steps to take if you suspect a scam.

Michael Bannon, director of the county's Office of Consumer Protection, and Tom Rorvik, consumer investigator, spend the morning answering questions about potential scams and warning people about some of the most prevalent problems. "One man came by and realized he had been duped out of $300 in a tech-support scam," says Rorvik. He had given a "tech expert" money for a contract to fix a home computer when problems cropped up, but the scammer never answered his calls when he needed help. Rorvik planned to investigate.

The consumer advocates have been dealing with a lot of tech-support scams, as well as solicitations from fake charities—especially after the recent natural disasters. They are also dealing with contractors who prey on seniors needing home repairs and run off with the money before finishing the project. A new twist in impostor scams involves crooks posing as tax collectors asking for money—they've even started posing as representatives of the Bucks County Treasurer's Office, says Bannon. Just picking up the phone puts the consumer at risk of being placed on a list of potential targets to be shared with other scammers, says Bannon. "These are professional con people. It's important to take steps to protect yourself," he says.

Bannon and Rorvik help residents of all ages, but they spend a lot of time on scams that target seniors. Retirees are prime targets for scam artists because they tend to be home when telemarketers call, and they often need help with tech support, caregiving, home maintenance or managing their finances as they get older. Seniors generally have regular income from a pension or Social Security and savings that they're looking to maximize. They're also a large group, with 10,000 people turning 65 every day. Retirees have more at stake than younger victims because there's less time to make up for money that has been stolen.

Dialing for your dollars. A group of men circle around the booth to commiserate about telemarketing calls and share their strategies for thwarting scam artists. Dennis, who lives in Bristol, says he received eight telemarketing calls the day before, starting at 8:20 A.M. One included a recorded message from someone claiming to be from the IRS. By afternoon, when yet another telemarketer called, he was ready to fight back. "I said, 'You're just in time for a parade!' and I blew a whistle into the phone," he says.

Gerald, who lives in Croydon, Pa., says that he and his wife received a number of telemarketing calls over the past week because his wife is about to turn 65—and everyone seems to be trying to sell her a medigap or Medicare Advantage plan. Some callers claim that they're from Medicare or Social Security and need her personal information. He says a friend almost fell for a fake IRS call, complete with a Washington, D.C., caller ID. "They said he had 24 hours to pay up or a U.S. marshal would come," he says.

The county recently warned seniors about the "grandparent scam," which starts with a frantic call from someone claiming to be a grandchild who needs money because of an accident or other trouble. Some crooks scour social media for names of the grandkids to make it sound legitimate. Callers ask the grandparent to wire money or to send a gift card or iTunes gift card number, which is harder to trace.

MICHAEL BANNON AND TOM RORVIK: RETIREES ARE PRIME TARGETS FOR SCAM ARTISTS.

PHOTOGRAPH BY JEFF WOJTASZEK

The most devastating scams are when a caretaker or a family member takes advantage of an older person. Victims may not report the scams because they depend on the unscrupulous caregivers or service providers or because they don't want anyone to think they're losing their mental abilities. Or they may not recognize the problem. So Bannon's office works with others who come in contact with seniors, such as home health aides, Meals on Wheels volunteers, financial institutions and adult children, to identify red flags. "We've had a number of cases of caretaker fraud ending in criminal convictions," says Bannon.

He recently heard from a home health aide who had started working for an elderly woman and discovered that she'd paid $10,000 to the previous aide's boyfriend to replace a roof. He never fixed the roof, and he "left the house in shambles," says Bannon, who is working with the district attorney's office and others on the case.

In need and betrayed. The expo ends at 1 P.M. Rorvik returns to the office. He'll get a spike in calls from people who read the literature, suspect they've been targeted by scams and want to talk in private. Bannon heads to a meeting of the Bucks County Crimes Against Older Adults Task Force, which takes place at the Area Agency on Aging office in historic Doylestown, near the spot where George Washington crossed the Delaware River during the Revolutionary War. The task force formed about 13 years ago after a local man died in a nursing home. Over time, the focus of the group has shifted. "We're not seeing as much physical abuse, but more financial abuse," says Kathleen Byrne, the county's assistant district attorney, who specializes in senior scams.

Seated around a large table are experts from a variety of local agencies, as well as others in a position to identify, warn about or prosecute senior scams and help the victims. "We have so many interlocking layers of protection," says district attorney Matthew Weintraub. The group discusses calls, public education efforts and recent cases, including the roof-contractor scam. The elderly woman who is out $10,000 has applied to receive a small sum from the state's victims' assistance fund, and a lawyer from the Senior Law Center is seeking restitution from the company that hired the aide who facilitated the scam. If they can't negotiate a resolution, civil action and criminal charges may result.

The experts around the table brainstorm ways to deal with such issues as what to do if a bank teller suspects someone is withdrawing money to pay for a scam, or how to stop someone who obtains a power of attorney and then steals money from the person whose finances he or she now controls. "We've seen an increase in power of attorney abuse," says Deanna Giorno, of the Register of Wills office.

They discuss a case going to trial the following week. A 92-year-old man gave his neighbor power of attorney in 2015 to help with his finances after his wife died. The neighbor started stealing money from the man's accounts, then took out credit cards in his name and even stole his medications to resell them. "It often starts small, and if no one questions it, they'll take a little more," says Byrne. In this case, the power of attorney gave the neighbor "a rubber stamp," she says.

The district attorney's office hired a forensic accountant to comb through bank records and sort the legitimate expenses from the theft. The neighbor ended up stealing about $215,000. She pleaded guilty to criminal charges of identity theft and credit card fraud, and is awaiting sentencing. The victim got $1,400 from an assistance fund at the Network of Victim Assistance, a nonprofit in Bucks County. "It's sad that the 92-year-old victim will probably never get that money back," says Bannon. "But I hope a message was sent to others who may consider such a crime." **KIMBERLY LANKFORD**

IF YOU HAVE COMMENTS OR QUESTIONS ABOUT THIS ARTICLE, SEND AN E-MAIL TO FEEDBACK@KIPLINGER.COM.

KipTip

Thwart Elder Abuse

Don't trust—verify. Be suspicious of calls or e-mails asking for personal or financial information. "Hang up and follow up," says Juliana Harris, of the South Carolina Department of Consumer Affairs. Look up the phone number of the government agency or financial institution independently, and call to find out if the caller or correspondence was legitimate. Stay on top of the newest scams by signing up for alerts from the Federal Trade Commission at www.consumer.ftc.gov/scam-alerts. Learn about new tax-related scams at www.irs.gov/newsroom (click on "Tax Scams/Consumer Alerts").

Report scams. Report an attempted scam, even if you didn't fall for it, at www.ftc.gov/complaint. The Federal Trade Commission adds the information to a database that federal and state agencies and law enforcement groups use to spot trends and support larger investigations. If you believe you've been scammed, get help from your local or state consumer protection office (see www.usa.gov/state-consumer). Get help from your Area Agency on Aging at www.n4a.org.

Enlist family help. Adult children can talk with their aging parents about reviewing their bank accounts and credit card statements (see "Money Help for Aging Parents," Nov.). Some banks provide read-only access to accounts, which can help children spot suspicious charges without providing access to parents' money, says Naomi Karp, senior policy analyst with the Consumer Financial Protection Bureau's office for older Americans.

Beware of high-commission salespeople. They may be trying to get a piece of your retirement savings. Call Finra's Securities Helpline for Seniors with questions (844-574-3577).

SAVING

Happy Birthday, 401(k)

A few lines in the tax code 40 years ago dramatically changed the way Americans save for retirement. BY SANDRA BLOCK

THE 401(K) PLAN MAY BE AS integral to retirement in America as Social Security and Medicare, but it wasn't conceived as a cornerstone of retirees' financial security. In 1978, the provision was inserted into the Internal Revenue Code to clarify that employees who invested a portion of their salary in company profit-sharing plans could defer taxes on the money. That led a handful of large companies to offer 401(k) plans to senior executives who wanted to supplement their pensions.

By the mid 1980s, companies began to see the advantages of abandoning traditional pensions entirely and replacing them with 401(k) plans. Even with a company match, 401(k) plans were less expensive than traditional pensions. Companies no longer had to put aside enough money to cover lifetime payments to retired employees. And 401(k) plans shifted investment risk from employers to plan participants. By 2015, only 5% of Fortune 500 companies offered pensions to most of their new employees, down from about 50% in 1998, according to benefits consultant Towers Watson. The more than 54 million participants in 401(k) plans today hold about $5.1 trillion in assets, according to the Investment Company Institute. The plans cost the government more than $115 billion a year in tax revenues, but a proposal by Republican lawmakers to cap pretax contributions at $2,400 a year was shelved following objections from the financial services industry.

A LEARNING CURVE

At first, employees embraced 401(k) plans, too. The 18-year bull market that began in 1982 led to healthy growth in their portfolios. And unlike traditional pensions, which are typically based on an employee's salary and years of service, 401(k)s give participants more flexibility to choose how much to save starting a year or less after they join a company. Plus, employees can change jobs and take the money with them.

But as 401(k) plans became the primary source of retirement savings for millions of people, problems began to emerge. Some plans were riddled with high fees and subpar investment options. Forced to manage their own portfolios, many novice investors made poor investment decisions. Many workers contributed far too little to ever have a nest egg big enough to ensure a secure retirement. More troubling, many workers didn't bother to sign up, or they cashed out when they changed jobs.

The financial services industry, which has reaped a windfall from the growth of 401(k) plans, says many of those problems have been solved. Average expenses fell from 1.02% of 401(k) assets in 2009 to 0.97% in 2014, according to a 2016 study by the Investment Company Institute and Brightscope, which rates 401(k) plans. Automatic enrollment has led to an increase in participation, particularly among millennials. For example, more than two-thirds of new participants in Vanguard-managed plans were automatically enrolled in 2016. According to an analysis of 401(k) plans managed by Wells Fargo, when young workers are

ILLUSTRATION BY PABLO BERNASCONI

automatically enrolled, 85% stay in the plan and the rest opt out; when auto enrollment isn't offered, only 38% of new employees sign up.

Meanwhile, the rapid growth of target-date funds has simplified investing choices. These funds allocate investments in stocks and bonds based on your expected retirement date. The investment mix gradually becomes more conservative as you get closer to retirement. At the end of 2016, 72% of participants in 401(k) plans managed by Vanguard had all or part of their accounts invested in a target-date fund, up from 18% in 2007.

Target-date funds eliminate the paralysis that often sets in when investors are faced with too many choices, says Leon LaBrecque, a certified financial planner in Troy, Mich. Portfolios invested in target-date funds are on autopilot, which helps workers avoid costly investment mistakes, such as selling during market downturns.

CHALLENGES AHEAD

Automatic enrollment has increased participation in 401(k) plans, but average contribution rates actually declined slightly between 2015 and 2016, according to a study by Alicia Munnell and Anqi Chen, of the Center for Retirement Research at Boston College. The reason: Once employees are automatically enrolled at a 3% contribution rate, most remain at that level.

Even so, the number of auto-enrolled workers who are contributing less than they would have if they had signed up voluntarily "is overwhelmed by the number of people who would have been putting in zero and are now putting in 3%," says Jack VanDerhei, research director for the Employee Benefit Research Institute, a nonprofit research organization.

One way around the low-rate problem is to increase the amount workers contribute every year automatically (unless the employee specifically blocks it). Two-thirds of 401(k) plans managed by Vanguard automatically increase employee contributions by one percentage point a year up to a specific cap, which ranges from 6% to 20%.

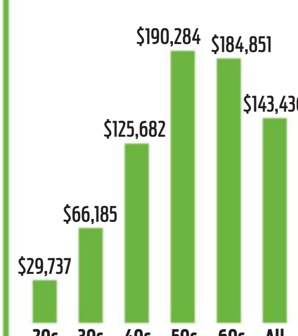
Some plans are setting the initial contribution rate for auto-enrolled workers above 3%. For example, one-fifth of Vanguard-managed plans enroll new employees at a contribution rate of 6% or more. Companies that have increased their default contribution rates haven't seen a decrease in the number of workers who participate in their plans, says Diana Awed, vice president for retirement services at T. Rowe Price. A recent study sponsored by the Voya Behavioral Finance Institute for Innovation found that companies can set their default rate as high as 10% without affecting enrollment.

THE HAVES AND HAVE-NOTS

Laurette Dearden, a certified financial planner in Laurel, Md., says her husband started contributing to his company's 401(k) plan in the early 1990s. At first, he contributed only about $60 a paycheck. "It was not a lot of money, but it was a lot to us because we had little kids, and it was a stretch to put anything away," Laurette says. Over the years, her husband increased his contribution every time he

SAVING DEFICIT

Average 401(k) account balances by age



SOURCE: Employee Benefit Research Institute. (Data is from 2015.)

INTERVIEW

Motivating Workers to Save for Retirement

SUZANNE SHU, *an associate professor of marketing at UCLA, has done extensive research into why we save—and why we don't. While studying for her PhD at the University of Chicago, she worked closely with Richard Thaler, who won the 2017 Nobel Memorial Prize in Economic Sciences for his pioneering research in behavioral economics.*

COURTESY UCLA

KIPLINGER'S: Saving in a 401(k) requires people to do something that may not pay off for 30 years or more. How can workers overcome the desire for immediate gratification? SHU: Getting someone to put $10 aside right now that will pay off someday in the future versus buying something they're in the mood for is a big challenge. Researchers at Carnegie Mellon University tried giving people a gift certificate for $50 when they signed up for a 401(k) plan. It led to a big boost in sign-up rates. The fact that such a small amount of money motivates people is contrary to economic theory, but that immediate reward makes people really happy.

Are there other ways to get people to save for the future? One of my colleagues, Hal Hershfield, showed college students images of their faces digitally altered to appear 40 years older. Students who saw their digitally altered selves said they would save about 30% more than students who were shown pictures of their current selves. The idea is that seeing your future self as someone more than a stranger builds a feeling of connectedness that makes you care about that future person. As a result, you're more likely to want to save money.

How are employers motivating workers to save more? The other thing that helps is to make it as easy as possible to save. That can include things such as tying an increase in your savings to a raise so you don't notice the extra money that's coming out of your paycheck. A lot of companies automatically enroll their workers in their 401(k) plans when they start a new job. People don't fight back because saving for retirement is what they wanted to do anyway.

Savings rates are much lower for workers who don't have contributions automatically deducted through a 401(k) or similar plan. How can we get these workers to save for retirement? That's a big challenge, especially with the rise of the gig economy. Some of my colleagues are looking at whether we can encourage people to make a small daily deposit into a savings account—say, the cost of a coffee at Starbucks. That could add up to a lot of savings over time and it doesn't feel like a lot at the moment you do it. I could imagine a world in which for every day Uber drivers work and earn income, $5 gets put aside in a savings account.

What are the biggest challenges facing people who *have* saved for retirement? Even if we're successful getting people to save in a 401(k) plan, they land in retirement and have no idea how to manage it going forward. It's been understudied because 401(k) plans are still pretty young. But with baby boomers retiring, all of a sudden figuring out how to manage those challenges is going to be a big deal. One solution is to convert part of the balance to an annuity so you have guaranteed income for the rest of your life. But taking your nest egg and handing it over to an insurance company—that's a very hard behavioral decision. Some financial services companies are calling annuities a personal pension. The idea of framing it as a personal pension is really smart because a lot of people don't like annuities but they like pensions.

How has your research affected your own savings habits? The university system still offers a pension, but we also have a 403(b) and 457 plan. At the beginning of the year, I set the default to save as much as my plans allow. When the statements come in the mail, I try not to look at them other than to make sure money hasn't suddenly disappeared due to an error or fraud. I don't let myself get involved in second-guessing my investments. It's better not to check those balances on a regular basis. I just let them grow over time.

got a raise or a bonus, and the account grew. The Deardens, now in their mid fifties, have more than $1 million in their retirement accounts and are confident they can afford a comfortable retirement. Laurette's husband plans to stop working at 65; Laurette isn't sure when she'll retire, but she knows she can afford to do it on her own terms. "The amazing thing is how those small, earlier dollars really added up," Laurette says.

Such success stories are much more difficult to find among people who don't have access to a 401(k) or similar workplace retirement savings plan. Most large companies offer 401(k) plans, but only about half of small and midsize companies do. One-fourth of private-sector employees work for companies that don't offer a retirement savings plan at all, according to a survey by the Pew Charitable Trusts.

The impact on savings is stark. Nearly one-fourth of U.S. households have saved less than $1,000 for retirement, according to EBRI's 2017 Retirement Confidence Survey. More than two-thirds of workers who have saved less than $1,000 said they don't have a workplace retirement plan.

Several states have proposed requiring employers that don't offer a retirement plan to automatically enroll workers in a state-run IRA. The initiatives have been stalled by legal challenges from industry groups representing employers. They argue that the state-run plans would create regulatory headaches for companies with employees in multiple states and could even discourage some companies from offering 401(k) plans. Last spring, Congress repealed Obama-era regulations that would have made it easier for states to require employers to enroll their workers in IRAs automatically. A proposal that has more support from employers would allow small businesses to band together to form multiple-employer plans, or MEPs.

Ted Benna, a benefits consultant, is widely credited with creating the 401(k) plan features most companies use today (he came up with the idea for a match). But Benna now believes 401(k) plans are too expensive and cumbersome for many small employers. He has developed model savings plans that provide a way for employers to offer IRAs, with the added benefit of payroll deduction and a company match.

Benna has developed another model for employers with 100 or fewer employees using a SIMPLE IRA, which allows for pretax contributions of up to $12,500, or $15,500 for those over 50. (The maximum an individual can contribute to an IRA is $5,500, or $6,500 if you're 50 or older.) To keep costs down, Benna's models use low-cost funds from Vanguard and Schwab. "You can get the benefits of a 401(k) without using Section 401(k) of the Internal Revenue Code," he says. ■

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

KipTip

How to Build a Better 401(k)

The amount of money in your 401(k) could mean the difference between taking an annual cruise in retirement and having to move in with your kids. Here's how to get the most from your plan.

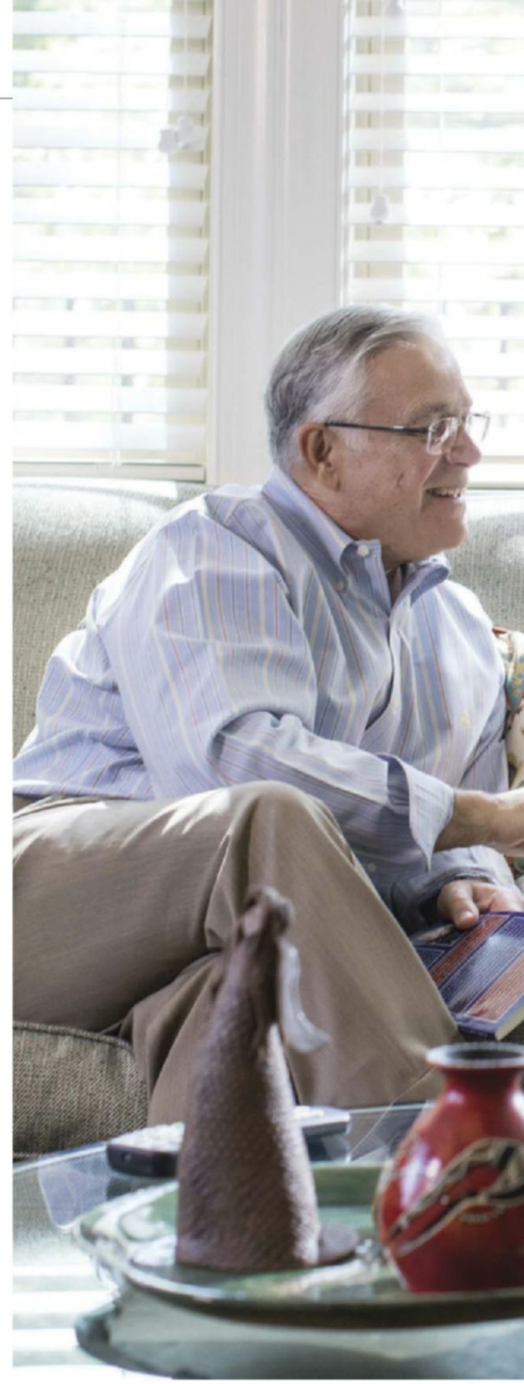
Start saving early, and save as much as possible. "If you just increase your contributions by one percentage point a year, that will help you attain your goals," says Daniel Lash, a certified financial planner in Vienna, Va. Of course, you'll want to contribute at least enough to get the full employer match. Many experts say your retirement savings goal should be 15% of income, including any employer match.

Pay attention to fees. Fees for large 401(k) plans have gone down, but some employers are still charging too much. Enter your 401(k) funds' ticker symbols at www.morningstar.com and click the "purchase" tab to find out which share class your plan is offering. If the share class in your plan isn't the lowest-cost available, ask your company why. Companies are required to disclose fees they extract from your account to cover administrative costs. You can find this information on your quarterly fund statement. You can also get an idea of how your plan's costs compare with others of similar size at Brightscope.com.

If your employer turns a deaf ear to requests for lower-cost options, you may want to limit the amount you invest in your plan. Contribute enough to get the match and invest the rest of your savings in a low-cost Roth IRA.

Don't treat your 401(k) like an ATM. Early withdrawals can leave a permanent hole in your 401(k) plan. You'll pay income taxes on the money, and you will likely owe a 10% early-withdrawal penalty if you're still working. Most 401(k) plans offer loans, but if you leave your job before you repay the loan—either by choice or because you lose your job—you'll usually have just 60 to 90 days to pay off the balance. Otherwise, you'll have to pay taxes on the balance, plus a 10% early-withdrawal penalty if you're younger than 55 at the end of the year you leave your job. Plus, the amount you borrow won't be invested in the market.

If your employer doesn't offer a 401(k) plan, ask why. Meghan Murphy, director of workplace programs for Fidelity Investments, says she has visited start-up companies that offer perks ranging from dog grooming to cold-brew coffee—but no 401(k) plan. A survey by the Pew Charitable Trusts found that one-sixth of employers that don't offer a 401(k) plan believe their employees aren't interested in having one. Tell your boss that you value a retirement plan even more than free caffeinated beverages. If you work for a small company, you may have a better chance of finding someone in management who will listen to your concerns, Murphy says.



RETIREMENT

Buying the Total Package

A continuing care retirement community will handle all your needs for the rest of your life—at a hefty price. Here's how to shop for one. BY PATRICIA MERTZ ESSWEIN AND EILEEN AMBROSE

RALPH AND JEAN DAVISON OF GREENSBORO, N.C., knew that someday they would sell their 4,500-square-foot home and acre of land and move to a continuing care retirement community. But someday came sooner than they expected. In 2015, Ralph, now 71, and Jean, 65, learned that Well Spring, a nearby CCRC, was adding 23 new villas. The Davisons put down an initial $1,000 deposit on a 2,500-square-foot, one-story home with three bedrooms, two bathrooms and a two-car garage—exactly what they wanted. A year later, they moved into their new home and, along with it, the community that will see them from independent living all the way to skilled nursing care, should they ever need it.

There are nearly 2,000 CCRCs nationwide, many with waiting lists. To buy into one, you usually must be at least 62 and healthy enough to live independently. You live in a house or apartment and go to a community dining room for as many meals as you choose. The CCRC provides entertainment, fitness centers and wellness programs, plus excursions to museums, theaters and stores. If your health declines, you can move on to assisted living, memory care or skilled nursing until the end of your life.

Among the many amenities Well Spring offers—from a bank to walking trails—the Davisons use the fitness center and indoor swimming pool. The community is sociable, says Ralph, and the dining room has fabulous food and wonderful servers. "Living here is so easy, like being on a cruise ship," he says. The Davisons can travel without worrying about break-ins or mowing the lawn, and a Well Spring driver will always be waiting to pick them up at the airport.

What You'll Pay

All this comes at a steep price. The majority of CCRCs require a hefty entrance fee, which averages about $320,000, up 3% from 2016, according to the National Investment Center for Seniors Housing and Care, an industry research group. The fee—based on the location, size of the residence, and whether it is single or double occupancy—can range from less than $100,000 to more than $1 million.

You'll also pay monthly fees, which average $3,266 nationwide, up 4.8% from a year ago. These, too, vary widely, from about $2,000 to more than $7,000 at some high-end CCRCs. A CCRC pools the fees to run the community and provide for its residents' long-term care.

The Davisons paid a $280,000 entrance fee, and they pay a monthly fee of $5,800 to cover meals, utilities, maintenance, security and other basics. They found that even with the $5,800 monthly fee, it costs them less to live at Well Spring than it did to live in their former home, after eliminating mortgage payments, property taxes, homeowners insurance, utilities and upkeep of the yard and swimming pool.

RALPH AND JEAN DAVISON SOLD THEIR HOME IN GREENSBORO, N.C., AND USED THE PROCEEDS TO BUY INTO WELL SPRING, A NEARBY CCRC.

KipTip

Pick a Contract

CCRC contracts come in four flavors, although a facility may offer only one or two types.

Lifecare. Also called a type A contract, it has a higher monthly fee and possibly a higher entrance fee than other types of contracts because it provides the assisted living and skilled nursing you may need later without additional cost.

Modified. This arrangement (called type B) tends to have a smaller monthly fee or entrance fee than lifecare because it doesn't pay the full cost of future health care. You may receive care at a discount, typically 20%.

Fee-for-service. You'll generally pay lower fees for this arrangement (called type C) than for type A or B because you buy your health care à la carte and pay market rates for assisted living or skilled nursing care. If you or a spouse moves to assisted living or skilled nursing, your monthly cost could more than double.

Rental agreement. You won't pay an entrance fee, but your monthly fees will be higher than for other contracts, and you pay the full cost of health care.

Debbie Levenson, a financial planner in Newton, Mass., researched several CCRCs for her parents near their home in Cherry Hill, N.J., and near her, in Boston. "It was a tale of two cities, and it has mostly to do with the cost of real estate," she says. Boston's CCRCs had small apartments, long waiting lists and entrance fees of $800,000 to $1 million for a two-bedroom apartment. In Cherry Hill, the CCRC apartments were large and available immediately, and the up-front fees were $300,000 to $400,000. Her parents chose the New Jersey CCRC.

Most CCRC residents, like Levenson's parents and the Davisons, don't buy a residence outright. Rather, they purchase the right to occupy an apartment or house. Less often, residents buy their home instead of paying an entry fee, but they still pay a monthly fee, as well as property taxes and homeowners association fees. Owners are generally guaranteed or given priority access to assisted living or skilled nursing care at no extra cost for anywhere from 90 days to six months. After that, they pay out-of-pocket at half to full market price, depending on their contract. After they die, their heirs can sell the property—but only to a buyer who meets the entry criteria. The CCRC may be entitled to part of any home-price appreciation.

After you've digested the cost, get ready to make a raft of decisions. Contracts and terms tend to be complex and vary widely from community to community. "This is a very complicated decision," says Andrew Crowell, vice chairman of D.A. Davidson & Co. Individual Investor Group, in Los Angeles. "Think about purchasing a home. Think about purchasing an insurance contract. And think about making one of the biggest financial and lifestyle decisions in your life.

PHOTOGRAPHY BY NATALIA WEEDY

THE DAVISONS PAID A $280,000 ENTRANCE FEE AND PAY A $5,800 MONTHLY FEE THAT COVERS MEALS, LIVING COSTS AND ALL OF THEIR HEALTH CARE.

The decision to go into a continuing care retirement community is all three of those bundled into one."

In general, the higher the entrance fee and monthly fees, the more of your health care costs your fees cover (see the box on page 41 for typical fee arrangements). Many communities offer a partial—or even full—refund of the entrance fee if you leave or after you die. You may, for instance, pay a larger entrance fee for the promise of getting 90% of it returned once the unit is occupied again or after a certain time, such as two years, says Brad Breeding, founder of myLifeSite.net, a website with information on hundreds of CCRCs in 11 states.

Coming Up With the Cash

When you apply to a CCRC, be prepared for your finances to be heavily vetted. The CCRC wants to make sure you can afford not only the up-front fee but also the monthly fees, which will likely go up each year by 3% to 4%. CCRCs often use software that analyzes your age, assets, liabilities and life expectancy to predict when, or if, your money will run out. Financial planners say CCRCs typically expect applicants' total assets when they apply to be twice the amount of the entrance fee, and their monthly income, from such sources as Social Security, annuities and pensions (but not from the drawdown of assets), to be one-and-a-half to two times the monthly fee.

Most people finance the entrance fee by selling their house. If you can't immediately sell your home, you may be able to pay the entrance fee using a home-equity line of credit. (You can usually borrow up to 80% of a property's appraised value.) When you sell the house, you can pay off the line of credit. If you don't have a credit line, set one up months before applying to a CCRC, says Keith Gumbinger, vice president at mortgage research firm HSH.com. Banks are less likely to extend a credit line if they expect the homeowner to repay the debt within two or three years, he says, and they often charge an early-termination fee.

The Davisons borrowed from an existing home-equity line of credit to make four deposits during construction that were equal to about half of the $280,000 entrance fee. A few days after moving into the CCRC, they sold their house for about $660,000 and paid off their debt.

Bridge loans that provide the cash needed between the time you buy one home and sell another are hard to come by; they're almost impossible to get for CCRCs in which you won't own your residence. There are a few exceptions. For example, Elderlife Financial Services specializes in bridge loans to borrowers entering one of 125 CCRCs it partners with in 42 states. Loans are based on your finances and comparable home sales in your neighborhood. Some CCRCs will even cover the loan's origination fee and interest.

If you have to tap retirement accounts for a portion of the entrance fee—triggering a tax bill that could push you into a higher tax bracket—the tax hit can be partially offset by the sizable deduction you may be able to take on the portion of the entrance fee that will cover future health care costs. If you itemize deductions on your federal return, you can write off medical expenses that exceed 10% of your adjusted gross income. (That could change under tax reform.) The CCRC will be able to tell you how much of the entrance fee—as well as any monthly fees you may pay—is deductible. The Davisons, for instance, deducted 38% of their entrance fee and monthly fees paid during the remainder of their first year.

Also ask the CCRC about options for covering the fees. It may let you delay payment of your entrance fee for a few weeks or sign an agreement promising to pay the entrance fee at the end of 60, 90 or 120 days if you pay a nominal sum, says Steve Fleming, president of Well Spring and chairman-elect of LeadingAge, an association that represents nonprofit CCRCs and other aging-services providers.

Check to see whether a CCRC offers incentives when it has a number of vacancies or units that remain unoccupied. Incentives may include a lower entrance fee, a temporary discount on the monthly fee or free unit upgrades.

Check Out the CCRC

Just as CCRCs will scrutinize your health and finances, you should return the favor. After all, you are entrusting a big portion of your nest egg to the CCRC, and your lifelong security depends on its financial stability and the quality of care it provides.

The box below lists ways to vet a CCRC. To dig deeper into the quality of its health care, use the "Nursing Home Comparison" tool at www.medicare.gov, which rates facilities and lets you compare up to three at a time. Note the total number of licensed-nurse staff-hours devoted to each resident per day. The more, the better, especially for registered nurses. (CCRCs with a top, five-star rating will advertise it.) For information and inspection reports on the assisted living facilities, visit the website of the state's department of health, social services or aging and use its facility finder. When you visit CCRCs, be sure to tour the assisted living and skilled nursing facilities. Look for positive interactions among members of the staff, as well as among staff and residents.

Checklist

How to Vet a CCRC

✔ Pop in for a visit. In fact, many facilities allow you to stay overnight to get a better feel of what it would be like to live there.

✔ Talk to residents besides those selected by the CCRC to give you a tour. What do they like or dislike about the place? Are residents' concerns addressed?

✔ Tour the assisted living and skilled nursing facilities. That's ultimately a big part of what you're buying.

✔ Request a sample contract and financial disclosures up front (see the "Consumer Guide to Understanding Financial Performance & Reporting in CCRCs" at www.carf.org). Have a financial adviser review the contract and other paperwork.

✔ Ask about staff turnover. It's a bad sign if, say, the facility has a new director every other year.

✔ Check the occupancy rate. Facilities that are consistently at least 90% filled will most likely be able to keep their financial promises to residents. A lower rate over a sustained period is a red flag.

✔ Look at the history of annual increases for monthly fees. Fee hikes of more than 3% to 4% a year could signal a problem.

✔ Ask how the CCRC plans to meet its future obligations. Or, if the CCRC intends to expand, ask how it will pay for that development and what impact that could have on fees.

Ask for the CCRC's disclosure statement, including audited financial figures. The disclosure statement contains clues to help you determine whether a CCRC has the financial resources necessary to provide services now and in the future. Expenses that are greater than operating income, and liabilities that exceed assets, are red flags. If numbers aren't your thing, take the audited financial statement and other disclosures to your accountant, lawyer or financial adviser.

Also ask for the history of the CCRC's monthly fees. It's not unusual for fee increases to exceed inflation by a little, but a jump of 15% to 20% over the past several years could be a sign of poor management or budgeting (or that the CCRC had a major renovation), says Levenson.

What if *you* can't keep up with monthly fees? The answer should be spelled out in the contract. Some CCRCs accept Medicaid; others don't. Some will draw down the refundable entrance fee. Most CCRCs are nonprofit and have a so-called benevolent fund that will subsidize or cover your continued stay. Some for-profits will also do what they can to keep residents in place, Breeding says, although he has seen some for-profit contracts that require residents to leave the CCRC after a certain number of days if they can't pay the fees.

Money aside, for many residents, the value of a CCRC is the ability to control their future without having to rely on others to make critical care choices for them. "We wanted to make our own decisions and take that burden off our children's shoulders. And we did it," says Ralph Davison. ■

YOU CAN CONTACT THE AUTHORS AT PESSWEIN@KIPLINGER.COM AND EAMBROSE@KIPLINGER.COM.

KIMBERLY LANKFORD | Ask Kim

A Tax-Smart Way to Get Income

I HAVE HEARD THAT A QLAC CAN HELP me reduce my required minimum distributions. What is it?

C.V., EDISON, N.J.

A qualifying longevity annuity contract (QLAC) provides guaranteed lifetime income later in retirement and reduces your required minimum distributions.

You can invest up to 25% of your total traditional IRA or 401(k) balance (or $130,000, whichever is less, up from $125,000 in 2017) in a QLAC, usually when you're in your sixties or early seventies. That money is removed from your RMD calculations. The QLAC starts to pay out at a future date you choose—age 85 is the oldest—and continues for life. Payouts are taxable when you receive them. (Note that few 401(k)s offer QLACs at this point.)

For example, if a man invests $130,000 in a New York Life QLAC at age 65, he'll receive $60,902 per year for the rest of his life starting at age 85 (payouts are less for women). Payments stop at death, but you can take a reduced payout—$43,690 a year for a man investing at age 65—in return for a cash refund to your heirs if you die before the payouts equal your initial investment.

By using IRA or 401(k) money to buy a longevity annuity, you can reduce RMDs and get income for life.

Water damage coverage. I know that flooding isn't covered by homeowners insurance, but are other types of water damage? How do I protect my home this winter?

J.K., COLORADO SPRINGS

Water damage from leaks and burst pipes, or from water coming into your home through your roof and windows, is covered by home insurance. It's a common cause of claims.

You can protect your home by installing water-leak detection devices that sound an alarm, send an alert to your smartphone or automatically shut off the water valve if they detect moisture or unusual water activity. Or you could turn off the main water supply yourself before leaving town, says Annmarie Camp, of Chubb Insurance.

You can add sewage-backup coverage to your home insurance, which covers damage from heavy rains or melting snow that causes water or sewage to back up into your house. (It may cost $50 to add $10,000 in coverage.)

Challenging Medicare's high-income surcharge. I retired this year, so my income next year will be much lower. But I just received notice of a high-income surcharge on my Medicare premiums. Is there a way to use my newer, lower income?

M.S., YUMA, ARIZ.

Yes. Single filers who have more than $85,000 in adjusted gross income plus tax-exempt interest income, and those who are married filing jointly who have more than $170,000, have to pay extra for Medicare Part B and Part D. The surcharge is based on your last tax return on file—generally 2016 income for 2018 premiums.

But if your income has dropped because of certain life-changing events, including retirement, submit Form SSA-44, which asks Social Security to use your more recent income. You must provide evidence, such as a signed statement from your former employer, that you're retired. See "Medicare Premiums: Rules for Higher-Income Beneficiaries" at www.ssa.gov.

Insuring jewelry. I received an expensive watch as a gift. Do I need to buy separate insurance for it?

J.B., NASHVILLE

Most home insurance policies limit jewelry coverage in case of theft to $1,000 per item or $2,500 total. You may be able to increase the limits for about $10 per $1,000 of coverage, says Peter Ducich, of Farmers Insurance. Or for $14 to $15 per $1,000 of coverage you can add a jewelry endorsement, which has a $0 deductible, covers more types of losses and has higher limits, says Ducich. ■

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

LISE METZGER

CREDIT

Airline Cards Without the Fee

FREQUENT FLIERS CAN now sign up for a dedicated airline credit card from a major airline without paying up front. Delta and United have introduced no-fee cards that offer miles or credits that cardholders can redeem for flight purchases. The **AMERICAN EXPRESS BLUE DELTA SKYMILES** card (16.74% to 25.74% annual percentage rate; 2.7% foreign-transaction fee) offers two SkyMiles per dollar spent on Delta purchases and at U.S. restaurants; other purchases earn one mile per dollar. Cardholders also get a 20% discount on in-flight purchases. By contrast, Delta's Gold Delta SkyMiles card ($95 annual fee) pays out only one mile per dollar on dining, but it offers perks such as free baggage and priority boarding, and it charges no fee for foreign transactions.

Rather than rewarding you with United MileagePlus miles, the no-fee **CHASE UNITED TRAVELBANK** card (16.99% to 23.99%; no foreign-transaction fee) offers cash back that you can use to purchase United flights. You'll earn 2% back on United ticket purchases and 1.5% on all other spending. Plus, cardholders get 25% off in-flight food and beverage purchases.

Even if your preferred carrier doesn't advertise a no-fee credit card, you may be able to bypass the fee. "It never hurts to ask if there's a no-fee or low-fee alternative," says Brian Karimzad, analyst for MileCards.com. For example, the no-fee Citi/AAdvantage Bronze MasterCard from American Airlines is generally not available to new applicants. But the issuer may be willing to give the card to customers who ask—especially those who already hold another of the airline's cards. If your airline card has an annual fee, the issuer may waive it for a year on request instead of downgrading you to a no-fee version. **LISA GERSTNER**

RATE UPDATES

For the latest checking and savings yields and mortgage and loan rates, please visit kiplinger.com/links/rates.

YIELD BENCHMARKS

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	0.10%	0.10%	0.10%
U.S. Series I savings bonds	2.58	1.96	2.76
Six-month Treasury bills	1.28	1.20	0.51
Five-year Treasury notes	2.01	1.92	1.31
Ten-year Treasury notes	2.38	2.33	1.84

SOURCE FOR TREASURIES: U.S. Treasury.

As of October 31, 2017.

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

TOP-YIELDING DEPOSIT ACCOUNTS

No-Fee Interest Checking (Minimum balance may be required)	Annual yield as of Nov. 7	Balance range†	Website (www.)
Langley Federal Credit Union (Va.)#	1.61%	0–$1,000	langleyfcu.org
EverBank (Fla.)*	1.21	0–250,000	everbank.com
Nationwide Bank (Ohio)*	1.15	$10,000–plus	nationwidebank.com
Aspiration (Calif.)*	1.00	2,500–plus	aspiration.com
NATIONAL AVERAGE	**0.14%**		

High-Yield Checking (Must meet activity requirements‡)	Annual yield as of Nov. 7	Balance range†	Website (www.)
America's Credit Union (Wash.)#	5.00%	0–$1,000	youracu.org
First Financial Credit Union (Ill.)#	5.00	0–2,500	firstfcu.org
Northpointe Bank (Mich.)	5.00	0–10,000	northpointe.com
Consumers Credit Union (Ill.)#	4.59	0–20,000	myconsumers.org
NATIONAL AVERAGE	**1.86%**		

Savings	Annual yield as of Nov. 7	Minimum amount	Website (www.)
Dollar Savings Direct (N.Y.)*	1.50%	none	dollarsavingsdirect.com
Salem Five Direct (N.C.)*	1.50	none	salemfivedirect.com
Live Oak Bank (N.C.)*	1.40	none	liveoakbank.com
Popular Direct (Fla.)*	1.40	$5,000	populardirect.com
NATIONAL AVERAGE	**0.19%**		

#Must be a member; to become a member, see website. *Internet only. ‡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. SOURCES: Bankrate, DepositAccounts.

TOP-YIELDING CERTIFICATES OF DEPOSIT

1-Year	Annual yield as of Nov. 7	Minimum amount	Website (www.)
Virtual Bank (Fla.)*	1.76%	$10,000	virtualbank.com
Banesco USA (Fla.)*	1.75	1,500	banescousa.com
CD Bank (Tex.)*	1.75	10,000	cdbank.com
Limelight Bank (Utah)*	1.71	1,000	limelightbank.com
NATIONAL AVERAGE	**0.63%**		

5-Year	Annual yield as of Nov. 7	Minimum amount	Website (www.)
Utah First Federal Credit Union (Utah)#	2.55%	$500	utahfirst.com
Garden Savings FCU (N.J.)#	2.53	500	gardensavingsfcu.org
Langley Federal Credit Union (Va.)#	2.53	1,000	langleyfcu.org
United States Senate FCU (D.C.)#	2.49	20,000	ussfcu.org
NATIONAL AVERAGE	**1.56%**		

#Must be a member; to become a member, see website. *Internet only. SOURCES: Bankrate, DepositAccounts.

TOP CREDIT CARDS

Low-Rate Cards	Rate as of Nov. 7*	Annual fee	Late fee	Website (www.)
Lake Mich Credit Union Prime (P)#	7.25%	none	$25	lmcu.org
Simmons Bank Visa (P)	9.25	none	25	simmonsbank.com
First Command Bank Visa (P)	9.25	none	15	firstcommandbank.com

Retail Rebate Cards	Rate as of Nov. 7*	Annual fee	Rebate earned Store/Other	Website (www.)
Amazon Rewards Visa	15.24%	none	3%/1%‡	amazon.com/rewards
Costco Anywhere Visa	16.24	none§	2/1^	costco.com
Sam's Club Mastercard	15.90	none§	1/1∂	samsclub.com

Rates are adjustable. *If you do not qualify for this interest rate, the issuer will offer a higher-rate card. (P) Platinum. #Must be a member of the credit union; to become a member, see website. ‡3% at Amazon.com; 2% at gas stations, restaurants and drugstores; 1% on all other purchases. Prime members are eligible for a similar card with 5% rebate at Amazon.com. §Must be a member. ^4% on gas (up to $7,000 spent annually; 1% thereafter); 3% on travel and dining; 2% on Costco purchases; 1% on all other purchases. ∂5% on gas (up to $6,000 spent annually; 1% thereafter); 3% on travel and dining; 1% on all other purchases. SOURCE: Bankrate. Banks may offer lower introductory rates.

INVESTING | COVER STORY

WHERE TO INVEST IN 2018

As the bull climbs on and optimism rises, this market is getting closer to its peak. **BY ANNE KATES SMITH**

HOW GOOD ARE YOU AT READING MOODS? THE ANSWER could be the key to a healthy portfolio over the next couple of years. Consider the following quote from the late Sir John Templeton, a renowned investor with an eye for stock market value: "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." The most important tasks for investors in 2018 will be to figure out where we are on that timeline and position their portfolios accordingly. **//** It's clear that the animal spirits so lacking in this bull market's long climb are returning to Wall Street. And it's no wonder stocks in the U.S. have been on a tear. Major economies across the globe are on a synchronized growth track, corporate earnings growth both here and abroad is robust, and business executives and consumers are confident. Standard & Poor's 500-stock index has returned 21%

ILLUSTRATION BY JOHN TOMAC

since we published our 2017 outlook, eclipsing even the most bullish scenario in our forecast (see the box on page 52). That broad market benchmark notched a record high 60 times over the period, leaving stock prices elevated compared with long-term averages by almost every measure. (All prices and returns in this article are as of October 31.)

Make no mistake: This bull market is closer to the end of its journey than to the beginning. If it survives beyond August, it will be the longest-running bull ever. But we are optimistic (not yet euphoric) that this bull has some room left to run. "The market will continue to grind higher," says David Lafferty, chief market strategist at Natixis Asset Management, "but the risks are fairly high."

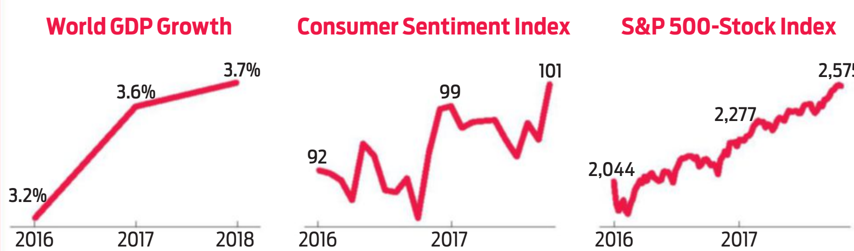
Mindful that the broad market has not suffered a meaningful downturn since the 14% decline that ended in early 2016, we think a total return of 8% or so, including roughly two percentage points from dividends, seems reasonable for 2018. Our conservative forecast would put the S&P 500 at about 2730 and the Dow Jones industrial average somewhere in the neighborhood of 24,800 at year's end. Passage of comprehensive tax reform could push markets higher. And the chance of a runaway rally is increasing, says strategist Ed Yardeni, of Yardeni Research—although, he quips, "an earnings-led melt-up isn't a melt-up, it's a bull market."

It behooves investors to look back at how far they've come and make some portfolio adjustments. Several years' worth of spectacular gains may have tilted your portfolio too much toward stocks considering your age, risk tolerance or stage in life. Now is a good time to rebalance your holdings (see "The Perks of a Portfolio Review," on page 58). And although the bond market will face challenges in 2018 (see "Income Investing," on page 56), don't forget that Treasury and other high-quality bonds serve as ballast in a portfolio, providing diversification, buffering volatility and, usually, moving in the opposite direction of stocks during market downturns. Finally, investors who have a global mindset will fare better than those with a parochial view—some of the best returns will likely be found outside the U.S. (see the box on page 53).

In the Zone

WHAT'S PUSHING STOCK PRICES HIGHER

Economies across the globe are in growth mode. That's fueling optimism among businesses and consumers, and translating into higher stock prices.



As of Oct. 31, 2017. SOURCES: International Monetary Fund, World Economic Outlook Database, University of Michigan, Yahoo.

THE TORTOISE WINS

The bullish case for stocks hinges on an economy that's moving in the right direction, but not very forcefully. "Most people equate strong economies with strong markets, but that's not the way things typically play out," says Jonathan Golub, chief U.S. stock strategist at Credit Suisse. Kiplinger expects the U.S. economy to grow 2.6% in 2018, an improvement from the 2.2% pace expected for 2017 but hardly hair-on-fire. And that's the point: Modest growth has so far kept the economy out of the typical boom-and-bust cycle, lengthening the expansion. "The tortoise is winning the race," says Golub. "That may not make a great story, but it's really powerful."

The tortoise has company. For the first time in a decade, at the start of 2017 the world's developed economies were all growing at the same time. Expect global synchronized growth to continue in 2018, says IHS Markit chief economist Nariman Behravesh, with improved performance in developed countries aiding recoveries in emerging markets. The International Monetary Fund projects global economic growth of 3.7% in 2018 (see the chart at left).

Monetary policy, here and abroad, should still support continued growth, says Behravesh. In the U.S., Federal Reserve Board governor Jerome Powell is expected to take over as Fed chairman in February. Powell will likely stay the current monetary course of modest, gradual tightening, but he may be more disposed toward reducing regulation of the financial industry. Kiplinger expects the Fed to increase short-term rates at least twice in 2018, following a quarter-point hike in December. The central bank will also gradually shrink the $4.5 trillion cache of bond holdings it amassed after the financial crisis. Look for the 10-year Treasury yield to close 2018 at 2.8%, up from about 2.4% at the end of 2017.

Economic growth may be moderate at best, but signs of a recession are remote to nonexistent. U.S. manufacturing was barely off a 13-year high in October. The unemployment rate was 4.1%, down from 4.8% a year earlier (and down from a 10% peak in 2009). Until the outlook for the economy deteriorates, the prospects for corporate America remain bright. Wall Street

Q&A SAMANTHA AZZARELLO

Go With Tech and Financials

SAMANTHA AZZARELLO *is a global market strategist at J.P. Morgan Asset Management.*

KIPLINGER'S: Where do you see the U.S. stock market headed in 2018? AZZARELLO: We see a continuation of the bull market. The backdrop for that is economic growth that remains on the path it's on, corporate earnings growth that continues and revenue growth that maintains a positive trend. If all that stays the same, we think the chances of a bear market in 2018 are close to zero. That said, we are in the later stages of the economic expansion in the U.S., so being more selective and taking some risk out of your portfolio is a good idea.

What's your forecast for economic growth? It's more of the same. We think the trend is for about 2.5% growth in gross domestic product for 2018. That's not fireworks-worthy. But one of the silver linings to growing slower is that we can grow for so much longer. U.S. companies also benefit from global growth picking up—I don't think that's emphasized enough. And the fundamentals for stocks are supportive.

Such as? When I think of equity fundamentals, I think of two questions: One, are companies more profitable than they were the year before or the quarter before? And two, are stocks cheap? Earnings growth is there, and it's real. It's not just cost-cutting to prop up earnings, it's real revenue growth that's coming in positive—and you can't fudge that. We're expecting revenue growth of about 5% for Standard & Poor's 500-stock index and earnings growth in the high single digits. Corporate profit margins are high now, but we think they can be sustained. If you keep profit margins high, then any bump to revenues supercharges earnings.

But stocks aren't cheap. What about valuations? Stock valuations are more art than science. There's no clear price-earnings ratio that's going to tell you when to get out of the market. Think of a traffic light. There's nothing about valuations now that screams green light. But at the same time, there's no red light, either. We're somewhere in the middle—a yellow light. That's harder to navigate, which is why you need to be more selective, why you need to be picky, when it comes to investment styles, themes and sectors—that's what's going to matter to your return over the next few years, because valuations are so elevated.

Where should investors put their money now? We still like stocks of large companies with faster-than-average earnings growth. They've worked well in this environment, and we think they're here to stay for a while longer. We don't like relying on something coming from Washington for tax reform or deregulation to rally behind small-cap stocks. We could get behind small caps in 2018, but it depends on things that really are outside anybody's control. Within sectors, we like technology, and not just the sexy, social media story. We like tech across the board. There are a lot of interesting things going on in tech, and it's all underpinned by long-term growth in the industry. We also like financials. People think financials are a rising-rate story. That's part of it; they'll benefit as rates rise. But at the heart of why we like financials is that we think they're undervalued. And we think they're the next yield play. People need dividends, and financials are going to start returning a lot more cash to investors. That's going to be a long-term trend for that sector.

Are there other themes you'd emphasize? Something we're talking about with clients is that we are late in the bull-market cycle. No one can call the end. But we're looking for overheating or significant imbalances and watching GDP growth, inflation and corporate debt levels. Risk-averse investors should make sure there's a quality bias to the stocks they're buying. By *high-quality,* I mean strong balance sheets, strong management, and the ability to pay out dividends and to produce long-run sustainable returns. And you still need good, high-quality fixed income in your portfolio, such as Treasuries or high-quality corporates. They're the counterbalance to stocks. They're like an umbrella—you need them in a storm. The problem is that you can't buy the umbrella once the storm hits.

PHOTO BY POON WATCHARA-AMPHAIWAN

HAIR/MAKEUP: STACY BENEKE (ZENOBIA AGENCY); WARDROBE: PAOLA ANDREA RAMIREZ; RETOUCHING: CHRIS HAMILTON

2018

Personal Capital's Investor Outlook

Is It Time to Look Beyond U.S. Stocks?

Craig Birk, Executive Vice President, Portfolio Management

For the better part of a decade, both stocks and bonds have enjoyed the most favorable conditions in modern memory. With steady economic growth, slow inflation and low interest rates, both asset classes have posted positive gains for years.

While that's been a boon for investors' portfolios, it begs the question: Is the end near?

It's most likely we're in the latter stages of the bull market, and that tends to make people nervous. But when we look at the market, we don't see a smoking gun that means the party must end soon. The trailing price-to-earnings ratio of the Standard & Poor's 500 is 23, which is above historical averages but significantly below the peak reached in the dot.com days. Still, that's not to suggest that today's market is cheap. The days of double-digit stock returns are most likely behind us.

Adding to the uncertainty is that since the election, there's been an almost eerie lack of volatility. Instead, the market has focused on the potential for tax reform and infrastructure spending.

Some kind of meaningful tax reform is likely, despite the administration's stalled legislative agenda so far. The most likely outcome I see is for a moderate tax cut for individuals, but a meaningful one for corporations. That's good news for shareholders: Even a 10% tax cut will make companies 10% more profitable.

> **"Given the run-up in stocks recently, I urge investors to pay renewed attention to asset allocation."**

Asset allocation is more important than ever

Given this uncertainty, this is not the time to become greedy or complacent. Chasing performance now has tangible risks because the probability of a market drop now is much higher than it was a year before.

But taking a hands-off approach also has its risks. Given the run-up in stocks recently, investors may inadvertently be overweight in equities and could be exposed to greater volatility than they may realize.

Against this backdrop, I urge investors to pay renewed attention to asset allocation.

Overseas markets look good

Though valuations in the U.S. look a bit rich, by comparison international markets look more attractive. After hitting a rough patch in 2016, for example, the European economy seems to finally be getting the wind in its sails. As we now know, a handful of recent elections with populist underpinnings aren't likely to lead to the demise of the eurozone.

Tech sector expands its reach

Technology has been the best-performing sector for several years now, driven largely by a handful of mega companies (read Facebook, Apple, Amazon, Microsoft, Google and Netflix). Do they deserve valuations approaching $1 trillion? Only time will tell, of course.

Technology should remain an important sector for most portfolios, but I see some headwinds ahead. These firms are starting to branch out from their core products. Some examples of this are Google entering the self-driving car market and Microsoft hoping to transform health care. So far, they've executed in these new areas masterfully. But there's risk to their public image if they get it wrong and consumers might start to resent how big a role these companies are playing in our economy.

Put your faith in diversification

We believe the solution for all these uncertainties is diversification. We've been in a long period of growth stock outperformance and it's time to balance the scales again. Look to sectors such as materials, utilities and consumer staples to even out a growth-heavy portfolio. ■

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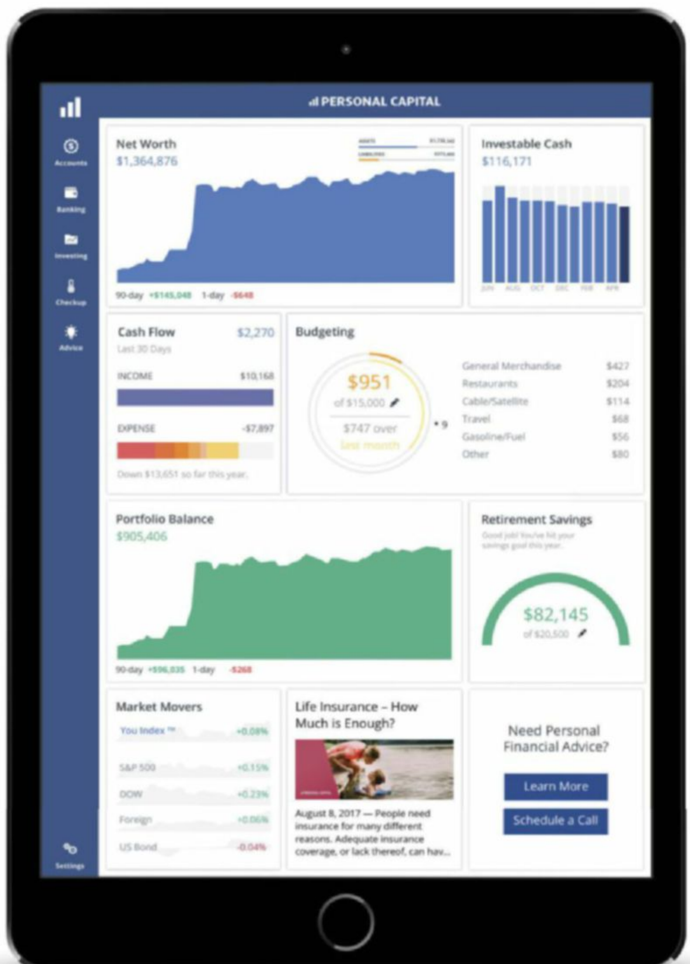

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analysts expect corporate profits for S&P 500 companies to finish 2017 up more than 11%, followed by an 11% gain in 2018, according to Thomson Reuters IBES. Even considering that chronically optimistic analysts revise estimates downward as the year wears on, those are fabulous gains.

Another positive sign is that more of the growth in earnings is coming from increased revenues, as opposed to cost-cutting or share buybacks. And companies are starting to spend more on buildings and equipment, research and development, and mergers and acquisitions—a healthy sign for business growth and for the economy overall.

The wild card in the mix is tax reform. The GOP's plan calls for, among other things, a permanent reduction in the federal corporate tax rate from 35% to 20%, which could boost corporate earnings in 2018, as well as a one-time, 12% tax on corporate cash held overseas, which could repatriate hundreds of billions of dollars, some of which would be funneled into dividends, buybacks and capital spending. Goldman Sachs economists assign a 65% probability that tax legislation will pass in 2018.

THE BULL'S HURDLES

The risks facing this aging bull are familiar, including political discord in Washington, escalating tensions with North Korea and other flash points. But the market "has been bizarrely unreactive to anything political or geopolitical," says Samantha Azzarello, of J.P. Morgan Asset Management (see the interview on page 49). Add natural disasters and terrorist attacks to the list of challenges ignored by investors. Midterm elections could prove to be an exception. Market declines of roughly 15% are typical for midterm election years, says LPL Financial's chief investment strategist, John Lynch. "We have to be prepared for uncertainty over taxes, trade and regulation—and for all the nonsense that leads into elections," he says. Nonetheless, 12 months following a midterm year's declines, the market is up 25%, on average, from its low point, he says.

Ironically, what's good for your pocketbook poses a threat to your portfolio. Were wages to rise enough to cut into corporate profit margins and lift overall inflation, it would signal an overheating economy and spell sharply rising rates and the beginning of the end for the bull market. "We see higher inflation and rates over the next 12 months than the market is anticipating," says Erik Knutzen, chief investment officer at Neuberger Berman. To date, wages have been stubbornly flat, and Kiplinger expects overall inflation to remain under control, rising by 2% over the course of 2018, up only modestly from 2017's modest pace of 1.7%.

Complacency is a real risk. Volatility essentially vanished from the market in 2017, a development that can boost bullish sentiment, encourage excessive risk-taking and push valuations to extremes. The University of Michigan's consumer sentiment index hasn't been higher since January 2004. But Hank Smith, chief investment officer at Haverford Trust, isn't worried about euphoria. "There's more money going into fixed-income funds than into stock funds, and anyone buying a bond fund isn't making a statement about how exuberant they are," says Smith. "They're saying, 'I'm willing to earn very little in order not to lose money.'"

But there's no getting around the fact that stock valuations are high. Price-earnings ratios have been lower than they are now 89% of the time, going back to the 1970s. The S&P 500 trades at 18 times expected earnings for the year ahead, above the five-year average of 16 and the 10-year average of 14. Still, investors weighing market risks will have to consider the cost of leaving even an expensive market too early. Brian Belski, of BMO Capital Markets, notes that bull markets going back to 1975 have delivered gains of more than 20% in their final year as P/Es creep higher. His message to investors: "Get on board the train."

WHERE TO INVEST NOW

Investors who fare best in 2018 will be selective, with a focus on high quality. Sectors, and stocks within sectors, are moving less in lockstep than they have been, which means that stock pickers will have a chance to shine.

Characteristics of high-quality companies include consistent earnings and dividend growth, strong balance sheets, and higher returns on equity (a measure of profitability) than the average S&P 500 company. Such stocks should sidestep the worst losses if the market turns down, but they'll also do well in strong and even in sideways

2017 Update

NOT BULLISH ENOUGH

We called for a 6% return in 2017 but warned that, given a new presidential administration, we could be wide of the mark, up or down. Even our most bullish take on stocks, which hinged on interest rates staying low and corporate earnings growing, called for a 15% return; the S&P 500 delivered 21%. We were right about rates and earnings, and a call to invest in international stocks was on the mark.

The eight stocks that we recommended for 2017 returned an average 17%, including dividends—decent, but not enough to beat the S&P 500. Crown Castle International, a real estate investment trust, led our winners with a 30% gain. CME Group, which owns financial exchanges, rose 28.6%, and Google's parent, Alphabet, was up 28.2%.

Cybersecurity company Palo Alto Networks fell 7.4%, dragging down our gains. Even so, we'd stick with the stock, based on strong demand for the firm's network security products. Regeneron Pharmaceuticals fell 3.8%, but it's worth holding given its drug pipeline.

As for our stocks to sell, investors would have been better off buying most of them instead. Electric-car maker Tesla surged 74.4%, despite shaky finances. We still think Tesla is high-risk (see "8 Stocks to Buy Now and 5 to Sell," on page 54.).

markets, Belski says. Stocks BMO likes include software giant **ORACLE** (SYMBOL ORCL, $51), truck manufacturer **PACCAR** (PCAR, $72) and insurer **UNITEDHEALTH GROUP** (UNH, $210). (For more stocks we like, see "8 Stocks to Buy Now," on page 54.)

Stock sectors poised to outperform in 2018 include financials, especially banks, and technology. Banks will profit from higher interest rates, a growing economy and lighter regulation. Portfolio manager Saira Malik, of investment firm TIAA, recommends **BANK OF AMERICA** (BAC, $27) for its strong loan growth, robust cost controls and high credit quality. Or consider an exchange-traded fund. **FINANCIAL SELECT SECTOR SPDR** (XLF, $27) is a member of the Kiplinger ETF 20, the list of our favorite exchange-traded funds.

Don't confuse today's new-economy tech companies with those of the dot-com era, says Golub. Today's titans are "well-managed businesses with terrific profits, not speculative investments," he says. Malik recommends Google's parent, **ALPHABET** (GOOGL, $1,033). Or check out **FIDELITY MSCI INFORMATION TECHNOLOGY INDEX** (FTEC, $50), which has the lowest expense ratio (0.08%) of any tech-sector ETF and gives you access to 360 tech names.

Companies that do well when the economy is growing should prosper in 2018. Among so-called cyclical stocks, investment firm CFRA recommends **HONEYWELL INTERNATIONAL** (HON, $144), an aerospace and industrial conglomerate whose stock yields 1.8%. Or gain exposure to hundreds of industrial firms with **VANGUARD INDUSTRIALS** (VIS, $135).

We prefer stocks to bonds for 2018. Bonds that have shorter-term maturities will be less sensitive to interest rate hikes. A good choice: **VANGUARD SHORT-TERM INVESTMENT GRADE** (VFSTX), a member of the Kiplinger 25, the list of our favorite no-load funds, yielding 2%. Most investors would be caught off-guard by a jump in inflation. Treasury inflation-protected securities deliver an affordable hedge. Buy them from Uncle Sam at www.treasurydirect.gov. Bargains in municipal bonds could emerge as the possibility of tax reform draws nearer and tax-exempt debt takes a hit. Kip 25 member **FIDELITY INTERMEDIATE MUNICIPAL INCOME** (FLTMX), yielding 1.7%, is a good choice. Investors who want to stay flexible can choose **PIMCO INCOME** (PONDX), a go-anywhere, Kip 25 fund yielding 3.5% (see "Pimco's Playbook for Rising Rates," on page 63). ■

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International Outlook

Find Bargains Overseas

Global markets give U.S. investors the chance to broaden their bull market gains. "We like international stocks across the board," says strategist Samantha Azzarello, of J.P. Morgan Asset Management. For a moderate-risk portfolio with 60% of assets in stocks, Azzarello thinks 21% of stock holdings should be invested internationally—15% allocated to developed markets and 6% to emerging markets.

After a long bull market here, investors are likely to have too much of their money riding on the U.S. And because most investors already have a strong home-market bias, the imbalance could be pronounced, says portfolio manager Kathryn Koch, of Goldman Sachs Asset Management. "Investors need to move beyond U.S. borders to where there are interesting growth opportunities at much better valuations," she says.

In Europe, for example, major stock indexes have yet to return to their 2007 peaks, while Standard & Poor's 500-stock index is 65% higher than its 2007 high point. Eurozone manufacturing activity is hitting six-year highs, unemployment is at an eight-year low, and corporate profits are growing. The MSCI Europe index returned more than 20% through October 2017 but trades at a price-earnings ratio of just 15, compared with 18 for the S&P 500.

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Portfolio manager Saira Malik, of investment firm TIAA, likes stocks that are tied to the growing economy in Europe. She recommends **ING**, the Dutch banking giant, traded here as an American depositary receipt (SYMBOL ING, $19). **OAKMARK INTERNATIONAL** (OAKIX), a Kiplinger 25 fund, has 57% of assets invested in Europe.

Emerging markets have rallied sharply since 2016 but are still in the early stages of a multiyear winning streak, says Kate Moore, chief stock strategist at BlackRock. She sees a broad-based earnings recovery in both new- and old-economy sectors, including tech, industrials and energy, bolstered by growing economies and business reforms. Still, she notes, average P/Es are below those of developed markets. She sees opportunities in markets including India, Indonesia, Brazil and Argentina. Investors who prefer to navigate risky emerging markets with professional help should consider Kip 25 fund **BARON EMERGING MARKETS** (BEXFX).

Experts disagree on the prospects for Japan. The country faces demographic pressures from an aging population, which will keep a lid on economic growth. But Japan's Nikkei index recently traded at a 21-year high. The bulls point to recent solid economic readings and companies that are major players in leading-edge trends, including electric and autonomous-drive vehicles, factory automation, and serving the emerging world's burgeoning consumer class. **T. ROWE PRICE JAPAN** (PRJPX) is a solid choice for investors.

EIGHT STOCKS TO BU

THESE STOCKS SHOULD BE ABLE TO CAPITALIZE ON A STRONG ECONOMY AND A STRONG

1 Applied Materials (AMAT, $56)

Exploding global demand for computer chips is a bonanza for the world's leading maker of chip-manufacturing equipment. The firm should benefit from the proliferation of chips in cars, industrial machinery and smartphones. And the rise of artificial intelligence—computers that can learn on their own—adds another layer of long-term demand for chips, says investment firm RBC Capital. Although Applied's stock has surged 95% over the past year, it still looks appealing, trading at a modest 15 times estimated 2018 earnings. (Prices and returns are as of October 31.)

2 Berkshire Hathaway (BRK-B, $187)

Berkshire offers investors a three-fer. It owns dozens of businesses that touch virtually every corner of the economy, from insurance (Geico) to railroads (Burlington Northern). So its portfolio of businesses stands to benefit if U.S. economic growth picks up in 2018. And if the market forges ahead, Berkshire's stock holdings, including big stakes in Bank of America (BAC) and Apple (AAPL), should deliver gains. A third attraction: If the market stumbles, master investor Warren Buffett and his team of ace value hunters have $100 billion in cash to swoop in on bargains.

3 Charles Schwab (SCHW, $45)

You may think of Schwab as a discount brokerage, but that's now a fraction of its business. By offering a broad menu of financial products and services at low cost, Schwab continues to attract individual investors and financial advisers alike. Client assets top $3.1 trillion. Schwab also benefits from rising interest rates, thanks to a wide gap between what it pays on short-term accounts such as money market funds and what it earns on investments. Schwab "has the best strategic position of any retail broker," according to analysts at SunTrust Robinson Humphrey.

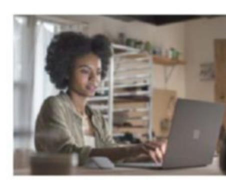
5 DXC Technology (DXC, $92)

DXC is in the midst of a turnaround. The firm, one of the world's largest providers of technology-consulting services, was formed in April 2017 by the merger of Computer Sciences Corp. and the business-services arm of Hewlett Packard Enterprise. DXC's precursor businesses were disappointing. Now, a new team is working rapidly to boost profitability and ratchet up the level of tech expertise to help DXC's 6,000 clients navigate the digital age. Analysts expect DXC to earn $6.84 a share in the fiscal year that ends in March 2018, then earn $8.22 a share the following year.

6 Intuitive Surgical (ISRG, $375)

Intuitive Surgical makes robotic systems surgeons use for minimally invasive procedures. Its "da Vinci" system is expected to generate $3.4 billion in sales in 2018 and earnings of $9.22 a share. Bulls see potential for growth as the firm sells more systems and tools for an increasing array of procedures and expands in foreign markets, such as China. A price-earnings ratio of 41, more than double the broad-market average, makes the stock a high-risk bet. Analysts at JPMorgan say the price is worth it for one of health care's "most significant" growth opportunities.

7 Microsoft (MSFT, $83)



When Satya Nadella became chief executive of Microsoft in 2014, he vowed to shift the firm's focus from personal computers to mobile computing. Shareholders are reaping the rewards: Microsoft's sales jumped 12% in the quarter ending September 30, powered by soaring usage of its Azure cloud service. Strong sales of Microsoft Office software show that it remains the most popular workplace tool of its kind. The stock's P/E of 25, based on estimated earnings of $3.37 a share for the fiscal year ending in June, isn't excessive for a revitalized tech titan.

CLOCKWISE FROM TOP LEFT: COURTESY APPLIED MATERIALS, WIKIPEDIA, CHARLES SCHWAB, MICROSOFT, INTUITIVE SURGICAL AND DXC TECHNOLOGY

Y NOW

MARKET. **BY TOM PETRUNO**

4

Delphi Automotive (DLPH, $99)

The auto-parts giant has remade itself since emerging from bankruptcy protection in 2005. The firm is a leading low-cost supplier of electronics and other components for electric and self-driving vehicles—a market expected to boom for years. In the near term, Delphi (which is renaming itself Aptiv) could face pressure from a U.S. slowdown in auto sales. But investment firm Cowen views Delphi as "the bridge between the tech sector and the auto sector." The stock, trading at 14 times estimated 2018 earnings of $7.18 a share, "is just beginning to reflect the shift," reports Cowen.

8

UnitedHealthcare (UNH, $210)

With almost 50 million members, this health insurer has become "the indisputable industry leader in managed care," say analysts at BMO Capital Markets. The company operates in all three major insurance markets: individual, group and government-sponsored. It also fills 1.2 billion prescriptions each year via its OptumRx unit. UnitedHealthcare's navigation of the Affordable Care Act boosted confidence in its ability to prosper under whatever new policy regime emerges from Washington. The firm is "well positioned for a long runway of growth," BMO says.

CLOCKWISE FROM TOP: COURTESY DELPHI AUTOMOTIVE, ISTOCKPHOTO.COM (2)

...AND 5 TO SELL

Recommending stocks to sell in a hot market is begging to be humbled. Even when a company disappoints investors, a "buy the dip" mentality can mean that any share-price decline will be short-lived. Nonetheless, here are five stocks we think are good candidates to jettison.

Many of the biggest players in the packaged-food industry continue to struggle amid heated competition and changing consumer tastes. Shares of **GENERAL MILLS** (GIS, $52) have been falling since mid 2016. The stock took another hit when the company, known for brands such as Cheerios, Betty Crocker and Yoplait, reported that sales in the quarter ended August 27 slid 4% from a year earlier. Goldman Sachs advises selling the stock, predicting continued earnings erosion "for the foreseeable future."

Likewise, Goldman has a bleak outlook for **J.M. SMUCKER** (SJM, $106), known for its iconic jellies but also home to brands that include Crisco, Folgers, Jif and Milk-Bone. Smucker is among the most vulnerable to industry pressures, including market resistance to price increases and more competition from grocers' private-label brands, Goldman says. The brokerage sees flat sales and earnings for at least the next two years.

Consumer-products companies' woes are bleeding into the advertisers that get paid to peddle their brands. Brokerage Morgan Stanley says revenue growth at major U.S. ad agencies has been decelerating over the past 18 months as consumer-goods companies rethink their marketing spending. The brokerage is particularly concerned about ad firm **OMNICOM GROUP** (OMC, $67). In October, fast-food king McDonald's, an Omnicom client, said it was reviewing its ad-buying decisions. Morgan Stanley says Omnicom's shares could fall to $52 if revenue growth shrinks further.

Department-store shareholders keep looking for reasons to hang on. **DILLARD'S** (DDS, $51), which operates 268 stores in 29 states, has seen its shares plunge 64% since April 2015. Yet even with sales at its stores still shrinking, management has been "complacent" about innovation, says Deutsche Bank. With the shares priced at about 17 times expected profit of $3.06 a share in the fiscal year ending January 2019, the brokerage says Dillard's has the "least compelling" valuation in the industry.

A year ago we said you should sell electric-car phenomenon **TESLA** (TSLA, $332), when it traded for $190 a share. We were too early. But we think Tesla is even more overpriced now. There's no denying that Tesla's technology is exciting. But production snafus have caused the company to repeatedly scale back founder Elon Musk's plan to churn out 500,000 of the new mass-market Model 3 cars in 2018. Even so, analysts at stock research firm CFRA still are optimistic that Tesla's losses will continue to shrink, and that the company can earn $5.50 a share in 2019. But as Tesla gets closer to profitability, investors should begin to value it more in line with other manufacturers. Even allowing for a very rich P/E of 50 on the 2019 profit estimate, CFRA says, the shares should be trading at $275 a year from now. ■

JEFFREY R. KOSNETT | Income Investing

Prepare for a Mild Pullback in Bonds

I'm about to do what some of my longtime readers might ridicule as an about-face and a few will denounce as a betrayal of my core convictions. For the first time in this decade, I am forecasting negative total returns for bonds, on average, over the next several months and probably for all of 2018.

Before you faint, I am not abandoning my view that interest rates will stay "lower for longer," nor am I suggesting that your portfolio will suffer severe damage. But bonds are now expensive, and 2017's excellent returns appear to have borrowed some gains from 2018. So I predict, for reasons I'll get to, a roughly 2% net loss (that's principal losses reduced by interest payments) for 2018 on a broad portfolio of bonds of varying maturities and credit types.

First, though, I reiterate that the low-stress financial climate we've enjoyed since the Great Recession will persist. Low inflation, range-bound interest rates and U.S. economic growth will steer the same steady course over 2018 as they have over the past few years. So, then, why do I think bonds are due to backtrack? My reasons are a mite wonkish. But hear me out.

Bonds are now expensive, and 2017's excellent returns appear to have borrowed some gains from the year ahead.

Rates aren't the whole story. Bonds make or lose money in several ways. Swings in interest rates get the most attention, though rate action tends to have the most effect on Treasury bond prices. (Normally, when rates rise, bonds already in circulation lose value.) Kiplinger thinks that the rate on 10-year Treasuries will end 2018 at 2.8%, up from 2.4% expected at the end of 2017. But there's more to bond returns than the rate trend. Most critical is the gap, or "spread," between Treasury yields and those for municipals, corporates, high-yield "junk" bonds, emerging-markets debt, mortgage pools, preferred stocks, and sometimes even real estate investment trusts and energy partnerships. When spreads are narrowing, it means those categories are delivering higher returns than Treasuries—and of late, ever-tighter spreads have inflamed bond returns.

A year ago, the average investment-grade, triple-B-rated corporate bond yielded 1.7 percentage points more than Treasuries of the same maturity. Now, triple-Bs yield one percentage point more—a big reason why triple-B bonds show a superb 6.5% return for 2017 through October 31 compared with 2.1% for 10-year Treasuries. Spreads on junk bonds range from 5.2 percentage points to barely over 3, which is about as close to Treasury yields as you'll ever see for junk. High-yield bonds have an average year-to-date 2017 return of 7.5%. But now, the extra yield you'd receive for taking the greater risk of investing in lower-rated non-government debt is so small that even bond bulls doubt spreads will narrow further.

This segues to the next reason for caution: supply and demand. In 2017, despite the healthy economy, new issuance for every kind of bond, taxable and tax-free, fell from 2016 levels. Yet investors are pouring fresh money into bond mutual funds, exchange-traded funds and institutional fixed-income accounts. This shortage of debt securities pushes up prices, tightens spreads and contributes to strong total returns. But now I see forecasts that 2018 issuance will rise, or at least stop falling.

A new Federal Reserve chairman is a wild card for the fixed-income market, although the consensus is that after the appointment of Jerome Powell, monetary policy won't stray far from the path it's on now.

In sum, should you sell? In most cases, the answer is no, especially if you bought a bond or invested in a fund for the income and you would owe capital gains taxes. If you think you can finesse the market by selling an appreciated bond or bond fund, holding the cash for a bit, then reinvesting for a higher yield, ask yourself if you've ever aced such a tactical trade with stocks (or anything else). It's tougher in practice than in theory. For most investors, a better course of action in 2018 is to sit tight and collect your interest. ■

JEFF KOSNETT IS A SENIOR EDITOR AT *KIPLINGER'S PERSONAL FINANCE*. YOU CAN REACH HIM AT JKOSNETT@KIPLINGER.COM.

LISE METZGER

THE BASICS

The Perks of a Portfolio Review

The New Year is the perfect time to make sure your investments are on the right track.

IN A LONG-RUNNING BULL market, investors can be forgiven for a tendency to "set it and forget it" when it comes to their portfolio. But good investing hygiene demands regular checkups and some doctoring here and there—call it preventive medicine for your financial future. To make the process easy, we've boiled it down to three simple steps.

Step 1: Review your asset mix. Whether you're choosing from a menu in a workplace plan or investing on your own, you should establish a mix of stocks and bonds that's appropriate for your age and tolerance for risk. Your asset-allocation plan will change over time. People in their twenties should hold 100% in stocks, while holding 50% in stocks, 46% in bonds and the rest in cash may be more suitable for a retiree. In "Investing at Every Age" (Nov.), we offer guidelines for five stages of life.

If you already have a plan, ask yourself some questions to see whether it still fits your life situation. Is your job less secure? Did you start a family? Did you win the lottery (or inherit some money)? You may need to adjust your asset mix if your circumstances have changed. And keep in mind the trade-offs: Owning more high-quality bonds could help stabilize your portfolio in a market downturn, for example, but that would come at the price of long-term growth.

Step 2: Rebalance your portfolio. The market's ascent over the past year may have thrown your investment mix out of alignment. Instead of holding 65% in stocks, you may now have 75% or more as your portfolio has swollen in size.

Many advisers recommend rebalancing if your asset mix has drifted by at least five percentage points, tilting too heavily toward stocks or bonds. (You can apply your rebalancing strategy to your mix of domestic versus international holdings or to sectors and industries, too.) If you save regularly, you can also rebalance by investing new cash in the underrepresented asset class until you get back to your target mix.

Selling some of your favorite stocks (or stock funds) and buying more bonds (or bond funds) may now be necessary. It isn't easy to sell stocks in a strong bull market. But you'll be glad you remained disciplined if stocks start to fall while high-grade bonds hold up, helping your portfolio stay upright.

Remember to rebalance your *entire* portfolio, including workplace accounts. "Look at your overall allocation, not just one account alone," says Gary Schatsky, a certified financial planner in New York City.

Step 3: Give your investments a pass-fail grade. Maybe you have a soft spot for that funky mutual fund your uncle recommended years ago. But is it really a winner? Find out by comparing it with an appropriate benchmark—such as Standard & Poor's 500-stock index, for a diversified stock fund—as well as similar funds.

It's unrealistic to expect actively managed funds to beat their bogeys every year. But bad performance over three or four consecutive years may be a sign that it's time to move on. Be ruthless when evaluating stocks or bonds that have been poor performers, too, but also bear in mind that there will be tax ramifications for selling assets held outside a retirement account.

Finally, don't let emotions muddle your decisions. Draw up an "investment policy statement" with guidelines you agree to follow for buying and selling securities. "When markets get crazy, having a policy can stop you from making emotional decisions you may regret," says Amy Irvine, a certified financial planner in Corning, N.Y. **NELLIE S. HUANG**

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ISTOCKPHOTO.COM

ELI LILLY'S BIOTECH CENTER IN SAN DIEGO IS OWNED BY THRIVING ALEXANDRIA REAL ESTATE EQUITIES.

REAL ESTATE

Great REITs to Buy Now

In a field facing challenges, these five stand out. BY DAREN FONDA

REAL ESTATE CAN BE A GREAT investment—if you can afford a down payment on a property and deal with the headaches of being a landlord. Sound like more trouble than it's worth? Consider investing in real estate investment trusts.

Property-owning REITs are large landlords that rent out apartments, offices, malls and other types of real estate. REITs must distribute 90% of their net income, after covering expenses, so they pay out steady dividends. And many REITs hike their payouts as they raise rents, upgrade buildings, and buy or develop more properties.

For income investors, REITs can be better bets than high-quality bonds or common stocks. The average property REIT recently yielded 4.1%, well above the 2.4% yield of a 10-year Treasury bond and the 2% payout rate of Standard & Poor's 500-stock index.

Granted, most REITs aren't likely to be superstars in today's market. Interest rates may increase over the next year, raising financing costs for property owners. And higher yields would increase the appeal of long-term bonds relative to REITs, which would put pressure on REIT shares. Plus, some REITs are seeing rental demand drop—notably, firms that own malls. Competition from online retailers is hurting big tenants such as department stores, squeezing REITs' income.

But some REITs are likely to produce strong returns, even if interest rates rise modestly. We found a few that are riding powerful high-tech trends. They own data centers, for example, or warehouse-distribution hubs, which are thriving with the growth of online retail. These stocks yield less than the average REIT, but they should more than make up the difference with share-price gains. For investors who want higher yields, we found a REIT that should prosper by sticking with high-quality malls, and a small firm with a growing stable of apartment buildings that yields 7.1%.

Note that most REIT distributions are treated as ordinary income for tax purposes, which can sting if you're in a high tax bracket. Profit estimates below are based on funds from operations (FFO), a common REIT measure that represents net income plus depreciation expenses. All prices and other data are through October 31.

Alexandria Real Estate Equities
(SYMBOL ARE, PRICE $124, DIVIDEND YIELD 2.8%). Alexandria specializes in properties for the life-sciences industry. Companies such as biotech drugmaker Amgen (AMGN) and gene-sequencing firm Illumina (ILMN) lease space from Alexandria, as do medical institutions such as the Dana-Farber Cancer Institute. These are tenants that pay their rent on time and cover most of the properties' operating costs, such as insurance and taxes. They also rarely vacate, partly because it would be too costly to rebuild their sophisticated facilities elsewhere.

Alexandria is now developing an agricultural technology campus in North Carolina's Research Triangle Park. And the REIT is luring new tenants, such as Facebook (FB), to other properties. The REIT's specialized market bodes well for long-term growth, says Ernesto Ramos, manager of BMO Growth Fund (MASTX), which owns shares of Alexandria. Analysts expect its FFO to climb by 8.8% in 2018 from 2017 levels.

Digital Realty Trust (DLR, $118, 3.1%). Digital is one of the largest owners of data centers. The huge, climate-controlled buildings house computers and networking equipment for big companies. Firms such as Amazon .com (AMZN) and Microsoft (MSFT) seek prime spots in such digital town squares to support their services. And they want proximity to each other to exchange data as fast as possible. "Data centers can charge tenants to take a 2-foot cord and connect one computer to another," says Steve Buller, manager of Fidelity Real Estate Investment Portfolio (FRESX), which owns shares of Digital.

The REIT's revenues are rising as the firm opens campuses in cities such as Chicago and London. Digital recently merged with rival Dupont Fabros, extending its business to more locations. With FFO expected to rise by 8.6% in 2018, so should Digital's payout.

GGP (GGP, $19, 4.5%). Investing in GGP, a large retail property owner, takes some faith that online sales won't kill the mall business. Those fears have weighed the stock down by 17.4% over the past year. But the REIT now looks like a bargain, and its business trends are perking up, says Matthew Werner, comanager of West Loop Realty Fund (REICX), which owns the stock.

More than 80% of the firm's assets are high-quality malls with strong occupancy rates, he says. GGP's cash flows (after capital expenses) should accelerate over the next two years, enabling the company to hike its payout at an 8% annualized rate. GGP could also get a buyout offer from Brookfield Asset Management (BAM), which owns about one-third of GGP's shares. The potential for a deal helps "put a floor" under the stock, Werner says, preventing it from drifting much lower.

Independence Realty Trust (IRT, $10, 7.1%). Independence, a housing REIT that went public in 2013, owns 47 garden-style apartment properties in the Midwest and Southeast, charging rents that average just $978 per unit. Tight supply and strong demand for such affordable housing has helped Independence maintain a robust 94% occupancy rate. The REIT upgrades apartments that it buys, installing new floors and amenities such as washer-dryers, to support higher property values and rents.

Like any small stock, the REIT, with a market value of just $718 million, is likely to be more volatile than larger, more stable firms. And just a couple of bad real estate deals could have an outsize effect on its bottom line. But the firm's finances are improving, and its rental business looks healthy, says Werner, whose fund owns shares of the REIT. Although he doesn't expect the REIT to raise its dividend in the near term, he believes the stock could hit $11 over the next two years, producing total returns, including dividends, of about 18.5% over that time period.

Prologis (PLD, $65, 2.7%). With online sales expanding, warehouse distribution centers have become critical, high-tech junctions for shipments and returns. As the world's leading owner and developer of such real estate, Prologis looks well situated to profit.

Nearly half the firm's properties are in densely populated coastal areas, such as Los Angeles, New York and New Jersey—prime spots to handle global shipments. Even while building more logistics-focused centers, the firm has maintained a healthy 97% occupancy rate. Prologis should also benefit as traditional retailers sell more goods online for pickup and return in stores, says Fidelity's Buller, whose fund owns shares of Prologis.

Prologis expects to lift FFO at about an 8% annualized rate over the next three years, supporting estimated total returns of about 11% a year. Although the stock has already gained a superb 27% over the past year, including dividends, it should continue to be a winner. ■

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FUNDS

Other Ways to Invest

Investors who don't want to buy individual stocks can get exposure to REITs through an exchange-traded fund or mutual fund.

Among ETFs, our top pick is **SCHWAB US REIT** (SYMBOL SCHH, $41, 3.7%). The ETF tracks an index of the 102 largest U.S. REITs, including residential, office and retail-property owners. We like the fund's broad diversity and its rock-bottom expense ratio. The ETF charges just 0.07%, or 70 cents per year for every $1,000 invested.

Going abroad helps give the **ISHARES GLOBAL REIT ETF** (REET, $25, 4%) a bump in yield over most pure U.S. real estate funds. The ETF holds 65% of its assets in U.S. REITs, with the rest in foreign stocks, such as Hong Kong–based Link Real Estate Investment Trust. The drawback: Investors face some foreign-market and currency risks with this fund.

Among mutual funds, **FIDELITY REAL ESTATE INVESTMENT PORTFOLIO** (FRESX, 2.6%) has racked up a strong record, beating the 10-year category average for real estate funds and pulling ahead of its peer group in eight of the past 10 years. **T. ROWE PRICE REAL ESTATE** (TRREX) has been a solid performer, too, although not as strong in recent years. Both funds charge expense ratios of about 0.75%, below the 1.16% average for real estate stock mutual funds. T. Rowe doesn't report a standardized 30-day yield (used for the above recommendations), but the fund paid out at a 2.5% annualized rate over the past 12 months, based on its recent share price.

KATHY KRISTOF | Practical Investing

How I Can Afford Semi-Retirement

Whenever I've made a big change in life, from getting divorced to leaving my job at the *Los Angeles Times,* I've struggled to explain my motivation. I had reasons, of course—lots of them. Therein lies the problem. How do you summarize a complex decision tree that took years to climb?

I feel the same way about telling people that I "semi-retired" a year ago, at the age of 56. Why? Although I love what I do for a living and always have, a couple of things made me wonder whether retiring—or at least significantly scaling back from paid work—was possible.

One was that someone close to me became ill, which made me realize just how precious time is. I also got married to a wonderful guy who can always think of something fun we should be doing. And then there was the nagging thought that I had several long-held goals—traveling for months at a time, writing a novel, becoming fluent in a foreign language—that I had never had time to accomplish. By this time last year, the chorus in my head was chanting, If not now, when?

So I did what every prospective retiree does. I asked myself if I had enough money to buy more time. When I realized that the answer was yes, I entered into another familiar exercise for retirees: figuring out how much I needed to meet my expenses and how best to generate that income from my savings. Health insurance was not a concern. As a longtime freelancer, I already had a high-deductible plan.

I was not going to be completely without income. I kept a few paying gigs, such as this one, that I enjoy. But I scuttled everything else, which eliminated about 60% of the income I figured I'd need.

There are plenty of strategies to come up with that other 60%. Mine is simple. First, I looked at the parts of my taxable portfolio that already generated income—bonds and dividend-paying stocks. Money that was automatically reinvested now pours into a money market account. But I still needed to replace 40% of what I typically spend. That left two choices: take early distributions from a retirement account or further tap my taxable accounts by selling individual stocks.

I strategically sell stocks in my taxable portfolio when I think a stock has hit a near-term high or has limited potential.

Help from the IRS. Unbeknownst to many Americans, you don't always have to pay a 10% penalty if you tap your tax-favored retirement assets before age 59½. You just have to follow some arcane rules that fall under Section 72(t) of the tax code. The rules let you take "substantially equal" payments based on your life expectancy from an IRA, penalty-free, as long as you continue to take these payments for five full years or until you reach age 59½, whichever is later. You don't have to take those payments from *all* of your retirement accounts. If you have several, as I do, you can pick just one and annuitize it, based on the IRS rules. After you pass the five-years-or-age-59½ test, you can alter your withdrawal schedule.

The downside is that the IRS rules are complex, and I didn't want to lock myself in to their schedule. Moreover, although you won't pay a 10% penalty, you will pay tax on the withdrawals at your ordinary income tax rates. Even at reduced levels of income, those are higher than capital gains rates.

So I've opted to strategically sell stocks in my taxable portfolio about six months before I expect to need the money. This involves analyzing my holdings to create a "sell" list and then executing the sales when I think a stock has hit a near-term high or has limited potential. The method is not perfect. Some stocks keep rising after you expect them to stall. But if I were advising someone else, I'd tell that person not to forgo an attainable good in pursuit of a probably unattainable perfect, so I'm sticking with this plan until I find a better strategy. Meanwhile, I'm on the fourth revision of that novel. ■

KATHY KRISTOF IS A CONTRIBUTING EDITOR AND AUTHOR OF THE BOOK *INVESTING 101*. YOU CAN SEE HER PORTFOLIO AT KIPLINGER.COM/LINKS/PRACTICALPORTFOLIO. YOU CAN CONTACT HER AT KKRISTOF@KIPLINGER.COM.

LISE METZGER

SPOTLIGHT: CHINA FUNDS

Investing in China's Growth

Managers at Matthews China wait for reasonable prices before they buy.

EVEN IF YOU INVEST ACROSS the globe, chances are you don't hold many Chinese stocks. China-based firms account for 23% of assets in the average emerging-markets stock mutual fund and just 3.5% of the average global stock fund. But although China may be a fringe player in your portfolio, it's squarely in the center of the global economy. The World Bank estimates that China will drive 35% of the world's economic growth from the start of 2017 through 2019—nearly twice as much as the U.S., which comes in second, at 18%.

That doesn't mean China stocks should be front and center in your portfolio. But if you want to bump up your exposure, consider **MATTHEWS CHINA**, a mutual fund that invests in growing firms with market values of at least $3 billion. Lead portfolio manager Andrew Mattock and his team keep a running list of companies they'd like to own: firms they expect to boost earnings at an above-average rate over the next five years. But the team considers buying only when a stock is reasonably priced compared with those earnings-growth projections and with similar firms. The fund is fairly selective. At last word, the portfolio contained just 46 stocks.

The managers' highest-conviction names occupy the largest positions in the portfolio. Those top spots currently belong to familiar Chinese firms: internet and social media conglomerate Tencent Holdings and e-commerce giant Alibaba Group Holdings, which together account for 18% of the fund's assets. Though the bulk of the portfolio is invested in Hong Kong–traded firms, 13% of assets is invested in stocks traded on China's mainland exchange, compared with just 8% for the average Chinese stock mutual fund.

The managers at Matthews focus on companies that stand to benefit from China's growing domestic market. One such firm is Ping-An Insurance, which began as a life insurer but now offers investment banking, brokerage and wealth-management services. Mattock says the company is miles ahead of the competition when it comes to financial technology, an important tool for attracting and retaining customers. The stock has returned an eye-popping 71.9% over the past 12 months. **RYAN ERMEY**

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CHINA STOCK FUNDS Ranked by one-year returns

Rank/Name	Symbol	Annualized total return 1 yr.	5 yrs.	Max. sales charge	Exp. ratio
1. Neuberger Berman Greater Chn Eq A	NCEAX	48.1%	—	5.75%	1.87%
2. Matthews China Inv	MCHFX	46.9	10.1%	none	1.18
3. US Global Investors China Reg Inv@	USCOX	45.2	9.6	none	2.36
4. Victory Sophus China A	RSCHX	41.5	13.5	5.75	1.75
5. Oberweis China Opportunities	OBCHX	38.9	16.5	2.00r	1.98
6. Columbia Greater China A	NGCAX	38.4	12.3	5.75	1.60
7. Matthews China Small Companies@	MCSMX	38.4	14.5	2.00r	1.50
8. Fidelity China Region	FHKCX	36.1	12.7	1.50r	1.01
9. JHancock Greater China Opps A	JCOAX	34.7	11.9	5.00	1.72
10. Guinness Atkinson Chn & HngKng@	ICHKX	33.8	8.4	2.00r	1.66
CATEGORY AVERAGE		33.9%	10.2%		

20 LARGEST STOCK AND BOND MUTUAL FUNDS Ranked by size. See returns for thousands of funds at kiplinger.com/tools/fundfinder.

STOCK MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Inv	VTSMX	$548.1	23.8%	14.9%	none
2. Vanguard Total Intl Stock Idx Inv	VGTSX	306.0	23.7	7.7	none
3. Vanguard 500 Index Inv	VFINX	287.7	23.5	15.0	none
4. American Growth Fund of America A	AGTHX	174.2	26.6	16.2	5.75%
5. American EuroPacific Growth A	AEPGX	159.6	26.5	9.8	5.75
6. Fidelity 500 Index Inv	FUSEX	132.1	23.5	15.1	none
7. Fidelity Contrafund	FCNTX	123.0	31.2	16.5	none
8. American Balanced A	ABALX	119.0	15.3	10.8	5.75
9. American Income Fund of America A	AMECX	109.7	13.9	9.4	5.75
10. American Capital Income Builder A	CAIBX	107.6	13.0	7.6	5.75
S&P 500-STOCK INDEX			23.6%	15.2%	
MSCI EAFE INDEX			23.4%	8.5%	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Idx Inv	VBMFX	$115.0	0.7%	2.3%	none
2. Vanguard Total Intl Bond Index Inv	VTIBX	84.7	1.2	0.8	none
3. Metropolitan West Total Return Bd M	MWTRX	80.2	0.7	1.7	none
4. Vanguard Short-Term Inv-Grade Inv	VFSTX	63.8	1.3	2.0	none
5. Vanguard Interm-Term Tax-Ex Inv	VWITX	55.9	1.8	1.7	none
6. DoubleLine Total Return Bond N	DLTNX	53.7	1.9	3.2	none
7. Lord Abbett Short Duration Income A	LALDX	42.6	2.1	2.0	2.25%
8. American Bond Fund of America A	ABNDX	34.7	1.1	1.8	3.75
9. Fidelity US Bond Index Inv	FBIDX	34.1	0.6	2.3	none
10. Fidelity Total Bond	FTBFX	31.5	2.1	2.6	none
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			0.9%	2.6%	
B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX			2.1%	2.3%	

As of October 31, 2017. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. rMaximum redemption fee. †For all share classes combined. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Bank of America Merrill Lynch, Morningstar Inc., Vanguard.

THE KIPLINGER 25 UPDATE

Pimco's Playbook for Rising Rates

IF INTEREST RATES RISE over the next year, many bond funds could face tall hurdles. Steeper rates would push down the prices of their bonds. And if those IOUs aren't paying out enough interest income, investors in the funds could wind up losing money. However, **PIMCO INCOME** should be a good bet if rates continue to rise modestly, thanks to its robust yield of 3.5% (above the market average of 2.6%) and low sensitivity to rates.

Unlike bond funds that target one part of the market, Income can invest in just about anything the managers want. The fund recently held 9% of its assets in high-yield "junk" bonds, for instance, and 18% in emerging-markets debt. To keep the portfolio stable, Income holds large amounts of short-term Treasuries and mortgage-backed securities. Managers Alfred Murata and Dan Ivascyn (Pimco's chief investment officer) also use complex hedging techniques to make side bets on the direction of interest rates, both in the U.S. and abroad.

Those side bets are the key to Income's relatively low sensitivity to rates. The fund's net asset value would likely fall by about two percentage points if market rates were to increase by one point. That would sting. But it wouldn't be nearly as bad as the losses incurred by longer-term bond funds (Income's average maturity is about six years) or those that don't hedge against rates.

Granted, this is a gigantic fund with a lot of moving parts. Income's assets top $99 billion, making it the largest actively managed bond fund in the U.S. Managing so much money successfully takes a deft touch. If a few of Income's big bets go awry, the fund could take some hits.

Another issue for investors to consider: Much of the bond market now looks fully valued, says Murata. With few bargains to be found, he says, "there's little margin for error." Rather than go out on a limb, Murata and Ivascyn are investing more defensively while trying to maintain the fund's yield. The managers have bought more short-term high-yield bonds, for instance, which should hold up well if rates increase. In this environment, says Murata, "we think it makes sense to be more cautious."

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KEY DATA FOR OUR MUTUAL FUND PICKS

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

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Dodge & Cox Stock	DODGX	25.0%	10.1%	15.9%	6.6%	May 2008
Fidelity New Millennium	FMILX	22.0	8.9	13.9	7.8	May 2014
Homestead Small-Co Stock	HSCSX	26.9	8.9	13.9	10.3	May 2012
Mairs & Power Growth	MPGFX	18.1	8.6	13.8	8.4	Jan. 2013
Parnassus Mid Cap	PARMX	18.8	10.1	13.5	8.9	Aug. 2014
T. Rowe Price Blue Chip Growth	TRBCX	34.6	14.8	19.0	9.7	May 2016
T. Rowe Price Dividend Growth	PRDGX	20.5	10.9	14.4	7.7	Oct. 2016
T. Rowe Price QM US Sm-Cp Gro	PRDSX	27.2	11.0	16.4	10.3	May 2015
T. Rowe Price Sm-Cap Value	PRSVX	28.4	11.5	13.6	8.5	May 2009
T. Rowe Price Value	TRVLX	21.3	8.8	14.9	7.4	May 2015
Primecap Odyssey Growth	POGRX	32.1	13.8	18.7	9.9	May 2017
Vanguard Equity-Income	VEIPX	20.8	10.1	13.8	7.8	Jan. 2017

International Stock Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Baron Emerging Markets	BEXFX	24.7%	6.9%	8.6%	—	Oct. 2016
Fidelity International Growth	FIGFX	24.1	7.6	9.5	—	Feb. 2016
Oakmark International	OAKIX	33.4	10.2	12.6	6.1%	July 2017
T. Rowe Price Intl Discovery	PRIDX	30.1	13.5	13.7	5.5	May 2017

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
Vanguard Health Care	VGHCX	19.1%	7.2%	17.3%	11.2%	May 2016
Vanguard Wellington‡	VWELX	16.2	7.9	10.4	7.0	May 2016

Bond Funds	Symbol	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.	Added to Kip 25
DoubleLine Total Return N	DLTNX	1.9%	2.7%	2.8%	—	May 2011
Fidelity Intermed Muni	FLTMX	1.7	2.3	2.4	3.7%	May 2004
Fidelity New Markets Income	FNMIX	8.3	6.4	4.9	7.6	May 2012
Met West Total Return Bond M	MWTRX	0.7	1.9	2.4	5.6	May 2016
Pimco Income D	PONDX	8.6	5.7	6.5	9.0	May 2016
Vanguard High-Yield Corporate	VWEHX	7.5	5.2	5.5	6.7	May 2016
Vanguard Sh-Tm Inv-Grade	VFSTX	1.4	1.9	1.8	3.0	May 2010

Indexes	Annualized total return 1 yr.	3 yrs.	5 yrs.	10 yrs.
S&P 500-STOCK INDEX	**23.6%**	**10.8%**	**15.2%**	**7.5%**
RUSSELL 2000 INDEX*	**27.8**	**10.1**	**14.5**	**7.6**
MSCI EAFE INDEX†	**23.4**	**6.1**	**8.5**	**1.1**
MSCI EMERGING MARKETS INDEX	**26.5**	**5.7**	**4.8**	**0.6**
BLOOMBERG BARCLAYS AGG BND IDX#	**0.9**	**2.4**	**2.0**	**4.2**

Through October 31, 2017. ‡Open to new investors if purchased directly through Vanguard. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCE: © 2017 Morningstar Inc.

The Vacation Less Traveled

We picked five destinations that are just as good as their pricey, crowded, touristy counterparts. **BY MIRIAM CROSS**

YOU'LL FIND GLEAMING, SUN-KISSED VILLAGES ON PAROS, A GREEK ISLAND NEAR SANTORINI THAT HAS FEWER VISITORS AND LOWER PRICES.

HORDES OF TOURISTS SWARMING THE WORLD'S MOST POPULAR DESTINATIONS CAN MAKE travel unpleasant. For example, Barcelona and Venice are so crowded that disgruntled residents have staged protests over the influx of visitors. Governments looking for ways to reduce the crowds in Barcelona and Dubrovnik are considering limiting hotel construction or capping the number of cruise ships that unleash swells of day-trippers.

If your heart is set on viewing Paris from atop the Eiffel Tower or skiing at a chic Colorado resort, the crush of people with the same idea may not deter you. But if you prize a less-crowded experience, consider these five alternatives to popular vacation spots around the world. One way to avoid the crowds is to travel during the off-season. But scheduling time off from work or school and risking rainy and cold weather aren't for everyone, so we chose places that are less packed all year round and offer good value even in peak season.

Ski Weekend

INSTEAD OF Vail, Colorado
GO TO Snowbasin, Utah

Colorado has a slew of ski resorts within a few hours' drive of Denver that draw plenty of season passholders and other visitors, thanks to a variety of terrain, high-quality facilities and plentiful lodging. To spend more time on the slopes and less time shivering in line for the lift, venture further afield. The facilities at Snowbasin, an hour's drive from the Salt Lake City airport, were revamped for the 2002 Winter Olympics (the resort hosted the downhill, Super G and combined races). But its location is just remote enough to put off the masses. Trails are suitable for all levels of skiing across more than 3,000 acres, and the terrain is varied, too. "Snowbasin has bits of Utah all in one place, from the rolling mountains of Park City to the steep, rugged terrain of Cottonwood Canyons," says Evan Reece, CEO of Liftopia, an online seller of lift tickets. An excursion to the nearby ski resort of Powder Mountain can be tacked on to the same trip. Facilities there are not as fancy as Snowbasin's, but it has more than 8,464 skiable acres—more than any other resort in the U.S.

You'll also pay less to schuss down the slopes. A lift ticket for a Saturday in February at Vail recently cost $164 online. For the same date, you could buy a lift ticket for $89 at Snowbasin or $79 at Powder Mountain.

There are condos and rentals near both mountains. But in nearby Ogden, you'll have your pick of accommodations and après-ski activities, including indoor skydiving, rock climbing and stand-up comedy. Public buses connect both Snowbasin and Powder Mountain with several stops in Ogden ($7.20 for a 24-hour pass). The bus ride takes about 45 minutes each way.

"Ogden doesn't have the same party atmosphere as Park City, but hotel prices are affordable," says Reece. For example, we found a queen suite for $96 per night in February at the Bigelow Hotel & Residences, located on Historic 25th Street in downtown Ogden. The street was once home to brothels and outlaws, but it is now lined with restaurants, shops and galleries. Cuisine around town runs the

PREVIOUS PAGE: ISTOCKPHOTO.COM

SKI SNOWBASIN, UTAH, TO SKIP THE LONG LINES AND PRICEY LIFT TICKETS.

COURTESY CAM McLEOD/SNOWBASIN RESORT

gamut from wild game cooked over a wood fire to Mongolian barbecue.

Even though the distance from Salt Lake City keeps crowds away, you can easily reach the mountains by rental car. Or take the commuter rail that runs from downtown Salt Lake City to Ogden.

Cultural Escape

INSTEAD OF Barcelona, Spain
GO TO Lima, Peru

Fans of architect Antoni Gaudí may settle for nothing less than a trip to Barcelona, where his sculptural buildings and towering Sagrada Familia enliven the city. Barcelona also features dozens of museums, Catalan cooking, a thriving nightlife and sandy beaches. But you will be far from alone: The city hosts more than 30 million visitors each year.

If you simply want to spend a few days revelling in art, architecture and cuisine in a lively city, head south to Lima, Peru, instead. (You'll also avoid the Catalonia turmoil in Barcelona.)

"Lima has an arguably better food scene than Barcelona," says Julia Pond, head of content for travel-planning site Trip.com. Three Lima-based restaurants, with cuisine ranging from Peruvian-Japanese "Nikkei" to ingredients sourced from different altitudes, landed on William Reed Business Media's "World's 50 Best Restaurants" list in 2017; tasting menus run about $130 to $160 for 11 to 17 courses, excluding wine. (The tasting menus at Disfratur in Barcelona, which won the "One to Watch" award, top out at $215.) Overall, restaurant prices in Barcelona are 86% higher than those in Lima, reports Numbeo.com, a database of costs contributed by users from around the world.

The old colonial town of Lima comes to life in its historic center, designated a Unesco World Heritage Site. You can tour the catacombs at the San Francisco Church and Convent for $3 or watch the changing of the guard outside Government Palace, the former residence of Francisco Pizarro, a Spanish explorer and founder of Lima. Or explore Huaca Pucllana, 1,500-year-old ruins that rise up in the upscale Miraflores district.

On the artsy side, pre-Columbian objects and textiles are on display at the Lima Art Museum and the Larco Museum. MATE, a museum founded by Peruvian fashion photographer Mario Testino, showcases Testino's celebrity photographs and other eclectic exhibits.

For spectacular views of the Pacific coast, head to the romantic Parque del Amor. "With its eye-catching sculpture of two lovers in the middle and mosaic walls, it's a nice parallel to Park Guell, in Barcelona," says Pond. Area beaches, such as Waikiki, are sought after by surfers but rocky. Instead, you can take a public bus south to the easily accessible beaches at Punta Hermosa, says Alix Farr, of Trip.com, who's a former resident of Lima.

We found flights from a number of U.S. cities in May in the $400s, or in the $500s later in the summer (which is Lima's mild winter). You could recently book a round-trip flight from Boston to Lima in July for $389. Four-star hotels averaged $138 a night in the summer of 2017, compared with $233 in Barcelona, according to the latest available rates from Expedia. Rooms at Hotel Dazzler, in the Miraflores district, recently started at a discounted rate of $132 per night for July 2018 if booked online 60 days in advance.

Volcanoes and Beaches

INSTEAD OF Costa Rica
GO TO Nicaragua

Tourists flock to Costa Rica for its wildlife, lush rainforest, volcanoes and surfing beaches. But it's no bargain; prices are comparable to those in the average U.S. beach city, says Tim Leffel, author of *The World's Cheapest Destinations*. And the region is popular, drawing the most international tourists in Central America in 2016, according to data from the World Tourism Organization.

People have been more hesitant to visit Nicaragua, Costa Rica's northern neighbor, despite its similar attractions. The civil war of the 1980s is long over (remember the Iran-Contra scandal?), and the country's infrastructure, while still developing, has improved in recent years. And although the travel experience is not as cushy as in Costa Rica, you'll pay about one-third the price, says Leffel. Plus, many of the country's highlights—including the historic colonial cities of Granada and León, as well as the surfing mecca of San Juan del Sur—are within a two- to three-hour drive of each other and the capital city, Managua.

Thrill-seekers can climb a number of volcanoes in the country. For example, the hike up Telica, near León, is considered moderate, and you'll be rewarded with views of bubbling lava at the top. On Ometepe, an island in Lake Nicaragua formed by twin volcanoes, hardy trekkers can summit either peak, kayak around the isthmus joining the two volcanoes or cool off in a spring-fed swimming hole. For thrills of a different kind, grab surf lessons for $30 in San Juan del Sur, or claim a hidden stretch of beach for yourself along the Pacific coast.

Nicaragua has the edge over Costa Rica when it comes to its striking Spanish colonial architecture and a more untouched local culture, says Kelsey Blodget, senior executive editor of Oyster.com. Granada and León boast colorful, centuries-old churches and cathedrals, and museums and street art in León trace the history of the revolution. In León, "you're also likely to encounter fruit stands selling unripe mangoes and jocotes, and locals riding horses and carts through the streets," says Blodget. Granada is also a jumping-off point for visiting the hundreds of tiny tropical islands, or *isletas,* in Lake Nicaragua.

Restaurants are cheaper in Nicaragua, too. According to Numbeo, a three-course meal for two at a midrange restaurant costs about $23 in Nicaragua and $35 in Costa Rica. Or you can piece together meals from street stands for a couple of dollars.

As more luxury hotels pop up, the country is shedding its backpacker reputation. For example, the Hospes Palacio de los Patos, a palace-turned-hotel in Granada, has rooms starting at $260 per night in April. The country is also an emerging destination for yoga retreats. The Aqua Wellness Resort offers daily yoga classes on an outdoor platform overlooking the Pacific Ocean, as well as a private cove for snorkeling and spa treatments that include body scrubs derived from volcanic clay. We found treehouse rooms starting at $216 per night in April; some feature private plunge pools or outdoor showers. Neighbors may include howler monkeys and parrots in the surrounding forest, or sea turtles nestled in the sand.

Greek Island Paradise

INSTEAD OF Santorini
GO TO Paros

Santorini, famous for its whitewashed homes with cobalt-blue accents that climb the steep hills of Oia, draws millions of tourists—especially to watch the sun set over the island's sea-filled volcanic crater. In 2016, it was the second-most-popular Greek port for cruise ships after Athens, according to the Hellenic Ports Association.

But you'll also find gleaming, sun-kissed villages on nearby Paros. The island is larger than Santorini and has fewer visitors, which translates to lower prices and a more laid-back feel, says Blodget.

Many activities revolve around the clear blue Mediterranean waters. For example, Golden Beach is a windsurfing hub. Or you can try a free spa treatment by coating yourself in clay at Kalogeros Beach. In the island's capital, Parikia, you'll find an archaeological museum and the historic Panagia Ekatontapiliani church. Or sample wines at the Moraitis Winery in the village of Naoussa. There are several caves to explore on the island, as well as inland walking trails that pass by Byzantine churches and castle ruins.

Flights to Athens spike in the summer, but keep an eye out for periodic dips. We recently found round-trip fares from Chicago under $600 for May. To get to Paros, you can hop a 40-minute flight from Athens; fares are as little as $94 round-trip in May but rise to $200 in June and July. Or take a ferry from Athens; fares on Blue Star Ferries start at $23 each way. Plenty of boutique properties are affordable all year round. For example, the beachside Senia Hotel is a short walk from the center of Naoussa and features a heated infinity pool. Doubles start at $139 in the July–

COURTESY SHAMWARI GAME RESERVE

August high season. On average, four-star hotels went for $196 in Paros in the summer of 2017, compared with $433 in Santorini, according to Expedia.

African Safari

INSTEAD OF Kruger National Park
GO TO Shamwari Game Reserve

Kruger National Park, in northeastern South Africa, is teeming with animal life. It's also one of the most popular safari destinations in Africa, along with the Maasai Mara National Reserve in Kenya and the Serengeti in Tanzania. For more-secluded sightings of lions, giraffes, rhinoceroses and other wildlife, head to a private game park in South Africa's Eastern Cape, such as the nearly 62,000-acre Shamwari Game Reserve. Port Elizabeth, the closest town, is a short flight from Cape Town. And unlike Kruger National Park, Shamwari is malaria-free. The land is fenced, meaning there is no natural migration of animals as there is in Kruger, but private reserves also limit the number of vehicles allowed at a sighting (typically to two). And you will encounter only guests who have paid to stay overnight, rather than day-trippers. "The volume of people who go there is much lower than Kruger, so it feels like you and nature," says Sherwin Banda, president of African Travel Inc., a luxury tour operator.

SHAMWARI, A PRIVATE GAME RESERVE IN SOUTH AFRICA, OFFERS SMALL-GROUP EXCURSIONS TO SEE THE WILDLIFE.

The upscale lodges at Shamwari cost about 20% to 30% less than similar properties in the private reserves around Kruger, says Murray Gardiner, co-owner of Giltedge, a luxury tour operator in South Africa. You can save money and hand off the logistics by joining a tour. For example, Lion World Travel recently offered its nine-night "Tented Safari in Style" for $3,999 in 2018, including round-trip flights from New York. In addition to a few days in Cape Town and wine-tasting in the Stellenbosch region, the package includes three nights at Shamwari in a detached safari tent with heating and air conditioning, a private plunge pool, and an outdoor shower. Guests will embark on game drives and guided bush walks, with a pause at sunset for cocktails.

For a more independent, ground-only option, Giltedge offers a self-driving tour starting at $2,300 in 2018. It includes three nights in Cape Town, two nights at a town along the Garden Route, and three nights in a lodge next to Shamwari, where you can partake in game drives and bush walks.

Getting to South Africa may be expensive if you don't book a tour that includes airfare; we found flights for less than $800 from East Coast cities in May, but prices rise later in the summer (South Africa's winter). However, with the dollar generally rising against the South African rand since March 2017, you'll save money once you're on the ground. For example, a multicourse prix fixe dinner at La Colombe, one of Cape Town's top restaurants, costs $84. Or a double chicken burger and side will run you about $5 at Nando's. Numbeo.com estimates that a midrange, three-course meal for two will cost $32 in Cape Town. During free time in Cape Town, you can ascend Table Mountain by cable car for $20 round-trip (or hike up free), wander the pastel homes of the Bo-Kaap neighborhood or dig into the city's past at the District Six Museum ($3). ■

KipTip

When You Can't Avoid the Crowds

Maybe you don't have much flexibility in your schedule and traveling in peak season is unavoidable. No worries. High season has its perks, if attractions stay open longer and transportation is more frequent. And you can still bypass the crowds with these tips.

Check www.cruisemapper.com for cruise ships scheduled to dock in your city, so you can estimate when must-see sites will be overrun. Many passengers prefer returning to the ship to eat meals, says Colleen McDaniel, of CruiseCritic.com, so you can sometimes avoid heavier crowds by exploring in the afternoon and evening.

You can also buy your way into a calmer experience. Prepay for tickets to in-demand sites, such as the Vatican Museum or Eiffel Tower, so you can sail inside rather than stand for hours in the ticket queue. Typically, the earliest or latest time slots will be the emptiest. City passes that bundle several attractions into one price might also fast-track your entry into those sites. Or join a tour that includes expedited entry (look for options labeled "Skip the Line" when searching for tours at www.viator.com).

Some museums or attractions, such as the Empire State Building, warn about busy periods or suggest quieter times and days on their websites. And some city websites tout offbeat itineraries that help you avoid the masses. If you would prefer quiet to convenience, choose accommodations in a residential neighborhood, and avoid the buzzing eateries near tourist attractions.

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TECH

How to Solve the Password Problem

Forget sign-ons that look like hieroglyphics. You can beat hackers with simple words and phrases.

SECURITY EXPERTS HAVE warned for years that to protect our online accounts we need to change passwords frequently and make sure that those passwords are "complex"—meaning filled with letters, numbers and random characters. But that advice may have done more harm than good. Such passwords are nearly impossible to remember (try recalling something like "Tri3cer&top$"). So many people continue to rely on weak passwords, such as "123456," "password" and "qwerty."

Now, new research shows that not only are complex passwords user-unfriendly, but they're also not hacker-proof. That's partly because once people finally commit passwords to memory, they often reuse them for multiple accounts. That makes "passphrases"—long, easy-to-remember strings of words—a better deterrent to the bad guys.

Creating a strong passphrase. Start by picking a series of unrelated common words—such as *cloud tomato history bridge*—or a phrase that may be obscure but that you can remember. Length is more important than randomness, although many websites currently limit you to, say, a dozen characters. Put capital letters, numbers or special characters within the passphrase, not just at the beginning or the end, says Lorrie Cranor, a computer science professor at Carnegie Mellon University. For example, you could use "Cloud!Tomato2History Bridge." Avoid repetitive or sequential characters, such as "777" or "XYZ," or even using letters that form a pattern on the keyboard.

Lock them up. Still, the average internet user has more than 100 accounts to keep track of. And even the best passwords are easily compromised if you write them down—which is what 73% of people do, according to a 2017 survey by the Pew Research Center.

One solution is to sign up with a password manager that will store all of them behind one master login—the only password you'll need to remember. A password manager can also help you create strong, unique passwords for each of your accounts. Passwords generated by the service will still be long, unpredictable and impossible to remember. But that's okay because you'll never need to type them in yourself.

For example, if you want password manager LastPass (free) to generate a password for you, log into LastPass and then visit the site that you want to add to your LastPass account. Ask to reset your password, then use the LastPass browser extension to generate a new password. Change your password on the site and log in to that account using the newly generated password. A pop-up will ask if you'd like to add the new password to LastPass. After that, LastPass will fill in the new password automatically. The service's premium option ($24 a year) adds a few features, including priority tech support, some multifactor authentication options and 1 gigabyte of encrypted storage. The family plan ($48 a year) allows up to six people to use the service and share log-in information with one another for shared accounts.

To add another layer to your security network, enable two-factor or multistep authentication on any account that allows you to. You'll enter your username and password as usual, but the account will then confirm your identity by asking you to enter a code that has been sent to your smartphone or e-mail address. The extra step deters hackers, and you'll know if an intruder attempts to log in with your password.

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SimpliSafe
Outsmart Burglars
The Moment You Plug It In
SimpliSafe is a complete home security arsenal. With motion sensors, glass break sensors, entry sensors, and a high-definition security camera, you'll have everything you need to keep your family safe—and 24/7 professional monitoring is only $14.99 a month.
Hurry! $200 Off our Holiday Package.
SimpliSafe.com/KIP

TAKEAWAY

6 New Year's Resolutions

And How to Make Them Stick

Cut Spending

The best way to control outgo is to budget. A good budget allows breathing room and is easy to set up. The budgeting app Mint tracks your financial accounts, lets you set spending limits and sends alerts if you go over them.

Pay off Debt

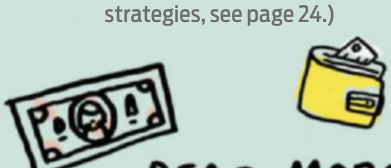
Sometimes reducing balances by size, from smallest to largest, is more effective than paying off high-interest debt first because you'll check off individual debts more quickly. That provides the momentum to see your plan to the end. (For student loan strategies, see page 24.)

Save More for Retirement

This one's easier after you've tackled spending and debt. If your employer matches your contributions, it's easier still. See more ways to supercharge your savings on page 36.

Build an Emergency Fund

Don't worry about how many months of expenses it covers—at least, not at first. Start by setting up automatic payments from your paycheck to a savings account. We list top-yielding accounts on page 45.



Reap More Rewards

Earn back hundreds of dollars a year for your purchases. The no-fee Citi Double Cash Mastercard pays a total of 2% on everything you buy. For more options, see "The Best Rewards Card for You" (Aug.).

Lose That Stubborn 10 Pounds

Getting fitter saves health care costs down the road. See page 11 to learn about free fitness classes and subsidized gym memberships.

RIVAN STINSON

ILLUSTRATION BY CHRIS BALLASIOTES