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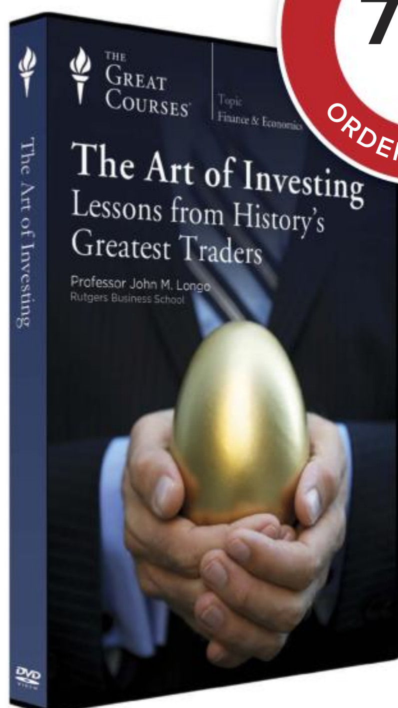

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Mark Solheim

No Politics. I Promise

I started working for Kiplinger during the 1980 presidential campaign, when a Democrat incumbent was running against a telegenic, smaller-government Republican. Sound familiar? Federal power versus states' rights is a political divide that goes back to the founding fathers. And, as evidenced by our 44 presidents, the U.S. electorate's sympathies have ricocheted back and forth ever since.

That divide is dramatically explored in the musical *Hamilton*. My wife and I finally saw the show a couple of months ago, and we were smitten by the story, the music, the acting—and the clear message that it is a love story to America, where a talented, smart, ambitious immigrant could help lay the foundation of a great country.

Hamilton is also the hottest ticket in theater today, with stratospheric prices and long waits to see the performances. The cover story in our last issue, "Great Ideas for $1,000," included an item with strategies on how to see the show, which is now touring the U.S., without breaking the bank. So I was flabbergasted when I got an e-mail from a reader who said he was considering canceling his subscription because we were recommending this musical. He went on to say that "only loony leftists or violent antifa members would waste their money to go see a racist musical like *Hamilton*."

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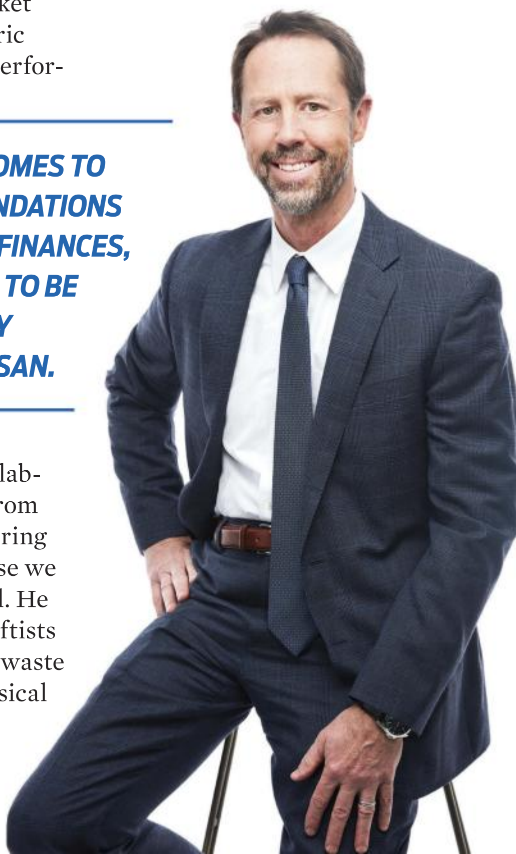
As Washington, D.C., journalists, many on our staff are probably more liberal-leaning than conservative. But we do not identify with extreme leftists (or the alt-right), and we certainly don't support violence or intimidation to promote a political cause. In fact, our code of ethics at Kiplinger prevents us from campaigning, demonstrating or in any way expressing a political viewpoint in public. Likewise, when it comes to recommendations for your finances, we strive to be staunchly nonpartisan.

Something has shifted in America. Many people have taken sides and dug in. They see the enemy even where it doesn't exist. The divisiveness has accelerated since the last presidential election, and it occurs on both sides of the political spectrum. Our January 2017 issue included the cover line "How to Ride Trump's Coattails," and we heard from a reader who claimed we were unethical for suggesting that investors profit from the Trump camp's propaganda. On the other hand, after we published a column in the November issue mentioning that the stock market has soared despite "political bickering, congressional investigations, neo-Nazi marches, devastating hurricanes and the threat of nuclear war," we heard from a reader taking issue with our "highly prejudicial, stereotyping, left-wing opinion." Our staff talked about why our words hit a raw nerve and how we might avoid that in the future.

Political differences in a democracy are something to cherish. What saddens me is when civil conversation and a desire to understand opposing opinions—and the truth—is sacrificed. Most of you who have written to complain about a perceived bias have been courteous and noninflammatory, and for that I thank you. I want all of you to know that our mission at Kiplinger is to give you the best and most trustworthy financial advice we can, without any spin. If you think we are letting our biases show, send me an e-mail. I promise to respond politely.

A new (older) look for columnists. If it looks as if I've aged in the photo at left, it's because the one you had been seeing till now was at least 10 years old. We decided to update all the columnists' photos to try to create more energy and freshen the look of the pages. I hope you like them. ■



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Mark Solheim

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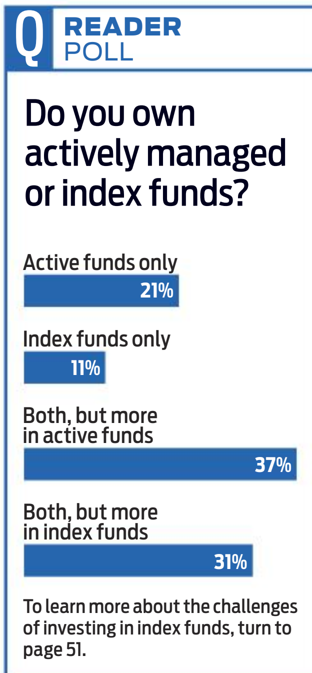
A Vote for Estate Taxes

I count on Kiplinger for incisive financial analysis, not sneaky political commentary, but I found the latter in the first article in the January issue ("Ahead"). You call it "good news" that "estate taxes are on their death bed," but that's a reactionary political view. The Tax Policy Center predicted that only about one in 500 estates would owe such a tax for 2017. With an exemption of nearly $5.5 million, it's a fair tax that brings in about $20 billion at a time when Congress wants to increase the federal debt by a trillion dollars.

RICHARD STREAN
ELIZABETHTOWN, N.Y.



SOURCE: POLL SURVEYED 233 *KIPLINGER'S* READERS.

Riding with the scam police. Your article "Ride Along With the Scam Police" (Jan.) was quite informative, but you didn't mention the Department of Justice's relatively new elder justice website (www.justice.gov/elderjustice). It provides a wealth of resources for elder justice advocates, law enforcement, family members and victims.

JIM JEWELER
ALEXANDRIA, VA.

CCRCs: At what cost? The biggest frustration I've come across when shopping for a continuing care retirement community is getting cost information ("Buying the Total Package," Jan.). Most CCRC websites don't provide such information, or even estimates. Want to call or e-mail a facility to get an idea of the cost? The most likely answer you'll get is "Come on in and let's chat about it." I've dealt with used-car dealerships that were more transparent about their prices.

JAMES HICKEL
ASHBURN, VA.

People considering a CCRC should do more intensive research on its financial structure. I know of some CCRCs that have been bought by new parent companies only to have their reserves siphoned off, leaving them without cash to refund unearned portions of entrance fees when residents leave.

DAVID HOLTON
PLEASANTON, CALIF.

That certain feeling. When my son graduated from college 20 years ago, he bought 100 shares of Apple at $13 a share ("Practical Investing," Dec.). He never sold them because he just had a feeling. He had that same feeling about Disney and a few others. Then his bar mitzvah money ran out.

ALBERT B. WEIL
NEW YORK CITY

Granada mix-up. The Hospes Palacio de los Patos hotel in your article "The Vacation Less Traveled" (Jan.) is in Granada, Spain, not Nicaragua.

ROB KEDDY
GRANADA, NICARAGUA

EDITOR'S NOTE: The hotel in Granada, Nicaragua, we intended to mention is Los Patios Hotel, with rates starting at $120 a night during the November-to-April high season.

CORRECTIONS

Davidson College's new work space for students and local businesses is scheduled to open by fall 2018, not fall 2019 ("Best College Values 2018," Feb.).

Oakmark Select Fund does not own shares of Lear. Rather, the stock is held by Oakmark Equity and Income ("Where to Shop for Bargains," Feb.).

LETTERS TO THE EDITOR

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TOPIC A

HOW TO CASH IN ON CORPORATE TAX CUTS

Investors can expect higher earnings and more generous dividends. **BY DAREN FONDA**

STOCKS HAVE BEEN RISING for months on hopes that tax cuts will fuel a surge in corporate profits and dividend increases. But you haven't missed the rally—it should last well into 2018, especially for the parts of the market that may benefit the most.

One way to cash in is with shares of small and midsize firms. Such companies tend to pay taxes at higher effective rates than large multinationals (based on actual taxes paid), so those companies stand to save more from lower tax rates.

You can invest in this area with exchange-traded funds such as **ISHARES CORE S&P SMALL-CAP** (SYMBOL IJR, $80) and **ISHARES CORE S&P MID-CAP** (IJH, $196), a member of the Kiplinger ETF 20 (see page 64). Among individual stocks, consider domestic retailers **TARGET** (TGT, $77) and **ULTA BEAUTY** (ULTA, $237). Tax cuts should lift profits for both firms by at least 18% in 2018, and the stocks still look like good values, says brokerage and investment firm UBS.

New corporate tax breaks are also good news for dividend investors. Big companies are likely to repatriate large amounts of cash held abroad, partly because they can now pay tax on the money at reduced rates. Some of it will go for acquisitions and stock buybacks (which can increase earnings per share by reducing the amount of outstanding stock). But many firms will probably use some overseas cash—estimated at $1 trillion—to increase dividend payouts more than they would have without the tax changes.

Big drugmakers and technology companies have stockpiled a lot of cash abroad, making them good candidates to increase dividends. **JOHNSON & JOHNSON** (JNJ, $146)—one of our favorite dividend-paying stocks—could tap its estimated $41 billion in overseas cash to bolster its payout. The stock now yields 2.3%. Google parent **ALPHABET** (GOOGL, $1,131), **APPLE** (AAPL, $177) and **MICROSOFT** (MSFT, $90) have also amassed huge cash hoards overseas. With their businesses thriving, money they repatriate may lead to steeper dividend hikes.

But the tax overhaul is not all good news for corporate America. The new levy on foreign cash and profits will sting initially as companies start paying tax on those gains, potentially hurting their bottom

ILLUSTRATION BY OWEN WEISS

lines in the short term. Apple, for instance, says it plans to repatriate much of its overseas cash—estimated at $252 billion—and reinvest some of it in the U.S. But the firm says it will pay $38 billion in taxes on that cash. Other firms, including banks such as Citigroup and Goldman Sachs, are taking big hits to their earnings as a result of the new repatriation tax, too.

And some parts of the market aren't compelling regardless of tax cuts. Utilities should get a big tax break from new rules that allow companies to deduct 100% of their spending for the next five years on capital equipment, such as factories and machinery. But utility stocks could face pressure in a market that favors faster-growing companies and those that thrive in an accelerating economy.

Banks and other financial stocks look appealing. Tax cuts could boost bank sector earnings by 10%, adding to an already healthy outlook for profits and dividends. Consider **FINANCIAL SELECT SECTOR SPDR ETF** (XLF, $29), also a member of the Kiplinger ETF 20, or, if you prefer individual stocks, **JP MORGAN CHASE** (JPM, $113) and **M&T BANK** (MTB, $179). Like utilities, industrial companies could get a boost from the rule allowing firms to deduct capital expenditures, accelerating demand for machinery and equipment. **FEDEX** (FDX, $272) recently raised its earnings forecast for 2018 to account for the expected tax savings. We also like **FIDELITY MSCI INDUSTRIALS INDEX** (FIDU, $41), a fund we are adding to the Kip ETF 20.

INTERVIEW

HOMEOWNERS ARE RICHER THAN RENTERS

The reason: You can't help but build savings as you pay down a mortgage.

Eli Beracha is an associate professor at Florida International University. He is coauthor of "A Revision of the American Dream of Home Ownership," published in the Journal of Housing Research.

Why do homeowners accumulate more wealth than renters? Homeowners must make a substantial down payment when they buy and a mortgage payment every month. Part of every payment goes to pay loan principal, so that's like having a mandatory savings account. Plus, they've purchased an asset that, on average, they hold for a long period. None of those actions represents the best way to accumulate wealth, but together they are better than doing nothing. Most renters spend the difference between renting and owning a home on other things. So, for the average American, it's better to own, even with the changes to the tax law (see "The New Tax Law: What You Need to Know," on page 35).

How does home-price appreciation compare with the return from investing in stocks and bonds over time? People believe that home-price appreciation in the U.S. is much higher than it really is. Over the long run, it exceeds inflation by about one-quarter to one-half of a percentage point per year. Increases in home prices and inflation must, by definition, be similar because housing is the biggest component in how the Federal Reserve calculates inflation. But stocks historically have returned an annual average of five to six percentage points more than inflation. Of course, you can't live in a stock, so it isn't fair to compare price appreciation of homes with the return on stocks.

Homeowners also underestimate the cost of ownership. They overlook how much they pay for expenses such as maintenance and closing and selling costs, and they don't value their time and effort.

So what must renters do to accumulate as much wealth as homeowners? We found that renters could, on average, accumulate *more* wealth than homeowners if they saved and invested the equivalent of a down payment, plus the difference between a monthly mortgage payment and rent, in a diversified portfolio of stocks and bonds. But the reality is, they don't.

PATRICIA MERTZ ESSWEIN

PHOTOGRAPH BY SONYA REVELL

A GIFT TO RETIREES

HAPPY BIRTHDAY, ROTH IRA

As the Roth turns 20, the new tax law gives it an edge for savers.

THE ROTH IRA CELEBRATES its 20th birthday this year, and like a lot of 20-year-olds, it has never looked so good.

You can't take a tax deduction for Roth contributions, but the money accumulates tax-free, and withdrawals are tax-free, too. If you contributed the maximum to a Roth for each of the past 20 years, you'd have nearly $200,000 in tax-free savings, assuming you invested it all in a fund that tracks Standard & Poor's 500-stock index and reinvested the dividends.

Ed Slott, a CPA in Rockville Centre, N.Y., recognized that Roths would become a game changer and started a newsletter in 1998 to teach advisers about the accounts. Slott calls Roth IRAs "tax insurance" because once you're invested in one, you won't have to pay taxes on contributions or earnings again.

The new tax law makes Roth contributions even more attractive, now that tax rates are the lowest they've been in years but could rise in the future (see "The New Tax Law: What You Need to Know," on page 35). KIMBERLY LANKFORD

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Roth Versus Traditional IRA

	ROTH	TRADITIONAL IRA
Birth year	1998	1974
Maximum annual contribution	$5,500 ($6,500 if 50 or older)	$5,500 ($6,500 if 50 or older)
Income limits	$120,000 if single or $189,000 if married filing jointly; phases out at $135,000 for singles and $199,000 for couples	None
Deductible?	No	Yes, if you have no workplace plan or AGI of $63,000 or less for singles, or $101,000 or less for married couples filing jointly*
Early-withdrawal penalty	None, if limited to contributions	Ordinary income rate, plus 10% penalty (except under certain circumstances)
Required minimum distributions at 70½?	No	Yes

*2018 AGI deduction limits.

SILVER LININGS

UPSIDES OF RISING RATES

As interest rates climb, higher yields on bank accounts aren't the only bright spot. Don't overlook these perks.

Increased annuity payouts. If you're looking to buy an immediate annuity, you may get a larger monthly payout than those who invested when rates were lower, says Hersh Stern, of *Annuity Shopper Buyer's Guide*. On deferred income annuities, which delay the payout for a specified period, higher interest rates could also increase the payouts.

Relief on long-term-care insurance premiums. In recent years, premiums spiked as low interest rates hampered insurance companies' investment returns. Plus, fewer people dropped their policies before receiving payouts than insurers expected. But insurers have accounted for lower lapse rates in new policies, says Jesse Slome, of the American Association for Long-Term Care Insurance. And rising interest rates should help stabilize premiums on new policies.

A larger credit line on a reverse mortgage. The unused portion of a line of credit will grow as interest rates rise (the rate on debt you've accumulated will also rise). If you're thinking of getting a reverse mortgage, consider making the leap soon to maximize growth in a credit line over time. LISA GERSTNER

STICK WITH UNCLE SAM

FEDERAL RETIREES GET A BREAK

New rules make it easier to leave money in the low-cost Thrift Savings Plan.

A NEW LAW WILL BENEFIT federal employees and members of the military who want to keep their money in the low-cost Thrift Savings Plan when they retire. The TSP has low fees, but it has frustrated savers with its strict withdrawal rules: After you take one partial withdrawal, you can access the remaining balance only by cashing out the entire account, converting it to a life annuity, or taking a series of monthly payments that you can change only once a year.

The new law eliminates the restriction on partial withdrawals and lets participants set up and change regular payments throughout the year. The Federal Retirement Thrift Investment Board, which runs the TSP program, has up to two years to enact the new rules.

"This is great news for all TSP account holders," says Didi Dorsett, a certified financial planner with Safe Harbor Financial Advisors, in Occoquan, Va. Many of her military and federal-employee clients have been rolling their TSPs into IRAs at retirement so they could have more control over withdrawals, even if it meant paying higher investment fees than they would have in the TSP.

Until the regulations are finalized, it's a good idea to postpone rolling a TSP into an IRA or making other long-term withdrawal decisions, says Josh Andrews, director of military life advice for USAA.

For more information and updates on withdrawal rules, go to www.tsp.gov.

KIMBERLY LANKFORD

MONEY & ETHICS // KNIGHT KIPLINGER

How can the approval process for new drugs be speeded up?

Q I keep hearing that many promising new drugs for cancer and other diseases are not legally available in this country because of excessively long and expensive approval processes at the U.S. Food and Drug Administration. What can be done to speed things up without sacrificing patient safety?

A The FDA, which is the sole arbiter of the safety and efficacy of drugs and medical devices sold in America, has greatly improved the speed of its review of proposed new drugs in recent years. The average length of time for approval has been declining, and the percentage of applicants getting okayed has generally been rising.

But thoughtful critics argue that the pace of innovation in pharmaceuticals and medical devices will soon overwhelm the present system of exclusive federal oversight. The fast-evolving field of customized medicine might render obsolete a system based on proving efficacy for the general population. There are many reform proposals, including some from free-market think tanks. A few worth considering:

■ Reciprocity between the drug-approving authorities in the U.S. and other authorities with similarly high standards, such as those in the European Union, Canada, Japan and Australia. A drug approved by one nation would be legal in the others, spreading out the regulatory workload and saving drug companies the cost of duplicative applications.

■ Free-to-Choose Medicine, in which doctors and patients could select a drug that hasn't been fully approved by the FDA—but has been given provisional approval based on preliminary findings of its safety and efficacy—to use while research continues. This would expand the FDA's current use of conditional approval, which is restricted to drugs for life-threatening diseases. Patients would need to understand the risks, and drugmakers would want them to sign a waiver of liability.

■ Congressional authorization of new, nonprofit certification bodies that would exist in parallel to, and in competition with, the FDA. Such a system is used today in the European Union for medical devices but not yet for pharmaceuticals.

HAVE A MONEY-AND-ETHICS QUESTION YOU'D LIKE ANSWERED IN THIS COLUMN? WRITE TO EDITOR IN CHIEF KNIGHT KIPLINGER AT ETHICS@KIPLINGER.COM.

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[1] National savings average rate courtesy of the FDIC's Weekly National Rates and Rate Caps, as of 01/08/2018; average rate used is for deposits under $100,000.

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ID PROTECTION

NEW WAYS TO FOIL HACKERS

These tools guard your smart gadgets and your identity.

CYBERSECURITY WAS A HOT TOPIC AT THIS year's CES, the annual consumer electronics showcase in Las Vegas. We hit the show's floor to find new products and services that could affect your financial life.

Smart-home guards. Internet-connected devices, from baby monitors to smart TVs, are vulnerable to hacking and malware. The Bitdefender Box 2 ($250, plus $99 annual subscription fee after the first year) and the Norton Core wireless router ($280, plus $10 monthly subscription fee after the first year) monitor your home's connected devices for suspicious activity and provide antivirus protection.

Visual password protection. A string of letters, numbers and symbols is hard to remember. Images are easier to recall. That's the idea behind Valt, a password-management app (available for iOS) that guides you through nine images when you sign up. To log in, you must select those pictures from a series of several images rather than enter a password.

COURTESY VALT

Connected payment card. Wallet Card stores multiple credit, debit and prepaid cards from a bank on a single payment card. If one card number is compromised, the issuer can replace it instantly using a cellular connection. Wallet Card hasn't announced any participating U.S. banks, but partnerships may be on the way. **LISA GERSTNER**

CALENDAR
03/2018

SUNDAY, MARCH 4
It's Oscar night! If you didn't get to see the nominees in theaters, you have a second chance, probably at a discount. AMC Theatres is running its Best Picture showcases at participating locations before the annual gala. The theater chain will also run a 24-hour movie marathon on March 3. (For a financial spin on the Oscars, see "Takeaway," on page 72.)

FRIDAY, MARCH 9
National Consumer Protection Week. Understand your rights as a consumer at www.consumer.ftc.gov, and watch out for scams. Read "Ride Along With the Scam Police" (Jan.) for more information.

THURSDAY, MARCH 15
If you still have money in your flexible spending account, you may want to schedule a last-minute dental appointment. Many employers give workers a two-and-a-half-month grace period to spend money left in their FSAs at year-end. If your employer offers a grace period, today is the last day to incur out-of-pocket health care expenses to be paid with funds in your 2017 FSA.

SATURDAY, MARCH 17
The last day to file your taxes is one month away, so get your records in order for charitable donations, property taxes, mortgage interest payments and other deductible expenses. Turn to page 35 to learn more about how charitable giving and federal income taxes will be affected in 2018 under the new tax law.

▲ TUESDAY, MARCH 20
It's the first day of spring, and it's time for spring cleaning. Clean the gutters, dust the blinds and declutter that closet. Read "Downsize Your Stuff" (July 2017) for decluttering strategies and to learn the KonMari method of tidying. **RIVAN STINSON**

DEAL OF THE MONTH
The price for high-end skis should drop by 20% in March, with a better selection than in mid season.

ISTOCKPHOTO.COM

Breakthrough Profit Alert:
7 Secret Funds Set to Soar in 2018

The Strategy that Could Triple Your Fidelity Profits!

It's common knowledge that Fidelity is where you put your money when you want to beat the market, not try to mimic it with index funds.

But hardly anyone knows about the small group of Fidelity funds that, when combined properly, drastically reduces investor risk – while handing investors profits that are a whopping 201% greater than the profits of average Fidelity investors.

Going for growth? Income? Either way, this will be your best year ever because you're about to discover what most Fidelity investors will never find out. Let me explain…

Fidelity gives you reams of valuable information and does an amazing job educating their clients about how to invest. But remember the last time you selected a fund? Did Fidelity ever pull you aside to say, "Wait, don't buy that fund. Buy this one instead?" Of course not.

Even with all of the data Fidelity makes available to you, you're still left in the dark whenever you have to make a decision. And that's dangerous. That's where I can help.

These are the Fidelity Funds That Can Triple Your Profits

I've just released my newest report, ***Fidelity's 7 Secret Funds Set to Soar in 2018***. And it's yours **FREE**!

In it I detail Fidelity's 7 index-beating funds that are so amazingly powerful they work gangbusters for just about every Fidelity investor, including:

- aggressive growth investors,
- those seeking both growth and income,
- and those who simply want to live off the income their Fidelity funds generate for them.

I Used to Work at Fidelity, But Not Anymore

I'm Jim Lowell, and I head up the world's largest independent research group dedicated to Fidelity, its funds, and its investors.

Jim Lowell

Jim Lowell is the quintessential Fidelity expert and watchdog. He is the President of FundWorks, Inc. and founding editor of ***Fidelity Investor***.

Jim is the author of *What Every Fidelity Investor Needs to Know,* and his commentary appears in *Forbes*, *Business Week*, *The Wall Street Journal* and *The New York Times*. He's a regular guest on CNN, CNBC, Bloomberg and Fox Business News.

Think of me as your Fidelity inside man… your serious-money watchdog. I'm entirely independent of Fidelity and can tell you all about their strengths and weaknesses, and what I've discovered can easily double, maybe even triple your Fidelity profits.

It's the cardinal rule of savvy mutual fund investing… buy the manager! My proprietary Manager Ranking System (MRS) analyzes how each Fidelity fund manager has fared relative to the market, month in and month out since he or she began managing money, for Fidelity.

And the best of my discoveries are in my new FREE report, ***Fidelity's 7 Secret Funds Set to Soar in 2018***.

Here's just a preview of what you'll uncover…

80% of the Stocks in This Fund Have More Cash than Many Governments

If you like large cap stocks that are loaded with cash that's consistently handed over to investors, then this Fidelity power fund belongs in your portfolio.

Going Global with Small Caps

No investor has much business buying an international index fund that merely imports all the risks of the foreign marketplace without being run by a top-notch international stock picker. It's a good thing that this fund is run by one of the best on the planet.

Beats S&P 500 by a Mile

If you buy only one of Fidelity's 7 Secret Funds, you'll want to make sure it's this one. Thanks to a mastermind fund manager who knows the healthcare industry inside and out, this fund is in the catbird seat to ride the wave of innovation offered by the health care industry in 2018, making this fund the strongest of Fidelity's 40 actively managed sector funds.

Not Your Typical Growth and Income Fund

This fund is not for the faint of heart, but adding it to your portfolio could make long-term investment sense for both the growth and income sides of your portfolio.

Undervalued, Overlooked and Making Money

The manager behind this fund has been at the helm for over 27 years, and his stellar track record speaks to the strengths of a stock picker who knows how to reward shareholders year-in and year-out. Learn the name of this fund and the brilliant manager behind it when you request a free copy of my latest special report, ***Fidelity's 7 Secret Funds Set to Soar in 2018***.

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MONEY SMART WOMEN | Janet Bodnar

How Women Approach Investing

Among her many career accomplishments (including appearing on the cover of *Kiplinger's*), Liz Ann Sonders, currently the chief investment strategist at Charles Schwab, was a regular panelist on PBS's *Wall Street Week With Louis Rukeyser*. Before she made her first appearance in 1997, Rukeyser asked whether her parents were in the financial industry. No, she replied. "Then get them to understand what you're talking about," he said.

No piece of advice has influenced her more. "I try to write and speak in a way that people can understand," says Sonders, 53. In that spirit, she recently came to Washington, D.C., to address a gathering of women. I spoke with her to get her perspective on the role of women in finance (and her latest market outlook).

What's it like to be a high-powered woman in the financial industry? Being female is a huge positive. I can see how it might be a problem if you wanted to be the CEO of a company like J.P. Morgan, for example. But I don't have many glass-ceiling bruises on my head. Doing what I do, there's an advantage to not being a middle-aged guy.

How did you get started in the business? It was a fluke. I graduated with a double major in political science and economics and went to live with my grandfather in Brooklyn while I looked for a job in New York City. I was intrigued by Wall Street and ended up working with [the late investment adviser] Martin Zweig in 1986. His firm had only 60 employees and it just felt right. I was there for 13 years.

Have you ever experienced any bias because you're a woman? When Marty was weaning himself away from the day-to-day business, our public relations firm wanted another person in the public eye. A male colleague suggested me, but the PR person said he "wasn't sure a pretty face would be taken seriously on TV." So they groomed a male colleague. Months later, I made my first TV appearance in 1997—and immediately got a call from *Wall Street Week*.

Does being a woman influence how you look at the markets? Yes. Call it female intuition, but it's a more pragmatic way of looking at the world, without the gambler mentality.

What do you see as the strengths of women investors? In general, they tend to have longer time horizons than men. They're more methodical and more disciplined in their approach. And they're better at self-reflection. They understand who they are as investors—whether they're aggressive or risk-averse.

What about their weaknesses? I meet a lot of women not in the financial business who feel they've lost an opportunity to learn about investing and there's too much to catch up on. But it's never too late. Women are absorbent sponges and willing to admit they're just learning.

How do you invest your own money? Largely in index funds or ETFs invested tactically across all asset classes—domestic and foreign stocks, large and small companies, REITs, commodities, currencies and fixed income. A decent chunk of our retirement will also be funded via whole life insurance. We like its protection-for-life trait, along with the level premiums and cash value. We also have real estate investments.

SCHWAB'S SONDERS SAYS WOMEN KNOW WHO THEY ARE AS INVESTORS—FOR EXAMPLE, WHETHER THEY'RE AGGRESSIVE OR RISK-AVERSE.

What is your "intuition" telling you about the current market outlook? What had been standing out for much of this bull market was how little enthusiasm investors had. But lately the questions I get at client events have become much more optimistic and opportunistic, almost to the level of "frothy." I wouldn't mind seeing some healthy pullbacks in the interest of keeping sentiment from the type of euphoria that could signal a market top. ■

JANET BODNAR IS EDITOR AT LARGE OF *KIPLINGER'S PERSONAL FINANCE* MAGAZINE. YOU CAN CONTACT HER AT JBODNAR@KIPLINGER.COM.

POON WATCHARA-AMPHAIWAN

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– Jeff Raider & Andy Katz-Mayfield

HARRY'S

MILLENNIAL MONEY | Kaitlin Pitsker

Making the Leap to Homeownership

After more than five years in the Washington, D.C., area, three apartments and eight roommates, I became a homeowner last summer. Sharing the rent with others had kept housing costs affordable, and I made several good friends along the way. But ultimately I craved the stability that would come from saying farewell to rent-hiking landlords, slapdash maintenance and the roommate revolving door. And I was excited to experience the benefits as well as the responsibilities of homeownership.

For a long time, millennials weren't buying homes at the same rate as previous generations—largely because we came of age as the housing bubble burst and lenders put credit in a vise. Now millennials make up the largest group of home buyers, according to the National Association of Realtors. But if you're unsure where a job, relationship or life may take you in the next few years, renting likely beats buying. You'll also want to check out the buy-to-rent ratio in your area—that is, the median sale price of a home divided by the average annual rent for a similar one. In general, if the ratio is less than 15, the market favors buyers; more than 20 and it rewards renters. Ratios in-between can go either way, depending on taxes and the rate of appreciation. To assess your situation, use an online calculator, such as Trulia's (www.trulia.com/rent_vs_buy).

The mortgage grind. To qualify for a mortgage, your monthly housing expenses—including principal and interest, real estate taxes, homeowners insurance, and homeowners or condo association dues—usually can't exceed 28% of your gross monthly income. For many millennials, that isn't the biggest challenge; it's coming up with the cash at the beginning. You can probably get a mortgage with a down payment of just 3% to 3.5% of the purchase price, but you'll need an extra 2% to 4% of the purchase price to cover the appraisal, taxes and other costs you'll have to pay to close the deal. If you put down less than 20%, you'll need private mortgage insurance, which usually costs 0.5% to 1.5% of the loan amount each year.

I had been toying with the idea of buying for years, and I funneled as much cash as I could (from a raise and the extra money I had after paying off my student loans and moving to a cheaper apartment) into a savings account. To cover a shortfall, you may be able to borrow from your 401(k) or tap your IRA (see kiplinger.com/links/tap). Before I found my one-bedroom condo (two blocks from Metro!), I made sure I was preapproved for a mortgage. I have a strong credit history, so qualifying for the mortgage went smoothly. But lenders did put my finances under a microscope. I had to explain everything that was a little outside the norm, from a PayPal transfer to a reimbursement check from a work trip.

MILLENNIALS CAME OF AGE AS THE HOUSING BUBBLE BURST AND LENDERS PUT CREDIT IN A VISE. NOW WE MAKE UP THE LARGEST GROUP OF HOME BUYERS.

Help from Mom and Dad. Parents are often willing to extend a helping hand. The simplest strategy is for them to give you money to put toward your down payment or closing costs. Your lender will require a letter stating that the money is a gift, not a loan, since a loan from your parents increases your total debt, making it harder to get a mortgage. Alternatively, if your parents are comfortable putting their credit on the line, they can jointly apply for a mortgage as a "non-occupant co-borrower," which means they have an interest in the property and can add cash of their own to the mix. My parents and I preferred the second option, but we had several conversations to outline a repayment plan and other specifics to make sure everyone was comfortable with the arrangement.

So far, homeownership is great. The biggest change? The amount of time—and money—I spend at the hardware store. ■

TO SHARE THIS COLUMN, PLEASE GO TO KIPLINGER.COM/LINKS/MILLENNIALS. YOU CAN CONTACT THE AUTHOR AT KPITSKER@KIPLINGER.COM.

POON WATCHARA-AMPHAIWAN

OPENING SHOT | James K. Glassman

Is the Market Dangerously High?

The month of March reminds us that bad things happen to good markets. On March 9, 2009, the Dow Jones industrial average closed at 6547, down by more than half from its record high a year and a half earlier. But after descending into that Death Valley, the stock market has climbed to new heights, with the Dow nearly quadrupling. Two more years like 2017, when the index returned a little more than 28%, and we'll reach my personal holy grail: Dow 36,000.

But the stock market's success can't obscure unpleasant memories. Are we witnessing another melt-up? Investopedia defines *melt-up* as a huge increase in stock market value driven "by a stampede of investors who don't want to miss out on its rise." The danger, of course, is that a melt-up could morph into a melt*down,* especially if stock prices are being bid higher for no good reason.

Certainly, the bull's persistence is in dispute. The current long-term upward trend has a decade or more still to run, predicted portfolio manager Steve Chiavarone, of Federated Investors, on CNBC last November. On the same network eight days later, Michael Hartnett, chief investment strategist at Bank of America Merrill Lynch, claimed the opposite, forecasting an end to the bull market in 2018.

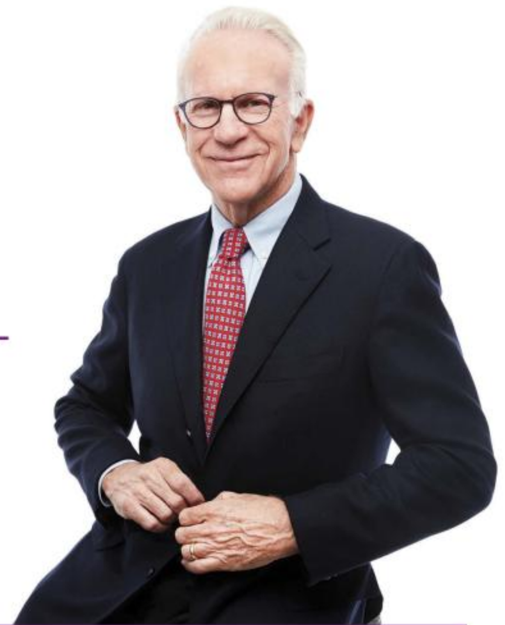
Age is just a number. By one calculation, this bull market is the second-longest since World War II, and it will surpass the all-time leader (1990–2000) if it survives through August. A bull market is generally defined as a period without a decline of 20%. Between May and October 2011, Standard & Poor's 500-stock index fell 19.4%, when measured by closing market prices, and thus the bull was deemed to have kept running. But based on highs and lows during trading, the drop was 21.6%. In that case, the current bull market is only six and a half years old, which makes it the fourth-longest since WWII—and, thus, not quite so grizzled.

Your concern, however, should not be past records but present reality and future expectations. Clearly, a powerful driver of stock prices during 2017 was the anticipation of a corporate tax cut. Before the change went into effect, the marginal tax rate for big businesses of the sort listed on stock exchanges was 35%; it was reduced starting this year to 21%. Just do some quick-and-dirty math: A company earning $1 billion would be able to retain $650 million after taxes in 2017 but $790 million in 2018. That's an increase of 21.5%; it's no coincidence that the S&P last year returned 21.8%.

WARNING SIGNS ARE FLASHING, BUT NO ONE HAS THE SLIGHTEST IDEA WHEN A BULL MARKET—OR A BEAR MARKET, FOR THAT MATTER—WILL END.

Stock prices rise in anticipation of something good happening. When it happens, investors look forward to the next good thing. They don't look back at the last good thing. Does anyone believe there's *another* tax cut coming? Of course, the current tax reduction could lead to more economic growth, which, in a virtuous circle, would mean more revenues and profits for businesses. But a rapidly growing economy creates its own problems, including one we haven't seen for decades: inflation.

Stocks might also be losing a key support. Low interest rates have helped buoy stock prices—first, by boosting the economy via lower borrowing costs for consumers and businesses, and second, by rendering bonds, with their low yields, unattractive compared with stocks. It makes little sense to own a 10-year Treasury bond that yields 2.5% when you can buy solid stocks such as Chevron, with a dividend yield of 3.2%; Coca-Cola, at 3.2%; and Procter & Gamble, at 3.1%—all companies with a powerful history of raising their dividend payouts.



POON WATCHARA-AMPHAIWAN

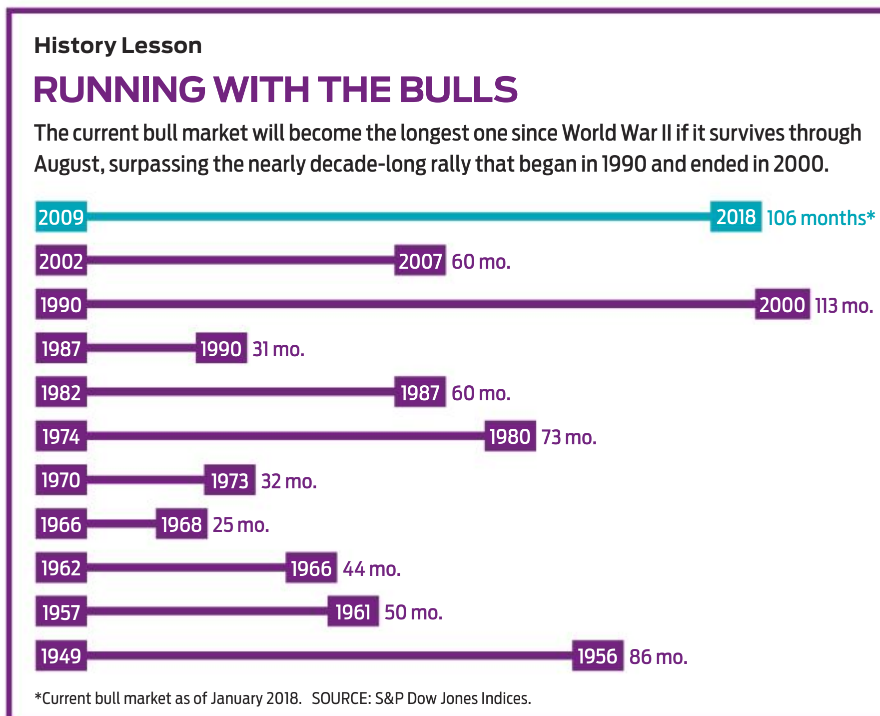
But what happens when the Federal Reserve, worried about inflation as the economy heats up, starts raising short-term rates consistently, and longer-term rates respond in kind? Analysts have been calling for rising rates for years; in 2018, it could happen.

A bigger worry than economic fundamentals is the behavior of investors. Are they rushing headlong into the market simply because stocks are soaring? If so, they are precipitating a melt-up, which is fun while it lasts but produces a terrible hangover. The all-time record bull market, in terms of price gains and longevity, ended with a 49% decline from March 2000 to October 2002. And the 2002–07 bull (ranking sixth in the hit parade) ended with a thud as stock prices dropped 37% in 2008 alone and 57% overall before the market turned around.

Exuberant or irrational? Investors today are certainly optimistic. According to a University of Michigan sentiment survey, the proportion of consumers who expect higher stock prices one year from now is at the same level as during the 2007 market peak. Money is flooding into exchange-traded funds, mainly those linked to stock indexes; such ETFs collected a net (after redemptions) $350 billion in 2017, according to the Investment Company Institute, compared with a $186 billion increase for 2016.

WHAT SHOULD YOU DO? MOSTLY NOTHING. IF YOU ALREADY OWN A PORTFOLIO OF DIVERSIFIED STOCKS AND MUTUAL FUNDS, HOLD ON.

These investors may be taking on more risk than they intend. Stock valuations are high by historical standards. The Cyclically Adjusted Price-to-Earnings (CAPE) ratio, compiled by Yale University finance professor Robert Shiller, which takes into account earnings and inflation over rolling 10-year periods, shows that stocks are dangerously expensive—roughly at the level before the crash of 1929. A more conventional measure found that at the end of 2017, stocks were trading at 19 times their estimated earnings over the next 12 months—the highest average P/E in more than 15 years, according to Fact Set. Still, that high valuation may be justified by earnings growth and low interest rates.



My conclusion is that warning signs are flashing. But I am also a firm believer in two stock market principles: First, you can always find data to support any market thesis, positive or negative; and second, no one has the slightest idea when a bull market—or a bear market, for that matter—will end. So what should you do in the current situation? Mostly nothing. If you are already doing the right thing, then just keep doing it. That is, own a portfolio of diversified stocks and mutual funds and hold on, making regular purchases every month or quarter or year, as your risk tolerance and your stage in life permit. Keep in mind that after the last disaster, stocks recovered quickly. In a little over five years, the Dow had returned to its 2007 peak, and that doesn't even count the dividends paid along the way.

You can also look for bargains. They aren't easy to find right now, but the place to look is among the unloved. The *Wall Street Journal* at the end of 2017 published a list of more than 100 global assets, from currencies to stock indexes, and ranked them by their performance for the year. Only 17 declined in value. Among the ones in which you can actually invest: energy-related companies and farm commodities, such as corn, sugar and orange juice. I believe these assets will prosper if, as I suspect, the geopolitical scene deteriorates and the web of global trading relationships continues to fray.

Here are a few ETF suggestions: **ENERGY SELECT SECTOR SPDR** (XLE, $77), with an expense ratio of 0.14% and a dividend yield of 2.4%; **VANGUARD ENERGY** (VDE, $106), with expenses of 0.1% and a yield of 2.4%; **POWERSHARES DB AGRICULTURE** (DBA, $19), with expenses of 0.85%; and **VAN ECK VECTORS AGRIBUSINESS** (MOO, $64), with expenses of 0.53%.

And then there's always the Pakistani rupee or the Ukrainian hryvnia. No melt-ups there. ■

JAMES K. GLASSMAN IS THE COAUTHOR, WITH KEVIN HASSETT, OF *DOW 36,000*, PUBLISHED IN 1999. HE OWNS NONE OF THE SECURITIES MENTIONED IN THIS COLUMN. YOU CAN REACH HIM AT JGLASSMAN@KIPLINGER.COM.

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MARY AND STEVE INGRAM ARE WORKING WITH A FINANCIAL PLANNER TO MAKE SURE THEY'LL HAVE TAX-DIVERSIFIED INCOME IN RETIREMENT.

Are You On Track?

How to tell if you've saved enough to retire when you want, and what to do if you haven't.

BY EILEEN AMBROSE and KIMBERLY LANKFORD

Many people get serious about calculating whether they are on target to retire when they hit their fifties. That's often when reality starts to sink in and retirement no longer seems like just a vague goal. Figuring out whether you'll have enough assets and income to cover a retirement that can easily stretch to 30 years can be daunting, but there's no lack of advice out there. For a quick-and-dirty way to see if you're on track, you could check one of the multitude of savings benchmarks financial firms offer (see the chart on page 32). Or you could use one of the many online retirement calculators provided by Fidelity Investments, T. Rowe Price, Vanguard and others. (Kiplinger also offers a calculator at kiplinger.com/links/retirementcalculator.)

PHOTOGRAPH BY GABRIELLA MARKS

A BETTER WAY

For a more accurate estimate, you'll have to crunch your own numbers. The worksheet on the page 29 walks you through the steps. A few things to keep in mind: When you estimate yearly expenses in retirement, remember that you'll no longer be contributing to retirement savings, you'll likely pay less in taxes, and if you plan to pay off your mortgage, those payments will disappear. (You may want to boost your budget for travel and hobbies.) Don't forget that your costs will go up with inflation (figure 3% a year).

The next step is to add up your annual sources of guaranteed income, such as Social Security and possibly a pension. To find your estimated Social Security benefits, open a "my Social Security" account online at www.ssa.gov/myaccount. Finally, subtract your income from expenses. What's left is how much money you will need to draw down from your savings to maintain your lifestyle.

You need to make sure you won't deplete your savings too fast. One widely used guideline is to take an initial withdrawal of 4% of your nest egg and increase the dollar amount of your withdrawals each year by the annual inflation rate. Based on historical investment returns, this rule of thumb holds that there is a high probability that your nest egg will last for at least 30 years, assuming 50% or 60% of your portfolio is invested in stocks and the rest in bonds. (For more strategies, see "Get Income for Life," Oct.)

You may need more or less savings depending on how long you live. That's impossible to predict, but you can get an idea at Livingto100.com, which estimates life expectancy based on your answers to questions about your health, lifestyle and family history.

If you don't already work with a financial planner, now is a good time to find one. An adviser can address your specific situation and help you create a plan to reach your goal. (For help finding an adviser, see "When It's Time to Call In a Pro," Aug. 2016.)

That's what Steve and Mary Ingram did. Steve, 55, and Mary, 53, had been saving the maximum allowed in their IRAs and 401(k)s for years, getting the full employer match. The Albuquerque couple also boosted their contributions when they turned 50 to take advantage of the extra catch-up limits. "That's retirement 101," says Mary. "It's incredible how much that builds."

The Ingrams have been working for more than 12 years with financial adviser Donna Skeels Cygan, who is now helping them take their planning to the next level by tweaking their accounts so they'll have tax-diversified income streams in retirement. Cygan also runs their retirement numbers under a variety of scenarios—say, in case they need long-term care—to make sure they're truly on track.

HOW TO STAY ON TRACK

Retirement challenges for today's younger baby boomers, now in their mid fifties, are greater than those of the oldest boomers, now entering their seventies. Younger boomers are less likely to have traditional pensions, they've paid more for their children's college education, and they've benefited less from home appreciation, says Mary Beth Franklin, a certified financial planner and contributing editor at *InvestmentNews* (and a former senior editor of this magazine). "For some people, their savings are not going to be enough," she says. "They have to look at their alternatives."

Your journey to retirement could also be knocked off course by a divorce, job loss or other unexpected

DERAILER

You Lose Your Job

Older workers have one of the lowest unemployment rates of any sector of the workforce—3.3% or less, as of December. But once they lose a job, it takes them longer than younger job seekers to find a new one. On average, 25- to 44-year-olds land a new job in just over five months, but it takes two to five months longer for older workers, depending on their age, reports the Bureau of Labor Statistics.

How to get back on track. Reconnect with old contacts from college or previous jobs to let them know you're newly unemployed. "Everybody finds jobs through networking," says Lori B. Rassas, an employment attorney and author of *Over the Hill But Not the Cliff*.

Ageism is a reality for older job seekers, Rassas says. But rather than hide your age by eliminating all dates on your résumé, try to work around the stereotypes of older workers. "No one cares that you're 60," Rassas says. "It's not the age. It's what it represents." Employers often assume older workers have low energy and are inflexible, uncomfortable with technology and just biding their time until retirement.

To overcome these views, show that you are still learning and on the cutting edge of your field by attending conferences, serving on panels at seminars or writing articles, she says. Post your profile on the business networking site LinkedIn. If you don't have a LinkedIn profile, employers may assume you lack the technology skills to keep up, Rassas says.

Apply to smaller companies that get fewer résumés than larger employers do, Rassas says. You may have to accept less pay, but don't offer to take a large pay cut right off the bat—you may sound desperate and turn off an employer, she says.

Once you find a job, develop a side hustle in a related field that brings in money and broadens your network. If you're laid off again, the side gig may become your main employment—or at least provide income while you search for other work, Rassas says.

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WHEN JESSE DILLON'S EMPLOYER OFFERED HIM A BUYOUT, HE AND BARBARA DETERMINED THEY COULD STAY ON TRACK FOR RETIREMENT IF HE NO LONGER WORKED FULL-TIME.

event. The accompanying boxes discuss three common derailers, with ways to get back on track. Whether or not a catastrophic expense undermines your plans, these methods will help you get to your goal.

Save more. In 2018, you can contribute $18,500 on a pretax basis to a 401(k), plus another $6,000 if you're 50 or older. As long as you turn 50 anytime this year, you can start making those catch-up contributions now.

This money will be taxed when you withdraw it in retirement. Because of this, a tax-deferred account may be depleted 25% to 35% faster in retirement than a taxable account, says Jennifer Davis, a CFP in Rockville, Md. She suggests also stashing money in a Roth IRA, which offers tax-free withdrawals in retirement, or in an after-tax investment account. This will give you flexibility to draw from different accounts to minimize taxes later.

The Ingrams are doing this. Mary splits her 401(k) contributions between a Roth and a pretax account. Steve's employer doesn't offer a Roth 401(k), and the couple's joint income is too high to qualify for a Roth IRA. But he makes "backdoor" Roth contributions by contributing the full $6,500 to a traditional IRA each year and then immediately converting it to a Roth. The Ingrams are also investing $1,000 twice a month in a taxable brokerage account, on which they'll pay lower, capital gains tax rates when they realize long-term gains.

Trim expenses. To free up more money for savings, you may have to reduce expenses—by, say, eating out less, cutting the cable cord or replacing cars less often. The budget you created to estimate expenses after retirement can also help you identify ways to trim right now. If you need to make bigger cuts, consider downsizing—perhaps to a condo closer to where you work.

After their financial planner told Denise and Mike Sikora to save more, they sold the house in New Jersey that they had lived in for 30 years and downsized to a nearby co-op, investing their home-sale profits and slashing

PHOTOGRAPH BY JEFF WOJTASZEK

Retirement Reality Check: Are You Saving Enough?

To maintain a comfortable lifestyle in retirement, you should aim to replace about 75% to 80% of your current gross income. Social Security will supply about 30% of that amount for most middle-income workers. (You can get your personalized estimate of how much to expect from Social Security at www.ssa.gov/estimator.) The rest of your retirement income may come from pension benefits, a job or personal savings. To establish a nest egg target, you need a rough idea of how much money you'll want to draw from your savings each month.

How It Works	What to Do	Your Answers
STEP 1: Meet Kate. She's 55, plans to retire in 10 years and thinks she may live until 90. She estimates that she'll need $2,500 per month from her savings, and she assumes an average 6% return on her investments. Kate looks at table 1 and finds where 25 years and 6% intersect: $205,000. That's how much she'll need to produce $1,000 per month of retirement income. But because she needs $2,500 a month, she divides $2,500 by $1,000 and comes up with a factor of 2.5. Then she calculates her **target nest egg amount**: $205,000 x 2.5 = $512,500.	**Divide your monthly income needs by 1,000 and multiply it by the amount in table 1.**	TARGET NEEDS $ ______
STEP 2: Table 2 will help you calculate the **future value of your existing investments**. Kate has $250,000 in savings. With 10 years to go before retiring and an assumed rate of return of 6%, Kate's factor from table 2 is 1.79. When she multiplies her current balance of $250,000 by 1.79, the future value of her account at retirement is $447,500.	**Multiply your current account balance by the factor in table 2.**	$ ______
STEP 3: Table 3 shows the **future value of your ongoing monthly contributions**. Kate is also saving $500 per month and assumes her savings will earn 6% over the next ten years. The future value of her monthly contribution is $82,350 ($500 x 164.70 = $82,350).	**Multiply your monthly contributions by the factor in table 3.**	$ ______
STEP 4: Using Kate's example, her **projected savings** are step 2 ($447,500) + step 3 ($82,350) = $529, 850. That's more than her target nest egg amount, so Kate is on track.	**Add your answers in step 2 and step 3 together.**	PROJECTED SAVINGS $ ______

TABLE 1 (dollar values needed to produce $1,000 per month; assumes 3% annual inflation)

Rate of return	Years in retirement 5	10	15	20	25	30	35
2%	$60,000	$123,000	$189,000	$259,000	$331,000	$408,000	$488,000
4	57,000	111,000	162,000	211,000	258,000	302,000	344,000
6	54,000	100,000	140,000	175,000	**205,000**	231,000	254,000
8	51,000	91,000	122,000	147,000	167,000	182,000	194,000
10	48,000	83,000	108,000	125,000	138,000	148,000	154,000

TABLE 2 (current balance factor)

Time to retire.	Rate of return 4%	6%	8%	10%
5 years	1.22	1.34	1.47	1.61
10 years	1.48	**1.79**	2.16	2.60
15 years	1.80	2.34	3.17	4.18
20 years	2.19	3.21	4.66	6.73

TABLE 3 (monthly contribution factor)

Time to retire.	Rate of return 4%	6%	8%	10%
5 years	66.52	70.11	73.97	78.08
10 years	147.74	**164.70**	184.17	206.55
15 years	246.91	292.27	348.35	417.92
20 years	368.00	464.35	592.95	765.70

SOURCE: PHILIP LUBINSKI, PRESIDENT OF STRATEGIC DISTRIBUTION INSTITUTE

WHAT TO DO

If the step 4 figure is larger than the step 1 figure, congratulations! You're on track.

If step 4 is smaller than step 1, you need to make some changes to reach your nest egg goal. Consider working a few years longer, saving more each month, downsizing or moving to a cheaper locale. Or reconsider how much retirement income you will need.

In Kate's example, she is slightly ahead of her goal ($529,850 - $512,500 = $17,350). But because this is just a rough estimate, she should continue her current savings plan. Very few people have reached retirement regretting that they saved too much.

their notoriously high New Jersey property taxes. A year later, they sold the co-op and bought a house in an even less-expensive area—a retirement community in central Florida.

Mike, 63, retired from his job as an accountant before moving to Florida. But Denise, 60, was able to continue her work as a self-employed medical claims specialist—although she has cut back her hours. The move to Florida saved them a lot of money, and not just because houses cost less than in the Northeast. Florida has no state income tax, so it doesn't claim part of their retirement income and Social Security benefits. The Sikoras' property taxes are now about $1,200 a year, or one-fifth what the couple paid on their New Jersey house. (See the "State-by-State Guide to Taxes on Retirees," at kiplinger.com/links/retireetaxmap.)

The Sikoras also look for other ways to cut costs. "We started keeping track of our expenses and writing down every penny we were spending," says Denise. "It was a real eye-opener."

Work longer. Staying on the job an extra couple of years can make a huge difference in your retirement savings because you can continue to make contributions to your retirement funds and hold off tapping them. You'll also delay taking Social Security, thereby earning a bigger benefit. And you'll have fewer years of retirement to fund.

Even a part-time job paying, say, $10,000 a year can be a big help. It might not sound like much, but to generate an extra $10,000 a year from your portfolio using the 4% withdrawal rule, you would need another $250,000 in savings, says Bill Hart, a CFP in Jacksonville, Fla. "Unless he already has a fabulous job, there is no way that someone is going to save himself $250,000 in the last five years of working," he says.

Even if your retirement plans are humming along, unexpected events can force you to change gears. Barbara Reist Dillon, 58, and her husband, Jesse, 56, reassessed their plans after Jesse's employer offered him a buyout. The Lancaster, Pa., couple visited financial planner Rick Rodgers to see if their retirement would stay on track without Jesse's full-time income. "We'd been doing this for ourselves for 30 years, and we decided to step it up and get professional advice," Barbara says. The answer was yes. The Dillons' years of automatic saving in 401(k)s and a brokerage account paid off. Rodgers helped them consolidate their accounts to keep tabs on their progress, and he meets with them quarterly to make sure they remain on target.

Jesse is now semiretired and doing some consulting, a schedule he'd like to continue. Barbara doesn't plan to leave her job as an estate-planning lawyer anytime soon.

Prepare for health costs. Long-term-care expenses can devastate a financial plan. In 2017, the average private room in a nursing home cost $97,500; assisted living cost $45,000; and the average home health aide charged $22 per hour (which would total $64,000 a year for eight-hour shifts every day), according to the Cost of Care study by Genworth, a long-term-care insurer.

Both the Dillons and the Ingrams decided to buy long-term-care insurance after they experienced firsthand the high costs of helping aging parents. Long-term-care coverage isn't onerously expensive if you don't buy a Cadillac policy. It would cost a 55-year-old couple about $3,000 per year to buy two policies, each providing a spouse with a $150 daily benefit, a 90-day waiting period before benefits

DERAILER

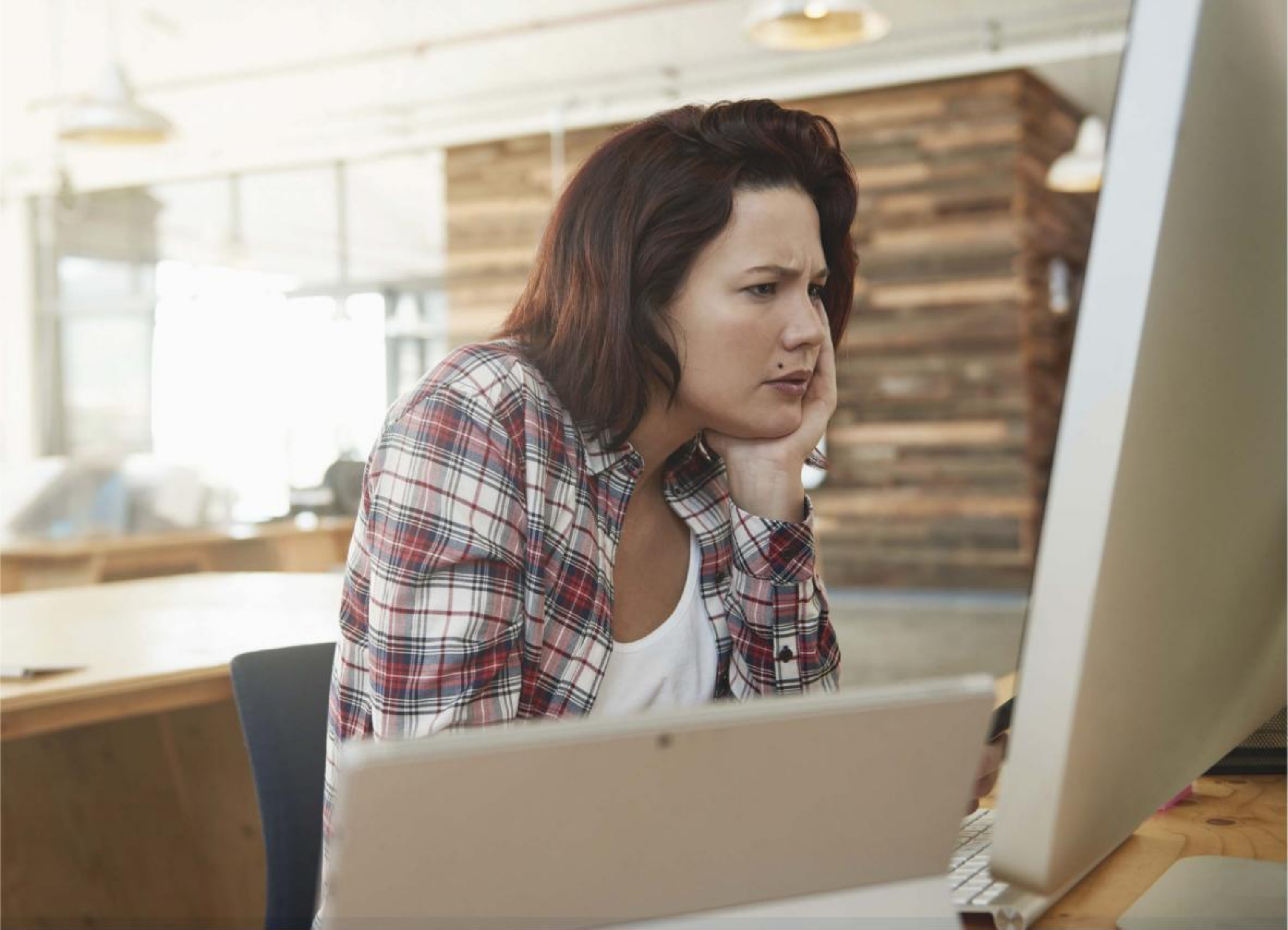
You Get Divorced

The divorce rate for those age 50 and older has doubled since the 1990s. In 2015, 10 out of every 1,000 married persons divorced, and the number of so-called "gray divorces" was even higher among those in remarriages, according to the Pew Research Center. Divorce can upend retirements. "You are now maintaining two households with the same amount of assets you spent a lifetime building. It can be devastating," says Haleh Moddasser, author of *Gray Divorce, Silver Linings: A Woman's Guide to Divorce After 50.*

How to get back on track. For couples splitting up, Moddasser suggests "collaborative divorce," in which spouses and their lawyers meet with the goal of creating a win-win situation for both partners.

Or, if you're already divorced, the new tax law may make it worthwhile for you and an ex to renegotiate the settlement. Starting with settlements reached in 2019, alimony payments will no longer be tax-deductible, and alimony income won't be taxed. It's possible, Moddasser says, for an ex to pay less in alimony while the recipient still comes out ahead because payments won't be reduced by taxes.

You may be eligible to receive Social Security benefits based on an ex's work record if the amount will be larger than you'd get on your earnings history. You must be single, you and your ex have to be at least 62, and the marriage must have lasted 10 or more years, says Mary Beth Franklin, a CFP and contributing editor at *InvestmentNews*. This chance for a bigger benefit is one reason Franklin advises married couples near the 10-year mark to wait to divorce. "If your marriage is on shaky ground in years eight or nine, stretch out the paperwork," she says. "Because if you are married, literally, nine years, 11 months and 29 days, and you get divorced, you're out of luck."



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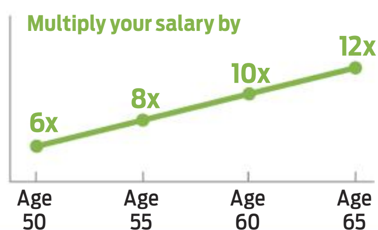
begin, a three-year benefit period and a 3% inflation adjustment, according to the American Association for Long-Term Care Insurance. You could also buy a hybrid life insurance policy that allows you to spend down the death benefit to pay for long-term care should you need it. Otherwise, you need to have a plan to pay the potential costs from your savings. Some people buy a deferred-income annuity that pays lifetime income starting in their late seventies or early eighties, when it's more likely they will need care.

You should also plan for other medical bills in retirement, even after you are on Medicare. When you add up the expenses, Fidelity estimates that the average couple retiring at age 65 in 2017 will spend $275,000 on health care costs, including Medicare premiums and out-of-pocket expenses, or coverage to fill the gaps, over 21 years or so. "People very, very much underestimate how much they may need," says Katie Taylor, vice president of thought leadership at Fidelity. To help pay for medical bills later, consider setting up a tax-friendly health savings account now.

How Much Should You Have in Retirement Savings?

Along with Social Security benefits and saving 15% of your salary each year until retirement, this should be enough to replace 75% of your preretirement income until age 95.



SOURCE: T. ROWE PRICE

An HSA gives you a triple tax break: Contributions are tax-deductible (or pretax if made through your employer), the invested money grows tax-deferred in the account, and then you can use it tax-free for eligible expenses in any year. To qualify, you must have an HSA-eligible health insurance policy with a deductible of at least $1,350 for single coverage or $2,700 for family coverage in 2018. You'll get the biggest benefit if you can afford to use other cash for current medical expenses so you can allow the money to build up in the HSA for Medicare premiums or other medical bills in retirement. (Once you enroll in Medicare, you can't make additional contributions to the HSA.)

But retirement is about more than the numbers. It's a new chapter in life. "Individuals go right into crunching their numbers to figure out whether they have enough, but they haven't sat down and envisioned what enough is for," says Maria Bruno, senior investment strategist at Vanguard. ■

CONTACT THE AUTHORS AT FEEDBACK@KIPLINGER.COM.

DERAILER

You Become a Caregiver

Caregivers who look after a parent or relative often jeopardize their financial security, over the short and long term. If they reduce their work hours, they may no longer be able to contribute to an employer retirement plan, meaning they don't get the company match. If they're forced to quit altogether, they may have a tough time finding a job when they're ready to return to work.

Merrill Lynch and Age Wave, a consulting firm that studies aging issues, surveyed more than 2,200 unpaid caregivers and found that 24% said they had trouble paying their bills, 21% dipped into savings and 18% couldn't contribute to other expenses or savings—which can have a long-term impact on their own plans. "Caregiving is a hidden threat to retirement security," says Catherine Collinson, of the Transamerica Center for Retirement Studies. "We talk about market fluctuations, but caregiving is just as risky a proposition."

Marie Johnson Bosscawen, 55, is trying to get her retirement plans back on track after moving her ailing parents from Ohio in 2015 to be near her in North Carolina. "It became so much to manage. I ended up quitting my job," says Bosscawen. She stopped saving for retirement, and her husband reduced his 401(k) contributions to increase his take-home pay. Since then, Bosscawen's mother has died, and her father, who has dementia, has moved from her home to a senior facility. Bosscawen has a new job as a safety specialist that pays more than the her old job, and she socks away money in her 401(k) and IRA. Her husband has boosted his contributions, too. They sold their 4,000-square-foot house to buy one that's about half the size with a smaller mortgage that they hope to pay off in 10 years, when either one or both of them can retire, she says.

How to get back on track. Resources available in your area may help you provide care while you keep your job. Your local Area Agency on Aging has information about home-care agencies, senior centers, transportation and other services (see the Eldercare Locator at www.eldercare.gov for local resources).

Some employers offer resources for caregivers. Fabiola Brumley, 54, a Bank of America executive in Florida, had to find care for her mother, who suffered a stroke. Brumley joined a caregivers group at work and discovered that the bank offered a free meeting with a geriatric care manager each year. She also signed up for backup care, another employee benefit, which provides emergency care for $6 per hour if Brumley or her mother's caregiver isn't available.

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ASK KIM | Kimberly Lankford

Baseball Cards: Few Hits, More Misses

I WANTED TO GIVE SOME OF THE MORE valuable baseball cards in my collection to my nephew. What has been happening to the value of baseball cards?

T.M., TAMPA

The value of many baseball cards, especially from the 1980s and '90s, plummeted over the past decade as too many of them flooded the market. But prices have jumped recently because wealthy Asian investors have been buying up collectible cards, says Michael Osacky, of Baseball in the Attic.

That has helped push up the value of some cards, such as Hall of Fame players' rookie cards prior to 1970, says Osacky. A 1952 Topps Mickey Mantle rookie card in near-mint condition sold for $89,626 in August 2016, and a similar card went for $114,000 about a year later. A 1955 Topps Roberto Clemente rookie card in near-perfect condition fetched $5,959 in September 2017, and a similar card sold for $7,200 a couple months later.

Most cards are worth a lot less. A Hank Aaron card from the 1970s may be worth $20 to $25. To get top dollar, you'll need a high score from a grading company, such as SGCCard.com, which assigns a value for the card's condition. Full cases of unopened cards from the '80s and '90s may also be valuable. A 1986 Fleer Basketball Wax Box with 36 unopened packs (the set includes Michael Jordan's rookie card) sold for $77,000 last July.

Reporting charitable IRA distributions. I'm 72, and I gave my required minimum distribution from my IRA to charity last year. How do I report the transfer on my tax return?

J.K., COLORADO SPRINGS

The money you transfer from your IRA to charity is reported on a 1099-R form you'll receive from your IRA administrator. There will be an X next to Code 7, "normal distribution," as if the distribution had been paid to you. But you'll claim the tax-free benefits of this "qualified charitable distribution" when filing your federal tax return.

You can give up to $100,000 each year from your IRA to charity if you're 70½ or older. The money counts toward your RMD and isn't included in your adjusted gross income. Report the full amount of your traditional IRA distributions (including your QCD and any other distribution) on line 15a of Form 1040 as a gross distribution. On line 15b, write any taxable amount (if you took other withdrawals), and add "QCD" next to that line to explain why part of the distribution is tax-free. If your only distribution was the QCD, enter 0 on line 15b.

BASEBALL CARDS FLOODING THE MARKET IN THE 1980s AND 1990s ARE NOW WORTH LESS THAN THE PRICE OF A BALLPARK BEER.

A gift of tuition. Family members would like to contribute to my son's 529 college-savings account. How do they do this, and will they get a state income tax deduction?

N.D., BOSTON

Many 529 plans make it easy for anyone to contribute money. Several plans participate in the Ugift program, which gives you a code that family and friends can use to contribute to the account online (see www.ugift529.com). T. Rowe Price's GoTuition program lets account owners create a profile page online, then share a custom URL for others to make a deposit into the 529. A few states offer a tax deduction only for account owners, but most let all contributors deduct a gift to their home state's plan (see the rules for states' plans at www.savingforcollege.com).

Deadline for HSAs. Can I still contribute to a health savings account for 2017?

S.L., GRAND RAPIDS

Yes. You have until April 17, 2018, to contribute to an HSA for 2017 if you had an eligible health policy (with a deductible of at least $1,300 for single coverage or $2,600 for family coverage) last year. You can contribute up to $3,400 to the HSA if you had single coverage, or $6,750 if you had family coverage, plus $1,000 if you were 55 or older. ■

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POON WATCHARA-AMPHAIWAN

SPECIAL REPORT

The New Tax Law: What You Need to Know

BY SANDRA BLOCK

The full impact of the Tax Cuts and Jobs Act won't be felt until a year from now, when you file your 2018 tax return. Most Americans will enjoy a tax cut, at least for the next eight years, but the benefits—or costs—of the law will depend on a lot of factors, ranging from the size of your family and how much you earn to where you live. This special report explains what to expect and what you can do now to make the most of the most sweeping rewrite of the tax code since the last time the Chicago Bears won the Super Bowl.

The new law will reduce taxes for millions of taxpayers by lowering income tax rates across the board. For example, if your top 2017 tax rate was 25%, it falls to 22% in 2018, and a chunk of your income that used to be taxed at 15% will now be taxed at a new 12% rate. These rate cuts will expire in 2025 unless Congress agrees to extend them.

ILLUSTRATIONS BY DAVIDE BONAZZI

But the most sweeping change for individuals nearly doubles the standard deduction to $12,000 for single filers, $18,000 for head-of-household filers and $24,000 for married couples who file jointly. Taxpayers age 65 or older and blind people get even higher standard deductions. A single taxpayer age 65 or older will get an additional $1,600. Two 65-year-olds filing a joint return will get an extra $2,600. The law retains the alternative minimum tax but significantly reduces the number of taxpayers who will have to pay it.

FAMILIES

In exchange for the larger standard deduction, lawmakers eliminated personal and dependent exemptions, each of which was expected to be worth $4,150 in 2018. At first blush, that would seem like a significant hit for a large family. A married couple with four kids, for example, will lose $24,900 in exemptions in exchange for the $11,300 increase in their standard deduction. But that loss will be offset by a higher—and broader—child tax credit. Starting in 2018, the $1,000 tax credit for each child younger than age 17 jumps to $2,000. For lower-income taxpayers, $1,400 of that amount is refundable, which means if the credit reduces your tax bill to less than zero, the IRS will write you a check for up to $1,400 per eligible child. At the other end of the income spectrum, many high earners who were previously ineligible for the child tax credit will now be able to claim it. Married couples with adjusted gross income of up to $400,000 will be eligible for the full credit, up from $110,000 in 2017.

Keep in mind that a tax credit results in a dollar-for-dollar reduction in your tax bill, while personal exemptions lower your taxable income. For that reason, the expanded child tax credit, combined with the larger standard deduction, will result in a lower tax bill for most families. For example, a married couple who claim the standard deduction, have two young children and report adjusted gross income of $75,000 will save $2,119 in taxes in 2018, according to an analysis by the Tax Policy Center.

The rules for claiming the child tax credit are the same as they were for claiming a dependent exemption, says Jackie Perlman, a tax research analyst at H&R Block's Tax Institute. The child must live in your home for more than half of the year and cannot provide more than half of his or her own support. For family members who rely on you for support but aren't qualifying children—an elderly parent, for example—the law provides a new $500 tax credit. That credit is nonrefundable; you won't get a check if the amount of savings exceeds the amount of tax you owe.

Love and money. If you've been putting off getting hitched because you're afraid your tax bill will go up, you may want to start shopping for wedding rings. Under the new tax law, the tax brackets for married couples are almost always twice the amount of those for single people. That eliminates the marriage penalty for the majority of couples, says Tim Steffen, director of advanced planning for Baird Wealth Solutions. Under the old tax law, couples with individual incomes as low as $77,000 sometimes ended up paying more as a married couple than they would have paid individually if both had remained single. Now, only couples with individual incomes of $500,000 or more will pay the IRS more as a married couple than they would have owed had they remained domestic partners.

Meanwhile, if your marriage is on the rocks, there are provisions in the tax law that could affect the terms of your breakup and potentially make it more contentious. Currently, alimony is deductible by the ex-spouse who pays it, and the recipient must report it as taxable income. The new tax law flips that equation: Alimony paid under divorce or separation agreements reached after December 31, 2018, won't be deductible, and the money will be tax-free to the recipient. Alimony paid under divorce agreements signed before that deadline won't be affected.

EDUCATION

Most of the proposals that caused a ruckus on college campuses across the country were torpedoed before Congress passed the tax bill. Borrowers can still deduct up to $2,500 a year in interest on their student loans. (This is a so-called above-the-line deduction, so you can claim it even if you don't itemize.) Tuition waivers and discounts received by graduate students remain tax-free. The American Opportunity tax credit, worth up

to $2,500 per undergraduate student, also survived the tax overhaul.

But there's a big change for state-sponsored 529 college-savings plans. The law now allows families to withdraw up to $10,000 tax-free per year per student to cover expenses for kindergarten through 12th grade at private or parochial schools. In the past, parents could use a Coverdell Education Savings Account to save for primary and secondary school costs, but contributions were capped at $2,000 a year. The law retains Coverdell accounts, but families who have one can roll it over to a 529 plan tax-free.

Most 529 plans use age-based portfolios that gradually become more conservative as your child nears college age. Families that start saving when their children are infants have 18 years to save and invest before they start taking withdrawals. If you're saving for primary or secondary school, you'll probably want to use an investment strategy that reflects your shorter time horizon, says Stuart Ritter, a senior financial planner at T. Rowe Price. To accommodate parents who want to tap their accounts earlier, some plans may start offering time-based, rather than age-based, portfolios, says Steffen.

If you're putting aside money to send your toddler or a grandchild to private school in three years, you'll probably want to stash it in a low-risk investment because you won't have time to recover from a downturn in the stock market. That won't generate much tax-free income, but your contribution could lower your state tax bill. More than 30 states allow savers to claim a deduction or credit for contributions to a 529 plan. In New York, for example, a married couple can deduct up to $10,000 a year for contributions to the state's 529 plan. Those state tax breaks may be even more valuable now if the new law's limit on the amount of state income and property taxes you can deduct squeezes your write-offs.

The new law also allows parents and others who have set up a 529 plan for a disabled beneficiary to roll the money into an ABLE account for that person. Money in ABLE accounts can be used tax-free for a variety of expenses, not just college or private school. Assets of up to $100,000 don't count toward the $2,000 limit for Supplemental Social Security benefits. Annual contributions to ABLE accounts are capped at $15,000 in 2018, and a 529 plan rollover counts toward this limit.

SAVING FOR RETIREMENT

Proposals to limit tax-deferred contributions to 401(k) and other savings plans didn't survive. If changes in your withholding (see the box on page 42) put a little more cash in your paycheck, consider increasing your contributions. You won't miss the money, and you'll get that much closer to your savings goals.

One provision in the tax bill could put the brakes on a saver's plans to convert money from a traditional IRA to a Roth. In the past, taxpayers who made such a switch could undo the conversion, and eliminate the tax bill, by "recharacterizing" the conversion by October 15 of the following year. The new tax law eliminates that strategy. If you convert, the change is irreversible. You must pay the tax bill, even if your account declines in value after you convert.

That doesn't mean you should rule out a Roth conversion. If having a Roth in your retirement-savings arsenal is

part of your long-term strategy, converting to a Roth is still a good idea, says Ritter. Just make sure you have enough money to pay the tax bill by the tax-filing deadline. For some savers, that may mean spreading out conversions, says Eric Bronnenkant, a certified public accountant with Betterment, a web-based money-management service. "Rather than converting $100,000, you may want to do it in pieces over time," he says.

If you've been weighing whether to contribute to a Roth or a deductible IRA, the tax bill gives the Roth the edge for many savers, planners say (see "Ahead," on page 13). Contributions to a Roth aren't deductible, but once you retire, you can take tax-free withdrawals. If you think your tax rate will be higher in the future than it is now, you're better off contributing to a Roth than to a deductible IRA. That's a safe bet if your income remains relatively steady. It's unlikely tax rates will go any lower, and the rate cuts in the Tax Cuts and Jobs Act are scheduled to expire in 2025. Supporters of the tax bill insist that Congress will extend the rate cuts, but if recent history has taught us anything, it's that a lot can happen in eight years. Having a Roth in your retirement portfolio offers an important way to diversify the tax treatment of your nest egg.

REAL ESTATE

McMansions, or even more modest homes in some high-cost parts of the country, could become more expensive for home buyers in the coming years. The tax overhaul reduces how much mortgage interest homeowners can deduct. Now you can deduct interest on up to $750,000 of mortgage debt, down from $1 million. The $1 million threshold is grandfathered, so older loans won't be affected by the new limit. Interest on second homes will still be deductible, but the $750,000 limit covers your primary and vacation homes. Some housing analysts predict that this change will lower values for homes in high-cost areas, such as New York, because the lower cap on the amount of interest homeowners can deduct will make owning those homes more expensive.

Another provision in the new tax law could increase the cost of borrowing money from your home to pay for college or take a vacation. Interest on home-equity loans and lines of credit is no longer deductible unless the money is used to improve your home, and that applies to both new and existing home-equity debt. If the money is used to improve your home, interest is deductible up to the $750,000 limit.

The change will increase the effective interest rate on HELOCs, but it's still a good idea to have one for emergencies, says Mari Adam, a certified financial planner in Boca Raton, Fla. At an average rate of about 5.6%, home-equity lines are still less expensive than personal loans and credit cards. And if you lose your job, a home-equity line of credit can provide an important source of income until you get back on your feet.

Should you pay off the balance on an outstanding home-equity line? That depends on where you plan to get the money, Adam says. If you have extra money languishing in a low-interest money market or savings account, paying off the loan—or increasing your payments—could make sense.

Higher property taxes. When calculating the cost of buying a home, pay close attention to how much you'll pay in property taxes. The new law caps the amount taxpayers can deduct in state income and property taxes at $10,000. This won't affect you if you claim the standard deduction or have a combined tax bill that's less than $10,000. But in states with high property taxes, the cap on this deduction could wipe out savings from other provisions in the new tax law. In Essex County, N.J.,

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for example, the average property tax bill is $11,500, according to a 2016 study by Attom Data Solutions.

INVESTING

The Tax Cuts and Jobs Act left capital gains rates the same, which means most people with taxable accounts will pay 15% on long-term capital gains and qualified dividends. Significantly, the tax law also preserves the 0% capital gains rate for eligible taxpayers, a popular tax-saving feature for retirees with taxable investments but not a lot of other income.

The law does, however, change the way the capital gains rate is determined. In the past, it was based on your tax bracket. Taxpayers in the 10% and 15% brackets paid 0%, and those in the top tax bracket paid 20%. Now, the rate will be based on income thresholds. For 2018, the 0% rate for long-term gains and qualified dividends will apply to taxpayers with taxable income that's less than about $38,600 on individual returns and about $77,200 on joint returns. Taxpayers with taxable income that's more than those amounts but less than $425,800 ($479,000 for married couples) will pay 15%, and taxpayers with higher income will pay 20%.

The law changes the way the so-called kiddie tax is calculated, and that could make custodial accounts under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) more (or less) expensive for some families. The tax applies to investment income that exceeds $2,100 earned by children younger than 19 or, if full-time students, younger than 24. In the past, investment income over that amount was generally taxed at the parents' rate. Now it will be taxed at the same rates as for trusts and estates, with a top rate of 37% of income over $12,500.

That doesn't necessarily mean parents will pay more under the new tax regime. Consider, for example, a situation in which a child has $5,000 of income subject to the kiddie tax and the parents have taxable income of $150,000. In 2017, applying the parents' 25% rate to the $5,000 would have cost $1,250. If the old rules still applied, using the parents' new 22% rate would result in a $1,100 tax on that $5,000 of income. Applying the new trust tax rates produces a kiddie tax bill of just $843 on the child's investment income. Other parents could see taxes on these accounts increase, which is why it's important to run the numbers with a financial adviser.

CHARITABLE GIVING

Among all the interest groups chagrined by the rapid overhaul of the tax code, perhaps none are as disgruntled as charities. Charitable contributions are still deductible, but the expanded standard deduction means that millions of taxpayers will no longer get a tax break for their good deeds.

Even before the tax law was enacted, two-thirds of taxpayers didn't itemize, and many of those people still made regular donations to churches, animal shelters and soup kitchens. But philanthropic leaders fear that the tax law will sharply reduce larger donations from taxpayers who are accustomed to factoring in the tax break when they decide how much to give. The Council on Foundations estimates that the tax law will slash charitable giving by between $16 billion and $24 billion a year.

If you continue to make charitable contributions this year, don't throw away your acknowledgements and receipts. Come next April, you may find that you're still better off itemizing, even with the larger standard deduction. That's particularly likely for taxpayers who have large mortgages and hefty state and local taxes (which are still deductible up to $10,000). A large amount of unreimbursed medical expenses (see the next page) could also make you an itemizer.

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up on your charitable contributions every other year. Bunching two years' worth of contributions (or more) into one year, when combined with other deductible expenses, could provide you with enough deductions to itemize in that year.

If you plan to use this strategy, consider setting up a donor-advised fund. You can deduct the entire contribution in the year you make it, then decide later how you want to donate the money. These funds accept donations of appreciated securities, which offers a double-barreled benefit: You can deduct the full value of the gift if you itemize, and you avoid capital gains taxes on the appreciation. You can open a donor-advised fund at Fidelity Investments or Schwab for $5,000; Vanguard Charitable's minimum is $25,000.

Philanthropic retirees who no longer itemize have another option: tax-free distributions from an IRA to charity. This provision, which has been around for several years, allows taxpayers who are 70½ or older to transfer up to $100,000 from their IRAs to charity, tax-free. You can't deduct the donation (which is irrelevant if you're already taking the standard deduction), but the distribution counts toward your required minimum distribution for the year. It's not counted as part of your adjusted gross income, which can help you avoid the Medicare high-income surcharge and may lower taxes on your Social Security benefits.

PART-TIMERS AND THE SELF-EMPLOYED

The new tax law provides a generous tax break for people who work for themselves. Retirees who earn extra income from part-time work could also benefit from this change in the law. But it's complicated. If you don't already have a tax preparer to help with your business, you may want to start looking for one.

Starting this year, many self-employed taxpayers will be allowed to deduct 20% of qualifying income from their taxable income. For a sole proprietor in the 24% bracket, excluding 20% of income has the same effect as lowering the tax rate to 19.2%.

The law contains a complex set of rules that define what constitutes "qualifying income" for purposes of the deduction. There are also specific phaseout rules for certain professional-service businesses, including those in such fields as health, law and accounting, in which the business's main asset is the reputation or skill of its owner (or owners). These owners can claim the 20% deduction if their taxable income from all sources after deductions is less than $315,000 if married filing jointly or $157,500 if single. The deduction phases out for income exceeding those amounts and disappears completely when income exceeds $415,000 for married couples and $207,500 for singles.

The restrictions are designed to prevent other high-income professionals from converting their compensation, which is taxed at a higher rate, into business income. But the definition of "specified service industries" is somewhat arbitrary. Doctors and lawyers are subject to the limitations, but engineers and architects are not.

MEDICAL DEDUCTIONS

Although early iterations of the tax bill eliminated the medical expense deduction, the tax break survived in the final version—and became more generous. Under the old rules, medical expenses were deductible only to the extent that they exceeded 10% of your adjusted gross income. For 2017 and 2018, taxpayers can deduct medical expenses that exceed 7.5% of AGI. The threshold will return to 10% in 2019 (unless Congress changes the rules again).

Deductions that did not survive:

Moving expenses. Considering a job in another state? Unless you're an active-duty member of the military, you won't be allowed to deduct your out-of-pocket moving costs.

Tax preparation, unreimbursed business expenses and investment advisory fees. In the past, taxpayers could deduct these fees once they exceeded 2% of AGI. No more.

Casualty losses. If a hurricane takes the roof off your home, some of your unreimbursed losses may still be deductible. But if the damage isn't caused by a natural disaster severe enough to get the president's attention, you're out of luck. The new law restricts casualty deductions to losses that occur in a presidentially declared disaster area. ■

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

KipTip

When to Adjust Your Withholding

In the past, the amount of tax withheld from your paycheck was based on the number of allowances you claimed on your W-4 form, and those allowances were tied to the number of exemptions you claimed on your tax return. Starting this year, there are no more exemptions, so payroll departments have to figure out how to set withholding.

But you shouldn't lose sleep over it. The IRS says its new withholding tables will be designed to work with W-4s that employees have already filed, and that workers don't need to do anything. But if you think the tax cuts will significantly reduce your tax bill, you may want to revisit your withholding and reduce the amount withheld from your paycheck. If you think you'll end up owing more, have more money withheld from your paycheck so you won't have to write the IRS a big check next April.

The IRS plans to offer a new online withholding calculator by the end of February. Tax software companies are also expected to roll out revised withholding calculators.

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Potential Safety of Principal

When investing in municipal bonds, investors are paid back the full face value of their investment at maturity or earlier if called, unless the bond defaults. This is important because many investors, particularly those nearing retirement or in retirement, are concerned about protecting their principal. In May of 2016, Moody's published research that showed that rated investment grade municipal bonds had an average cumulative 10-year default rate of just 0.09% between 1970 and 2015.* That means while there is some risk of principal loss, investing in rated investment-grade municipal bonds can be an important part of your portfolio.

Potential Regular Predictable Income

Municipal bonds typically pay interest every six months unless they get called or default. That means that you can count on a regular, predictable income stream. Because most bonds have call options, which means you get your principal back before the maturity date, subsequent municipal bonds you purchase can earn more or less interest than the called bond. According to Moody's 2016 research,* default rates are historically low for the rated investment-grade bonds favored by Hennion & Walsh.

Potential Tax-Free Income

Income from municipal bonds is not subject to federal income tax and, depending on where you live, may also be exempt from state and local taxes. Tax-free can be a big attraction for many investors in this time of looming tax increases.

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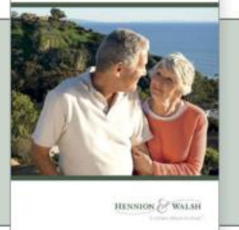

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UNINTENDED CONSEQUENCES

Complications of a Credit Freeze

If you put your credit reports on ice, watch out for these slippery spots. BY LISA GERSTNER

AFTER A DATA BREACH AT CREDIT AGENCY Equifax exposed the personal data of nearly 146 million Americans last year, you may have hurried to freeze your credit reports to help prevent identity theft. A credit or security freeze prohibits new lenders from viewing your credit report. In turn, a thief who attempts to use your Social Security number and other personal information to apply for a credit card or loan is unlikely to succeed. (For steps on how to place and lift a freeze, visit kiplinger.com/links/freeze.)

But a freeze can also cause headaches for you. You probably know that you must temporarily lift a freeze when you shop for credit. Several other entities, however, ranging from insurers to employers to the IRS, may rely on data from your credit report (see "Your Equifax Defense," Dec.).

If you must lift your freeze, ask the institution which credit agency's report it checks. You may get away with removing the freeze at only one of the major agencies rather than all three (Equifax, Experian and TransUnion)—and that could save you money if you must pay a fee each time you lift the freeze. Be prepared for these potential sticking points.

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Opening a bank account. When you apply for a checking or savings account, the bank or credit union may use your credit report to verify your identity. Depending on the institution, you don't necessarily have to remove your freeze. With PNC, for example, a freeze may only prevent you from opening an account online. If you'd rather not thaw your report, you can visit a branch office to confirm your identity, says Amy Vargo, a PNC spokeswoman. But at U.S. Bank, new customers have to lift the freeze to sign up for a checking account, even at a branch. Bank of Internet USA, an online bank, also requires customers to remove a freeze before opening an account. "There is no other way around it," says Elise Yung, senior vice president of consumer banking. "We are encountering this issue more and more frequently."

Signing up for insurance. Except in a few states where the practice is prohibited, auto and home insurers may check an insurance score based on your credit when determining premiums. In some states, you may need to thaw one or more of your credit reports to help ensure that you get the lowest possible rate; in most states, however, insurers can review your credit even when a freeze is in place (see "Ask Kim," Feb.).

In other cases, your credit report may be tapped for identity verification. HealthCare.gov, which offers health insurance through the provisions of the Affordable Care Act, relies on Experian credit report data to generate questions that online applicants answer to prove their identities. So those who have frozen their credit reports can't go through the standard security process. Rather than unfreeze their Experian report, enrollees can upload or mail in documents, such as a copy of their driver's license, passport or voter registration card, as proof of identity.

Checking your credit score. Some services that periodically generate a credit score based on the data in your credit report will continue to operate after you set up a freeze (although you usually must remove the freeze when you enroll). But others won't function. Discover's Credit Scorecard offers a free

FICO score and data from your Experian credit report, updated monthly, to all consumers. If you do not have a Discover credit card or bank account, however, the service will not refresh your scorecard after you freeze your credit report, even if you signed up for the service before placing the freeze. (Customers who do have a Discover card or bank account should see no disruption.) Similarly, at Credit.com, you can't get updated Experian credit scores or report information if your report is frozen. Purchasing credit scores directly from FICO at www.myfico.com doesn't require you to unfreeze your reports, but you may have to contact FICO to confirm your identity. A freeze does not block you from getting your free credit reports yearly at www.annualcreditreport.com.

Registering to use IRS services online. To verify your identity, the IRS needs access to your Experian credit report when you sign up for certain online tools, including those through which you can get a transcript of your tax return or other records, view tax account information (such as balances owed and payment history), and obtain an IP PIN, a six-digit code that victims of tax-related identity theft submit with their tax returns for extra security. You must remove a freeze on your Experian report to get through registration.

Applying for a job. With your written consent, a prospective (or current) employer may check a version of your credit report that omits account numbers, your year of birth and information about your spouse. "Many employers in the defense, chemical, pharmaceutical and financial services industries check employees' credit reports because of the sensitive positions they hold," according to Experian. Several states limit the use of credit information in employment decisions. ■

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MONEY MANNERS

How to post on social media without crossing the line at work.

I had a frustrating experience at work. Can I crowdsource advice on Twitter or Facebook if I don't name names? No matter how militant you are about privacy settings, anything you share on social media can be passed on verbally or captured in a screenshot. Some of your followers are likely to know where you work (or are coworkers), and you could inadvertently reveal sensitive information about your company or fellow workers. But even if your complaints never trickle back to the office, "your readers notice your negativity or griping, and this creates a poor impression," says Daniel Post Senning, spokesman at the Emily Post Institute.

Sharing positive tidbits about work on social media is safer but still dicey. "With every post, ask yourself, 'Why am I posting this?'" says Diane Gottsman, founder of the Protocol School of Texas. For example, that hilarious fumble a colleague made during her presentation is probably not as funny to people who weren't in the room. Although it's fine to promote your work on occasion, gushing about a raise can appear boastful. If you're tempted to share photos from, say, an office party, ask permission before tagging anyone in group photos.

I'd rather not accept my supervisor's Facebook friend request. How do I tactfully deflect her? You never need to justify why you're deleting someone's friend request because it's largely understood that people manage their social media accounts in different ways. But if you are concerned about a supervisor feeling rejected, you can casually explain that you restrict your Facebook circle to friends and family. Or suggest connecting on LinkedIn instead. It's okay to apply this "rule" inconsistently, if you want to connect with your happy-hour buddies online while keeping a distance from the higher-ups. But "the colleague sitting next to you today could be your boss tomorrow," says Post Senning.

I'm trying to expand my industry contacts through LinkedIn. How can I avoid pestering people I don't know yet but want to be part of my network? That may be tough. Trying to connect with strangers mainly to promote yourself or sell your services comes across as opportunistic. Plus, your target can select "I don't know this person" after ignoring your request, which blocks you from future attempts to reach out and could raise a red flag with LinkedIn. To increase your chances that potential contacts will consider your request, include a message explaining why you want to connect, says Gottsman. For example, perhaps you would like to collaborate with them on a future project. **MIRIAM CROSS**
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ILLUSTRATION BY PATRICK GEORGE

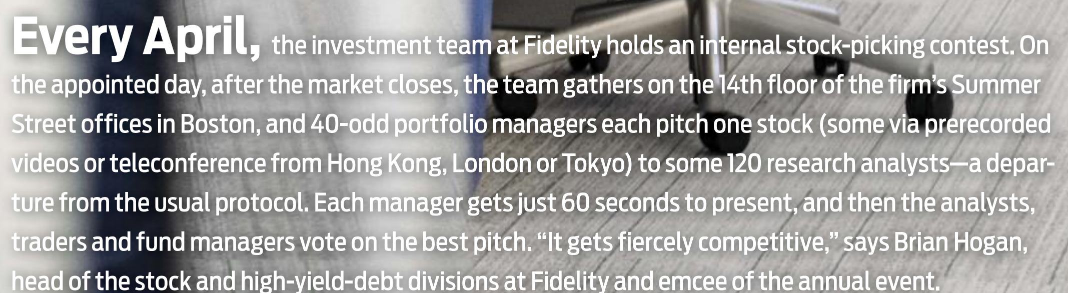
Fidelity's Game Plan

The fund company has diversified into new businesses, but it is not abandoning its stock-picking culture.

BY NELLIE S. HUANG

PHOTOGRAPHY BY JARED LEEDS

INSIDE ONE OF FIDELITY'S TRADING ROOMS, TOP FUND MANAGERS DEBATE STOCK AND BOND IDEAS.



Every April, the investment team at Fidelity holds an internal stock-picking contest. On the appointed day, after the market closes, the team gathers on the 14th floor of the firm's Summer Street offices in Boston, and 40-odd portfolio managers each pitch one stock (some via prerecorded videos or teleconference from Hong Kong, London or Tokyo) to some 120 research analysts—a departure from the usual protocol. Each manager gets just 60 seconds to present, and then the analysts, traders and fund managers vote on the best pitch. "It gets fiercely competitive," says Brian Hogan, head of the stock and high-yield-debt divisions at Fidelity and emcee of the annual event.

The stakes aren't high, although there's some gentle heckling from peers. The most persuasive pitch wins dinner for four on the company's dime. So does the best-performing stock after one year. But there is a penalty for losing. The pickers of the four worst-performing stocks over the 12-month stretch must each donate $500 to the winner's favorite charity. That keeps the picks within the realm of the reasonable. "In these contests, if there's no risk, the managers will go for the highfliers," says Tim Cohen, who leads the firm's global research team.

The stock-picking challenge offers a telling glimpse into Fidelity's mutual fund business. For starters, it's collegial and spirited. "It's fun, even though we give each other a hard time," says Jed Weiss, manager of the International Growth fund. It's also a teaching opportunity, and Fidelity is big on those. Many managers and analysts take notes during the pitches. New hires—analysts scheduled to start the following August—sit in on the contest as an initiation of sorts. "It's a room full of really smart people, and they're all trying really hard," Weiss says. Most important, it's all about individual stocks. For even as index funds win all the attention these days, these guys and gals are, at heart, stock pickers. They're passionate about it. Many have been playing the market since they were kids.

Fidelity is, after all, home to one of the best stock pickers of all time: Peter Lynch. The minute-long pitch is a bit of an homage to him. As Fidelity Magellan's manager in the 1980s, Lynch would listen to anyone with an idea, says Joel Tillinghast, manager of Fidelity Low-Priced Stock. But "you were dead after 60 seconds" if he decided your idea was a dud.

Lynch stepped down ages ago, but others have stepped up. Will Danoff, at Fidelity Contrafund, and Tillinghast, to name two, have enabled many parents to cover college tuition bills and retire afterward with the earnings from successful funds. But fund managers aren't the rock stars they used to be, and even in a bull market, fund investing hardly captivates the masses.

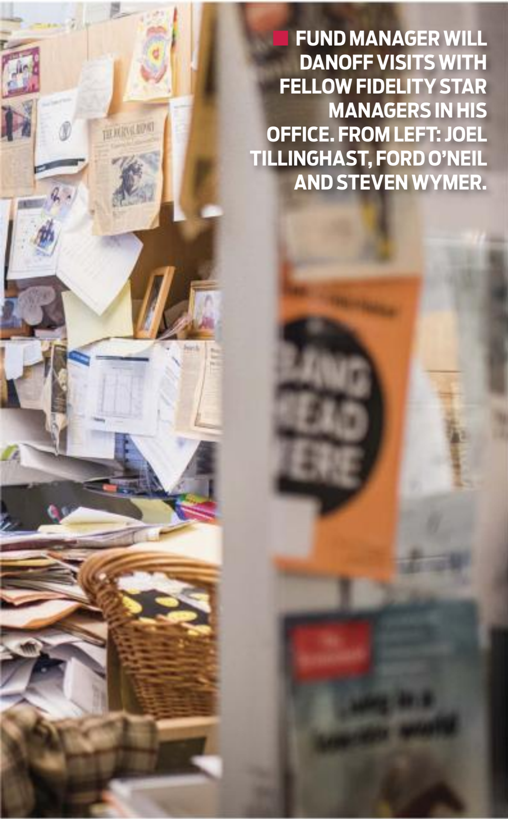
Indeed, over the 10 years that Fidelity has run these contests, much has changed in the fund industry. First came the financial crisis, ushering in a deep-seated trepidation about the stock market. Then came the rising popularity of indexing and low-cost exchange-traded funds. These trends have been a drain on assets in actively managed funds. The next bear market looms, which will crimp business as spooked investors pull out of the market. Fidelity, still the big kahuna in actively managed funds, is coping with this change by branching further into other financial services. But when it comes to the fund business, it stands by its stock-picking roots. Can it win over investors to active funds again?

A FAMILY BUSINESS

Fidelity's long history hangs in the balance. The firm started with just one fund. The late Edward C. Johnson II (Mr. Johnson, to most employees) founded the advisory business in 1946 after taking over the flagship Fidelity fund in 1943. Today the company has 479 mutual funds, 23 exchange-traded funds and, including money market funds, $2.4 trillion in assets under management. It has grown into a financial-services behemoth that aims to meet every imaginable customer need. From its brokerage to its advisory services, which range from robo advice to white-glove amenities, the firm serves individual investors as well as institutional ones—the latter with thriving custodial and trading businesses and workplace retirement savings plans, among other things.

Despite a sprawling footprint, Fidelity is still a privately held family business. Abigail Johnson, a granddaughter of the founder, took over as chief executive from her father, Ned Johnson, in 2014. The family still controls 49% of the firm; Fidelity employees hold the remaining 51%.

Now the mutual fund business that put Fidelity on the map faces the chal-



FUND MANAGER WILL DANOFF VISITS WITH FELLOW FIDELITY STAR MANAGERS IN HIS OFFICE. FROM LEFT: JOEL TILLINGHAST, FORD O'NEIL AND STEVEN WYMER.

lenge of a lifetime. Since the financial crisis, investors have pulled money out of actively managed funds and poured it into index funds (see "The Perils of Indexing," on page 51). Ten years ago, Fidelity, which has offices all over the world, was the biggest fund firm in the land, as measured by mutual fund assets. Now Vanguard holds the top spot, thanks to its many popular index funds, and Fidelity ranks number two.

The firm has weathered bad stretches before. Between January 1973 and October 1974, when the stock market cratered 48%, Fidelity's assets shrank by one-third. That's when the firm decided to sell its funds directly to investors via a toll-free telephone number—the first fund company to do so—eschewing brokers and hefty sales fees. Today, Fidelity has a renewed focus on innovation. The personal investing side of the business is organized into agile squads, tasked with solving big-picture problems and given free rein to, for example, come up with a better active-trader platform or figure out the next iteration of Fidelity Go, the firm's robo-advisory service.

The biggest thorn in Fidelity's side has been the average active fund's inability to beat its benchmark index consistently. Over the past 10 years through 2017, only nine of Fidelity's 28 no-load, large-company stock funds outperformed Standard & Poor's 500-stock index on an annualized basis. That's on par with the rest of the industry. "I won't sugarcoat it. Most managers don't outperform their benchmarks," says Sonu Kalra, manager of Fidelity Blue Chip Growth. "We need to do a better job."

Some Fidelity managers have beaten the indexes over the long haul. Hogan calls them the "hall of famers." Many have been at their posts for decades, including Tillinghast, Danoff and Steven Wymer, of Fidelity Growth Company. On the bond side there's Ford O'Neil, at Fidelity Total Bond. There's a new guard, too: Since taking over at Blue Chip Growth in mid 2009, Kalra has beaten the index by an average of 3.3 percentage points per year.

Like many of the fund managers at Fidelity, Kalra is a lifer. He joined Fidelity after business school in 1998 as an analyst and worked his way up. That's the Fidelity way. The firm prefers to groom its managers, not transplant them from elsewhere, oftentimes breeding a fierce allegiance to the firm. "I'm living the dream," says John Carlson, manager of Fidelity New Markets Income, an emerging-markets bond fund. Carlson isn't a lifer—he's a midlife hire—but he talks like one. He has run New Markets Income for 20 years. "I intend to be here a long time," says the 67-year-old, who looks as if he stopped aging a decade ago.

New hires typically start as analysts. They learn by doing, getting to know companies in an industry or two and pitching their best ideas to fund managers. Good analysts move up to run sector funds. The next step is to take on a diversified stock fund. Ramona Persaud spent just six months as an analyst before taking over Fidelity Select Construction and Housing in 2004. Persaud is a rare woman among the manager ranks. She now has a hand in six diversified stock funds and focuses on dividend stocks.

Despite the sprawl of the Summer Street building, one of two that Fidelity owns in Boston, the U.S. stock team sits in close quarters along a stretch of the 11th floor, in a maze of cubicles and glass offices. It's communal and collegial, as is the custom-designed space in Merrimack, N.H., where most of the firm's bond fund managers and analysts work. Fidelity has 84 bond funds—a fraction of its 395 stock portfolios. Compared with the Boston headquarters, the culture in Merrimack is a touch more casual and outdoorsy. Bears, as in the actual furry animals, have been sighted on campus.

SKIN IN THE GAME

Just as with the stock-picking challenge, Fidelity's fund managers earn bonuses (worth well more than a dinner out) if their funds outperform their benchmarks and similar funds. Many managers have invested their own money in the funds they run, so when the funds underperform, the managers feel it, too. Says John Roth, whose New Millennium fund has lagged the S&P 500 for most of the past four years: "It's not very enjoyable. You feel a lot of pressure."

Yet Fidelity fund managers are encouraged to take risks. "You can be wrong a lot and still outperform your benchmark," says Hogan. "You can only lose 100% of a stock. It's painful, and I've had it happen to me," he adds. "But you can make two, three, four, seven, eight or even 12 times your money on a winner."

Managers are free to develop their own investment philosophy and manage money the way they want to—as long as they stick to their methodology consistently (there is oversight from higher-ups). Tillinghast, for instance, likes small companies and appreciates a good value. Weiss, of International Growth, favors firms that can maintain demand for their product without

slashing prices even during tough times. All of the managers are stock pickers who focus on fundamentals. They fill their portfolios one stock at a time by doing nitty-gritty research, company by company.

The philosophy dates back to Fidelity's early days. In *The Go-Go Years,* a book about 1960s Wall Street, author John Brooks writes that Mr. Johnson would tell his fund managers, "Here's your rope. Go ahead and hang yourself with it." The quote illustrates how Fidelity to this day refuses to be defined by a single investment process. It's not a growth-oriented shop or a value-seeking shop. It's just after good stocks, whatever their stripe.

Good ideas can find an ear at Fidelity. In the late 1980s, Tillinghast was an analyst covering tobacco and personal-care-products firms when Fidelity asked for pitches for new funds. He came up with Low-Priced Stock. The idea was to find good values in small companies and out-of-favor larger firms. "I'd seen Peter [Lynch] make a lot of money on big companies trading at small-market-cap prices," says Tillinghast. Since Low-Priced Stock launched in 1989, it has returned 14.1% annualized, which beat the S&P 500 by an average of four percentage points per year.

Tillinghast learned from Lynch. Now he mentors others. "We say to everyone here, 'You have to teach and you have to learn,'" says Hogan. Those who teach but don't learn may decide Fidelity isn't the place to be and leave. If someone learns but never teaches, the company may say, "We're not sure how long we want you here."

A slew of high-profile departures have taken place recently. Wunderkind Chuck Myers, of Small Cap Discovery, retired in December. So did Jim Morrow, manager of Equity-Income. It was widely reported that Gavin Baker, of OTC fund, was fired for sexual harassment. A spokesman for Baker denies the allegations, and the official line from Fidelity is that he left to pursue other opportunities. But change is endemic to Fidelity. Although many will spend whole careers at the firm, people move around a lot and always have—Abby Johnson worked in nearly every division before she succeeded her father.

Amid changes within the firm and in the industry, Fidelity's stock team tries to stay focused. Hogan says Fidelity is "a good house in a bad neighborhood." But, he adds, "the neighborhood is getting better." Indeed, things look brighter for actively managed funds. At Fidelity, more money poured into fund coffers in 2017 than was pulled out for the first time since 2014. And most of Fidelity's large-company stock funds trounced the S&P 500 in 2017. Growth Company beat the index by nearly 15 percentage points, Blue Chip Growth by 14 points and Contrafund by 10 percentage points.

Success looks easy in a powerful bull market. Fidelity's managers will also have to prove their mettle in the next market correction or even a bear market. Blue Chip Growth manager Kalra welcomes the challenge. "When there is fear in the market," he says, "it's usually a good time to be picking stocks." ■

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Managers' Picks

What Fidelity Likes Now

Fidelity's army of analysts and fund managers scour every market sector and corner of the globe for good ideas. After a strong 2017, international stocks will continue to outpace the U.S. market, says Brian Hogan, who leads Fidelity's stock team. "Our sense is this will be a four- or five-year phenomenon," he says. Jed Weiss, who runs **FIDELITY INTERNATIONAL GROWTH** (SYMBOL FIGFX), focuses on firms that have long-term-growth prospects and solid standing in their industry. ASML Holding, a Dutch company, is a leader in photolithography tools, which are crucial to making smaller, faster, next-generation semiconductor chips. The stock is a top-10 holding in the fund. (Funds in boldface are members of the Kiplinger 25, the list of our favorite no-load funds.)

Weiss will travel to Japan soon to scout for bargains—a challenge, given the 26% rally in Japanese shares in 2017. He currently favors small and midsize companies there. Some of the stocks Weiss finds may wind up in another fund he manages, Fidelity International Small Cap Opportunities (FSCOX), which has 35% of its assets invested in Japan. He is also looking for buys in markets where economies that were under pressure are now improving, and he says Brazilian banks are attractive now.

FIDELITY NEW MARKETS INCOME (FNMIX) manager John Carlson is "cautiously optimistic" about emerging-markets debt. With interest rates in the U.S. still low, payments aren't yet onerous (much of the debt is denominated in U.S. dollars), and higher oil prices bode well for commodity-producing economies. Carlson says the portfolio is well positioned to deliver current income of 5.5% to 6%. The fund returned 10.2% in 2017.

On the home front, Sonu Kalra, who runs Fidelity Blue Chip Growth (FBGRX), still sees value in big-name tech stocks, including Amazon.com and Apple. Kalra looks out three, five and sometimes even 10 years. He has increased the fund's stakes in Broadcom and Qualcomm based on the promise of 5G, the upcoming wireless broadband technology.

John Roth, who manages **FIDELITY NEW MILLENNIUM** (FMILX), is defensive. He favors regional banks, including PNC Financial Services and US Bancorp, which will benefit from tax reform and a more benign regulatory environment. He likes retailers that are less vulnerable to competition from Amazon.com, including Tiffany on the high end and Dollar General on the low end. Roth, a contrarian at times, shed shares of tech companies last year, but he sees opportunity in shares of insurer Chubb, which is under pressure after a devastating hurricane season.

BRACE YOURSELF

The Perils of Indexing

Index funds have been the stars of the bull market. But investors may get a nasty surprise in the next bear market. **BY ELIZABETH LEARY**

A SEA CHANGE HAS BEEN quietly reshaping portfolios in recent years. Investors have been fleeing actively managed funds and flocking to index funds. In 2017 (through November), investors pulled $191 billion from actively managed U.S. stock funds and poured $198 billion into indexed U.S. stock funds, according to Morningstar, the investment research firm. Investors have, on net, withdrawn money from active U.S. stock funds and invested in U.S. stock index funds in every year since 2007. Those investors have likely been chasing strong relative performance among index funds. Not a single category of actively managed funds has managed to beat comparable index funds over the past 10 years through June 2017, according to Morningstar.

But the tide could be turning. Active management staged an impressive comeback in 2017. In the 12 months through June (the most recent period for which data is available), eight out of the 12 actively managed fund categories that Morningstar tracks beat peer index funds. That marked a massive turnaround, given that only one out of the 12 categories of active funds beat similar passive funds in 2016.

Stock pickers get their groove back. Stock correlations—the degree to which individual stocks tend to move together—have been plummeting since 2016. And although most sectors gained in 2017, there was an unusually wide gap in returns between the sectors that performed the best and those that fared worst. That makes for a fertile environment for stock pickers, who can more easily beat an index when fewer stocks and sectors move in lockstep with it.

Of course, a dyed-in-the-wool index investor might not fret about missing out on a slight performance advantage. That, after all, is the basic trade-off of indexing: You forgo any chance of beating the market in exchange for the promise of matching the market, minus fees.

But index investors might feel differently if they knew that they could be staring down larger losses than their active-fund counterparts during the next bear market. Fidelity found that active funds that invest in large U.S. companies beat their benchmarks by half a percentage point, on average, during a period roughly coinciding with the 2007–09 bear market. Some active funds trounced the indexes. For example, the bargain-seeking AMG Yacktman fund (symbol YACKX) beat Standard & Poor's 500-stock index by nearly nine percentage points over the course of the bear market. "By definition, index funds guarantee that you will suffer 100% of the next bear market's decline," says Jim Stack, president of InvesTech Research.

Active funds may shine in down markets in part because managers can keep more cash on hand than do index funds. But it's also likely, if difficult to prove, that managers' judgment calls deserve credit. Typically, parts of the market turn frothy in the late stages of a bull run (think of the housing and financial sectors before the 2007–09 downturn, or internet stocks before the 2000–02 bust). Active managers might identify excesses and trim the troublesome sectors before stocks turn south.

By contrast, because most indexes weight components by market capitalization (stock price multiplied by shares outstanding), they impose no checks on ballooning,

ILLUSTRATION BY OLIVER WEISS

overvalued stocks and sectors, which account for an ever-increasing portion of the index as those assets keep rising. That leaves investors in funds that mirror the index exposed in a falling market, when those overvalued stocks and sectors usually lose the most. Investors worried about holding outsize stakes in pricey assets might note the 11% weighting of FAANG stocks (Facebook, Amazon, Apple, Netflix and Google parent Alphabet) in the S&P 500, or the overall 24% weighting of technology stocks in the index.

Not only might index funds lose more in a bear market, they may also drive investors to make worse decisions when stocks fall. Dalbar, a research and consulting company, tracks what it calls "investor returns." Unlike traditional return measures, investor returns represent what you actually see on your statement because they take into account buy and sell decisions. You can invest in a top-performing fund, for instance, but if you buy high and sell low, your investor returns won't measure up to the fund's return. Dalbar found that investor returns in active funds beat investor returns in index funds by the widest margins during falling markets.

That means investors may do a better job of buying low—and avoiding selling low—in active funds. If an active manager is able to curb fund losses during a bear market, investors may feel more comfortable holding on. And if investors are better able to hold on, then a manager need not sell holdings at fire-sale prices to meet redemptions. That, in turn, boosts performance. "Investor behavior tends to be at its worst when the market is down," says Cory Clark, director at Dalbar. "That is when something more than just tracking an index can soften the blow."

Despite the potential advantages of active funds in bear markets, many investors believe that index funds are categorically less risky than actively managed funds. More than half of investors say index funds add more stability to portfolios than actively managed funds, according to Fidelity. "Investors equate index investing with safety," says Stack. Those investors could be in for a nasty surprise when the long-running bull market eventually falters. Considering historical bear-market losses, Stack says, "When this party does end, investors could be facing a potential 40% loss if they remain fully invested in a blue-chip index fund."

Index wisely. This is not to say that investors should bail out of index funds. They offer valuable benefits—chiefly lower costs and instant diversification within a given investment category. Just as with any style of management, index funds have strengths and weaknesses, and investors should keep those in mind when deciding how to use indexing in their portfolios.

Index funds that invest in large U.S. companies have a winning long-term track record. But with $2.2 trillion of passive assets already pegged to the S&P 500, investors wary of market distortions should consider broader-based choices, such as **VANGUARD TOTAL STOCK MARKET** (VTSMX) or its exchange-traded cousin (VTI), which is a member of the Kiplinger ETF 20, a list of our recommended exchange-traded funds. **FIDELITY TOTAL MARKET** (FSTMX) is another good choice. These funds are market-capitalization weighted, meaning investors bear the risk of loading up on the priciest stocks in a soaring market. So consider offsetting them with a proven value-oriented fund, such as **DODGE & COX STOCK** (DODGX), whose contrarian managers attempt to steer clear of manias. The fund is a member of the Kiplinger 25, a list of our favorite actively managed no-load funds.

Equally weighted index funds, in which each holding accounts for the same portion of the fund, may also better avoid bubbles. The trade-offs with these can be higher costs and greater turnover. One targeted fund that we think is a good buy is **GUGGENHEIM S&P 500 EQUAL WEIGHT HEALTH CARE** (RYH), an ETF 20 member.

The Vanguard and Fidelity total market funds both include modest exposure to midsize and small companies. Fine-tune your allocation to such companies by adding one or more active funds, such as Kip 25 member **T. ROWE PRICE SMALL-CAP VALUE** (PRSVX). Consider a similar approach for international stocks: Pick one broad-based index fund as your core holding—say, **VANGUARD TOTAL INTERNATIONAL STOCK** (VGTSX) or the ETF equivalent (VXUS), which is in the Kip ETF 20—and then use actively managed funds to highlight geographic areas or promising investment styles. With bonds, consider sticking mainly to active funds in the current market, in which rising rates and other challenges call for flexibility and nimbleness. ■

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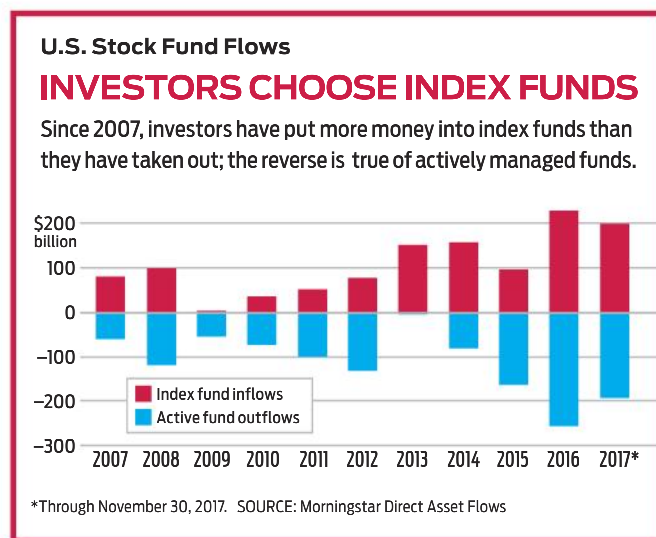
U.S. Stock Fund Flows

INVESTORS CHOOSE INDEX FUNDS

Since 2007, investors have put more money into index funds than they have taken out; the reverse is true of actively managed funds.



*Through November 30, 2017. SOURCE: Morningstar Direct Asset Flows

INCOME PLAY

Earn Up to 9% With These Funds

Closed-end funds are complicated, but their yields make them worth a look. BY RYAN ERMEY

WHEN INVESTORS TALK ABOUT owning funds, they usually mean open-end mutual funds, such as the ones you will find in our review of top performers starting on page 56. Less often these days do you hear much about closed-end funds (CEFs), although their roots can be traced back more than a century. About 500 CEFs trade on U.S. exchanges, compared with nearly 8,000 mutual funds and some 1,800 exchange-traded funds. But CEFs can offer investors a basket of investment assets on the cheap. And they provide juicy payouts that average 8%. If that appeals to you, then these sometimes complicated investments might be worth a look.

Like open-end mutual funds, CEFs sell shares to investors and use the money to assemble and manage a portfolio of securities. Portfolios might hold U.S. or foreign stocks, including those targeting specific sectors, such as energy or finance. But the bulk of CEFs invest in fixed-income securities.

Whereas traditional mutual funds and ETFs can sell an unlimited number of shares to investors, CEFs issue a set number of shares at an initial public offering, after which they cease to accept new investor money. Instead, investors trade CEF shares the same way they trade stocks or ETFs on an exchange, with their share prices rising or falling with investor demand.

Eighty-five cents on the dollar. That trading dynamic gets to the crux of closed-end funds. Given fluctuations in demand, CEF shares nearly always trade at a discount or premium to the fund's underlying portfolio holdings—or, more exactly, to the fund's per-share net asset value (NAV), which is the fund's assets minus its liabilities. Buying at a discount offers an obvious opportunity. "Ideally, you buy into a good, well-managed fund at a 15% discount, and if expenses are reasonable, you just bought a dollar with 85 cents," says John Cole Scott, chief investment officer at Closed-End Fund Advisors, a CEF-focused investment firm.

Investors can realize gains by buying a CEF at a discount and selling if the discount narrows or, more rarely, if the fund begins trading at a premium. But there is no guarantee that the CEF you bought at a discount will eventually trade at or above its NAV, even if a fund's underlying portfolio is doing well.

However, capital appreciation isn't the primary goal for most CEF investors, says Joe Hussain, assistant vice president of investment research at Wells Fargo Wealth and Investment Management. "In real estate, it's location, location, location," he says. "For CEFs, it's yield, yield, yield."

CEFs might generate their generous yields (more accurately called distribution rates) by investing in higher-yielding corners of the market, such as low-rated "junk" bonds, real estate investment trusts or master limited partnerships. But many CEF managers seek to bump up distribution rates by investing more than 100% of their portfolio's capital. To do that, they most often borrow money, or they issue debt or preferred shares. The extent to which a fund's invested money exceeds its NAV is called leverage. A fund that borrows 30 cents for every dollar of net asset value is 30% leveraged—about the CEF average. Such leverage can magnify returns if the assets in the portfolio appreciate, but it will amplify losses if things go the other way. Leverage above 40% should raise concerns.

> In real estate, it's location, location, location. For closed-end funds, it's yield, yield, yield.

Shop smart. It's important to put a fund's discount in context. Compare the fund's current discount to NAV to its historical average and to the averages for other funds in its peer group. CEFs investing in real estate might look inexpensive trading at an 8.1% average discount to NAV, but they're actually a little pricier than usual, given the sector's five-year average discount of 10.2%. High-yield taxable bond CEFs, meanwhile, trade at 7.4% below par, on average—a smaller discount than real estate funds but cheaper than the sector's five-year average discount of 6.6%.

Instead of gravitating toward the funds with the highest yields, keep in mind that a fund can cut its distribution at any time, and consider whether the distribution policy is realistic and sustainable. Funds must indicate how distributions are funded; check how much of the most recent payout

Good Buys

4 Picks With Sky-High Yields

With robust yields and share prices trading at a discount to the value of their investment portfolios, these funds are worth exploring now. (Prices and other data are through January 12.)

ARES DYNAMIC CREDIT ALLOCATION FUND. This fund holds a mix of floating-rate loans, relatively risky junk bonds and other types of debt. The fund's 31% leverage would exacerbate losses in the case of a junk-bond sell-off. But a thriving economy lessens the risk of junk issuers defaulting, and floating-rate loans, which make up the lion's share of the portfolio, should benefit as interest rates rise because these notes are pegged to short-term benchmarks that reset every 30 to 90 days. The fund's 9.5% discount to NAV is less than its historical average but still 3.1 percentage points greater than that of the average bank loan–focused bond fund. Over the past five years, the fund's return (including distributions) has outpaced 96% of similar closed-end funds.

BLACKROCK SCIENCE & TECHNOLOGY TRUST. Consider this fund if you're a fan of tech stocks but would appreciate fatter yields. The fund doesn't use debt or preferred shares to boost its 5.4% distribution rate, which is modest for a CEF but more than the 1.3% average dividend yield for tech shares. Instead, it follows a covered call strategy, selling call options on stocks in the portfolio that give the buyer the right to purchase a stock at a set price over a certain time period. The fund collects premiums on the options it sells, which bolsters the yield of the underlying portfolio. Top holdings include Apple, Alphabet, Microsoft and Amazon .com. The fund's 1.8% discount makes it a touch more expensive than the average fund that employs a covered call strategy.

COHEN & STEERS QUALITY INCOME REALTY TRUST. Real estate investment trusts (REITs) have been popular among income investors, but fears are mounting that rising interest rates could eat into yields as real estate owners pay more to finance their properties. Those concerns have driven REIT CEF discounts deeper recently, creating bargains. Cohen & Steers is selling at at 7.3% discount to NAV, more expensive than the three-year average discount of 9.8% but only one-half of a percentage point more expensive than the average real estate CEF. The fund is 23.9% leveraged, enough to sting if REITs take an ugly turn.

KAYNE ANDERSON ENERGY DEVELOPMENT. Stabilizing oil prices, which have risen nearly 50% from their June 2017 lows, are good news for energy-focused master limited partnerships (MLPs) and the CEFs that own them. Such CEFs offer an opportunity to squeeze extra yield out of an already high-yielding asset class. Kayne Anderson concentrates on conservative MLPs—those that essentially collect a toll on oil or gas flowing through pipelines—and limits MLPs involved in the riskier business of oil and gas exploration. The fund trades at a 7% discount, 3.7 percentage points cheaper than its average peer. It is 32% leveraged; as a result, the fund will face magnified losses if, say, oil prices tumble again.

Closed-end fund	Symbol	Share price	Discount to net asset value	Annualized total return 1 yr.	Annualized total return 3 yrs.	Distribution rate*	Expense ratio†
Ares Dynamic Credit Allocation	ARDC	$16	9.5%	16.5%	9.7%	7.8%	2.90%
BlackRock Science & Tech Trust	BST	29	1.8	61.6	24.6	5.4	1.10
Cohen & Steers Quality Inc Realty	RQI	12	7.3	1.5	6.8	8.1	1.81
Kayne Anderson Energy Dev	KED	18	7.0	3.5	–8.8	8.8	4.40

Through January 12. *Based on share price. †Includes borrowing costs. SOURCE: © 2018 Morningstar Inc.

came from investment income, capital gains or return of capital. Each type of payout carries a different tax obligation for investors. Distributions funded by bond interest payments and stock dividends are considered more sustainable than those funded by capital gains. A return of capital, however, means that the fund essentially is handing your money back as a distribution, and it's a red flag if it consistently eats away at a fund's net asset value.

Keep an eye on expenses. CEFs charge an average of 1.5% of assets under management, compared with 1.2% for the average open-end diversified stock fund. When borrowing costs are included in the expense ratio—something leveraged CEFs must do—expenses measured as a percentage of total invested assets average 2.4%, but they can range from less than 1% to 5% or more, depending on the amount of leverage and the complexity of the fund's investment strategy.

CEFs are thinly traded investments, comparable to over-the-counter or micro-capitalization stocks. Thin markets can be volatile, and the prices at which a buyer is willing to buy and a seller is willing to sell don't always match up. To help mitigate the risk of overpaying for a CEF (or selling too low), consider using limit orders, which allow you to set a price above which you will not buy or below which you will not sell. ■

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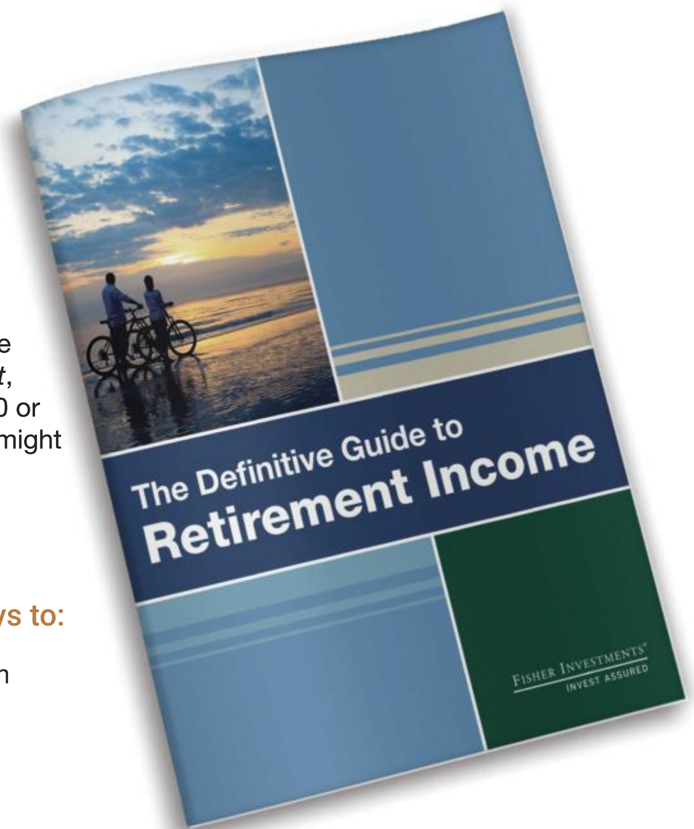

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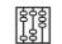 Estimate your retirement costs

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FISHER INVESTMENTS®

Winners, Winners, Winners

U.S. stocks posted stellar results, but foreign stocks did even better. **BY ANNE KATES SMITH**

MUTUAL FUND INVESTORS PROSPERED IN 2017 AS THE U.S. BULL market charged into its ninth year with a stunning rally. Standard & Poor's 500-stock index returned nearly 22%. What's more stunning is that the U.S. rally paled in comparison with stock gains overseas. For the first time in a decade, the world's developed economies grew at the same time, along with many emerging economies.

Investors who ventured into overseas funds were rewarded. Europe's markets benefited from strength in manufacturing, low unemployment and rising corporate profits. In Japan, economic and regulatory reforms helped push stocks to a 26-year high. The MSCI EAFE index, which tracks stocks in developed markets, racked up a 25% gain in 2017, a sharp improvement from 2016's puny 1% return. And the MSCI Emerging Markets index soared 37%, led by strong gains in Chile, China, India and Poland.

In the U.S., investor optimism hinged on hopes for lower corporate tax rates, which were signed into law by year-end. Yet small companies, which have typically paid taxes at higher effective rates (after accounting for deductions and other tax breaks) than their bigger brethren, were relative laggards. The Russell 2000 small-cap benchmark, up 15%, trailed the S&P 500 large-cap barometer by seven percentage points. Growth-oriented companies beat out those with shares selling at bargain prices. Technology was the top-performing market sector, followed by firms that explore for and process raw materials and companies that make nonessential consumer goods. Two sectors were in the red for the year: energy and telecommunication firms.

On the pages that follow, we show the top-performing mutual funds in 11 categories. The list includes only funds with reasonable minimum investment requirements and excludes leveraged and inverse index funds. **DATA COMPILED BY RYAN ERMEY**

Get the latest data on any mutual fund, and sort and compare thousands of funds, with our Mutual Fund Finder, at kiplinger.com/tools/fundfinder

LARGE-COMPANY STOCK FUNDS

Tech titans take charge.

Shares of large U.S. companies rallied in 2017, led by fast-growing tech firms. Indeed, tech-focused funds dominate the one-, three- and five-year lists of winners. Morgan Stanley Institutional Growth Portfolio and T. Rowe Price Blue Chip Growth—a member of the Kiplinger 25, the list of our favorite no-load funds—benefited from big stakes in the FAANG stocks (Facebook, Amazon.com, Apple, Netflix and Alphabet). Primecap Odyssey Growth, another Kip 25 fund, is loaded with health care stocks, which claimed 31% of the fund's assets at last report. Primecap managers look for firms with a catalyst, such as a new product or new executive, that will kick up earnings growth and drive the stock price higher over the next three to five years.

1 year	
1. Kinetics Internet No Load	57.4%
2. Zevenbergen Genea Inv	51.7
3. Leland Thomson Reuters Venture Cap Idx A	51.3
4. Morgan Stanley Multi Cap Growth A	47.9
5. Transamerica Capital Growth A	43.9
6. Morgan Stanley Instl Growth A	43.5
7. Baron Fifth Avenue Growth Retail	40.6
8. Plumb Equity	39.7
9. Franklin Templeton DynaTech A	39.3
10. Fidelity OTC	38.6
CATEGORY AVERAGE	21.7%

3 years	
1. Leland Thomson Reuters Venture Cap Idx A	19.9%
2. Fidelity OTC Portfolio	16.6
3. Morgan Stanley Instl Growth A	16.1
4. Fidelity Growth Company*	16.1
5. Transamerica Capital Growth A	15.9
6. Homestead Growth	15.6
7. Edgewood Growth Retail	15.5
8. USAA Nasdaq-100 Index	15.5
9. Loomis Sayles Growth A*	15.3
10. T. Rowe Price Blue Chip Growth	15.3
CATEGORY AVERAGE	9.9%

5 years	
1. Fidelity OTC Portfolio	22.0%
2. USAA Nasdaq-100 Index	20.0
3. Shelton Capital Nasdaq-100 Index Direct	20.0
4. Vanguard Capital Opportunity Inv*	20.0
5. Morgan Stanley Instl Growth A	19.8
6. Fidelity Growth Company*	19.7
7. Vanguard Primecap Inv*	19.5
8. Transamerica Capital Growth A	19.5
9. Catalyst Dynamic Alpha A	19.5
10. Primecap Odyssey Growth	19.3
CATEGORY AVERAGE	14.3%

10 years	
1. Parnassus Endeavor	13.7%
2. Matthew 25 Fund	13.1
3. Shelton Capital Nasdaq-100 Index Direct	12.7
4. USAA Nasdaq-100 Index	12.3
5. Monetta Young Investor	12.2
6. Fidelity OTC Portfolio	12.2
7. Hotchkis & Wiley Value Opportunities A	11.7
8. Nationwide Ziegler NYSE Arca Tech 100 A	11.7
9. Reynolds Blue Chip Growth	11.7
10. Rydex Nasdaq-100 Inv	11.7
CATEGORY AVERAGE	7.6%

Returns are annualized through December 31, 2017. *Closed to new investors. SOURCE: © 2018 Morningstar Inc.

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MIDSIZE-COMPANY STOCK FUNDS

A solid but not great year.

Funds that invest in midsize companies fared best with tech and health care names in 2017. Baron Opportunity, which led the one-year winners, got a lift from fast-growing firms such as Guidewire Software, up 51%, and tech research and consulting firm Gartner, up 22%. Eventide Gilead follows a stock-picking process that starts with a religious and environmental screen. The fund won big last year with biotech stocks, including two focused on cancer treatments, Bluebird Bio and Loxo Oncology. Buffalo Discovery is a long-term winner, thanks to its pre-2012 focus on health care and technology. Now, with a more diversified portfolio, the fund hasn't risen to the top in recent years, but it still beats the average returns of similar funds in this category.

1 year	
1. Baron Opportunity Retail	40.5%
2. Morgan Stanley Instl Mid Cap Growth A	38.9
3. ClearBridge Select A	38.7
4. Alger SMid Cap Growth A	37.9
5. Tocqueville Opportunity	34.7
6. BlackRock Mid-Cap Growth Equity Inv A	34.2
7. Primecap Odyssey Aggressive Growth*	33.6
8. Virtus KAR Mid-Cap Growth A	33.5
9. Eventide Gilead N	32.9
10. CGM Realty	32.8
CATEGORY AVERAGE	18.7%

3 years	
1. Primecap Odyssey Aggressive Growth*	16.0%
2. Thrivent Mid Cap Stock S	15.5
3. Tarkio Fund	15.1
4. Eaton Vance Atlanta Capital SMID-Cap A*	14.8
5. BlackRock Mid-Cap Growth Equity Inv A	13.7
6. Janus Henderson Enterprise T*	13.5
7. Morgan Stanley Instl Insight Portfolio A	13.1
8. William Blair Small-Mid Cap Growth N	12.7
9. AllianzGI NFJ Mid-Cap Value A	12.6
10. Champlain Mid Cap Adv*	12.6
CATEGORY AVERAGE	8.7%

5 years	
1. Primecap Odyssey Aggressive Growth*	23.0%
2. Hodges Fund Retail	18.9
3. Eventide Gilead N	18.8
4. Miller Opportunity Trust A	18.7
5. ClearBridge Select A	18.7
6. Thrivent Mid Cap Stock S	18.5
7. Tarkio Fund	18.1
8. BlackRock Mid-Cap Growth Equity Inv A	18.0
9. William Blair Small-Mid Cap Growth N	17.0
10. T. Rowe Price Mid-Cap Growth*	17.0
CATEGORY AVERAGE	13.5%

10 years	
1. Primecap Odyssey Aggressive Growth*	15.1%
2. Eaton Vance Atlanta Capital SMID-Cap A*	12.4
3. Buffalo Discovery Fund	11.5
4. John Hancock Disciplined Value Mid Cap A*	11.4
5. Principal MidCap A*	11.0
6. American Century Mid Cap Value Inv*	10.7
7. T. Rowe Price Mid-Cap Growth*	10.7
8. Meeder Quantex	10.7
9. Victory Sycamore Established Value A*	10.6
10. William Blair Small-Mid Cap Growth N	10.4
CATEGORY AVERAGE	7.9%

SMALL-COMPANY STOCK FUNDS

Poised to pull ahead.

Small companies trailed their large-company counterparts in 2017, but they have a shot at taking the lead, given the boost they'll likely get from the new tax law. Baron Discovery has posted strong returns in two consecutive years, outpacing 92% and 94% of its peers in 2016 and 2017. The fund's managers focus on small firms with an average market value of $1.5 billion. T. Rowe Price QM U.S. Small-Cap Growth Equity, a Kip 25 fund, uses computer models to select some 300 stocks, based on profit growth and other measures. Conestoga Small Cap holds about 50 stocks hand-picked for their potential to boost earnings by at least 15% annually over the next three years. Neogen, a firm that makes food safety test kits, is a top holding.

1 year	
1. JPMorgan Dynamic Small Cap Growth A*	41.5%
2. JPMorgan Small Cap Growth A	41.1
3. Federated Kaufmann Small Cap A	37.9
4. Victory RS Small Cap Equity A*	37.6
5. Victory RS Small Cap Growth A	36.9
6. Virtus KAR Small-Cap Growth A	36.6
7. Frontier Timpani Small Growth Service	36.1
8. Wasatch Micro Cap	36.1
9. Baron Discovery Retail	35.5
10. Delaware Smid Cap Growth A	35.1
CATEGORY AVERAGE	15.4%

3 years	
1. Virtus KAR Small-Cap Growth A	19.8%
2. Oberweis Micro-Cap	19.2
3. AMG Managers Cadence Emerging Cos N	17.3
4. Virtus KAR Small-Cap Core A	16.7
5. Conestoga Small Cap Inv	16.5
6. Federated MDT Small Cap Growth A	15.7
7. Federated Kaufmann Small Cap A	15.3
8. Wasatch Micro Cap Value	15.1
9. Brown Capital Management Small Co Inv*	14.9
10. Fidelity Small Cap Growth	14.8
CATEGORY AVERAGE	9.2%

5 years	
1. Oberweis Micro-Cap	20.9%
2. Virtus KAR Small-Cap Growth A	19.9
3. Towle Deep Value Fund	18.8
4. T. Rowe Price New Horizons*	18.6
5. AMG Managers Cadence Emerging Cos N	18.5
6. Brown Capital Management Small Co Inv*	18.3
7. Victory RS Small Cap Equity A*	18.2
8. Bridgeway Small-Cap Growth	18.1
9. TCM Small Cap Growth	18.0
10. Fidelity Small Cap Growth	17.9
CATEGORY AVERAGE	13.3%

10 years	
1. T. Rowe Price New Horizons*	13.2%
2. Brown Capital Management Small Co Inv*	13.0
3. Virtus KAR Small-Cap Growth A	12.6
4. Pimco StocksPLUS Small Fund D	12.6
5. Fidelity Small Cap Discovery*	12.5
6. Dreyfus Opportunistic Small Cap Inv*	12.4
7. Janus Henderson Triton T*	11.5
8. T. Rowe Price QM U.S. Sm-Cap Gro Equity	11.4
9. Conestoga Small Cap Investors	11.3
10. JPMorgan Small Cap Equity A*	11.3
CATEGORY AVERAGE	8.3%

Returns are annualized through December 31, 2017. *Closed to new investors. SOURCE: © 2018 Morningstar Inc.

HYBRID FUNDS

Stocks supplied the tailwind.

Holding a mix of stocks and bonds, the big winners in hybrid funds for 2017 kept as much as 85% of their assets in stocks. Vanguard Wellington, a Kip 25 fund, has failed to crack the winner's circle in recent years largely because of its moderate asset mix: 65% stocks and 35% bonds. But its 10-year record reflects returns that have beaten similar funds in eight of the past 10 calendar years. (Note that if you're new to the fund, you must be a Vanguard customer to buy shares.) Fidelity's Freedom target-date funds, which shift to a more conservative asset mix over time, now shine after an overhaul. Four funds with distant target years, from Freedom 2040 to Freedom 2055, were buoyed by stock funds run by top Fidelity managers Will Danoff, Joel Tillinghast and Steven Wymer.

1 year	
1. ATAC Inflation Rotation Inv	26.9%
2. TIAA-CREF Lifestyle Aggressive Gro Retail	25.2
3. Manning & Napier Target 2050 K	24.1
4. Manning & Napier Target 2055 K	24.0
5. Manning & Napier Pro-Blend Max Term R	24.0
6. Manning & Napier Target 2060 K	23.9
7. Value Line Income & Growth Inv	23.9
8. Pioneer Flexible Opportunities A	23.2
9. Plumb Balanced	23.2
10. Manning & Napier Target 2045 K	23.2
CATEGORY AVERAGE	14.7%

3 years	
1. ATAC Inflation Rotation Inv	11.9%
2. NWM Momentum	11.8
3. Wells Fargo Diversified Capital Builder A	10.5
4. TIAA-CREF Lifestyle Aggressive Gro Retail	10.3
5. Fidelity Freedom 2040	9.8
6. Fidelity Freedom 2055	9.8
7. Fidelity Freedom 2050	9.8
8. Fidelity Freedom 2045	9.8
9. American Funds 2050 TD Retirement A	9.8
10. American Funds 2055 TD Retirement A	9.8
CATEGORY AVERAGE	6.3%

5 years	
1. Wells Fargo Diversified Capital Builder A	14.2%
2. Meeder Dynamic Allocation Retail	12.9
3. T. Rowe Price Capital Appreciation*	12.6
4. TIAA-CREF Lifestyle Aggressive Gro Retail	12.6
5. Eaton Vance Tax-Managed Eq Asset Allc A	12.6
6. JPMorgan Investor Growth A	12.5
7. Schwab MarketTrack All Equity	12.5
8. American Funds 2050 TD Retirement A	12.2
9. Dodge & Cox Balanced	12.2
10. American Funds 2055 TD Retirement A	12.2
CATEGORY AVERAGE	8.0%

10 years	
1. Marsico Flexible Capital	10.2%
2. Centaur Total Return	9.1
3. T. Rowe Price Capital Appreciation*	9.0
4. Bruce Fund	8.4
5. Janus Henderson Balanced T	7.7
6. Yorktown Multi-Asset Income A	7.6
7. Mairs & Power Balanced Inv	7.6
8. Columbia Balanced A	7.6
9. Vanguard Wellington Inv‡	7.5
10. LKCM Balanced	7.5
CATEGORY AVERAGE	5.1%

LARGE-COMPANY FOREIGN STOCK FUNDS

Back with a vengeance.

Focusing on shares of fast-growing companies paid off in this category in 2017. Sizzling Chinese internet stocks, such as Alibaba Group and Tencent Holdings, helped Morgan Stanley International Opportunity and Vanguard International Growth leap into the winner's circle. Kip 25 member Oakmark International returned 30% over the past year, despite holding just a smattering of stocks in emerging markets, which outpaced shares in developed countries. The fund's managers look for shares of relatively inexpensive, high-quality firms, investing in automakers such as Daimler and Toyota Motor and European banks such as Credit Suisse and BNP Paribas. The formula works: Over the past 10 years, the fund beat 99% of its rivals.

1 year	
1. Morgan Stanley Instl Fund Intl Opp A	53.0%
2. Prudential Jennison Intl Opportunities A	49.1
3. Morgan Stanley Instl Fund Intl Advantage A	44.2
4. Marsico Intl Opportunities	44.1
5. Vanguard International Growth Inv	43.0
6. PNC International Growth A	42.2
7. Calamos International Growth A	39.2
8. AllianzGI International Growth A	38.7
9. Principal International I A	38.3
10. Selected International S	38.2
CATEGORY AVERAGE	26.6%

3 years	
1. Morgan Stanley Instl Fund Intl Opp A	18.9%
2. Morgan Stanley Instl Fund Intl Advantage A	17.4
3. Vanguard International Growth Inv	13.0
4. Hartford International Value A*	12.5
5. Goldman Sachs Intl Equity Insights A	12.3
6. MFS International Value A*	12.0
7. Baron International Growth Retail	11.9
8. Prudential Jennison Intl Opportunities A	11.6
9. AMG Managers Pictet International N	11.5
10. WCM Focused International Growth Inv	11.5
CATEGORY AVERAGE	7.9%

5 years	
1. Morgan Stanley Instl Fund Intl Opp A	16.8%
2. Morgan Stanley Instl Fund Intl Advantage A	13.2
3. MFS International Value A*	12.6
4. ClearBridge International Growth A	12.4
5. Hartford International Value A*	11.4
6. FMI International*	11.3
7. John Hancock International Growth A	11.3
8. Fidelity International Capital Appreciation	11.3
9. Fidelity Overseas	11.1
10. WCM Focused International Growth Inv	10.9
CATEGORY AVERAGE	7.5%

10 years	
1. Artisan International Value Inv*	7.7%
2. Oakmark International Inv	7.0
3. MFS International Value A*	6.6
4. Pimco StocksPlus Intl (USD-Hedged) D	6.6
5. Tocqueville International Value	5.3
6. First Eagle Overseas A*	5.2
7. Fidelity International Capital Appreciation	5.2
8. Federated International Leaders A	4.9
9. Fidelity Advisor Intl Cap Appreciation A	4.9
10. Tweedy, Browne Global Value	4.8
CATEGORY AVERAGE	2.0%

Returns are annualized through December 31, 2017. *Closed to new investors. ‡Open to new investors if purchased directly through Vanguard. SOURCE: © 2018 Morningstar Inc.

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SMALL- AND MIDSIZE-COMPANY FOREIGN STOCK FUNDS

Cashing in on growth.

A banner year for small and midsize foreign stocks smoothed the way for funds in this category. The standouts focused on fast-growing companies. Manning & Napier Rainier International Discovery hit the jackpot with Techtronic Industries, a Hong Kong–based power toolmaker that surged more than 85% in 2017. T. Rowe Price International Discovery spreads its bets, holding more than 220 stocks. Manager Justin Thomson sticks primarily with stocks that average $2.6 billion in market value. Developed-market stocks accounted for 81% of the fund at last report, but some of its biggest winners lately have been in emerging markets, including stocks such as China Lodging Group and Sino Biopharmaceutical.

1 year	
1. Delaware International Small Cap A	46.8%
2. American Century Intl Opportunities Inv	45.0
3. Manning & Napier Rainier Intl Discovery K	41.7
4. Driehaus International Small Cap Growth	41.4
5. Oberweis International Opportunities*	40.8
6. American Century Intl Discovery Inv	40.5
7. Royce International Premier Inv	40.1
8. AllianzGI International Small-Cap A	39.0
9. T. Rowe Price International Discovery	39.0
10. TCW International Small Cap N	38.9
CATEGORY AVERAGE	33.4%

3 years	
1. Royce International Premier Inv	17.4%
2. Oppenheimer Intl Small-Mid Co A*	16.4
3. AMG TimesSquare Intl Small Cap N	15.8
4. T. Rowe Price International Discovery	15.5
5. Oberweis International Opportunities*	15.4
6. Virtus KAR International Small-Cap A	15.2
7. Fidelity International Small Cap	15.2
8. Manning & Napier Rainier Intl Discovery K	15.2
9. American Century Intl Opportunities Inv	14.9
10. Driehaus International Small Cap Growth	14.3
CATEGORY AVERAGE	11.8%

5 years	
1. Oppenheimer Intl Small-Mid Co A*	18.0%
2. Oberweis International Opportunities*	17.8
3. Manning & Napier Rainier Intl Discovery K	15.1
4. Fidelity International Small Cap	14.3
5. Victory Trivalent International Small-Cap A	13.9
6. Virtus KAR International Small-Cap A	13.9
7. T. Rowe Price International Discovery	13.8
8. Vanguard International Explorer Inv	13.4
9. Driehaus International Small Cap Growth	13.1
10. Goldman Sachs Intl Small Cap Insights A	13.0
CATEGORY AVERAGE	10.8%

10 years	
1. Oppenheimer Intl Small-Mid Co A*	8.7%
2. Oberweis International Opportunities*	7.9
3. Franklin Intl Small Cap Growth A*	7.9
4. Wasatch International Opportunities Inv*	7.1
5. Harding Loevner Intl Small Companies Inv	7.0
6. Goldman Sachs Intl Small Cap Insights A	6.9
7. T. Rowe Price International Discovery	6.9
8. Wasatch International Growth Inv*	6.7
9. Fidelity International Small Cap	6.7
10. Westcore International Small-Cap Fund	6.2
CATEGORY AVERAGE	4.9%

GLOBAL STOCK FUNDS

Powered by international stocks.

Foreign markets sprinted past the S&P 500 in 2017, helping many global funds, which invest in foreign and domestic stocks, beat their pure-U.S. counterparts. Baron Global Advantage, which recently held about 45% of its assets in foreign stocks, prospered by riding the tech wave with holdings such as Alibaba, Facebook and Google's parent, Alphabet. Evermore Global Value has found long-term success in the shares of small and midsize companies, fishing for inexpensive stocks with an average market value of $2.6 billion. The fund's managers look for companies that are far off most radar screens, and recently held 78% of the fund's assets in non-U.S. stocks, including Monaco-based shipping firm Scorpio Bulkers and South Korean chipmaker MagnaChip Semiconductor.

1 year	
1. Oppenheimer Global Opportunities A	52.5%
2. Baron Global Advantage Retail	49.6
3. Kinetics Global No Load	49.2
4. Morgan Stanley Instl Global Opportunity A	49.0
5. Touchstone Global Growth A	43.3
6. Prudential Jennison Global Opportunities A	43.0
7. Morgan Stanley Instl Global Advantage A	41.0
8. Marsico Global	40.2
9. American Century Global Small Cap Inv	39.0
10. Wasatch Global Opportunities Inv	37.6
CATEGORY AVERAGE	21.6%

3 years	
1. Oppenheimer Global Opportunities A	24.4%
2. Morgan Stanley Instl Global Opportunity A	21.0
3. Morgan Stanley Instl Global Discovery A	17.5
4. Morgan Stanley Instl Global Insight A	15.9
5. Prudential Jennison Global Opportunities A	15.3
6. T. Rowe Price Global Stock	14.8
7. Davis Global A	14.7
8. Evermore Global Value Investor	14.7
9. American Beacon SGA Global Growth Inv	14.2
10. Artisan Global Opportunities Fund Inv	14.0
CATEGORY AVERAGE	8.0%

5 years	
1. Morgan Stanley Instl Global Opportunity A	21.9%
2. Oppenheimer Global Opportunities A	21.2
3. Morgan Stanley Instl Global Discovery A	17.3
4. T. Rowe Price Global Stock	16.3
5. Davis Global A	15.8
6. Oberweis Emerging Growth	15.6
7. Prudential Jennison Global Opportunities A	15.5
8. Baron Global Advantage Retail	14.7
9. Fidelity Advisor Global Cap Appreciation A	14.6
10. Marsico Global	14.6
CATEGORY AVERAGE	9.4%

10 years	
1. Oppenheimer Global Opportunities A	11.6%
2. Oakmark Global Select Inv	9.6
3. Artisan Global Value Inv	9.0
4. Morgan Stanley Instl Global Franchise A	8.7
5. Wasatch World Innovators Inv	8.5
6. Cambiar Global Ultra Focus Inv	8.4
7. Old Westbury Small & Mid Cap Strategies	8.3
8. Eaton Vance Tax-Managed Global Sm-Cap A	8.1
9. Oppenheimer Global Value A	7.8
10. Appleseed Inv	7.6
CATEGORY AVERAGE	4.7%

Returns are annualized through December 31, 2017. *Closed to new investors. SOURCE: © 2018 Morningstar Inc.

DIVERSIFIED EMERGING-MARKETS FUNDS

Rediscovered their mojo.

A perfectly mixed cocktail of robust earnings growth, higher commodity prices and strengthening currencies made emerging-markets stocks one of the best-performing asset classes in 2017. Gains might not continue at the same breakneck pace, but the good times aren't over yet. Baron Emerging Markets, a Kip 25 fund, focuses on stocks that stand to gain from long-term growth trends, such as mobile e-commerce in China and the growing class of wealthy individuals in need of financial services in India. T. Rowe Price Emerging Markets targets stocks in China, Taiwan and India, such as Chinese internet firm Tencent Holdings, Taiwan Semiconductor Manufacturing, and Housing Development Finance, a mortgage provider in India.

1 year	
1. Principal Origin Emerging Markets A	50.5%
2. VanEck Emerging Markets A	49.7
3. William Blair Emerging Markets Growth N*	48.5
4. Fidelity Emerging Markets	47.7
5. Goldman Sachs Emerging Markets Equity A	47.6
6. Invesco Emerging Markets Equity A	47.5
7. Mirae Asset Emrg Mkts Great Consumer A	47.4
8. Fidelity Advisor Emerging Markets A	46.8
9. Columbia Emerging Markets A	46.5
10. American Century Emerging Markets Inv	45.9
CATEGORY AVERAGE	35.3%

3 years	
1. Goldman Sachs Emerging Markets Equity A	13.3%
2. American Century Emerging Markets Inv	12.9
3. Delaware Emerging Markets A	12.8
4. Artisan Emerging Markets Inv	12.5
5. City National Rochdale Emerging Markets N	12.3
6. Calvert Emerging Markets Equity Fund A	12.3
7. T. Rowe Price Emerging Markets Stock	12.3
8. Dreyfus Total Emerging Markets A	12.1
9. Invesco Emerging Markets Equity A	12.0
10. Mirae Asset Emerging Markets A	11.9
CATEGORY AVERAGE	8.2%

5 years	
1. City National Rochdale Emerging Markets N	11.6%
2. William Blair Emrg Mkts Small Cap Gro N*	10.6
3. Calvert Emerging Markets Equity Fund A	9.2
4. HSBC Frontier Markets A	9.1
5. Baron Emerging Markets Retail	9.0
6. Ivy Emerging Markets Equity A	8.5
7. Delaware Emerging Markets A	8.3
8. Morgan Stanley Instl Frontier Em Mkts A	8.2
9. Fidelity Emerging Markets	7.7
10. VanEck Emerging Markets A	7.5
CATEGORY AVERAGE	4.5%

10 years	
1. Wasatch Emerging Markets Small Cap Inv	5.5%
2. Oppenheimer Developing Markets A*	4.3
3. Virtus Vontobel Emrg Mkts Opportunities A	3.7
4. Delaware Emerging Markets A	3.7
5. American Funds New World A	3.1
6. Driehaus Emerging Markets Growth Inv	3.0
7. Invesco Developing Markets A*	2.9
8. Templeton Emerging Markets Small Cap A	2.9
9. Harding Loevner Emrg Mkts Advisor*	2.6
10. Wells Fargo Emerging Markets Equity A	2.5
CATEGORY AVERAGE	1.7%

REGIONAL AND SINGLE-COUNTRY FUNDS

China delivers big gains.

Focusing on a single foreign country can pack a big punch if you choose wisely. China's stock market—up 54% in 2017—was a bet that paid off, especially for funds that emphasized surging technology stocks. Matthews China—a fund we like for its relatively low fees and solid long-term performance—held more than 30% of its assets in tech stocks at last report. Wasatch Emerging India capitalized on economic and tax reforms that are fueling a surge of growth in India's economy. Japan's stock market rallied sharply late in 2017, pushing the Nikkei 225 index to its highest close since 1991. Investors looking to benefit from the continued revival of Japan's economy, which is expected to grow 1.8% in 2018, should consider Hennessy Japan Small Cap Fund.

1 year	
1. Morgan Stanley Instl Asia Opportunity A	76.2%
2. Neuberger Berman Greater China Eqty A*	65.4
3. Columbia Greater China A	60.7
4. Matthews China Inv	59.4
5. U.S. Global Investors China Region Inv	57.7
6. Oberweis China Opportunities	55.0
7. Matthews China Small Companies	53.9
8. John Hancock Greater China Opportunities A	53.8
9. Wasatch Emerging India Inv	53.4
10. Matthews Asia Innovators Inv	52.9
CATEGORY AVERAGE	33.5%

3 years	
1. Hennessy Japan Small Cap Inv	21.9%
2. T. Rowe Price Japan	19.2
3. Fidelity Japan Smaller Companies	19.0
4. Hennessy Japan Inv	18.4
5. Voya Russia A	17.6
6. Matthews Japan Inv*	17.3
7. Wasatch Emerging India Inv	16.9
8. Matthews China Dividend Inv	16.8
9. Neuberger Berman Greater China Eqty A*	16.8
10. Matthews China Small Companies	16.1
CATEGORY AVERAGE	9.6%

5 years	
1. Hennessy Japan Small Cap Inv	21.3%
2. Fidelity Japan Smaller Companies	19.0
3. Wasatch Emerging India Inv	18.0
4. Hennessy Japan Inv	17.5
5. Matthews Asia Innovators Inv	16.6
6. Matthews Japan Inv*	16.1
7. Matthews India Inv	15.8
8. Oberweis China Opportunities	15.5
9. T. Rowe Price Japan	15.0
10. ALPS Kotak India Growth Inv	14.5
CATEGORY AVERAGE	8.2%

10 years	
1. Hennessy Japan Small Cap Inv	12.0%
2. Hennessy Japan Inv	9.2
3. Matthews Asia Dividend Inv	9.0
4. Fidelity Japan Smaller Companies	7.8
5. Matthews Asia Innovators Inv	7.5
6. Matthews Asia Growth Inv	7.2
7. Matthews Japan Inv*	7.1
8. Matthews Pacific Tiger Inv	7.1
9. Invesco Asia Pacific Growth A	6.4
10. Fidelity China Region	6.4
CATEGORY AVERAGE	2.8%

Returns are annualized through December 31, 2017. *Closed to new investors. SOURCE: © 2018 Morningstar Inc.

SECTOR FUNDS

Tech stocks. Period.

The way to beat the market in 2017 was to load up on technology stocks. That has been the winning ticket for years. At Fidelity Select Technology, manager Charlie Chai focuses on firms that should prosper from changes in technology over the next three to five years. The fund owns graphics-chip maker Nvidia, which is expanding into chips for self-driving cars. Putnam Global Technology heads abroad to find bargains and holds stocks in Chinese internet firms, such as Alibaba Group Holding and Tencent Holdings. Brokerage customers at Fidelity and Schwab can buy the fund without a sales charge. Health care stocks have been solid performers for years. Fidelity Select Biotechnology has crushed 93% of its rivals over the past decade. Its top holding, Amgen, has been in the fund since 1998.

1 year	
1. Firsthand Technology Opportunities	55.5%
2. Fidelity Select Technology Portfolio	49.9
3. BlackRock Tech Opps Inv A	49.7
4. Fidelity Advisor Technology A	49.4
5. Kinetics Market Opps Fund No Load	47.3
6. T. Rowe Price Global Technology*	47.0
7. AllianzGI Technology A	46.7
8. Putnam Global Technology A	46.7
9. Eventide Healthcare & Life Sciences N	45.6
10. Victory RS Science and Technology A	44.7
CATEGORY AVERAGE	**13.3%**

3 years	
1. T. Rowe Price Global Technology*	23.8%
2. Fidelity Select Semiconductors Portfolio	22.3
3. Putnam Global Technology A	22.1
4. Fidelity Advisor Semiconductors A	22.1
5. Fidelity Select Technology Portfolio	21.7
6. BlackRock Tech Opps Inv A	21.5
7. Fidelity Advisor Technology A	21.4
8. Columbia Global Technology Growth A	21.1
9. RMB Mendon Financial Services A*	20.5
10. Victory RS Science and Technology A	20.4
CATEGORY AVERAGE	**5.6%**

5 years	
1. Fidelity Select Semiconductors Portfolio	28.6%
2. Fidelity Advisor Semiconductors A	28.1
3. T. Rowe Price Global Technology*	26.9
4. Columbia Global Technology Growth A	24.8
5. Eventide Healthcare & Life Sciences N	24.0
6. BlackRock Tech Opps Inv A	23.1
7. Rydex Electronics Fund Inv	22.8
8. Fidelity Select Software & IT Services Port	22.5
9. T. Rowe Price Science & Technology	22.3
10. Red Oak Technology Select	22.2
CATEGORY AVERAGE	**8.8%**

10 years	
1. Delaware Healthcare A	17.3%
2. T. Rowe Price Global Technology*	16.9
3. Fidelity Select Retailing Portfolio	16.5
4. Fidelity Select Biotechnology Portfolio	15.9
5. Rydex Biotechnology Inv	15.5
6. T. Rowe Price Health Sciences	15.3
7. Fidelity Advisor Biotechnology A	15.1
8. Fidelity Select IT Services Portfolio	14.9
9. Franklin Biotechnology Discovery A	14.4
10. Prudential Jennison Health Sciences A*	14.4
CATEGORY AVERAGE	**5.4%**

ALTERNATIVE FUNDS

Haven't kept up with the bull.

The hodgepodge of funds known as alternatives may invest in anything from commodities to currencies. Many also use hedging techniques that are designed to limit losses in a downturn but that can crimp bull market gains. Nonetheless, several long-short funds—which can bet on whether stocks will go up or head in the other direction—produced double-digit gains in 2017. AC Alternatives Disciplined Long Short and Schwab Hedged Equity are funds worth considering if you want protection against a downturn and, in exchange, are willing to forgo some gains in a rising market. BlackRock Event Driven Equity looks for a catalyst, such as a merger or corporate restructuring, that can get a stock moving. Schwab and Fidelity waive the fund's sales charge for their customers.

1 year	
1. Superfund Managed Futures Strategy A	27.4%
2. Natixis ASG Tactical US Market A	25.4
3. Balter European L/S Small Cap Inv	24.9
4. Catalyst Macro Strategy A	24.6
5. KCM Macro Trends R-1	22.5
6. RiverPark Long/Short Opportunity Retail	21.9
7. Measured Risk Strategy A	21.9
8. Swan Defined Risk Emerging Markets A	21.7
9. Toews Tactical Oceana	21.2
10. Marketfield A	20.8
CATEGORY AVERAGE	**6.3%**

3 years	
1. LJM Preservation and Growth A	11.3%
2. Invesco Long/Short Equity A	9.2
3. Hartford Long/Short Global Equity A	8.5
4. Equinox EquityHedge US Strategy A	8.2
5. Natixis ASG Tactical US Market A	8.2
6. LoCorr Dynamic Equity A	8.0
7. LoCorr Long/Short Commodity Strategies A	7.9
8. KCM Macro Trends R-1	7.9
9. JPMorgan Opportunistic Equity L/S A	7.8
10. Gateway Equity Call Premium A	7.7
CATEGORY AVERAGE	**1.6%**

5 years	
1. AC Alternatives Disciplined Long Short Inv	13.5%
2. Nuveen Equity Long/Short A	12.2
3. KCM Macro Trends R-1	11.8
4. RMB Mendon Financial Long/Short A	11.0
5. Guggenheim Alpha Opportunity A	10.8
6. Diamond Hill Research Opportunities A	10.7
7. BlackRock Event Driven Equity Inv A	9.7
8. Schwab Hedged Equity	9.1
9. Diamond Hill Long-Short Fund A*	8.6
10. Hancock Horizon Quant Long/Short Inv	8.6
CATEGORY AVERAGE	**2.6%**

10 years	
1. Boston Partners Long/Short Equity Inv*	11.5%
2. RMB Mendon Financial Long/Short A	8.4
3. Weitz Partners III Opportunity Investor	7.6
4. Guggenheim Alpha Opportunity A	7.1
5. BlackRock Event Driven Equity Inv A	5.3
6. Schwab Hedged Equity	5.2
7. Diamond Hill Long-Short Fund A*	4.2
8. Highland Long/Short Equity A	4.2
9. Touchstone Controlled Growth with Income A	4.0
10. Gabelli Entrp Mergers & Acquisitions A	3.6
CATEGORY AVERAGE	**–1.8%**

Returns are annualized through December 31, 2017. *Closed to new investors. SOURCE: © 2018 Morningstar Inc.

PRACTICAL INVESTING | Kathy Kristof

How My Portfolio Performed in 2017

In a normal year, I'd practically break my arm patting myself on the back for earning a 19% return. But 2017 wasn't normal. The market ran so fast—the index I measure against gained 21%—that my relatively conservative portfolio couldn't keep up.

My rationale for skewing toward the safe side, particularly in the ninth year of a bull market, is that I'll minimize my losses when stocks in general turn south. Six months ago, I thought the bull was long in the tooth. But I think the new tax law has given the market a second wind. My benchmark index rose 4% in the first two weeks of 2018, and my portfolio jumped 7%.

But the Practical Investing portfolio has completed its sixth year, and it has not been an overwhelming success. Although many of you have written to say you like the column and to encourage me to continue, the initial question was: Could a marginally lethargic individual investor meet or beat the performance of an index? The answer: No. Or at least not this marginally lethargic investor.

To be fair, the annual performance of the Practical Investing portfolio beat the annual performance of the index twice and tied it once during this six-year stretch. But, mainly because of a really rotten year in 2015, my cumulative performance hasn't come close to matching that of Vanguard Total Stock Market (symbol VTI), an exchange-traded fund I use as a measuring stick.

VTI is up 142% from the time I launched the portfolio (in mid October 2011). My portfolio gained 103%. That works out to a 13% annualized return, which isn't shabby. But the index earned 16% a year, on average. (Prices and returns are through January 12.)

My big mistake. I dug in to see where I went wrong and found I should have been even more lethargic with respect to trading. I sold good companies when I shouldn't have. A few, such as Schnitzer Steel (SCHN, $37), I don't regret selling. But I sold some good companies simply because I thought they had grown too expensive, given their stock prices compared with their projected earnings.

That might make sense for a trader, but not for a long-term investor like me. Sure, you ought to sell if a company becomes ludicrously overvalued. But if the stock price is less than 30% higher than your initial target, I'd now recommend that you hang on and let the earnings catch up to the price. Why? Because you probably aren't disciplined enough to remember to buy the shares back when the price drops to a level you consider more reasonable. And if you don't repurchase the shares, you'll be doing what I'm doing here, which is talking about the big ones that got away.

THE MARKET RAN SO FAST THAT MY RELATIVELY CONSERVATIVE PORTFOLIO SIMPLY COULDN'T KEEP UP.

POON WATCHARA-AMPHAIWAN

I sold Lockheed Martin (LMT, $336) in 2012, thinking that earning a 30% profit on the stock in less than a year made me some kind of genius. Shortly after I sold, the company's stock price dropped, and I gloated. Had I not been so busy congratulating myself on sidestepping that temporary dip, I would have taken advantage of it to repurchase the shares for the same reasons I initially bought the stock: Lockheed was a great company selling at a bargain price. Instead, I watched from the sidelines as Lockheed's stock price eventually quadrupled.

The other stock I should have kept was Microsoft (MSFT, $90). It more than doubled in price while I held it but continued to soar after I sold. It's now worth three-and-a-half times what I paid for it. And that's not counting the dividend.

I still own shares in 18 companies, including **APPLE** (AAPL, $177), **INTEL** (INTC, $43), **CORNING** (GLW, $35) and **GENERAL MOTORS** (GM, $44). And I have $26,478 in cash. See the full portfolio at kiplinger.com/links/practicalportfolio.

Had I simply held the 19 stocks I bought initially, I would still be running neck-and-neck with the index. Those stocks gained 127%. Dividends would have added another 2% to 3% annually. And I'd be singing a happier tune. ■

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

THE KIPLINGER ETF 20 UPDATE

The Case for Industrials

INDUSTRIAL STOCKS HAVE BESTED the broad market in recent years as investors have bet (rightly) that a growing economy will boost their businesses. The new tax law could lift sales further, making the sector a good way to play the economic recovery, with extra juice coming from tax cuts.

Industrial companies range from construction equipment and factory machinery makers to aerospace and transportation businesses. Some of the biggest are conglomerates such as Honeywell (symbol HON) and United Technologies (UTX). Others include Caterpillar (CAT) and FedEx (FDX).

These businesses tend to see sales rise in a strong economy and slump when growth slows, making them good bets now. Kiplinger expects U.S. economic growth to hit 2.9% in 2018, up from 2.3% in 2017. Industrials are also likely to benefit from rising wholesale inflation and a shift toward more spending on equipment and machinery, says Jim Paulsen, chief investment strategist of Leuthold Group, a fund company and investment research firm in Minneapolis. This isn't just a U.S. story. Manufacturing growth in Europe, Asia and other parts of the world is rising. The U.S. dollar has been falling, too, helping U.S. manufacturers sell more goods abroad by making them less expensive in foreign currencies.

Tax breaks could be the kicker. Companies can now deduct 100% of the cost of capital equipment for the next five years. That's likely to help boost demand for machinery and other industrial goods, says stock strategist Scott Wren, of Wells Fargo Investment Institute. Industrial stocks aren't cheap, but "there's still room for them to keep going up," he says.

We are therefore adding **FIDELITY MSCI INDUSTRIALS INDEX** to the Kiplinger ETF 20. The fund tracks an index of 341 stocks, emphasizing giants such as Boeing, General Electric, 3M and Honeywell. These firms generate much of their sales overseas and would benefit from stronger economic growth abroad and a weaker dollar, which also makes profits earned in foreign currencies worth more when converted to greenbacks.

About one-third of the fund consists of small and midsize stocks. These tend to be domestically focused companies that should see more savings from lower tax rates than will multinationals, which already pay relatively low rates. Moreover, the smaller companies provide more exposure to sub-industries—such as electrical equipment, construction and engineering—and that adds to the fund's diversification. One other plus: The fund's annual expense ratio of 0.08% is lower than that of any other industrials ETF.

To make room for the fund, we are removing iShares Global Infrastructure. We still like its income-oriented lineup, but the ETF's total returns (price gains and dividends) have disappointed. In a strong stock market, bolstered by a growing economy, we prefer the industrials ETF. **DAREN FONDA**

dfonda@kiplinger.com

Returns/Fees/Free Trades

KIPLINGER ETF 20: VITAL STATISTICS

Core Stock Funds	Symbol	Share price	Annualized total return 1 yr.	3 yrs.	5 yrs.	Yield	Expense ratio	Commission-free trades
iShares Core S&P 500	IVV	$280	25.1%	13.4%	15.9%	1.8%	0.04%	F, FT
iShares Core S&P Mid-Cap	IJH	196	19.0	12.9	14.9	1.4	0.07	F, FT
PowerShrs Dynamic Lg Cap Val	PWV	39	17.4	10.7	14.1	2.3	0.56	
Vanguard FTSE A-W Ex-US Sm-Cap	VSS	123	30.9	12.7	8.7	1.9	0.13	V
Vanguard Russell 2000 Value	VTWV	113	11.9	11.7	12.9	1.7	0.20	V
Vanguard Total Intl Stock	VXUS	59	29.1	10.8	7.5	2.3	0.11	V
Vanguard Total Stock Market	VTI	143	24.3	13.1	15.7	1.7	0.04	V
Dividend Stock Funds								
Schwab US Dividend Equity	SCHD	$53	24.7%	13.2%	15.8%	2.7%	0.07%	S
Schwab US REIT	SCHH	40	−1.3	1.0	7.4	3.9	0.07	S
Vanguard High Dividend Yield	VYM	88	20.0	12.4	15.1	2.8	0.08	V
WisdomTree Intl LgCap Div	DOL	53	24.4	8.5	6.8	3.0	0.48	E, TD
Core Bond Fund								
iShares iBonds Dec 2021 Corp	IBDM	$25	2.4%	—	—	2.6%	0.10%	
Strategic Stock Funds								
Fidelity MSCI Industrials Index	FIDU	$41	27.5%	15.6%	—	1.5%	0.08%	F
Financial Select Sector SPDR	XLF	29	27.1	16.7	18.1%	1.5	0.14	
Guggen S&P 500 Eq Wt Health	RYH	189	26.1	9.8	18.7	0.5	0.40	E, S
iShares Edge MSCI USA Momentum	MTUM	109	42.7	18.4	—	1.1	0.15	TD
iShares Mortgage Real Estate	REM	44	12.9	8.4	6.4	9.5	0.48	
Strategic Bond Funds								
Pimco Active Bond	BOND	$106	3.9%	2.3%	2.7%	2.9%	0.61%	
PowerShares Senior Loan Port	BKLN	23	2.2	2.9	2.4	3.5	0.66	S
VanEck Vectors Fallen Angel HY	ANGL	30	9.0	10.5	8.1	4.9	0.35	
Indexes								
S&P 500-STOCK INDEX (LARGE U.S. STOCKS)			**25.2%**	**13.5%**	**16.0%**	**1.8%**		
MSCI EAFE INDEX (FOREIGN STOCKS)			**26.7**	**9.9**	**8.0**	**2.9**		
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			**2.5**	**1.7**	**2.1**	**2.8**		

Key: E=E*Trade F=Fidelity FT=Firstrade S=Schwab TD=TD Ameritrade V=Vanguard

As of January 12. —Fund not in existence for the entire period. SOURCES: Dow Jones, Morningstar, MSCI, XTF.com.

ADVANCED HEARING AID TECHNOLOGY

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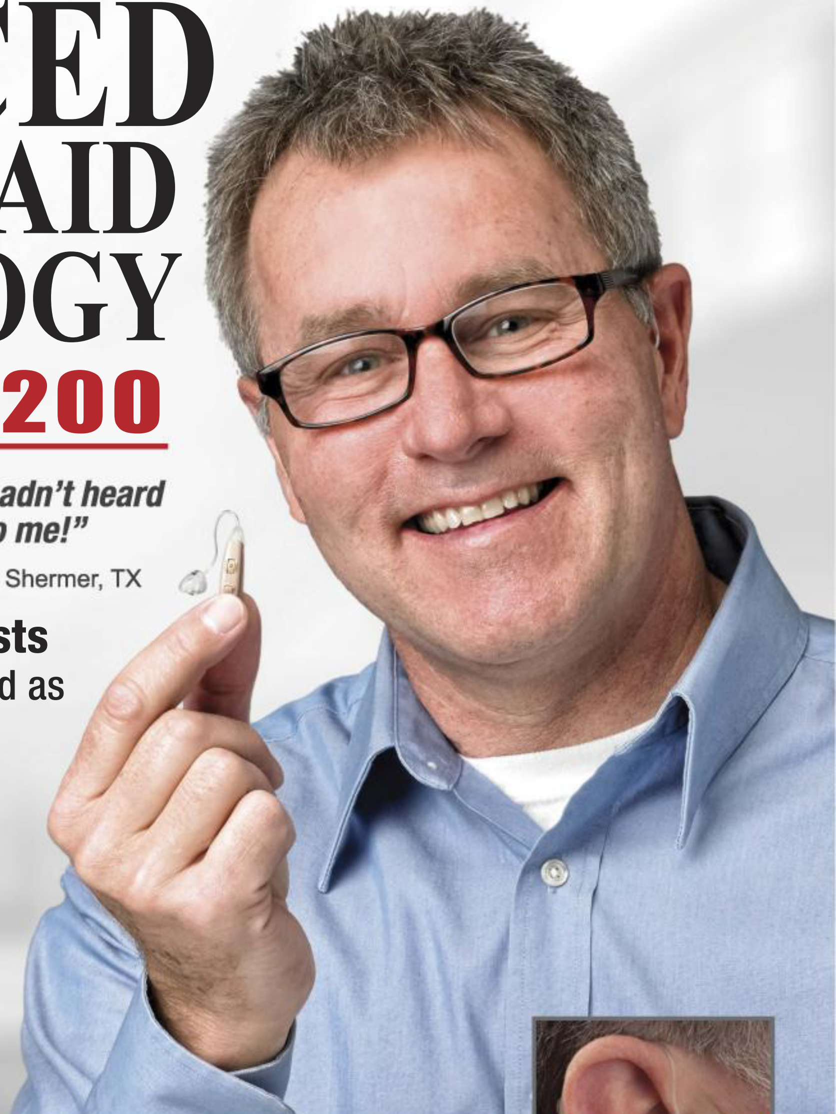

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— Don W., Shermer, TX

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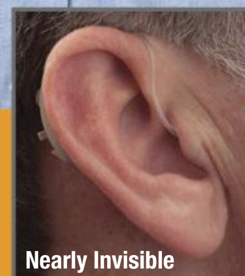

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Get a Deal on a Ne

Cars cost more, but automakers are offering generous incentives to lure you into the showroom. BY DAREN FONDA

THREE WINNERS FOR 2018 (FROM LEFT): THE CHEVY VOLT, HONDA ACCORD AND VOLVO XC60.

ew Set of Wheels

THAT NEW-CAR FEELING DOESN'T COME CHEAP THESE DAYS. BUYERS PAID A RECORD $35,082, on average, for a new vehicle in late 2017, up $793 from 2016. Buyers of small SUVs—the most popular type of vehicle—paid an average of $28,260.

But car sales are now slowing, after several years of gains, prompting automakers to ramp up discounts that can shave thousands of dollars off the sticker price. The average package of incentives—mainly cash rebates or low-interest-rate financing from manufacturers—was recently worth $3,820, according to car-buying website TrueCar.com. That's 11% of the average new-car transaction price, but dealers' discounts may sweeten the pot even more. And those perks come before you do any haggling (for tips on how to negotiate, see the box on page 69).

One reason for rising sticker prices is that even moderately priced cars come loaded with high-tech gizmos and safety equipment. Cars that cost less than

$25,000 now include features found almost exclusively in luxury models a few years ago. For example, Toyota recently launched a new subcompact SUV, the C-HR (starting at $23,495), which comes with a 7-inch touchscreen display and dual-zone climate control as standard features. It also comes with Toyota Safety Sense—a suite of sophisticated safety technologies that include automatic high beams; radar-based cruise control that maintains a safe following distance on the highway; and a system that alerts you if the car drifts into the next lane (and nudges the steering back on course).

DEALS ON SEDANS

Sedans, coupes and hatchbacks aren't selling nearly as well as they did before the rise of the SUV. But the fading popularity of traditional cars means that dealers and manufacturers are loading them up with incentives to move them off the lot. Ford recently offered $5,000 cash back on its full-size Taurus sedan ($28,470)—whose sales have been sagging for years (although it remains popular as a police cruiser). And you shouldn't have a problem whittling the price down further. Big sedans such as the Taurus sit on dealers' lots for an average of 124 days, well above the industry average of 82 days, says car-shopping guide Kelley Blue Book.

Another big car at a nice price is the Toyota Avalon ($34,395)—available recently with a $3,500 cash-back offer from Toyota. It features elegant leather upholstery, a silky-smooth ride and loads of high-tech safety features. Ignore the name badge and you may not be able to tell the difference between an Avalon and a costlier Lexus sedan, says Karl Brauer, executive publisher of Kelley Blue Book and kbb.com. "The Avalon is the poster child for a plush, dependable car, at a great price," he says. Plus, the Avalon has a strong resale value—another trait to look for when you go new-car shopping. It should hold 45% of its new-car sticker price after three years of ownership, above the average of 40% for full-size sedans, according to TrueCar.

Midsize sedans, despite losing popularity, have plenty of merits, too. These cars have been getting steadily larger and now have cabins and trunks that are only a few cubic feet smaller than those of full-size cars. Strong, fuel-efficient four-cylinder engines are standard these days. And many mainstream cars have options plucked from the luxury-car parts bin, such as graphical "head up" displays that show the car's speed and other information on a pop-up screen or in the windshield, available on upper-level trims of models such as the Buick LaCrosse Premium ($37,295) and Mazda6 Grand Touring ($31,585).

Two longtime sales winners, the Honda Accord and the Toyota Camry, both received full makeovers for the 2018 model year. The changes include more-stylish bodies and interiors, and smoother, fuel-efficient engines. The Accord also features a touch screen with Apple CarPlay and Android Auto, which integrates text messages and phone functions from a mobile device with the car's display.

Neither of these cars is likely to be as deeply discounted as models such as the Chevrolet Malibu ($22,555) and Hyundai Sonata ($22,935), which don't sell as well. But both the Accord and the Camry should hold about 50% of their value after three years of ownership, above the category average of 43% for midsize cars, according to TrueCar. Even if you pay more for the car up front than you would for a less popular but similarly equipped model, you should recoup the extra cost when you sell the car in a few years, says Eric Lyman, vice president of industry insights at TrueCar.

SUVs: SLIMMED DOWN

Crossovers have overtaken sedans in annual sales. The latest trend is the rise of the svelte SUV. Automakers have launched 10 subcompact crossovers since 2013, and more are on the way, such as the Hyundai Kona and Nissan Kicks, both coming later this year. These vehicles are basically jacked-up compact cars, but they have the versatility of an SUV and run on spirited four-cylinder engines that get decent gas mileage.

Many small SUVs aim for fun, too. The Fiat 500X, for instance, features bold paint colors, such as a black the company calls Nero Cinema, along with options such as ambient interior lighting and a Beats premium sound system (on upper-level trims). One caveat: Some of these SUVs aren't likely to hold their value well. True Car predicts that the Fiat 500X will be worth 35% of its sticker price three years after purchase, well below the average of 50% for subcompact SUVs. Topping the category for resale value is the Subaru Crosstrek ($22,710), at 62%, followed by the Mazda CX-3 ($21,285) and Toyota C-HR ($23,495), both at about 50%.

PREVIOUS PAGE: COURTESY CHEVROLET, AMERICAN HONDA MOTOR CO. AND VOLVO CAR CORPORATION

For a slightly larger ride, we recommend the Honda CR-V ($25,125), the best-selling SUV for 20 years in a row. Fully redesigned in 2017, the latest edition includes more interior space, new turbocharged engines and a vastly improved touch screen (with Apple CarPlay and Android Auto). Pony up for the Touring edition ($33,625) and you'll get rain-sensing wipers, LED headlights with automatic high beams, and a hands-free tailgate (activated by waving a foot under the rear of the vehicle). The CR-V is also a resale-value champ, retaining 54% of its new-car sticker price after three years.

Among SUVs with three rows of seating, it's tough to beat the Toyota Highlander ($32,420). Refreshed in 2017, it has sportier styling, more comfort features and a punchier six-cylinder engine, along with Toyota Safety Sense as standard equipment. The SUV should hold 60% of its resale value after three years, beating every other big SUV except the Toyota 4Runner ($37,125), at 64%. Consider the six-cylinder XLE, which includes such upgrades as an auto-dimming rearview mirror, heated front seats and a "smart key" system. Other three-row SUVs with Apple CarPlay and Android Auto include the Honda Pilot EX ($31,875) and the Ford Explorer ($32,985).

SUVs are thriving in the luxury market, too, where more than a dozen new models have been launched in the past three years. Recent entrants include the Audi Q3 ($33,875), Mercedes-Benz GLA ($34,395), Land Rover Discovery Sport ($38,790) and Lexus NX ($36,980). All of these models drive smoothly, thanks to their slim bodies and perky engines, and their interiors tend to be more elegant than those of non-premium cars.

If you can swing the extra bucks, the Porsche Cayenne ($66,750) leads the pack for sportiness, including a robust 340-horsepower engine. (The Cayenne S, starting at $83,950, has 440 hp.) Also compelling is the Range Rover Velar ($50,895), a rugged and

■ THE SUBARU CROSSTREK, A SUBCOMPACT SUV, HAS TOP RESALE VALUES.

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Driving a Hard Bargain

Negotiate. Assuming you aren't shopping for a hot model, you can probably haggle with the dealer until you get close to the "invoice" price, or what a manufacturer charges the dealer for the car. The invoice price may be as little as 1% below sticker for a popular mass-market vehicle, or as much as 6% for a luxury model.

Dealers receive bonuses and other incentives from manufacturers to hit sales targets, enabling them to sell a car at invoice or slightly above and *still* make a slim profit. (Be sure to negotiate the price before any rebates or other incentives are factored in.) And remember that dealers make most of their profits from service, accessories, extended warranties and sales of used vehicles—pretty much everything except the sale of new cars.

Cars that sit on dealers' lots for months are more likely to sell at or below invoice than a coveted model in short supply. Buicks recently sat for an average 149 days, making them the second-slowest-selling cars on the market, according to Kelley Blue Book. By contrast, Audis and Subarus sell the fastest—they're gone after just 40 days, giving dealers much less incentive to bend on the price. You'll also save if you buy the outgoing model, once the new model hits dealers' lots.

Check the resale value. Saving a few bucks up front may be less valuable than picking a car with strong resale value. Cars depreciate at an average rate of 15% a year, says Eric Lyman, vice president of industry insights at TrueCar. One positive factor if you buy a sedan, he adds, is that resale values should start to improve over the next few years as supply tapers off in the used-car market (while SUVs proliferate, potentially hurting their resale values). Resale values and other costs of ownership can be found on kbb.com.

Stripped-down models without any options (the kind you see at rental agencies) aren't very appealing to car dealers, but it's unlikely you'll get much extra for a car with every option and high-tech doodad tacked on, says Karl Brauer, executive publisher of Kelley Blue Book and kbb.com. "Everyone wants air-conditioning, power windows and Bluetooth, but not necessarily a sunroof and rear heated seats," Brauer says. Go for a Goldilocks car: a well-equipped model, not too basic and not fully loaded.

Be wary of an all-new model. Try to buy a car one year after a full redesign or launch of an all-new model. Or buy a "mid-cycle refresh"—a car that has been revised and updated by the manufacturer about three to four years after it first came out. All-new or fully redesigned models tend to have kinks that need to be ironed out, so waiting a year is usually a good idea. And a model refresh usually includes significant improvements. In both cases, these cars should hold a bit more resale value than the outgoing model, says Brauer.

handsome SUV with dual 10-inch touch screens and a high-tech suspension system with six drive modes. In a test drive, we found the car exhilarating, but its touch screens are a bit finicky and cumbersome to use, and the seats aren't all that comfortable. Plus, the Velar's systems aren't compatible with Apple CarPlay or Android Auto.

Around the Corner

Driverless Driving Is Almost Here

Fully automated cars aren't likely to make it into the consumer market for several years. But vehicles are becoming "semiautonomous" as manufacturers layer in the foundations of the technology. Dynamic cruise control, which adjusts the car's speed to traffic conditions, is now widely available, as is lane-centering technology that can prevent your car from drifting out of its lane.

Radar-based collision-avoidance systems are getting more sophisticated, too. Not only can they sense a potential collision with another car—and apply brake pressure—but they are also able to detect animals, pedestrians and road hazards. Tesla says its new Enhanced Autopilot system can practically do it all: cruise down the highway (though a driver's hands need to be on the wheel when the car is on the road), automatically change lanes, take an exit, self-park and even be summoned from a garage.

How safe is all this technology? Collision-avoidance systems *do* help prevent accidents, says David Kidd, a senior research scientist with the Insurance Institute for Highway Safety. But human drivers are still a wild card: They seem to be rear-ending automated cars at an above-average rate, according to self-driving technology company Waymo's test data.

GREEN CARS GO MAINSTREAM

Eco-friendly gas-electric hybrids now populate every vehicle category. All get excellent fuel economy compared with conventional models. Topping the charts is the Hyundai Ioniq Hybrid Blue ($23,085), which gets 58 miles per gallon in combined city-highway driving, beating even the Toyota Prius Eco (56 mpg).

Plug-in hybrids, which have more-powerful batteries for extended cruising on pure electric power, fare even better. One of the best-selling plug-ins on the market, the Chevy Volt ($34,095), can run up to 53 miles on an electric charge (below highway speed) without using a drop of gas. The spritely Honda Clarity ($34,290), an all-new model for 2018, has an all-electric range of up to 47 miles.

Midsize plug-in sedans, such as the Ford Fusion Energi Plug-in Hybrid ($32,995), work better as family haulers, and so do several SUVs. The all-new Kia Niro Plug-in Hybrid SUV ($28,840), for instance, gets 46 miles per gallon with its gasoline engine but can cruise up to 26 miles on battery power alone.

Luxury SUVs come with plug-in technology, too. One model that we tested, the all-new Volvo XC60 T8 Hybrid ($53,895), glided effortlessly through city traffic, cruising about 12 miles on electric power alone. The interior featured comfy, leather-stitched seats with a back-massage function and a premium Bowers and Wilkins sound system. Charging the car's battery was a snap: We simply plugged it into a standard garage power outlet to get juiced up for the morning commute.

Low gas prices make it tough for hybrids to pay off financially. The Chevy Malibu hybrid gets a terrific 46 miles per gallon in combined city-highway driving, compared with 30 for the conventional Malibu. But at gas prices of $2.50 per gallon, it would take 6.3 years to recoup the additional $2,750 that the hybrid Malibu costs, according to a calculator at Fueleconomy.gov. Many plug-in hybrids and all-electric cars are eligible for a 2018 federal income tax credit of up to $7,500, based on the capacity of the vehicle's battery. Buyers may be eligible for state tax breaks or other rebates, too (notably in California, Colorado and Maryland).

Buy an all-electric car, of course, and you won't pay for a drop of gas. Tesla shines the brightest in this field, with an expanding lineup that now includes the Model 3 sedan ($35,000), a mass-market car launched in 2017 with a waiting list for buyers. The ranks of all-electric cars now include the Chevrolet Bolt ($37,495), Ford Focus Electric ($29,995), Kia Soul Electric ($34,845) and Volkswagen eGolf ($31,345). All of these vehicles have a limited driving range before their batteries give out; among them, the Bolt leads the charge with a 238-mile range, followed by the eGolf (125-mile range) and the Focus Electric (115 miles). Visit Fueleconomy.gov to see cost-savings estimates for green vehicles. ■

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

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TRAVEL

FIGHT FOR YOUR FLIGHT

What to do when your plane is missing in action.

THE ODDS OF ENCOUNTERING turbulence in your travel plans when you're flying are probably lower than you think: In the first 10 months of 2017, 18.4% of domestic airline flights were delayed on departure, and 1.6% were canceled, according to the Bureau of Transportation Statistics. But when you're the unlucky passenger stranded at the gate with no plane in sight, knowing what your rights are and what airlines typically offer to keep customers happy can help get you on your way sooner.

How airlines (might) help. The Department of Transportation requires airlines to compensate passengers only when they're bumped from an oversold flight (see "Travel," July 2017). Federal rules also govern how long planes can linger on the tarmac before an airline has to feed the passengers or let them off. Rules for all other kinds of delays and cancellations are spelled out in the carrier's contract of carriage.

For disruptions that airlines consider beyond their control—which can include bad weather, fuel shortages and labor disputes—the airlines typically offer you a seat on the next available flight or, depending on how long the delay is, a refund. For problems considered *within* their control—including crew shortages and maintenance issues—you'll fare better. For example, Alaska Airlines and JetBlue both provide credit for future flights in case of a long delay. (JetBlue passengers who experience a delay of six hours or more get a $250 credit.) Some airlines might arrange ground transportation as an alternative to flying. Alaska, American, Delta, Spirit and United, among others, may comp one night at a hotel—typically when an overnight holdup lasts at least four hours. Food and beverage vouchers may also be part of the deal. In general, low-cost carriers offer fewer amenities.

Being assertive and resourceful will help speed up the process as well. "Rather than asking the gate agent, 'What will you do for me?' it's better to have a solution in mind," says Ed Perkins, contributing editor at SmarterTravel.com. For example, airlines generally rebook you on the next available flight, but some airlines may agree to transfer your ticket to another carrier, so pull out your smartphone and look up alternate routes.

While waiting in line to speak with an agent, call the customer service number (or a phone line reserved for loyalty program members, if you are one) and simultaneously reach out to the airline's social media team to get first crack at an empty seat. It's always best to resolve the problem while it's happening rather than requesting a voucher or other compensation by complaining after the fact. Even if an airline is stingy with perks, you may still be able to negotiate, say, loyalty-program miles by asking for them, says Paul Hudson, president of consumer organization Flyers Rights.

If you're rerouted on a new flight, be aware that many airlines count certain nearby airports as the same destination. And if a significant delay (as defined by the airline) or cancellation would upend your trip completely and you decide to forgo rebooking, you can ask for an "involuntary refund" of the unused portion of your ticket, even for nonrefundable tickets. Don't expect the airline to tell you about this option, says Hudson. You may have to ask to speak with a supervisor to discuss an involuntary refund.

Airlines have become more flexible about waiving change fees for customers when bad weather is forecast, says Anne McDermott, editor of FareCompare.com. You may not pay a difference in fare, either. But your window to reschedule is usually short.

If you have faced unfriendly skies in the past 12 months, an app called Service (www.getservice.com) may help. It scans your in-box for past flight delays or cancellations and submits claims for "good will" compensation on your behalf, typically in the form of vouchers or miles. The app is free, but you'll fork over a 30% cut of any compensation. **MIRIAM CROSS**
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TAKEAWAY

Money Lessons From the Movies

In honor of Oscars season, we watched past winners and nominees to glean some financial advice.

THE BIG SHORT

(Nominated for Best Picture, 2016)

Trailer: The 2007–08 financial crisis told through the stories of those who bet on the collapse of America's housing market.

Lesson: Bubbles eventually burst.

UP

(Best Animated Feature Film, 2010)

Trailer: A lonely widower ties balloons to his house and floats away in pursuit of adventure.

Lesson: Never abandon prime real estate.

THE WOLF OF WALL STREET

(Nominated for Best Picture, 2014)

Trailer: An unemployed stockbroker reinvents himself as a boiler room, pump-and-dump specialist.

Lesson: Hot stock tips from someone you don't know aren't so hot.

MICHAEL CLAYTON

(Nominated for Best Picture, 2008)

Trailer: The eponymous main character is $75,000 in debt from a restaurant investment he entered with his drug-abusing brother.

Lesson: Be careful who you go into business with, especially family.

MONEYBALL

(Best Picture, 2012)

Trailer: Using a computer and a lot of data, the Oakland Athletics assemble a winning roster of players who had been undervalued by the scouts.

Lesson: Value investing can be a winning formula for your portfolio, too.

FIELD OF DREAMS

(Nominated for Best Picture, 1990)

Trailer: A voice tells an Iowa farmer to convert his cornfield into a baseball field.

Lesson: "If you build it, he will come" would never fly with lenders.

THE SOCIAL NETWORK

(Nominated for Best Picture, 2011)

Trailer: Two of Mark Zuckerberg's former classmates claim the future tech titan stole their idea for Facebook.

Lesson: Don't share your idea, act on it.

OUT OF AFRICA

(Best Picture, 1986)

Trailer: Just before World War I, Danish author Karen Blixen moves to British East Africa, marries, and starts a coffee farm. But a fire puts Karen in dire financial straits.

Lesson: Make sure you have enough homeowners insurance to cover catastrophic events.

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