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ENERGY HOTSPOTS
The domestic energy boom is just beginning. A slew of future drilling hotspots are emerging, and it’s not just energy companies who stand to benefit.

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1 McKinsey Institute as of June 2012.
2 The World Bank.
3 Haver Analytics as of June 2013.
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Taking Care of Mom

Our special report on caring for your elderly parents (see page 51) was literally a labor of love for our staff. A number of my Kiplinger colleagues are grappling with that very challenge, and the experiences they shared around our conference table form the core of our report. To add their personal notes to the story, I asked what advice they would give readers in similar circumstances.

For managing editor Barbara Marcus, who lives in Maryland, using a geriatric care manager (see page 56) has been a lifeline in caring for her 87-year-old mother, who still lives in her Bronx apartment with a full-time caregiver. “I needed to put things in place so I could sleep at night,” says Barbara. She likes the convenience of working with an agency—which handles paperwork and tasks such as supervising the caregivers—and found one via word-of-mouth through her family’s neighborhood network. Online bill-paying has also been “a godsend,” says Barbara, as long as you have power of attorney over your parent’s accounts (see page 61). One warning: When a parent comes out of the hospital or rehab, you don’t have much time to make arrangements. “We begged the social worker for more time, and we were able to hire a caregiver in about a week,” says Barbara, as long as you have power of attorney over your parent’s accounts.

For senior editor Mark Solheim, the critical moment came in 2010, when his parents, then in their eighties, decided to move from Florida, where they were settled in an independent-living community, back to their former home in Madison, Wis. As a result of that impulsive decision, says Mark, “things quickly spun out of control.” Both parents suffered from depression, and it took months to find a new psychiatrist who accepted Medicare (see page 52). Their bank didn’t have a branch in Madison, and the credit union they joined had a clunky online system that his father couldn’t manage. Mark backed him up, but his father balked at the loss of independence.

Mark and his siblings found that little things were invaluable—such as finding a local pharmacy that would manage their parents’ prescriptions for $28 a month. Mark’s father recently passed away; his mother is still living at home with help from a home-care provider who works 15 hours a week for $24 an hour. “She’s our eyes and ears,” says Mark.

He wishes now that he had had a conversation with his parents ten years earlier to set up arrangements (see “The Money Talk You Must Have,” Nov.). Plus, he says, he wouldn’t have let them move.

Paying the bills. Finances are an inevitable concern (see page 62). In Mark’s case, his parents had a long-term-care policy that eventually kicked in after his father developed dementia and entered a memory-care facility (see page 58). In Barbara’s case, the money is coming from her mother’s own resources. Senior editor Jeff Kosnett is paying the bills for a care-management company to provide for his mother’s health needs in Florida. So far he’s happy with the care, but the bills are significant. To control costs, he has negotiated an arrangement under which the company holds his monthly expenses to about $500.

My colleagues believe that the peace of mind is worth the cost. After watching a close friend handle his mother’s care, contributing editor Kathy Kristof recommends that you “err toward spending what’s necessary to maintain a good quality of life for your parent. If you run low on funds, it will be tough, but you’ll find a way to manage.”

My advice: Remember that your parent always needs a health care or financial advocate. When our mother, now deceased, was in assisted living, my sister took the lead in monitoring her care because she was on the scene. I served as backup, and when necessary we spoke to care professionals with one voice on Mom’s behalf. I hope we passed on that lesson to our children.
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**Is Your Vanguard Portfolio up 961%? This one is!**

**About Daniel P. Wiener**
The Independent Adviser newsletter is consistently rated highly by the Hulbert Financial Digest and is recognized for the impressive performance and low risk level of its model portfolios. Dan is a five-time recipient of the Newsletter Foundation’s Editorial Excellence Award.
Tesla Motors’ stock may be overvalued, but it has always been overvalued (“Tesla Takes Off,” Nov.). Part of a stock’s price is its potential, and Tesla has a lot of potential. It is a well-managed company that is building a proprietary charging network that could allow drivers to cross the nation without paying for gas.

Dennis W. Pinion
Arnold, Cal.

EDITOR’S NOTE: We like the car but not the stock. See pages 35 and 74.

Learning curve. Kudos to Andrew Feinberg for admitting his bias about the JFK assassination (“Promised Land,” Nov.). But like many investors who repeat the same mistakes, Feinberg compounds his error by educating himself with the same biased material. If you were prone to investing in Ponzi schemes and wanted to learn more about diversified investment approaches, you wouldn’t read a book by Bernie Madoff. Unfortunately, all Feinberg did by reading Vincent Bugliosi’s book was feed his own misconceptions.

Phillip Lavelle
Sacramento, Cal.

Extreme couponing. I disagree with Clare Levison’s comments on extreme couponing (“Ahead,” Nov.). I practice extreme coupon clipping, and it does not take up too much of my time. I never accumulate more items than my family can reasonably consume, and I match the coupons with items on sale at the store. If an item is nonperishable and free or close to free with a coupon, I buy it even if my family does not need it and donate it to a local food pantry. I feel that I am being socially responsible, and the donated items are greatly appreciated.

Renee Meiselman
Spotswood, N.J.

Family affair. You asked, “What’s the best way to lend money to a family member (and not get burned)?” (“Game Plan,” Nov.). My answer: Don’t. And if you do, consider it a gift from the beginning, even if formal paperwork is executed. Let any repayment be thought of as a bonus.

B.L.
Hardyville, Ky.
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WHAT COULD BE WORSE than a government shutdown that closes national parks, furloughs thousands of workers and throws gravel under the wheels of the economic recovery? How about a second shutdown? Or a third? That’s the sobering prospect facing Americans as another gridlock-generated deadline looms. The compromise that ended the 16-day partial shutdown in October funds the government only through January 15. The government’s borrowing authority was extended until February 7. With lawmakers still deeply divided on spending, borrowing and the Affordable Care Act, more showdowns (and potential shutdowns) appear inevitable. Here’s how to deal with the paralysis.

Adjust your withholding. The October shutdown forced the IRS to delay the 2014 tax-filing season by up to two weeks. Last year’s filing season was held up because of the fiscal-cliff deal. In 2011, itemizers had to wait until Valentine’s Day to file their returns. But it’s only a problem if you expect to get a lot of money back. By adjusting the amount withheld from each paycheck, you can keep more cash year-round and reduce the size of your refund. Use our tax-withholding calculator (kipling.com/tools/withholding) to figure out how many allowances you should claim. (Also see “Ask Kim,” on page 64.)

Pump up emergency savings. By adjusting your withholding, you give yourself a raise. Use the money to shore up your emergency fund, especially if you’re a federal employee or have a job that’s dependent on the government. The general rule is to have three to six months’ worth of expenses in savings. But you should shoot for six in these uncertain times, says Eleanor Blayney, consumer advocate for the Certified Financial Planner Board of Standards. If you have equity in your home, this is...
a good time to take out a home-equity line of credit.

**Nail down a mortgage ASAP.**
The shutdown postponed approval of some types of government-insured mortgages. Private mortgages were affected, too, because lenders were unable to verify borrowers’ income with the IRS. Applications for government-insured mortgages fell 7% during the week ended October 11, and applications for conventional mortgages dropped 4%, reports the Mortgage Bankers Association. If the shutdown had lasted longer, “it would have been a lot worse,” says Keith Gumbinger, vice-president of HSH, a mortgage consultant. You may already face tough competition from all-cash buyers. A delay in your loan approval could give them an even bigger edge.

**Burnish your job skills.** Employers have been slow to hire, and lackluster economic growth could be exacerbated by another shutdown. If you have a job, don’t take it for granted. Review job listings in your field on LinkedIn.com to see whether you need to learn new skills. Make sure your credit record is in good shape, especially if you’re looking for a job (or feeling insecure about the one you have). Many employers are looking at applicants’ credit reports, and a stellar report could give you an advantage, says Blayney. You can get a free copy of your credit report from all three credit bureaus at www.annualcreditreport.com.

**SANDRA BLOCK**

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**INVESTING ABROAD: A MIXED BAG**

Europe is enticing, Japan is so-so, and emerging markets are unappealing.

David Herro co-manages Oakmark’s International and International Small Cap mutual funds.

**Europe did well in 2013. What will happen in 2014?** The past year was a relief rally—Europe didn’t fall apart. In 2014, the rally will move to “Europe may start to grow.” The region is on the road to economic recovery. And the stocks are relative bargains. Europe has a lot of strong, world-class companies—they’re growing and making money, but the stocks haven’t recovered as much as U.S. shares have since the markets hit bottom in 2009.

**Any particular bright spots?** We like European banks and firms that sell essential consumer products and luxury goods. Credit Suisse (symbol CS, $31) is a combination asset-management firm and investment bank. It’s a good-quality business with a stable income stream. Daimler (DDAIF, $81) is a leading truck company and the maker of Mercedes-Benz autos. Mercedes has generated record sales for the past two years, despite weak demand for cars in Europe. Daimler has a strong balance sheet and a dividend yield of 4%. One of our favorite businesses is Diageo (DEO, $127), the U.K.-based spirits business. We’ve owned the stock for more than ten years. It’s a solid business with iconic brands, such as Johnnie Walker. And it spends money in smart ways, from buying other strong beverage brands to raising dividends to buying back stock.

**What about Japan?** The market is up 80% from its bottom in mid 2012 (in local-currency terms). The rally will continue if the prime minister follows through on his plan for economic and corporate reform. If that doesn’t happen, we’ll need continued earnings growth from Japanese companies and a weaker yen to boost exports. I expect subdued earnings growth in 2014 unless the yen weakens further. We’ve trimmed some holdings purely because of prices going up, but we’re always looking for opportunities. When the market dips, we have added to some of our holdings, including Daiwa Securities (DSEEY, $9), Canon (CAJ, $32) and Olympus (OCPNY, $31).

**Emerging markets were basically flat in 2013. Will they come back?** Perhaps emerging markets have bottomed, but earnings growth has yet to pick up. And the stocks are still expensive compared with those in the U.S. and Europe. Earnings would have to grow, or prices would have to drop 10% to 15%, to change our view. Many of these countries have economic issues, Brazil and India in particular.

**NELLIE S. HUANG**

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**SANDRA BLOCK**
TIGHTER RULES FOR REVERSE LOANS

It’s getting more expensive for seniors to tap their home equity.

SENIORS WHO APPLY FOR A reverse mortgage will find their costs increasing and loan amounts shrinking. Those developments are a result of new rules and product changes designed to shore up the program’s financial stability. Cash-strapped borrowers may find it tougher to qualify.

A reverse mortgage allows seniors 62 or older to access home equity with a loan that doesn’t have to be repaid until the homeowner dies, sells the house or moves out for at least a year. The Department of Housing and Urban Development, which oversees the reverse-mortgage program, has merged two reverse-loan products, known as Standard and Saver loans, into a single home-equity conversion mortgage that falls between the two. The new loan restricts borrowers to a payout that’s about 15% lower than the old Standard product; borrowers pay a higher upfront mortgage insurance premium than with the discontinued Saver loan. The new upfront premium is 0.5% of the home value.

Most borrowers will no longer be able to collect the entire loan amount immediately; many may be limited to a first-year payout of no more than 60% of the proceeds for which they’re eligible. Those who qualify for a limited exception will pay a higher upfront premium of 2.5% of the home value.

Also starting this year, borrowers must undergo an assessment of their ability to pay property taxes and homeowners insurance for the life of the loan. Borrowers who clearly can’t afford those future obligations must set aside part of their payout in an escrow account. Borrowers could be denied a loan if the assessment finds that they cannot pay insurance and taxes and have enough left over to live on.

ROBERT CYMBALSKI WAS recently (unpleasantly) surprised when redeeming points he’d earned with the PenFed Platinum Rewards Visa Signature card. The points required to get a $250 prepaid debit card had jumped to 29,500, from 25,000 a few months earlier. And the maximum number of points cardholders can earn on certain purchases was slated to drop at the start of 2014. Cymbalski now says that he may remove the card (once his first choice) from his wallet.

PenFed isn’t alone in diluting rewards points. Starting March 31, the Southwest Airlines Rapid Rewards program will require 70 points per dollar (up from 60) to book Wanna Get Away travel tickets.

Last year, some hotel chains—including Hilton, Marriott and Starwood—made unfavorable changes to their rewards programs. Customers of PerkStreet Financial lost their unclaimed rewards balances when the banking service shut down in September.

To get the most from your points, redeem them regularly rather than stockpiling them. You’ll have less to lose if values fall or the program terminates. Check out programs, including those for some Chase and American Express cards, that let you transfer points to partner programs. If your rewards lose value, complain to the issuer. It may waive your card’s annual fee or toss in another perk to keep your business, says Brian Kelly, founder of ThePointsGuy.com.

RACHELL SHEEDY

A backlash is building against hazardous chemicals in household products. Major retailers such as Walmart and Target are bowing to mounting consumer worries about toxic ingredients in cleaners and beauty supplies. Walmart plans to phase out certain dangerous chemicals; Target will require labeling on products containing them. Manufacturers will race to develop greener alternatives.

LISA GERSTNER

EXCERPT FROM The Kiplinger Letter

TOXIC CLEANERS GET SCRUBBED

A backlash is building against hazardous chemicals in household products. Major retailers such as Walmart and Target are bowing to mounting consumer worries about toxic ingredients in cleaners and beauty supplies. Walmart plans to phase out certain dangerous chemicals; Target will require labeling on products containing them. Manufacturers will race to develop greener alternatives. (www.kiplingerbiz.com/ ahead/toxic)
AHEAD

**EDUCATION**

**COLLEGES MOVE TO SLASH TUITION**

Some sticker prices are lower, but so is financial aid. Net result: a wash.

**TALK ABOUT PREDICTABLE.**

Each fall, college prices rise. And each fall, families fret over financing a heftier tuition bill. But this year, at least ten institutions are bucking the trend, cutting undergraduate tuition by 10% to nearly 50%.

You won’t find any public flagships or Ivy League universities in the group. All are small, regional colleges, such as Alaska Pacific University, in Anchorage, which will cut tuition from $29,600 to $19,950 starting next fall, and Converse College, in Spartanburg, S.C., which will lower tuition in 2014 from $29,124 to $16,500.

Administrators say these cuts will entice applicants turned off by the “high tuition/high discount” model, in which expensive prices are met with generous aid. For these local institutions, recruiting students is essential to their bottom line and lowering tuition is part of the sales pitch.

One group that could benefit from the change is families that don’t meet the definition of financial need and expect to pay full freight. For them, attending a “low tuition/low discount” school costs less.

But for most, the financial benefit is minimal. The lower sticker prices match what many students are already paying after aid. Plus, the schools have limited national appeal: Most high school seniors won’t travel to Anchorage to save $10,000. Larger and more prestigious colleges rely less on enrollment to balance the budget, and they won’t introduce across-the-board tuition cuts anytime soon.

**SUSANNAH SNIDER**

**MONEY & ETHICS // KNIGHT KIPLINGER**

**Are Speed Cameras a Trap?**

**Q**

My city contracted with a company to install speed-activated cameras on our streets, ostensibly to reduce accidents and improve pedestrian safety. The city shares the robust ticket revenue with the company, which seems to have a say in where the cameras are installed.

Very few cameras were placed on busy, congested streets—where speeding would be most dangerous, but where it is difficult to drive at even the posted speed and revenue from tickets would be low. The champion revenue generator is a camera in a long underpass with a 25 mph limit—four divided lanes, no cross streets, no pedestrian access, where motorists can safely make up a little time without endangering anyone. Your thoughts, please.

**A**

Although you didn’t ask, let me first address red-light cameras, which I support. Such cameras have been shown to reduce red-light running and prevent accidents. But some cities shortened the yellow warning light without telling residents first, raising suspicions that a boost in ticket revenue was as important as roadway safety. Moves like this should be made only after an extensive public awareness campaign.

Traffic-calming street designs—with features such as raised crosswalks, speed bumps and bike lanes as needed—are often more effective than speed cameras. So is skillful timing of lights to enable traffic to flow freely at or below the posted limit, reducing driver frustration and the temptation to speed.

Have a money-and-ethics question you’d like answered in this column? Write to editor in chief Knight Kiplinger at ethics@kiplinger.com.
Use our timely reminders all year long to make the right investing moves, stretch your income, cut your taxes, and save on shopping and travel.
First trading day of 2014. According to the so-called January Barometer, as the S&P 500 goes this month, so goes the year.


Look for proxy forms to arrive in the mail prior to annual shareholder meetings. Proxies update you on corporate governance issues and let you cast a vote without attending the meeting.

Same-sex couples who were married in 2010 have two weeks to file amended 2010 joint returns to receive retroactive tax benefits.

Take this weekend to do some spring cleaning. You can spruce up your house and put extra money in your pocket at the same time. See kiplinger.com/links/clutter.

College seniors: Begin your job hunt. Try to dedicate a few hours a day to tailoring your résumé, writing cover letters and submitting applications to potential employers.

Open enrollment for the Affordable Care Act health care exchanges ends.

You have until Tuesday to make 2013 contributions to traditional and Roth IRAs.

Tax Day. If you’re owed a refund, think about contributing the extra money to your savings. Estimated tax payments for the first quarter are due.

Head to the great outdoors during National Park Week. Admission is free at all 401 U.S. national parks through April 27.
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<th><strong>JULY</strong></th>
<th><strong>AUGUST</strong></th>
</tr>
</thead>
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<tr>
<td><strong>THURSDAY, MAY 1</strong>&lt;br&gt;The U.S. Treasury announces semiannual rates on I-bonds and series EE savings bonds.</td>
<td><strong>FRIDAY, JUNE 6</strong>&lt;br&gt;Snack on a free doughnut as vendors across the country observe National Doughnut Day. The holiday was created in 1938 to honor those who served doughnuts to soldiers during World War I.</td>
<td><strong>TUESDAY, JULY 1</strong>&lt;br&gt;Give yourself a midyear financial checkup. Get spending on track by signing up with Mint.com, our favorite online budgeting site.</td>
<td><strong>FRIDAY, AUGUST 1</strong>&lt;br&gt;Back to school: Look for sales-tax holidays on clothing, shoes and school supplies.</td>
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<td><strong>MONDAY, MAY 5</strong>&lt;br&gt;“Sell in May and stay away” is still a viable strategy, according to the <em>Stock Trader’s Almanac</em>. Historically, stocks perform poorly from now through the end of October.</td>
<td><strong>SATURDAY, JUNE 7</strong>&lt;br&gt;Travel tip: Take advantage of enticing deals on Caribbean cruises as cruise lines respond to the beginning of hurricane season.</td>
<td><strong>FRIDAY, JULY 4</strong>&lt;br&gt;Independence Day. Declare your freedom from clutter by digitizing receipts and scanning in documents (see “Lowdown,” on page 77).</td>
<td><strong>MONDAY, AUGUST 4</strong>&lt;br&gt;Parents: It could be time for you to head back to school, too. Investigate Massive Open Online Courses (MOOCs), taught by university professors free online, that can boost your financial literacy.</td>
</tr>
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<td><strong>FRIDAY, MAY 9</strong>&lt;br&gt;If you’re anticipating a slower market, this is a good time to review your asset allocations. Go to <a href="http://personal.vanguard.com/us/FundsInvQuestionnaire">http://personal.vanguard.com/us/FundsInvQuestionnaire</a>.</td>
<td><strong>TUESDAY, JUNE 20</strong>&lt;br&gt;Headed to college in the fall? Go to <a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a> to start applying for federal student loans and parent PLUS loans.</td>
<td><strong>WEDNESDAY, JULY 9</strong>&lt;br&gt;Investor alert: July historically begins the worst four months for stocks on Nasdaq.</td>
<td><strong>SATURDAY, AUGUST 16</strong>&lt;br&gt;TV programming gets a make-over as the networks ramp up their fall lineups. Call your service provider to see if you can negotiate a better deal.</td>
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<tr>
<td><strong>TUESDAY, MAY 1</strong>&lt;br&gt;The U.S. Treasury announces semiannual rates on I-bonds and series EE savings bonds.</td>
<td></td>
<td><strong>FRIDAY, JULY 11</strong>&lt;br&gt;Look for free outdoor performances, and search StubHub.com and RazorGator.com for discount tickets to mega events.</td>
<td></td>
</tr>
<tr>
<td><strong>THURSDAY, MAY 20</strong>&lt;br&gt;Headed to college in the fall? Go to <a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a> to start applying for federal student loans and parent PLUS loans.</td>
<td></td>
<td><strong>SATURDAY, JULY 19</strong>&lt;br&gt;Feel like redecorating? July is a great month to buy furniture as stores slash prices to make room for new merchandise.</td>
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<tr>
<td><strong>MONDAY, MAY 30</strong>&lt;br&gt;Deadline for filing a “Report of Foreign Bank and Financial Accounts.” You must file an FBAR online this year if you have more than $10,000 in non-U.S. bank accounts. The penalty for failing to file on time is $10,000.</td>
<td></td>
<td><strong>THURSDAY, AUGUST 28</strong>&lt;br&gt;Investor alert: August’s next-to-last trading day. On this date, the S&amp;P 500 has been down 14 of the past 17 years.</td>
<td></td>
</tr>
<tr>
<td><strong>FRIDAY, JUNE 6</strong>&lt;br&gt;Snack on a free doughnut as vendors across the country observe National Doughnut Day. The holiday was created in 1938 to honor those who served doughnuts to soldiers during World War I.</td>
<td></td>
<td><strong>FRIDAY, AUGUST 29</strong>&lt;br&gt;August is a five-paycheck month. Consider adding a portion of that bonus paycheck to your emergency fund.</td>
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Grow all year round, add an Ally.
SEPTEMBER

SUNDAY, SEPTEMBER 7
Look for car dealerships to put 2014 models on sale as the 2015 models hit the floor.

SATURDAY, SEPTEMBER 27
The Smithsonian sponsors Museum Day Live. Look for free admission to participating museums nationwide.

SUNDAY, SEPTEMBER 28
As baseball season winds down, make sure you’ve covered all your bases. Update your will, powers of attorney and living will. If you haven’t drafted these documents, schedule a meeting with an estate-planning lawyer. To get started, visit the American College of Trust and Estate Counsel (www.actec.org).

TUESDAY, SEPTEMBER 30
If you’re in a Medicare Advantage or Part D prescription drug plan, you should have received your annual notice of change. If you haven’t, visit Medicare.gov or call 800-633-4227.

OCTOBER

WEDNESDAY, OCTOBER 15
Medicare open enrollment begins. Also, if you received an extension, it’s the deadline for filing your 2013 tax return.

THURSDAY, OCTOBER 16
Get Smart About Credit Day. You can check your credit report free to make sure there are no errors (go to www.annualcreditreport.com for reports from TransUnion, Experian and Equifax). See kiplinger.com/links/creditcheck.

WEDNESDAY, OCTOBER 29
Second anniversary of Hurricane Sandy. Evaluate your homeowners insurance to make sure you have adequate coverage. See kiplinger.com/links/homeinsurance.

NOVEMBER

SATURDAY, NOVEMBER 1
The U.S. Treasury announces semiannual rates on I-bonds and series EE savings bonds.

SUNDAY, NOVEMBER 2
Sweet tooth? Look for deep discounts on your favorite Halloween candy. (You don’t even need a costume.)

MONDAY, NOVEMBER 3
Investor alert: Research shows that the stock market’s strongest performance is between November and April.

THURSDAY, NOVEMBER 20
The Great American Smokeout. Quitting can save a pack-a-day smoker more than $2,000 a year—not to mention thousands in health care costs.

FRIDAY, NOVEMBER 28
Black Friday. Use the price-tracker tool at www.camelcamelcamel.com to track historical prices for items on your holiday shopping list.

DECEMBER

MONDAY, DECEMBER 1
Cyber Monday is the biggest online shopping day of the year. Shop for the best buys at DealNews.com.

SUNDAY, DECEMBER 7
Medicare open enrollment ends.

WEDNESDAY, DECEMBER 10
Year-end bonus time. If you receive one, use some money to bolster your tax-free retirement savings.

MONDAY, DECEMBER 15
Don’t be a Scrooge. Reward the people who make your life easier. See our tipping guide at kiplinger.com/links/holidaytips.

THURSDAY, DECEMBER 18
More than 1,000 merchants are expected to participate in Free Shipping Day. There’s no minimum order, and merchants guarantee delivery by Christmas Eve in the contiguous U.S.

WEDNESDAY, DECEMBER 24
’Tis the season for giving. Don’t have your heart set on a charity? Consider giving to a donor-advised fund (see kiplinger.com/links/donorfunds).

WEDNESDAY, DECEMBER 31
Seniors: Before the clock strikes midnight, be sure you take required minimum distributions from retirement accounts.

allybank.com | 1-877-247-ALLY
Your money needs an Ally."
HERE’S TO A HAPPY AND PROSPEROUS 2014
TO YOU AND YOUR MONEY.
After trailing Standard & Poor’s 500-stock index for two straight years, I hit a home run with my 2013 stock recommendations. My ten picks—nine from the choices of experts I admire—scored positive returns. The average return, including dividends, from the time my January 2013 story was published was a whopping 42%, 16 percentage points better than the S&P 500. It was my best year, both absolutely and relative to the index, since I started this exercise in 1993. Here are my picks for the coming year:

The biggest winner of 2013 was my selection of one of the holdings of the superb Matthews China Fund (symbol MCHFX). New Oriental Education & Technology Group (EDU), which dominates the market for private educational services in China, jumped 62% in a year when Chinese stocks as a whole rose only about 10%. Because I expect China’s economy to bounce back from a recent slowdown in growth, I prefer companies that focus on the domestic Chinese market. I’m particularly fond of HOME INNS & HOTELS MANAGEMENT (HMIN), a Matthews holding that runs about 1,700 economy-priced hotels on the mainland. (All results and prices are through November 1; see the table on page 22 for more data on my picks.)

Another big winner came from Terry Tillman, who analyzes software stocks for the Raymond James investment firm. Tangoe (TNGO), a firm that helps big businesses manage their telecom services, climbed 43%. (Tillman had the second-best stock in 2012: SuccessFactors, which was acquired by SAP for a 48% gain.) For 2014, he likes MATERIAL SCIENCES (MASC), a tiny (market capitalization: $97 million) maker of lightweight alternatives to stainless steel. He thinks that, considering Material Sciences’ earnings potential and $9 share price, the stock is a bargain. “The company has $3.73 per share in cash, is debt-free and sells at a discount to book value” (assets minus liabilities).

One of the fund industry’s best five-year records belongs to little-known Eventide Gilead (ETGLX). Its investment philosophy, according to its Web site, is “rooted in the biblical understanding that God’s great intent for business is that it serve and, in turn, bless humankind.” Eventide Gilead’s investors have certainly been blessed: The fund’s five-year annualized return through November 1 is 24.3%. Although expenses, at 1.62% annually, are high, we can glean some good advice from the fund, which lately has loaded up on STEMLINE THERAPEUTICS (STML), a small, early-stage biotech firm that focuses on developing drugs that target cancer stem cells. It’s a seeming bargain after its price recently fell by one-fourth.

Also invited back this year for another selection are N. David Samra and Daniel O’Keefe, managers of Artisan International Insurer Tower Group is a potentially rewarding stock, albeit a risky one. Its 18% yield attests to that.”
**Mixed Bag**

**SUDS, SODA, SOFTWARE AND MORE**

Variety rules: Choices range from micro caps to behemoths. And many sectors are represented, from soda to software. Some are value stocks; others are fast growers.

<table>
<thead>
<tr>
<th>Company (Symbol)</th>
<th>Selector</th>
<th>Recent price</th>
<th>Market value (billions)</th>
<th>Price-earnings ratio</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.H. Robinson Worldwide (CHRW)</td>
<td>Mairs &amp; Power</td>
<td>$60</td>
<td>$9.6</td>
<td>20</td>
<td>2.3%</td>
</tr>
<tr>
<td>Coca-Cola (KO)</td>
<td>Glassman</td>
<td>40</td>
<td>175.1</td>
<td>18</td>
<td>2.8</td>
</tr>
<tr>
<td>Home Inns &amp; Hotels Mgmt (HMIN)</td>
<td>Matthews China</td>
<td>36</td>
<td>1.6</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Material Sciences (MASC)</td>
<td>Abramowitz</td>
<td>9</td>
<td>0.1</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>Qualcomm (QCOM)</td>
<td>Value Line</td>
<td>70</td>
<td>120.2</td>
<td>14</td>
<td>2.0</td>
</tr>
<tr>
<td>Salesforce.com (CRM)</td>
<td>Tillman</td>
<td>54</td>
<td>32.2</td>
<td>123</td>
<td>0</td>
</tr>
<tr>
<td>Stemline Therapeutics (STML)</td>
<td>Eventide Gilead</td>
<td>29</td>
<td>0.4</td>
<td>NM</td>
<td>0</td>
</tr>
<tr>
<td>Tower Group International (TWGP)</td>
<td>Roumell</td>
<td>4</td>
<td>0.2</td>
<td>5</td>
<td>18.3</td>
</tr>
<tr>
<td>Twenty-First Century Fox A (FOXA)</td>
<td>Yacktman</td>
<td>34</td>
<td>79.4</td>
<td>21</td>
<td>2.9</td>
</tr>
<tr>
<td>Unilever (UL)</td>
<td>Artisan Intl. Value</td>
<td>40</td>
<td>114.0</td>
<td>17%</td>
<td>3.5%</td>
</tr>
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</table>

Through November 1, 2013. *Based on estimated earnings for the next four quarters, unless otherwise noted. NM Not meaningful; expected to lose money. **Based on estimated earnings for 2014. Sources: Thomson Reuters, Yahoo.

**“Coca-Cola is a classic ‘faith-based’ stock—a great company that always seems to bounce back.”**

Value (ARTKX), my favorite foreign stock fund. Artisan has whipped its benchmark by an average of 7.6 percentage points per year over the past five years. Artisan’s 2013 pick, Reed Elsevier (RUK), returned 44% and remains one of the fund’s ten biggest holdings. For 2014, I like **Unilever (UL),** another multinational giant among the fund’s top ten. The Netherlands-based consumer-products company has a major presence in burgeoning markets in Asia, Africa and the Middle East. So far in 2013, Unilever shares have trailed the S&P by 20 percentage points, but they are likely to rebound.

Donald Yacktman, one of my favorite managers, is stepping down from the helm of his eponymous funds in favor of his son Stephen, who has co-managed the funds for 12 years. No worries. Yacktman Fund (YACKX) holds only 45 stocks, and, with 7% turnover, they rarely change. But the fund’s September 30 update revealed that its largest holding (at 8% of assets) is now **Twenty-First Century Fox (FOXA).** That’s quite an endorsement. Fox is the new movie-and-TV company that resulted from the split-up of Rupert Murdoch’s News Corp. (NWS), which retained the newspaper and other media properties.

A fund with an investment philosophy and record similar to Yacktman’s is Mairs & Power Growth (MPGFX). A member of the Kiplinger 25, the fund has been in the top one-third of its category four years in a row, so it has to be doing something right. As of November 1, only one of the portfolio’s 25 biggest holdings, **C.H. Robinson Worldwide (CHRW),** didn’t increase in value during 2013. As a contrarian, I’m choosing that one for 2014 because it’s bargain priced. Robinson is a Minnesota-based logistics company that offers global transportation services. Its business will only improve as global trade increases, as I expect it will.

The Value Line Investment Survey, my secular bible, offers four recommended portfolios of 20 stocks each. Only one of the stocks carries the research service’s top ratings for both timeliness and safety. That’s **Qualcomm (QCOM),** maker of popular chips that serve as the modems and brains of wireless phones. Qualcomm is attractively priced. The stock sells for 14 times estimated year-ahead earnings, a figure that compares favorably with analysts’ estimates of 17% yearly earnings gains over the next three to five years.

Now it’s time for my own pick. I’m happy to say that my choice of Ford Motor (F) last year ranked third among the gainers, with a return of 54%. I’m going with another household name that has disappointed lately: **Coca-Cola (KO),** which has trailed the market significantly for the past two years. Coke is a classic “faith-based” stock—that is, a great company that, by means that can’t be predicted, always seems to bounce back. The company has been under fire from competitors as well as from policymakers who want citizens to slim down, and it’s been hurt by the sluggish global economy. But, one way or another, I have faith it will solve its problem. And the 2.8% yield will quench your thirst while you wait for the price to rise.

**Final words.** I’ll end with my usual warnings. I expect these stocks to beat the market over the next year, but I don’t believe in short-term investing (holding a stock for less than five years), so consider them long-term holdings. These are just suggestions—ultimately, the decisions are yours. And, oh, yes, don’t expect another 42% gain.
The Main Advantages of Municipal Bonds
Investors are attracted to municipal bonds for three reasons, safety of principal, regular predictable income and the tax-free benefits. Together, these three elements can make a compelling case for including tax-free municipal bonds in your portfolio.

Potential Safety of Principal
Many investors, particularly those nearing retirement or in retirement, are concerned about protecting their principal. In March of 2012, Moody’s published research that showed that rated investment grade municipal bonds had an average cumulative default rate of just 0.08% between 1970 and 2011.* That means while there is some risk of principal loss, investing in rated investment-grade municipal bonds can be a cornerstone for safety of your principal.

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 2012 research,* default rates are historically low for the rated investment-grade bonds favored by Hennion & Walsh.

Potential Triple 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. Triple tax-free can be a big attraction for many investors in this time of looming tax increases.

About Hennion & Walsh
Since 1990 Hennion & Walsh has specialized in investment grade tax-free municipal bonds. The company supervises over $2 billion in assets in over 15,000 accounts, providing individual investors with institutional quality service and personal attention.

What To Do Now
Call 1-800-318-4850 and request our Bond Guide, written by the experts at Hennion & Walsh. It will give you a clear and easy overview of the risks and benefits of tax-free municipal bonds.

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Without Cost or Obligation
CALL 1-800-318-4850
(for fastest service, call between 8 a.m. and 6 p.m.)
Hennion & Walsh, Bond Guide Offer
2001 Route 46, Waterview Plaza
Parsippany, NJ 07054

**CALL IT AN OPPORTUNITY,** not a problem. After all, how often do you latch on to a chunk of cash that’s not already earmarked to pay tuition or fix the furnace? Take your time to construct a plan. “Go very slowly,” says Joseph Quinlan, chief market strategist for U.S. Trust. Leave the cash in savings or checking temporarily, even if you earn zero interest for a spell. It’s not as if forgoing a few days of slightly higher interest will deprive you of a gleaming new BMW.

**Know your time frame.** If you took out the CD a few years ago, when banks were still paying respectable interest rates, you might have thought of it as an investment. But now, with rates as low as they are, think of the money as savings. And the way to manage savings is to earmark the money for when you’re going to need it: immediately, in a few years, or perhaps not for ten years or more. That will point you toward the best place to put the money now.

**Cash reserve.** Your current bank is almost certain to offer so little in interest that it makes sense to open, or add to, a deposit account at an online bank (for top-yielders, see page 67). Although a yield of about 1% may not seem like much, you’ll have instant access to the money—without fees and with Federal Deposit Insurance Corp. protection. If you were treating the CD as an emergency fund, that’s all the more reason to put it in this type of account. If six-month or one-year CD rates begin to outpace what the online savings account pays, you can put some money into a short-term CD and repeat the procedure every three or six months so that you’ll benefit as rates ease upward throughout the year.

**Three to five years.** Many people take out CDs to make sure they’ll have cash at a specified time—say, to pay tuition or invest in a family business. Although we don’t know what interest rates will be in 2017 and beyond, we see no profit in locking in a CD yield today. As long as the Federal Reserve restrains the cost of credit—and that’s a certainty at least into the first few months of 2014—you can comfortably house the money in a short-term, low-risk, low-cost bond fund. We like VANGUARD SHORT-TERM INVESTMENT-GRADE (SYMBOL VFSTX, CURRENT YIELD 1.6%) and BAIRD AGGREGATE BOND (BAGSX, 2.9%). You maintain overnight access to the money (so it still counts as savings), and you should be able to realize a total return of 3% to 5%.

**Longer than five years.** If you already have cash in the bank or some other super-safe place, taking a moderate risk is likely to be worth the reward. Because long-term bond yields aren’t high enough to justify a possible loss of principal over the next several years, we suggest you move part or most of the CD proceeds into exchange-traded funds or stock or balanced funds that pay 2% to 4% in interest or dividends. (Again, you may want to leave part of the balance in a savings account as an emergency fund.) You can reinvest the investment income as you receive it, a plan that lets you buy some fund shares when they are cheap and others when they are not so cheap. All the while, watch those bank rates. If you get a chance to buy a CD that yields more than, say, a fund that follows Standard & Poor’s 500-stock index (currently about 2%), you may want to go back to the bank, especially if you have other money, such as an IRA, in the stock market. JEFFREY R. KOSNETT
At Roche, we have combined innovation and productivity to become the number one biotech and diagnostics company, leading our industry in the use of advanced technology to diagnose and treat patients with cancer and other serious diseases. Our experience allows us to increase our presence in immunology, neuroscience and other areas of research, while expanding our role as the world’s top diagnostics company.

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Nothing says “Happy New Year” like a promise to yourself to spend less and save more. In fact, “improving finances” came in right behind “losing weight” among New Year’s resolutions last year, according to John Norcross, a psychology professor at the University of Scranton and author of Changeology: 5 Steps to Realizing Your Goals and Resolutions. An annual tally by Fidelity Investments found that a record 46% of consumers surveyed made financial resolutions last year, with more than half of those vowing to save more. Nearly one in five promised to spend less, and a like number pledged to pay off debt.

A lot of resolution makers—typically 44% to 46%—are successful at the six-month mark, says Norcross. Still, that’s less than half. And although you’re just as likely to succeed at changing your money habits as you are in effecting other changes, there’s no denying that financial resolutions pose challenges. Savings goals are often abstract and decades away, investment decisions are complex, and memories of losses during the financial crisis are hard to overcome—all of which make it easier to put other things first. “Because of the tyranny of the present, financial needs for the future seldom climb to the top of the priority list today,” says Greg Davies, behavioral-finance chief at Barclays Wealth and Investment Management.

Increase your odds of success by adopting the practices of successful resolvers: Set realistic, attainable goals, declare them publicly, and develop a detailed action plan. Track your progress, and use the buddy system. Expect slip-ups, but don’t beat yourself up over them. Reward your successes (but don’t spend all the money you’ve saved!).

Take baby steps. It’s hard to commit to something indefinitely, but most of us can manage incremental change. Instead of “I’ll save more,” you might resolve that in January, say, or through the first quarter of the year, you will increase your saving by x amount. Or make a (short) list of things to accomplish by a set date: “By the end of January, I will have set up a retirement fund,” for example.

I asked Davies for the one financial resolution he would recommend this year. “Deploy your capital,” he said. Too many investors have been saving but not investing since the stock market bottomed in 2009. Norcross’s advice: “No doubt about it—save now.” Start young, and let the power of compounding work its magic. Below is a short list of resolutions from other behavioral-finance experts:

**Make savings automatic.**
—Terrance Odean, finance professor at the University of California, Berkeley. Increase automatic contributions to your 401(k) account, or instruct your bank to put a portion of every paycheck into an IRA or other long-term savings account.

**Create an enforcement mechanism.**
—Meir Statman, finance professor at Santa Clara University. Buying a house creates forced savings as you pay the mortgage, for example. Statman also advocates mandatory private retirement savings.

**Set up a routine to review investments and reallocate as needed.**
—Richard Peterson, founder of research and consulting firm MarketPsych. Think of investments as a garden, with a time to sow, harvest and pull weeds.

**Start using a financial planner.**
—Victor Ricciardi, finance professor at Goucher College. A planner can help you develop a savings plan and address your overall financial situation.

Pick one of these resolutions, or choose your own. Good luck and happy New Year!
ETFs can entail risks similar to direct stock ownership, including market, sector or industry risks. ETF trading prices may not reflect the net asset value of the underlying securities. Commission fees typically apply. To trade commission-free ETFs, you must be enrolled in the program. If you sell an eligible ETF within 30 days of its being purchased commission-free, a short-term trading fee will apply. Market volatility, volume and system availability may delay account access and trade executions. Offer valid through 4/30/14.

Funding/rollover of $25,000–$99,999 receives $100; funding/rollover of $100,000–$249,999 receives $300; and funding/rollover of $250,000 or more receives $600. Cash bonus subject to nine-month funding-duration condition. See Web site for details and other restrictions/conditions.

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Carefully consider the investment objectives, risks, charges and expenses before investing. A prospectus, obtained by calling 800-669-3900, contains this and other information about an investment company. Read carefully before investing.
Outlook 2014

Bad news for bears: Five years into a powerful bull market, stocks are poised for more gains. BY ANNE KATES SMITH

This bull market has come a long way. A year ago, stocks were so unpopular that despite years of impressive gains, money was only just starting to trickle into stock mutual funds, as investors finally became confident enough to test the market. Good thing they did. Standard & Poor’s 500-stock index has returned 26% over the past year. And investors who have been in stocks since the bear market bottomed on March 9, 2009, have raked in serious profits. Since then, the S&P 500 has soared 160% (not including dividends). // The march to record highs came despite hurdles that might have tripped up lesser bulls. First came a scare courtesy of hints that the Federal Reserve was about to remove the easy-money punch
Stock market bulls will have the upper hand in 2014, says strategist Savita Subramanian.
bowl that has kept this party going. That was followed by a government shutdown and then the threat of a U.S. debt default. What’s more, the stock market’s gains materialized despite a lackluster year for corporate profits, often considered the market’s main engine.

So the phenomenal rally raises the question: Where is the market getting its strength? And more important, can this aging bull continue to run? Our answer: Don’t give up on the bull yet—it may be younger than it looks. “We don’t see a bear market coming,” says Henry Smith, chief investment officer of Haverford Trust. “We believe that March 2009 represented a generational low, and that this is the middle of a sustained bull market.” (To see how the advance compares with other bull markets, see the table below.)

Another year of gains will be supported by stronger economic and corporate underpinnings, and, just as important, improving sentiment among investors. By most measures, stocks are fairly priced, if not bargains. Given expected earnings growth of nearly 10% in 2014, we think stock prices could rise that much and perhaps more if investors again prove themselves willing to pay more for each dollar of corporate profits, ratcheting up the market’s price-earnings ratio. A 10% gain would put the S&P 500 in the vicinity of 1900, translating to more than 17,000 for the Dow Jones industrial average. With dividends, returns could reach 12%.

Despite the wounds inflicted by squabbling lawmakers in Washington, the U.S. economy will continue to improve in 2014, with gross domestic product growing 2.6%, up from our estimate of 1.5% in 2013. For the first time since the Great Recession, consumers will see wages grow faster than inflation, with personal income rising at least 3.5% and inflation about 2%. Companies will continue to add to payrolls, with the unemployment rate fluctuating between 6.9% and 7.2% as more people decide to resume searching for work. To keep the economic wheels greased, the Fed will likely keep short-term interest rates near zero until 2015, but longer-term rates will rise as investors begin to anticipate an acceleration of economic growth. Look for the benchmark ten-year Treasury bond to end 2014 with a yield of 3.3%, up from 2.6% today. (All prices and returns are as of November 1.)

Pockets of economic strength include housing and exports. New-home sales are expected to jump 16% (see “Home Prices Head Higher,” on page 68), and exports should rise by about 5% as Europe’s recovery gains momentum and China’s slowdown levels out. Economists at IHS Global Insight expect global economic growth of 3.3% in 2014, up from an expected 2.4% in 2013. Among the challenges in the U.S. will be the fiscal uncertainty that bleeds into early 2014 as Congress wrangles with the level of government spending and with raising the debt ceiling (also known as giving Uncle Sam the wherewithal to pay his IOUs).

But the Federal Reserve holds the real wild card. Most Fed watchers expect the central bank to begin cutting back its massive, $85-billion-per-month bond-buying program in the first quarter. Last summer, the market swooned at mere rumors that the Fed was set to taper its stimulus. Dan Morris, global investment strategist for TIAA-CREF, notes that from the time the Fed’s two previous “quantitative easing” programs ended (in March 2010 and June 2011) until the next easing program was hinted at, the S&P 500 fell 9% and 12%, respectively. At taper time, “the markets will take fright, yields will go up, there’ll be volatility,” Morris says. “You could see a 10% correction, but people need to ride through it.”

### THE UPSIDE OF FED TIGHTENING

That’s because tapering won’t commence until the economy is robust enough to withstand it. Recall the surprise when the Fed confounded market expectations by not tapering last September. The implication, says BMO Capital Markets strategist Brian Bellski, is that tapering won’t begin until “there is incontrovertible evidence that the economy has reached escape velocity.” And you can expect much the same Fed policy to continue when Janet Yellen moves from board member to chairman early in 2014.

When it comes to corporate earnings, investors should focus less on absolute growth rates and more on the nature of the profits. After strong gains at the start of a recovery, it’s not unusual for earnings growth rates to flatten out. But a profit peak is still years away, says Christopher Hyzy, chief investment officer of U.S. Trust. Conspicuously missing from the profit picture in recent years has been a convincing pickup in revenues; instead, companies have engineered big chunks of profit gains through relentless cost-cutting. That could change in 2014 as consumer and business demand for goods and services finally picks up, and sales become a greater

### History Lesson

**AN ABOVE-AVERAGE BULL MARKET**

The current advance is not so long in the tooth that it can’t deliver more gains. Here’s how it compares with others.

<table>
<thead>
<tr>
<th>Bull market period</th>
<th>Start date</th>
<th>End date</th>
<th>Length (months)</th>
<th>Amount of gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 1990 to Mar. 2000</td>
<td>113</td>
<td>417.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 1949 to Aug. 1956</td>
<td>86</td>
<td>266.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 1974 to Nov. 1980</td>
<td>74</td>
<td>125.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug. 1982 to Aug. 1987</td>
<td>60</td>
<td>228.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 2002 to Oct. 2007</td>
<td>60</td>
<td>101.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar. 2009 to Present</td>
<td>56</td>
<td>160.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 1957 to Dec. 1961</td>
<td>50</td>
<td>86.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr. 1942 to May 1946</td>
<td>49</td>
<td>157.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 1962 to Feb. 1966</td>
<td>44</td>
<td>79.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 1970 to Jan. 1973</td>
<td>32</td>
<td>73.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 1987 to July 1990</td>
<td>31</td>
<td>64.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 1966 to Nov. 1968</td>
<td>26</td>
<td>48.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 1947 to June 1948</td>
<td>13</td>
<td>22.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**AVERAGE**: 53 | 109.2%
factor in driving profits. The period “is likely to be characterized as the dawn of a new business cycle,” Hyzy says.

●● GROWING CONFIDENCE
Investors certainly have been willing to pay more for their share of corporate profits. A year ago, the S&P 500 commanded a price that was about 13 times the average estimated per-share earnings of its constituents for the year ahead. Now, the S&P trades at nearly 15 times estimated 2014 earnings. A higher P/E reflects investors’ growing willingness to gamble on stocks relative to other assets—particularly bonds. “As we move past the credit crisis and have seen earnings growth and positive market returns, investors are regaining faith in the viability of stocks as an asset class,” says Savita Subramanian, stock market strategist for BofA Merrill Lynch Global Research (see “Look for Double-Digit Gains,” on page 33). “And the quality of corporate balance sheets today is unparalleled, which also warrants higher price-earnings multiples,” she adds.

The shift in sentiment is a key driver for stocks. “We’re slowly starting to rebuild confidence,” says Haverford’s Smith. “This is the first time since the bull market began that there isn’t a constant concern about the next calamity, the next disaster, the next so-called black swan event—which, by definition, rarely comes along. We’ve got a long way to go before we need to worry about fear turning into greed.”

Indeed, a price-earnings ratio of 15 is only about average for the past 30 years, and it’s below the average of 16.5 for the past 15 years. (It’s light-years away from the P/E’s that reached 25 and higher in the early ‘00s.) How high is too high for an overall market P/E? When stocks start trading at 18 times estimated earnings, it’s time to worry—or at least to tread carefully.

For now, it’s a mistake to confuse a bullish mind-set with the euphoria that often signals a market top. But pullbacks are an inevitable part of bull markets, and we’re overdue for one, with the last significant decline having ended in October 2011. Among the red flags that bear watching: the deluge of money into stock mutual funds and exchange-traded funds—$277 billion more than has come out of the funds so far this year through late October, according to market research firm TrimTabs. That sign of growing investor optimism more than reverses net outflows of $123 billion from 2008 through 2012, says TrimTabs CEO David Santschi. “Flows are heavy enough to be worrisome, but they’re a cautionary sign, not a sure sign of a top.”

Surveys by the American Association of Individual Investors show optimism climbing, with 45% of investors recently surveyed saying they were bullish, compared with a long-term average of 39%. But pros remain notably cautious, according to a monthly survey of Wall Street strategists by Bank of America Merrill Lynch. Normally, strategists recommend an average portfolio allocation of 60% to 65% stocks; during the market peak in 2000 they recommended close to 70%. In the most recent survey, the average stock recommendation was 53%, suggesting that on Wall Street, anyway, exuberance is not yet irrational.

Still, investors need to weigh carefully where to put their money, and portfolios probably need a little tweaking in 2014. Shifting more money into stocks than bonds is appropriate as yields grind higher and bond prices

●● BONDS VERSUS STOCKS
Why You Should Rebalance

IT’S NOT QUITE A SHAKESPEAREAN DILEMMA, BUT LOTS OF INVESTORS ARE WONDERING: To rebalance, or not to rebalance? The standard advice is that when prices run up in one asset, you should lighten up and use the money to buy lagging assets. That way, your overall allocation stays in line with your plan. If you started 2013 with a mix of 60% stocks and 40% bonds and you’re closer to 65%-35% now, you’d be obliged to sell some stocks and buy bonds.

But when forecasts call for rates to rise—and, therefore, bond prices to drop—it’s little wonder that investors are loath to buy an asset that they’re convinced is heading south. “The problem is that bond prices just don’t look attractive,” says New York City adviser Lew Altfest. For some of his clients, he says, “we’re practicing something we call benign neglect—ignoring the fact that stocks are overweighted, given the choices.”

Altfest has many years of experience and has seen all kinds of markets. But for many investors, it’s dangerous to ignore a proven strategy for the worst of all reasons—that is, because “this time, it’s different.” A study by the Vanguard Group compared portfolios that were rebalanced with those that were not, from 1926 through 2009. A never-rebalanced portfolio starting with 60% stocks and 40% bonds drifted to 84% in stocks and returned an annualized 9.1%. A 60-40 mix rebalanced annually returned 8.6% a year—a smidge less, but also with 17% less volatility, a proxy for risk. The closer you are to retirement, the more dangerous a “let it ride” philosophy becomes.

Despite heightened risks, bonds still provide stability in a portfolio. “All bonds are not created equal,” says Dan Moisand, an adviser in Melbourne, Fla. “Stick with modest durations [a measure of interest-rate risk] and good credit quality,” he says. “Even if rates spike, you won’t get killed.” Trade long-term Treasuries for short-term notes or corporate bonds (both of which are less sensitive to rising market rates), or for floating-rate bank-loan funds, which hold up well when rates rise (see “Get 3% With Low Risk,” on page 44).

If you’re having a hard time sticking to your asset-allocation plan, try to think of a diversified portfolio as a little like a baseball team, says investment strategist (and St. Louis Cardinals fan) Gary Thayer, of Wells Fargo Advisors: “Not a lot of people hit the ball to right field. But you don’t take the right fielder out of the game.”
move in the opposite direction. But don’t give up on bonds altogether (see the box on page 31). Mike Wilson, chief investment officer at Morgan Stanley Wealth Management, entered 2013 recommending that clients who can tolerate moderate risk keep 55% of their assets in stocks and 45% in bonds and cash, then shifted to a 65%-35% split last spring, with the fixed-income allotment focused on short-term maturities and corporate debt. (For our 2014 income recommendations, see “Cash in Hand,” on page 36.)

Within your stock holdings, re-examine your notion of safety, says Russ Koesterich, chief investment strategist at BlackRock. Until recently, risk-averse investors flocked to stocks with low volatility and high, secure dividends, including phone companies, makers of consumer staples (the stuff we use every day, from soap to cereal) and utilities. But in a period of economic growth and rising interest rates, those now-expensive “bond proxies” become the risky holdings.

“If the market is under pressure because rates are going up, utilities are the worst place to hide,” says Koesterich. Likewise, sectors traditionally thought of as defensive will lag behind stocks that are more sensitive to economic swings—for example, industrial, manufacturing, commodity, technology and energy companies.

These “cyclical” stocks have left defensive issues in the dust. From the start of May through early November, cyclicals as a group rose 13%, and defensive stocks just 0.9%, according to BMO Capital Markets. In the near future, cyclicals will benefit from gains in global economic growth, but longer-term themes bode well, too. A manufacturing renaissance is boosting exports and bringing overseas production to the U.S. as it becomes more cost-competitive. Growing supplies of natural gas particularly benefit chemical companies, including DOW CHEMICAL (SYMBOL DOW, $39) and WESTLAKE CHEMICAL (WLK, $187). Low-cost energy producers will also thrive. Scott Armiger, chief investment officer at Christiana Trust, thinks patient investors will be rewarded with shares in ULTRA PETROLEUM (UPL, $19).

Subramanian is a big fan of industrials. She says that although they are often painted as poster children for the old economy, they are among the nation’s most innovative concerns in terms of harnessing data and technology, while also boasting remarkably stable earnings and dividend growth. Industrials she thinks are worth a look include EMERSON ELECTRIC (EMR, $67) and ILLINOIS TOOL WORKS (ITW, $79); analysts at Standard & Poor’s highlight FLOR (FLR, $75) and JACOBS ENGINEERING (JEC, $61). Investors who want exposure to an array of companies can explore FIDELITY SELECT INDUSTRIALS (FCVIX), a mutual fund, or a low-cost exchange-traded fund, such as INDUSTRIAL SELECT SECTOR SPDR (XLI, $49).

As long as economic growth remains tepid, you might prefer a mix of cyclical and defensive holdings. Haverford’s Smith likes big drug makers, including two foreign-based, multinational outfits: SANOFI (SNY, $55) and NOVARTIS (NVS, $77). Big Pharma is emerging from a period of subpar performance that goes back more than a decade as companies struggled with a slew of patent expirations. Investors don’t yet appreciate that years of research are about to pay off, Smith says.

Investors who’ve stayed close to home with their money should look overseas again. U.S. stocks may now be “too much of a good thing” in many portfolios, says Koesterich. He recommends that 10% to 20% of stock holdings be invested in European shares and 5% to 8% in Japanese shares. He views those stocks as more reasonably priced than U.S. shares despite generous overseas gains already. OAKMARK INTERNATIONAL (OAKIX) has stakes in both regions. (To read what manager David Herro favors for 2014, see “Ahead,” on page 11.) Another good choice: DODGE & COX INTERNATIONAL (DODFX), one of the Kiplinger 25. Expect emerging markets to remain dicey and volatile.

What could stall the charging bull? The usual suspects: disappointing employment trends, economic setbacks in Europe or China, geopolitical turmoil in the Middle East, dysfunction in Washington. And, for the first time in a long while, there’s another risk: that too many investors will start believing again too quickly.

●● 2013 UPDATE

Bullish, But Not Enough

We were correctly bullish on stocks in 2013, but our price target for the S&P 500 was low. We projected a 9% return over the past year, including dividends, and got 26% instead. In our calculation, we failed to apply a higher price-earnings multiple, which rose as investors became more comfortable with stocks. By midyear, we course-corrected, projecting gains in the mid-to-high teens.

Our eight stocks for 2013 turned out to be a mixed bag. Overall, the group gained an average 21%. Hits included TRW Automotive Holdings, a leading supplier of auto-safety systems, and nut processor John B. Sanfilippo & Son, up 57% and 51%, respectively. (Results are through November 1 and include dividends.)

Our worst pick was luxury retailer Coach, which tumbled 10% because of lagging sales. Concerns about slowing growth and market-share losses for its key software product plagued VMware, and its stock sank 8%.

Among our other picks, Wells Fargo & Co. and medical-device maker Covidien each rose 29%. Qualcomm, a leader in smart-phone technology, climbed 19%. Homebuilder Toll Brothers dipped 3%.

Our advice on stocks to sell flunked—no surprise given the ferocity of the bull market. Both Alpha Natural Resources and Exelon lost money—16% and 10%, respectively. But the other three that we considered duds beat the market. Chipotle Mexican Grill doubled, and Hewlett-Packard gained 90%. Apollo Group, flat all year, jumped 30% after stronger-than-expected earnings reported in October.
Look for Double-Digit Gains

SAVITA SUBRAMANIAN is head of U.S. Equity and Quantitative Strategy at BofA Merrill Lynch Global Research.

KIPLINGER’S: What’s your market outlook for 2014?
SAVITA SUBRAMANIAN: We’re looking for a 10% increase in stock prices. Assuming dividend yields remain in the same ballpark, as they have over the past couple of years, that’s a 12% to 13% total return.

The bull market is approaching five years old. What will drive it forward? We get this question a lot. The duration of the bull market doesn’t matter. It’s the contours of economic growth and Federal Reserve policy. We’ve been in a fairly protracted early-stage bull market, which is characterized by easy monetary policy as the Fed tries to stimulate growth. Normally, the early cycle lasts a year or two. This time, it has been longer, and it will continue until the Fed withdraws stimulus. That’s typically the precursor to the middle stage of the bull market. We’re looking for the Fed to begin modestly tapering its bond-buying program in the first quarter.

What happens then? The market typically does quite well during the period of time after the easy money goes away but before the Fed starts to tighten. The market will continue to go up, but the leadership will transition to the most GDP-sensitive areas of the market, such as technology, industrials and energy. Leadership has recently been in stocks that benefit from easy credit early in a recovery, such as financials and companies that sell non-necessities to consumers.

Isn’t the market starting to look expensive? We’ve seen values rise significantly, and the market looks more expensive than it has since the credit crisis. But it’s far from stretched. We recently looked at 15 measures of value, including price relative to earnings and to book value (assets minus liabilities), and stock prices relative to bond yields and commodity prices. By almost every measure, the market looks fairly priced or undervalued relative to history. Also, in an environment in which the economy is starting to accelerate, the market normally looks more expensive because corporate earnings are about to accelerate, too.

Earnings growth has been anemic lately. But over the past several years, a lot of earnings growth has been manufactured by cost-cutting. At a certain point, the economy does better and demand comes back. Now, we’re at the beginning of sales-driven earnings growth.

What themes do you see playing out in the market in 2014? One is the “Great Rotation” out of bonds and into stocks. I would argue that we haven’t seen it yet. It’s been more of a trickle. Over the past few months, we’ve seen investors take a little more risk, but we’re still in fairly skeptical territory.

Where should investors put their money now? Look for areas that do well when the economy picks up and that can withstand a rising interest-rate environment. We especially like large-company stocks in the tech, industrial and energy sectors. We also favor globally diversified companies. Normally, you pay a premium for those stocks versus stocks that just sell to the U.S. Today, global companies are trading at the lowest relative values we’ve seen in a decade. These companies tend to have smoother earnings, better balance sheets and global brands. Companies that fit our themes include GENERAL ELECTRIC (SYMBOL GE, $27), MICROSOFT (MSFT, $36), EXXONMOBIL (XOM, $90), APPLE (AAPL, $520) and 3M (MMM, $126).

What would turn you bearish on the market? If economic data were to come in weak and the Fed had to keep easing—we’ve seen this movie before—then our sector calls might not be right, although we think the market overall would continue to rise. I’d also worry if we stayed in corporate-paralysis mode. Companies have been sitting on cash and not spending their capital, and they’re the machines that can generate significant growth. The other worry is that we might get too euphoric on the stock market. We’d turn bearish if we heard everyone and their brother talking about stocks.
8 STOCKS TO BUY

OUR PICKS FOCUS ON BIG COMPANIES THAT WILL BENEFIT FROM STRONGER ECONOMIC OUTLOOK2014

Air Lease
The dynamic duo who turned International Lease Finance Corp. into an airplane-leasing giant in the 1980s, Steven Udvar-Házy and John Plueger, came out of semi-retirement to launch AIR LEASE (SYMBOL AL, $30) in 2010. Since then, the company has built a fleet of 174 jets, which are leased to more than 75 airlines. Air Lease also helps manage air fleets, so when customers lease its new planes, it also brokers the sale of their old ones. Analysts expect profits to increase 30% in 2014, but the stock sells for only 16 times estimated earnings. (All prices and related data are as of November 1.)

Cisco Systems
Once one of the hottest stocks of the 1990s, CISCO SYSTEMS (CSCO, $23) crashed in 2000 and has never regained its glory. But the company continues to dominate the market for routers and switching systems, and it has expanded into cloud computing, system management and Web security, among other things. If you spend time surfing the Web, you’re probably interacting with one of Cisco’s products. Profits have risen steadily and, as a result, the stock is now too cheap to ignore. The shares sell for 11 times estimated year-ahead earnings and yield a healthy 3.0%.

Cree Inc.
CREE INC. (CREE, $60) is a leader in the manufacture of light-emitting diodes, or LEDs. These energy-sipping bulbs, which require up to 85% less power than traditional bulbs and can last up to 25 times longer than traditional bulbs, are gaining popularity. Only about 3% of the U.S. population currently uses them, but government price subsidies are making them more popular and affordable. Cree is also stepping into the solar-power industry. That should help light up sales and profits for years to come and justifies the stock’s rich price, which amounts to 34 times estimated earnings.

Eaton Corp.
An improving global economy is bullish for EATON (ETN, $71), which specializes in power management—from the manufacture of hydraulic systems for trucks and planes to the circuit breakers used in commercial construction. Eaton moved its headquarters from Ohio to Ireland in 2012 as part of its purchase of electronics giant Cooper Industries. The deal helped boost sales and profits in 2013. But the sluggish commercial-construction market is weighing on results. Morningstar analyst Daniel Holland thinks that business will rebound in 2014, allowing Eaton to fire on all cylinders.

General Electric
Global conglomerates such as GENERAL ELECTRIC (GE, $27) tend to expand at the same pace as overall economic growth. So GE will benefit from an improving world economy—and then some. That’s because, says Holland, GE is better than most conglomerates at creating synergies among its various operations—from aviation to health care—that help facilitate the creation of new products. Shareholders are benefiting from dividend hikes, as well as share buybacks, which will help profits grow at a 10% pace over the next few years. Plus, the stock yields an above-average 2.9%.

Honeywell Intl.
In 2010, when HONEYWELL INTERNATIONAL (HON, $87) announced an ambitious five-year growth plan, analysts were skeptical. They acknowledged that the firm, which makes everything from thermostats to jet engines, was well run, but they thought it couldn’t wring enough efficiencies from its operations to overcome a struggling economy. But Honeywell hit all of its goals and has turned skeptics into believers, says Stifel Nicolaus analyst Jeff Osborne. Now, Honeywell is set to put out a new five-year plan that he thinks will be even more ambitious—and will help boost the stock.
JPMorgan Chase

Over the past two years, JPMORGAN CHASE (JPM, $53) has been mired in controversies, ranging from billion-dollar losses in the London Whale trading debacle to a proposed $13-billion settlement with regulators over improprieties in the mortgage market. The sideshows, though, mask the bank’s underlying strength, says Raymond James analyst Anthony Polini. JPMorgan is one of the best-run banks, with a strong balance sheet and a compelling international investment-banking operation. The legal woes have suppressed the stock, which trades for just 9 times earnings.

Occidental

A major energy producer, OCCIDENTAL PETROLEUM (OXY, $96) has an edge over many of its peers: It gets the bulk of its energy from politically stable North America, and most of that energy is in liquid form, which benefits from a favorable balance of supply and demand. Oxy also boasts a superb balance sheet, with plenty of cash for dividends and share buybacks. To boost Oxy’s long-moribund stock price, the company has launched a restructuring plan, which initially involves selling assets to raise cash. Morningstar analyst Allen Good thinks Oxy’s stock is a bargain.

AND 5 TO SELL

Our pans fall into two categories: companies with poor prospects and those with better prospects that trade at absurdly high prices. If you own any of these five stocks, consider dumping it, or at least paring back, especially if doing so won’t result in a taxable gain.

We start with three companies that pay generous dividends but appear to be struggling to keep up the disbursements. On the surface, profits seem to be rising at CENTURYLINK (CTL, $34). But take out one-time items and the telecom company’s operating income and cash flow are down from a year ago, largely because customers are dropping their landline phones. Moreover, analysts expect virtually no profit growth over the next few years. What’s holding up the stock price is the fat $2.16-per-share annual dividend, which gives the stock a 6.4% yield. But CenturyLink cut the payout in 2013, and Brad Lamensdorf, co-manager of the Ranger Equity Bear ETF, expects it to do so again within the next year.

A juicy dividend is also propping up shares of DIEBOLD (DBD, $30). The maker of automated teller machines is paying at an annual rate of $1.15 per share, and it has a long history of yearly dividend hikes. But those increases have gotten smaller as Diebold’s finances have gotten tighter. Declining sales, a major restructuring and the recent departure of the company’s chief financial officer all raise red flags. Plus, declining cash flow puts the dividend in jeopardy. Finally, the stock, at 18 times projected earnings, isn’t cheap.

DOMINION RESOURCES (D, $64) owns regulated electric utilities in Virginia and North Carolina, regulated natural gas utilities in Ohio and West Virginia, as well as various unregulated units. Analysts expect earnings to grow at a 7% annual clip over the next few years. That’s not terrible, but the stock sells for a lofty 18 times estimated year-ahead earnings. Also troubling is that Dominion has been borrowing money and issuing stock to support its $2.25-per-share annual dividend. The company can’t keep making those generous payments forever.

Turning to stocks in fantasyland, TESLA MOTORS (TSLA, $162) undeniably makes great cars (see “Putting Tesla to the Test,” on page 74). Founder Elon Musk is considered a visionary in the same mold as Henry Ford. But Tesla’s stock, which has zoomed by a factor of seven since going public three years ago, is priced for a perfect future. It sells for 135 times estimated earnings for the next four quarters. Any stumble will deliver a nasty shock to Tesla bulls.

Like Tesla, 3D SYSTEMS (DDD, $63) is a hot stock in a hot industry. Shares of the maker of three-dimensional printers have nearly quadrupled over the past two-and-a-half years. Although 3D’s printers could revolutionize manufacturing, the company needs to drum up interest among consumers to support a stock that sells for 53 times projected year-ahead earnings. That hasn’t happened, Lamensdorf says. The printers hit Staples shelves last summer, but his checks indicate that few have sold, apparently because they’re expensive and because consumer applications aren’t obvious.
A year ago, I wrote that 2013 would be a mostly stable year for income investors, with yields creeping up but not soaring. That’s about how things turned out, though interest rates eventually rose more than I expected. As a result, you may have lost 1% or 2% in a diversified bond portfolio. I see rates climbing in 2014, but again, not by much.

Where they go may depend on the resilience of the “Great Rotation,” one of the big investment stories of the past year. The idea is that income investors, worried about the prospects of losses in their bonds (whose prices generally move in the opposite direction of rates), bailed out of fixed-income holdings and put the proceeds into shares, adding fuel to 2013’s surging stock market.

It’s a compelling story line, but I’m not persuaded that stocks’ big year came at the expense of bonds and other yield-focused investments. Sure, bonds, real estate investment trusts and preferred stocks suffered through a rough patch in the middle of 2013. But those and other income investments rebounded in late summer and early fall of 2013. Even Treasuries, which led the bond market down in the spring and summer, have regained some lost value. The yield on the benchmark ten-year Treasury, which peaked just below 3% in early September, stood at 2.6% on November 1.

The take-away: There’s a huge difference between the end of a bull market in an investment class and the onset of collapse. Bonds and bond substitutes won’t deliver big total returns in the coming year, but they won’t cause you to lose sleep worrying that your principal will melt.

That said, you don’t want to own too many Treasuries and Treasury-heavy bond-market index funds. The income is too puny. Plus, Treasuries will likely see another year of losses as yields resume their rise once the Federal Reserve finally starts to trim its $85-billion-a-month bond-buying program. Figure that the yield on the ten-year Treasury will hit 3.3% in 2014.

The biggest losers from the Fed’s easy-money policies continue to be people with big bucks in money market funds and CDs. The Fed isn’t likely to lift short-term rates until 2015 at the earliest, so expect another year of zero returns for cash-type investments. That means a loss after inflation, expected to ring in at 2% in 2014.

Tax-free treats. There are some good opportunities in income investing, though. Municipal bonds remain one of the most attractive fixed-income sectors. You can choose from an ocean of sound munis that yield 100% to 110% of what Treasuries of comparable maturity pay. Because muni interest is generally free from federal (and often state and local) income taxes, you can see why they’re a good deal.

As for taxable bonds, I continue to favor single-A- and triple-B-rated corporate debt. On a total-return basis, these investment-grade corporates roughly broke even the past year, their income offsetting mild declines in principal. I also like floating-rate bank-loan funds, which are yielding 3% and up and hold up well in a rising-rate environment (see “Get 3% With Low Risk,” on page 44).

If you’re hoping for a sure-shot, big-money tip for 2014, you’ll be disappointed. Nothing is severely undervalued. My best tip is to fish in the deep pool of closed-end income funds whose share prices are languishing well below the value of their underlying assets. Two that have recently swung from selling at premiums to their net asset value per share to discounts are BLACKROCK LIMITED DURATION (SYMBOL BLW, $17) and JOHN HANCOCK INCOME SECURITIES (JHS, $14). The funds, yielding 7.5% and 6.4%, respectively, use borrowed money to boost income. In both cases, the funds’ investment earnings cover their payouts.

JEFF KOSNETT IS A SENIOR EDITOR AT KIPLINGER’S PERSONAL FINANCE.
Designer Index Funds Come Into Fashion

Instead of focusing on size, these funds weight stocks by key measures such as profits or sales. We pick four standouts. **BY NELLIE S. HUANG**

**ALTHOUGH EVERY INVESTOR** wants to beat the market, few are able to do it consistently. But what if, over time, you could beat the broad market with something as simple as an index fund?

Some exchange-traded funds—members of a new class of ETFs—have done just that. They are called fundamental-index funds because they focus on companies’ financial results, such as sales or earnings, not just their size. PowerShares FTSE RAFI US 1000 ETF (symbol PRF), for example, leans toward large U.S. firms with strong balance sheets. Over the past five years, it has returned 18.8% annualized, beating SPDR S&P 500 ETF (SPY), a traditional index ETF that tracks Standard & Poor’s 500-stock index, by an average of 3.6 percentage points per year (all returns are through November 1).

Eager to jump in? Not so fast. These newfangled designer index funds offer fresh, sometimes compelling strategies, but they are not magic. For starters, their strategies can take ten years or more to play out. Plus, each index is unique, so it’s important to understand how they are built and any extraordinary risks they pose before you incorporate one into your portfolio.

**What are fundamental-index funds?** Instead of weighting stocks by market capitalization, the way traditional indexes do, fundamental indexes use measures that are tied to a company’s financial picture, such as earnings or dividends, to name a few. A few of these funds are a decade old—among them, iShares Select Dividend (DVY), which sifts stocks for those with high dividend yields and ranks them by their yield. But many are much newer. Of the nearly 220 fundamentally oriented ETFs, nearly half have been around for five years or more. Nevertheless, investors are buying. The funds now hold more than $1 trillion in total assets.

The draw: Over the long haul, fundamental-index funds will beat the market. At least, that’s what the firms behind these funds will tell you, based on extensive back-testing that pitted many of the new indexes against the best-known market-cap-weighted benchmarks, such as the S&P and Russell indexes. “Fundamental indexes have outpaced by two percentage points per year” over long periods, says Chris Brightman, of Research Affiliates, a Newport Beach, Cal., pioneer in fundamental indexes.

But back-testing is one thing. How have these ETFs performed in real life? The answer is mixed. Among those with a five-year record (more than 80 funds), half beat the typical fund in their respective category and the other half lagged. PowerShares Fundamental Pure Small Core (PXSC), which tracks an index that emphasizes sales, dividends, cash flow and book value, has lagged the small-company Russell 2000 index by an average of 3.3 percentage points per year over the past five years. Over the same period, however, RevenueShares Large Cap (RWL) beat the S&P 500 and 84% of its peers, albeit with a little more volatility than the broad market.

The bottom line: Not all fundamental indexes shine. And although some are better than others, the higher returns may come with more risk. Many of these funds
plunged more than the overall market in 2008, for instance, though they rebounded strongly in 2009. That combination suggests that some fundamental-index funds are more volatile than their vanilla rivals. PowerShares FTSE RAlFI US 1000, for instance, lost 40.0% in 2008—3.0 percentage points more than the S&P 500 lost—and ranked among the bottom 10% of all ETFs that focus on large, undervalued companies. But in 2009 it beat its benchmark by a staggering 15.2 percentage points, with a 41.7% return. Over the past five years, the FTSE RAlFI US 1000 ETF has been 22% more volatile than the S&P 500 and funds that track it.

Time—as in decades—will tell whether enhanced index funds are better than funds weighted by market capitalization. But for now it’s safe to say that fundamental-index funds are just different. “It’s all salad, just a different dressing,” says Rick Ferri, founder of Portfolio Solutions, a Troy, Mich., investment firm that uses index funds and ETFs.

How do they work? Some funds home in on a single factor, such as revenues, earnings or dividends, and use it to drive stock selection and weighting in the index. In WisdomTree’s profits-focused index funds, such as SmallCap Earnings (EES), a firm’s profits count for more than its market value in determining its rank in the fund. WisdomTree’s dividend-focused funds, on the other hand, put the emphasis on—you guessed it—dividends. And in the ETFs from RevenueShares, only sales count.

Others focus on a combination of measures. RAlFI indexes, created by Research Affiliates, weight firms by sales, dividends, cash flow and book value (assets minus liabilities). First Trust employs three value-oriented and three growth-oriented factors to create its AlphaDex indexes, including return on assets on the value side and sales growth on the growth side.

Another key difference between these index funds and their traditional counterparts: regular rebalancing. Some fundamental-index funds do it quarterly (RevenueShares); others do it once a year (some WisdomTree and iShares funds, for example). Market-cap-weighted index funds, by contrast, are never rebalanced. All the extra work required is one reason fundamental-index funds cost more. They charge an average of 0.55% in annual fees—more than the typical charge of 0.48% for traditional index funds.

Should I invest in a fundamental index? Don’t replace all of your traditional index funds with fundamental-index products. Instead, use them to further diversify your portfolio. Some advisers who use funds suggest that clients split their index money 50-50 between traditional and fundamental-index funds (on top of any assets you may have in actively managed funds). Anthony Davidow, an asset allocation strategist at Schwab, prefers a 60%-40% mix of fundamental and traditional index funds.

Which fundamental-index funds are worth investing in? We favor funds with easy-to-understand strategies, five-year track records that beat the appropriate benchmark on a risk-adjusted basis, and at least $150 million in assets. Here are our favorites.

REVENUESHARES LARGE CAP (RWL). It’s simple, and it works. This fund ranks the companies in the S&P 500 by annual revenues over the previous 12 months. Firms with the highest revenues get top billing. RWL has outpaced the S&P 500 over the past five years by an average of 2.4 percentage points per year. What’s more, the fund has been only slightly more volatile than the S&P 500.

WISDOMTREE MIDCAP EARNINGS (EZM). Annual earnings determine the ranking in this fund. Over the past five years, its 23.2% annualized return beat iShares Russell Mid-Cap ETF (IWR) by an average of 3.8 percentage points per year.

WISDOMTREE INTERNATIONAL SMALLCAP DIVIDEND (DGS) has been a bit less volatile than SPDR S&P International Small Cap ETF (GWX). But the WisdomTree fund has outpaced GWX over the past five years by an average of 1.7 percentage points per year. And WISDOMTREE EMERGING MARKETS SMALLCAP DIVIDEND (DLS) has been less volatile than SPDR S&P Emerging Markets Small Cap ETF (EWX), yet it has beaten the SPDR ETF by an average of 1.7 points per year over the past five years.

THE BEST OF THE ENHANCED INDEX FUNDS

Each pairing shows a designer ETF we like and a traditional index ETF that invests in similar stocks. The list of top holdings underscores that fundamental indexes may look much different than old-fashioned indexes.

<table>
<thead>
<tr>
<th>Fund (symbol)</th>
<th>Total return 1 yr 5 yrs</th>
<th>Expense ratio</th>
<th>Top three holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>RevenueShares Large Cap (RWL)</td>
<td>32.0% 17.6% 0.49%</td>
<td>Wal-Mart Stores • ExxonMobil • Chevron</td>
<td></td>
</tr>
<tr>
<td>SPDR S&amp;P 500 (SPY)</td>
<td>26.1 15.2 0.09</td>
<td>Apple • ExxonMobil • Google</td>
<td></td>
</tr>
<tr>
<td>WisdomTree MidCap Earnings (EZM)</td>
<td>37.6 23.2 0.38</td>
<td>American Capital Strategies • AOL • US Airways</td>
<td></td>
</tr>
<tr>
<td>iShares Russell Mid-Cap (IWR)</td>
<td>31.6 19.5 0.22</td>
<td>Pioneer Natural Resources • Actavis • Noble Energy</td>
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<tr>
<td>WisdomTree Intl. SmallCap Div. (DLS)</td>
<td>32.8 17.5 0.58</td>
<td>Logitech Intl. • Seven West Media • IOOF Holdings</td>
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</tr>
<tr>
<td>SPDR S&amp;P Intl. SmallCap (GWX)</td>
<td>22.7 15.8 0.59</td>
<td>Belimo Holding • Shochiku • Rubis &amp; Cie</td>
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<td>WisdomTree EM SmallCap Div. (DGS)</td>
<td>7.3 19.4 0.63</td>
<td>Synthos • Synnex Tech International • Light SA</td>
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<tr>
<td>SPDR S&amp;P EM Small Cap (EWX)</td>
<td>11.6 17.7 0.65</td>
<td>Equatorial Energia • Megaworld • Mondi Ltd.</td>
<td></td>
</tr>
</tbody>
</table>

*Annualized. SOURCES: Fund companies, Morningstar.

Through November 1, 2013. Star indicates designer fund.
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ANDREW FEINBERG  Promised Land

7 Stocks for the Year Ahead

I’m mortified. For the second year running, my hedge fund beat the market, but my picks for *Kiplinger’s* stank. Over the past year, the five stocks I recommended buying jumped an average of 39%. But my decision to recommend shorting—that is, betting against—Chipotle Mexican Grill and Salesforce.com backfired. They soared an average of 74%. I covered the shorts in my fund fairly quickly, but I can’t erase those lamebrained recommendations from my Kiplinger record. Thanks to the shorts, the average return of last year’s picks was just 7%, compared with 26% for Standard & Poor’s 500-stock index (returns and prices are as of November 1).

My solution for 2014? No shorts and more longs. For starters, I am re-recommending one of my picks from last year. **OCWEN (SYMBOL OCN, $58)** is a tech-savvy mortgage servicer (essentially a highly paid bill processor and collector) that specializes in dicey loans. Ocwen’s efficient systems give it a 70% cost advantage over competitors with regard to subprime loans, which leads to more business and better profit margins. The stock could easily rise 50% over the coming year. My other picks are new.

**ALTISOURCE RESIDENTIAL (RESI, $26)**, a spinoff from an Ocwen spinoff, is in a related business. It buys baskets of loans that are heading for foreclosure and then either modifies them or takes possession of the collateral. The stock could rise 30% over the coming year. My other picks are new.

**BAKER HUGHES (BHI, $53)** is the third-largest energy-services company in the world, but relatively few people know it. Though it has earned its neglect through poor management, Baker Hughes’s leaders are now determined to improve the firm’s profit margins, which are half those of rival Halliburton. Baker Hughes reported superb third-quarter results, and I think the stock could rise by 33% over the next year.

**BANK OF AMERICA (BAC, $14)** is the Rodney Dangerfield of banks. Many investors have shunned it because of problems related to Countrywide, which it bought in 2008. But those troubles now seem to be winding down (and look penny ante compared with those of JPMorgan Chase). BofA’s deposits are growing, and the quality of its loans is improving. The stock could reach $20 over the next year without breaking a sweat.

**GENERAL MOTORS WARRANTS (GM-WTB, $20)** let you magnify gains in a cheap stock in the hot car market. GM’s shares are held back by perceptions that the firm is a loser and by the fact that Uncle Sam will soon sell its stake. When the Treasury unloads, the stock should pop. If you buy GM stock at today’s price of $37 and it goes to $56 over the next year, which I think is possible, you would make 41%. If you owned the warrants, which are like long-term options and in this case are moving dollar for dollar with the stock, you’d make 95%. Of course, if the common falls, the warrants will lose more.

**HOWARD HUGHES CORP. (HHC, $117)**, my largest holding, has tripled in three years, but I think it can rise another 50% in the next 12 months. The firm’s wonderful real estate holdings include 60 acres in Honolulu as well as property in New York City’s South Street Seaport and the booming Woodlands planned community in Houston. When the Hawaii real estate is fully developed, it could be worth Hughes’s entire market value.

**MONITISE PLC (MONIF, $0.89)** is a leader in mobile-payment software. The London-based firm has struck important deals with Visa and IBM, among others. Visa projects that by 2020, half of its credit and debit purchases will be made using mobile devices. If that forecast is anywhere near accurate, Monitise’s stock could be a monster.

**COLUMNIST ANDREW FEINBERG MANAGES A NEW YORK CITY-BASED HEDGE FUND CALLED CJ A PARTNERS.**
Why Sticking With Dodge & Cox Pays Off

**STREAKY. THAT'S THE WORD WE used to describe DODGE & COX STOCK in 2012, after the fund trailed the stock market for two calendar years in a row. We kept it in the Kiplinger 25, however, and our decision paid off big time in 2013. Over the past year, the fund has outpaced Standard & Poor's 500-stock index by a whopping 8.6 percentage points. “Two to three years is too few to judge the fund,” says Charles Pohl, one of the fund’s nine managers. “We take a long-term perspective in terms of how we invest, and we encourage investors to take the long view as well.”

The managers analyze opportunities on a company-by-company basis with a three- to five-year time horizon in mind. They steer toward well-established firms with attractive prospects that are trading at bargain prices. At times, their investment thesis can take years to play out.

**Rebounding PC maker.** They bet on Hewlett-Packard in the early ‘00s and kept buying even as the stock sank from about $50 in early 2010 to $12 in late 2012. Over the past year, the stock has soared 85% and is one of the fund’s best performers. And then there’s Nokia. The fund has owned shares in the one-time leader in wireless phones since 2009, and for most of that time it was a “dreadful performer,” says Pohl. (The stock fell steadily from about $40 in late 2007 to less than $2 in mid 2012.) But each time the managers revisited Nokia, they saw signs of hope. The firm recently sold its handset business to Microsoft and is bolstering its wireless infrastructure business. The stock has jumped 167% over the past year. “It’s one I wish we’d never bought in the first place, but I’m glad we stuck with it,” says Pohl. Dodge & Cox’s contrarian approach requires patience and fortitude, on the part of the fund’s managers as well as its investors. But the strategy has been rewarding over the long haul. The fund’s 15-year annualized return of 9.4% beats the S&P 500 by an average of 4.3 percentage points per year. But the fund’s investors have realized, on average, only 6.5% annualized over that period, according to Morningstar, because they tend to sell at the wrong times. “Many investors pile in at the top and sell at the bottom,” says Pohl. “They’d be better served by investing in good funds and not looking at them frequently. Just leave them alone, and things will work out over time.” **NELLIE S. HUANG**

**THE KIPLINGER 25 UPDATE**

<table>
<thead>
<tr>
<th>U.S. Stock Funds</th>
<th>Symbol</th>
<th>Total return* Added to Kip 25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akre Focus Retail</td>
<td>AKREX</td>
<td>31.5% 7.1% 17.1% 12.1% Dec. 2009</td>
</tr>
<tr>
<td>Artisan Value</td>
<td>ARTLX</td>
<td>23.5% 15.5% 16.8% — May 2012</td>
</tr>
<tr>
<td>Baron Small Cap Retail</td>
<td>BSCFX</td>
<td>33.8% 18.5% 18.9% 9.4% Dec. 2007</td>
</tr>
<tr>
<td>Dodge &amp; Cox Stock</td>
<td>DODGX</td>
<td>34.8% 18.2% 16.6% 8.1% May 2008</td>
</tr>
<tr>
<td>Fidelity Contrafund</td>
<td>FCNTX</td>
<td>28.7% 15.8% 16.1% 10.1% May 2009</td>
</tr>
<tr>
<td>Fidelity Low-Priced Stock</td>
<td>FLPSX</td>
<td>32.8% 17.7% 20.5% 10.9% May 2009</td>
</tr>
<tr>
<td>Homestead Small Co Stock</td>
<td>HSCFX</td>
<td>34.0% 20.1% 22.8% 12.1% May 2012</td>
</tr>
<tr>
<td>Mairs &amp; Power Growth</td>
<td>MPGFX</td>
<td>32.4% 20.0% 16.2% 9.4% Jan. 2013</td>
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<tr>
<td>T. Rowe Price Sm-Cap Value</td>
<td>PRSVX</td>
<td>29.2% 18.1% 16.6% 10.9% May 2009</td>
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<tr>
<td>Vanguard Dividend Growth</td>
<td>VIGX</td>
<td>25.4% 16.7% 14.8% 9.3% May 2010</td>
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<td>Vanguard Selected Value</td>
<td>VASVX</td>
<td>34.4% 18.7% 20.1% 11.0% May 2005</td>
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<tr>
<td>Wells Fargo Advtg Discovery</td>
<td>STDX</td>
<td>36.3% 20.6% 20.9% 11.2% May 2012</td>
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<th>International Stock Funds</th>
<th>Symbol</th>
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<tbody>
<tr>
<td>Dodge &amp; Cox Intl Stock</td>
<td>DODFX</td>
<td>29.3% 8.6% 15.3% 10.4% May 2005</td>
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<tr>
<td>Harbor International Inv</td>
<td>HINX</td>
<td>19.6% 7.6% 13.1% 10.1% June 2010</td>
</tr>
<tr>
<td>Harding Loewner Emrg Mkts</td>
<td>HLEMX</td>
<td>8.5% 3.0% 15.6% 13.1% May 2013</td>
</tr>
<tr>
<td>Matthews Asian Gro &amp; Inc Inv</td>
<td>MACSX</td>
<td>10.3% 7.1% 17.1% 12.1% Aug. 2013</td>
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<tr>
<th>Specialized/ Go-Anywhere Funds</th>
<th>Symbol</th>
<th>Total return* Added to Kip 25</th>
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<tbody>
<tr>
<td>FPA Crescent</td>
<td>FPACK</td>
<td>19.8% 11.5% 13.4% 8.8% Oct. 2008</td>
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<tr>
<td>Merger Fund</td>
<td>MERFX</td>
<td>4.9% 2.9% 4.1% 3.7% June 2007</td>
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<th>Bond Funds</th>
<th>Symbol</th>
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<tbody>
<tr>
<td>DoubleLine Total Return N</td>
<td>DLTNX</td>
<td>1.1% 6.0% — — May 2011</td>
</tr>
<tr>
<td>Fidelity Intermed Muni Inc</td>
<td>FLTX</td>
<td>0.9% 3.0% 4.9% 3.9% May 2004</td>
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<tr>
<td>Fidelity New Markets Income</td>
<td>FNIX</td>
<td>2.5% 5.9% 16.4% 9.7% May 2012</td>
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<td>Harbor Bond Institutional</td>
<td>HABDX</td>
<td>-0.1% 3.2% 7.7% 5.8% May 2004</td>
</tr>
<tr>
<td>Met West Unconstrained Bd M</td>
<td>MWCX</td>
<td>3.9% — — May 2013</td>
</tr>
<tr>
<td>Osterweis Strategic Income</td>
<td>OSTIX</td>
<td>7.1% 6.4% 10.1% 7.1% May 2013</td>
</tr>
<tr>
<td>Vanguard Sh-Tm Inv-Grade</td>
<td>VFSTX</td>
<td>1.1% 2.2% 5.4% 3.7% May 2010</td>
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<table>
<thead>
<tr>
<th>Indexes</th>
<th>Total return*</th>
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<tbody>
<tr>
<td>S&amp;P 500-STOCK INDEX</td>
<td>26.2% 16.6% 15.2% 7.5%</td>
</tr>
<tr>
<td>RUSSELL 2000 INDEX</td>
<td>34.2% 17.8% 17.0% 9.0%</td>
</tr>
<tr>
<td>MSCI EAFE INDEX</td>
<td>25.3% 8.5% 12.3% 8.1%</td>
</tr>
<tr>
<td>MSCI EMERGING MARKETS INDEX</td>
<td>5.8% 0.0% 15.6% 12.7%</td>
</tr>
<tr>
<td>BARCLAYS AGGREGATE BOND INDEX</td>
<td>-1.2% 2.9% 6.0% 4.8%</td>
</tr>
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</table>

*Through November 1, 2013. †Three-, five- and ten-year returns are annualized. — Not available; fund not in existence for the entire period. ‡Small-company U.S. stocks, Foreign stocks, iShares high-grade U.S. bonds. Sources: © 2013 Morningstar Inc.
I Buy a Panamanian Airline

My Practical Investing portfolio has included about $15,000 in cash since last spring, when I sold a few stocks. I’ve wanted to put the cash to work but have held back because of the market’s stunning run-up in 2013. But when stock prices started to plunge because of investor anxiety over the government shutdown and the possibility that the U.S. could default on its debt, I started hunting for bargains.

I realize that the bulk of the civilized world loves to buy stocks when prices are rising. But because of my contrary nature, I get nervous when other investors are confident—and I get giddy when everyone else is running for cover. Bottom line: I prefer to shop when stocks are on sale.

The sell-off stemming from Congress’s temporary insanity was just what the stock doctor ordered, so I pulled out my wish list of companies, many of which have been recommended by Kiplinger in the past. I settled on an airline called COPA HOLDINGS (SYMBOL CPA).

Copa was one of ten stocks recommended on our Web site in a story called “The World’s 10 Best Stocks” (kiplinger.com/links/world). Much of Copa’s success stems from its location in Panama City, the main crossroads between North and South America. Because Panama recognizes that many of the passengers who land at Tocumen International Airport are just passing through, it doesn’t require them to go through customs or bother with passports or visas unless they leave the airport. That makes Tocumen a favorite hub for travelers in a hurry, and it has helped Copa grow and keep its planes full.

Some key measures of airline performance illustrate Copa’s success. In the first nine months of 2013, the airline reported an 18% gain in revenue passenger miles (filled seats times miles traveled) and a 16% increase in available seat miles (number of seats times miles flown). Copa is planning a major expansion, with five planes on order and options to buy 14 more. Analysts expect earnings to grow by 21% in 2014.

I was delighted to find that, despite this impressive growth, the stock sold for just 12 times estimated 2014 profits. Copa was cheaper than two other well-run carriers, Spirit Airlines (SAVE) and Southwest Airlines (LUV). Plus, Copa offered a dividend yield of 1.9%; Southwest yielded just 1%, and Spirit, which has made me a bundle, pays no dividend. So on October 2, I bought 100 shares of Copa for about $138 apiece.

Quick gain. Thanks to the growing popularity of airline stocks, I already have a tidy profit on Copa. By November 1, a month after my purchase, Copa was up to $151. Aside from that one move, I have left the portfolio alone. But like the market, it’s soaring in value. Some of that, of course, is just the rising tide lifting all boats. Some, however, stems from positive developments at the companies in which I’ve invested.

CORNING (GLW) has been one of my portfolio’s consistent laggards. But it jumped 14% a day after it announced that it had inked a deal with South Korean electronics giant Samsung that will likely boost its revenues by $2 billion annually.

MICROSOFT (MSFT), another stock in the portfolio, got a lift when it reported that its earnings were better than the miserable results that analysts had expected. The upbeat report also lifted my shares in INTEL (INTC), which has been desperately trying to diversify its product line so its fortunes won’t forever be linked to those of its partner in the “Wintel” personal computer alliance.

My Practical Investing portfolio, which a month ago was up 36% from its inception, is now up 37%. I’m not complaining, but I have to admit that this relentless stock market rally is making me a little nervous.
Call your advisor, 401(k) provider, or a T. Rowe Price Specialist.
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Every year, MONEY® Magazine publishes the MONEY 70®, a list of “recommended” funds—based on low fees, stewardship, quality management, and performance—that can help investors reach their long-term goals. Once again, nine T. Rowe Price funds have made the list** At T. Rowe Price, we believe our fund managers have a special set of skills and unique approach to investing, which is especially vital in uncertain market conditions. Our funds are actively managed through collaboration and in-depth analysis in an effort to reduce risk and increase potential. All funds are subject to market risk, including possible loss of principal. Past performance cannot guarantee future results. Fund returns have been affected by market volatility and are negative for certain periods.

To learn more about our nine funds that made the MONEY 70® list, visit troweprice.com/ninefunds.

*In determining the funds on the MONEY 70®, the staff of MONEY® Magazine based its decision on each fund’s fees, stewardship, experienced managers, and performance. The ending date for performance was 12/10/12. Note: The 11 T. Rowe Price target-date retirement funds are counted as one fund on this list. (The T. Rowe Price Retirement Income Fund is not considered a target-date retirement fund.) From MONEY® Magazine, January/February 2013 © 2013 Time Inc. MONEY and MONEY 70 are registered trademarks of Time Inc. and are used under license. MONEY and Time Inc. are not affiliated with, and do not endorse products or services of, T. Rowe Price. **The same nine funds made MONEY Magazine’s 2012 “MONEY 70” list, with the exception of the Diversified Mid-Cap Growth Fund; last year, the International Bond Fund was included on the list.

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Get 3% With Low Risk

Floating-rate bond funds protect against rising interest rates. But they own low-quality debt, so choose wisely. **BY CAROLYN BIGDA**

**Funds**

**Wary Investors Have Fallen in Love**
with floating-rate bond funds. And no wonder: The funds pay a decent yield—typically about 3%, sometimes more—and are designed to protect against rising interest rates, which just about everyone expects once the Federal Reserve determines that it really is time to dial back its stimulative policies.

While most kinds of bonds struggled over the past year, floating-rate funds produced impressive gains. According to Morningstar, the average floating-rate fund delivered a total return of 5.9%, trouncing Barclays U.S. Aggregate Bond index by some seven percentage points. But those generous returns suggest that the funds are not risk-free, so it pays to be selective when choosing one. (All performance figures are as of November 1.)

**How they work.** Floating-rate bond funds invest in loans that banks make to companies. The rates on the loans are tied to a short-term benchmark, such as the London Interbank Offered Rate, or LIBOR, and generally reset every 30 to 90 days. As a result, if interest rates go up, the loans adjust quickly, preserving their value. (For most other kinds of bonds, prices move in the opposite direction of interest rates.)

But here’s the downside: Companies that take out these loans tend to have poor credit and are likelier to default than higher-quality borrowers. Also, because the bank-loan market is relatively small, heavy selling can result in exaggerated losses. That’s what happened in 2008. Floating-rate bond funds fell by an average of 30%, as investors ran for cover during the financial crisis.

The floating-rate market has grown since then, but it’s still a good idea to choose a fund that keeps risk in check. Demand has increased the supply of loans lately and eased lending standards. “You’re starting to see looser restrictions on companies,” says Morningstar analyst Sarah Bush. She recommends funds that invest mostly in bank loans rated single- or double-B (the latter being the highest “junk” bond rating). Avoid funds with high expenses—that is, anything above the category average of 1.2% annually. Their managers may be tempted to reach for yield to overcome the drag of high fees.

Two good no-load options are **Fidelity Floating Rate High Income (symbol FFHX)** and **T. Rowe Price Floating Rate (PRFRX)**. Both have 30-day yields of about 3%. They are also relatively cheap. The Fidelity fund’s annual expense ratio is 0.71%; Price charges 0.86%. Over the past year, the funds returned 4.2% and 4.5%, respectively, compared with 5.9% for the average bank-loan fund. The underperformance in a strong market for bank-loan funds isn’t surprising, because the Fidelity and Price funds focus on higher-quality loans and so take fewer risks than their typical rivals.

Another way to cut expenses is to consider an exchange-traded fund such as **PowerShares Senior Loan Portfolio (BKNL)**. The ETF, which charges 0.66% per year, aims to match the performance of an index of the 100 largest bank loans available. That focus should make it easier to trade the loans, helping to minimize volatility. The fund yields 4.1%, and it returned 4.8% over the past year.

If you can stomach more risk for a chance at bigger yields, consider a closed-end fund. CEFs are traded on an exchange, the same way ETFs are. But because CEFs are structured differently, their share prices often differ dramatically from the value of their underlying assets.

Consider **Nuveen Floating Rate Income (JFR)**, a closed-end fund that, at a price of $12, trades at a 5% discount to the value of its assets. Like most closed-end bond funds, Nuveen borrows money to boost yield; at last report, it had borrowed about 30% of its assets. The fund returned just 1.4% over the past year, but thanks to leverage, its current yield is a whopping 6.8%. ■
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**IF YOU JUST WANTED TO DUPLICATE** the U.S. stock market, you’d buy a fund that mimics Standard & Poor’s 500-stock index, right? Well, not exactly. The S&P index consists of 500 companies, most of them large. If you wanted to track the entire U.S. stock market, you’d need to own a fund that follows a total-market index.

Why not stick with the familiar 500? Because a total-market index holds more small and midsize companies, and over the long term those stocks have performed better than big-company stocks. Over the past 15 years, including so far in 2013, the Wilshire 5000 Total Market index, the best-known of the broad-market indexes, has beaten the S&P 500 11 times.

**VANGUARD TOTAL STOCK MARKET ETF**, the largest of the all-market exchange-traded funds, marches to a different beat. In June 2013, Vanguard switched from tracking one less-popular benchmark, the MSCI US Broad Market index, to another, the CRSP U.S. Total Market index. Vanguard said at the time that the move would allow it to cut fees on Total Stock Market ETF, which today charges a microscopic 0.05% per year in expenses.

The ETF holds 3,639 stocks, representing nearly all U.S.-based firms with market values of at least $10 million. According to Morningstar, 19% of its assets are in midsize companies, 6% in small companies and 2% in “micro caps.” The ETF’s biggest holding is Apple; the smallest, Allen Organ.

**KAITLIN PITSKER**

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### ETF SPOTLIGHT

**TOP FIVE HOLDINGS**

Account for 8% of Assets

<table>
<thead>
<tr>
<th>#</th>
<th>Company</th>
<th>% of Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apple</td>
<td>2.3%</td>
</tr>
<tr>
<td>2</td>
<td>ExxonMobil</td>
<td>2.0%</td>
</tr>
<tr>
<td>3</td>
<td>Microsoft</td>
<td>1.3%</td>
</tr>
<tr>
<td>4</td>
<td>Johnson &amp; Johnson</td>
<td>1.3%</td>
</tr>
<tr>
<td>5</td>
<td>General Electric</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

### SECTOR BREAKDOWN:

**Financial stocks take the lead**

- **18%** Financial
- **15%** Technology
- **13%** Consumer Services
- **13%** Industrial
- **12%** Health Care
- **10%** Consumer Goods
- **10%** Oil and Gas
- **8%** Other

---

**LARGE-BLEND STOCK ETFs** Ranked by assets

<table>
<thead>
<tr>
<th>Rank/Fund</th>
<th>Symbol</th>
<th>Assets (billions)</th>
<th>1 yr. return</th>
<th>3 yrs. return</th>
<th>5 yrs. return</th>
<th>2011 market correction</th>
<th>Expense ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SPDR S&amp;P 500</td>
<td>SPY</td>
<td>$157.2</td>
<td>27.0%</td>
<td>16.4%</td>
<td>15.1%</td>
<td>-18.8%</td>
<td>0.09%</td>
</tr>
<tr>
<td>2. iShares Core S&amp;P 500</td>
<td>IVV</td>
<td>47.1</td>
<td>27.1%</td>
<td>16.5%</td>
<td>15.1%</td>
<td>-18.6%</td>
<td>0.07%</td>
</tr>
<tr>
<td>3. Vanguard Total Stock Market</td>
<td>VTI</td>
<td>36.5</td>
<td>28.9%</td>
<td>16.9%</td>
<td>16.1%</td>
<td>-20.4%</td>
<td>0.05%</td>
</tr>
<tr>
<td>4. Vanguard Dividend Appreciation</td>
<td>VIG</td>
<td>18.3</td>
<td>25.9%</td>
<td>15.7%</td>
<td>14.7%</td>
<td>-16.4%</td>
<td>0.10%</td>
</tr>
<tr>
<td>5. Vanguard S&amp;P 500</td>
<td>VOO</td>
<td>12.6</td>
<td>27.1%</td>
<td>16.5%</td>
<td>-</td>
<td>-18.6%</td>
<td>0.05%</td>
</tr>
</tbody>
</table>

**S&P 500-Stock Index**

- 27.2% | 16.6% | 15.2% | -18.6% |

Through October 31, 2013. *Assumes reinvestment of all dividends and capital gains; three- and five-year returns are annualized. †Market correction is from April 29 through October 3, 2011. ‡Not available; fund not in existence for the entire period. Expense ratio is the percentage of assets claimed annually for operating a fund. Source: © 2013 Morningstar Inc.
A Foreign Fund Gets a Fast Start

Its manager uses a variety of measures to identify well-priced overseas growth stocks.

HIS FUND IS JUST SHY OF TWO YEARS OLD, but Gregg Fisher, who runs GERSTEIN FISHER MULTI-FACTOR INTERNATIONAL GROWTH, has had success over the past decade with a similar strategy at his New York City advisory firm. So far, so good: Over the past year, Multi-Factor crushed 97% of funds that focus on large, growing foreign firms, as well as the MSCI EAFE index, which tracks foreign stocks in developed lands.

When picking stocks, Fisher looks at multiple measures—hence, the fund’s name. Among them are a company’s book value (assets minus liabilities), stock market value and share-price momentum, as well as total capital outlay (the less, the better). His screens tend to turn up profitable firms that trade at lower valuations than the typical foreign company. When a stock no longer meets Fisher’s criteria, he unloads. He also trims a holding when it exceeds 5% of the fund’s assets or when stocks of one country grow to more than 10% of the portfolio.

These days, Multi-Factor has about 70% of its assets in Europe and 30% in developed Asian countries. But Fisher has the leeway to venture into emerging markets, too, if his screens find opportunities. His fund has a turnover ratio of about 180%, implying that it holds each stock for an average of seven months. At last report, its largest holdings included reinsurer Swiss Re, casino operator Galaxy Entertainment and beer behemoth Anheuser-Busch InBev.

EXPLANATION OF TERMS

Total return assumes reinvestment of all dividends and capital gains; three- and five-year returns are annualized. Returns reflect ongoing expenses but not sales charges.

Maximum sales charge A figure without a footnote means the commission is deducted from the money you send to the fund. A fund with an r is the maximum redemption fee charged when you sell shares. Funds that charge both sales and redemption fees are footnoted with an s next to the front-end load.

Expense ratio is the percentage of assets claimed annually for operating a fund.

FUND SPOTLIGHT

20 LARGEST STOCK MUTUAL FUNDS

Rank/Name Total return through Nov. 1st Category average
Symbol 1 yr. 3 yrs. 5 yrs. Expense ratio Max. sales charge Toll-free number
1. Vanguard Total Stock Market Idx Inv@ VTSMX $283.7 27.6% 16.8% 16.0% none 800-659-1511
2. Vanguard 500 Index Inv@ VFINX 150.6 26.0 16.5 15.1 none 800-659-1511
3. American Growth Fund of America A@ AGTXH 129.1 30.1 15.4 15.4 5.75% 800-421-0180
4. American EuroPacific Growth A@ AEPXG 114.9 20.3 6.6 12.8 5.75 800-421-0180
5. Vanguard Total Intl Stock Idx Inv@ VGTIX 107.8 18.6 5.6 11.9 none 800-659-1511
6. Fidelity Contrafund@ FCNX 105.6 28.7 15.8 16.1 none 800-544-9797
7. American Capital Income Builder A@ CAIBX 96.0 14.4 9.5 11.4 5.75 800-421-0180
8. American Inc Fund of America A@ AMEIX 83.9 16.4 11.7 13.4 5.75 800-421-0180
9. Franklin Income A@ FKIX 80.6 13.5 10.4 14.5 4.25 800-652-2301
10. American Capital World Gro & Inc A@ CWIX 79.7 24.0 10.4 13.6 5.75 800-421-0180
11. Vanguard Wellington@ WVELX 77.6 16.2 11.9 13.3 none 800-659-1511
12. Vanguard Emerging Mkts Stock Idx Inv@ VEIX 67.5 2.8 -1.2 14.3 none 800-659-1511
13. American Balanced A@ ABALX 65.5 18.6 13.0 13.1 5.75 800-421-0180
14. Fidelity Spartan 500 Index Inv@ FUSEX 65.5 26.0 16.6 15.2 none 800-544-9797
15. American Washington Mutual A@ AWIXH 64.9 25.5 16.8 14.2 5.75 800-421-0180
16. American Invstmt Co of America A@ AIVSX 64.4 27.0 14.6 14.0 5.75 800-421-0180
17. American Fundamental Inv A@ ANCFX 61.9 27.2 15.1 15.6 5.75 800-421-0180
18. BlackRock Global Allocation A@ MDLIX 57.8 12.8 6.7 10.2 5.25 800-441-7762
19. Fidelity Growth Company@ FDGRX 53.0 31.9 18.8 19.6 none 800-544-9797
20. American New Perspective A@ ANWPX 51.7 25.2 12.0 15.4 5.75 800-421-0180

A figure with an r is the maximum redemption fee. MSCI EAFE index consists of developed foreign stock markets. Source: © 2013 Morningstar Inc.

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FOREIGN LARGE GROWTH FUNDS

Rank/Name Symbol Total return through Nov. 1st Expense ratio Max. sales charge Toll-free number
1. Nuveen International Growth A@ NBQAX 38.3% 11.3% none 1.42 800-257-8787
2. Gerstein Fisher Multi-Factor Intl Gro GFiXG 30.7 12.0 0.0 none 1.35 800-473-1155
3. J.O. Hambro International Select H@ JHAX 30.2 10.3 none 1.34 866-260-9549
4. Laudus Intl MarketMasters Inv@ SWOIX 25.1 10.1 17.2% none 1.53 800-435-9050
5. Oppenheimer International Growth A@ OIGAX 24.8 12.0 16.4 5.75 1.28 800-225-5677
6. Vanguard International Growth Inv@ VWIGX 24.5 8.2 14.8 none 0.49 800-435-1511
7. Hartford International Growth A@ HNCAX 23.5 8.4 12.1 5.50 1.50 888-843-7824
8. John Hancock International Growth A@ GOIGX 23.5 10.5 12.5 5.00 1.60 800-225-5291
9. American Century Intl Growth A@ AMECX 20.8 8.9 13.4 5.75 1.54 800-346-8765
10. Selected Funds International S@ SLSSX 23.1 5.4 10.8 2.00 1.52 800-243-1575

For all share classes combined. Maximum redemption fee. MSCI EAFE index consists of developed foreign stock markets. Annualized for three and five years. Rankings exclude share classes of this fund with different fee structures or higher minimum initial investments.
Welcome to the Four-Figure Club

Just because a stock trades for $1,000 doesn’t mean it’s pricey. Take Google and Priceline, for example. BY DAVID MILSTEAD

MEMBERSHIP IN THE $1,000 CLUB HAS doubled. Stocks that trade for four digits or more per share now include PRICELINE.COM (SYMBOL PCLN) and GOOGLE (GOOG). They join longtime members BERKSHIRE HATHAWAY (BRK-A) and SEABOARD (SEB), a little-known agribusiness and shipping company.

Trading above $1,000 doesn’t necessarily make any of them expensive, however. To a great extent, those prices are a result of the companies’ refusal to split the shares. On a price-earnings basis, none of the stocks is terribly out of line with the market as a whole. And the two new members could even be considered cheap, given their growth prospects.

Google may make headlines for things such as its Google Glass eyewear, but its search-engine business, the main driver of growth, is on a roll. The third quarter of 2013 marked the 15th-straight quarter that Google’s core business posted year-over-year sales gains of at least 20%. Analyst Mark Mahaney, of RBC Capital Markets, sees more strong growth ahead. That’s because although the company gets some 70% of global ad-search revenue, less than 20% of global advertising dollars are spent on the Internet, he says.

Although Google shares jumped 49% over the past year, they’re not unreasonably priced. At $1,027, they trade for 20 times estimated year-ahead earnings (all prices and returns are as of November 1). Mahaney says that in his best-case scenario—the global economy grows faster than expected, Google’s YouTube site continues to thrive, and the company trims losses in its Motorola phone unit—the stock could hit $1,300 within a year.

Priceline’s stock surged 80% over the past year, to $1,053. Like Google, Priceline has posted 15 straight quarters of 20%-plus revenue gains (through the second quarter of 2013). At home, the online travel company is best known for a “name your own price” feature and goofy advertising starring actor William Shatner.

Outside the U.S., the company uses a more traditional pricing model, making more online hotel reservations than any other company in the world. More than half of Priceline’s sales are international, with the bulk in Europe.

Although Priceline’s growth will slow eventually, analysts still see heady earnings gains of 20% annually over the next few years. Analyst Tom White, of Macquarie Capital, calls Priceline a “top pick” in the online travel sector because of its consistent performance, opportunities in emerging markets and reasonable share price of 21 times estimated profits for the next four quarters.

Berkshire Hathaway, the vehicle for Warren Buffett, has never split its primary shares, which sell for $173,122. (The firm’s Class B shares trade at a much more accessible price of $115.) Both have risen about one-third in the past year, as Berkshire’s stable of businesses has recovered along with the U.S. economy. Morningstar analyst Greggory Warren believes the stock’s current “fair value” is 20% higher.

Seaboard, at $2,755, is the smallest member of the four-figure club, with a market value of $3.3 billion. The Shawnee Mission, Kan., firm gets its $6.2 billion in annual sales from commodities trading, pork production, a container-shipping business (which gives the company its name) and even a power plant in the Dominican Republic.

The stock, which isn’t followed by any brokerage analysts, trades at 13 times the past year’s earnings. That’s not expensive. But although sales have roughly doubled since 2007, earnings have been erratic. One fan is Gregory Roeder, co-manager of the Adirondack Small Cap Fund: “When you look at the cash flows, its very durable balance sheet and how the company has grown pretty nicely over the years, it made sense for us.”
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Taking Care of Your Parents

From Medicare to long-term care, what you need to know to be your parents’ best advocate.

SPECIAL REPORT
LOIS CORNILLAUD WAS IN HER MID EIGHTIES and living in her own apartment in Clearwater, Fla., when her daughter, Barbara Kennedy, noticed that she was having trouble keeping track of her bills—double-paying some and not paying others. And she was getting a constant stream of medical bills and notices from Medicare. The paperwork was confusing, but Kennedy (then in her early sixties) was determined to figure it out. Besides wanting to help her mother, “I thought I’d be on Medicare soon, so I should understand this,” says Kennedy, now 69.

Kennedy became a student of Medicare, reading the Medicare & You handbook, scouring her mother’s Medicare summary of benefits notices for unexpected charges and acting as her mother’s advocate, sometimes with the help of the local Area Agency on Aging. For instance, after a hospital sent her mom a $1,700 bill for speech therapy she never had, Kennedy asked for an itemized bill. “The hospital dropped the charge, and I never heard about it again,” she says. She also fought a miscoded ambulance bill, an unexpected rehabilitation charge and a $250 bill for an eye procedure the doctor had told her would be covered.

Now that Cornillaud is 92 and in a long-term-care facility, Kennedy has to monitor her care as well as her medical bills. After studying the Medicare system for almost a decade, “I’m more comfortable with it,” she says.

Like Kennedy, you may find yourself getting a crash course in Medicare on your parents’ behalf long before you qualify for benefits yourself. The paperwork can be overwhelming, especially if your parents have a lot of medical issues. You may also encounter a range of claims problems—from small billing or coding errors that can be fixed with a quick phone call to large charges that need to be appealed to an administrative law judge.

Here’s how to help your parents’ claims go smoothly and make sure they get all the coverage they deserve.

**KNOW HOW IT WORKS**

Most people 65 and over are covered by traditional Medicare. Medicare Part A (which has no premium) covers hospitalization, and Medicare Part B (typically $104.90 a month) covers doctors’ visits and outpatient expenses. Together, parts A and B pay the bulk of seniors’ medical expenses. Each part exacts co-payments and deductibles.

Traditional Medicare allows patients to use any doctor who accepts Medicare payments, but it can sometimes be difficult to find those doctors, especially in the case of psychiatrists and some specialists. You can search for doctors near your parent who accept Medicare assignment by going to www.medicare.gov and clicking on “Find doctors & other health professionals.”
Many seniors buy a standardized Medicare supplement plan (sometimes called medigap) to pick up out-of-pocket expenses. These supplemental plans automatically fill in gaps in coverage, so claims problems are few. “Under federal law, the plans have to pay. There's no dispute about that,” says Bonnie Burns, of California Health Advocates, who worked with the government to standardize medigap plans in the early ’90s.

Medicare doesn’t provide prescription-drug coverage. For that, most people buy a separate Medicare Part D plan, offered by private insurers. Seniors who have retiree health insurance can use it to fill the gaps in medical and drug coverage rather than buy a supplemental plan and Part D.

About one-fourth of seniors are enrolled in Medicare Advantage plans, which cover both medical and drug costs. These plans, provided by private insurers, follow the framework of traditional Medicare. Unlike traditional Medicare, however, patients are generally limited to a network of doctors and hospitals. Medicare Advantage premiums tend to be lower than the total premiums for Medicare plus medigap and Part D coverage, but you usually pay more in out-of-pocket costs than with Medicare, medigap and Part D combined. Confusion about network requirements can cause complications with claims you wouldn’t have with traditional Medicare.

Pick the right plan. One way to help your parents avoid Medicare problems is to pick the right Part D or Medicare Advantage plan for their needs. You can help them do that during open enrollment, from October 15 to December 7 every year.

If your parents take expensive medications, for instance, be sure the plan continues to cover their drugs in the new plan year. Get a list of your parents’ medications, and go to the Medicare.gov/find-a-plan tool to estimate the out-of-pocket costs for their drugs under each plan available in their
“For a cancer patient who tends to take more-expensive drugs, this issue is very important,” says Kirsten Sloan, of the American Cancer Society. Two recent trends among Part D and Medicare Advantage plans are to shift drugs to more-expensive pricing tiers and make patients jump through hoops before some medications will be covered—for example, by requiring step therapy (which means they generally must try cheaper drugs first) or preauthorization (which means their doctor must prove their need for that drug). And many plans are switching from fixed-dollar co-payments to coinsurance, which is based on a percentage of the drug’s cost. If a parent takes expensive cancer-treatment drugs, for example, the out-of-pocket costs could rise significantly.

If your parents have a Medicare Advantage plan, also make sure their key doctors, such as their primary-care doctor and, say, their oncologist, will be in the plan’s network next year, says Sloan. “Don’t assume that they stay from year to year,” she says. Ask the plan about specific providers, and look carefully at the Annual Notice of Change, which Part D and Medicare Advantage plans must send to participants in September. The notice alerts them to plan changes for the following year, says Frederic Riccardi, director of client services for the Medicare Rights Center.

Also see how a Medicare Advantage plan handles coverage for out-of-network providers. Some plans charge a higher co-payment if you go out of network, but others make you pay the entire cost yourself. Especially for cancer patients who are looking for special treatments, having the flexibility to go out of network can be important. Otherwise, they may only get out-of-network coverage if they can prove that it’s an emergency or that no doctor in the network can provide that type of care.

Medicare beneficiaries can switch their Part D or Medicare Advantage plans during open enrollment in the fall, for coverage to begin on January 1. They may switch to a Medicare Advantage plan with a five-star rating anytime during the year, as long as they can find a five-star plan in their area.

**How to Appeal a Denial**

APPEALING A MEDICARE CLAIM CAN BE TIME-CONSUMING AND SLOW. BEFORE GOING that route, talk with the doctor, hospital and Medicare to see if you can spot the problem and get the claim resubmitted. If you can’t fix the problem that way, look on the back of the Medicare summary notice for the detailed appeal rules, and see the decision notice at each level of appeal for details about the information you need to submit.

You may need some extra paperwork to get permission to help your parent. You can call Medicare at 800-633-4227 and ask questions without your parents’ specific permission, but your parents generally need to fill out an “Appointment of Representative” form for a family member, advocate, lawyer or doctor to file an appeal on their behalf (available at Medicare.gov). You may also have to get a medical information release form to get details from the hospital or providers about your parents’ care.

**TRADITIONAL MEDICARE.** There are five levels of claims appeals for traditional Medicare: most people have to go through several levels to get a denial overturned. At the first level, you are given 120 days after receiving the Medicare summary notice to request a “redetermination” by a Medicare contractor—that is, the person who reviews the claim. Circle the item you’re disputing on the summary notice; then send any supporting information, such as an explanation of the problem and a letter from the doctor explaining why the charge should be covered. The claims reviewer assigned to your case will usually decide within 60 days of receiving your request.

If the redetermination is denied, you can request reconsideration from a different claims reviewer and submit additional evidence. Reconsideration is usually decided within 60 days.

Still no luck? Disputes involving amounts less than $140 go no further. For charges of $140 or more, you can request a hearing with an administrative law judge. If you have to go to the next level, you can submit the claim for the appeals council to review. For amounts of at least $1,400, the final level of appeal is judicial review in U.S. district court.

**MEDICARE ADVANTAGE AND PART D.** You have 60 days to initiate an appeal involving a Medicare Advantage or Part D prescription-drug plan. In both cases, you start by appealing to the plan, rather than to Medicare. Follow the plan’s instructions on its explanation of benefits. Part D has fast-track appeals of 72 hours if your parent hasn’t received the prescription and his or her health would be jeopardized by waiting. Otherwise, the plan must notify you of its decision within seven days.

See “How Do I File an Appeal?” in the “Claims & Appeals” section of Medicare.gov for more information about each type of appeal.
that arrives in the mail. Set aside a place in their house or apartment for health-care-related statements. Organize all of the statements by the date of the procedure before paying any bills.

Each parent should get a Medicare summary notice showing the services that providers billed to Medicare over the past three months; what Medicare paid; and the amount your parent owes the provider (similar to an explanation of benefits from a private insurer).

Match this notice with any bills received from the provider to make sure the claim has been processed. “A lot of clinics and doctors like to send out a bill within 24 hours of giving care,” says Diane Omdahl, a former nurse and now co-founder of 65Incorporated.com, which provides information about how Medicare works. “I never pay a bill until I have a notice from the doctor’s office reflecting that it was put through Medicare or the insurance plan. Then I hook them up together.”

While matching bills to the summary notice, look for any unexpected charges. Organizing the paperwork by date makes it easy to see if there was double billing or inaccurate coding. For instance, when Omdahl was going through the paperwork for a friend who had cancer, she discovered triple billing for the same radiation treatment. “I started seeing the same abbreviation with the same date and code. Having been a nurse, I had never seen more than one radiation therapy in a day,” she says. She asked the provider to send the bill through again, and the extra charges were removed.

ASK QUESTIONS UPFRONT
With traditional Medicare, doctors generally must give patients a notice (called an “advance beneficiary notice of noncoverage”) if they believe a procedure won’t be covered. Such notices are not an official denial but give patients a heads-up that the submitted claim will almost certainly be denied. Patients are asked to sign the notice before care is provided.

You and your parents need to be on the lookout for these notices and ask questions before signing. In some cases, the notice is legitimate—for example, if the patient has exceeded the annual limit for certain tests. At other times, it can be a mistake—say, if the doctor sends your parent to an imaging center for a diagnostic test, which is covered, but the lab codes it as a screening, which is not, says Terry Berthelot, senior lawyer for the Center for Medicare Advocacy.

In signing the notice, the patient can choose to have the service submitted to Medicare anyway, preserving the right to appeal. Still, it can be much easier to work with your doctor and providers to fix coding issues and answer questions than to go through a formal appeals process.

Admission versus observation. You’d think that if your parent spent several days in the hospital, it would be obvious that he or she was admitted. But that’s increasingly not the case, as hospitals keep people for days or even weeks under “observation” so they don’t have to report them as inpatients. The reason: Hospitals are worried that Medicare will penalize them for a large number of admissions or readmissions.

This status makes a difference if your parent ends up needing skilled rehabilitation after leaving the hospital. “If the doctors think the patient will benefit from daily skilled care, or physical, speech or occupational therapy, then Medicare can cover up to 100 days in a skilled nursing facility,” says David Lipschutz, a policy lawyer with the Center for Medicare Advocacy. But to meet that condition, your parent must have been an inpatient for at least three days, not under “observation.” Lipschutz has helped people whose parents have been in the hospital for days—and even weeks sometimes—but received big bills for rehab coverage because they were listed as under observation.

“It might seem like an inane question, but if your loved one is in the hospital and on Medicare, ask if they’re an inpatient or under observation,” says Lipschutz. Hospitals won’t necessarily change your parent’s status just because you ask, but your doctor may be willing to call the hospital and help get the status changed. (The Center for Medicare Advocacy is supporting a bill in Congress that would change the skilled-nursing rehab requirement to count days in observation as well as inpatient status toward the three-day requirement.)

Even though Medicare can cover up to 100 days of skilled care after a three-day hospital stay, people are usually cut off much earlier than that. Medicare will generally ask for evidence after 20 days that patients will still benefit from rehab. Anticipate that request, and get ready to ask the doctor to provide medical evidence that your parent needs continued care.

Where to Find Help

These sites can lead you to experts who provide one-on-one assistance.

- SHIP. Go to the State Health Insurance Assistance Program with Medicare claims issues. Volunteers in each state are trained to know the appeal process and will help your parent—or you, as your parent’s representative—build a case and know what to ask the providers and Medicare. To find local contacts, call 800-633-4227 or go to www.shiptalk.org.

- The Medicare Rights Center (www.medicarerights.org; help line 800-333-4114) and the Center for Medicare Advocacy (www.medicareadvocacy.org) provide comprehensive information about Medicare claims and can answer questions about coverage.

- Medical claims assistance professionals. These consultants can help manage your parents’ medical paperwork, identify errors and file appeals. They usually charge by the project or by the hour (typically about $150). Go to www.claims.org.

* KipTip

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How to Manage From Afar

THE SIGNS ARE SUBTLE AT FIRST. YOUR mom’s fridge is less stocked than usual. Dust appears on surfaces that once gleamed. You spot a ding on the car. As you’re leaving for the airport after a visit, her next-door neighbor makes a point of asking how she’s doing and urges you to come back soon.

Later, you get a call about a fall, an illness or another minor car accident, and suddenly you’re one of the seven million or so people playing the role of long-distance caregiver, defined as someone who helps a parent or relative living an hour or more away. The job can involve anything from visiting more often to orchestrating services and taking on financial and legal responsibilities on behalf of a parent.

Start the conversation. Persuading your parent that he or she needs help requires tact and patience, says Christina Irving, of the Family Caregiver Alliance (www.caregiver.org). “Bring up what you’re noticing and let them know you’re concerned and would like to help as much as you can.” If the problem involves finances, such as racking up overdraft fees, appeal to your parent’s practical side, says Cal Brown, a financial adviser at Savant Capital Management, in McLean, Va. “Point out the errors and say, ‘Look, you can’t do this anymore. It’s costing you too much money.’” Consider including a trusted adviser in the conversation, such as the family doctor or lawyer, for support.

Set up the team. Usually, one family member becomes the point person in long-distance caregiving, says Irving. If that’s you, discuss with your siblings and other interested parties what roles they can play. “Focus on the strengths of different family members. The person who is good with money can manage the finances. The person who lives closest can work on getting in-home help. If one person has a medical background, that person can take on the medical piece.”

Or, if the roles don’t break down neatly, divvy them up according to who has time to make arrangements and who has the money to help pay for services. Also ask family friends, neighbors and perhaps church members to help—say, by providing an occasional ride. Tools such as CaringBridge (www.caringbridge.org) can help you organize tasks and keep everyone informed.

Whatever your plan, remember that you don’t have to go it alone, says Jody Gastfriend, of Care.com, which helps people find caregivers. “In most cases, one person, usually the daughter, bears the brunt of work. It’s a mistake for that person to shoulder it all.”

Gather information. Put together a file or notebook that includes the names and contact information of your parent’s doctors, lawyers, financial advisers and other key players, including the friends and neighbors who have agreed to help out. Make a list of all medications, and find out where the prescriptions are filled. (Some pharmacies, including CVS, let patients manage their prescriptions online, making it easier to keep track. And some pharmacies still deliver.) On the financial side, gather information about your parent’s income and assets. Identify bank, investment and credit card accounts and passwords, and know where insurance policies, legal documents and tax returns are kept.

Get authority. One of you will also need your parent’s durable power of attorney, which lets you make legal and financial transactions on your parent’s behalf. With this document, anything the person giving authority can do, the agent should be able to do, “no matter
what the situation,” says Howard Krooks, president of the National Academy of ElderCare Attorneys. That agent (presumably, you or a sibling) can set up automatic payments for recurring fixed expenses, such as the mortgage, and pay other bills online.

One of you will also need a durable power of attorney for health care, which allows that person to make health care decisions on your parent’s behalf if your parent cannot. Also have your parent complete a release form that gives doctors permission to share medical information. (For more on elder-care documents, see “Get the Documents in Order,” on page 61.)

The family member who is coordinating medical care should be the one to communicate with the doctors, says Gastfriend. “There’s nothing more frustrating for doctors and nurses than to talk to five different siblings who have five different opinions.”

**Line up home services.** If your parent is recovering from an illness or injury or is having trouble with basic activities such as dressing or bathing, he or she may need home health care. Home health aides, who are often nurses, can supervise medications and provide physical or occupational therapy, as well as skilled nursing. The average cost runs $21 an hour. Medicare covers home health care under specific, limited circumstances; private insurers generally follow the same criteria Medicare does. For more information on the rules, and to find a Medicare-certified home health agency, see www.medicare.gov/homehealthcompare/search.html.

For nonmedical assistance, look to home-care franchises, such as Home Instead Senior Care (www.homeinstead.com) and Comfort Keepers Home Care (www.comfortkeepers.com). Aides from agencies such as these will help with meals, light housekeeping, personal care and transportation, typically for about $20 an hour. Keep in mind that you’re introducing a stranger into the household, says Irving. “It can take work to find the right person, with the personality fit and the skills, who you trust and feel comfortable with.”

**Enlist volunteers.** The National Volunteer Caregiving Network (some chapters continue to use the name Faith in Action) lists about 500 programs in communities across the country whose volunteers provide free services, including transportation, yardwork, light housekeeping, respite care and friendly visits. Not every program provides every service, but most at least offer transportation, says Rhonda Anderson, executive director of the network, “because that’s the biggest need.” Programs usually run a background check and vet the driving records of volunteers, she says. To find services near you, use the interactive map at http://nvcnetwork.org.

**Hire a geriatric care manager.** If your parent’s medical situation becomes more complicated than you can handle, or you simply need guidance, hire a certified geriatric care manager. Such professionals will assess your parent’s needs, help identify services and, if necessary, provide ongoing care management.

The cost: $100 to $200 an hour, depending on the location, says Julie Gray, president of the National Association of Professional Geriatric Care Managers. That’s pricey, but it may take only one or two meetings to come up with a plan you can execute yourself, says Gray. “It’s an affordable way to get on track.” Care management can also be cost-effective if you live across the country or abroad and would otherwise face out-of-sight travel expenses. And sometimes, having boots on the ground is worth any price. “If Mom or Dad ends up in the hospital, we talk to doctors, coordinate care and make sure everyone knows what’s happening,” says Gray.

**KipTip**

**One-Stop Shopping**

For a one-stop shop to find services in your community, call or visit the Eldercare Locator (800-677-1116; www.eldercare.gov). The locator can connect you with local agencies and volunteer programs that belong to the National Aging Network. For help paying the bills, visit www.benefitscheckup.org, which identifies programs that help pay for prescription drugs, health care and other basics. Also see the Consumer Financial Protection Bureau’s “Managing Someone Else’s Money,” at http://tinyurl.com/Lp9vbw3.
ABOUT TEN YEARS AGO, WHEN DONNA

Braley was 79, her family started to notice that she was having trouble doing the things that she had always loved to do—crocheting, cooking, doing crossword puzzles. Because her children lived in different states, it took a while for them to piece together their stories and discover that their mother needed help. The family hired a geriatric care manager, and “her assessment made it obvious to us that Mom would soon no longer be able to live at home without full-time caregiving,” says her daughter Kathi Dunn.

The family moved Braley to a semi-independent apartment in a locked Alzheimer’s facility in Roseville, Cal., near her son Scott and his wife, Amy. But after she was there for a few months, she became combative and difficult to manage. So they found another Alzheimer’s facility that “looked like a model home with a gourmet chef,” says Amy. “But it was too large.” Braley would roam the huge hallways and go in and out of people’s rooms, disturbing their belongings.

When money started to run short, the family searched for another option. They heard about a 15-person facility that focused on dementia, which seemed like a better fit and was less expensive. The third time was the charm: For the past two years, Braley has required total care and uses a wheelchair full-time, but the staff at her new home have found ways for her to be as active as she can. When her grandchildren visit, they play in the backyard as if it were Grandma’s house, and the residents’ families watch out for one another.

Choose the Right Setting

Sometimes it takes a while to find the best fit. Use these strategies to make it easier. BY KIMBERLY LANKFORD

START THE SEARCH

When it’s time to get extra care for your parents, you may be forced to decide quickly, especially if your parent has been in the hospital and needs extra help as soon as he or she is released. “You’re making a traumatic and important decision under pressure,” says Byron Cordes, a geriatric care manager with Sage Care Management, in San Antonio. “The hospital may say you need to move your dad by the end of business today, then just hand you a magazine about senior-living options and say, ‘Good luck finding a nursing home,’ ” he says.

Cordes recommends that you take the time to find out exactly what your parent needs. That often means talking to the doctor, social worker, nursing staff, case manager and discharge manager. Or it may mean hiring a geriatric care manager to help coordinate the various care providers.

It can be challenging to balance quality and cost. The median price of a private room in a nursing home tops $6,900 per month, and assisted-living facilities cost more than $3,400 per month, according to the Genworth 2013 Cost of Care Survey. So unless your parents have long-term-care
insurance, they—or you, if you’re helping to pay the bills—may not be able to afford the ideal setting for very long. Medicare covers very little long-term care, and most people aren’t eligible for Medicaid until they’ve spent most of their money (see “Where to Find the Money,” on page 62).

But new resources can help you make the decision. “The landscape has changed for senior housing,” says Andy Cohen, CEO of Caring.com, where people share reviews of nursing homes and assisted-living facilities. “Some are more like college dorms for seniors, with good food, transportation and activities. A lot of children feel guilty, but after they visit these places, they say that Mom’s healthier and happier.”

Assisted living in many cases can take the place of nursing-home care, at least in the early stages of care, says Sandra Timmermann, a gerontologist in Fairfield, Conn. Some facilities have continuing care, and residents can move to another wing in the same facility if they need more supervision. Or you can hire a caregiver to provide extra assistance in an assisted-living facility so that you don’t have to move your parent to a nursing home. And people with dementia and Alzheimer’s have many options for memory care.

Medicaid generally covers nursing homes but not assisted-living facilities, so your parents can usually choose assisted living only if they have enough savings or long-term-care insurance. (A few states have Medicaid voucher programs, which allow a limited number of people to use Medicaid money for assisted living; see Medicaid.gov for each state’s rules.)

The Medicare Nursing Home Compare tool (www.medicare.gov/nursinghomecompare) assesses more than 15,000 nursing homes throughout the U.S. based on inspections, complaints and staffing ratings. But it doesn’t include most assisted-living facilities, which have different licensing requirements in each state. You can go to the Eldercare Locator (www.eldercare.gov) or a local Area Agency on Aging (www.n4a.org) for help finding assisted-living facilities, but these resources don’t assess the services. Review sites, such as Caring.com, let you see others’ experience with the facilities.

Several services can help you with your search. CareScout (www.carescout.com) includes ratings and profiles for more than 90,000 assisted-living facilities, nursing homes and home-care providers. For $495, you can work with a care advocate, who helps assess your needs and narrow the list to three or more facilities to visit; the advocate can also negotiate discounts at the facilities. Many Genworth policyholders get free access to CareScout for themselves or their parents, and some employee-assistance programs include access to similar services.

**HIRE A PRO?**

A geriatric care manager can help you explore your options. Care managers are also familiar with local facilities and benefits programs, so hiring one can be a good idea if your family has multiple siblings or if you are researching care options from a distance (see “How to Manage From Afar,” on page 56). Go to www.caremanager.org to search for care managers throughout the U.S. They generally charge $100 to $180 per hour and are not allowed to accept finder’s fees from facilities.

Geriatric care managers have made a big difference for Jennifer Russell of Tampa. Her mother, Margie Yeagley, who lived in San Antonio, seemed to be doing fine living alone after her husband died. But four years ago, Russell realized that she needed more help.

Russell asked Byron Cordes, the geriatric care manager, to have Yeagley evaluated and discovered that she had significantly progressed dementia. Cordes found an assisted-living facility in San Antonio with a memory-care unit, and they moved her mother right away. After two years of traveling back and forth between California, where Russell lived then, and Texas, Russell
decided it would be easier to move her mother out to California.

Her first step was to find a care manager in California, who helped identify the best facilities and doctors. When Russell’s husband got a new job in Tampa, they repeated the process again. Russell’s mother is now in a memory-care wing of a large assisted-living facility nearby.

WHAT TO LOOK FOR

After you narrow the list to two to five places, visit and ask a lot of questions. And don’t just talk with the marketing people; talk with the people who are providing the care. “Go completely unannounced and walk in at whatever time of day you can,” says Cordes. “I’ve been in nursing homes when they’ve announced that a tour is coming in. You see the housekeeping staff spraying the halls with Febreze and closing the doors to patients’ rooms.”

See how people are treated at mealtime and how they’re treated at 8 P.M.

Next, schedule a meeting with the marketing director to get more details about how the facility cares for residents. Every nursing home is required to have a care plan. What would be in the care plan for your parent? What activities would the facility offer to your parent? How are the residents’ physical needs monitored? Ask about the patient-to-staff ratio (Cordes usually recommends 18 to 20 patients per caregiving staffer). What type of specialized training do the staff have in dealing with your parent’s medical condition? Ask if your parent will get any time outside the facility, especially if he or she is in a locked memory-care wing of a long-term-care facility (some have courtyards).

Ask for a list of the costs, especially for assisted living. In some facilities, you may get a set number of hours of personal care, and you may be charged extra if your parent needs more. After your visit, ask yourself: Is this a place where you would want to spend time? Is it clean? How does it smell? Are the residents showered, with clean clothes? Is the food healthy and tasty? How would your parent fit in with the other residents. “Does the staff treat the residents with respect or, better yet, like beloved grandparents?” adds Amy Braley, Donna Braley’s daughter-in-law.

Things change: Your parent may start out in assisted living but eventually need care in a nursing home. No matter what, monitor your parent’s care with the same critical eye you brought to the selection process. If the place isn’t a good match, don’t be afraid to move your parent to one that feels like home.
Get the Documents in Order

You will need legal authority to take charge of Mom or Dad’s affairs.

BY SANDRA BLOCK

IN 2006, HOLLY DENI’S 99-YEAR-OLD AUNT was hospitalized after she was found unconscious in her Manhattan apartment. Deni’s aunt, who had no children, had a will but had never given anyone power of attorney for her finances or health care. As a result, Deni couldn’t manage her aunt’s bills, retrieve personal items from her apartment or move her to a long-term-care facility near Deni’s home in New Jersey. It took Deni six months to become her aunt’s legal guardian, at a cost of $15,000.

To avoid a similar crisis in your family, be sure your parent has the following documents.

Durable power of attorney. This document, which generally goes into effect immediately, gives you the authority to manage your parent’s finances if he or she becomes incapacitated or simply wants your help. Your parent can order the form from an online legal site, such as LegalZoom.com, for about $35. But the better route is to use an estate-planning lawyer, says Deni, who heads the ElderLife division of Locker Financial Services, in Little Falls, N.J. Not only can a lawyer make sure the form conforms to state law and is properly executed, but if family members later challenge your authority, the lawyer can also testify that your parent was of sound mind when signing it, Deni says.

Some banks and brokerage firms won’t honor a power of attorney unless certain conditions are met. Others have their own forms. Make sure your parent completes the required paperwork, and ask the institution to keep a copy on file. Your parent should keep power-of-attorney documents in a safe but accessible place. Keep your own copy, along with copies of other documents, such as your parent’s will and insurance policies, in an easy-to-access place as well.

Health care proxy. Sometimes referred to as a power of attorney for health care, this document gives you the right to make medical decisions on your parent’s behalf if he or she cannot. The power can include consenting to surgery or authorizing life support.

Becoming the health care proxy means discussing how your parent defines an acceptable quality of life, says Carolyn McClanahan, a physician and certified financial planner for Life Planning Partners, in Jacksonville, Fla. For example, would your parent agree to a feeding tube if it would prolong life? Would religious beliefs or personal values affect the choice of treatment?

The American Bar Association offers free resources that can help with this sobering task. Go to www.americanbar.org and search for “Giving Someone Power of Attorney for Your Health Care.” For state-specific forms, go to www.caringinfo.org.

Although the health care power of attorney gives you legal authority to make medical decisions for your parent, doctors may balk at following your instructions if a family member objects, McClanahan says. To avoid that scenario, ask your parent to brief other family members upfront about the medical decisions you’ve discussed.

As with the power of attorney, the health care proxy should be easily accessible in an emergency. Deni recommends having your parent put a copy in a clear plastic envelope and attaching it to the refrigerator.

Medical-information release. This form gives your parent’s doctors permission to share medical records with you. Your parent’s doctor and hospital may have their own versions. Because there isn’t a standardized medical release form, Deni says, ask your parent to get one from his or her primary-care physician and any specialists. The form, which can also be kept in the plastic envelope, should be updated annually.

Living will. This document lets your parent provide written guidance on what kind of treatment your parent wants—or doesn’t want—during a terminal illness. You can find a state-specific living-will form at www.caringinfo.org.
Where to Find the Money

If a sizable nest egg and long-term-care insurance aren’t in the cards, explore these ways to help pay for care. BY SANDRA BLOCK

YOUR PARENTS FED YOU, CLOTHED YOU AND forgave you when you wrecked their car, so lending them a helping hand in their final years seems like the least you can do. But you also have your own retirement security to worry about—and maybe college bills for your kids, too.

If you’re paying your parents’ bills, don’t overlook these sources of money and tax breaks.

Medicaid. Of all the things we do for our parents, moving them into a nursing home is probably the most heartbreaking. It’s also the most expensive. Medicare provides only limited coverage for skilled nursing or rehabilitation services after a hospital stay (see “Navigating Medicare,” on page 52). It doesn’t cover custodial care, such as help with bathing, dressing and eating, which people with Alzheimer’s and other debilitating illnesses need.

Even if your parents had the foresight to buy long-term-care insurance, it won’t cover all of the costs. Policies typically have waiting periods of 90 days (sometimes more) and cap daily or monthly benefits. Some policies limit payouts to two or three years (see “Make Long-Term Care More Affordable,” Dec.).

Medicaid covers custodial care in Medicaid-eligible long-term-care facilities. In some states, it will also cover home health care. The catch is that your parents must be practically impoverished to qualify. State laws differ, but in general, your parent can’t have more than $2,000 in countable assets, including investments.

A spouse who lives at home can usually keep up to $115,920, along with the home, car and assets in certain kinds of trusts (for more information about eligibility in your state, go to www.medicaid.gov). If your parents want to preserve some assets by giving them to you or your siblings, they usually must do so more than five years before applying for Medicaid.

If your parents have a long-term-care insurance policy that qualifies for a state partnership program, they may be able to protect more of their assets. These programs, available in most states, are designed to encourage residents to buy long-term-care insurance. For example, if your mother has a partnership-eligible policy that covers a total of $200,000 in care, she can qualify for Medicaid after exhausting the policy’s benefits but still keep $200,000 in assets. For more information, go to www.longtermcare.gov.

Help for veterans. Is your parent a veteran who served in World War II, the Korean or Vietnam conflicts, or the Persian Gulf War? He or she may be eligible for a little-known U.S. Department of Veterans Affairs program known as the Aid and Attendance benefit. This benefit can provide up to about $2,000 a month toward the cost of home health care, a nursing home or assisted living. Spouses of veterans may also qualify. Veterans do not need to have a service-related injury.

The program is income-based. In general, an applicant must have less than $80,000 in assets, excluding a home and vehicle. Veterans with more assets may qualify if they have high unreimbursed medical costs, says Debbie Burak, founder of www.veteranaid.org, a Web site that provides information about the program.

Burak created the site after she learned that her parents would have been eligible for up to $160,000 for their assisted-living costs during the last nine years of their lives. Although the program has been around for more than 60 years, few people know about it, including most Veterans Affairs employees, Burak says.

If you believe your parents are eligible, be persistent. Only three VA processing centers handle A&A applications, Burak says, so it’s important to mail your application to the right
Cash from life insurance. A whole-life insurance policy could provide funds for your parents’ long-term care, especially if it has a sizable cash-value account. Your parents can always withdraw the basis—the amount in cash value, and the policy could lapse.

Another option is to sell the policy to a life settlement company. These companies buy life insurance policies for cash, continue to pay the premiums and collect the death benefit when the insured individual dies. The settlement amount typically ranges from 12% to 25% of the death benefit, depending on the size of the premiums and the policyholder’s life expectancy. A financial adviser with experience in insurance products can refer you to a life settlement broker. Contact your state insurance department to find out whether the broker is licensed, which is a requirement in most states, as well as whether the broker has a record of complaints.

Tax breaks. Depending on the amount of support you provide, you may be able to claim your parents as dependents on your tax return. Claiming Mom and Dad as dependents on a 2014 tax return will cut your taxable income by $7,900, saving you almost $2,000 if you’re in the 25% tax bracket.

To qualify as a dependent, each parent’s gross income must not exceed the personal exemption amount, which is $3,900 for 2013 ($3,950 for 2014). Social Security usually isn’t included in gross income. However, even a modest pension or investment income could make your parents ineligible.

In addition, you must provide more than one-half of your parents’ support during the year you claim them as dependents. Eligible expenses include food, clothing, lodging and medical costs. If your parents live with you, you can include the fair-market rental value of their lodging.

If your parents are eligible dependents, you may also be able to deduct their medical expenses on your tax return. To qualify for the medical-expense deduction, you must itemize, and your family’s total medical expenses must exceed 10% of your adjusted gross income. Only expenses that exceed 10% of your AGI are deductible, unless you or your spouse is 65 or older. In that case, the cutoff is 7.5%. (Starting in 2017, the threshold will be 10% for all taxpayers.)

That’s a high hurdle, but seniors’ medical expenses, especially nursing-home bills, can add up quickly. Other deductible expenses include medical and prescription-drug costs not reimbursed by Medicare. Long-term-care insurance premiums are also deductible, up to set annual limits. For 2013, the deductible amount is $3,640 for policyholders between age 60 and 70, and $4,550 for those over 70.

Even if the income test prevents you from claiming your parents as dependents, you may qualify to deduct money you spend for their medical care—as long as you provide at least half of their support. Again, the deduction is limited to medical expenses that exceed 10% of your AGI (7.5% if you or your spouse is 65 or older). But if you’re paying a parent’s nursing-home bills, that threshold may be within reach.
The shutdown could affect when you file your return. The IRS plans to delay the start of tax-filing season, pushing back the date it starts accepting returns from January 21 until sometime between January 28 and February 4 (the specific date has not yet been announced).

The IRS is using the extra time to update and test the computer systems that process tax returns, a task it would have already accomplished had IRS workers not been furloughed during the 16-day shutdown. Because of the delay, you may not get your tax refund as quickly as you had hoped. You can speed up the process by using e-file with direct deposit.

Getting a refund means the IRS withheld too much money from your paychecks during the year. Rather than wait for a refund next year, arrange to keep more in each paycheck by adjusting your tax withholding. The more allowances you claim, the less tax will be withheld. For help figuring out how many allowances to claim, see IRS Publication 919, How Do I Adjust My Tax Withholding?, at www.irs.gov, or use our tax-withholding calculator at kiplinger.com/tools.

To adjust your withholding, fill out a new W-4 form (available at www.irs.gov) and submit it to your employer. The change should be reflected in your next paycheck.

Flexible spending accounts. If I don’t use all of the money in my flexible spending account by the end of the year, will I lose it?

R.R., Chicago

Maybe not. Some employers already give people until March 15 to use any money remaining in their accounts from the previous year. And now a big change to flexible spending accounts, announced in the fall, gives employers the option to allow people to carry over up to $500 in their accounts from one year to the next.

Employers are not allowed to offer both the $500 carryover and the March 15 grace period. Some employers with no grace period have rushed to put in place the $500 carryover for 2013 money. However, employers with the grace period who plan to switch to the $500 carryover will likely do so in 2014, says Joe Jackson, CEO of WageWorks, which administers FSAs for employers. Ask your employer which rules apply to you for 2013 and what changes, if any, will be made for the next plan year.

Claims on homeowners insurance. In a recent column about high deductibles on homeowners insurance, you wrote that making homeowners claims can boost rates. How big a difference can it make?

A.T., via e-mail

In most states, making just one claim on homeowners insurance can have a surprisingly big impact. A study by InsuranceQuotes.com found that making one claim over a 12-month period led to a 9% premium increase, on average. The results vary by state, ranging from more than 20%, on average, in Minnesota and Connecticut to no increase at all in Texas, where insurers are not allowed to increase premiums in response to the first claim.

The practice of rate-hiking is one reason that it’s smart to raise your deductible. Boosting it from $500 to $1,000 can lower your premium by up to 20% and make you less likely to file small claims that could result in a rate hike. For each state’s average increases, see the “home” section of InsuranceQuotes.com.
The T. Rowe Price College Savings Plan is offered by the Education Trust of Alaska. You should compare this Plan with any 529 college savings plan offered by your home state or your beneficiary’s home state and consider, before investing, any state tax or other benefits that are only available for investments in the home state’s plan. Please read the Plan’s Disclosure Document which includes investment objectives, risks, fees, charges and expenses, and other information. You should read the Plan Disclosure Document carefully before investing.

*Morningstar analysts reviewed 64 plans for its 2013 survey (10/22/13), of which 4 plans received a “Gold” rating. To determine a plan’s rating, Morningstar’s analysts consider five factors: the plan’s strategy and investment process; the plan’s risk-adjusted performance; an assessment of the plan’s manager; the stewardship practices of the plan’s administration and parent firm; and whether the plan’s investment options are a good value proposition compared to its peers. Plans were then assigned forward-looking ratings of “Gold,” “Silver,” “Bronze,” “Neutral,” and “Negative.” 21 of the industry’s smallest plans were not rated.

T. Rowe Price Investment Services, Inc., Distributor.

How the T. Rowe Price 529 College Savings Plan earned Morningstar’s “Gold” rating.

In Morningstar’s 2013 annual review of 64 college savings plans, T. Rowe Price’s 529 College Savings Plan received a “Gold” rating, and was noted for its “easy-to-navigate and compelling investment lineup.” The plan was one of only four in the country to receive Morningstar’s top rating, based on quality of underlying investments, program management, value, and performance.

The T. Rowe Price College Savings Plan is managed by the investment professionals at T. Rowe Price, one of the most experienced and respected asset managers in the industry. While we actively manage our investments, we keep costs low, to help your college savings assets go even further.

To learn more about the T. Rowe Price College Savings Plan, visit Price529.com.

Call a T. Rowe Price College Savings Specialist.
Price529.com | 1.877.529.4740
Cool Tools to Fix Your Finances

These sites can help you make smarter decisions about budgeting, investing and taxes. **BY LISA GERSTNER**

**IF YOU ASK AN EXPERT TO IDENTIFY GREAT personal finance Web tools, chances are that popular sites such as Mint.com, Manilla.com and Credit.com will be on the list. But the realm of online resources extends well beyond those familiar names. We dug deeper for useful tools that address a range of personal finance concerns. All of them are free unless otherwise noted, and some come with mobile applications.**

**Budgeting and saving.** **PLANWISE** (www.planwise.com) focuses on the future. Plug in your current bank account balance, income, debt and expenses. Then enter information about your goals, such as buying a home or generating income from a side job. A graph shifts with each such update to show how your balance, net income and debts would change over time. You can turn plans on and off to see how their presence (or absence) would affect your finances. Planwise doesn’t link directly to your accounts (you have to input balance updates), so you don’t have to worry about sharing data with a third-party site.

**Banking.** Locate an institution that suits your needs with **FINDABETTERBANK** (www.findabetterbank.com). You’ll be asked to run through a list of features, such as “interest on balances” and “mobile banking services,” and rate your desire for each on a scale from “don’t care” to “must have.” Based on your responses, location and banking habits, the tool creates a list of checking accounts that meet your needs.

**Investing.** Link your investment accounts to **SIGFIG** (www.sigfig.com), and you can view a summary that tracks your balances, gains and losses. SigFig also creates charts and graphs that show your asset allocation and performance relative to common benchmarks. Perhaps most useful are the tool’s weekly checkups of investment performance and account fees. SigFig recommends alternatives if it spots problems.

**Retirement saving.** **JEMSTEP** (www.jemstep.com) steers users toward a secure retirement. Fill in information including your age, income, anticipated age at retirement and current annual retirement savings for a calculation of your expected Social Security benefits. Then indicate how comfortable you are with investment risk, and specify the types of investments you prefer. Finally, link to your retirement accounts for an analysis of their holdings. An “action plan,” including recommendations of holdings to buy and sell, costs $18 to $70 a month, depending on the value of your retirement assets (the plan is free if your account balances are less than $25,000).

**Health care.** **FH CONSUMER COST LOOKUP** (www.fairhealthconsumer.org) estimates out-of-pocket costs for dental and medical procedures in your area. To compare prices of prescription drugs at local pharmacies (and get discount coupons for them), try **GOODRX** (www.goodrx.com).

**Taxes.** We develop our own tools at Kiplinger.com. A couple of highlights: The **STATE-BY-STATE GUIDE TO TAXES ON RETIREES** (kiplinger.com/links/retireertaxmap) is an interactive map that provides information such as tax rates on retirement income and breaks for seniors. Our **EASY-TO-USE TAX WITHHOLDING CALCULATOR** (kiplinger.com/tools) suggests withholding allowances you can take to increase each paycheck, rather than waiting to receive a tax refund after you file.
Fast Ways to Send Cash

NEED TO GET MONEY TO A friend or family member? A peer-to-peer payment service can help. In most cases parties to the transaction need to create accounts, and fees depend on the amount being transferred or the payment method.

Square Cash, launched in October, simplifies the process—and it’s free. Neither member of the transaction has to set up an account. Just address an e-mail to your recipient, enter “cash@square.com” in the cc: line, type in the amount you want to send in the subject line (you may write a message in the body if you wish) and hit “send.” The first time you set up an account, you may send up to $5,000 per transaction. The service charges the recipient 25 cents for transfers of more than $10. PayPal, the only service mentioned here that supports international transfers, lets you send as much as $10,000 per transaction. The service charges 2.9% for a debit or credit card transaction. But one party to the transaction must pay 2.9% of the amount plus 30 cents for transfers of more than $10,000.

Among other P2P services is Dwolla, which moves funds by connecting to users’ bank accounts rather than to debit or credit cards. If you set up an account, you may send up to $5,000 per transaction. The service charges the recipient 25 cents for transfers of more than $10. PayPal, the only service mentioned here that supports international transfers, lets you send as much as $10,000 per transaction. The service charges 2.9% for a debit or credit card transaction. But one party to the transaction must pay 2.9% of the amount plus 30 cents for transfers of more than $10,000.

You may not transfer more than $2,500 a week.

As of November 1. **EE savings bonds purchased after May 1, 2005, have a fixed rate of interest. †Bonds purchased before May 1, 2005, earn a market-based rate from date of purchase. ‡Internet only. #Must be a member of the credit union. ©1% is payable as a portion of its expenses. †Deposit accounts include money market deposit accounts and high-yield savings accounts. †Internet only. Similar yields are available at AmericaNet Bank and Redneck Bank. Sources: Bankrate.com, Money Fund Report, iMoneyNet Inc. (508-616-6600; www.imoneynet.com).

### YIELD BENCHMARKS

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<td>1.75</td>
</tr>
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As of November 1. **EE savings bonds purchased after May 1, 2005, have a fixed rate of interest. †Bonds purchased before May 1, 1995, earn a minimum of 40% of a market-based rate from date of purchase. ©1% is payable as a portion of its expenses. †Deposit accounts include money market deposit accounts and high-yield savings accounts. †Internet only. Similar yields are available at AmericaNet Bank and Redneck Bank. Sources: Bankrate.com, Money Fund Report, iMoneyNet Inc. (508-616-6600; www.imoneynet.com).
After a surge in home values in most cities over the past year, prices will increase more slowly in 2014.

BY PATRICIA MERTZ ESSWEIN

PHOTOGRAPH BY JOSÉ MANDOJANA
THANKS TO RISING HOME PRICES IN SEATTLE, KRISTIN AND MIKE LITKE (SHOWN WITH STELLA AND STEPHEN) WERE ABLE TO REFINANCE THEIR MORTGAGE.
their home or refinance their mortgage, that’s good news.

Rising home prices in Seattle enabled Mike and Kristin Litke to refinance their first mortgage last summer and pay off a second mortgage that had an 8.2% interest rate. The Litkes, who bought their three-bedroom, 1.5-bath home for $512,500 in 2007 at the peak of Seattle’s housing market, had used the second mortgage to avoid paying private mortgage insurance. In 2010, just as home prices in the area hit a trough, they refinanced their first mortgage to a 30-year fixed rate of 4.375% but were stuck with the second mortgage because they didn’t have enough equity to do a “cash-out” refi. This time, however, their home appraised for $521,000 in 2007 at the peak of Seattle’s housing market, had used the second mortgage to avoid paying private mortgage insurance. In 2010, just as home prices in the area hit a trough, they refinanced their first mortgage to a 30-year fixed rate of 4.375% but were stuck with the second mortgage because they didn’t have enough equity to do a “cash-out” refi. This time, however, their home appraised for $521,000, allowing them to refinance into one 30-year, fixed-rate mortgage of $416,800 at 4.25%. They have reduced their monthly payment by $360, giving them some wiggle room in their budget and providing an infusion of college-savings funds for their kids: Stephen, 3½, and Stella, 10 months.

WHAT’S AHEAD

In 2013, a sense of urgency drove traditional buyers hoping to take advantage of still-affordable home prices and historically low mortgage rates. Buyers found selection limited, and were often forced into bidding wars with investors and other buyers who paid cash. Sellers reaped the rewards in terms of quick sales, often above the asking price. Almost half of the cities tracked by Clear Capital experienced double-digit increases in home prices, led by Las Vegas, with a gain of 32%. Such spikes reflected a continuing “correction to the over-correction,” says Alex Villacorta, vice-president of research and analytics for Clear Capital. Buyers and investors rushed in to snap up homes with prices that had fallen too far. Homes continue to be affordable, despite recent run-ups—on average, prices are still 31.5% below their 2006 peak. The percentage of monthly family income consumed by a mortgage payment (assuming a mortgage rate of 4.1%) is just 15.6%, on average, compared with 23.5% in mid 2006. “Houses are very cheap,” says David Stiff, principal economist at CoreLogic, a property and mortgage data analytics company.

Market observers agree that home prices will rise in 2014, but at a slower, more steady pace compared with historical trends (see the graph on the next page). Clear Capital forecasts that home prices nationally will rise by 3% to 5% in 2014, about the historical average. Kiplinger expects an increase of 4%. “The most notable thing about 2014 will be how un-notable 2014 is,” says Villacorta.

Meanwhile, the Conference Board, a nonprofit association of businesses, found that the percentage of consumers who intend to buy a home in the next six months was the highest since 2000. Adding to the push: Pent-up demand among young people who, hampered by lack of jobs or insufficient income, have been living in their parents’ basements or sharing apartments with roommates. Celia Chen, a housing analyst with Moody’s Analytics, says Moody’s expects the economy to expand enough in the coming year to enable young people to begin moving out (for Kiplinger’s take on the economy, see page 28). They’ll probably rent first, but low vacancy rates and higher rents will prompt some renters to move on to homeownership. As home prices continue to rise, more owners who had been underwater—meaning that they owed more on their mortgage than their home was worth—will emerge from the sidelines and start selling and buying homes. CoreLogic reports that almost 3.5 mil-
tion of Realtors.

“A consistent stock market recovery has lagged behind other regions. Sales in the Northeast, where the job recovery is much tighter. For example, the Washington, D.C., suburbs of Montgomery County, Md., and Northern Virginia had about two months’ supply in September. Yun says the housing market has moved toward a shortage that will persist through 2014.

Why is inventory low? In some cities, institutional investors have been scooping up properties to rent out. Plus, builders cut way back on new-home construction during the bust, and homeowners who bought at the top of the market are still reluctant to sell until they can recoup more of their investment. Some are still underwater, unable to pay off their mortgage with what they’d get for their home.

In Oakland County, Mich., in suburban Detroit, agent Melanie Bishop says home prices fell so far during the economic downturn that even longtime homeowners were lifted out of negative equity between the end of 2012 and mid 2013. Nevada, Florida, Arizona, Michigan and Georgia have the highest shares of underwater homeowners.

●●● A SELLER’S MARKET

In the past year, sales of existing homes and condos rose by 11%, to 5.29 million—almost the highest level in four years. The National Association of Realtors expects sales to remain about the same in 2014. Sales nationally have increased across all regions and in all but one price category, signaling a broad-based recovery.

Although sales of entry-level homes (priced at $100,000 or less) have fallen by almost half over the past year in the West, they’re still rising in the Northeast, where the job recovery has lagged behind other regions. Sales of homes priced between $750,000 and $1 million have risen the most.

Nationally, the supply of homes for sale stands at five months’ worth. (Months’ supply is a measurement of how long it would take to sell everything at the current pace of sales. A market balanced between buyers and sellers has about six months’ supply of homes.) The current level slightly favors sellers, but in many cities inventory is much tighter. For example, the Washington, D.C., suburbs of Montgomery County, Md., and Northern Virginia had about two months’ supply in September. Yun says the housing market has moved toward a shortage that will persist through 2014.

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homeowners reaped little or no profit when they sold. But with the housing market’s rebound, sellers’ prospects have improved. She recently helped Corey and Suzy MacDonald sell the four-bedroom, 2.5-bath home in West Bloomfield that they bought in late 2006 for $272,000.

In the spring of 2012, Corey became self-employed and the couple decided to relocate to Florida. They listed their home for sale at $265,000, just enough to pay off their mortgage and expenses. The best offer they received was $245,000, so they decided to postpone their move and try again later. Last summer, they listed the home for sale at $289,900. On the first day, they received an offer of $310,000. “It was a perfect deal,” says Corey. He ultimately took a job in Atlanta, and the couple used the proceeds from their Michigan sale to put down 20% on their next home.

The influence of investors will wane as the low-hanging fruit (including foreclosures) disappears in 2014. Once, whole cities were ripe for the picking—such as Cape Coral, Fla., and Phoenix in 2012, as well as Las Vegas and Atlanta in 2013—but investors must now dig deeper at the neighborhood level, says Villacorta. That’s a job probably best suited to smaller numbers of local investors who know their markets best.

Where will new supply come from? Most people who list their homes for sale expect to buy another one, so it’s a wash in terms of net inventory. According to the National Association of Home Builders, whose members retrenched during the bust, just less than half as many homes were started in 2013 as in a normal market. NAHB forecasts that a normal pace of housing starts won’t resume until late 2015. Tight credit, land and labor, as well as rising costs for materials, are constraining builders.

Distressed properties are still adding to the supply of homes nationally, but foreclosure filings are falling. Fewer homeowners are losing their homes as the economy improves, home prices (and home equity) rise, and lenders agree to more short sales (homes sold for less than their owners owe on their mortgages). “We’re in the homestretch of getting through the foreclosure crisis,” says Daren Blomquist, vice-president at RealtyTrac, which monitors the foreclosure market. “But we won’t cross the finish line, with filings back to pre-crisis level, until early 2015.”

The table at right shows changes in existing home prices (single-family and condo) over the past year and since the peak of the national market in mid 2006 for the largest 100 metro areas tracked by Clear Capital (for more cities, see kiplinger.com/links/homeprices14).

Nationwide, prices rose 10.9% over the past year. The median home price was $215,000. Among the 276 metro areas Clear Capital tracks, 31 cities have seen home prices spike by 20% or more. In Atlanta, Detroit and Las Vegas, investors have pushed prices up. But in San Francisco and San Jose, the most expensive housing markets in the U.S., the price surge came from traditional buyers scrambling to buy homes before prices spiked. In 18 cities, prices declined by at least 1.5%. Alex Villacorta, of Clear Capital, says they should see strong gains in value by mid 2014.

Prices on average are still 31.5% below their peak in mid 2006. But in 19 cities, home prices now exceed the peak. Those include Buffalo, Rochester and Syracuse, N.Y., as well as Pittsburgh, Austin, Tex., and Salt Lake City. Affordability index measures (on a scale of 1 to 10) home prices versus family income—the smaller the number, the more affordable the housing. On average, affordability stands at 3. The historical average is 2 to 3 times income; at the peak of the bubble it was 4, says David Stiff, of CoreLogic. Foreclosure index measures (on a scale of 1 to 10) the foreclosure problem—the smaller the number, the lower the rate of foreclosure. Foreclosure filings have been falling for the past three years.
<table>
<thead>
<tr>
<th>METRO AREA</th>
<th>Median home price*</th>
<th>Affordability index¹</th>
<th>% change ¹</th>
<th>Foreclosure index ²</th>
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<tr>
<td>Akron, Ohio</td>
<td>$93,500</td>
<td>1</td>
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<td>Albany, N.Y.</td>
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<td>Albuquerque, N.M.</td>
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<td>Baton Rouge, La.</td>
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<td>Birmingham, Ala.</td>
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<td>Boise, Idaho</td>
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<td>6.9%</td>
<td>–17.1%</td>
</tr>
<tr>
<td>Columbus, Ohio</td>
<td>120,000</td>
<td>2</td>
<td>6.7%</td>
<td>–30.5%</td>
</tr>
<tr>
<td>Dallas, Tex.</td>
<td>129,700</td>
<td>3</td>
<td>6.8%</td>
<td>–12.0%</td>
</tr>
<tr>
<td>Dayton, Ohio</td>
<td>63,000</td>
<td>1</td>
<td>4.8%</td>
<td>–34.4%</td>
</tr>
<tr>
<td>Deltona, Fla.</td>
<td>120,000</td>
<td>4</td>
<td>16.0%</td>
<td>–51.5%</td>
</tr>
<tr>
<td>Denver, Colo.</td>
<td>263,000</td>
<td>9</td>
<td>11.6%</td>
<td>–1.6%</td>
</tr>
<tr>
<td>Des Moines, Iowa</td>
<td>186,500</td>
<td>5</td>
<td>0.5%</td>
<td>–15.3%</td>
</tr>
<tr>
<td>Detroit, Mich.</td>
<td>107,500</td>
<td>1</td>
<td>23.3%</td>
<td>–63.2%</td>
</tr>
<tr>
<td>Durham, N.C.</td>
<td>156,500</td>
<td>4</td>
<td>–0.7%</td>
<td>–9.1%</td>
</tr>
<tr>
<td>Fresno, Cal.</td>
<td>200,000</td>
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<td>–49.3%</td>
</tr>
<tr>
<td>Grand Rapids, Mich.</td>
<td>133,000</td>
<td>3</td>
<td>13.3%</td>
<td>–32.8%</td>
</tr>
<tr>
<td>Greensboro, N.C.</td>
<td>118,500</td>
<td>4</td>
<td>–0.3%</td>
<td>–22.7%</td>
</tr>
<tr>
<td>Greenville, S.C.</td>
<td>162,700</td>
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<td>–5.6%</td>
</tr>
<tr>
<td>Harrisburg, Pa.</td>
<td>175,000</td>
<td>5</td>
<td>2.5%</td>
<td>–2.6%</td>
</tr>
<tr>
<td>Hartford, Conn.</td>
<td>220,000</td>
<td>5</td>
<td>4.0%</td>
<td>–22.9%</td>
</tr>
<tr>
<td>Honolulu, Hawaii</td>
<td>589,000</td>
<td>10</td>
<td>11.0%</td>
<td>–1.8%</td>
</tr>
<tr>
<td>Houston, Tex.</td>
<td>126,000</td>
<td>12</td>
<td>13.8%</td>
<td>–10.1%</td>
</tr>
<tr>
<td>Indianapolis, Ind.</td>
<td>100,000</td>
<td>1</td>
<td>11.8%</td>
<td>–33.2%</td>
</tr>
<tr>
<td>Jacksonville, Fla.</td>
<td>170,000</td>
<td>6</td>
<td>10.9%</td>
<td>–46.7%</td>
</tr>
<tr>
<td>Kansas City, Mo.</td>
<td>117,000</td>
<td>1</td>
<td>3.7%</td>
<td>–37.1%</td>
</tr>
<tr>
<td>Knoxville, Tenn.</td>
<td>130,000</td>
<td>3</td>
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<td>–13.5%</td>
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<tr>
<td>Lakeland, Fla.</td>
<td>115,000</td>
<td>4</td>
<td>12.8%</td>
<td>–52.6%</td>
</tr>
<tr>
<td>Lancaster, Pa.</td>
<td>187,800</td>
<td>6</td>
<td>1.4%</td>
<td>–0.8%</td>
</tr>
<tr>
<td>Las Vegas, Nev.</td>
<td>159,900</td>
<td>7</td>
<td>32.2%</td>
<td>–52.3%</td>
</tr>
<tr>
<td>Little Rock, Ark.</td>
<td>177,000</td>
<td>7</td>
<td>–2.5%</td>
<td>–5.8%</td>
</tr>
<tr>
<td>Los Angeles, Cal.</td>
<td>460,000</td>
<td>10</td>
<td>22.2%</td>
<td>–31.0%</td>
</tr>
<tr>
<td>Louisville, Ky.</td>
<td>117,000</td>
<td>2</td>
<td>1.0%</td>
<td>–21.0%</td>
</tr>
</tbody>
</table>

Cities represent metropolitan statistical areas as defined by the U.S. Census. *As of September 30, 2013. †Ranked 1 (most affordable) through 10 (least affordable). §For one-year period ended September 30, 2013. ‡Since May 31, 2006, when the housing market peaked nationally. For more cities, see kiplinger.com/links/homeprices14.
Putting Tesla to the Test

We drive the Model S to see if this pricey EV lives up to the hype. BY JESSICA ANDERSON

AS I GLIDE THROUGH DOWNTOWN WASHINGTON, D.C., in Tesla’s Model S sedan, heads turn, even though the famously luxe electric vehicle doesn’t make a sound. From the long, lean hood to the bulging haunches of the hatchback, the sleek silhouette evokes a fighter jet ready for takeoff. As I cross the bridge over the Potomac River, I press the accelerator to the floor and—whoooshhhh—I’m flying.

When Tesla launched its limited-production Roadster in 2008, it was CEO Elon Musk’s intention to create electric cars that are better in every way than models that rely on the internal combustion engine. Job number one for Musk, whose innovations as a force behind PayPal, SpaceX and Tesla garner comparisons with Thomas Edison and Henry Ford, was to create a better battery. Depending on the version, Tesla’s battery can propel the Model S up to 265 miles on a full charge, quieting critics who have shunned EVs because of “range anxiety.” Despite a sticker price that starts north of $70,000, Tesla is selling more than 1,000 vehicles a month and closing in on sales of the Nissan Leaf and Chevrolet Volt.

The Model S is now the best-selling car in eight of the wealthiest 25 zip codes in the U.S.—all of them, as it turns out, in California, where Tesla is headquartered. With the help of substantial subsidies, these early adopters are driving the California dream machine.

The value. With prices that range from $71,070 to $129,770, depending on

the size of the battery and other enhancements, the Model S breathes the rarefied air of expensive European luxury sedans—and raises the bar. But a few things take some of the sting out of the price tag.

First, the Model S is eligible for a federal tax credit of $7,500. California, Colorado, Illinois, Georgia, Utah and West Virginia offer incentives of $605 to $7,500. Second, with an electric powertrain, the typical cost to drive the base model is about 4 cents per mile, versus, say, 18 cents per mile for the gasoline-fueled BMW 550i. If you drive 15,000 miles a year, you’ll pay $2,750 to fuel up the Bimmer but only $650 for the Tesla (assuming you pay 12 cents per kilowatt hour to your electric company). Measured another way, the Model S with the biggest battery (85 kWh) earns a mile-per-gallon equivalent from the Environmental Protection Agency of 90 mpg high-
way, and the version with a 60 kWh battery gets 97 mpge on the highway.

The Model S also requires less maintenance than its gas-engine peers. Because there is no engine (and, hence, no oil changes), maintenance is limited to a checkup about once a year at a service center. (Tesla has 41 service centers across the U.S. and another 19 are on the way.) The battery warranty is eight years or 125,000 miles on the base model (eight years with unlimited mileage on 85 kWh models).

The National Highway Traffic Safety Administration gives the sedan five stars—in every safety category: frontal crash, side crash, rollover and overall. The Model S has eight airbags, including knee airbags for the driver and front passenger. The engineless front end protects passengers in a collision, and the battery has firewalls to contain damage in a crash. (A recent fire after a Model S hit a metal piece of a semi tractor-trailer sparked debate over the car’s safety, but Tesla says it performed as designed and that the onboard alert system instructed the driver to pull off the highway and exit the vehicle.)

The Model S is roughly the size of a Ford Taurus and seats five. The rear hatch has 26 cubic feet of storage space (the Taurus’s trunk holds 20 cubic feet), and fold-flat seats increase it to 58 cubic feet. Plus, you’ll find extra storage space under the hood. The optional rear-facing child seats ($2,500) expand seating to seven.

On the road. In motion, the Model S morphs seamlessly from family hauler to Speed Racer. The base model has 302 horsepower and goes from zero to 60 miles per hour in less than 6 seconds. The top-of-the-line Model S Performance puts out 416 horses and sprints to 60 in 4.2 seconds.

With instant torque typical of electric vehicles, it’s capable of disconcertingly quick acceleration, yet the ride remains composed and the vehicle feels planted, thanks to a low center of gravity. Adjustable drive and brake controls change its character from staid to sporty with a few taps on the touch screen.

The Model S is a gadget geek’s wonderland. Walk up to the vehicle with the key in your pocket and the door handles, which sit flush with the body, pop out. There’s no start button; simply shift into drive and go. Inside, a colossal, iPad-like touch screen controls everything from climate to driving modes. Google Maps and a 3G Internet connection are standard.

All models come with an onboard charger and adapters for standard household outlets, 240-volt outlets and public charging stations. The total charge time with a 240-volt outlet is seven to ten hours. With optional High Power Home Charging ($2,700), you get Tesla’s High Power Wall Connector to install in your garage, enabling you to juice up twice as fast. With a Supercharger ($2,500 on the base model and standard on 85 kWh models), you can connect to Tesla’s network of fast chargers throughout the country and replenish more than half a charge in 20 minutes. Tesla anticipates building enough stations to ensure coast-to-coast travel early in 2014.

At the store. First off, there are no dealerships. Tesla has 35 “stores,” where you can take a test-drive. The company’s direct-sales model means cars go from the factory to the buyer with no middleman—a tactic that has resulted in legal battles with dealers over Tesla’s right to sell in certain states. And there is no haggling over price. You pay sticker.

Instead of offering a choice between a loan and a lease, Tesla combines the two. Finance with the company for at least 36 months and your vehicle is backed by Tesla’s resale value guarantee. That means if you turn in the car after 36 to 39 months (as long as it has less than 45,000 miles), Tesla will buy it back at 50% of the original price and 43% of the cost of options. If you pay cash or bring your own financing, the vehicle won’t qualify for the buyback.

By the end of 2014, Tesla will start selling an electric SUV called the Model X that seats seven. In early November, pricing had not been announced, but it’s likely to top $70,000. Tesla’s next big test is whether it can cut the cost of the battery enough to produce a more affordable model by 2017. (For information on Tesla’s stock, see “And 5 to Sell,” on page 35, and “Tesla Takes Off,” Nov.)
How to Manage Your Passwords

Throw out the sticky notes. These programs are a better way to go. **BY JEFF BERTOLUCCI**

SECURITY EXPERTS TELL us to create long, complex passwords (think numerals and symbols) for every online account. But how are we supposed to remember all of those mind-numbing character strings?

Enter software that manages your passwords for you. These programs allow you to store your passwords in one file by creating one ultra-secure master password to serve as the portal to all your other user names and passwords. Here are three of our favorites.

**Dashlane.** This is an excellent choice for the password-challenged. Not only is it highly secure, but it’s also a breeze to use. Dashlane (www.dashlane.com) is a free download for Windows and Mac PCs and most smart phones and tablets. Enter a master password (be sure to remember it because Dashlane doesn’t save it) and the app automatically encrypts your passwords and other private information using military-grade AES-256 encryption, which has never been hacked. Dashlane imports new and existing passwords from your Web browser into its “vault”; the program can remember your shipping and credit card information, as well as auto-fill online checkout screens.

Dashlane also works within your Web browser to monitor your online activities. When you log in to your e-mail, for instance, Dashlane pops up and asks whether it should save your user name and password. Plus, it rates the strength of your existing passwords (and tells you if they should be changed), and it generates strong passwords for new sites that you join. If you signed up for two-step verification using Google Authenticator (you need a code generated by an app in addition to your password), you may continue to use it.

Although Dashlane is a dandy password manager, the free version is limited to one device. If you’d like to use it on several gadgets, you’ll need to buy the premium edition ($20 per year), which syncs passwords and backs up data across multiple devices.

**LastPass.** This is another top-notch free password manager. Like Dashlane, LastPass (www.lastpass.com) prompts you to create a master password (it, too, uses AES-256 encryption), integrates with the browser, detects when you log in to password-protected sites and asks whether you want it to remember log-in information. Like Dashlane, LastPass generates strong passwords for new sites and auto-fills credit card and shipping information. And LastPass has added the ability to rate the strength of existing passwords.

LastPass stores your data online, which lets you access your credit card numbers from any Web browser. (The downside: You may be uncomfortable with having your sensitive personal data stored in the cloud.) The app also supports Google Authenticator, but you’ll need the premium version ($1 a month) to use LastPass on a variety of smart phones and tablets, including Android, BlackBerry, iOS (Apple) and Windows Phone devices.

**Keeper.** If all you want is a free password manager and little more, Keeper (www.keepersecurity.com) is appealing. Like its competitors, the app uses bullet-proof AES-256 encryption. The app supports two-step verification, but it doesn’t rate the strength of your passwords. The free version works well on a single device, but you’ll want Keeper Backup ($10 per device per year) to sync among several PCs, tablets and phones.
What You Need to Know About Going Paperless

Digital files are your best weapon in the battle to conquer clutter. 

**1. STOP PAPER BUILDUP IN ITS TRACKS.** Sign up to receive online statements and bills from utilities, banks, credit card issuers and other service providers. To help stay on top of payments, sign up for your bank’s bill-paying service. Or link your accounts to Manilla.com. The tool, which includes a mobile application for Android and iPhone, organizes and stores documents online and sends alerts when bills are coming due.

**2. SCAN, SCAN, SCAN.** A good scanner can eliminate a mountain of paper. The Fujitsu ScanSnap ix500 desktop scanner ($405 on Amazon.com) connects wirelessly to your PC, creates searchable PDFs, and can handle two-sided scanning. Once you’ve digitized those documents, take them, along with all the other unwanted items sitting on your desk or dining room table, straight to the shredder. Your community may sponsor periodic mass shredding events. A good shredder for home use is the Fellowes Powershred W-11C ($66 at Amazon.com).

**3. PREPARE A BACKUP PLAN.** Save important documents in multiple places in case your computer fails, says Julie Bestry, president of Best Results Organizing, in Chattanooga. In addition to keeping copies on an external hard drive or a flash drive, store documents using secure “cloud” services. Dropbox, for example, lets you save 2 gigabytes of data free (and you can share folders with other users). With Google Drive, you can store up to 15GB of files as well as create text documents, spreadsheets and slide shows. The free online tool Evernote lets you save PDFs, clip articles from the Web and create text documents. File items in folders and add tags for easy searching.

**4. FILE IT ON THE FLY.** A scanner that fits into a bag or suitcase can be useful for, say, digitizing handouts while you’re at a conference, by tapping your phone with phones of other app users.

**5. GET A HANDLE ON RECEIPTS.** To organize all of your receipts and track spending, try OneReceipt for iPhone, which lets you snap pictures of receipts and save them by using the free app or e-mailing them to your account. The tool can also automatically pull electronic receipts from your e-mail account. Not sure the store will accept an image of a receipt? Hang on to the original.

**6. PAPER STILL HAS A PLACE.** In addition to Social Security cards, and certificates of birth, death and marriage, you’ll want to keep estate documents, medical records, insurance policies, proof of mortgage and other loan payoffs, and titles and deeds for cars and homes. 

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3 SIMPLE STEPS

Break Out of Credit Card Debt

STEP 1

Check for zero-interest balance-transfer offers from your credit card issuers in your mailbox or online, or call customer service to ask if an offer is available. Find out what the fee is for a balance transfer and how long you can pay at the 0% rate. Compare offers on cards you have with other offers at CardHub.com. Typically, 0% offers last 12 months and come with a 3% fee. Chase’s Slate card offers free balance transfers if you make the transfer within the first 60 days of getting approved.

STEP 2

Once you’ve selected a balance-transfer offer, you can complete the transfer online. Enter the account number of the card with the balance you wish to transfer and the amount. Keep in mind that you can’t transfer more than the 0% card’s limit and that it may take up to a week to process the payment. If you’re counting on the transfer to pay off a big balance and you’re close to your due date, make the minimum payment, just in case.

STEP 3

Plan to pay the card off before the introductory rate expires. To retire a $3,000 balance on a card charging 18% in one year, the monthly payment would be $276 a month, including interest. Transfer that to a card with a 0% APR and a 3% fee, and you’ll pay $258 a month (including the fee) and no interest.

THE PAYOFF

You’ll get breathing room on payments and save on interest.

ILLUSTRATION BY KENI THOMAS
Because seeing the whole financial picture is a clear advantage.

You can view your Merrill Edge investment and Bank of America bank accounts on one page with a single login. Get a complete overview of your finances at a glance. Merrill Edge. It’s investing, streamlined.

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Bank with Bank of America. Invest with Merrill Edge.

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