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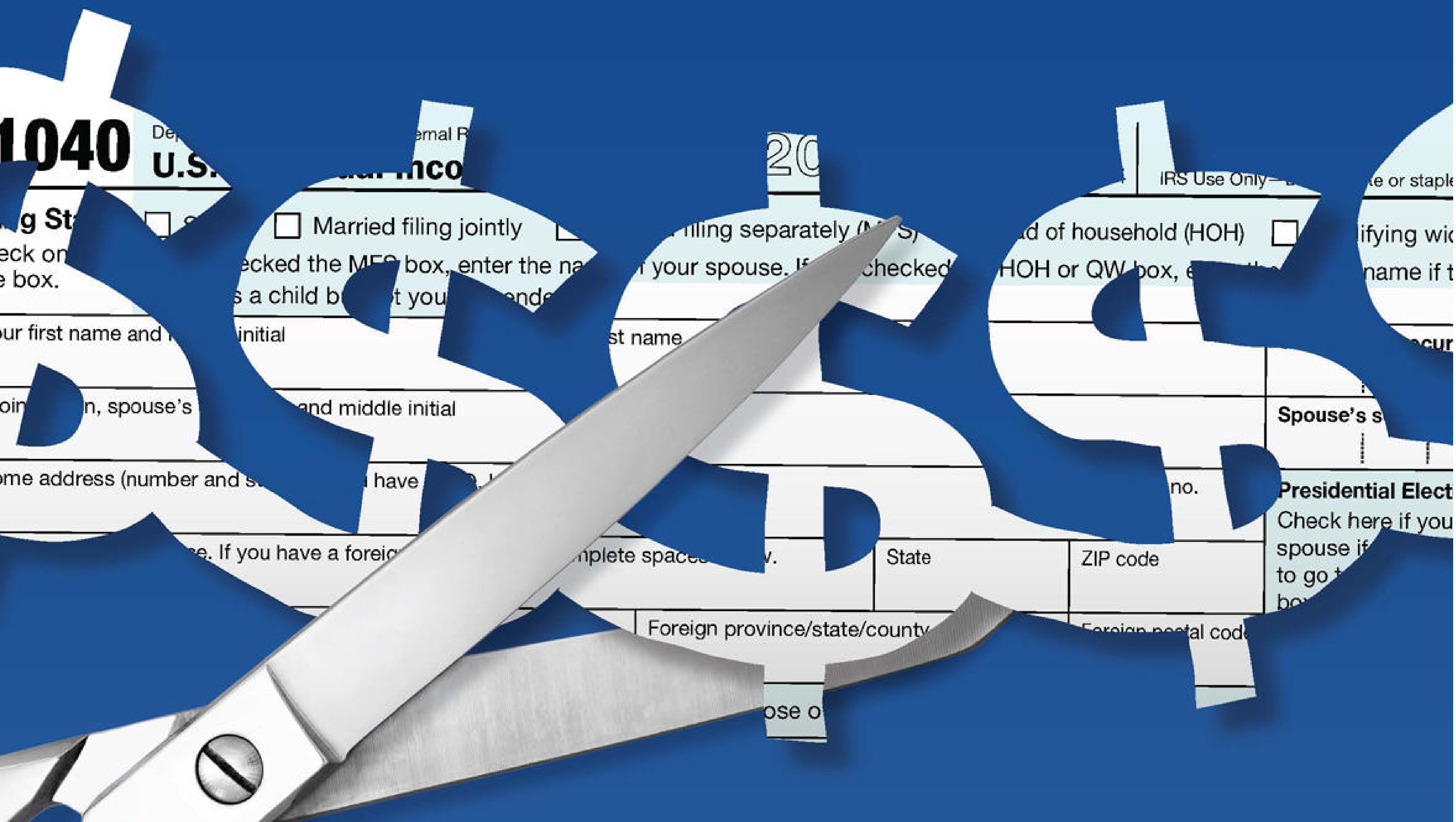
PERSONAL FINANCE



Trim Your TAX BILL

Use our guide to boost your refund or reduce what you owe. p 40

PLUS: Can you file your taxes for free? p 50

MARCH 2022

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KIPLINGER'S PERSONAL FINANCE
FOUNDED 1947

VOL. 76 NO. 3

DANIEL DIOSDADO

AHEAD

INVESTING

COVER STORY
MONEY

ON THE COVER: PHOTO-ILLUSTRATION BY SENSICAL DESIGN

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JOSY BLOGGS

GET MORE ADVICE FROM KIPLINGER

Kiplinger.com

23 IRS AUDIT RED FLAGS

Though audits are rare, they're not much fun. What you do—and how you file—can change your odds of being flagged for extra scrutiny.

kiplinger.com/kpf/audits

SWING FOR THE FENCES WITH THESE 30 STOCKS

We screened for stocks with broad coverage by Wall Street analysts, solid "buy" ratings and a price target that suggests they could double in the next 12 months. Are they risky? Well, yes.

kiplinger.com/kpf/30stocks

WHEN TO SKIP THE WAREHOUSE CLUB

Generally speaking, we're big fans of the bulk buy. But there are times when shopping at Costco, BJ's or Sam's Club just doesn't make sense.

kiplinger.com/kpf/skipwarehouse

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Causes of Inflation

Your explanation of causes driving the hyperinflation we are facing misses the mark in one key area: energy prices ("Ahead," Jan.). Soaring energy and gasoline prices are the result of disastrous energy policies at the executive branch of government. Joe Biden could not wait to shut down the Keystone XL pipeline, which was set to deliver 800,000 barrels a day from Alberta, Canada, to the U.S. Now that oil has to be shipped and trucked. The results are burning more fossil fuel to truck and ship it and higher transport costs to deliver it. Gasoline prices spiked 50 cents a gallon on news of the shutdown, and prices have continued to skyrocket as more pipelines are put out of business. In 2021, gasoline prices shot up a whopping 58%. It does not take an MBA to figure out that high energy and associated transport costs are driving this inflation.

JAMES E. VIOLA
STROUDSBURG, PA.

You pointed out three reasons for higher prices: wage growth, product shortages and energy prices. All three of these are a product of the trillions of dollars printed and sent out to the public. I have friends who quit working and took the government money. It's supply and demand—more money in my pocket feeds more demand; quit work and there's less supply.

KURT HARTER
HOOD RIVER, ORE.

Family money talks. We've tried to have family money conversations a few times in recent years with my kids and with their cousins, as well as with my wife's parents ("From the Editor," Jan.). Everyone was generally interested, but the talks didn't work super well because of the very different knowledge levels of the parties. I started to write e-mails every couple of weeks that covered various topics, figuring it would lay the groundwork for a better meeting when we were all together. It worked great. A friend recently published a novel on Amazon and said it was easy, so I was suckered into it. Since my son always responded "TLDR" to most of my e-mails (Too Long Didn't Read), I figured I'd use that as the title. The result is that everyone felt they understood most of what we've talked about, so our meeting at Thanksgiving went a lot better.

TOM ROBBINS-MILNE
NEW YORK CITY

Editor's note: ***TLDR: Investments and Finance for Young People*** **is available on Amazon. For details about the book, see http://tldrifyp.com.**

Cheaper wireless plans. I've been a satisfied customer of US Mobile for about 18 months now. US Mobile offers the choice of either Verizon's or T-Mobile's network. The plans are flexible, offering unlimited calling and texting with a wide choice of data quotas. If you exceed your data quota, US Mobile doesn't let you keep using data and then charge an exorbitant rate. Instead, you have to log in to your account and buy more data. Unlimited data plans start at $45, dropping to $25 each for three lines. The customer service is excellent.

DAVID STRIP
VIA E-MAIL

For three categories you listed (bargain hunters, 55-plus and light users), Consumer Cellular costs less than any plan you quoted. My wife and I each have our own line and pay $33.75 with the AARP discount ($35 without) for unlimited text, 250 phone minutes and 3G data.

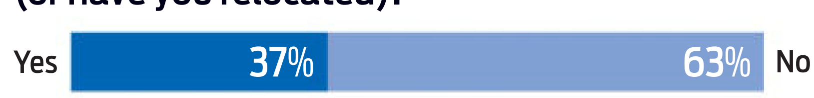
NEIL FERRARI
WILMETTE, ILL.

Longevity. I enjoyed the interview with Laurence Kotlikoff on post-pandemic money advice ("Ahead," Jan.). However, I did a double take when he said that "a lot" of people will live to 98 in reference to when to claim Social Security. I know a lot of people and can only think of a handful who made it past 90, let alone 98. If true, please send us the name of his doctor.

MIKE J.
ORLAND PARK, ILL.

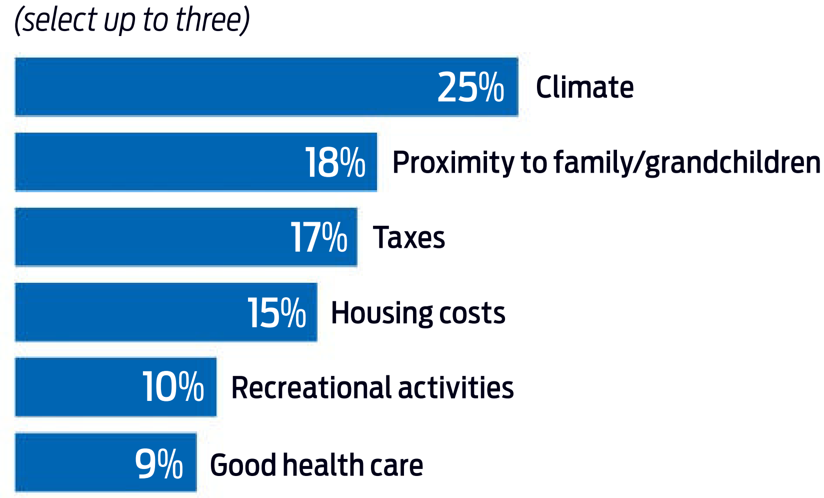
READER POLL

Are you planning to relocate during retirement (or have you relocated)?



What are the top factors influencing your choice?

(select up to three)



For the most- and least-friendly states for retiree taxes, turn to page 52.

Corrections: John Hancock Small Cap Core A has a 5.00% max sales charge, and Davenport Small Cap Focus has no sales charge ("Fund Spotlight," Feb.).

CONTACT US

Reader Feedback may be edited for clarity and space, and initials will be used on request only if you include your name. Send to Kiplinger's Personal Finance, 1100 13th St., N.W., Suite 1000, Washington, DC 20005, or e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.

FROM THE EDITOR

Mark Solheim

Winter Money Projects

While you wait for warmer temperatures and longer days, it's a good time to build a fire (or turn on the gas fireplace) and curl up with personal finance projects. Job one is working on your 2021 tax return, and our cover story, by senior editor Sandy Block, offers a wealth of advice to make tax preparation easier (see page 40). As Sandy points out, the tax overhaul enacted in 2017 was meant to simplify the task by boosting the standard deduction, but lawmakers have tweaked the tax code to provide credits and deductions for non-itemizers. That means more work for you when it's time to file.

Another PF project for anyone contemplating retirement: trying out what the next phase will look like. If you plan to move—or you're financially flush enough to own two homes—choosing a destination should be a years-long research project. Besides the cost of living, your preferences for climate will loom large, as will how near to family and grandchildren you want to be. You'll want to check out health care, recreational and cultural opportunities, and how many restaurants serve food you truly like.

The best way to test-drive potential retirement destinations is to rent there for several weeks, and make sure you visit in different seasons. The pandemic has made such sojourns easier because many workers have more flexibility to work wherever they want.

> ***IF YOU'RE PLANNING TO MOVE IN RETIREMENT, CHECK OUT OUR STATE-BY-STATE GUIDE TO TAXES FOR RETIREES. AND DON'T OVERLOOK THE POTENTIAL IMPACT OF CLIMATE CHANGE.***

Avoid retirement nightmares. Don't overlook state and local taxes. Kiplinger.com's Rocky Mengle recently completed the latest installment of our annual state-by-state guide to taxes for retirees, which we adapted to print starting on page 52 (at kiplinger.com/kpf/retireetaxmap, you can rank up to five states at a time). To gauge the "tax friendliness" of a state, we calculated the sum of income, sales and property tax paid by two hypothetical retired couples.

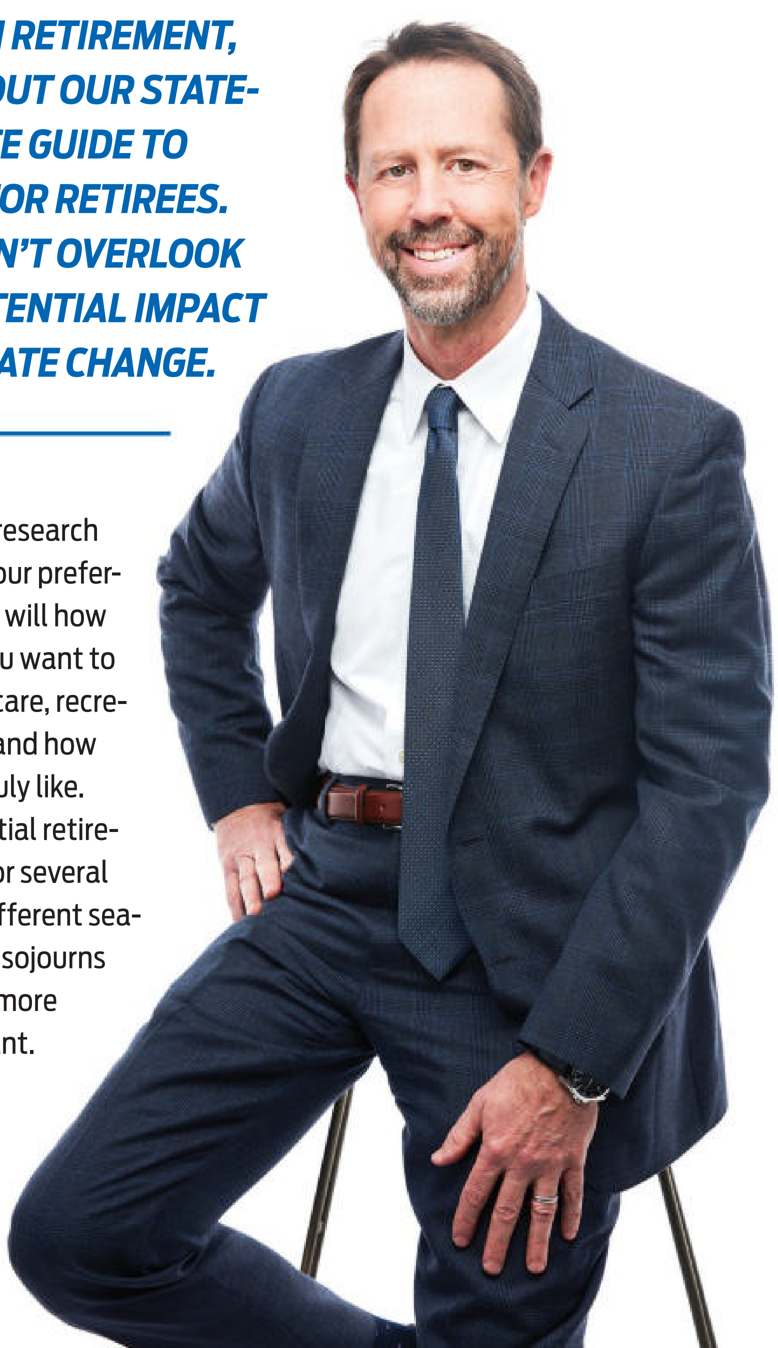
The 50 states fall into five groups, from most to least tax-friendly. Many states in the top 10 have no income tax—but, particularly for retirees, property taxes can have an outsize effect on the tax burden. Michigan, for example, where my wife and I have a vacation/future retirement home, is not tax-friendly to retirees, mainly because it has the 14th highest property tax rate in the U.S. But Washington, D.C., where we live most of the year, makes the top-10-friendliest list partly because property taxes are eighth-lowest in the nation.

Another issue that retirees should consider: climate change. Wildfires, droughts, floods, hurricanes and tornadoes can be costly to homeowners and could upend your retirement. As we reported in *Kiplinger's Retirement Report* last September, many retirees don't consider the effect of severe weather when choosing a place to live. Financial adviser Tom Nowak, of Quantum Financial Planning in Langley, Wash., says many popular retiree locations are in the crosshairs of global warming. Nowak integrates climate risk with retirement planning by budgeting more for taxes, insurance, housing, electricity, water and food.

I just heard from a retiree who experienced a climate disaster in a suburb of New York City. For 25 years, Peter Korn and his wife lived in a ranch house in New Rochelle, N.Y., which they purchased for retirement because it's a one-level house. But last September, the rains from Hurricane Ida hit, and a "small nearby creek that hadn't flooded in our 25 years there, nor ever in the memory of others, leaped over its banks and sent a 3-foot wall of water down our street," Peter writes. The floodwaters entered their house and ruined their furniture, carpets, rugs and contents of their closets.

They did not have flood insurance, and homeowners insurance does not cover floodwaters that originate from outside. The house was sold to a contractor/restorer, and the loss was substantial.

Peter says they stayed in a residential hotel for two months while finding a condo to move to. He says that they're sad to be leaving their neighborhood and neighbors, but they could not return and risk finding themselves in the same situation down the road. "Clearly," writes Peter, "climate change is having an impact." ■



POON WATCHARA-AMPHAIWAN

Mark Solheim

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Kiplinger's
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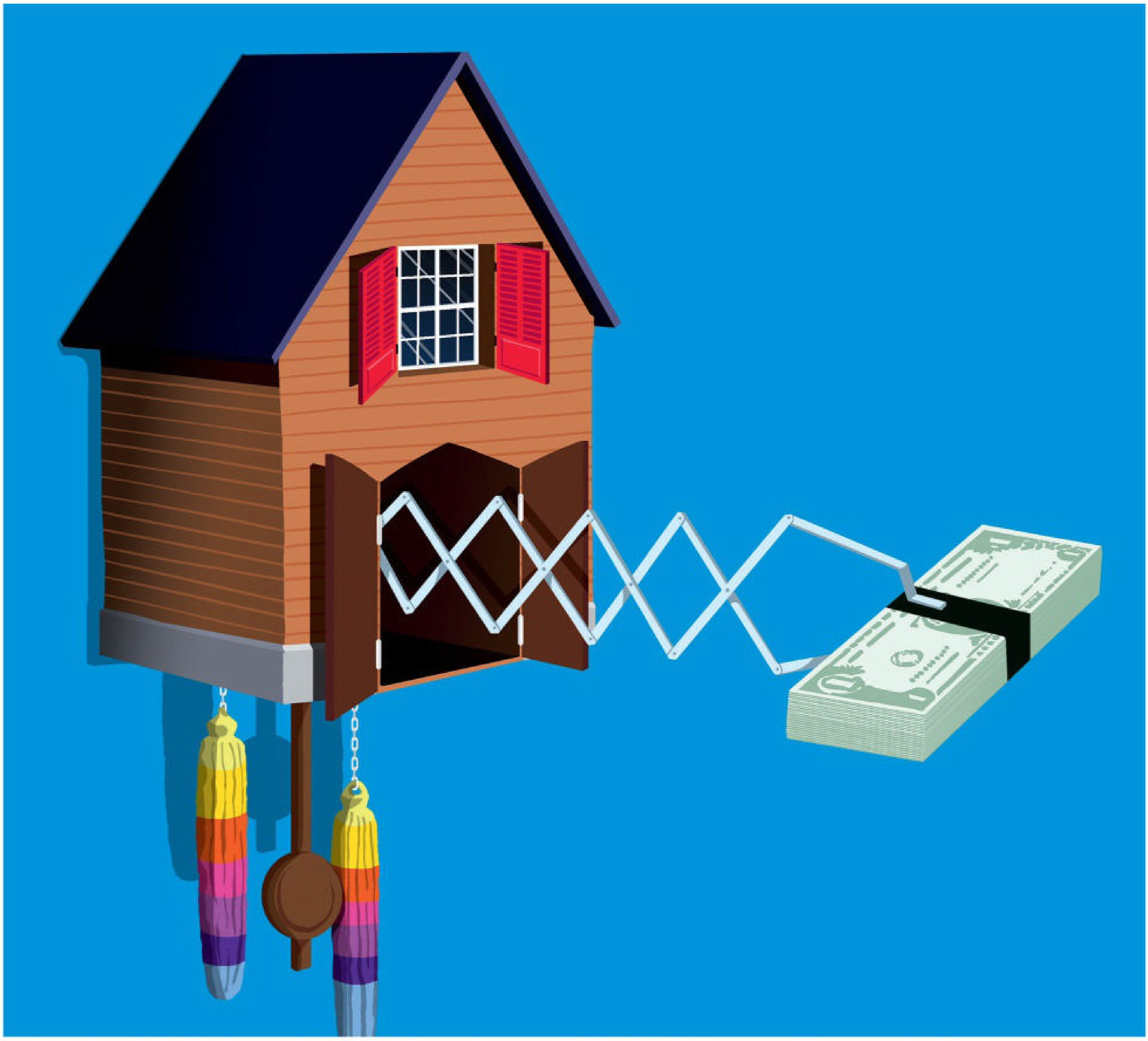
AHEAD



TOPIC A

HOW TO FIGHT A PROPERTY TAX BILL

Surging home values are pushing up assessments, but you may be able to catch a break. BY LISA GERSTNER

MANY HOMEOWNERS HAVE SEEN their property values shoot up as the pandemic sparked a frenzied housing market. Home prices logged a 19.1% annual gain nationwide in October, with even larger returns in fast-growing cities, including Phoenix (32.3%), Tampa (28.1%) and Miami (25.7%), according to the S&P CoreLogic

ILLUSTRATION BY ALEXANDER GLANDIEN

Case-Shiller National Home Price Index. If you're envisioning big proceeds when you sell your house, rising home prices are a cause for celebration.

But you may not feel like popping the champagne when you get your property tax bill. As home prices climb, property taxes follow suit. Your tax bill is determined by multiplying your home's assessed value by the local tax rate. The average tax bill on a U.S. single-family home was $3,719 in 2020, up 4.4% from 2019, according to the most recent property tax analysis from Attom Data Solutions.

Homeowners will see higher taxes in 2022 and beyond as localities reassess property values, although the pain should ease as price appreciation slows. Kiplinger expects housing demand to cool, with home prices lifting by 3% in 2022. And keep in mind that local tax rates affect your bill, too. If your municipality lowers rates to provide relief or stay within required levels, your bill may fall or show only a modest increase.

Assess your tax assessment. Homeowners often receive property tax assessments in the spring. Depending on how frequently your community reassesses home values, you may not see a sizable increase in your tax bill right away. Some areas refresh values annually, while others do so every other year or every few years.

When you get your assessment, carefully review it. Check how your home's value is calculated for tax purposes. Some localities multiply a home's market value by a specified percentage to determine assessed value. For example, if your home is worth $400,000 and the assessment ratio is 25%, the assessed value is $100,000.

If your home's estimated value seems to be too high, you may have grounds to appeal the assessment—and if you succeed, you'll end up with a lower tax bill. Start by checking the data that your assessor has on file about your property. You can often find the records on your locality's website, although in some jurisdictions you may have to go to the assessor's office to view property cards or request to receive the information by e-mail or fax, says Greg McHenry, appraiser for Riley County, Kan., and president of the International Association of Assessing Officers.

Ensure that such details as your home's age, square footage, number of bedrooms and bathrooms, and features such as a finished basement or fireplace are accurate. Look up other homes in your neighborhood with similar characteristics or ask your assessor for the list of the properties that it used to help determine your home's estimated value. If the comparable homes have lower estimated values than yours, that bolsters your appeal.

Search in your area for recent sale prices of homes similar to yours on a website such as Zillow.com or Realtor.com. Any sales that occurred in the past few months may have taken place after your assessor's latest property evaluation. Your appeal is strengthened if sale prices suggest that your property's value is lower than estimated.

Your assessment notice should explain the appeal process and the deadline for submission—you may have 30 or 60 days, says McHenry. Often, an informal meeting with your assessor's office is the first step. "We don't discourage valuation appeals," says McHenry. For a straightforward fix—say, your property record lists four bedrooms but your home has only three—you may get a correction on the spot. Otherwise, the next move may be to present your case to a local board.

Check for tax breaks. Make sure that your tax bill reflects any breaks owed to you. (Call your state's tax department or visit its website to get more information.) Homestead exemptions, for example, shield a certain amount of a home's value from tax and are available in most states. In Florida, for example, all homeowners receive an exemption of up to $50,000, depending on their property's assessed value. Plus, in some municipalities, people 65 or older may get one or both of the following benefits: an extra exclusion of up to $50,000 if their income falls below certain limits or an exemption equal to the assessed value of their home if they meet qualifications involving income, length of residency and property value.

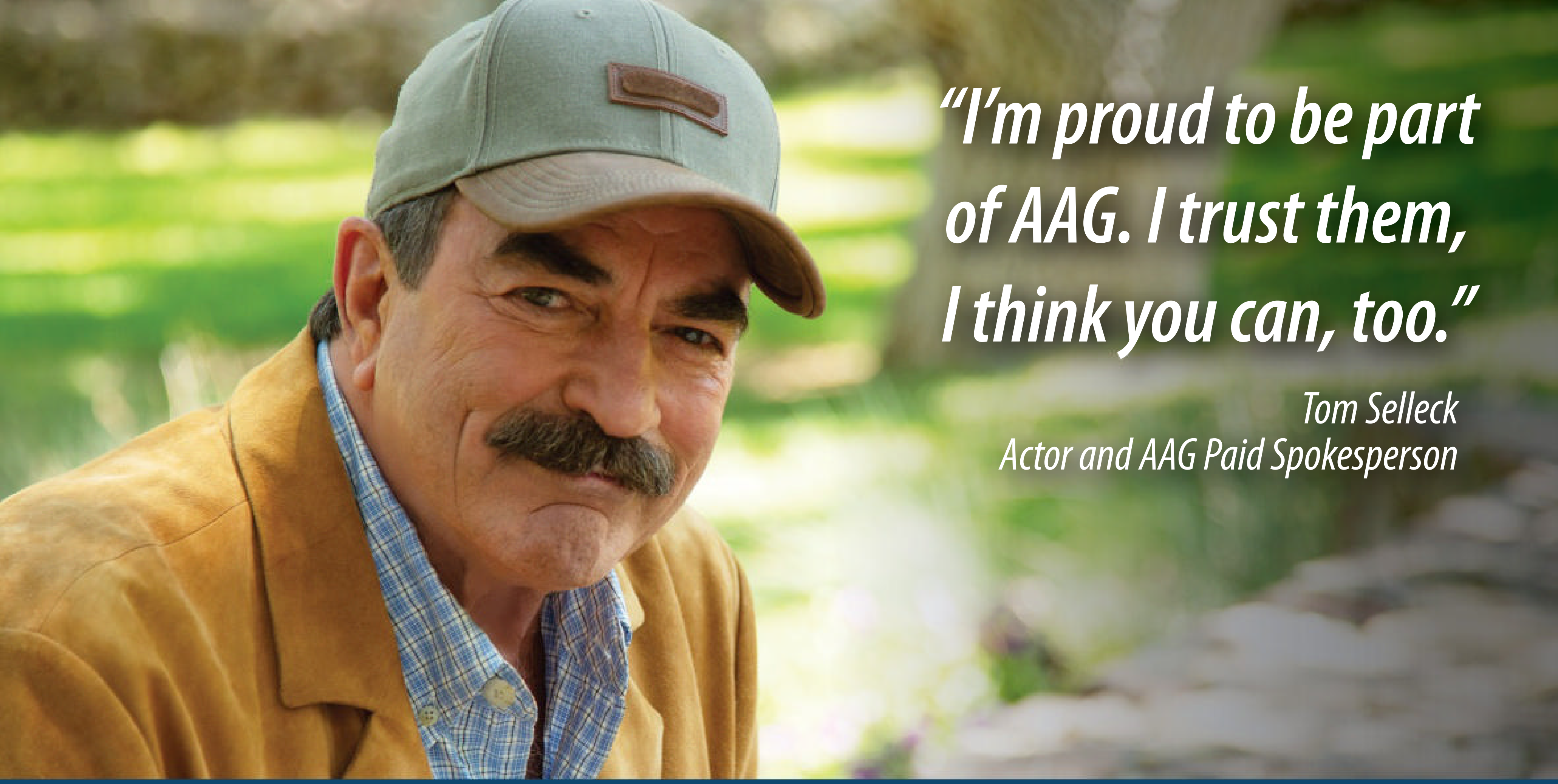
Other tax breaks come in the form of freezes or deferrals. In Arizona, homeowners age 65 or older who have lived in their primary home for at least two years and meet income limits can have their property's valuation frozen for three years.

States With the Highest and Lowest Rates

These states have the highest and lowest effective property tax rates, based on taxes paid as a percentage of average estimated market values of single-family homes.

HIGHEST PROPERTY TAXES		LOWEST PROPERTY TAXES	
1. New Jersey	2.20%	1. Hawaii	0.37%
2. Illinois	2.18%	2. Alabama	0.44%
3. Texas	2.15%	3. West Virginia	0.51%
4. Vermont	1.97%	4. Colorado	0.54%
5. Connecticut	1.92%	5. Utah	0.54%

SOURCE: Attom Data Solutions 2020 property tax analysis



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INTERVIEW

MAKE THE MOST OF THE NEW WORKPLACE

In the wake of the pandemic, employers are willing to be more flexible and inclusive.

Natasha Bowman, author of You Can't Do That at Work, *is founder of Performance ReNew, a workplace consulting firm.*

The workplace is changing rapidly. How will those changes affect current employees and people looking for a job? We were hoping to move into a post-pandemic workplace in 2022, but with the resurgence of COVID-19, return-to-work plans are changing. Employees can expect to continue working remotely or in a hybrid situation until the pandemic is over. Employers are also looking to hire a more inclusive, diverse workforce that goes beyond race and gender. There's a war to attract and keep the best and the brightest for talent. Employers have learned that if they don't want to experience a labor shortage, they're going to have to revise their mental health and wellness strategies. That's more than just discounted gym memberships and nutrition programs. It means continuing to offer therapy benefits provided during the pandemic and having quiet spaces in the office where folks can go to when they need to recharge.

Employers must also figure out how to provide the flexibility that people felt while they were working remotely—the flexibility that allowed them to both work and enjoy things that they're passionate about.

How can job seekers take advantage of these changes in the workplace? If you've been working remotely (and want to continue), talk about what you've been able to accomplish in the past couple of years and how that has worked for you and benefited the company. If you cut out your commute, talk about how you've been able to put that time back into your job.

At the end of an interview, if the hiring manager asks, "Do you have any questions for me?" don't forget to ask about the organization's culture. Most people just ask about pay, but many folks are willing to take a pay cut if it means greater flexibility to support their mental health. Also, ask if you can speak with current employees you could be working with. It's a bold question, but job seekers have that kind of leverage now. You want to confirm that what the hiring manager said about the culture is true.

What's the most effective way to secure an interview? Send your résumé or application directly to the hiring manager, recruiter or someone in that organization. That continues to be the way to make sure that your résumé is being seen. Use LinkedIn to make the connections. Sending materials to the company through its online job portal usually won't do it because they get thousands of applications and end up reading maybe the first 15 to 20.

NICK F. NELSON

How can employees who want to continue working remotely but aren't interested in leaving their current job take advantage of the changed workplace environment? Let your employer know just how much your productivity has improved and how that has contributed to overall company success. Research your competitors to see how they're handling remote work. If they allow it, bring that up. If your company continues to take a hard stance on working from the office, ask for an accommodation, such as coming in a few days a week. If you've been doing a good job working from home, it's going to be hard for your employer to say remote work will hurt your performance. **RIVAN STINSON**

IDENTITY THEFT

WHY YOU SHOULD PUT YOUR CREDIT REPORTS ON ICE

IT'S A REFRAIN THAT HAS APPEARED in our pages time and again, and it's worth repeating: A credit freeze is the most effective way to prevent certain types of identity theft. When your credit report is frozen, lenders can't view it in response to an application for new credit, so a criminal who tries to open a loan or credit card in your name is unlikely to succeed. The case for protecting your identity is as strong as ever, given that the number of data breaches hit a record high in 2021, according to the Identity Theft Resource Center.

But many consumers are dragging their feet. Although more than three-fourths of respondents to an ITRC survey said that they were familiar with credit freezes, only 29% had ever placed one. Reasons they cited for not using a credit freeze included a lack of need for one and confusion or difficulty with the process. Some consumers also had misconceptions about freezes, with fears that a freeze would negatively affect their credit score (it doesn't) and that freezing or thawing a credit report is too expensive (it's free of charge).

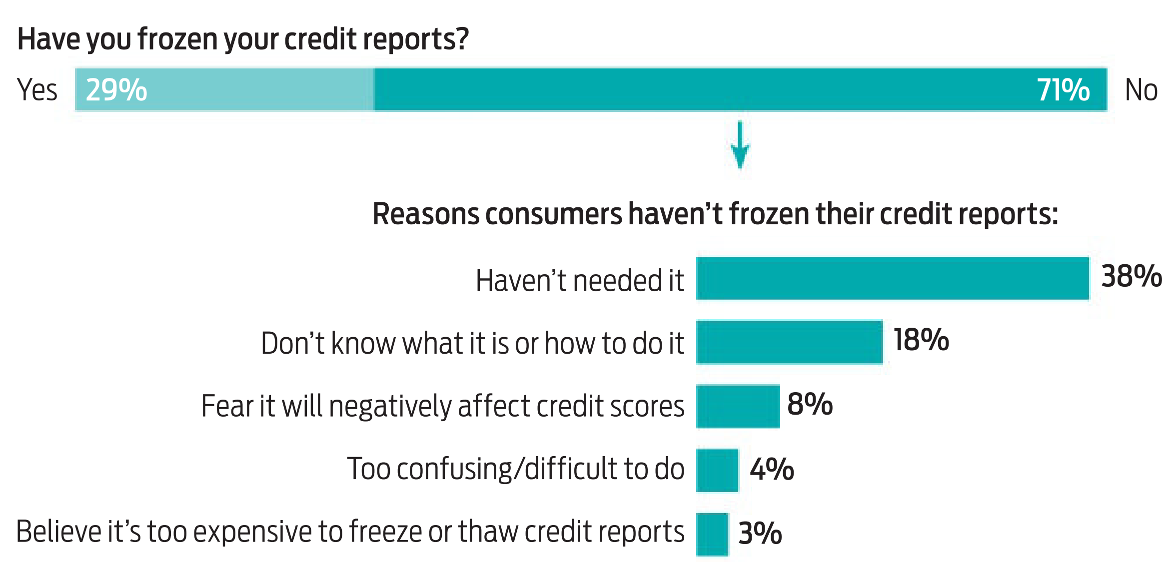
How to freeze your credit reports. You don't have to suffer ID theft to place a freeze. In fact, we encourage you to freeze your reports before you become a victim. You'll need to contact each of the three major credit bureaus. You can reach Equifax at 888-298-0045 or www.equifax.com/freeze; Experian at 888-397-3742 or www.experian.com/freeze; and TransUnion at 888-909-8872 or www.transunion.com/freeze. (You can also freeze your reports by mail; for more information, see kiplinger.com/kpf/freeze.) You provide information such as your Social Security number, birth date and address, and the bureaus must freeze your reports within one business day of receiving your request by phone or online.

Depending on the credit bureau, you may receive a PIN that you'll use to confirm your identity if you want to lift the freeze while you apply for a credit card or loan. Experian requires a PIN to unfreeze your account. With TransUnion, you must provide a PIN to remove a freeze by phone, but online, you can manage your freeze with a password-protected account. Equifax no longer requires a PIN; instead, you use a password-protected account online or provide identity-verification information by phone. The bureaus are required to lift a freeze within one hour of an online or phone request.

Protect your kids. Kids are appealing targets for identity thieves because years may pass before anyone notices that someone has stolen a child's identity. By law, you may freeze the credit of your children who are younger than 16 (if the child has no credit record yet, the bureau will create an account and freeze it). You must submit a written request to each bureau and include supporting documents, such as copies of your child's birth certificate and your driver's license. If you're a conservator or guardian or you have power of attorney for someone (say, an elderly relative), you can freeze his or her credit records, too. **LISA GERSTNER**

Most Consumers Haven't Frozen Their Files

A survey by the Identity Theft Resource Center asked 1,050 respondents why they haven't taken action.



SOURCE: Identity Theft Resource Center

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SCAMWATCH

CON ARTISTS TARGET PEOPLE WHO OWE THE IRS MONEY

WITH TAX SEASON UNDER WAY, THE IRS is once again warning taxpayers to be wary of "Offer in Compromise" scams. These promotions claim that they can help taxpayers pay back taxes for just "pennies on the dollar." Victims often end up paying the promoters thousands of dollars in fees and still end up owing money to the IRS.

While the IRS's Offer in Compromise program allows taxpayers to request a reduction in unpaid taxes, the guidelines are strict, and only a small percentage of applications are approved. To be eligible for the program, you must be up to date on your tax returns and have received at least one bill from the IRS. You'll be required to provide supporting documents, including a breakdown of your expenses. The IRS will then review your income and the assets you own, such as equity in your home, to determine whether you're eligible to have some of your tax debts forgiven. If it determines that you can afford to repay your taxes in full through an installment program, it will likely reject your offer.

You can find out if you prequalify for the OIC program by going to https://irs.treasury.gov/oic_pre_qualifier. The IRS charges a $250 application fee but waives it for low-income taxpayers.

Bank impersonation scams. Consumers also need to be on the lookout for con artists who claim to be fraud officers from their bank. Here's how it works: You receive a fraud alert via text or e-mail asking you to verify a purchase you didn't make. Respond "no" and you'll receive a phone call from a fraud impersonator requesting personal information, such as your username and password, in order to "catch" the scammer. The imposter then uses that information to drain your account. Never give out sensitive information over the phone or send money to people you don't know. Hang up and contact your bank if you're not certain a call is legitimate. While your bank may ask you to verify your identity or account information, this usually happens when you initiate the call.
RIVAN STINSON

Higher Limits for Mortgage Borrowers

The steep rise in home prices nationwide has caused a significant jump in how much you can borrow with a conforming loan—that is, a mortgage that meets guidelines set by government-backed institutions Fannie Mae and Freddie Mac. For 2022, the standard conforming limit for single-unit properties is $647,200, an increase of nearly $100,000 from the 2021 cap. In areas with a high cost of living, the loan limits are higher—as much as $970,800 for single-unit homes in places including Alaska, Hawaii, Washington, D.C., and certain counties in California, Maryland, New Jersey, New York and Virginia.

Conforming loans are the most common type of mortgage, and they often have lower interest rates than other loans. To borrow more than the conforming limit, you must qualify for a jumbo loan, which usually has a higher rate and stricter underwriting requirements. You may be able to get a conforming loan with a credit score as low as 620, and a 740 or higher score can get you the best rates. Jumbos may not be available to borrowers with credit scores below the mid-to-upper 600s, and you'll need a credit score of at least 760 for the best rates, says Keith Gumbinger, vice president of mortgage research site HSH.com. A conforming loan may have a loan-to-value ratio (the amount borrowed expressed as a percentage of the property's value) of up to 95%, while a jumbo loan's LTV usually can't surpass 80%, says Gumbinger.

If you have a jumbo loan that now falls within the conforming limit, refinancing may be worthwhile if it lowers your interest rate. At www.hsh.com/should-i-refinance-calculator.html, enter information about your current mortgage and potential new mortgage to see how much your monthly payment would change and the net savings or cost over the life of the new loan. **LISA GERSTNER**

ISTOCKPHOTO.COM (2)

CALENDAR
03/2022

▲ SUNDAY, MARCH 13
Daylight Savings time begins in most parts of the U.S. While you're changing your clock, take a few minutes to change the batteries in your smoke alarm and other home safety devices. While setting your clock forward an hour means you'll lose an hour of sleep, you'll rest better knowing that your home and family are protected.

WEDNESDAY, MARCH 16
All eyes will be on the Federal Reserve Board when it concludes its two-day meeting. The Fed has signaled it plans to raise short-term interest rates in 2022 in an effort to curb inflation, which rose 7% in 2021. Kiplinger expects the Fed to hike rates four times this year, and the first is likely to be in March.

FRIDAY, MARCH 18
The deadline for most taxpayers to file federal tax returns is a month away. The earlier you file, the sooner you'll get your refund, and filing early will also protect you from identity theft. For tips on how to lower your taxes, see our cover story on page 40.

THURSDAY, MARCH 31
If your Medicare Advantage plan isn't meeting your health care needs, today is the deadline to switch to a different plan or change to traditional Medicare and, if needed, join a Medicare prescription drug plan. The Medicare Plan Finder at www.medicare.gov/find-a-plan can help you find, compare and enroll in a new Medicare Advantage plan or a Medicare drug plan in your area. You can also call 800-633-4227 for help.

DEAL OF THE MONTH
If you're planning to travel this year, March is a good time to update your luggage, according to Julie Ramhold, consumer analyst with DealNews.com. Target and Macy's often offer deals on luggage starting as low as $6, while stores such as Kohl's offer discounts of up to 55% on name brands. If you're planning on roughing it, look for sales of up to 65% off backpacks at REI.

BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY

HOW TO BENEFIT FROM RISING RATES

The economy is strong, unemployment is low and inflation is worrisome, hitting a 40-year high of 7% in December. So the Federal Reserve has moved up plans to wind down its bond-buying stimulus program and start lifting short-term rates. Kiplinger forecasts four hikes in 2022, with the first one in March.

Rate hikes are a blessing and a curse for consumers. You'll pay higher interest rates on credit cards, home equity lines of credit, private student loans and more. And although you may not notice a rate bump in the beginning, if the Fed continues to raise rates over the next couple of years, your plans to repay any debt could get tougher. The good news is that savings rates tend to nudge up across the board, albeit slowly. Deposit levels are at record highs, so banks are less inclined to boost rates sooner.

Manage your debt. Think of the rate-hike process as similar to the seasons changing—it happens gradually, says Greg McBride, chief financial analyst for Bankrate.com. If you have debt you are determined to pay off, he adds, you want to get a handle on it now, while rates remain relatively low.

For those carrying credit card debt—especially if it has a high interest rate—take advantage of a card with a 0% or low-rate introductory offer on balance transfers. If you can pay the entire balance during the interest-free period, you'll pay off your debt and avoid interest rate creep.

For example, the **WELLS FARGO REFLECT VISA** doesn't charge interest for the first 18 months, and the 0% window can be extended up to three additional months if you've made on-time minimum payments. You'll have to pay a balance-transfer fee of $5 or 3% of the amount transferred (whichever is greater).

If you have a home equity line of credit and your lender allows rate locks, consider "fixing" or locking in a lower rate on some or all of your outstanding balance. HELOCs established in the past 10 years typically allow borrowers the option of creating a loan within their credit line. As you make payments on the loan, the credit line is replenished.

You may want to refinance your current HELOC or refinance your mortgage and roll your HELOC balance into it, which may be more feasible given the increased limits on conforming loans for 2022 (for more, see "Ahead," on page 16). Don't delay if you want to refinance your mortgage—rates are still relatively low, but the long-term yields tied to mortgage rates have started to creep up.

A boon for savers. Savers will get the best rates from savings and money market deposit accounts that are already providing top yields. You'll typically find those accounts at online banks or other online financial institutions. Savers could be earning a rate close to the federal funds rate by the time the Fed is done raising rates. And if the Fed hikes rates nine times in quarter-point installments, as it did between 2015 and 2018, that number could hit 2.25%.

One high-rate account worth checking out is **BO SAVINGS** (www.bankwithbo.com), which yields 0.65% and requires a $250 minimum opening deposit. **AFFINITY PLUS FEDERAL CREDIT UNION** (www.affinityplus.org) offers a money market account yielding 1% on balances up to $25,000. To earn the full rate, you must have a $500 minimum direct deposit into an Affinity Plus deposit account and opt to receive digital statements. **RIVAN STINSON**

ISTOCKPHOTO.COM (2)

THE MYTH OF THE MEME STOCK MOVEMENT

A year ago, the investing world was riveted by the sudden rocketing of the share price of GameStop and other so-called meme stocks. As the David-versus-Goliath story line went viral, amateur day traders banded together on the social media site Reddit to orchestrate campaigns to buy seemingly inert stocks, waging war with powerful Wall Street hedge funds that were betting shares would fall. The GameStop frenzy introduced the world to the 21st-century day trader, part of a movement ignited by zero commission trades, turbocharged by the herding power of social media. Shares of meme stocks soared in value, but then Robinhood, the brokerage that promoted the "gamification" of stock trading, suspended the ability buy more (see "Next Gen Day Traders," June 2021).

In *The Revolution That Wasn't: GameStop, Reddit, and the Fleecing of Small Investors,* Spencer Jakab, a columnist for the *Wall Street Journal,* rejects the David-versus-Goliath narrative around the GameStop event. Jakab peels back the layers of the story to reveal that the meme stock phenomenon was actually a bonanza for the fat cats at big financial firms and in corporate boardrooms. Jakab shows how the heroes and villains aren't who we think they are—and argues that the "democratization of finance" is just another ploy for Wall Street to bring millions of new people to the playing field and hustle them into thinking they have an edge in the game. According to *Publishers Weekly,* "Jakab spins an original take, buoyed by zippy prose. It's a certified page-turner."

A GLUM OUTLOOK FOR FAMILY FINANCES

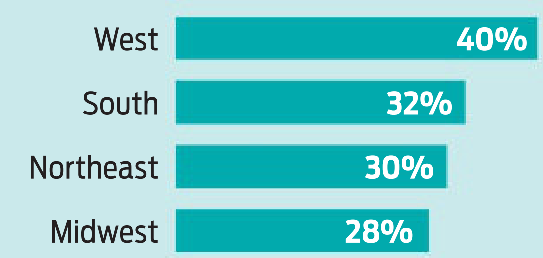
Just one-third of U.S. adults expect their financial situation to improve in 2022, according to a new survey commissioned by Bankrate. Some 26% of Americans say their financial situation will get worse in 2022, and 42% say their financial situation will stay about the same. Inflation was the number-one reason cited by respondents who do not expect their finances to improve.

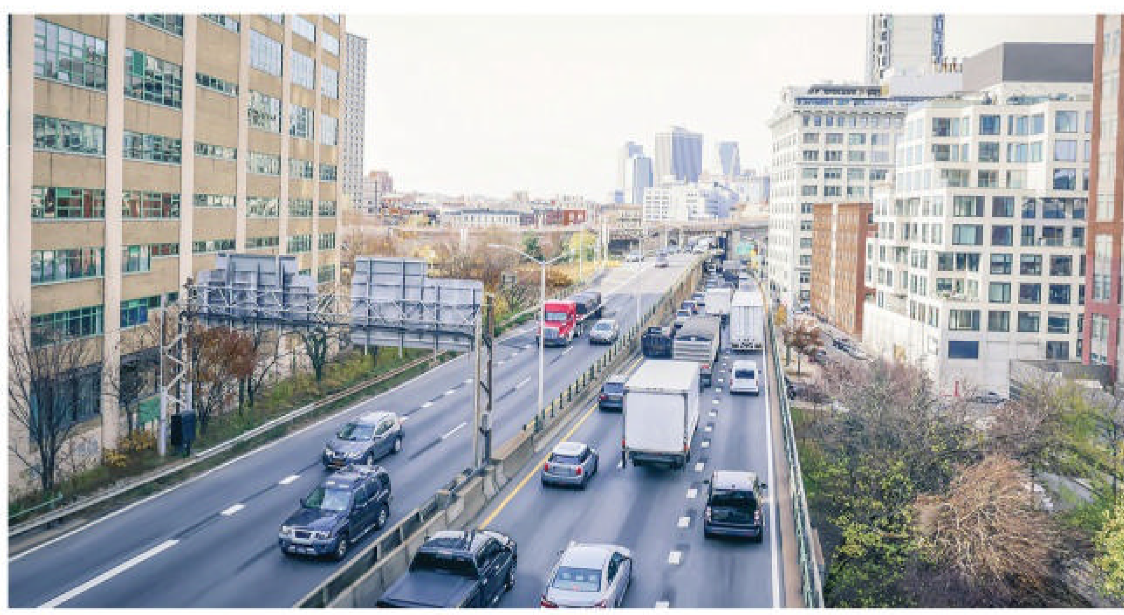
More than half of those expecting their finances to get worse and one-fourth of those expecting them to remain the same lay the blame on political leaders in Washington. One-third of those not expecting financial improvement blamed the pandemic. Other reasons cited by those expecting their finances to get worse include life circumstances (23%), stagnant or declining wages (23%), the amount of debt (18%), changing interest rates (17%) and the amount of money made on savings and investments (15%).

Below is a regional breakdown of respondents who said they expect their finances to improve.

Are you expecting your finances to improve in 2022?

Percentage answering yes, by region





From *The Kiplinger Letter*

LESS RUSH DURING THE PANDEMIC

Rush-hour traffic may seem bad, but it lags far behind pre-pandemic levels. Drivers' yearly time lost to gridlock is a whopping 63 hours below 2019 levels, according to transportation analytics company Inrix. On average, drivers lost 99 hours to traffic slowdowns in 2019. This year, it was just 36 hours, up 10 hours from 2020. The worst congestion is in Chicago, New York and Philadelphia, with losses of 104 hours, 102 hours and 90 hours due to traffic slowdowns. That's still down between 27% and 37% versus 2019. Fourth-ranked Boston (78 hours) is down 47%. The largest drop in congestion levels of any metro area? Washington, D.C., which is 65% below normal. Nationwide, trips to downtowns are down 22% versus pre-COVID levels. But some downtown metros are almost back to normal. San Antonio saw downtown traffic down only 5% this year. Tampa...down 6%. Phoenix...down 7%.

Investing Mutual Fund

A BIG YEAR FOR BIG U.S. STOCKS SAW ENERGY AND OTHER ECONOMY-SENSITIVE SECTORS SHINE.

A lot can happen in a year, and 2021 was no exception. The year started on a wave of euphoria, with vaccines rolling out and the economy lurching toward a recovery thanks to easy central bank policies. Then in the second half of the year, inflation and renewed pandemic worries rattled the markets. It wasn't enough to tip the U.S. stock market, however, and in the end, the S&P 500 pulled out another blockbuster year. Through it all, many actively managed stock mutual funds shone, as the following tables show.

ual 2022 Guide

By Nellie S. Huang

Illustration by Carolyn Sewell

Top Funds in 11 Categories

Large-, midsize- and small-company stock funds, foreign stock funds, hybrid funds, sector funds + more!

Indeed, markets started the year with so much excitement that even small-company stocks and value-priced shares, two long-shunned asset classes, started to rebound. But surging commodity prices, supply-chain bottlenecks and labor shortages started to pinch company results. By summer, the small-cap rally started to peter out, and volatility began to creep up. Rising inflation rates kicked off a September sell-off, followed by word that the Federal Reserve would start to unwind the bond-purchase program put in place to prop up the economy at the start of the pandemic. But a fast-spreading new COVID variant punctuated the end of the year, injecting markets with more uncertainty.

All told for 2021, the S&P 500 gained a whopping 28.7%, well ahead of the 14.8% gain in the small-company benchmark, the Russell 2000. Midsize-company stocks, however, kept close pace with big stocks. The S&P MidCap 400 index climbed 24.8%. (All returns are through December 31.)

Energy, the laggard in 2020, was the best-performing sector in the S&P 500 index in 2021, with a 54.6% gain. It wasn't the only economically sensitive sector to sparkle. Both real estate, which returned 46.2%, and financials, up 35.0%, outpaced information technology, which was up 34.5%. The good news: No sector was a loser in 2021. The worst-performing sectors still turned in respectable returns: Consumer staples climbed 18.6%, and utilities gained 17.7%.

Foreign markets weren't as buoyant as the U.S. bourse, but it wasn't all bad. The MSCI EAFE index, which tracks foreign stocks in developed countries, gained 11.3% in 2021, better than the single-digit return of the previous year. Austria was the best-performing developed country, with a 41.5% return. But the EAFE also got a big lift from shares in the Netherlands, which climbed 27.6%; Norway, up 22.0%; and Sweden, up 21.9%.

Emerging markets had a rougher go of it. The MSCI Emerging Markets index lost 2.5%. The drag came mostly from China. Stocks there make up more than 34% of the EM index, and they plunged 21.7%. Brazil shares, which sank 17.4%, posed another hurdle.

On the pages that follow, we show the top-performing stock mutual funds in 11 categories. The list includes only funds with minimum investment requirements of $10,000 or less that are widely available to investors. It excludes institutional funds, as well as leveraged funds (which seek to boost returns with borrowed money) and inverse index funds (which move in the opposite direction of the market). A number of funds in the tables charge a front-end sales fee if you buy them directly from the sponsoring fund company, but in many cases, you can purchase shares with no sales charge or transaction fee at several discount brokers.

The information used to compile these rankings comes from financial data provider Morningstar, which determines the categories into which the funds are sorted. As always, you can see the returns for the top funds in 12 categories (with target-date funds broken out into their own category) on our website at kiplinger.com/kpf/funds.

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LARGE-COMPANY STOCK FUNDS

Grinding ever higher.

It has been a while since anything but a growth-focused fund has graced the large-cap stock winners list. But for the one-year period, two value-oriented funds and six blend funds—which buy stocks with growth or value characteristics—rank among the top 10. Many of those winners had above-average tilts toward economically sensitive stocks. A sizable stake in energy stocks, including Continental Resources and ConocoPhillips, boosted Smead Value. Over longer periods, large-cap growth funds dominate. Morgan Stanley Insight delivers stellar returns, but it is best for the most-aggressive investors. It charges a load, but it trades without a fee at Fidelity and Schwab. Holdings in the fund have an average market value of $44 billion—far lower than the typical $365 billion market value of its peers. Tech makes up 43% of the fund's assets; Shopify and Snowflake (a cloud-computing company) top the portfolio.

1 YEAR	
1. Beck, Mack & Oliver Partners	53.7%
2. Smead Value Investor	42.5
3. Natixis Vaughan Nelson Select A	39.2
4. Delaware Growth Equity A	38.8
5. HCM Tactical Growth Investor	38.7
6. Midas Magic	38.3
7. HCM Dividend Sector Plus Investor	36.6
8. Victory Diversified Stock A	35.9
9. Morgan Stanley Instl US Core A	35.6
10. Victory Special Value A	35.4
CATEGORY AVERAGE	**23.9%**

3 YEARS	
1. Baron Partners Retail	67.9%
2. Zevenbergen Genea Investor	44.2
3. Baron Opportunity Retail	43.7
4. AXS Thomson Reuters Vntr Cptl RetTrckr A	43.6
5. Fidelity Growth Company*	41.7
6. Zevenbergen Growth Investor	41.0
7. Virtus Zevenbergen Innovative Gr Stk A	39.1
8. Morgan Stanley Insight A	39.0
9. Fidelity Blue Chip Growth	38.5
10. Morgan Stanley Inst Growth A*	38.3
CATEGORY AVERAGE	**23.6%**

5 YEARS	
1. Baron Partners Retail	43.6%
2. Zevenbergen Genea Investor	38.2
3. AXS Thomson Reuters Vntr Cptl RetTrckr A	36.4
4. Baron Opportunity Retail	35.1
5. Morgan Stanley Insight A	34.8
6. Morgan Stanley Inst Growth A*	32.4
7. Fidelity Advisor Growth Opportunities A	32.3
8. Virtus Zevenbergen Innovative Gr Stk A	31.9
9. Zevenbergen Growth Investor	31.7
10. Transamerica Capital Growth A	31.4
CATEGORY AVERAGE	**16.8%**

10 YEARS	
1. Baron Partners Retail	27.9%
2. Morgan Stanley Insight A	23.3
3. Morgan Stanley Inst Growth A*	23.2
4. Fidelity Growth Company*	23.0
5. Fidelity Advisor Growth Opportunities A	22.6
6. Shelton Nasdaq-100 Index Direct	22.5
7. USAA Nasdaq-100 Index	22.5
8. Transamerica Capital Growth A	22.5
9. Fidelity OTC	22.2
10. Fidelity Blue Chip Growth	22.2
CATEGORY AVERAGE	**14.9%**

As of 12/31/2021. *Closed to new investors. SOURCE: Morningstar Direct

MIDSIZE-COMPANY STOCK FUNDS

Another good year.

Many stock funds classified as mid-cap funds either buy or are willing to hold companies of any size. Only one-fourth of the assets in Needham Growth, for instance, sit in mid-cap stocks. Just over half of the fund's assets are in small-cap stocks; the rest is in large companies. The fund's pristine three-year record was earned with below-average volatility. Baron Focused Growth, too, holds half of its assets in midsize- and small-company stocks; the other half is in large firms. The concentrated portfolio of 28 stocks has delivered impressive results over three, five and 10 years, but the ride has been rather bumpy. Eventide Gilead may appeal to socially minded investors because it screens stocks for religious as well as environmental, social and corporate governance factors. Fast-growing biotech stocks have helped Gilead over the past decade, but the fund has also been 12% more volatile than its average peer over that period.

1 YEAR	
1. Kinetics Spin-Off and Corp Rest No Load	42.9%
2. Glenmede Quant US Total Market Equity	41.4
3. Hotchkis & Wiley Mid-Cap Value A	38.9
4. Kinetics Paradigm No Load	38.2
5. Nuveen Mid Cap Value A	36.5
6. GoodHaven	36.0
7. Invesco Value Opportunities A	35.6
8. Fidelity Value	35.4
9. Fidelity Advisor Value A	34.8
10. BMO Mid-Cap Value A	34.7
CATEGORY AVERAGE	**19.8%**

3 YEARS	
1. Baron Focused Growth Retail	50.9%
2. Shelton Green Alpha	46.7
3. Morgan Stanley Inst Discovery A*	43.6
4. Needham Growth Retail	37.0
5. ClearBridge Select A	36.2
6. Virtus AllianzGI Mid-Cap Growth A	36.1
7. American Beacon ARK Transfmt Innov Inv	36.0
8. Artisan Mid Cap Investor	34.2
9. Delaware Smid Cap Growth A	34.0
10. Delaware Ivy Mid Cap Growth A	33.6
CATEGORY AVERAGE	**23.1%**

5 YEARS	
1. Morgan Stanley Inst Discovery A*	35.7%
2. Baron Focused Growth Retail	35.1
3. ClearBridge Select A	31.0
4. Virtus KAR Mid-Cap Growth A	27.9
5. Shelton Green Alpha	27.1
6. T. Rowe Price New Horizons*	26.7
7. Delaware Smid Cap Growth A	26.6
8. Sparrow Growth No-Load	26.1
9. BlackRock Mid-Cap Growth Equity Inv A	25.5
10. Delaware Ivy Mid Cap Growth A	24.8
CATEGORY AVERAGE	**15.0%**

10 YEARS	
1. T. Rowe Price New Horizons*	21.0%
2. Baron Focused Growth Retail	20.8
3. Eventide Gilead N	20.2
4. BlackRock Mid-Cap Growth Equity Inv A	19.4
5. Morgan Stanley Inst Discovery A*	19.0
6. Primecap Odyssey Aggressive Growth*	18.7
7. Miller Opportunity A	18.3
8. Virtus KAR Mid-Cap Growth A	18.2
9. Delaware Smid Cap Growth A	18.2
10. JPMorgan Mid Cap Growth A	17.8
CATEGORY AVERAGE	**13.9%**

SMALL-COMPANY STOCK FUNDS

A split personality.

Depending on the index you look at, 2021 was either just okay or rather spectacular for small-company stocks. The Russell 2000 finished the year with a 14.8% gain, but the S&P SmallCap 600 climbed 26.8%. The split boils down to benchmark construction. The S&P bogey includes a profitability measure, which helped because high-quality fare was rewarded in the latter half of 2021. Oberweis Micro-Cap has a solid 10-year record, but it has been a roller-coaster ride. Whipsaw returns—up a couple of years, down the next—are also a trait of Osterweis Emerging Opportunity. The fund has a top-notch five-year ranking, but it lagged 76% of its peers in 2021. Steadier is Wasatch Micro Cap Value, a growth-oriented fund despite its name. Manager Brian Bythrow has outpaced his peers in eight of the past 10 calendar years. Many of these funds, including the ones we highlight, come with high expense ratios relative to peers.

1 YEAR	
1. Bridgeway Small-Cap Value	67.7%
2. Aberdeen US Sust Ldrs Smlr Coms A	57.0
3. Oberweis Micro-Cap	53.4
4. Kinetics Small Cap Opportunities No Load	50.3
5. Bridgeway Omni Small-Cap Value N	48.0
6. Perritt Ultra MicroCap	47.7
7. Bridgeway Omni Tax-Managed Sm-Cp Val N	46.6
8. Vulcan Value Partners Small Cap*	45.3
9. Auer Growth	45.1
10. Hodges Small Intrinsic Value Retail	44.1
CATEGORY AVERAGE	**20.6%**

3 YEARS	
1. Morgan Stanley Inst Inception A*	48.7%
2. Driehaus Micro Cap Growth*	45.8
3. Needham Aggressive Growth Retail	44.2
4. Needham Small Cap Growth Retail	43.2
5. Jacob Discovery Fund Inv	41.5
6. Driehaus Small Cap Growth Investor	40.6
7. Aberdeen US Sust Ldrs Smlr Coms A	38.8
8. Taylor Frigon Core Growth	37.9
9. Wasatch Ultra Growth*	35.7
10. Lord Abbett Micro Cap Growth A*	35.7
CATEGORY AVERAGE	**21.5%**

5 YEARS	
1. Jacob Discovery Fund Inv	32.1%
2. Driehaus Micro Cap Growth*	32.0
3. Morgan Stanley Inst Inception A*	32.0
4. Wasatch Ultra Growth*	29.4
5. Lord Abbett Micro Cap Growth A*	28.9
6. Wasatch Micro Cap*	28.0
7. Delaware Small Cap Growth A	26.8
8. Taylor Frigon Core Growth	26.2
9. Osterweis Emerging Opportunity	25.7
10. Needham Small Cap Growth Retail	25.5
CATEGORY AVERAGE	**13.1%**

10 YEARS	
1. Lord Abbett Micro Cap Growth A*	21.3%
2. Wasatch Ultra Growth*	20.3
3. Virtus KAR Small-Cap Growth A*	20.2
4. Morgan Stanley Inst Inception A*	19.8
5. Oberweis Micro-Cap	19.6
6. Wasatch Micro Cap*	19.5
7. Federated Hermes Kaufmann Small Cap A*	19.2
8. Wasatch Micro Cap Value	18.8
9. Invesco Discovery A*	18.0
10. AB Small Cap Growth A	18.0
CATEGORY AVERAGE	**13.2%**

As of 12/31/2021. *Closed to new investors. SOURCE: Morningstar Direct

HYBRID FUNDS

A smorgasbord of choices.

Funds that hold stocks, bonds and other securities, such as asset-allocation and target-date funds, fill this category. Convertible-securities funds, which invest in bonds or preferred stocks that can be converted into stocks, fit here, too. But some hybrid funds that rank high aren't for everyone. Quantified STF, for instance, analyzes price trends to decide whether to buy stocks or bonds or sell them short (a bet they'll fall), aiming to beat the Nasdaq 100 index. It boasts high returns and super-high volatility. Allocation funds are a tamer choice; those with big tilts to stocks did best. Manning & Napier Pro-Blend Max Term holds 85% of assets in stocks. High returns and low volatility are typical. Value Line Capital Appreciation, which holds 85% of assets in stocks, uses the firm's "timeliness" rankings to find attractive stocks. And kudos to American Funds 2050 Target Date Retirement, the top-ranked target-date fund over 10 years.

1 YEAR	
1. Quantified Pattern Recognition Investor	33.9%
2. Rational Strategic Allocation A	33.6
3. Donoghue Forlines Dividend A	31.3
4. Buffalo Flexible Income	30.0
5. Quantified STF Investor	29.0
6. Miller Income A	28.7
7. Donoghue Forlines Momentum A	28.5
8. Conquer Risk Defensive Bull	28.2
9. Cantor FBP Appreciation & Income Opps	28.1
10. Copeland Dividend Growth Fund Class A	26.1
CATEGORY AVERAGE	12.4%

3 YEARS	
1. Quantified STF Investor	38.6%
2. Baron WealthBuilder Retail	37.1
3. Lord Abbett Convertible A	27.3
4. Virtus AllianzGI Convertible A	27.2
5. Fidelity® Convertible Securities	26.4
6. Spectrum Advisors Preferred Investor	26.1
7. Quantified Market Leaders Investor	25.4
8. Franklin Convertible Securities A*	24.8
9. Columbia Convertible Securities A	24.7
10. Athena Behavioral Tactical A	23.9
CATEGORY AVERAGE	14.4%

5 YEARS	
1. Quantified STF Investor	33.2%
2. Virtus AllianzGI Convertible A	19.4
3. Franklin Convertible Securities A*	19.1
4. Lord Abbett Convertible A	18.3
5. Spectrum Advisors Preferred Investor	17.2
6. American Funds Growth Portfolio A	17.2
7. Columbia Convertible Securities A	17.2
8. Fidelity® Convertible Securities	16.9
9. Value Line Capital Appreciation Investor	16.6
10. Manning & Napier Pro-Blend Max Term S	16.5
CATEGORY AVERAGE	10.0%

10 YEARS	
1. Franklin Convertible Securities A*	14.2%
2. Virtus AllianzGI Convertible A	14.1
3. T. Rowe Price Capital Appreciation*	13.8
4. Lord Abbett Convertible A	13.6
5. Columbia Convertible Securities A	13.5
6. Allspring Diversified Cap Bldr A	13.5
7. North Square Multi Strategy A	13.3
8. Eaton Vance Tax-Managed Eq Aset Allc A	13.2
9. TIAA-CREF Lifestyle Aggressive Gr Retail	13.0
10. American Funds 2050 Trgt Date Retire A	13.0
CATEGORY AVERAGE	8.7%

LARGE-COMPANY FOREIGN STOCK FUNDS

Overshadowed by U.S. market stars.

Large foreign companies trailed U.S. stocks—again. In 2021, the MSCI EAFE index, which tracks large and midsize companies in developed foreign countries, gained 11.3%. The one-year winners did better than that. Fidelity Overseas and Harbor Overseas benefited from tilting heavily toward Europe, particularly Austria and the Netherlands, the best-performing country markets in the EAFE index last year. Vanguard International Growth is one of our longtime favorites in this category, but a key manager at one of the fund's two subadvisers will retire in April, so we're watching the fund closely. And we like the look of American Century Focused International Growth. The fund holds just 43 stocks; Taiwan Semiconductor Manufacturing and Recruit Holdings top the portfolio. Over the past three and five years, it has delivered above-average returns with average volatility.

1 YEAR	
1. Thornburg Better World International A	20.4%
2. Fidelity Overseas	19.4
3. Fidelity Advisor Overseas A	18.9
4. Saratoga International Equity A	18.9
5. Harbor Overseas Investor	18.8
6. Hartford International Value A	18.5
7. JHancock International Dynamic Gr A	18.3
8. Buffalo International	18.2
9. Pimco StocksPLUS Intl (USD-Hedged) A	18.0
10. Sextant International	17.5
CATEGORY AVERAGE	9.3%

3 YEARS	
1. PGIM Jennison International Opps A	34.3%
2. WCM Focused International Growth Inv*	27.8
3. Vanguard International Growth Inv	27.6
4. Calamos International Growth A	25.9
5. Alger International Focus A	25.8
6. Morgan Stanley Inst International Opp A	25.5
7. Nationwide AllianzGI International Gr A	24.8
8. Martin Currie International Sust Eq A	24.7
9. Morgan Stanley Inst Intl Advtg A	24.5
10. American Century Focused Intl Gr Inv	23.5
CATEGORY AVERAGE	14.8%

5 YEARS	
1. PGIM Jennison International Opps A	25.7%
2. Morgan Stanley Inst International Opp A	21.5
3. Morgan Stanley Inst Intl Advtg A	21.4
4. Vanguard International Growth Inv	21.0
5. WCM Focused International Growth Inv*	20.3
6. Nationwide AllianzGI International Gr A	18.2
7. Calamos International Growth A	17.0
8. Martin Currie International Sust Eq A	17.0
9. American Century Focused Intl Gr Inv	16.8
10. Fidelity International Capital Apprec	16.7
CATEGORY AVERAGE	10.2%

10 YEARS	
1. Morgan Stanley Inst International Opp A	15.2%
2. Morgan Stanley Inst Intl Advtg A	15.2
3. Vanguard International Growth Inv	13.8
4. WCM Focused International Growth Inv*	13.8
5. Fidelity International Capital Apprec	13.1
6. Fidelity Advisor Intl Capital App A	12.7
7. ClearBridge International Growth A	12.3
8. Fidelity Overseas	12.3
9. MFS International Intrinsic Value A*	12.2
10. JOHCM International Select Investor*	12.2
CATEGORY AVERAGE	8.0%

As of 12/31/2021. *Closed to new investors. SOURCE: Morningstar Direct

SMALL- AND MIDSIZE-COMPANY FOREIGN STOCK FUNDS

Bright spots in foreign markets.

Foreign stock funds that focus on small and midsize companies posted better returns, on average, over the past 12 months than funds that invest in big companies. Oakmark International Small Cap's value bent—the managers seek stocks that trade at a 30% or greater discount to their estimate of intrinsic value, among other measures—shone in 2021, thanks in part to a hefty bet on economically sensitive industrials and financials and a below-average exposure to Japan. Brown Capital Management International Small Company, a member of the Kiplinger 25 (our favorite no-load funds), tops the five-year chart. Four managers invest in firms with solid sales and earnings growth, a competitive position in their industry, and executives with a vision and an ability to deliver on it. Get in while you can. Many small-cap funds close to new investors in order to stay nimble.

1 YEAR	
1. Grandeur Peak Intl Stalwarts Inv*	24.4%
2. Causeway International Small Cap Inv	21.2
3. Oakmark International Small Cap Investor	19.1
4. Aberdeen International Small Cp A	18.8
5. Grandeur Peak International Opps Inv*	18.4
6. Invesco International Small Company A	18.4
7. Brandes International Small Cap Equity A	18.4
8. Moerus Worldwide Value N	18.0
9. Fidelity International Small Cap Opp*	17.7
10. Harbor International Small Cap Investor	16.8
CATEGORY AVERAGE	11.1%

3 YEARS	
1. Grandeur Peak Intl Stalwarts Inv*	31.3%
2. Segall Bryant & Hamill Fdml Int'lSmCpRet	30.5
3. Grandeur Peak International Opps Inv*	27.6
4. Brown Capital Mgmt Intl Sm Co Inv	27.3
5. Oberweis International Opportunities	26.6
6. Manning & Napier Rainier Intl Discv S	26.1
7. William Blair International Sm Cap Gr N*	24.1
8. Driehaus International Small Cap Growth	23.9
9. Artisan International Small-Mid Investor*	23.4
10. American Century NT Intl Sm-Md Cp Inv*	23.2
CATEGORY AVERAGE	16.7%

5 YEARS	
1. Brown Capital Mgmt Intl Sm Co Inv	22.2%
2. Grandeur Peak Intl Stalwarts Inv*	20.5
3. Manning & Napier Rainier Intl Discv S	18.3
4. Segall Bryant & Hamill Fdml Int'lSmCpRet	18.0
5. Grandeur Peak International Opps Inv*	17.6
6. Driehaus International Small Cap Growth	17.5
7. Invesco International Small-Mid Com A*	17.2
8. Aberdeen International Small Cp A	17.2
9. Oberweis International Opportunities	16.6
10. T. Rowe Price International Discovery*	16.3
CATEGORY AVERAGE	11.7%

10 YEARS	
1. Oberweis International Opportunities	16.5%
2. Invesco International Small-Mid Com A*	16.2
3. Grandeur Peak International Opps Inv*	15.7
4. Wasatch International Opps Inv*	14.0
5. T. Rowe Price International Discovery*	13.9
6. Fidelity International Small Cap Opp*	13.4
7. Seven Canyons World Innovators Investor	13.3
8. Aberdeen International Small Cp A	12.7
9. Driehaus International Small Cap Growth	12.5
10. Wasatch International Growth Investor	12.4
CATEGORY AVERAGE	10.4%

GLOBAL STOCK FUNDS

U.S. stocks deliver the *oomph*.

Global stock funds, a category with solid results in 2021, invest in U.S. and foreign stocks. Although several long-term winners are closed to new investors, there are plenty of options to consider. T. Rowe Price Global Stock has outpaced its peer group every calendar year but two (2021 and 2012) in the past decade. Long-term winner Artisan Global Opportunities sticks with financially healthy, growing firms that have a competitive edge over peers. It has consistently delivered above-average returns with below-average volatility. And Baron Global Advantage is worth a look. Manager Alex Umansky has been with the fund since it launched in 2012. He runs a trim portfolio of 61 stocks and focuses on fast-growing firms. A hefty 65% of assets are devoted to U.S. shares (more than the typical 58% of its peers).

1 YEAR	
1. Seven Canyons Strategic Income Investor	34.3%
2. Russell Inv Tax-Managed Real Assets A	26.6
3. Invesco MSCI World SRI Index A	26.5
4. Hotchkis & Wiley Global Value A	26.5
5. Segall Bryant & Hamill Glb All Cp Retail	25.8
6. T. Rowe Price Real Assets	25.7
7. Fiera Capital Global Equity Inv	25.4
8. JOHCM Global Select Advisor	25.2
9. Wasatch Global Value Investor	25.1
10. Franklin Global Equity A	24.8
CATEGORY AVERAGE	15.6%

3 YEARS	
1. Morgan Stanley Global Endurance A	43.7%
2. Guinness Atkinson Alternative Energy	38.1
3. Baron Global Advantage Retail	37.8
4. PGIM Jennison Global Opportunities A	34.6
5. Oberweis Global Opportunities Investor	33.2
6. American Century Global Small Cap Inv*	32.6
7. Artisan Global Discovery Investor	32.6
8. Grandeur Peak Global Opportunities Inv*	32.1
9. Wasatch Global Opportunities Investor	32.0
10. Calvert Global Energy Solutions A	31.7
CATEGORY AVERAGE	20.8%

5 YEARS	
1. Baron Global Advantage Retail	30.3%
2. PGIM Jennison Global Opportunities A	27.7
3. Wasatch Global Opportunities Investor	24.1
4. Morgan Stanley Inst Global Opp A*	24.0
5. Morgan Stanley Inst Global Insgt A	23.6
6. T. Rowe Price Global Stock	23.4
7. American Century Global Small Cap Inv*	23.1
8. Columbia Select Global Equity A	22.4
9. AB Sustainable Global Thematic A	22.2
10. Gabelli Global Growth AAA*	21.9
CATEGORY AVERAGE	14.7%

10 YEARS	
1. Morgan Stanley Inst Global Opp A*	19.2%
2. T. Rowe Price Global Stock	18.2
3. Grandeur Peak Global Opportunities Inv*	17.3
4. American Funds New Economy A	17.0
5. Artisan Global Opportunities Inv	17.0
6. Morgan Stanley Inst Global Insgt A	16.9
7. Wasatch Global Opportunities Investor	16.3
8. Marsico Global	16.3
9. T. Rowe Price Global Growth Stock	15.7
10. Gabelli Global Growth AAA*	15.5
CATEGORY AVERAGE	12.1%

As of 12/31/2021. *Closed to new investors. SOURCE: Morningstar Direct

DIVERSIFIED EMERGING-MARKETS FUNDS

China was a drag in a down year.

The one-year returns of this category's winners are robust, even as the MSCI Emerging Markets index turned in a 2.5% loss for 2021; China, which represents 34% of the index, sank 21.7%. But small companies in emerging countries rallied with a 12.9% gain. That's the focus of Wasatch Emerging Markets Small Cap—holdings in the fund have an average $5.7 billion market value. India, Taiwan and Russia are its biggest country exposures; China makes up just 5% of the fund's assets. William Blair Emerging Markets Growth focuses on high-quality, fast-growing firms—tech companies, including Taiwan Semiconductor Manufacturing and Samsung Electronics, make up 36% of the portfolio. One to watch: Fidelity Emerging Markets. The fund just missed the three-year winner's list under new manager John Dance. But he outpaced peers in 2019, 2020 and 2021.

1 YEAR	
1. Wasatch Emerging Markets Small Cap Inv	30.1%
2. Ashmore Emerging Mkts Frontier Eq A	23.9
3. Templeton Emerging Markets Small Cap A	23.5
4. Wasatch Emerging Markets Select Investor	21.3
5. Pimco RAE PLUS EMG A	19.8
6. Driehaus Emerging Markets Small Cap Gr	15.9
7. Pimco RAE Emerging Markets A	15.4
8. William Blair Emerg Mkts Sm Cp Gr N*	15.2
9. Morgan Stanley Inst Next Gen Em Mkts A	14.9
10. American Century Emerg Mkts Sm Cp Inv*	14.3
CATEGORY AVERAGE	–1.4%

3 YEARS	
1. Artisan Developing World Investor	32.3%
2. Wasatch Emerging Markets Select Investor	32.1
3. PGIM Jennison Emerging Markets Eq Opps A	30.4
4. Wasatch Emerging Markets Small Cap Inv	30.1
5. Driehaus Emerging Markets Small Cap Gr	27.5
6. Morgan Stanley Inst EMkts Ldrs A	26.7
7. Oberweis Emerging Markets Investor	25.6
8. BNY Mellon Global Emerging Markets A	23.5
9. William Blair Emerging Mkts Growth N	22.7
10. Ashmore Emerging Markets Sm Cp Eq A	22.5
CATEGORY AVERAGE	13.0%

5 YEARS	
1. Wasatch Emerging Markets Select Investor	22.9%
2. Artisan Developing World Investor	21.4
3. PGIM Jennison Emerging Markets Eq Opps A	20.5
4. Wasatch Emerging Markets Small Cap Inv	19.8
5. WCM Focused Emerging Markets Investor	17.7
6. Morgan Stanley Inst EMkts Ldrs A	16.9
7. Fidelity Emerging Markets	16.8
8. William Blair Emerging Mkts Growth N	16.6
9. Ashmore Emerging Markets Equity A	16.3
10. Driehaus Emerging Markets Small Cap Gr	16.0
CATEGORY AVERAGE	10.3%

10 YEARS	
1. William Blair Emerg Mkts Sm Cp Gr N*	12.0%
2. Wasatch Emerging Markets Small Cap Inv	10.3
3. Driehaus Emerging Markets Small Cap Gr	10.0
4. Morgan Stanley Inst EMkts Ldrs A	9.7
5. EP Emerging Markets Small Companies A	9.4
6. Fidelity Emerging Markets	9.3
7. American Funds New World A	9.1
8. Sunbridge Capital Emerging Markets Inv	9.1
9. William Blair Emerging Mkts Growth N	8.9
10. Delaware Ivy Systematic Em Mkts Eq A	8.4
CATEGORY AVERAGE	6.0%

REGIONAL AND SINGLE-COUNTRY FUNDS

India is hot, hot, hot.

A COVID-recovery stock surge in India produced stunning returns in 2021, but government reforms there could fuel a multiyear rally. The managers at Wasatch Emerging India dig deep to find hidden gems. For broader exposure, consider Matthews Asia Innovators, which invests in companies across Asia (firms in China and India account for 75% of the fund's assets) that are shaking up their industries. It's big on the technology, consumer-nonessentials and communications-services sectors. For diversification, Fidelity Nordic, a consistent winner, offers exposure to Denmark, Finland, Norway and Sweden, which have been among the best-performing developed countries over the past three, five and 10 years. Finally, China fans should look at Matthews China Small Companies, which is well positioned to benefit from the country's domestic growth and less likely to invest in the big firms currently under government scrutiny.

1 YEAR	
1. Wasatch Emerging India Investor	37.5%
2. Timothy Plan Israel Common Values A	34.5
3. T. Rowe Price Africa & Middle East	30.2
4. Fidelity Canada	26.9
5. ALPS/Kotak India Growth Inv	26.4
6. Eaton Vance Greater India A	25.8
7. Invesco European Small Company A	24.3
8. Matthews EM Sm Coms Inv	22.1
9. Columbia Acorn European A	21.5
10. Voya Russia A	21.3
CATEGORY AVERAGE	1.5%

3 YEARS	
1. Matthews China Small Companies	33.6%
2. Morgan Stanley Europe Opportunity A	31.4
3. Columbia Acorn European A	29.6
4. Matthews Asia Innovators Investor	28.1
5. Matthews EM Sm Coms Inv	27.2
6. Oberweis China Opportunities	26.4
7. Timothy Plan Israel Common Values A	25.9
8. Janus Henderson European Focus T	25.6
9. Fidelity Emerging Asia	24.6
10. Aberdeen China A Share Equity A	24.3
CATEGORY AVERAGE	15.2%

5 YEARS	
1. Matthews China Small Companies	24.7%
2. Wasatch Emerging India Investor	21.7
3. Morgan Stanley Inst Asia Opp A	21.4
4. Matthews Asia Innovators Investor	21.2
5. Morgan Stanley Inst Asia Opp C	20.5
6. Columbia Acorn European A	19.5
7. Morgan Stanley Europe Opportunity A	19.3
8. Fidelity Emerging Asia	19.2
9. Fidelity Advisor Emerging Asia A	19.0
10. Timothy Plan Israel Common Values A	18.6
CATEGORY AVERAGE	11.5%

10 YEARS	
1. Wasatch Emerging India Investor	18.2%
2. Matthews China Small Companies	15.5
3. Matthews Asia Innovators Investor	15.4
4. Oberweis China Opportunities	14.7
5. Fidelity Nordic	14.6
6. Columbia Acorn European A	14.3
7. ALPS/Kotak India Growth Inv	14.1
8. Fidelity Pacific Basin	13.3
9. AMG Veritas China N	13.0
10. Matthews India Investor	12.9
CATEGORY AVERAGE	8.4%

As of 12/31/2021. *Closed to new investors. SOURCE: Morningstar Direct

SECTOR FUNDS

Energy surges back.

Surprise! Energy funds, not tech, dominated in 2021. But we still remain cool on the sector, given its boom-and-bust traits and the waning popularity of fossil fuels. Fidelity Select Construction & Housing Portfolio offers a more palatable tactical bet on an economic recovery. Home Depot is a top holding. Fidelity Select Semiconductors, a perennial winner over the years, homes in on companies engaged in computer chip design (Nvidia) or manufacture (Taiwan Semiconductor Manufacturing). A new manager took over in 2020, but Fidelity's sector funds are often proving grounds for promising up-and-coming stock pickers. (For more, see "Semiconductors: A Smart Bet for the Long Haul," on page 30.) T. Rowe Price Global Technology, a Kip 25 member, favors smaller stocks with big promise over well-trodden names such as Apple and Microsoft. The fund is open to new investors; Schwab clients must call a broker to make the first trade.

1 YEAR	
1. Victory Global Energy Transition A	83.0%
2. Goehring & Rozencwajg Resources Retail	61.6
3. Fidelity Select Semiconductors	59.2
4. Upright Growth	57.6
5. Fidelity Select Construction & Hsg Port	57.6
6. Fidelity Advisor Semiconductors A	57.5
7. RMB Mendon Financial Services A*	56.4
8. Invesco Energy Inv*	56.0
9. Hennessy BP Energy Transition Investor	55.4
10. Fidelity Select Energy	55.4
CATEGORY AVERAGE	23.0%

3 YEARS	
1. Fidelity Select Semiconductors	55.6%
2. Fidelity Advisor Semiconductors A	54.7
3. Upright Growth	52.3
4. Rydex Electronics Inv	51.5
5. Fidelity Advisor Technology A	46.4
6. Columbia Seligman Global Tech A	46.4
7. Columbia Seligman Tech & Info A	45.6
8. Jacob Internet Inv	45.2
9. Fidelity Select Technology	44.5
10. BlackRock Technology Opportunities Inv A	42.5
CATEGORY AVERAGE	18.6%

5 YEARS	
1. Fidelity Select Semiconductors	35.1%
2. BlackRock Technology Opportunities Inv A	34.6
3. Fidelity Advisor Semiconductors A	34.2
4. Fidelity Advisor Technology A	34.0
5. Berkshire Focus	33.4
6. Fidelity Select Technology	32.8
7. Rydex Electronics Inv	32.0
8. Jacob Internet Inv	31.1
9. Columbia Seligman Global Tech A	31.0
10. Putnam Global Technology A	30.8
CATEGORY AVERAGE	11.7%

10 YEARS	
1. Fidelity Select Semiconductors	28.4%
2. Fidelity Advisor Semiconductors A	27.6
3. Columbia Global Technology Growth A	24.9
4. T. Rowe Price Global Technology	24.9
5. BlackRock Technology Opportunities Inv A	24.5
6. Fidelity Advisor Technology A	24.2
7. Rydex Electronics Inv	23.9
8. Fidelity Select Technology	23.8
9. Columbia Seligman Global Tech A	23.7
10. Berkshire Focus	23.3
CATEGORY AVERAGE	10.8%

ALTERNATIVE FUNDS

Inflation fighters rule.

This catch-all category includes a mix of strategies that seek to deliver returns that zig when stock and bond markets zag. Among them, commodity funds are having their day in the sun, thanks to rising inflation rates the world over. Pimco Commodities Real Return Strategy invests in futures linked to a commodity index and backs them up with inflation-protected bonds and other fixed-income securities. The fund trades with no load at Fidelity and Schwab. Camelot Event Driven Fund invests in companies poised to benefit from mergers, spin-offs and other corporate reorganizations. Returns are high, but so is the volatility. (It trades no-load at Schwab.) RiverPark Long/Short Opportunity buys and holds stocks in firms with good prospects (Shopify, Meta Platforms), and it sells overpriced stocks or market segments short (such as New York Times and an energy exchange-traded fund), betting their prices will fall. ■

1 YEAR	
1. Invenomic Investor	61.2%
2. Counterpoint Tactical Equity A	53.7
3. Pimco CommoditiesPLUS Strategy A	43.4
4. ABR 50/50 Volatility Investor	41.0
5. Rydex Commodities Strategy A	39.1
6. Goldman Sachs Commodity Strategy A	33.0
7. VanEck CM Commodity Index A	33.0
8. Pimco Commodity Real Ret Strat A	32.8
9. Columbia Commodity Strategy A	31.9
10. Boston Partners Long/Short Equity Inv	31.7
CATEGORY AVERAGE	12.2%

3 YEARS	
1. ABR 50/50 Volatility Investor	38.5%
2. Virtus KAR Long/Short Equity A	27.0
3. Invenomic Investor	25.7
4. RiverPark Long/Short Opportunity Retail	23.4
5. ABR Dynamic Blend Equity & Volatil Inv	23.3
6. Catalyst Systematic Alpha A	23.1
7. AXS Alternative Growth A	22.4
8. Caldwell & Orkin - Gator Capital L/S Fd	20.6
9. Alger Dynamic Opportunities A	20.0
10. Swan Defined Risk Growth A	19.0
CATEGORY AVERAGE	8.0%

5 YEARS	
1. RiverPark Long/Short Opportunity Retail	17.5%
2. Alger Dynamic Opportunities A	14.5
3. ABR Dynamic Blend Equity & Volatil Inv	14.5
4. AXS Alternative Growth A	14.1
5. Anchor Risk Mgd Equity Strategies Adv	14.0
6. CBOE Vest S&P 500 Enhanced Gr Strat Inv	13.1
7. Camelot Event Driven A	13.0
8. Toews Hedged U.S. Fd	13.0
9. Longboard Alternative Growth A	12.5
10. Superfund Managed Futures Strategy A	12.4
CATEGORY AVERAGE	4.7%

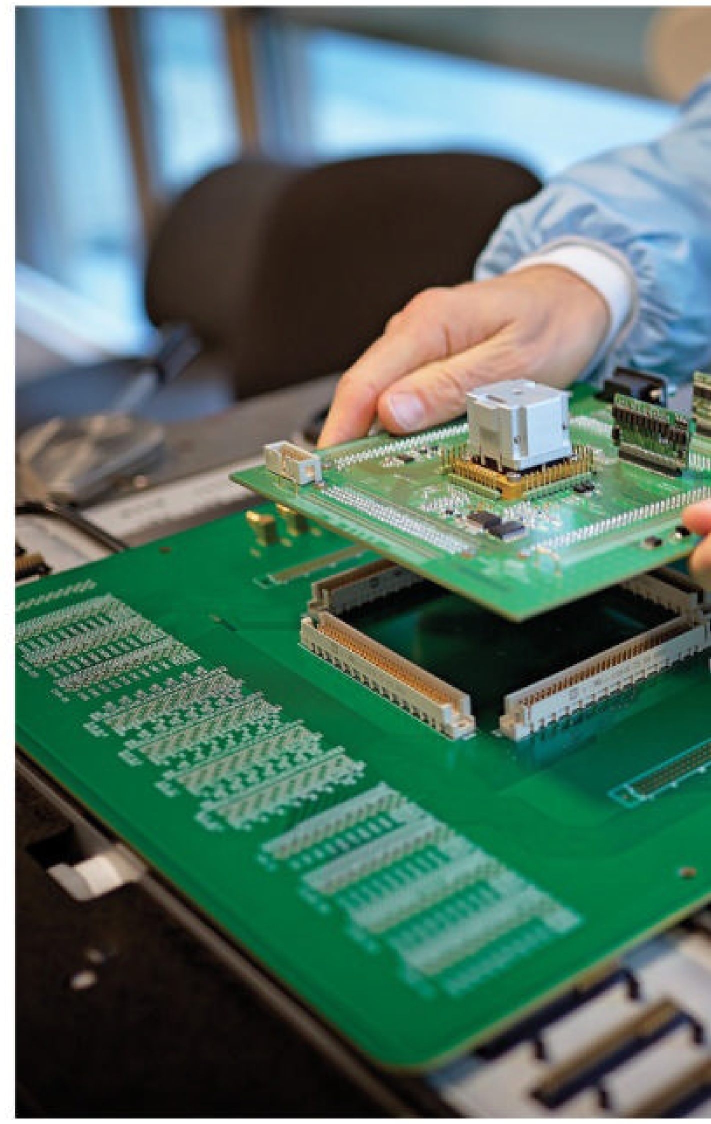
10 YEARS	
1. Shelton Equity Income Direct Shares	12.0%
2. BlackRock High Equity Income Investor A	11.4
3. Alger Dynamic Opportunities A	10.4
4. Nuveen Equity Long/Short A	10.3
5. Easterly Snow Long/Short Opportunity A	10.1
6. Weitz Partners III Opportunity Investor	9.3
7. Toews Hedged U.S. Fd	9.3
8. Camelot Event Driven A	8.8
9. Invesco Income Advantage U.S. Fund Inv	8.7
10. Diamond Hill Long-Short Inv	8.2
CATEGORY AVERAGE	2.5%

As of 12/31/2021. *Closed to new investors. SOURCE: Morningstar Direct

HOT PROSPECTS

Semiconductors: A Smart Bet for the Long Haul

Stocks in this growing industry will stay in demand long after supply-chain snarls are unraveled. BY ANDREW TANZER



THE SEMICONDUCTOR INDUSTRY GRABBED headlines in 2021 mostly due to a supply shortage that crippled industries, such as autos, for which chips are a key component. The world awoke to the fact that seemingly everything these days—from garage-door openers to rockets—runs on what's now dubbed "the new oil."

The acute supply-demand imbalance, induced largely by pandemic disruptions, should ease as we move through 2022. But the insatiable appetite for semiconductors will continue to surge. Angelo Zino, an analyst for investment research firm CFRA, foresees a "super cycle" for the industry over the next decade as the content per device and sophistication of semiconductors grow. For example, artificial intelligence capabilities, which essentially replace the human brain and require high-performance chips, are expanding in industries ranging from autos to medicine to data centers.

Devices are getting smarter. Applied Materials, the largest equipment supplier to the semiconductor industry, projects that between 2020 and 2025, the value of semiconductor content will jump 50% per automobile, to $690, and it will double for an average data center server, to $5,600. The growing adoption of 5G telecommunications will help boost the value of chip content of a high-end smartphone to $275. Overall, the industry should expand by 2.5 to 3 times the rate of gross domestic product growth and become a $1 trillion market in 2030.

With this inexorable growth in mind, we identified six attractive stocks that range from chip designers to manufacturers to equipment suppliers. Valuations in the industry aren't cheap, but they have come down in recent weeks along with those of the tech sector overall, hit by the recent run-up in interest rates. Returns and other data are through January 7.

APPLIED MATERIALS

Semiconductor manufacturing is an enormously capital-intensive business, with foundries and logic- and memory-chip companies spending tens of billions of dollars each year to expand capacity and to keep up with the blazing pace of technological change. Applied Materials is the world's largest maker of semiconductor equipment, an industry niche that has consolidated in recent years to just five major players. Igor Tishin, a tech analyst at Harding Loevner Funds, likens the leading tool makers to "arms suppliers to a growth industry." That's because regardless which chipmaker is up or down, all of them need to buy from the same handful of equipment suppliers.

Applied sells its complex machines, such as etching equipment, to a global market: Last year, about 75% of sales went to Asian industrial powers China, South Korea and Taiwan; only about 10% of revenues were booked in the U.S. Applied has used its close relations with chipmakers around the world to boost its services business (such as machine maintenance), which generates high recurring, subscription-like revenues and is less volatile than machine orders. Applied generates a towering return on equity (a measure of profitability) of approximately 50% and is expected to increase earnings by nearly 20% in its fiscal year ending in October 2022.

MARVELL TECHNOLOGY

Marvell is a good example of a so-called fabless semiconductor company—a chipmaker that designs semiconductors

COURTESY NXP

■ NXP SEMICONDUCTORS STANDS TO GAIN FROM MORE CHIP CONTENT IN CARS.

in-house but outsources manufacturing to third parties, thereby tamping down capital intensity. Business is booming because most of the company's sales are to high-growth markets such as cloud data centers and 5G telecommunications infrastructure (networking customers include Cisco Systems and Dell). A leader in items such as controllers for storage systems, Marvell supplies hard-disk-drive makers including Toshiba, Seagate and Western Digital. Many of the chips it designs are customized for clients, which increases customers' costs to switch suppliers and enhances the "stickiness" of sales. CFRA's Zino expects Marvell's revenues to grow 30% this year and earnings per share to double in two years. As with other semiconductor-industry companies, one potential vulnerability is Marvell's dependence on China, where it books nearly half of sales.

NVIDIA

In 2020, Nvidia dethroned Intel to become the most valuable semiconductor stock. It's been quite a ride since 1999, when this disrupter invented graphics processing units, which redefined the PC gaming industry. More recently, Nvidia has used its high-speed, leading-edge GPUs to grab market share in sectors including gaming, data centers, cloud computing, machine learning, cryptocurrency mining and robotics. Adam Benjamin, manager of Fidelity Select Semiconductors Portfolio, says that Nvidia "stands on its own right now" in leading the shift to AI-driven systems for everything from autonomous-driving vehicles to medical research and diagnosis.

The market understands that the world is Nvidia's oyster. Highly profitable, with sales growing at multiples of the overall semiconductor industry, the stock returned nearly 100% annualized over the past three years, double the industry's average. Yet many investors still find it irresistible. "Every time I cut back, it turned out to be a mistake," Plumb Funds' Tom Plumb says of his largest stock holding.

NXP SEMICONDUCTORS

The semiconductor content in autos is surging due to the migration to electric vehicles and the addition of increasingly sophisticated features in cars, such as enhanced safety and audio-infotainment systems. NXP is well placed to ride the wave. Autos account for half of NXP's revenues, a proportion that is growing (chips for home and industrial automation are also a major business for the Netherlands-based firm). NXP supplies automakers including BMW, Ford, Tesla and Volkswagen with chips for battery-management systems in EVs, advanced

SPECTACULAR SEMIS

Cash In on These Chip Stocks

The companies below represent various aspects of the semiconductor industry, which is riding a long-term growth wave.

Company	Symbol	Share price	Market value (billions)	Price-earnings ratio	Dividend yield	1-year return
Applied Materials	AMAT	$151	$134	19	0.6%	60.5%
Marvell Technology	MRVL	83	70	40	0.3	70.0
Nvidia	NVDA	272	681	54	0.1	104.3
NXP Semiconductors	NXPI	221	59	19	1.0	27.8
Taiwan Semiconductor Manufacturing	TSM	124	640	24	1.6	2.9
Texas Instruments	TXN	179	166	22	2.6	9.4
S&P 500 INDEX				**24**	**1.3%**	**24.7%**

As of January 7. SOURCES: MarketWatch, Morningstar, S&P Capital IQ.

radar systems to avoid accidents, and in-vehicle networking. The company, which plows more than 15% of revenues back into research and development, projects annual sales growth of 8% to 12% until 2024. NXP jacked up its dividend 50% last year and has a habit of aggressive share repurchases.

■ TAIWAN SEMICONDUCTOR PIONEERED THE CHIP FOUNDRY BUSINESS.

COURTESY TAIWAN SEMICONDUCTOR

TAIWAN SEMICONDUCTOR MANUFACTURING

In the 1980s, Taiwan Semi pioneered the foundry business—the contract manufacturing of chips for others. With a global foundry market share of more than 50% (three times higher than Samsung Electronics, which ranks second) and a virtual lock on leading-edge chips, Taiwan Semi makes semiconductors for Apple, Qualcomm, Nvidia, Broadcom and Advanced Micro Devices, among others.

Vying with Nvidia to be the most valuable semiconductor company (by market value) in the world, Taiwan Semi is investing $100 billion from 2021 to 2023 in new chip-fabrication facilities to meet supply shortages and rapidly expanding demand. Harding Loevner's Tishin labels this indispensable chipmaker a "natural monopoly," but an enlightened one in that it doesn't abuse its pricing power and treats customers "fairly and equally." (The firm's motto is "Everyone's Foundry.") Taiwan Semi has little competition, so its largest risk may be the rising political tension between China and Taiwan, where most of its fixed assets are based.

TEXAS INSTRUMENTS

We may be in the digital age, yet the demand for analog chips is still enormous and growing. Venerable Texas Instruments, founded in 1930, is the global leader in analog semiconductors, which find their way into pretty much every electronic product to provide power to run devices, for instance, and for tech interface with humans. "People think analog is not sexy because it's not at the forefront of technology, but you find it everywhere," says Hendi Susanto, a portfolio manager at Gabelli Funds. TI, whose product catalog of 80,000 devices also includes processors that convert sound to digital data, counts 100,000 customers around the world, with two-thirds of its sales from Asia.

The unglamorous analog business (the industrial and personal electronics sectors are the two largest end customers) grows steadily and is highly profitable for TI, which is tightly managed for shareholders. Compared with digital chips, analog product life cycles are long and capital spending needs are modest. Unlike many competitors, TI manufacturers its own chips, which helps to reduce cost. With high and rising profit margins, the company generates $7 billion of free cash flow a year, and TI returns nearly all of it to investors by repurchasing shares and paying dividends, which the firm has increased for 18 consecutive years. ■

Consider These Funds

The dynamic semiconductor industry changes so quickly that a diversified sector fund makes sense for many investors. Here are our favorites. (Returns and other data are through January 7.)

FIDELITY SELECT SEMICONDUCTORS PORTFOLIO (SYMBOL FSELX, EXPENSE RATIO 0.7%) dates from 1985 but has been managed by Adam Benjamin since 2020. Benjamin says he's particularly drawn to businesses that supply end markets enjoying strong secular growth, such as cloud data centers and 5G infrastructure. As of last report, his top two holdings were Nvidia (with a 26% allocation) and NXP Semiconductors. The fund returned 52% annualized over the past three years.

If you prefer investing through exchange-traded funds, **ISHARES SEMICONDUCTOR** (SOXX, $521, 0.43%) is a modified market-value-weighted fund that tracks the ICE Semiconductor Index. SOXX caps the weighting of the five top holdings at 8% each and the remaining holdings at 4% each; American depositary receipts for foreign companies collectively are capped at 10%. The ETF returned 50% annualized over the past three years.

VANECK SEMICONDUCTOR (SMH, $297, 0.35%) allows up to 25% in foreign holdings. Taiwan Semiconductor, at 10% of the portfolio, is the top position and the Netherlands' ASML is also in the top 10. The ETF's annualized three-year return is 53%.

FOR QUESTIONS OR COMMENTS PLEASE SEND AN E-MAIL TO FEEDBACK@KIPLINGER.COM.

INCOME INVESTING | Jeffrey R. Kosnett

A Dynamic Duo for Yield in 2022

COVID-19, inflation and the Federal Reserve have so dominated the financial news that it was easy to miss the run-up in utility and real estate shares. In the fourth quarter of 2021, real estate investment trusts averaged a 17.5% return and utilities averaged 12.9%. The first few days of 2022 were poor, but I remain all-in on the duo, given that the chatter about higher interest rates is unlikely to translate soon into livable terms on savings accounts, CDs, money market funds and new government bonds.

I have doggedly dissed the dated doctrine that demeans REITs and utilities as "bond proxies" whose business models and investor returns depend on low and falling interest rates. I predict that both groups (other than in rare, random cases of mismanagement) will flourish as America absorbs this moderately higher inflation along with strong economic growth.

These are not merely defensive stock sectors. Utilities earn more and pay bigger dividends when they sell extra water and power. They are major landowners and both builders of and investors in renewable-energy projects. The bulk of property-owning REITs are also developers and acquirers whose appreciating land and building values and rising rents support ever-higher dividends. In 2021, according to Hoya Capital, 130 publicly traded realty trusts boosted dividends. That is more than 75% of them. It's not unusual to see five-year compound growth rates of 10% for cash flow and dividends.

I urge that all income-focused portfolios maintain core positions in both REITs and utilities, with regular contributions as you see fit. Through January 7, Standard & Poor's real estate index shows an annualized 10-year total return of 12.6%; utilities clocked in at 11.2%. Dividends are 4% of that haul with utilities; 3.5% with real estate.

MAINTAIN CORE POSITIONS IN BOTH REITs AND UTILITIES, WITH REGULAR CONTRIBUTIONS.

POON WATCHARA-AMPHAIWAN

What to buy now. Within the property REIT sector, 15 of 16 subsectors returned at least 18% in 2021 (lodging was the exception). I advise you to stay with what is working, but with REITs, one year's laggards often become next year's leaders (not always the reverse, though). Housing and industrial REITs are expensive now. Hold them for their high yields, but do not chase them with fresh cash. Lodging and health care REITs should score well in 2022; comeback ideas include **COMMUNITY HEALTH** (SYMBOL CHCT, $48) and **OMEGA HEALTHCARE** (OHI, $31), and in hotels, **HOST HOTELS AND RESORTS** (HST, $18) and **XENIA HOTELS AND RESORTS** (XHR, $18). Hotel REITs still pay zero or a pittance in dividends, but the shares are deeply discounted to net asset value, and when profits return, so will their payouts. Remember, retail and office REITs were pronounced dead two years ago but revived.

Utilities are essential businesses. Everyone needs heat and light, and usually there is a local monopoly. Utilities should clean up over the years from electric cars and cheaper electricity generation from wind and solar. They have ready access to inexpensive capital and a friendly administration that wants to help with reconstruction and service quality.

My favorites include **AMERICAN WATER WORKS** (AWK, $174), **NATIONAL GRID** (NGG, $72) and **XCEL ENERGY** (XEL, $69). Or use the **UTILITIES SELECT SECTOR SPDR FUND** (XLU, $70). I am not a fan of indexing, but consolidation within the industry leaves less scope for active managers to find mispriced investments. The ETF's yield is just shy of 3%. ■

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ESG INVESTING

These Funds Aim to Double Your Impact

A growing number of funds donate directly to causes you might care about. Are they good investments? **BY ELLEN KENNEDY**

YOU MAY HAVE NOTICED A FLURRY OF new investing products that link sustainably themed funds with donations to nonprofit groups, from the NAACP to the National Wildlife Federation to the Susan G. Komen Foundation. But before you invest in a mutual or exchange-traded fund tied to your favorite charity, make sure that it fits within your portfolio, meets your investment goals and truly delivers a benefit to the nonprofit group with which it partners.

When comparing these funds with competitors, "consider the fund donation to be the cherry on top, not the main driver of the decision," says Jon Hale, global head of sustainability for investment research firm Morningstar. "Don't be seduced into a fund that doesn't further your financial goals," he says.

And look beyond a fund's donation to measure impact. Start by taking a hard look at its management company. Does it actively partner with the nonprofit group it benefits to bring about change? Is it voting shareholder proxies and filing shareholder resolutions to further the nonprofit's cause? "ESG investing alone doesn't create concrete, real-world impact," says Leslie Samuelrich, president of Green Century Capital Management. "You need to pick funds that do shareholder advocacy."

The concept of working hand-in-glove with nonprofits isn't completely novel. Consider **GREEN CENTURY BALANCED FUND** (SYMBOL GCBLX), a member of the Kiplinger ESG 20, the list of our favorite stocks and funds with a focus on environmental, social and governance issues. Fund sponsor Green Century is owned by several nonprofit groups around the U.S., and its profits from fees support their environmental and public health goals.

Moreover, Green Century has for years engaged companies by filing shareholder resolutions, speaking with corporate executives and doing policy work. Apple, for example, Balanced Fund's second-largest holding, announced in November that it would redesign its products to enable consumers and independent shops to repair devices and thereby reduce electronic waste, the fastest-growing global waste stream. Green Century was one of the main drivers of this "right to repair" decision.

All that engagement comes at a cost—the expense ratio for Green Century Balanced is 1.46%. But over the past 10 years, Balanced Fund's 10.6% annualized return beat 83% of its peers, and it placed in the top 25% of similar funds over the past three-, five- and 10-year periods. (Returns and other data are through January 7.)

SIMPLIFY HEALTH CARE ETF (PINK, $26) is another fund that has a strong investment thesis and aims to provide a significant boost to a nonprofit group. This ETF is actively managed by Michael Taylor, a trained virologist as well as a seasoned and highly regarded hedge fund manager. Simplify is donating all of its net profits from managing the fund, or a minimum of $100,000 per year, to the Susan G. Komen Foundation for breast cancer research. Although the foundation's

reputation was tarnished in the past decade for high CEO pay and overhead, Komen has since improved its leadership, management and transparency, such that it has earned a four-star rating (out of five) from Charity Navigator and a Gold rating from Guidestar.

Simplify Health Care does not apply an ESG screen per se to its stock-selection process; even so, it earns a strong four out of five "globes" ESG rating from Morningstar. Top holdings include UnitedHealth Group and Pfizer. Launched in October 2021, the ETF has gained 4.5% since then, garnering over $30 million in assets. The fund's 0.50% expense ratio is reasonable, given that it has such strong management.

Another plus for the fund is that health care stocks are often resilient in times of inflation. And the long-term demographics of aging societies are working in their favor. For those reasons, this fund could be a solid addition to a portfolio for investors looking to diversify into the health care sector.

Impact Shares, itself a nonprofit organization, manages a suite of sustainable funds in collaboration with leading nonprofits, including the NAACP, the YWCA and others. Impact has partnered with the groups to help design investment criteria and has pledged to donate 100% of net fee profits to them. In the case of **IMPACT SHARES NAACP MINORITY EMPOWERMENT ETF (NACP, $35)**, which tracks a Morningstar index designed to provide exposure to U.S. companies with strong racial and ethnic diversity policies in place, Impact has absorbed a portion of the management fee, lowering the expense ratio from 0.75% to 0.49%.

According to Impact Shares CEO Ethan Powell, the fund is almost at breakeven, at which point donations to the NAACP will begin. Although the donations will be important, Powell believes that an even greater benefit to these groups is the opportunity to engage with corporations alongside an institutional investor. In fact, Impact Shares hired a former senior director of the NAACP as chief engagement officer for the fund in 2020, and corporate execs have been reaching out to learn how they can better their racial equity scores so that their companies can be included in the fund.

Unlike many other funds that donate to specific causes, the ETF is not sector-specific. But it recently held a hefty 29% weighting in tech. The portfolio of large-company shares, topped by Apple and Microsoft, is a blend of growth-focused and value-priced stocks. Since its launch in July of 2018, its 19.8% annualized return outpaced the S&P 500's 17.9%.

The funds above are far from the only ones partnering with causes you might hold dear. The investment arm of New York Life Insurance launched a suite of ESG funds in 2021 that will donate the larger amount of 10% of net fees or $30,000 per year to specific causes. These include IQ Cleaner Transportation, which will donate to the National Wildlife Federation, as well as ETF index funds donating similarly to Girls Who Code, the American Heart Association and Oceana, an ocean conservation group.

Although the investment case for some of these funds is intriguing, the track records are still short, and investors who care about making an impact should note that the New York Life funds will not be engaging with companies beyond voting on shareholder proposals.

Expect to see more funds linking up with charities. The bottom line is that with any fund promising to donate fee income to a worthy cause, you will have to do some extra homework to make sure the pledge is more than just a marketing exercise. Nonetheless, for investors who want to beef up donations to their favorite charities along with their portfolios, these new partnerships are worth watching. ■

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■ DONATIONS FROM THE SIMPLIFY HEALTH CARE ETF WILL BENEFIT THE SUSAN G. KOMEN FOUNDATION.

THE KIPLINGER ETF 20 UPDATE

How Our ETFs Did in 2021

THOUGH IT WOBBLED A BIT NEAR THE END of the year, the U.S. stock market had a great 2021 overall. Our Kiplinger ETF 20 funds held up well, mostly, but two faltered.

ARK INNOVATION plummeted 38.6%. The actively managed fund focuses on pioneers in genomics, automation, next-generation internet and financial technology. But many of the companies in its portfolio won't be profitable for several years, and with higher interest rates on the horizon, their future prospects look less attractive compared with companies in other parts of the market. Eight of the fund's top 10 holdings lost ground over the past year, including Teladoc Health, Roku and Zoom Video Communications. (Returns are as of January 7.)

Likewise, stocks of small companies with bright futures but few profits today were partly to blame for the 44.5% drop in **INVESCO WILDERHILL CLEAN ENERGY**. The fund tracks an index of stocks in clean-energy companies. A rebound in fossil-fuel prices fueled a rally in traditional energy stocks, dimming investor enthusiasm for renewable energy. (Energy was the best-performing market sector in 2021.)

Some standouts. Still, the Kip ETF 20 had bright spots. **ISHARES CORE S&P SMALL-CAP ETF**, for instance, trounced the popular Russell 2000 benchmark over the past 12 months by two-fold. Companies included in the S&P small-company index that the ETF tracks must pass certain criteria—such as profitability—and that gives the index a higher-quality bias compared with the Russell 2000. A lower exposure to health care, the worst-performing small-company sector over the past 12 months, helped, too.

International stocks, especially in Asia and the emerging markets, lagged their U.S. counterparts. But **VANGUARD FTSE EUROPE** beat the broader MSCI EAFE index, which tracks large- and midsize-company foreign stocks in developed countries. The ETF benefitted from strong returns in Austria, the Netherlands and Norway.

Bond bourses, meanwhile, were down for the most part, thanks to rising inflation and interest rates. (When yields rise, bond prices fall.)

High-yield debt is less sensitive to changes in interest rates than other parts of the bond market. ETFs with any exposure to junk bonds—including **FIDELITY TOTAL BOND** and **SPDR DOUBLELINE TOTAL RETURN TACTICAL**—fared well relative to the Bloomberg U.S. Aggregate Bond index, which tracks a mix of high-quality debt. **INVESCO SENIOR LOAN** gained 2.1%. The securities it focuses on pay an interest rate that adjusts with a short-term bond benchmark.

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Returns/Fees

KIPLINGER ETF 20: VITAL STATISTICS

			Annualized total return				
Core Stock Funds	**Symbol**	**Share price**	**1 yr.**	**3 yrs.**	**5 yrs.**	**Yield**	**Expense ratio**
iShares Core S&P 500	IVV	$468	24.7%	24.5%	17.6%	1.3%	0.03%
iShares Core S&P Mid-Cap	IJH	278	16.8	19.7	12.3	1.1	0.05
iShares Core S&P Small-Cap	IJR	113	16.7	18.2	12.1	1.1	0.06
iShares MSCI USA ESG Select	SUSA	103	24.3	27.2	18.8	1.0	0.25
Vanguard Total International Stock	VXUS	64	5.7	12.8	9.4	3.1*	0.08
Dividend Stock Funds							
Schwab US Dividend Equity	SCHD	$82	27.6%	23.7%	16.9%	2.9%	0.06%
Vanguard Dividend Appreciation	VIG	169	20.8	22.0	16.6	1.6	0.06
WisdomTree Global ex-US Qual Div Growth	DNL	43	11.5	21.7	15.0	2.4	0.42
Strategic Stock Funds							
ARK Innovation	ARKK	$84	–38.6%	30.2	34.0%	0.0%	0.75%
Fidelity MSCI Industrials	FIDU	56	17.1	20.5	13.1	1.1	0.08
Invesco S&P 500 Equal Weight Financials	RYF	67	36.0	24.6	14.9	1.5	0.40
Invesco S&P 500 Equal Wt Health Care	RYH	304	12.9	19.8	15.8	0.6	0.40
Invesco WilderHill Clean Energy	PBW	66	–44.5	45.0	30.6	0.0	0.61
Vanguard FTSE Europe	VGK	68	13.2	14.7	10.4	3.0*	0.08
Core Bond Funds							
Fidelity Total Bond	FBND	$52	–1.0%	5.6%	4.0%	1.5%	0.36%
SPDR DoubleLine Total Return Tactical	TOTL	47	–1.6	2.8	2.5	3.1	0.55
Vanguard Intermediate-Term Bond	BIV	86	–3.1	5.2	3.8	1.8	0.05
Opportunistic Bond Funds							
BlackRock Ultra Short-Term Bond	ICSH	$50	0.1%	1.6%	1.7%	0.4%	0.08%
Invesco Senior Loan	BKLN	22	2.1	3.2	2.8	3.6	0.65
Vanguard Total International Bond	BNDX	55	–2.8	3.1	3.0	3.1*	0.08
Indexes							
S&P 500 INDEX (LARGE U.S. STOCKS)			**24.7%**	**24.6%**	**17.6%**	**1.3%**	
MSCI EAFE INDEX (FOREIGN STOCKS)			**8.6**	**12.7**	**9.1**	**2.5**	
BLOOMBERG U.S. AGGREGATE BOND INDEX			**–2.2**	**4.2**	**3.2**	**2.0**	

As of January 7. *12-month yield. SOURCES: Morningstar Direct, MSCI, S&P Dow Jones Indices.

STREET SMART | James K. Glassman

Five Stocks to Own for Decades

In 2008, two investment managers crunched more than 20 years of market data and produced findings that can only be called shocking. Eric Crittenden and Cole Wilcox found that most stocks did significantly worse than the overall market averages over time, and an unexpectedly large number fell dramatically. These losses were offset by a few stocks that rose spectacularly. As Wilcox wrote, "Capitalism produces a surprising number of extreme winners and losers each and every year."

Examining returns from 1983 to 2006, the two money managers found that 64% of stocks had a lower return than the Russell 3000 index (a measure approximating the entire U.S. market) over the full period. Some 18.5% of all stocks lost 75% of their value or more. On the other hand, 6% of stocks beat the Russell 3000 by 500% or more, and 25% of stocks accounted for all of the market's gains.

Despite this lumpy distribution, the winners and losers combined to produce average annual returns, including dividends, of about 10% and deliver a fairly smooth ride for long-term investors—a concept that was the foundation of a book I coauthored in 1999, *Dow 36,000*. During no 15-year period in a century, for instance, have stocks lost money after inflation.

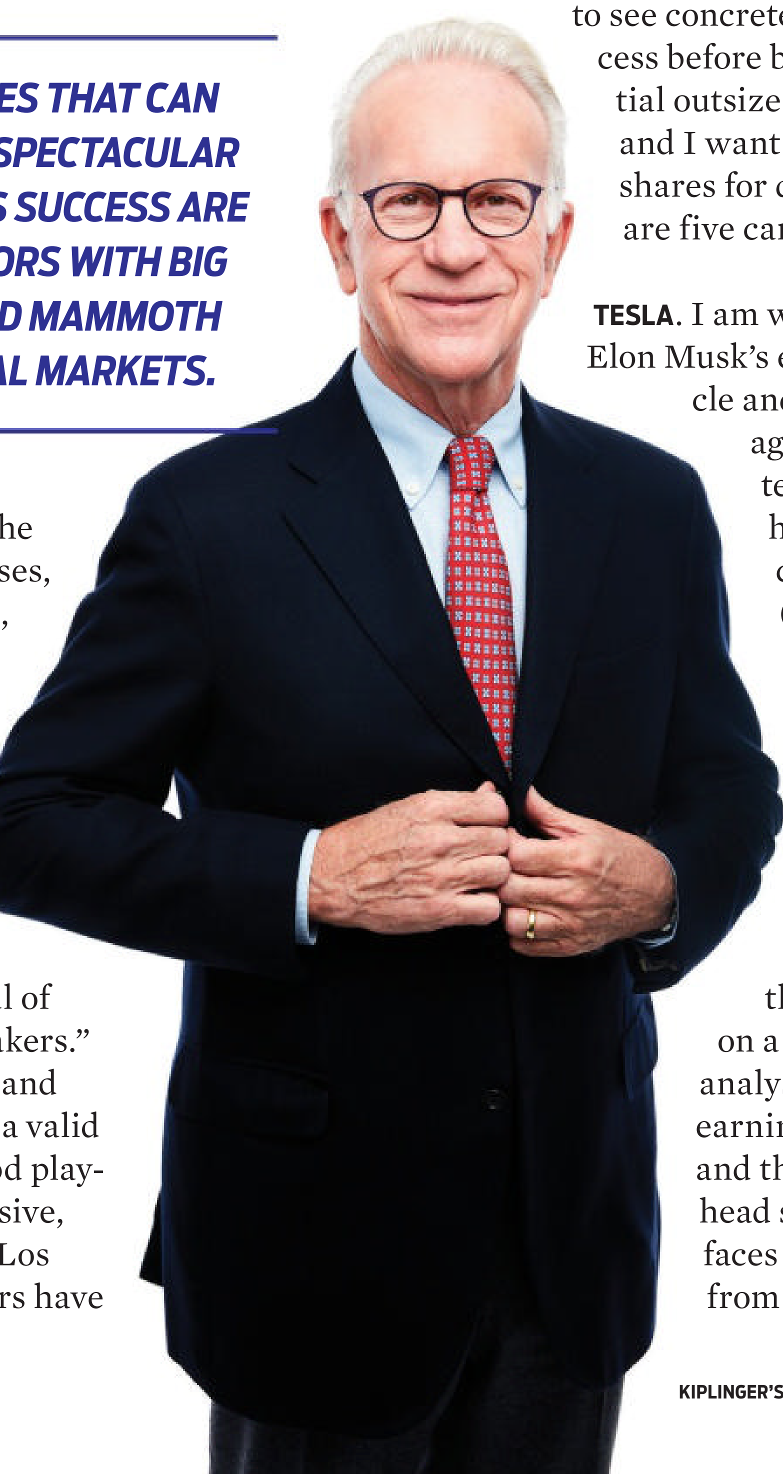
As a result, a simple, profitable way to invest is to buy the market through exchange-traded funds that are linked to an index, such as the Russell 3000 or the S&P 500, or managed mutual funds with strong track records and low turnover and expense ratios, such as **DODGE & COX STOCK** (SYMBOL DODGX) or **T. ROWE PRICE DIVIDEND GROWTH** (PRDGX), both members of the Kiplinger 25, the list of *Kiplinger's* favorite no-load, actively managed funds. But the findings of Crittenden and Wilcox beckon investors in another direction—toward trying to find the "Golden 6%" of stocks that will produce returns that quintuple those of the broad market.

Find the high scorers. On the theory that what goes up continues to go up, the two authors of the study are believers in "trend following"—investing in assets with values that have been hitting new records. Wilcox wrote 10 years ago in a foreword to *The Little Book of Trading* that if your portfolio were an NBA team, such a strategy would lead you to "own the LeBron Jameses, Kobe Bryants, and Dwight Howards of the world. There are many able players in the NBA, but only a handful of difference makers."

COMPANIES THAT CAN ACHIEVE SPECTACULAR BUSINESS SUCCESS ARE INNOVATORS WITH BIG IDEAS AND MAMMOTH POTENTIAL MARKETS.

Crittenden and Wilcox make a valid point, but good players are expensive, and even the Los Angeles Lakers have won the NBA title only four times in the past 20 years. My view is that investors should search for the Golden 6% among companies that have the chance to achieve spectacular business success. Your targets are innovators with big ideas, adaptability and mammoth potential markets. Think of yourself as a venture capitalist, less concerned with companies such as Procter & Gamble or Johnson & Johnson that will keep making secure profits and raising dividends in favor of firms with gigantic prospects.

But like Crittenden and Wilcox and unlike real venture capitalists, I want to see concrete signs of success before buying potential outsize performers, and I want to hold their shares for decades. Here are five candidates:



POON WATCHARA-AMPHAIWAN

TESLA. I am well aware that Elon Musk's electric-vehicle and energy-storage (that is, battery) company has a market capitalization (stock price times shares) of more than $1 trillion, that it trades at a price-earnings ratio of more than 100 based on a consensus of analysts' projected earnings for 2022, and that, after a big head start, it now faces competition from nearly every automaker in the world. Still, Tesla has built the strongest EV brand in the world and is led by a dynamic CEO. The company sold 936,000 autos in 2021, a year when 66 million new cars of all kinds were bought worldwide. Almost certainly, by the end of the decade, EVs will account for half of all car sales. This is only the beginning.

UBER TECHNOLOGIES. It hasn't been a great year for Uber. After hitting new highs in the first few months of 2021, the stock slid by more than 40% from its peak. Trend followers will be deterred, but I'm still convinced that ride-sharing is the future and that smaller, ancillary businesses including food and freight delivery could grow into huge money-makers. Uber now operates in 71 countries, including Australia, Brazil, Germany, Qatar and Tanzania. The company, which made its first operating profit only in the third quarter of 2021, has encountered problems, such as a driver shortage and the insistence by some tax authorities that drivers are employees and not contractors. But those obstacles also discourage competition and keep Uber's price attractive—for now.

NEXTDOOR HOLDINGS. Other companies have tried and failed to break into the hyper-local media market, but Nextdoor may succeed, becoming a fabulous online advertising vehicle. With reader-generated content—lost cats, car break-ins, restaurant tips, questions about where to get a COVID test—Nextdoor seems to have figured out how to engage audiences where they live. With a strong management team led by Sarah Friar, formerly chief financial officer of Square, Nextdoor is quickly boosting revenues. The company went public through a special purpose acquisition company (SPAC) in November. Shortly before that, Nextdoor reported that it had 33 million active users in the third quarter, with revenues of $52.7 million, up 66% compared with the same quarter last year. Nextdoor, down 48% since its debut, is the outlier in this quintet: still tiny, with a market cap of $2.6 billion, and highly speculative.

NO OTHER FIRM COMES CLOSE TO THE PORTFOLIO OF BRANDS THAT LVMH MOËT HENNESSY LOUIS VUITTON HAS.

LVMH MOËT HENNESSY LOUIS VUITTON. Following Wilcox's LeBron James rule, I'm recommending the premier luxury-goods stock in the world. No other company comes close to matching the portfolio that CEO Bernard Arnaud has put together. In addition to the eponymous leather goods and champagne firms, LVMH owns 75 prestigious global brands with 5,000 retail outlets, including Christian Dior, Givenchy, Tiffany, Dom Perignon, the Belmond hotel chain and many more. If you believe the world will keep getting wealthier, this is the stock to own.

WALT DISNEY. Can an entertainment company with a $287 billion market cap have a shot at massive growth over the next decade or two? If it's Disney, then yes. The stock had a rotten 2021, but with new leadership, a world learning to live with COVID, a dozen theme parks and brands that include Pixar, ESPN, Star Wars, the Muppets, ABC and Disney+, the company's two-year-old video service, Disney is ready to accelerate. On top of that, Disney is modestly priced. And, like Uber, Disney is one of Kiplinger's "22 Best Stocks to Buy for 2022" (go to kiplinger.com/kpf/22for2022).

Understand that your retirement assets should still be dominated by funds like the ones I mentioned earlier, along with solid individual stocks such as P&G and J&J. Golden 6% candidates should represent no more than 20% of your holdings. Finally, if they take off, resist the urge to sell. In July 2019, Tesla was trading at $45 a share. Within six months, it had quintupled, but if you sold then, you would have missed another quintupling. They don't all work out like that, but, as in Disney's movie business, it's the massive winners that count. ■

6% Solution

STOCKS WITH STAR POWER

The stocks below have the potential to be among the small percentage of winners that trounce the market averages over the long haul.

Company	Symbol	Share price	Market value (billions)	Price-earnings ratio	1-year total return
LVMH Moët Hennessy Louis Vuitton	LVMUY	$163	$407.1	30	30.1%
Nextdoor Holdings	KIND	7	2.6	NM	–
Tesla	TSLA	1,027	1,031.3	124	25.9
Uber Technologies	UBER	42	80.5	NM	–26.1
Walt Disney	DIS	158	286.9	34	–11.6
S&P 500 INDEX				**24**	**24.7%**

As of January 7. NM Not meaningful. –Stock hasn't traded for entire period. SOURCES: Morningstar Direct, S&P Capital IQ.

JAMES K. GLASSMAN CHAIRS GLASSMAN ADVISORY, A PUBLIC-AFFAIRS CONSULTING FIRM. HE DOES NOT WRITE ABOUT HIS CLIENTS. HIS MOST RECENT BOOK IS *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE.* OF THE STOCKS MENTIONED HERE HE OWNS TESLA AND UBER. CONTACT HIM AT JAMES_GLASSMAN@KIPLINGER.COM.

THE KIPLINGER 25 UPDATE

Be Patient With This Fund

THE MANAGERS AT PRIMECAP ODYSSEY GROWTH like to focus on what they do best—pick stocks—and they typically don't talk to reporters. So once a year, when the fund's annual report comes out, we read every word. Over the past 12 months, Odyssey Growth gained 12.7%, which trailed the 24.7% gain in the S&P 500.

We're not worried. Short-term returns can be instructive and add some perspective, but long-term performance matters most. And over the long haul, Primecap's managers have not disappointed shareholders. The fund's 15-year annualized return, 11.3%, beat the S&P 500 by an average of 0.7 percentage point per year.

But 2021 was a win-some, lose-some year for the fund. Some of the fund's top 10 holdings generated market-beating returns. Shares in banking giant Morgan Stanley, for instance, gained 42% over the past 12 months. Other top holdings jumped even higher: Eli Lilly was up 59%; Alphabet, 54%; and Microsoft, 45%.

Biotech stumbles. But the fund holds 15% of assets in biotech stocks—a chunk, relative to the 2% exposure in the S&P 500—which pressured results. Biotechnology was the worst-performing slice of the health industry over the past 12 months, thanks in part to drug-pricing concerns and regulatory issues. Epizyme dropped 81% over the past 12 months after an "anemic" new drug launch, the Primecap managers reported. And FibroGen stumbled, too, losing 66% after clinical missteps and regulatory setbacks.

China proved to be a snag as well. The fund has a significant stake in Alibaba, the Amazon of China, and the stock slipped 43% over the past 12 months because of increased government scrutiny.

The fund's five managers divide and run a portion of the fund's assets independently. But they all favor stocks in fast-growing firms with long-term growth potential that they think the market has underestimated. When they buy, they tend to hold. The fund's 7% turnover implies a typical holding period of more than a decade. They're patient and willing to wait for their investment thesis to play out. We'll wait with them.

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KEY DATA FOR OUR MUTUAL FUND PICKS

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

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DF Dent Midcap Growth	DFDMX	4.6%	19.8%	16.3%	0.0%	0.98%
Dodge & Cox Stock	DODGX	29.2	14.4	15.7	1.2	0.52
Fidelity Blue Chip Growth	FBGRX	13.8	27.4	21.3	0.0	0.79
Mairs & Power Growth	MPGFX	23.1	15.6	15.3	0.5	0.64
Parnassus Mid-Cap	PARMX	9.2	11.8	13.1	0.0	0.98
T. Rowe Price Dividend Growth	PRDGX	22.0	16.5	15.2	0.8	0.63
T. Rowe Price QM US Sm-Cp Gro‡	PRDSX	0.9	14.1	14.7	0.0	0.78
T. Rowe Price Small-Cap Value	PRSVX	18.3	12.0	12.8	0.3	0.80
Primecap Odyssey Growth	POGRX	12.7	15.8	16.1	0.1	0.65
Vanguard Equity-Income	VEIPX	25.4	12.8	13.2	2.3	0.28

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Baron Emerging Markets	BEXFX	–9.5%	9.7%	8.1%	1.6%	1.35%
Brown Cap Mgmt Intl Sm Co	BCSVX	5.5	20.0	—	0.0	1.33
Fidelity International Growth	FIGFX	11.0	14.6	11.1	0.4	0.99
Janus Henderson Glbl Eq Inc	HFQTX	10.0	6.8	7.2	7.1	0.95

Specialized Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Fidelity Select Health Care	FSPHX	–2.0%	16.3%	17.9%	0.1%	0.69%
T. Rowe Price Global Technology	PRGTX	–4.0	23.8	23.1	0.0	0.86
Vanguard Wellington	VWELX	16.1	11.7	11.1	1.4	0.24

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DoubleLine Total Return Bond	DLTNX	–0.8%	2.6%	3.2%	3.0%	0.75%
Fidelity Interm Muni Income	FLTMX	0.6	3.4	2.9	0.7	0.34
Fidelity Strategic Income	FADMX	2.9	5.1	4.6	2.3	0.67
Met West Total Return Bond M	MWTRX	–1.9	3.5	3.7	1.2	0.67
TIAA-CREF Core Impact Bond	TSBRX	–1.9	3.3	—	1.6	0.61
Vanguard Emerg Mkts Bond	VEMBX	–1.9	7.9	—	3.9	0.60
Vanguard High-Yield Corporate	VWEHX	2.5	5.2	5.9	3.3	0.23
Vanguard Sh-Tm Inv-Grade	VFSTX	–0.9	2.5	2.3	1.3	0.20

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500 INDEX	**24.7%**	**17.6%**	**16.1%**	**1.3%**
RUSSELL 2000 INDEX*	**5.0**	**11.2**	**12.8**	**1.1**
MSCI EAFE INDEX†	**8.6**	**9.1**	**8.0**	**2.5**
MSCI EMERGING MARKETS INDEX	**–5.3**	**9.3**	**5.3**	**2.4**
BLOOMBERG U.S. AGG BOND INDEX#	**–2.2**	**3.2**	**2.8**	**2.0**

As of January 7. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices. Yields listed for bond funds are SEC yields, which are net of fees; stock fund yields are the yield for the past 12 months. NA indicates not available.

MONEY

HOW TO CUT YOUR 2021 **TAX BILL**

Our guide will help you claim a higher refund or reduce the amount you owe. **BY SANDRA BLOCK**

ILLUSTRATIONS BY DANIEL DIOSDADO

When the Tax Cuts and Jobs Act was signed into law in 2017, proponents said it would make filing taxes easier for millions of Americans. It hasn't worked out that way.

While the tax overhaul nearly doubled the standard deduction, sharply reducing the number of taxpayers who need to itemize deductions, taxes have become even more fraught for millions of taxpayers. In part, that's because lawmakers have tweaked the tax code to provide credits and deductions for non-itemizers. Those tax breaks could lower your tax bill but also require more work when it comes time to file.


HELP

In addition, as Congress scrambled to prevent the COVID-19 pandemic from torpedoing the economy, it funneled billions in economic stimulus payments through the IRS in the form of tax credits. When you file your 2021 tax return, you may need to reconcile those credits to claim funds you should have received or, in a few cases, pay some of that money back.

In the next few pages, we'll walk you through the tax-filing minefield. We'll alert you to tax breaks you may overlook, and help you decide whether you should do your own taxes or pay a professional. And we'll look at whether IRS customer service, which was so bad during last year's tax filing season that only 10% of taxpayers got through to an IRS representative, will improve for this year's filing season.

As has always been the case, our first piece of advice is to start early. By now, you should have received all of the documents you need to file, such as your W-2 and 1099 forms from your financial service providers. Filing early means you'll get your refund more quickly; if you owe money, it's better to learn that now than on April 18 (this year's federal tax filing deadline for most taxpayers). It's also a lot easier to find a qualified tax preparer in February or March than it is in April. And filing early will protect you from outlaws who use stolen personal information to file bogus tax returns so they can claim fraudulent refunds.

STRATEGIES FOR NON-ITEMIZERS

In the past, non-itemizers who were charitably inclined had to hope that they'd be rewarded in the afterlife, because they didn't get any tax breaks in this one. But in response to the pandemic, which placed higher demands on many charitable organizations, Congress created a new tax break for philanthropic non-itemizers. For 2021, taxpayers who claim the standard deduction can deduct up to $300 of cash donations to charity. The $300 amount is per person, so if you're married, you can deduct a total of $600 on your 2021 tax return.

The deduction is limited to cash contributions; contributions of

KIPTIP

How to Report Your Stimulus Credits

In response to the pandemic, Congress approved billions of stimulus dollars, many in the form of tax credits. When you file your 2021 tax return, you'll have the opportunity to claim credits you should have received. In some cases, you may have to pay some of that money back.

Stimulus checks. A major part of the stimulus came in the form of economic-impact payments sent directly to taxpayers. The third stimulus check, which provided taxpayers with up to $1,400, plus $1,400 for each of their qualifying dependents, went out last spring. While the credit is for 2021, it was based on your 2020 tax return. If you didn't get a check or received one for less than you're eligible to receive based on your 2021 income, you can claim it when you file your 2021 tax return. The IRS says it will send out letters to taxpayers detailing the amount of the third stimulus check they received. You'll need this information to claim any credit you're due. And here's some good news: If you received more money than you're eligible to receive based on your 2021 income, you don't have to pay it back.

Expanded child tax credit. The American Rescue Plan, which was enacted in March 2021, increased the maximum amount of the child tax credit to $3,000 (from $2,000) for children 6 to 17 years old and to $3,600 for kids 5 years old and younger. The bill also directed the IRS to pay half of the total credit amount in advance through monthly payments issued from July to December 2021. But unlike the stimulus payments, taxpayers may have to pay some of that money back.

The IRS is using taxpayers' 2020 tax returns to calculate their tax credit. If your credit came up short, you can claim it when you file your 2021 tax return. But if your 2021 income increased to the extent that your eligibility was partially or completely phased out, you could end up with a lower-than-expected refund or a bigger tax bill.

This calculation is complicated by the fact that there are two phaseouts in effect. The higher tax credit ($3,000 to $3,600) phases out if your modified AGI exceeds $75,000 for single tax returns or $150,000 for married couples. Families who have modified AGIs greater than those thresholds are eligible for the regular credit of $2,000 per child, but the credit phases out when their MAGI exceeds $400,000 for singles or $450,000 for married couples.

You could also owe money if your filing status changed or you claim the child tax credit for fewer children in 2021 than you did in 2020. This can happen, for example, if you claimed your child as a dependent on your 2020 tax return but your ex-spouse claims the child as a dependent for 2021.

The amount you'll have to repay—if any—will depend on your 2021 modified adjusted gross income. Parents with 2021 modified AGI of no greater than $40,000 (single filers) or $60,000 (joint filers) won't have to give back any child tax credit overpayments. Families with a modified AGI from $40,000 to $80,000 (single filers) or $60,000 to $120,000 (joint filers) will need to repay a portion of any overpayment. Parents with modified AGIs above those amounts will have to pay back the entire amount of any overpayment.

Want Your Refund Fast? File Electronically

The IRS Tax Advocate also warns the agency will continue to struggle with tight budgets and backlogs.

During last year's tax-filing season, fewer than 10% of taxpayers who called the IRS were able to get a representative on the phone. Millions of taxpayers still haven't received their 2020 refunds. *Kiplinger's* spoke with Erin Collins, the IRS National Taxpayer Advocate, about what taxpayers can expect during this year's filing season.

What were the primary reasons for IRS backlogs in 2021, and will the situation improve this year? The last filing season was extremely difficult for many taxpayers, practitioners and the IRS. At the end of 2020, more than 11 million tax returns had not been processed, and that carried over to 2021 season. We're going to have a similar situation this year. We've also had COVID-19 restrictions for employees, and the IRS has had continued reductions in budgets.

Since the beginning of the pandemic, Congress has approved three economic stimulus payments and monthly advance child tax credit payments. How has that affected the IRS's ability to provide customer service? The IRS only has a finite amount of resources. Getting those checks out the door takes staff away from what they need to do every day. I'm concerned that during this filing season, we had the third stimulus check and the advance child tax credit, and there's some confusion over those payments. Some people had a life event where maybe they had a new child or their income changed, which could increase or decrease their payments. The IRS is going to have to reconcile some of those tax returns, and that will require manual processing.

What can taxpayers do to reduce the likelihood that their refunds will be delayed this year? File electronically. That's the easiest thing you can do that will be a time saver. If you're getting a refund, direct deposit really speeds the time to process the payment. If you received a stimulus payment and/or an advance child tax credit payment, you should try to make sure your information matches what the IRS has. The IRS has been sending out letters to taxpayers who received the advance child tax credit that show how much they received last year and the number of dependents it used to determine that amount. It's doing the same for the third economic stimulus payment. (With the child tax credit, you can also go to www.irs.gov/credits-deductions/child-tax-credit-update-portal to look up the amount of your payments.) Taxpayers can use these letters to make sure the number they put on their return is consistent with IRS records.

What's your advice for someone who decides they need professional help with their taxes this year? If you qualify, the IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly are good resources. They get a lot of training from the IRS and are free for lower-income taxpayers. Go to www.irs.gov to find a location near you. If you're able to pay to hire someone, you want to check their credentials. Use a licensed preparer, whether it's a certified public accountant or enrolled agent, who has had the proper training to prepare tax returns. Some of the unlicensed preparers may have good intentions, but they may not be as familiar with the laws and changes in the laws.

While the problems in 2021 were extreme, taxpayers have complained about the IRS for years. What needs to be done to make long-term improvements in how the agency deals with taxpayers? The simple answer is funding. The IRS budget has been depleted for the past decade, which has reduced its ability to hire. The IRS brings in about 95% of the country's budget. You hear a lot of jokes about the IRS but it performs a very critical function, and Congress has called on them to assist in administering social programs. It's a vital organization for the country that needs to be fed, and the problem is, it's been starved.


MARGO MORITZ

clothing and household goods to your local Goodwill aren't eligible. Donations to donor-advised funds aren't eligible, either. Keep a record of your contribution with your tax documents. For donations of less than $250, you need a bank record, such as a canceled check or credit card statement. For donations of $250 or more, you should obtain a written acknowledgement from the charity that shows the date of the contribution and the amount and states whether you received any goods or services in exchange for your donation.

The kids are alright. Raising a family is expensive, and luckily, most child-friendly tax breaks are available to taxpayers who claim the standard deduction.

Let's start with the most generous: the expanded child tax credit. For the 2021 tax year, parents can claim $3,600 for each child younger than 6 and $3,000 for each child between 6 and 17. As your income rises, the tax credit is reduced in two stages. First, the credit is reduced to $2,000 per child if your 2021 income exceeds $150,000 on a joint return, or $75,000 for singles. The credit is reduced below $2,000 as income rises above $400,000 on joint returns and above $200,000 on single and head-of-household returns. The amount varies depending on income. There's no limit to how many eligible kids you may claim on a return.

The IRS sent advance payments for the credit to families from July to December 2021. Unless you opted out, the amount you received in advance will be subtracted from your total child tax credit when you claim it on your 2021 return. You'll need to reconcile the credit when you file your tax return (see "How to Report Your Stimulus Credits," on page 42).

You may also qualify for a tax credit designed to reduce the cost of child care. For the 2021 tax year, if your children are younger than 13, you're eligible for a 20% to 50% credit for up to $8,000 in child care expenses for one child or $16,000 for two or more.

You are eligible for the full credit if your adjusted gross income for 2021 doesn't exceed $125,000. The percentage is gradually reduced from 50% to 20% for people with an AGI between $125,001 and $183,000. It stays at 20% for families with an AGI from $183,001 to $400,000, but then it's gradually reduced again from 20% to 0% for taxpayers with an AGI between $400,001 and $438,000. Anyone making over $438,000 isn't eligible for this credit.

You may benefit by itemizing if you have a large mortgage, spent a lot on medical bills last year or were extremely generous.

If you adopted a child last year, make sure you take advantage of a tax credit to help cover expenses related to the adoption. For 2021, the adoption credit can be taken on up to $14,440 of qualified expenses per child. For example, if you had $5,000 in qualifying expenses, you can't claim the full $14,440 credit, unless you adopted a child with special needs. In that case, you can claim the full credit even if your expenses were less than that. The credit phases out for families with 2021 AGI over $216,660; those with AGI over $256,660 are ineligible.

To qualify, the child you adopted must have been 17 years old or younger—or any age if physically or mentally incapable of caring for himself or herself.

Defraying the cost of education. The cost of college has risen at a faster pace than inflation for years, so if you're paying for higher education, make sure to take advantage of college-related tax breaks.

If you're a parent with a child in college, your best bet is the American Opportunity Credit, which is available for up to $2,500 of college tuition and related expenses (but not room and board) paid during the year. The full credit is available to individuals whose modified adjusted gross income is $80,000 or less ($160,000 or less for married couples filing a joint return). Single taxpayers with MAGI greater than $90,000 and married couples with MAGI above $180,000 are ineligible for the credit. The credit covers all four years of college. (Keep in mind that a credit is a dollar-for-dollar reduction in your tax bill, making it more valuable than a tax deduction.)

If you went back to school—whether to improve your employment prospects or just because you had a hankering to learn—you may qualify for the Lifetime Learning Credit. The credit is calculated as 20% of up to $10,000 of qualified expenses, so you can get back as much as $2,000 for 2021.

The income limits for the Lifetime Learning Credit are $90,000 if single and $180,000 if married. You can't claim both this credit and the American Opportunity Credit for the same student in the same year.

STRATEGIES FOR ITEMIZERS

You may benefit by itemizing if you have a large mortgage, spent a lot on medical bills last year or were extremely generous.

Your home is your castle, and it may be deductible. For home loans acquired after December 15, 2017, you can deduct interest on a mortgage—or mortgages—of up to $750,000. (For loans taken out before that date, you can deduct interest on mortgage debt of up to $1 million.) You can also deduct property taxes, although if you live in a high-tax state, you may not be able to deduct the entire amount (for strategies to lower property taxes, see "Ahead," on page 9). The maximum that you can deduct for combined state and local property tax is $10,000 (or $5,000 if married filing separately).

Defray your medical expenses. The COVID-19 pandemic has left some families with large medical bills, not all of them covered by insurance. If you itemize, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. If your AGI was $50,000, for example, you would only be allowed to deduct the unreimbursed medical expenses that exceeded $3,750. The list of eligible expenses is long, ranging from the costs of long-term care to prescription drugs. COVID-19 at-home tests and personal protective equipment, such as masks, hand sanitizer and sanitizing wipes, are deductible medical expenses if they're used primarily for preventing the spread of COVID-19. Costs for dental and vision care that aren't covered by your insurance are also deductible.

Charitable giving. It's too late to make charitable contributions for 2021, but if you itemize, make sure you claim credit for all of the donations you made last year.

If you made large charitable contributions last year—perhaps as part of your estate plans—you'll be able to deduct donations worth up to 100% of your adjusted gross income. (In the past, the maximum deduction for cash contributions was 60% of AGI, but Congress expanded the tax break to encourage charitable giving during the pandemic.)

If you cleaned out your attic and closets last year, keep in mind that you can deduct the fair market value of donations of clothes, books and other noncash items. Some tax software will help you estimate the value of donated items.

Victims of the tornadoes that devastated parts of the country in late 2021 have until May 16 to file tax returns.

TAX BREAKS FOR DISASTER VICTIMS

Although April 18 is the deadline for most taxpayers (who don't request an extension), victims of the tornadoes that devastated parts of Kentucky, Arkansas, Illinois and Tennessee, as well as victims of Colorado wildfires, have until May 16 to file individual and business tax returns and pay any taxes owed. Taxpayers in the affected areas have until May 16 to contribute to their 2021 IRAs, too.

Tornado and wildfire victims will also get more time to make the quarterly estimated tax payments that are due on January 18 and April 18, 2022. If you missed the estimated tax payment for the fourth quarter of 2021 that's normally due on January 18, you can include it with your 2021 tax return that's due May 16.

If you live in the affected areas, you don't need to contact the IRS to get this relief. However, if you receive a late-filing or late-payment penalty notice from the IRS, call the number on the notice to have the penalty abated.

The IRS says it will work with taxpayers who live outside the affected areas but had tax records in the disaster zones. This includes workers assisting the disaster-relief activities who are affiliated with a recognized government or philanthropic organization.

Deducting your losses. The 2017 Tax Cuts and Jobs Act limited the deduction for unreimbursed casualty losses, but it's still available if the losses occurred in a federally declared disaster area—which means victims of tornadoes, wildfires, hurricanes and other disasters may still be able to claim a portion of their losses.

You must itemize to claim this deduction. But even if you ordinarily claim the standard deduction, your losses, combined with other deductible expenses, could push you over the standard-deduction threshold. You must subtract reimbursement from your insurance provider and funds from government assistance when you calculate your loss, along with any reimbursements you expect to receive.

Once you've determined that you have enough deductions to get over the threshold to itemize, you must reduce the amount of your unreimbursed losses by $100. After you've done that, you can only deduct unreimbursed losses that exceed 10% of your adjusted gross income. If, for example, your adjusted gross income last year was $150,000 and your total net loss was $83,000, you would first reduce it to $82,900, then knock off $15,000, leaving you with a net deduction of $67,900.

To compute and report casualty losses, fill out IRS Form 4684 (tax software will walk you through this process). You must enter the FEMA disaster declaration number on that form.

Taxpayers who are eligible for the casualty loss deduction have the option to claim the loss in the year it occurred—2021 in the case of the December tornadoes—or for the previous year. That allows you to choose the year that will give you the biggest tax break. If you decide to claim it for 2020, you can amend your 2020 return by filing Form 1040X. You must file your amended prior-year return no later than six months after the due date for filing your current-year return (without extensions) for the year in which the loss took place. That means for tornado losses in 2021, you would need to file an amended 2020 return by October 17, 2022.

If your losses were caused by another weather-related event in 2021, don't assume you're ineligible for this deduction just because your local disaster didn't make the national news. You can get a complete list of disaster declarations by state at www.fema.gov/disaster/declarations.

TAXES ON YOUR INVESTMENTS

Free trading apps such as Robinhood have made it easier than ever to take a flier on hot stocks, turning thousands of novice investors into day traders. But if you managed to make money trading GameStop or other hot tickets, your day of reckoning is April 18. Unless you did your trading in a tax-deferred account, such as your IRA, you'll be required to share some of your booty with the IRS.

Capital gains on stocks, exchange-traded funds, mutual funds and other assets held for one year or less are taxed at your ordinary income tax rate, which currently ranges from 10% to 37%. If you bailed out at a loss, the tax code limits the amount of relief you can obtain. First, you must use your losses to offset any capital gains of the same type—short-term losses are first deducted against short-term gains, and long-term losses are deducted against long-term gains. (After that, net losses of either type can be deducted against the other type of gain.) If you go through those steps and still have losses, you can deduct up to $3,000 against other income, such as your salary. Losses that exceed that amount can be carried over to future years, so keep good records.

The tax code is more forgiving for investors who sell stocks or other assets held for more than a year. Tax rates on long-term capital gains range from 0% to 20%, depending on your income. If you are single and your 2021 taxable income was less than $40,400 (or $80,800 if you're married and file jointly), you won't have to pay any

NOT TOO LATE

Last-Minute Ways to Save

Most tax-saving moves, such as giving to charity, must be accomplished before December 31. There are, however, a few things you can do between now and April 18 that could lower your tax bill.

Save for retirement. If you're not enrolled in a workplace retirement plan, you can deduct a contribution to an IRA of up to $6,000, or $7,000 if you were 50 or older in 2021. Contributions to a traditional IRA will reduce your adjusted gross income on a dollar-for-dollar basis, which could also make you eligible for other tax breaks tied to your AGI.

Workers who have a company retirement plan but earn less than a certain amount may qualify to deduct all or part of their IRA contributions. For 2021, this deduction phases out for single taxpayers with AGI of between $66,000 and $76,000 and for married couples who file jointly with AGI of between $105,000 and $125,000. If one spouse is covered by a workplace plan but the other is not, the spouse who isn't covered can deduct the maximum contribution, as long as the couple's joint AGI doesn't exceed $198,000. A partial deduction is available if the couple's AGI is between $198,000 and $208,000.

Save for health care. You have until April 18 to set up and fund a health savings account for 2021. To qualify, you must have had an HSA-eligible insurance policy at least since December 1. The policy must have had a deductible of at least $1,400 for individual coverage or $2,800 for family coverage. You can contribute up to $3,600 to an HSA if you had single coverage or $7,200 if you had family coverage. You can contribute an additional $1,000 if you were 55 or older in 2021. Contributions to an HSA will reduce your adjusted gross income. The money in your account will grow tax-free, and withdrawals used to pay medical expenses are also tax-free.

taxes on gains from the sale of assets held for more than a year.

To avoid paying more than you owe, make sure you have the correct cost basis for any investment you sold in 2021. The cost basis is the price you paid for your shares, plus any reinvested dividends, capital gains distributions, sales commissions or transaction fees. The higher your basis, the lower the amount of gain that will be taxed. Financial services firms are required by law to track the cost basis of shares in mutual funds or stocks purchased in 2011 or later and provide that basis to investors when the securities are sold. For securities purchased before 2011, you may need to do some detective work, but it's worth the effort—without a cost basis, the IRS will tax you on the entire proceeds of the sale.

Don't forget that gains on bitcoin—along with other cryptocurrencies—are subject to the same short- and long-term capital gains rates that apply to stocks, mutual funds and other assets, says Lisa Lewis, a certified public accountant and editor at TurboTax. Even if you used your cryptocurrency to buy something, you'll owe taxes on the difference between what you paid for the currency and its value when you used it to make a purchase.

Some cryptocurrency platforms are sending investors statements that provide a record of their transactions, Lewis says. But even if you didn't get a statement, you're responsible for paying taxes on your crypto gains. The IRS has taken pains to remind taxpayers that cryptocurrency profits are taxable, adding a line to Form 1040 asking whether you've bought or sold cryptocurrency.

TAXES ON HOME SALES

Skyrocketing housing prices could force some taxpayers to do something they haven't done for nearly 25 years: Pay taxes on profits from the sale of their home.

There are steps you can take that will lower or even eliminate taxes on your home-sale gains.

Since 1997, taxpayers who sell a primary residence they've lived in for at least two out of the past five years can exclude up to $500,000 in profits from taxes if they're a married couple filing jointly, or $250,000 for a single homeowner.

The threshold wasn't adjusted for inflation, but the vast majority of homeowners have qualified for the exclusion. Now, though, homeowners in some parts of the U.S. where home prices have soared are netting more than the excluded amount. When that happens, the excess gain must be reported on Schedule D with other capital gains. Long-term capital gains are usually taxed at 15% to 20%, depending on your income. In addition, the increase in your adjusted gross income could have other tax consequences, such as a 3.8% surtax on net investment income, which kicks in if you have modified adjusted gross income over $200,000, or $250,000 if you're married and file jointly. If you're older, the increase in your AGI could trigger a high-income surtax on Medicare Part B premiums.

There are, however, steps you can take that will lower or even eliminate taxes on your home-sale gains. Your tax bill will be based on your net gain—the amount you sold your home for minus its adjusted basis, which is the amount you paid plus the cost of any home improvements. The higher your basis, the lower your tax bill. "So many people remodeled their homes during the pandemic, and that adds to the basis of the property," says John Schultz, a certified public accountant in Ontario, Calif.

Ideally, you should have records documenting the cost of your improvements. If you don't, the contractor that did the work may be able to provide invoices, Schultz says. Building permits may also help you document your expenses. If you can't track down receipts for every expense, the IRS will usually accept a reasonable estimate, Schultz says.

Allowable improvements that will add to your basis include a new roof, kitchen upgrade, an addition or anything else that would improve the resale value of your home, says Annette Nellen, a CPA and professor at San Jose State University. However, you can't include routine repair and maintenance costs when calculating your basis. For a complete rundown on allowable expenses, see IRS Publication 523.

Some homeowners mistakenly believe that they can avoid capital gains taxes by reinvesting the proceeds from the sale of their home in another home. Although that was a legitimate strategy before 1997, it's no longer the case, unless you're selling real estate purchased for business purposes, Schultz says.

The housing market could slow in 2022 but shows no signs of stalling, so if you're considering selling your home, start pulling together records of home improvements.

ADVICE FOR THE SELF-EMPLOYED

In what's been dubbed the Great Resignation, millions of Americans quit their 9-to-5 jobs in 2021. If you decided to work for yourself (or pursued a side gig to generate extra income), your taxes are likely to be more complicated. Self-employed taxpayers must pay income taxes on their profits as well as 15.3% in Medicare and Social Security taxes. (When you work for someone else, your employer picks up 50% of that amount.) However, you can deduct half of that amount on your tax return.

And that's just one of a host of potential deductions that could lower taxes on your income. In addition to expenses associated with running your business, you can deduct the cost of health insurance premiums for yourself and your family. Self-employed individuals who are eligible for Medicare can deduct the cost of Medicare Part B and Part D premiums, as well as the cost of supplemental Medicare (medigap) policies or a Medicare Advantage plan. If after leaving your job you signed up for COBRA, which allows you to stay on your employer's health insurance for up to 18 months, those premiums are deductible, too.

If you are part of the Gray Resignation, make sure you take advantage of all the tax breaks available to you.

Most remote workers aren't eligible to deduct the costs of their home offices. Once you start working for yourself, though, you're eligible to claim this money-saving deduction. If you use part of your home or apartment regularly and exclusively for your business, you can deduct part of your utility bills and insurance costs.

In the past, many work-at-home taxpayers skipped this tax break because of fears it would trigger an audit. Others were put off by the recordkeeping needed to support the deduction. In recent years, though, the IRS has come up with a simplified method that allows taxpayers to deduct $5 for every square foot that qualifies for the deduction. For example, if you have a 300-square-foot home office (the maximum size allowed for this method), you can deduct $1,500.

If you went into business for yourself because you were laid off last year, keep in mind that unemployment benefits are taxable on your federal tax return, and many states tax unemployment benefits, too. In response to the pandemic, Congress waived taxes on a

EXTRA HELP

Do You Need to Hire a Pro?

Although tax software programs can handle even complex tax returns (for a price), sometimes the most prudent course is to outsource the task. You may benefit from professional help if you're self-employed, have a large amount of investment income, retired recently, own rental property, or simply don't have the time to hunker down with your W-2s and 1099s.

A qualified tax professional can make sure you claim all of the tax breaks available to you, which could well justify the cost. But *qualified* is the key word here, because the IRS doesn't have the authority to regulate tax preparers or mandate minimum competency requirements. That means anyone can buy tax software, hang up a shingle and go into the tax-preparation business.

For that reason, you should research the background of anyone you hire. Ask for references and check credentials. **Certified public accountants** are licensed by state boards of accountancy, studied accounting at a college or university, and have passed a rigorous exam. You can get a list of local certified public accountants from your state's CPA society. **Enrolled agents** must pass a rigorous test and meet annual continuing-education requirements, and they are licensed to appear before the IRS. To locate an enrolled agent in your area, go to www.naea.org.

Check to see if there have been any complaints filed against the preparer at the Better Business Bureau (www.bbb.org). A potential preparer should be willing to give you a range of fees, based on the complexity of your return. Never hire a preparer who bases fees on a percentage of your refund.

portion of unemployment benefits in 2020 but didn't extend the exclusion into 2021. You should receive a Form 1099-G, "Certain Government Payments," showing the amount of your benefits. Report them as "additional income" on Schedule 1 of your federal tax return.

TAX ADVICE FOR RETIREES

Millions of older workers left their jobs last year for a variety of reasons: big gains in their stock portfolios, rising home values and concerns about the pandemic. If you are part of the Gray Resignation, make sure you take advantage of all the tax breaks available to you.

In 2021, taxpayers 65 and older can claim a standard deduction of $14,250 (compared with $12,550 for younger taxpayers). If you're married and both spouses are 65 or older, your total standard deduction for 2021 is $27,800.

For that reason, most retirees are better off taking the standard deduction than itemizing. However, if you still have a mortgage and had high medical bills in 2021, you may want to run the numbers to see if you'll get a lower tax bill by itemizing (see our strategies for itemizers on page 45).

Retirees who are 70½ or older can donate up to $100,000 a year from their IRAs to charity via a qualified charitable distribution. After you reach age 72, the QCD counts toward your required minimum distribution. A QCD isn't deductible, but it will reduce your adjusted gross income.

If you made a QCD last year, make sure you won't be taxed on the distribution. You—or your tax preparer—must report it under "tax withdrawals" on the line for IRA distributions. On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. Tax software will walk you through this process. ■

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E-FILING

You May Be Able to File for Free

Tax software can alert you to money-saving tax deductions and credits, help you avoid costly errors, and file your tax returns electronically, which will reduce the wait for your refund. But depending on the complexity of your return, a tax software program can cost you $100 or more. Before you shell out any money, though, find out whether you can file your federal tax return—and in some cases, your state tax return, too—for free.

If you had adjusted gross income of $73,000 or less in 2021, you can prepare and e-file your federal tax return for free through IRS Free File, even if your return is complex. Each Free File participant is permitted to impose its own criteria. To find a program, go to www.irs.gov/filing/free-file-do-your-federal-taxes-for-free.

If you don't qualify for IRS Free File but have a fairly straightforward return, consider Free File Fillable Forms. This program allows you to fill out your tax return electronically and either e-file it or print it and mail it in. The program will do the math but does not offer guidance or advice. Find the fillable forms at www.irs.gov/e-file-providers/free-file-fillable-forms.

Some tax software providers also offer free programs, but make sure you qualify before you start plugging in your numbers. For example, you can use TurboTax Free Edition if you had wages from a job (W-2 income) and limited interest and dividend income, but if you received unemployment benefits or had a health savings account, you must upgrade to TurboTax Deluxe ($39 at press time for a federal tax return). H&R Block's free online version allows users to report unemployment income, but if you had a health savings account last year, you must upgrade to H&R Block Deluxe ($29.99 at press time for a federal tax return).

FreeTaxUSA (www.freetaxusa.com) will prepare even complex federal tax returns for free. The company makes money by charging to file your state tax return, but the cost is reasonable—$14.99 for each state tax return.

Credit Karma Tax, which offered free federal and state tax programs, was acquired by Square, a financial technology company that developed Cash App, a mobile payment service, in late 2020. The program is still free, but you'll be asked early on if you want to sync your tax and Cash App data. The company makes money by recommending products from affiliates. You can opt out of this information-sharing request.

BANKING

Overdraft Fees Are on the Way Out

OVERDRAFT FEES MAY eventually become a thing of the past. One large bank, Capital One, recently eliminated them, and Chase has made it easier for customers to fund their account if they overdraw it. Other banks have also eliminated overdraft fees or relaxed their policies, including Bank of America and Wells Fargo.

According to a recent Bankrate study, the average overdraft fee is a whopping $33.58. Banks have historically relied on the fees as a major source of revenue, but making overdraft policies more consumer friendly is a big trend in banking right now, says Ken Tumin, founder of DepositAccounts.com. Banks have been feeling the pressure from consumers and government officials to get rid of the fees. The Consumer Financial Protection Bureau is currently drafting rules outlining when a lender can charge an overdraft fee and will heavily scrutinize firms that rely on such charges. Tumin thinks more big banks will get rid of the fees, while smaller banks and credit unions will modify existing policies. Smaller banks typically need to charge such fees to stay profitable.

While Capital One has gotten rid of overdraft fees altogether, Chase is giving customers who overdraw their account by $50 or less a grace period: They have until the end of the next business day to replace the overdrawn funds without incurring a fee. The fee kicks in if the amount overdrawn is more than $50 or the funds aren't replaced.

Bank of America will cut its overdraft fee to $10 from $35 for customers starting in May, and Wells Fargo announced a 24-hour grace period to fund overdrawn accounts and the elimination of transfer fees from linked accounts. Internet bank Ally has eliminated overdraft fees. And regional bank Huntington Bank, with branches in 12 states, has implemented a 24-hour grace period.

Meanwhile, if you overdraw your account, call your bank as soon as you notice. It may be willing to waive the fee if you haven't overdrawn your account before. **RIVAN STINSON**

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RATE UPDATES

For the latest savings yields and loan rates, visit **kiplinger.com/links/rates**. For our top rewards cards, go to **kiplinger.com/kpf/cards21.**

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Jan. 4	Minimum investment	Website (www.)
Allspring 100% Treas MMF (WFTXX)*	0.03%	$1,000	allspringglobal.com
Northern US Govt MMF (NOGXX)*	0.03	2,500	northerntrust.com
RBC US Govt MMF (TUIXX)*	0.03	1	us.rbcgam.com
Schwab Treas Obligs MF (SNOXX)*	0.03	none	schwab.com

Tax-Free Money Market Mutual Funds	30-day yield as of Jan. 3	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
T. Rowe Price Tax-Ex (PTEXX)*	0.11%	0.14%/0.17%	$2,500	troweprice.com
American Cent T-F MMF (BNTXX)*	0.01	0.01/0.02	2,500	americancentury.com
Fidelity Muni MMF (FTEXX)*	0.01	0.01/0.02	1	fidelity.com
Fidelity Tax-Exempt (FMOXX)*	0.01	0.01/0.02	1	fidelity.com

Savings and Money Market Deposit Accounts	Annual yield as of Jan. 7	Minimum amount	Website (www.)
Affinity Plus FCU (Minn.)&#	1.00%^	none	affinityplus.org
Bo Bank (N.J.)†	0.65	$250	bankwithbo.com
ConnectOne Bank (N.J.)†	0.65	2,500	connectonebank.com
Ivy Bank (Mass.)†	0.61	2,500	ivybank.com

Certificates of Deposit 1-Year	Annual yield as of Jan. 7	Minimum amount	Website (www.)
Poppy Bank (Calif.)	1.00%	$1,000	poppy.bank
Pentagon FCU (Va.)&	0.85	1,000	penfed.org
Lafayette FCU (Md.)&	0.80	500	lfcu.org
EFCU Financial (La.)&	0.80	500	efcufinancial.org

Certificates of Deposit 5-Year	Annual yield as of Jan. 7	Minimum amount	Website (www.)
Credit Human (Texas)&	1.30%	$500	credithuman.com
Pentagon FCU(Va.)&	1.30	500	penfed.org
Lafayette FCU (Md.)&	1.26	500	lfcu.org
Wings Financial (Minn.)&	1.26	10,000	wingsfinancial.com

*Fund is waiving all or a portion of its expenses. &Must be a member; to become a member, see website or call. #Money market deposit account. ^Must receive electronic statements and have a $500 monthly direct deposit into an Affinity Plus deposit account. †Internet only. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of Jan. 7	Balance range†	Website (www.)
La Capitol FCU (La.)&	4.25%	$0–$3,000	lacapfcu.org
Consumers Credit Union (Ill.)&	4.09‡	0–10,000	myconsumers.org
Genisys Credit Union (Mich.)&	4.07	0–7,500	genisyscu.org
Liberty Financial (Ind.)&	3.30	0–20,000	liberty.financial

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. †Portion of the balance higher than the listed range earns a lower rate or no interest. &Must be a member; to become a member, see website. ‡Requires spending $1,000 or more monthly in CCU Visa credit card purchases. SOURCE: DepositAccounts

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	0.10%	0.10%	0.10%
U.S. Series I savings bonds	7.12	7.12	1.68
Six-month Treasury bills	0.24	0.15	0.09
Five-year Treasury notes	1.50	1.26	0.46
Ten-year Treasury notes	1.76	1.48	1.08

As of January 7, 2022.

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

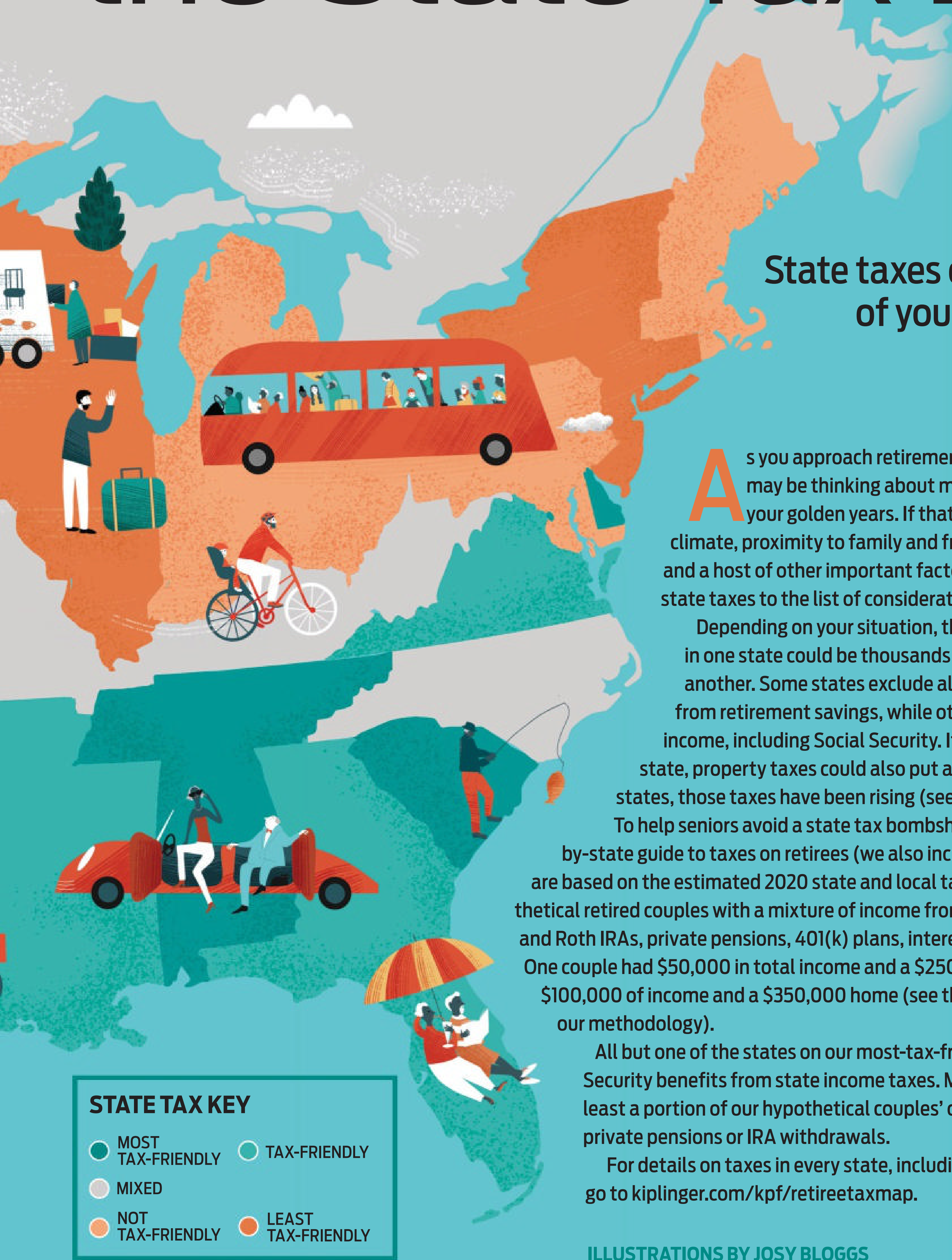
RETIREMENT

MOVING?

Don't Overlook the State Tax Bite

State taxes could take a big slice of your retirement budget.

BY ROCKY MENGLE



As you approach retirement (or if you're already there), you may be thinking about moving to a different state to spend your golden years. If that's the case, you'll want to consider climate, proximity to family and friends, access to quality health care, and a host of other important factors. And make sure you've added state taxes to the list of considerations.

Depending on your situation, the total state and local tax burden in one state could be thousands of dollars more each year than in another. Some states exclude all or a significant portion of income from retirement savings, while others tax nearly all of your retirement income, including Social Security. If you plan to own a home in your new state, property taxes could also put a big dent in your budget, and in many states, those taxes have been rising (see "Ahead," on page 9).

To help seniors avoid a state tax bombshell, Kiplinger has created a state-by-state guide to taxes on retirees (we also included Washington, D.C.). Our results are based on the estimated 2020 state and local tax burden in each state for two hypothetical retired couples with a mixture of income from wages, Social Security, traditional and Roth IRAs, private pensions, 401(k) plans, interest, dividends, and capital gains. One couple had $50,000 in total income and a $250,000 home, while the other had $100,000 of income and a $350,000 home (see the box on page 61 for more about our methodology).

All but one of the states on our most-tax-friendly list completely exempt Social Security benefits from state income taxes. Most also allow an exemption for at least a portion of our hypothetical couples' other retirement income, such as private pensions or IRA withdrawals.

For details on taxes in every state, including estate and inheritance taxes, go to kiplinger.com/kpf/retireetaxmap.

ILLUSTRATIONS BY JOSY BLOGGS

MOST TAX-FRIENDLY

1. DELAWARE

State Income Tax: 2.2% (on taxable income from $2,001 to $5,000) to 6.6% (on taxable income over $60,000)
Average Combined State and Local Sales Tax Rate: 0%
Median Property Tax Rate: $562 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

With no sales tax, low property taxes and no death taxes, it's easy to see why Delaware is a tax haven for retirees. For starters, you'll have more disposable income if you live in the First State, because you'll pay zero state or local sales tax on in-state purchases. (Delaware is one of only a handful of states with no sales tax.)

The estimated annual property tax bill in Delaware for our first hypothetical retired couple is just $1,405 on their $250,000 home. It's just $1,967 for our second couple's $350,000 home. Those property tax totals are the seventh-lowest amounts in the nation for homes at those prices. Plus, some Delaware seniors qualify for a school property tax credit of up to $400 (you might have to live in the state for 10 years to get it, though). Because Delaware has no estate or inheritance taxes, you can pass along more of your wealth to the grandkids, too (or to other family, friends or charities).

The only downside is middle-of-the-road income taxes—and they really aren't that bad. The rates are comparatively reasonable, and residents age 60 and older can exclude up to $12,500 of pension and other retirement income (including dividends and interest, capital gains, and IRA and 401(k) distributions). Social Security benefits are also exempt. But, in the end, income taxes don't add enough to a retiree's overall tax burden to prevent the state from winning the top spot on our list.

2. HAWAII

State Income Tax: 1.4% (on taxable income up to $2,400 for single filers; up to $4,800 for joint filers) to 11% (on taxable income over $200,000 for single filers; over $400,000 for joint filers)
Average Combined State and Local Sales Tax Rate: 4.44%
Median Property Tax Rate: $280 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

If your dream is to retire to a tropical island paradise, don't let taxes get in the way. Hawaii has one of the lowest average state and local tax burdens in the U.S. Higher-income seniors may get caught in the Aloha State's lofty income tax rates (the top rate is a whopping 11%), but most retirees won't pay nearly that much. (Hawaii actually has 11 income tax rates below 11%.) Social Security benefits are completely tax-free.

Although housing prices are high in Hawaii, property tax rates are really low. In fact, the statewide median property tax rate is the lowest in the country by a pretty good margin. If our hypothetical retired couple moved to Hawaii, their estimated annual property tax bills would be only $980 on a $350,000 home (assuming they could find one at that price). Depending on where in Hawaii they live, seniors could also qualify for some additional property tax relief.

The average combined state and local rate is 4.44%, which is the seventh-lowest rate in the nation. However, most things are taxable in Hawaii—including groceries and clothing—so residents typically end up paying more than the low rate suggests.

Hawaii also imposes an estate tax on estates worth $5.49 million or more. Tax rates range from 10% to 20%.

3. WYOMING

State Income Tax: None
Average Combined State and Local Sales Tax Rate: 5.39%
Median Property Tax Rate: $575 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

The Equality State's favorable tax climate for seniors starts with zero income, estate or inheritance taxes. Sales taxes are low in Wyoming, too. The average combined state and local sales tax rate is 5.39%, which is the eighth-lowest combined sales tax rate in the country.

You won't pay high property taxes to own a home on the range, either. For a $250,000 home in Wyoming, the statewide average annual property tax bill comes to just $1,438; it's $2,013 for a $350,000 home. Those amounts are tied for the 10th-lowest tax totals in the nation for each price point. Plus, eligible seniors can delay payment of up to 50% of their property taxes if money gets tight in retirement.

4. DISTRICT OF COLUMBIA

State Income Tax: 4% (on taxable income up to $10,000) to 8.95% (on taxable income over $1 million)
Average Combined State and Local Sales Tax Rate: 6%
Median Property Tax Rate: $564 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

Although the general cost of living in Washington, D.C., is high, the average tax burden for retirees isn't. The city doesn't tax Social Security payments, but it does tax most other common forms of retirement income, such as pensions and withdrawals from 401(k)s and IRAs. Notably, qualifying for the city's income tax credit for property taxes paid can make a huge difference in the amount of tax you owe. The refundable credit is worth up to $1,225 for the 2021 tax year (refundable means that if the credit is worth more than the tax you owe, the city will send you a check for the difference). For 2021, residents age 70 and older are eligible for the credit if their federal adjusted gross income is $76,700 or less; the threshold is $56,200 or less for younger residents.

The District's median property tax rate is the eighth-lowest in the nation when measured against comparable data from all 50 states. For our hypothetical retired couples, their estimated annual property tax bills would be $1,410 (on a $250,000 home) and $1,974 (on a $350,000 home). Plus, homeowners 65 and older may qualify for a 50% property tax reduction or deferral of property tax payments.

Shoppers don't get hit too hard by sales taxes in the nation's capital. The city imposes a 6% tax on purchases ... but that's it. There are no extra "local" taxes to worry about. As a result, the overall sales tax rate in D.C. is well below the national average when both state and local taxes are considered.

Income taxes can be high on wealthier retirees. For example, the top rate is 8.95% on taxable income that exceeds $1 million, and that rate is going up to 10.75% in 2022. Another downside for wealthier retirees: For 2022, estates worth $4,254,800 or more are subject to a city estate tax.

5. NEVADA

State Income Tax: None
Average Combined State and Local Sales Tax Rate: 8.23%
Median Property Tax Rate: $533 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Nevada is a good place to spend your retirement years if you don't want to gamble with your savings. There is no state income tax in Nevada, and there are no estate or inheritance taxes, either.

Nevada also has the fourth-lowest median property tax rate in the U.S. If our first hypothetical couple retired to Nevada and bought a $250,000 home, they could expect to pay about $1,333 per year in property taxes. Our second imaginary couple would pay about $1,866 annually on their $350,000 home. However, Nevada doesn't offer any special property tax breaks for seniors.

Sales taxes are one area in which retirees won't get a break. The state imposes a 6.85% sales tax, and counties may tack on up to 1.53% more. As a result, the average combined state and local sales tax rate is 8.23%, the 13th-highest combined rate in the country.

6. SOUTH CAROLINA

State Income Tax: 3% (on taxable income from $3,110 to $6,220) to 7% (on taxable income over $15,560)
Average Combined State and Local Sales Tax Rate: 7.47%
Median Property Tax Rate: $545 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

The Palmetto State extends some real Southern hospitality to retirees. Social Security benefits are completely exempt from taxes. In addition, taxpayers age 65 or older can exclude up to $10,000 of retirement income (up to $3,000 for taxpayers younger than 65). Seniors can also deduct $15,000 of other taxable income ($30,000 for joint filers). Plus, veterans who are at least 65 years old can exclude up to $30,000 of income from a military retirement plan (up to $17,500 for veterans younger than 65).

Low property tax rates in South Carolina help retirees, too. The statewide average property tax on a $250,000 home is only $1,363, or $1,908 for a $350,000 residence. Those amounts are the sixth-lowest in the country for houses at those price points. Seniors can also claim a homestead exemption for the first $50,000 of their property's fair market value. To qualify, as of July 15 of the year the exemption is claimed, you must be at least 65 years old and have been a legal resident of South Carolina for one year.

The lack of an estate or inheritance tax also makes South Carolina a desirable location for wealthy seniors. But sales taxes are on the high end in South Carolina. There's a 6% statewide levy, and local governments can add as much as 3%. The average combined rate is 7.47%, which is well above average. Counties also impose an annual tax on your motor vehicle's value.

7. COLORADO
State Income Tax: 4.5% (flat rate)
Average Combined State and Local Sales Tax Rate: 7.72%
Median Property Tax Rate: $494 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Colorado's median property tax rate is the third-lowest in the nation. For our hypothetical retired couple with a $250,000 house, that comes to an estimated $1,235 annual property tax bill; it's only $1,729 per year for our other couple's $350,000 residence. Property tax exemptions, rebates and deferrals are also available for qualified seniors. Residents age 60 and older can also take advantage of a unique property tax "work-off" program, which lets them work for the city or county government to pay off a portion of their property taxes.

Income taxes are reasonable in the Centennial State, too. Colorado voters approved a measure on the November 2020 ballot that reduces the state's flat income tax rate from 4.63% to 4.55%. And the state's constitution requires Colorado to return funds to taxpayers, either in the form of a refund or a temporary reduction in tax rates, if state revenue exceeds specific levels.

Although the state sales tax rate is low—only 2.9%—local governments can tack on as much as 8.3%. As a result, the combined state and local sales tax rate is above the national average.

Wealthier retirees will also appreciate the fact that Colorado doesn't impose an estate or inheritance tax.

8. ALABAMA
State Income Tax: 2% (on taxable income up to $500 for single filers; up to $1,000 for joint filers) to 5% (on taxable income over $3,000 for single filers; over $6,000 for joint filers)
Average Combined State and Local Sales Tax Rate: 9.22%
Median Property Tax Rate: $395 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Retirees with a sweet home in Alabama won't pay all that much in state and local taxes. Alabama doesn't tax Social Security benefits or money from most government pension funds. However, seniors in Alabama might pay a little more in income taxes than retirees in other states because the state taxes withdrawals from private IRA and 401(k) funds (although money from traditional pensions is tax-free). Plus, the highest tax rate (5%) kicks in relatively quickly.

The state's median property tax rate is the second-lowest in the country, at only $395 per $100,000 of home value (that's $988 in tax on a $250,000 home or $1,383 on a $350,000 home). Plus, all homeowners 65 or older are exempt from the state portion of property taxes, while lower-income residents are exempt from all property taxes on their principal residence. There are no estate or inheritance taxes in Alabama, either.

Alabama's Achilles heel is its sales tax. Although the statewide sales tax is only 4%, local jurisdictions can tack on up to 7.5% of their own taxes. When you add it all up, Alabama has the fifth-highest average combined state and local tax rate in the country, at 9.22%.

9. ARIZONA
State Income Tax: 2.59% (on taxable income up to $27,808 for single filers; up to $54,615 for joint filers) to 4.5% (on taxable income over $250,000 for single filers; over $500,000 for joint filers)
Average Combined State and Local Sales Tax Rate: 8.4%
Median Property Tax Rate: $617 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

The Grand Canyon State exempts Social Security benefits from state income taxes, plus up to $2,500 of income from federal and Arizona government retirement plans. Military retirement income is tax-free in Arizona, too.

Income tax rates are also relatively low for most retirees—and getting lower. Beginning with the 2021 tax year, a 3.5% surtax applies to taxable income of more than $500,000 for joint filers and to taxable income over $250,000 for single taxpayers, but the surtax can't boost the overall top rate beyond 4.5% (the 4.5% rate mentioned above includes the surtax). The surtax is being challenged in the courts, so eventually it might not be applied at all.

Looking further down the road, a two-bracket tax rate structure will be adopted starting in 2022. The rates will be 2.55% and 2.98%, and they will shrink to 2.53% and 2.75%, respectively, if certain state revenue amounts are reached. The state will then adopt a single flat rate of 2.5% if another state revenue total is reached.

The estimated property tax on our first hypothetical retired couple's $250,000 home is only $1,543 per year. For our second couple's $350,000 residence, the estimated annual tax is only $2,160. Both of those amounts are significantly below the national average. In addition, homeowners age 65 and older can "freeze" the value of their property for real estate tax purposes for three years if they have lived in the home for at least two years and their annual income is below $40,368 (one owner) or $50,460 (multiple owners). (The dollar figures shown are for the 2022 program.) Other property tax breaks are available for seniors, too.

Sales taxes in Arizona are above average. The average combined (state and local) rate is 8.4%, which is the 11th-highest in the nation. Arizona does not have an estate or inheritance tax.

10. TENNESSEE
State Income Tax: None
Average Combined State and Local Sales Tax Rate: 9.547%
Median Property Tax Rate: $636 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Residents of the Volunteer State pay no taxes on Social Security benefits,

pensions or distributions from their retirement plans. That's because Tennessee is one of a handful of states with no income tax. There are also no estate or inheritance taxes in Tennessee.

Property taxes in Tennessee aren't too bad, either. Our hypothetical couple with a $250,000 home in the state would pay about $1,590 per year in property taxes ($2,226 for the couple with a $350,000 home). That's well below the national average. There are also property tax relief programs in the state offering property tax reimbursements to income-eligible senior citizens. Tennessee also has a property tax freeze program for homeowners age 65 and older.

Watch out for Tennessee's sales tax, though. The 9.547% average combined state and local sales tax rate is the second-highest in the country. Tennessee is also one of the few states where groceries are subject to sales tax—the state levies a 4% sales tax, and local taxes may apply as well.

LEAST TAX-FRIENDLY

1. NEW JERSEY

State Income Tax: 1.4% (on taxable income up to $20,000) to 10.75% (on taxable income over $1 million)
Average Combined State and Local Sales Tax Rate: 6.6%
Median Property Tax Rate: $2,417 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Inheritance tax

The Garden State is the least tax-friendly state in the country for retirees, largely because of crushing property taxes. In fact, New Jersey has the highest median property tax rate in the country. If our first hypothetical couple bought a $250,000 home in the state, they would pay an estimated $6,043 in property taxes each year. Our second couple would pay $8,460 on their $350,000 New Jersey home.

The state does offer some property tax relief for seniors, though. Homeowners age 65 or older may qualify for a property tax credit of up to $1,000. There's also a program (the "senior freeze") that reimburses eligible seniors for property tax increases.

Income taxes are comparatively low for retirees in New Jersey, thanks in large part to a generous exemption for retirement income. For example, married seniors filing a joint return can exclude up to $100,000 of income from a pension, annuity, IRA or other retirement plan if their New Jersey income is $100,000 or less. Single taxpayers and married taxpayers filing a separate return can exclude up to $75,000 and $50,000, respectively. Social Security benefits aren't taxed in New Jersey, either.

Sales taxes are reasonable in New Jersey, too. The state sales tax rate is 6.625%, but because some areas charge only half the state rate on certain sales, New Jersey's average state and local combined sales tax rate is 6.60%, which is a little below average.

Although New Jersey recently eliminated its estate tax, the state still imposes an inheritance tax. The tax rates range from 11% to 16% on inherited property with a value of $500 or more. The amount of tax due is based on who specifically receives the property and how much the property is worth.

2. ILLINOIS

State Income Tax: 4.95% (flat rate)
Average Combined State and Local Sales Tax Rate: 8.83%
Median Property Tax Rate: $2,165 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

Social Security benefits and income from most retirement plans are exempt from Illinois state taxes. Plus, the state's 4.95% flat income tax rate won't take too much of a bite out of your retirement income. But property taxes hit retirees hard in Illinois. The statewide median property tax rate in Illinois is the second-highest in the nation—$5,413 per year on a $250,000 home and $7,578 on a $350,000 home.

Fortunately, there's some relief for qualifying seniors in the form of a homestead exemption of up to $5,000 ($8,000 in Cook County), the ability to "freeze" a home's assessed value, and a tax-deferral program.

Sales tax rates are high in Illinois, too. The state has the seventh-highest average combined state and local sales tax rate, at 8.83%. In some locations, the rate can be as high as 11%. Groceries (1% state rate; additional local taxes may apply) and clothing are taxable, too.

Illinois also has an estate tax that applies to estates worth $4 million or more.

3. KANSAS

State Income Tax: 3.1% (on taxable income from $2,501 to $15,000 for single filers; from $5,001 to $30,000 for joint filers) to 5.7% (on taxable income over $30,000 for single filers; over $60,000 for joint filers)
Average Combined State and Local Sales Tax Rate: 8.7%
Median Property Tax Rate: $1,369 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Distributions from private retirement plans, including IRAs and 401(k) plans, and out-of-state public pensions are fully taxed in Kansas. The state also taxes Social Security benefits if your federal adjusted gross income is $75,000 or more. Military, federal government and in-state public pensions are exempt from state income taxes, though.

Shopping in Kansas can be expensive. The Sunflower State's average combined state and local sales tax rate is the ninth highest in the U.S., at 8.7%, and groceries, clothing and even prescription drugs are subject to state and local sales taxes in Kansas.

Property taxes are above the national average as well. The statewide average property tax bill for our first hypothetical retired couple with a $250,000 home comes to about $3,423. The bill for our second couple, with a $350,000 home, is estimated to be $4,792. Those amounts are the 15th highest in the U.S. Homeowners who satisfy certain age and income requirements may qualify for a property tax refund.

Kansas doesn't impose estate or inheritance taxes.

4. NEBRASKA

State Income Tax: 2.46% (on taxable income up to $3,340 for single filers; up to $6,660 for joint filers) to 6.84% (on taxable income over $32,210 for single filers; over $64,430 for joint filers)
Average Combined State and Local Sales Tax Rate: 6.94%
Median Property Tax Rate: $1,614 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Inheritance tax

Nebraska is among the 10 least-tax-friendly states in the nation for retirees primarily because of steep income and property taxes. The Cornhusker State taxes some Social Security benefits, although taxpayers can choose to deduct 5% of Social Security benefits included in federal adjusted gross income beginning with the 2021 tax year (the percentage will gradually rise to 50% from 2022 to 2025). Most other retirement income is also taxed, including IRA and 401(k) plan withdrawals and public and private pensions. Plus, the top income tax rate kicks in pretty quickly: For 2021, it applies to taxable income above $32,210 for single filers and $64,430 for married couples filing jointly.

The state sales tax rate is 5.5%, but local jurisdictions can add an additional 2.5% to the state rate. The average combined state and local sales tax rate is 6.94%, which is in the middle of the pack compared with other states.

The median property tax rate in Nebraska is pretty high. For a $250,000 home, the statewide average tax is $4,035 per year; it's $5,649 for a $350,000 residence. Those totals are the ninth-highest property tax amounts in the country for homes at those price points. People over age 65 with income less than a certain amount may qualify for a homestead exemption that shields all or a portion of their property's value from taxation.

Nebraska's inheritance tax ranges from 1% to 18%. The tax on heirs who are immediate relatives is only 1% and does not apply to property that is worth less than $40,000. For remote relatives, the tax rate is 13% and the exemption amount is $15,000. For all other heirs, the tax is imposed at an 18% rate on property worth $10,000 or more.

5. CONNECTICUT

State Income Tax: 3% (on taxable income up to $10,000 for single filers; up to $20,000 for joint filers) to 6.99% (on taxable income over $500,000 for single filers; over $1 million for joint filers)
Average Combined State and Local Sales Tax Rate: 6.35%
Median Property Tax Rate: $2,139 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

The Constitution State is one of a handful of states that tax a portion of Social Security benefits. For residents with federal adjusted gross income over $75,000 ($100,000 for joint filers), 25% of Social Security benefits taxed at the federal level are taxed by Connecticut. (Social Security payments are exempt from taxes for taxpayers below those income levels.)

In addition, Connecticut has the third-highest property taxes in the U.S. For our two hypothetical retired couples, the statewide estimated property tax for a $250,000 home is $5,348 per year. The estimated annual tax for a $350,000 home is $7,487. The state does offer property tax credits to homeowners who are at least 65 years old and meet income restrictions. For 2021 credits, the income ceilings are $45,100 for married couples (with a maximum benefit of $1,250) and $37,000 for singles (with a maximum benefit of $1,000).

There is some relief on the income tax front. For 2021, 42% of income from a pension or annuity is exempt for taxpayers with less than $75,000 of federal AGI (less than $100,000 for joint filers). The exemption percentage will increase by 14% each year until it reaches 100% for the 2025 tax year. In addition, beginning in 2023, 25% of any distribution from a traditional IRA will be exempt for joint filers with less than $100,000 of federal AGI and for other taxpayers with less than $75,000 of federal AGI. That exemption percentage will be increased to 50% in 2024, 75% in 2025 and 100% in 2026 and thereafter. Military pensions are also excluded from state taxes.

There are no local sales taxes in Connecticut, so you'll pay only the statewide sales tax rate of 6.35% on your purchases, which is slightly below the national average. Clothing, footwear and accessories priced at more than $1,000; jewelry worth more than $5,000; and most motor vehicles costing $50,000 or more are taxed at 7.75%.

Connecticut imposes an estate tax on estates valued at $7.1 million or more (for 2021) at progressive rates ranging from 10.8% to 12%. Connecticut is also the only state with a gift tax, which applies to real and tangible personal property in Connecticut and intangible personal property anywhere for permanent residents. Only the amount given since 2005 and over $7.1 million is taxed. Gift tax rates start at 10.8% and go up to 12%.

6. VERMONT

State Income Tax: 3.35% (on taxable income up to $40,950 for single filers; up to $68,400 for joint filers) to 8.75% (on taxable income over $206,950 for single filers; over $251,950 for joint filers)
Average Combined State and Local Sales Tax Rate: 6.24%
Median Property Tax Rate: $1,861 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

The Green Mountain State has a steep top income tax rate, and most retirement income is taxed. Vermont also taxes all or part of Social Security benefits for single residents with federal adjusted gross income over $45,000 and over $60,000 for married couples filing a joint return.

Vermonters also pay high property taxes—the fifth-highest in the U.S. If our first hypothetical couple owned a $250,000 home in Vermont, they'd pay about $4,653 in property taxes each year. Our second couple, with a $350,000 home, would pay about $6,514 annually. Homeowners age 65 and older may qualify for a tax credit worth up to $8,000 if their household income doesn't exceed a certain level.

Sales taxes aren't too bad in Vermont, though. Local jurisdictions can add 1% to the state's 6% sales tax, which results in an average combined state and local sales tax rate of 6.24%. That's below the national average.

Vermont also taxes estates that exceed $5 million in value (for 2021) at a flat 16% rate.

7. NEW YORK

State Income Tax: 4% (on taxable income up to $8,500 for single filers; up to $17,150 for joint filers) to 10.9% (on taxable income over $25 million)
Average Combined State and Local Sales Tax Rate: 8.52%
Median Property Tax Rate: $1,692 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Estate tax

Property taxes are high in the Empire State. Our first hypothetical retired couple would pay about $4,230 each year in property taxes on their $250,000 home. Our second couple would pay an estimated $5,922 for their $350,000 home. Those figures are tied (with Texas) for the seventh-highest amounts in the country for those home values. There are some property tax breaks for seniors, though. Local governments and public-school districts can reduce the assessed value of a senior's home by 50%. Under another program, part of a senior's home value can be exempt from school property taxes.

New York has high sales taxes. There's a 4% state tax, and localities can add as much as 4.875% in additional taxes on purchases in the state. At 8.52%, New York's average combined state and local sales tax rate is the 10th highest in the nation.

When it comes to income taxes, New York's tax bite is less severe for retirees than it is in some other states. Social Security benefits, federal and New York government pensions, and military retirement pay are exempt. However, anything over $20,000 from a private retirement plan (including pensions, IRAs and 401(k) plans) or an out-of-state government plan is taxed. Also, for ultra-wealthy retirees, New York's income tax rate is a steep 10.9%. However, beginning in 2028, the top rate is scheduled to drop to 8.82% (where it was before 2021).

New York also has an estate tax—with an unusual "cliff tax" kicker. Generally, the tax is imposed only on that portion of an estate that exceeds the $5.93 million (for 2021) exemption. However, if the value of the estate is more than 105% of the exemption amount, the exemption disappears and the entire estate will be subject to New York estate tax.

8. WISCONSIN

State Income Tax: 3.54% (on taxable income up to $12,120 for single filers; up to $16,160 for joint filers) to 7.65% (on taxable income over $266,930 for single filers; over $355,910 for joint filers)
Average Combined State and Local Sales Tax Rate: 5.43%
Median Property Tax Rate: $1,684 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

Although Social Security benefits aren't subject to Wisconsin's income taxes, income from pensions and annuities, along with distributions from IRAs and 401(k) plans, are generally taxable. Seniors can subtract up to $5,000 of retirement income (including distributions from IRAs) from

Wisconsin taxable income if their federal adjusted gross income is less than $15,000 ($30,000 for a married couple filing jointly).

Property taxes are the eighth-highest in the U.S. For our hypothetical couple with a $250,000 home, property taxes would be about $4,210 per year. The couple with a $350,000 home would have to pay about $5,894 each year. Plus, there are only limited property tax breaks for retirees.

On the plus side, sales taxes are low in Wisconsin. It has the ninth-lowest combined average state and local sales tax rate in the nation. There are no estate or inheritance taxes, either.

9. IOWA

State Income Tax: 0.33% (on taxable income up to $1,676) to 8.53% (on taxable income over $75,420)
Average Combined State and Local Sales Tax Rate: 6.94%
Median Property Tax Rate: $1,529 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: Inheritance tax

Iowa's spot on our list of the least-tax-friendly states for retirees is due primarily to its high property taxes. The statewide median property tax rate in Iowa is the 11th-highest in the U.S. Our hypothetical couple with a $250,000 home would fork out about $3,823 per year in property taxes. The couple with a $350,000 home could expect to pay about $5,352 annually. To help ease the financial pain, a modest property tax credit is available to lower-income seniors.

On the income tax front, Social Security benefits are tax-free. There's also a $6,000 exclusion ($12,000 for joint filers) for most types of federally taxed retirement income. However, when compared with some of the tax breaks for retirement income available in other states, the Iowa exclusion doesn't look all that generous. As a result, income taxes for retirees in the state can be high, especially for wealthier residents. (Beginning in 2023, the lowest Iowa personal income tax rate will be 4.4%, and the highest rate will be 6.5%.)

Sales taxes in Iowa are middle-of-the-road. The state rate is 6%, and localities can add as much as 1%. The average combined state and local rate is 6.94%.

Iowa's inheritance tax is another thing retirees need to worry about—at least for the time being. Beginning in 2021, the Hawkeye State started phasing out its inheritance tax over a five-year period by reducing the rate of tax by 20% each year (the base rates range from 5% to 15%). For 2021, Iowa's inheritance tax ranged from 4% to 12% (3% to 9% for 2022), depending on the amount of the inheritance and the relationship of the recipient to the decedent. The tax will be completely repealed on January 1, 2025.

10. TEXAS

State Income Tax: None
Average Combined State and Local Sales Tax Rate: 8.19%
Median Property Tax Rate: $1,692 per $100,000 of assessed home value
Estate Tax or Inheritance Tax: None

You might be surprised to see the Lone Star State on the top-10 list of least-tax-friendly states for retirees, as it's one of the handful of states with no income tax. But property taxes are high—tied with New York for the seventh-highest in the country. That means an estimated annual property tax bill of $4,230 for our hypothetical couple with the $250,000 home and $5,922 in property taxes for the couple with the $350,000 home. On the bright side, seniors may be able to get a $10,000 property tax exemption, have their tax bill "frozen" or delay payment of taxes.

Sales taxes are on the high end in Texas, too. The state imposes a 6.25% tax, but local governments can tack on up to 2% more. When combined, the average state and local sales tax rate in Texas is 8.19%, the 14th-highest combined rate in the country. ■

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METHODOLOGY

How We Ranked the States

To gauge the "tax-friendliness" of a state, we calculated the sum of income, sales and property tax paid by two hypothetical retired couples.

To determine income taxes due, we prepared tax returns for each state and the District of Columbia for both couples. The first couple had $15,000 of earned income (wages), $20,500 of Social Security benefits, $4,500 of 401(k) plan distributions, $4,000 of traditional IRA withdrawals, $3,000 of Roth IRA withdrawals, $200 of taxable interest, $1,000 of dividend income and $1,800 of long-term capital gains, for a total income of $50,000 for the year. They also had $10,000 of medical expenses, paid $2,500 in real estate taxes, paid $1,200 in mortgage interest and donated $1,900 (cash and property) to charity.

The second couple had $37,500 of Social Security benefits, $26,100 of 401(k) plan distributions, $18,200 of private pension money, $6,000 of traditional IRA withdrawals, $2,000 of Roth IRA withdrawals, $2,000 of taxable interest, $4,000 of dividend income and $4,200 of long-term capital gains, for a total income of $100,000 for the year. They also had $10,000 of medical expenses, paid $3,200 in real estate taxes, paid $1,500 in mortgage interest and donated $4,300 (cash and property) to charity.

We calculated these 2020 returns using software from Credit Karma (some adjustments were made to account for certain 2021 tax law changes).

How much they paid in sales taxes was calculated using the sales tax deduction tables in the instructions for federal Schedule A (Form 1040) and the Tax Foundation's 2021 midyear average combined sales tax rates.

How much each hypothetical family paid (and deducted on their income tax return, if allowed) in property taxes was calculated by assuming a residence with a $250,000 assessed value for the first couple and a $350,000 assessed value for the second couple. We then applied each state's median property tax rate to that appropriate amount.

PRACTICAL PORTFOLIO | Adam Shell

The Right Dividend Fund for You

Dividend stock strategies come in many different flavors. Here's what to look for.

IF YOU'RE SHOPPING FOR A dividend-stock fund, do what you do when you buy cereal: Look at what's inside the box (or the portfolio, in this case) so that you know exactly what you're getting. You can't assume that just because a fund has *dividend* in its name (as hundreds do) that it will closely resemble and perform similarly to other dividend funds, or that it will be a good fit for your investment goals. "There are a lot of different flavors and a huge dispersion of strategies," says Sean Bandazian, an analyst at Cornerstone Wealth.

Dividends have a long history of adding to a stock's total return. The ability to pay a dividend is "a signal of a company's strength," says Alec Lucas, an investment strategist at Morningstar. Since 1926, dividends have contributed about one-third (32%) of the total return for the S&P 500, with the remainder coming from capital appreciation or rising stock prices, according to S&P Dow Jones Indices.

But just as cereals have different amounts of sugar, sodium and vitamins, dividend funds (even ones with essentially identical names) hold different types of dividend-paying stocks and have different sector exposures. The funds also have disparities in their fees and stock-selection criteria, depending on whether a fund is run by a stock picker or tracks an index.

The first order of business when selecting a fund is to define your goal. "Do you need to live off the dividend and turn it into a paycheck?" asks Rob Leiphart, vice president of financial planning at RB Capital Management. Or are you looking more for growth and income?

Many investors, especially retirees, opt for higher-yielding stocks for two key reasons: to generate steady income and to provide downside protection in declining markets. Others prefer a dividend-growth strategy, which is designed to increase your income stream over time and outpace inflation. Dividend-growth funds target companies with bright prospects for increasing their payouts but not necessarily the ones with the highest yields.

Below, we'll show you some of the ways that dividend funds can differ and offer tips on picking a fund that matches your goals. Prices and other data are through January 7.

What's in a name? Don't assume that actively managed mutual funds and passive, index-based exchange-traded funds with nearly identical names invest in the same things. "Funds that have the same name can be very different," says Todd Rosenbluth, head of ETF and mutual fund research at CFRA, a Wall Street research firm.

Consider the differences between Schwab Dividend Equity (symbol SWDSX), an actively managed fund, and Schwab U.S. Dividend Equity ETF (SCHD, $82), which tracks an index of stocks that have a long history of paying an annual dividend. The ETF's expense ratio of 0.06% makes it cheaper than the mutual fund version, which charges 0.89% a year. The ETF also sports a 2.9% yield, compared with the mutual fund's 1.7%.

Each portfolio uses different criteria for choosing stocks, too. Managers of the mutual fund screen for stocks that rank high on Schwab's stock-rating system and also have strong dividend track records. The ETF tracks an index that focuses on the sustainability of the dividend, targeting companies with consecutive payouts of 10 years or more. Only four stocks (Coca-Cola, Verizon, International Business Machines and Home Depot) are top 10 holdings of both portfolios, according to the most recent reports.

The two funds also tilt toward different sector weightings. For example, the ETF has a larger stake in technology stocks (16%

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compared with 11% for the mutual fund) and industrials (18% versus 11%). Such differences can have a significant impact on performance. The ETF's one-year return of 27.6% is three points ahead of the mutual fund's one-year gain; the ETF's three-year annualized return of 23.7% trounces the mutual fund's 14.3%. Given its lower fees, better returns and less-subjective stock-selection criteria (thanks to indexing), we give **SCHWAB U.S. DIVIDEND EQUITY ETF** the edge. It's also a member of the Kiplinger ETF 20, the list of our favorite ETFs (recommended investments are in bold).

Index construction matters. The way an index screens stocks for inclusion affects the sector allocation, volatility, yield and overall performance of a passive ETF that tracks the index. An index's formula "lets you know what the fund is seeking to do," says Rosenbluth. **VANGUARD HIGH DIVIDEND YIELD ETF** (VYM, $115), with a rock-bottom expense ratio of 0.06%, homes in on stocks with higher-than-average yields. It replicates the U.S. component of the FTSE High Dividend Yield index; companies that haven't paid dividends in the past 12 months are excluded, as are those forecast not to do so over the next 12 months.

The ETF yields a moderate 2.70%, but it produces robust total returns. It holds 410 mature companies (the broad diversification cuts down on individual stock risk) with favorable growth profiles. Financials make up 22% of the portfolio, with JPMorgan Chase the top holding. Other stocks that give the fund some capital-appreciation *oomph* include home-improvement retailer Home Depot and Pfizer. The ETF has returned 25.5% over the past year.

Another solid choice among ETFs focused on higher yields is **FIDELITY HIGH DIVIDEND** (FDVV, $41), with a dividend yield of 2.6% and an expense ratio of 0.29%. The fund follows the Fidelity High Dividend index, which factors dividend growth into stock selection and, according to fund tracker Morningstar, screens out the 5% of stocks that have the highest payout ratios (the percentage of earnings paid out in dividends). This risk control is important: A focus on high yields alone can lead to some sketchy holdings because yields rise as the stock prices of companies in distress are sinking. The portfolio's top sector is financial services, claiming 19.6% of assets, with tech close behind at 19.3%. Apple is the top holding. The ETF's one-year return is 27.7%.

A side of growth with your income. Zeroing in on dividend-paying companies with solid growth prospects is one way to ensure the payout you're counting on is fundamentally sound and will increase over time. To find such stocks, "compare funds not just on yield but on total return," advises Lewis Altfest, CEO and chief investment officer at Altfest Personal Wealth Management. Some dividend-growth ETFs track only companies that have increased their dividend for five, 10 or 25 consecutive years. Other indexes screen for financial traits that show a stock is well positioned to raise dividends consistently in the future.

VANGUARD DIVIDEND APPRECIATION ETF (VIG, $169), with an expense ratio of 0.06%, is a good choice if you're looking for companies with sustainable dividends. A member of the Kip ETF 20, it tracks an index of companies that have increased dividends for 10 years or more and screens out the stocks of those that may not be able to continue raising their payouts. Its top holding is tech behemoth Microsoft, which has carved out a niche in the fast-growing cloud-computing business. The ETF yields 1.6% and has posted an annualized gain of 22% over the past three years.

Another option to consider is **ISHARES CORE DIVIDEND GROWTH ETF** (DGRO, $56), which has an expense ratio of 0.08%. The fund requires companies to have boosted their dividends for at least five straight years. Financials account for 22% of the portfolio, followed by tech (18%) and health care (17%). Health care behemoth Johnson & Johnson is the top holding. The ETF yields 2.0% and has gained 21.4% annualized over the past three years. ■

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MILLENNIAL MONEY | LISA GERSTNER

Make a Plan for Your Parents' Care

Sadé Dozan was 29 years old when she abruptly found herself taking care of both her mother and 6-month-old child in 2018. "My mother had my daughter in her arms and had a heart attack," says Dozan. Her mother was left incapacitated, and her father has had his own health struggles with a recurring cancer.

Dozan is one of an increasing number of millennials squeezed in the sandwich generation, caring for their children and aging parents simultaneously. According to a 2020 survey from life insurer New York Life, millennials made up more than one-third of multigenerational caregivers, and they're expected to account for a larger share as the population ages.

The survey also found that sandwich generation members spent an average of $973 a month from their personal funds to meet the medical and other financial needs of aging relatives. Nearly half of Dozan's income from her full-time job as senior director of development for advocacy organization Caring Across Generations goes toward such costs. To stay afloat, she works a second full-time job as a consultant. She also takes her parents to doctor appointments and helps them go through their mail to ensure their bills are paid.

Start the conversation. If you have not already been thrust into a caregiving role, you can prepare for the possibility. The ideal time to begin talking with your parents about their care as they age is before they need it.

When my widowed mother traveled from out of state to visit my family during the December holidays, I showed her my will, power of attorney (which designates who handles my financial affairs if I become unable to do so) and health care proxy (which assigns an agent to make medical decisions for me if I become incapacitated). That led to a discussion about her documents and contingency plans.

We also talked about where she would like to live if she could no longer manage daily life on her own. Ask your parents to consider whether they want to stay in their own home (with help from family members or an aide), go to an assisted-living facility or nursing home, or move in with a relative. That relative could be you or one of your siblings, so it's important to involve the rest of your family in the conversation and outline your own role. You may be unable to house your parents, for example, but you can provide care in other ways.

Get the financial picture. The cost of care can be substantial—a median $4,300 per month for an assisted-living facility and $8,821 for a private room at a nursing home, according to the 2020 Genworth Cost of Care survey. When your parents express the type of care they'd prefer, ask them how they plan to pay for it and what resources they have to make that a reality. As Dozan's situation illustrates, many caregivers spend money out of their own pockets on their parents, so it's worth thinking about how you might contribute.

THE IDEAL TIME TO BEGIN TALKING WITH YOUR PARENTS IS BEFORE THEY NEED CARE.

Finally, introduce yourself to your parents' attorney, accountant and other financial advisers, suggests Katie Coleman, a certified financial planner with Ameriprise Financial. They may be among the first to notice if your parents' capabilities are slipping, especially if you aren't able to see them enough to witness problems yourself. ■

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POON WATCHARA-AMPHAIWAN

REWARDS

Planning a Summer Vacation? Here's What to Expect

Travelers have been dealing with the trials and tribulations of canceled trips and elusive refunds for nearly two years. It will get better this year.

BY EMMA PATCH

When Katie Knox, of East Lansing, Mich., booked a flight to Paris to visit her boyfriend over the holidays, she locked in a low fare on budget airline Frenchbee. But then her boyfriend tested positive for COVID-19 only days ahead of her planned departure, delaying her trip by 10 days. She changed her flight, but her sad saga was just beginning. Her Delta Airlines flight from Detroit to Newark, N.J., where she was connecting with her flight to Paris, was canceled, thanks to COVID-related staff shortages.

Knox had to wait a day to get another flight to Newark. She spent the night in a Detroit airport hotel and decided to book a new flight with Swiss Air from New York to Copenhagen, where her boyfriend was traveling to be with his family. She received a credit for her Frenchbee flight and booked a return flight home on Iceland Air. But that flight was canceled because of severe weather in Reykjavik. She opted for a refund instead of a new flight—but because she had booked the flight on travel aggregator Gotogate, she had to spend 10 hours on the phone, on hold and on multiple calls, trying to lock in the money. In the end she was promised the refund—which she was told could be delayed up to a year.

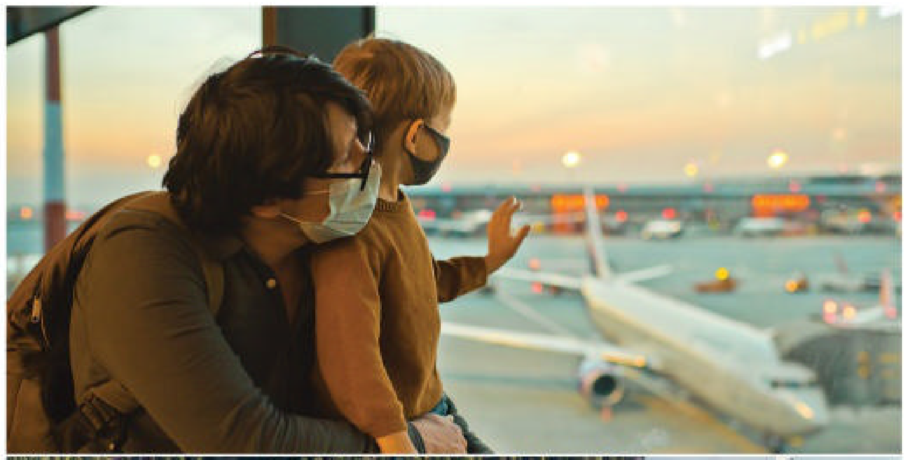
Welcome to travel in 2022. After two years of navigating the complexities of canceled, interrupted or delayed plans, thanks to the pandemic and its many ripples and waves, as well as severe weather, travelers endured another episode of canceled flights over the holidays. Now, many people have their sights set on traveling freely again this summer. But with COVID-related uncertainty, locking in travel itineraries may feel like wishful thinking.

Even so, travel experts are anticipating a rebound for tourism this summer, particularly in places where borders are just beginning to reopen. Many public health experts are predicting a relatively quick end to the omicron surge. And even if the virus sees a new surge from a new variant, the key to successful travel this summer will be good planning. That will include being vaccinated and getting a booster, plus packing a full-featured travel insurance policy (see the box on page 70).

Travel regulations this year are likely to shift from full-on border closures to vaccine requirements, says Melanie Lieberman, senior travel editor for The Points Guy, a travel rewards website. "We're already seeing some destinations announce vaccination expiration dates or booster requirements," she says.

Travel restrictions to Europe and Asia should begin to lift. And the market for flights to Europe should get competitive, says Scott Keyes, CEO and founder of travel website Scott's Cheap Flights. As travel restrictions relax, Europe is where airlines will begin to start adding routes quickly, says Keyes, and travelers should keep an eye out for deals.

tions, such as the Caribbean and parts of Central and South America, that have been granting access with certain entry requirements should also be reliable destinations in 2022.



Although there may be more opportunities for international travel this summer, most vacationers will likely focus on domestic trips. "We know travelers are eager to return to their favorite destinations abroad, particularly in Europe, but until regulations and requirements for entry stabilize, many travelers will choose to stay closer to home," says Lieberman. National parks, beaches and other outdoor-oriented destinations will be popular. But don't expect great deals for domestic travel.

Placing bets on where to go is a balancing act of pricing and availability. Although domestic travel is the safest bet, some short-haul international destina-

AIR TRAVEL

Fortunately for fliers, major U.S. airlines made permanent changes during the pandemic, allowing flexible bookings for most tickets. That means you won't have to pay a fee if you need to change your flight—as long as you don't buy the cheapest fares. And airlines are not expected to go back on their word and change this policy anytime soon, says Keyes.

Chances are, if you've been traveling during the pandemic, you already have experience with this—you may even have accumulated a few flight credits from canceled trips. Be sure to read the fine print on these credits or vouchers, because not all airlines offer the same flexibility for your new booking. Pay attention to whether you are required to make your booking during a certain time frame or whether the new flight must take place during a certain time period.

For new bookings, if you want a flexible fare, avoid basic economy tickets. The cost difference between a basic economy and main cabin ticket may be low (recently as low as $20 or $30 for a $200 domestic flight), and it could be well worth paying for the upgrade if you compare that with the cost of changing your flight, which is typically $200. There are workarounds with certain airlines that offer even more flexibility. For example, if you book with United Airlines, you can later upgrade your basic economy ticket to a ticket with flight flexibility. And Southwest Airlines always offers flexibility on all tickets, no matter the price.

Requesting a flight change or credit is fairly straightforward when you book your travel directly with the airline. Once you place your request, you'll generally be issued a credit for the full cost of the flight. Most airlines let you apply those funds to any new flight, and some, such as American and United, will even allow you to transfer your flight credit to someone else. You'll always be on the hook for a fare difference for a new flight—unless the airline has made a special exception.

Travelers can expect continued COVID safety protocols, such as enforced

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mask-wearing, hand-sanitizing stations, and more contactless processes, such as scanning your own boarding pass. Don't expect talk about vaccine requirements for domestic flights to gain any traction.

CRUISES

After the cruise industry shut down in 2020, the long-awaited return to cruising in 2021 proved promising, offering a host of COVID safety protocols on many new trips. Cruise lines have been requiring vaccinations for staff and most passengers, and cruises often require negative tests as well.

But the return to cruising has had hiccups reminiscent of the crises on cruise ships at the outset of the pandemic. Many travelers who sought out cruising as a fun, safe bubble of vaccinated people over the holidays were met with disappointment when the rise of the omicron variant quickly spread. And unfortunately,

Travel Insurance Fit for a Pandemic

The pandemic has introduced a discomfiting element of gambling to travel planning. But you can reduce the odds of losing money when your trip is canceled or delayed by buying travel insurance.

The limitations of standard travel insurance have expanded the appeal of a previously obscure upgrade to standard travel insurance known as "cancel for any reason" (CFAR) policies. This option, while significantly more expensive, is more likely to cover the sort of cancellations that COVID has made commonplace.

Megan Moncrief, chief marketing officer for travel insurance aggregator Squaremouth, says CFAR has become the go-to plan for more travelers. Traditional travel insurance, she explains, doesn't cover the majority of pandemic-related claims. And a recent review by Squaremouth found that only 30% of pandemic-related claims were made by people who canceled their trips because they actually contracted COVID-19. That is the only type of pandemic claim that would be covered by most standard travel insurance policies. The remaining 70% of claims were for related reasons, including border closures and quarantines, but those were excluded from non-CFAR policies.

Weigh the cost. A travel insurance plan from TravelEx for a $12,000, nine-day, two-person trip to Canada, Italy or France in June costs $522, including COVID-19 cancellation protection and trip-interruption protection. CFAR travel insurance for a similar trip from the same insurance provider would cost $730. To find sample prices for any trip you're planning, check out Squaremouth's pricing tool to compare plans from various travel insurance providers at www.squaremouth.com/single-trip.

Moncrief says that prior to the pandemic, her company was "slow to recommend" CFAR policies because of the expense. At that time, such policies accounted for less than 4% of sales, she says. CFAR insurance now makes up about 8% of sales—but that's down from 28% at its peak in 2020, says Moncrief.

Travel insurance policies with a CFAR add-on typically must be purchased within two to three weeks of the first payment toward the covered trip, according to Squaremouth. However, certain policies that cover only cruises offer CFAR at any time before a final payment is made for a trip.

Insurers now demand that policyholders first seek reimbursement from the travel service provider, such as the airline or cruise company, before filing an insurance claim. Sometimes, Moncrief says, an airline might want to give credit rather than reimbursement. She says insurers will encourage travelers to push for reimbursement before considering whether to provide coverage for such an event.

Read the fine print. "As a purchaser of travel insurance, make sure you understand what you are buying and what the policy covers and does not cover," cautions Mark Friedlander, director of corporate communications for the Insurance Information Institute. "No policy has 100% of everything." Insurers have made a number of adjustments in response to the pandemic. At the beginning, Moncrief says, travel policies didn't cover medical care for pandemic illnesses. But that quickly changed.

Friedlander notes that different policies will contain different provisions, and "cancel for any reason," doesn't necessarily mean "any reason." He stresses the importance of reading and understanding the provisions of a policy before purchasing it. Moncrief offers examples of some insurers' exclusions on CFAR policies: iTravelInsured, Travel LX, TravelSafe Classic, and Seven Corners RoundTrip Choice and RoundTrip Basic all have the following language: "This Cancel for Any Reason benefit does not cover the failure of the travel supplier to provide the bargained-for travel arrangements due to cessation of operations for any reason." Plus, depending on the policy, the payout for a CFAR claim can be as low as 50% of the loss, experts say. **ELAINE SILVESTRINI**

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Rental Cars Are Still in Short Supply

If you're renting a car in 2022, brace yourself for higher prices and longer waits at the rental counter. The industry has been rocked by shortages and price spikes since summer 2020. After the initial COVID-19 shutdowns and travel disruptions, more people rented vehicles for driving vacations or as alternatives to public transportation, but supply-chain kinks caused shortfalls in carmakers' inventories and left rental companies with fewer vehicles. Travelers who rented a vehicle at an airport location faced a nearly 60% increase in rental-car prices between August 2020 and August 2021, according to a report from J.D. Power.

To get the best price, book as early as you can and shop several rental companies. Closer to your trip, try using AutoSlash.com, an online car-rental service that may find last-minute deals.

A number of car-rental alternatives have popped up during the pandemic. Turo, the car-sharing service now available in every U.S. state, has seen business boom. However, note that you probably can't rely on your personal auto insurance if you're driving a Turo car because most policies only cover you if you're renting from an accredited car-rental company. Turo offers insurance plans that will add from 15% to 60% to the cost of your rental, depending on the level of protection.

because cruise lines were only required to report positive case counts to passengers after the infections reached a certain threshold, passengers were often left in the dark about just how dire the situation was. The Centers for Disease Control and Prevention issued an open-ended warning to all Americans to avoid travel on cruise trips in December, regardless of their vaccination status. It was the agency's highest coronavirus warning.

Still, cruise industry experts are optimistic about prospects for this summer. "We're seeing signs that the travel outlook for 2022, particularly in the summer, is strong," says Colleen McDaniel, editor in chief of Cruise Critic, a travel website. "There's been pent up demand for a while, bookings for 2022 are strong, and we're hearing sentiment from cruisers that they're anxious to get out there," she says.

Many cruisers are looking to stay closer to home. Summer is a great time to visit Alaska, and although last year's Alaska cruise season was cut in half, this year should have a full Alaska season, McDaniel says. Masking regulations vary by cruise line. For example, Carnival Cruise Line updated its mask requirement as omicron began to spread, requesting that all passengers age 2 and older wear a mask on board, except when eating or drinking.

Although historically cruises have rarely offered refundable fares, many cruise lines continue to be flexible about cancellations. But discounted cruise fares have been few and far between. Prices now generally match what they were in 2019. The best time to book cruises is generally from January through March and sometimes a bit into April, during what the cruise industry calls wave season. During these months, you might find a discounted booking, or packages with perks that offer deals on board, such as free drinks or Wi-Fi.

TRAVEL AGGREGATORS

Before you book with a third-party travel provider, be sure you fully understand their policies. If you've been struggling to get a refund for travel you booked with a third-party provider, you may have to be patient—as Katie Knox discovered with her marathon phone calls. "Anytime a third-party provider gets involved, there's an opportunity for the travel provider and the third party to defer to the other, which can mean a headache in terms of canceling, rebooking and getting a refund," says Lieberman.

Kiplinger reader Kevin Shea recently wrote to us about a frustrating experience he had with Expedia. He booked a European vacation for his family of four through Expedia on American Airlines. Expedia issued credits for the flights, but this past December, when he tried to book tickets using the credits for new flights this summer, he encountered error messages online. An Expedia customer service rep told him to contact American Airlines.

American Airlines helped him book the new fares. However, because the fares were originally booked through Expedia, the airline charged a $50 rebooking fee for each of the four tickets.

You will have an easier time getting credits or refunds if you book directly with the airline rather than through a third party. And if you book a flexible fare directly with an airline using points, the points should be automatically returned to your account if you cancel, Lieberman says.

Regardless of where you buy your ticket, U.S. airlines are legally required to provide a refund if your flight was canceled or subject to a significant schedule change or delay, according to the U.S. Department of Transportation. That usually means a schedule shift of two hours or more, although the DOT does not explicitly define what constitutes a significant delay or change. And airlines are not required to issue a refund for a significantly delayed flight that you choose to take; if a flight is significantly delayed, you may want to cancel your reservation, rebook another flight and collect a refund. ■

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MAKING IT WORK

A Third Run at the Winter Olympics

This downhill racer has been on the U.S. ski team since he was 19.

PROFILE

WHO: Jared Goldberg, age 30
WHAT: Olympic alpine skier
WHERE: Salt Lake City

You're headed for your third Winter Olympics. In which events will you compete in Beijing? They had not decided who will be on the teams as of early January, but I'm preparing for the downhill and super-G races.

How did you become a world-class skier? My family and I moved to Salt Lake City from Boston when I was 4 years old. I spent a lot of time skiing at Snowbird Mountain Resort. It was a really cool upbringing because I got to spend my time on a ski team that was like a big family. I went to high school in Salt Lake, and I was able to work it out with my teachers that I would leave for weeks at a time. They fully supported me; I just told them I had a dream that I would go to the Olympics someday. And then when I was 19, I made the U.S. ski team. At 22, I was the youngest member of the Sochi Olympics U.S. men's alpine team.

What's life like for a professional skier? It's a 6 A.M. to 10 P.M. job with a lot of traveling. We're on the road about five and a half months of the year, if not more. It's really cool because we get to see the world and ski on different mountains all over the world. We're working hard and strength training when we're on the road. These days, it's hard to work out in public gyms, so in Europe we've been carrying around a whole set of weights and equipment. We have to constantly exercise and do physical therapy. We also watch video when we're done with training.

What COVID protocols are you following for the Olympics? Right now, we're in our downhill team bubble. We're almost a bubble within a bubble, actually, because we also limit our contact with the other guys on the U.S. ski team. And when we're out in public, we're not able to do as many autograph signings, and family members aren't even allowed to stay with us at the races this year. That has been the protocol for basically the whole year. If we're around other people, we have to wear a mask—sometimes even within our own meetings with our downhill team.

You need to be vaccinated to go, and on our team, you need to also have a booster. There's going to be a lot of testing before we fly and when we get there. The workers are going to be wearing hazmat suits on the plane, I've been told.

How do you support yourself? I have sponsorships with Snowbird Mountain resorts, and I have equipment sponsors. My skis, my helmet, my goggles, my Spyder outerwear, those brands are my other source of income. There's also prize money. You get paid for your position, and you get points for your positions as well. If you're in the top 30, you get World Cup points—100 points for first place all the way down to one point for 30th place. I make a little bit of money on Cameo, too. I do shoutouts, happy birthdays, give people advice and things like that.

I also dabble with cryptocurrencies for fun. I started investing in crypto about four years ago. A couple of buddies on the team and I started playing around with it, not with big numbers or anything. It has just been kind of fun fooling around and learning more about it.

What are your thoughts on the political situation with China now? I think that it's a good call to not pull the athletes out of the competitions, because we'd give up a lot of medals. We don't want to make it easy for the other countries. **EMMA PATCH**

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