"Dr. Hungerford's Top No-Load Mutual Fund Picks (and his Four Favorite Stocks)"

American Association of Independent Investors
Triangle Chapter Cary, NC
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Six-Week Rally Blunts Third Quarter Losses

October, the month famous for biggest stock market crashes ever (1929 and 1987), cheered investors when the S&P 500 jumped 8.3% while international stocks and small/mid-size company stocks rose about 6% last month. After gaining nearly 1% percent the first week in November, the six-consecutive-week winning streak ended this week as stocks sold off 1% Monday and 1.4% Thursday. (The S&P 500, through November 12, is 4% below its all-time high set last May.)

The sharp upward rally followed third quarter losses -- about 7% for U.S. large-caps, but nearly a 12% decline for both international and U.S. small-cap stocks. It was easily the worst quarter since 2011. Fueling last quarter's sell-off were: (1) the short-lived Chinese crash, (2) slowing global growth, (3) uncertainty over when the Fed will raise interest rates, and (4) declining corporate profits.

The biggest quarterly loser was the natural resource sector that fell 21% with its energy stocks averaging an 18% decline. With oil prices per barrel now in the $40s, almost 5 percent of oil companies have defaulted on their loan payments this year, the highest since 1999 when oil plunged briefly to $10 a barrel. The number of oil rigs now operating here is at a five-year low.

Of course, continuing lower energy prices have helped increase consumer confidence that has certainly contributed to the highest new-home purchases in eight years and an all-time record for new car sales.

An astute reader might ask: If consumer spending is strong, the unemployment rate was down to 5.1 percent, and GDP (revised) grew a surprisingly high 3.9 percent during the second quarter, why did the market have it first "correction" in four years? (A "correction" is a decline of 10 percent or more but less than the 20 percent or more loss that creates a "bear market.")

I can cite five reasons that may explain our sell-off. Most important, I think, is slowing global growth, particularly in China, as it transitions from a former manufacturing-export driven economy to one based more on consumer spending.

The September Chinese manufacturing index at 47 -- a 50 rating indicates neither growth nor decline -- was at its lowest level since 2009. However, the Chinese consumer market continues its rapid expansion: for example, Apple's sales of its high-priced I-phones there jumped 87% compared to 2014's third quarter!

(Disney and its Chinese partners will open a $5.5 billion park in Shanghai next spring where there are 32 million people living in the urban area. There are 16 cities in the U.S. with populations of one million or more; China has 160!)

In this century -- when household wealth in the U.S., adjusted for inflation, is 20% higher than it was in 2000 -- Chinese household wealth is up an amazing 265% (Barron's, 11/2/15, p. 12) as average wages there have nearly quadrupled since 2000. (The Chinese have poured more concrete since 2012 than the U.S. did in the whole 20th century!)

After a huge bubble more than doubled Chinese stocks in a year (through June 12), the Chinese market sold off about 35% before a double-digit rally last month. China has cut interest rates six times this year and the government has consistently interfered in the market -- even banning short selling. (So far this year Chinese stocks are up over 20%.)

Slowing global growth was one reason the Fed did not raise interest rates September 17 as many had forecast. At first the market rallied almost 200 points as Fed Chief Janet Yellen held a news conference that afternoon where she seemed fairly upbeat on the U.S. economy. Then, in a little more than an hour of trading, the market ended down 258 points as traders focused on the Fed's statements about declining global-growth rates. (The International Monetary Fund is now predicting an overall 3.1 percent growth rate for the world's economies this year, down from its 3.3 percent forecast seven months ago.)

A third reason for our third-quarter losses is the uncertainty about when the Fed will raise interest rates. A USA Today headline, September18, "Uncertainty Reigns Supreme" said it all. Given the huge 271,000 new jobs reported last week for October, most "experts" are now predicting a quarter-point raise next month..

I believe the fear over higher interest rates, given how low they are now, is "crazy." Even when rates were much higher, stocks have gained an average of 3.1% during the six months following the 24 times the Fed has raised interest rates since 1971.

My reason number four is the decline in U.S, corporate profit growth. Profits are running about 2% less for the third quarter than they were a year ago and about 7% less than originally forecast last January. Mostly, the pessimistic profit picture is caused by the stronger dollar and plunging oil-company profits. (One estimate is that the largest 800 U.S. corporations lost $85 billion in overseas profits the first six months of this year due to the stronger dollar.)

Energy is about nine percent of the U.S. economy and its corporate profit picture is dismal --down about one-third from 12 months ago. The good news is that it seems doubtful that oil prices will fall much farther and the dollar may continue to rise only incrementally against foreign currencies.

My last reason is certainly the least important but historic -- the six-year bull market from the March-2009 low to its record high last May produced an astounding 225% return (S&P 500 with dividends reinvested). Certainly we were long overdue for a 10%+ decline. (From the all-time highs in May until the bottom August 25 the Dow lost 15% while the S&P 500 declined 12%.) Since World War II U.S. stocks have averaged a 10% or more downturn about every 18 months. Yet we had gone four years since the last correction -- a 19% drop in 2011.

The strong market comeback began at the end of September: the rally from September 29 to Oct. 5 was the best 5-days since 2011. Given our huge gains recently, returns for this month and December may disappoint -- not living up to their historic status as easily the market's best performing back-to-back months.

Despite presidential-candidate rhetoric, it is hard to argue that the U.S. economy isn't improving -- given the current low 5% unemployment rate and strong consumer spending helped by lower gasoline prices and increasing wages. (Average hourly earnings were up 2.5% last month, the best 12-month gain since 2009.)

New car and new home sales are terrific and current forecasts for Christmas spending are fairly positive. Also, investors are increasingly negative about bonds so some of that bond money will flow into stock purchases. Overall corporate profits should definitely improve as the economy continues to strengthen, gasoline prices stop falling and the dollar appreciates more slowly.

My advice: if you have cash you won't need for five years or longer I think now is a good time to put at least half of it into stocks or stock mutual funds!

Roth IRAs & 401(k)s: Uncle Sam's Best Tax Shelter

Why do so many people eligible to invest in tax-free Roth IRAs or the Roth 401(k)s at work refuse to use them? Both offer tax-free growth forever and with Roth IRAs you may withdraw, any time, for any reason, all of the money you have invested without any penalty fees. (You may only cash out any gains tax-free after five years and after reaching age 59½, unless you buy a first-time home which permits a $10,000 withdrawal of gains tax-free after the account has been open five years. Every teenager and college student should open a Roth IRA!)

To invest yearly ($5,500 max for 2015 if under 50 and $6,500 for ages 50 and over) you or your spouse must have earned income. Couples making $183,000 or more and singles earning more than $116,000 are not eligible for maximum 2015 Roth IRA contributions. There is no income limit for Roth 401(k)s.

Anyone, at any age, may convert a traditional IRA to a Roth IRA for any amount at any time and also convert traditional 401(k) money to a Roth 401(k) if your employer offers that option. However, taxes, at ordinary income rates, are due on all amounts converted. If you convert we advise you to convert your highest risk stocks or mutual funds. If any of the converted IRA positions decline, you have until you file your 2015 taxes, as late as Oct.15, 2016, to cancel (recharacterize) that conversion. However, all 401(k) Roth conversions are final.

SEP-IRAs and the One-Participant (solo) 401(k)

We are constantly amazed at the number of people who come into our office that are self-employed who do not contribute to a SEP-IRA or solo 401(k). SEP-IRAs are the best tax shelter ever -- allowing 25% of corporate salary (max contribution is $53,000) or 20% of non-corporate wages. Since all contributions come from the employer—not the employee (even though they are the same entity in a one-person business) there is no FICA and Medicare taxes as well as the usual exemption from federal and NC income taxes. (SEPs can be used as long as companies do not have more than 100 employees.)

Solo 401(k)s are for a one-person business or husband and wife ownership (no other employees). The employee 401(k) deductions are subject to FICA and Medicare taxes but as is true for SEPs the employer contributions are completely tax free. You can basically shelter almost all of your income up to the 401(k) limits ($18,000 and $24,000) and another 25% (corporation) or 20% can be an employee contribution.

2015 Tax Brackets Compared to Projected 2016 Rates

Married Couples Filing Jointly

Tax Rate	2015 Taxable Income	2016 Taxable Income
10%	Not over $18,450	Not over $18,475
15%	$18,451to $74,900	$18,476to $74,975
25%	$74,901 to $151,200	$74,976 to $151,375
28%	$151,201 to $230,450	$151,376 to $230,700
33%	$230,451 to $411,500	$230,701 to $412,000
35%	$411,501 to $464,850	$412,001 to $465,350
39.6%	Over $464,850	Over $465,350

Single Filers

Tax Rate	2015 Taxable Income	2016 Taxable Income
10%	Not over $9,225	Not over $9,250
15%	$9,226 to $37,450	$9,251 to $37,500
25%	$37,451 to $90,750	$37,501 to $90,850
28%	$90,751 to $189,300	$90,851 to $189,500
33%	$189,301 to $411,500	$189,501 to $412,000
35%	$411,501 to $413,200	$412,001 to $413,650
39.6%	Over $413,200	Over $413,650

List of No-Load Mutual Fund Families

Fund Family	Minimum $ to open	IRA Min.	NTF?	Bank Draft Min.	$2,000 ESA	Toll free phone #	Website Address www.
Akre	2,000	1,000	C,F,S,T	250	Yes	877-862-9556	akrefund.com
Artisan	*1,000	*1,000	C,F,S,T	50	Yes	800-344-1770	artisanfunds.com
Dodge & Cox	2,500	1,000	None	100	No	800-621-3979	dodgeandcox.com
DoubleLine	2,000	500	C,F,S,T	500	No	877-354-6311	doublelinefunds.com
Driehaus	10,000	2,000	C,F,S,T	NA	No	800-560-6111	driehaus.com
Dupree NC tax-free	100	NA	None	100	No	800-284-2562	dupree-funds.com
Eventide	1,000	1,000	C,F,S,T	50	Yes	877-771-3836	eventidefunds.com
Fidelity	2,500	2,500	F	200	Yes	800-343-3548	fidelity.com
FMI	1,000	1,000	C,F,S	50	Yes	800-811-5311	fmifunds.com
FPA	1,500	1,500	F,T	100	No	800-982-4372	fpafunds.com
Grandeur Peak	2,000	2,000	C,F,S,T	50	No	801-870-0153	grandeurpeakglobalfunds.com
Guinness Atkinson	5,000	1,000	F,S,T	100	Yes	800-915-6566	gafunds.com
Harbor	2,500	2,500	C,F,S,T	25	No	800-422-1050	harborfunds.com
Hodges	1,000	1,000	C,F,S,T	50	No	866-811-0224	hodgesmutualfunds.com
Homestead	500	200	T	50	Yes	800-258-3030	homesteadfunds.com
Loomis Sayles	2,500	2,500	C,F,S,T	50	No	800-633-3330	loomissayles.com
Matthews	2,500	500	C,F,S,T	100	Yes	800-789-2742	matthewsfunds.com
Meridian	1,000	100	None	100	Yes	800-446-6662	meridianfund.com
MetWest	5,000	1,000	C,F,S,T	100	No	800-241-4671	mwamllc.com
Nicholas	500	500	C,S	50	Yes	800-544-6547	nicholasfunds.com
Oakmark	1,000	1,000	C,F,S,T	100	Yes	800-625-6275	oakmark.com
Oberweis	*1,000	*500	C,F,S,T	100	Yes	800-245-7311	oberweisfunds.com
Osterweis	5,000	1,500	None	250	Yes	866-236-0050	osterweis.com
Pear Tree	2,500	1,000	C,F,S,T	100	No	800-326-2151	peartreefunds.com
Price	*2,500	*1,000	None	50	Yes	800-638-5660	troweprice.com
Primecap Odyssey	2,000	1,000	None	150	Yes	800-729-2307	odysseyfunds.com
RiverNorth	5,000	1,000	C,F,S,T	100	Yes	888-848-7569	rivernorthfunds.com
Seafarer	2,500	1,000	C,F,S,T	500	No	855-732-9220	seafarerfunds.com
THB	100	100	C,F,S	100	No	855-842-3863	thbinc.com
Vanguard	3,000	3,000	None	100	Yes	800-662-7447	vanguard.com
Walthausen	2,500	2,500	C,F,S,T	100	No	888-925-8428	walthausenfunds.com
Wasatch	2,000	1,000	C,F,S,T	50	Yes	800-551-1700	wasatchfunds.com

*Indicates account may be opened with a monthly bank draft of $100 or less.

NTF = No Transaction Fee ESA = Coverdell Education Savings Account

C = charles SCHWAB F = Fidelity INVESTMENTS S = Scottrade T = TD AMERITRADE

SCOTTRADE--800-906-7268 or www.scottrade.com Offices: **Win.-Salem**—794-0044 **Greensboro**—275-7205 **K'ville**—993-9800

TD AMERITRADE--800-454-9272 or www.tdameritrade.com FIDELITY—800-343-3548 or www.fidelity.com

CHARLES SCHWAB--866-855-9102 or 721-0329 www.schwab.com (Scottrades's new office in W-S, off Hanes Mall Blvd., is next to Firebirds restaurant)

We recommend Scottrade as the best and lowest-priced discount broker. It has two offices in Forsyth county—Kernersville and Winston-Salem. Scottrade has the lowest fees; it charges only $7 to trade stocks. Mutual funds that do not pay to have their funds sold by discount brokers can be purchased for only $17 at Scottrade; at TD Ameritrade the fee is $49 to buy or sell and at Fidelity the charge is $75, while Schwab charges $76 to buy, but no charge to sell.

U.S. Stock Mutual Funds

[* Indicates the Hungerford family invests with the fund manager]

Company size	Investing style	Volatility (V)	Other Abbreviations
L = large ($15.4 bil. & over) **M** = mid-size ($3.3 – $15.4 bil.) **S** = small ($3.3 bil. & below)	**B** = blend **G** = growth **V** = value	**VH** = very high **AV** = average **HI** = high **LO** = low	**A** = assets in millions of dollars **EXR** = expense ratio per $100

Statistics are through 10/31/15 Source: *Morningstar*

	YTD	2014	2013	2012	2011	3-year	5-year
US diversified all-stock fund returns:	**0%**	**8%**	**32%**	**14%**	**-3%**	**14%**	**12%**

Large-Cap Growth (LG) Funds YTD = 5% 2014 = 10% 3-year = 17% 5-year = 13%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Akre Focus** AKREX	4%	11%	39%	16%	11%	17%	17%	LO	$4058	$1.34
(Charles Akre) A favorite due to low-risk & top 2% returns for 3 & 5 yrs. (he likes recurring revenue; i.e, Am. Tower & Mastercard)										
Fidelity Blue Chip Growth FBGRX	6%	15%	40%	18%	-3%	20%	16%	AV	$19261	$0.88
(Sonu Kalra) New on our list, mgr. here 6 yrs; top 7% for 3 & 5 years (Apple, Facebook, Gilead, & Disney in top 6)										
***Price Blue Chip Growth** TRBCX	11%	9%	42%	18%	2%	21%	17%	HI	$27976	$0.72
(Larry Puglia) Mgr. has superb 22-year record here; Amazon, Google, Priceline, & Facebook are his top 4 (top 2% for 5 yrs.)										
***Primecap Odyssey Growth** POGRX	4%	14%	39%	17%	-2%	20%	15%	HI	$5952	$0.63
(Team Managed) Another favorite (Woodard & Co. has $30 million in this team's funds); 5 top holdings are all health care										
AdvisorShares TrimTabs Float Shrink TTFS	2%	15%	42%	16%	NA	20%	NA	HI	$214	$0.99
***Fidelity Nasdaq Composite Stock** ONEQ	8%	15%	40%	17%	23%	21%	16%	HI	$596	$0.21

Large-Cap Blend (LB) Funds YTD = 1% 2014 = 11% 3-year = 13% 5-year = 12%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
Fidelity Large Cap Stock FLCSX	-1%	10%	39%	21%	-2%	16%	15%	AV	$2781	$0.88
(Matthew Fruhan) Manager here for 10 years in top 8%; JP Morgan, GE, & Apple are top 3 with 25% overall in financials										
***Oakmark Select** OAKLX	-2%	15%	37%	22%	2%	17%	15%	AV	$5810	$0.95
(Bill Nygren) Steve first purchased this fund in 1997; great 2014 but lousy this year (Google, GE, & AIG top 3 positions)										
***Vanguard Dividend Growth** VDIGX	3%	12%	32%	10%	9%	15%	14%	LO	$23923	$0.32
(Donald Kilbride) Top low-risk pick from Vanguard expert Dan Wiener; VDIGX stocks must increase dividends for 10 consecutive yrs.										
***Guggenheim S&P 500 Equal Weight** RSP	0%	14%	36%	17%	-1%	17%	14%	AV	$9385	$0.40
PowerShares Buyback Achievers PKW	-1%	13%	46%	14%	10%	18%	17%	AV	$2388	$0.64
Vanguard Total Stock Market VTI	2%	13%	33%	16%	1%	16%	14%	AV	$54631	$0.05

For all funds in this handout, past performance does **not** guarantee future performance. For more information, please obtain a prospectus from mutual fund companies by calling their toll-free numbers or accessing their web sites. (see p. 5)

Large-Cap Value (LV) Funds YTD = -2% 2014 = 10% 3-year = 13% 5-year = 12%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
Dodge & Cox Stock DODGX	-1%	10%	41%	22%	-4%	17%	14%	AV	$56142	$0.52
(Team Managed) Normally we don't recommend $60 + billion funds, however it is top 9% for 5 yrs.; struggling this year										
Fidelity Value Discovery FVDFX	-2%	15%	36%	17%	-2%	16%	14%	AV	$1341	$0.84
(Sean Gavin) New fund on our list that ranks in top 10% for 3 & 5 yrs. (JP Morgan, Wells Fargo, J&J, Berkshire, GE top 5)										
***Price Value** TRVLX	-1%	13%	37%	19%	-2%	16%	14%	AV	$20905	$0.82
(Mark Finn) Top 6% since Finn took over in 2009; 40% in financial services & health care (GE, Pfizer, & AA top 3)										
PowerShares FTSE RAFI US 1000 PRF	-1%	12%	35%	17%	0%	15%	14%	LO	$4162	$0.39

Mid-Cap Growth (MG) Funds YTD = 1% 2014 = 7% 3-year = 15% 5-year = 12%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Eventide Gilead** ETGLX	-2%	18%	53%	18%	0%	22%	19%	VH	$1854	$1.35
(Finny Kuruvilla) Incredible top 1% rating for 3 & 5 years; manager has Harvard MD & PhD (62% health care & tech)										
***Hodges Small-Mid Cap** HDSMX	4%	6%	NA	NA	NA	NA	NA	AV	$19	$1.40
(Team Managed) New fund from Dallas-based co. with superb long-term results; Dr. H.'s #1 new pick at Jan. seminar										
Nicholas Fund NICSX	0%	15%	40%	18%	4%	19%	16%	LO	$3789	$0.72
(Team Managed) Lead mgr. Al Nicholas here since 1969; AAII #1 pick last July based on low-risk and superb results										
Vanguard Mid Cap Growth VOT	2%	14%	32%	16%	-4%	17%	13%	AV	$3278	$0.09

Mid-Cap Blend (MB) Funds YTD = -2% 2014 = 8% 3-year = 14% 5-year = 12%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
Fidelity Value FDVLX	-2%	12%	37%	22%	-7%	16%	13%	AV	$8334	$0.73
(Team Managed) 5th best MC fund according to AAII based on risk & 3-year returns (Berkshire 4th largest holding)										
Vanguard Strategic Equity VSEQX	1%	14%	42%	19%	1%	19%	16%	AV	$5739	$0.27
(Team Managed) AAII rates it as 12th best fund for risk/reward over 3 years (new on our list); top 1% for 3 & 5 years										
Guggenheim Spin-Off CSD	-8%	1%	52%	26%	4%	15%	14%	HI	$384	$0.66
Vanguard Extended Market VXF	-1%	7%	38%	19%	-4%	16%	13%	AV	$4288	$0.10

Mid-Cap Value (MV) Fund YTD = -2% 2014 = 9% 3-year = 14% 5-year = 12%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
Fidelity Mid Cap Value FSMVX	-2%	17%	39%	19%	-4%	18%	15%	AV	$3653	$0.83
(Court Dignan) New mgr. took over in 2013 & produced top 1% record last yr.; 24% financials, 12% tech & 11% utilities										
Harbor Mid Cap Value HIMVX	-2%	14%	44%	19%	-4%	19%	14%	LO	$659	$1.26
(Team Managed) Top 5% record for 3 yrs. & top 9% for 5 yrs. (11% real estate); also consider the terrific VOE ETF below										
Vanguard Mid Cap Value VOE	0%	14%	38%	16%	-2%	18%	14%	AV	$3981	$0.09

Small-Cap Growth (SG) Funds	YTD = -1%	2014 = 2%	3-year = 14%	5-year = 12%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Meridian Small Cap Growth** MSGAX	-5%	20%	(Fund began Dec. 2013)			NA	NA	HI	$266	$1.60
(Schaub & Meade) Awful this year after #1 ranking last year, however given their 6-year results at Janus Triton; it's a buy!										
***Price Diversified Sm. Cap Growth** PRDSX	4%	6%	44%	16%	2%	18%	16%	AV	$1683	$0.85
(Sudhir Nainda) Manager here 9 years; ranks in top 6% for 3, 5 & 10 years, has 60% in industrials, tech, & health care										
Wasatch Micro Cap Value WAMVX	6%	-1%	43%	22%	-10%	16%	12%	AV	$159	$2.03
(Brian Bythrow) Growth fund with a value name; top 1% in 2006, 2009, 2012 and doing well this year (29% international)										
Vanguard Small Cap Growth VBK	-2%	4%	38%	18%	-2%	14%	13%	HI	$4436	$0.09

Small-Cap Blend (SB) Funds	YTD = -2%	2014 = 4%	3-year = 13%	5-year = 11%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Fidelity Event Driven Opportunities** FARNX	2%	9%	(Fund began March 2013)			NA	NA	HI	$177	$1.12
(Arvind Navaratnam) New Fidelity fund that has been disappointing so far, he's betting on consumers with 42% in cons. stocks										
Fidelity Small Cap Enhanced Idx FCPEX	1%	6%	39%	19%	-1%	16%	14%	AV	$527	$0.67
(Team Managed) A diverse average risk fund, top 11% for 5 years; leaders technology & health care total only 1/3 of fund										
***Homestead Small Co. Stock** HSCSX	-1%	8%	37%	20%	1%	16%	15%	HI	$1201	$0.89
(Team Managed) Kiplinger pick as one of top 6 steady winners; top 1% for 10 yrs. and very low turnover ($200 IRA min.)										
Vanguard Small Cap VB	-1%	8%	38%	18%	-3%	15%	13%	HI	$11244	$0.09

Small-Cap Value (SV) Funds	YTD = -4%	2014 = 3%	3-year = 13%	5-year = 11%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
THB Small Cap Value THBSX	0%	2%	(Fund began Oct. 2013)			NA	NA	AV	$65	$1.50
(Chris Cuesta) Weak 2014 but Cuesta & THB have fine long-term record buying sm. stocks; SV is weakest cat. this yr.										
Walthausen Select Value WSVRX	-4%	2%	42%	21%	-3%	14%	NA	AV	$90	$1.45
(John Walthausen) After a sensational 2013 this fund has disappointed; however, manager's long-term record is top notch										
Vanguard Small Cap Value VBR	-1%	11%	37%	19%	-4%	16%	13%	AV	$5616	$0.09

U.S. Hybrid Funds (typically 55-70% stocks & 30-45% bonds)

Domestic Hybrid Funds	YTD = 0%	2014 = 4%	3-year = 8%	5-year = 8%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	A	EXR	Yield
Dodge & Cox Balanced DODBX	-1%	9%	28%	18%	-2%	13%	11%	$14616	$0.53	**2.1%**
(Team Managed) **(LB)** High-risk hybrid fund but is top 2% for 3 & 5 yrs.; 26% in financials, 42% in tech & healthcare										
Fidelity Puritan FPURX **(LG)**	2%	11%	20%	14%	1%	11%	10%	$25023	$0.56	**2.1%**
(Team Managed) Unusual hybrid fund as Apple & Google are top 2 stocks; awesome top decile ranking for 1, 3, 5, & 10 yrs.										
***FPA Crescent** FPACX **(LB)**	-1%	7%	22%	10%	3%	10%	9%	$18707	$1.15	**0.6%**
(Steven Romick) Morningstar's 2013 Allocation Mgr. of the Year; top 8% for 10 years, 20% in Europe & 35% in cash										
Vanguard Wellesley Income VWINX	2%	8%	9%	10%	10%	7%	8%	$39700	$0.25	**3.0%**
(Team Managed) **(LV)** Unlike other hybrid funds that are usually 60%+ in stocks, Wellesley is limited to 40% or less stocks										

Taxable Bond Funds

All U. S. Bond Funds	YTD = 0%	2014 = 5%	3-year = 3%	5-year = 4%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	A	EXR	Yield
DoubleLine Floating Rate DLFRX	3%	1%	NA	NA	NA	NA	NA	$327	$0.92	**3.5%**
(Cohen & Baha) New fund that invests in bank loans to businesses tied to the prime rate; our substitute for money markets										
Eventide Multi-Asset Income ETNMX	NA (up 1% since inception 7-15-15)					NA	NA	$6	$1.10	**NA**
(Team Managed) New fund from a small firm; this fund will buy dividend stocks and MLPs, as well as traditional bonds										
Loomis Sayles Bond LSBRX	-4%	5%	6%	15%	3%	3%	5%	$19815	$0.91	**3.3%**
(Dan Fuss) Fine 2014; mgr. is like the Eveready bunny, at 80 yrs. old, he keeps going & going (we own $24 mil. for clients)										
Matthews Asia Strategic Income MAINX	0%	3%	-1%	14%	NA	1%	NA	$66	$1.13	**2.9%**
(Team Managed) Emerging bonds have sold off lately, hurt by de-valued currencies; fund began Nov. 2011										
MetWest Unconstrained Bond MWCRX	0%	3%	3%	16%	NA	3%	NA	$2280	$1.03	**1.8%**
(Team Managed) Unconstrained may be only way to invest with interest rates so low; effective duration is zero years										
Osterweis Strategic Income OSTIX	2%	1%	7%	9%	4%	4%	5%	$5851	$0.82	**5.8%**
(Team Managed) Fine multi-sector bond fund; lower volatility than LSBDX; more Hi-Yield bonds hurt results in 2014										
***RiverNorth DoubleLine Strat. Inc.** RNDLX	1%	8%	0%	12%	11%	3%	NA	$1963	$1.16	**4.8%**
(Team Managed) Excellent in 2014; it invests in traditional bonds, closed-end funds (picked by RiverNorth) & illiquid bonds										

NC Municipal Tax-Free Bond Funds

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	A	EXR	Yield
Dupree NC Tax-Free Income NTFIX	1%	9%	-3%	8%	11%	3%	4%	$127	$0.71	**3.0%**
(Harrison & Gard) Top 4% for 5 yrs. & top 6% for 10 yrs.; North Carolina is one of only nine AAA-rated states in the nation										
Dupree NC Tax-Free Short/Med. NTSMX	1%	2%	0%	3%	6%	1%	2%	$24	$0.83	**1.7%**
(Harrison & Gard) Lowest risk way to invest in NC muni bonds; this fund broke even in 2013 when most munis lost money										
***Nuveen NC Premium Income** NNC	3%	14%	-17%	4%	15%	-3%	2%	$255	$1.08	**4.6%**
(Team Managed) A high-risk tax-free choice for middle & upper-income taxpayers; trades at a high 16% discount										

Other Investments for Generating Income

(Each pick yields 3% or better. Steve Hungerford owns all of them.)

Master Limited Partnerships/Energy Infrastructure MLPs have been absolutely crushed with the plunge in oil prices. While not directly related to the price of oil, many MLPs ability to grow dividends is predicated on ever-expanding production, transportation, and storage of oil and natural gas. But with panic comes opportunity and MLPs now offer opportunities: prices are down and yields are up.

The gold standard of MLP investing is the Alerian Index. There are two ways to play the index directly. AMLP offers over a 6% dividend with lower volatility. AMJ offers a 4.4% yield but with more potential appreciation.

Two other MLP ETFs Steve recommends are MLPX which is the global MLP and energy infrastructure ETF. It yields 2.5%, but offers higher capital appreciation potential. EMLP is a fantastic actively manage ETF that focuses on buying only the most secure dividend growers. It yields only 3.1% but is low risk.

Is It Time to Increase Your Global and International Allocation?

For the last 45 years, from 1970-2014, large-company U.S. stocks have averaged 10.5% while small-company U.S. stocks have returned 11.2% annually. Trailing both these averages are the international average (EAFE index) that has only a 9% average.

However, the EAFE (Europe, Asia, & Far East) overweights Japan and does not include the fast-growing emerging market countries. Also more than half of the underperformance of overseas markets have come during the last five years due to a combination of a stronger dollar and the struggling European economies that finally will grow more than 1% this year.

For the last three years (to Nov. 6) the Vanguard S&P 500 index averaged a terrific 16% annually while the Vanguard Total International Index, a far better representation of international stock averages than the EAFE, only posted a 4.6% average, an incredible 11.4% a year underperformance. There is no question that international stocks, on average, are much cheaper than ours, perhaps as much as 25% lower based on forecast P/E ratios for 2016.

The Euro, at its $1.39 peak last year, fell 25% to a low of $1.04 in March and at its current $1.07 may break through that barrier to parity. The Canadian dollar hit an all-time high of $1.08 eight years ago, was near parity with the US dollar three years ago; however, it was only worth 76 cents earlier this month. The Brazilian Real has posted a 30% one-year decline against the dollar.

Despite the dollar strengthening, it still may be a good time to buy a global fund (usually about 40% US stocks) or an international one. The week, Oct. 5-9, was terrific for international stocks, they averaged a 5.3% gain and overall the Vanguard Total International fund was up 6.3% last month. (Consider buying the two new Grandeur Peak Stalwart funds below.)

Two New Funds from Grandeur Peak (GISOX & GGSOX)

Our favorite mutual fund manager is Robert Gardiner, CEO of Grandeur Peak Global Advisors in Salt Lake City. Gardiner managed Wasatch Micro Cap from 1995 to 2007 where he averaged 25% a year! Then he launched Wasatch Global Opportunities in November 2008 until he quit to start his own firm, Grandeur Peak, in 2011.

His Wasatch fund, WAGOX, jumped 61% in 2009, a terrific 26% in 2010 and was down 9% in 2011. (He, and his co-manager Blake Walker, resigned from Wasatch on June 30, 2011.) Their company's first two funds, Grandeur Peak Global Opportunities (GPGOX) and Grandeur Peak International Opportunities (GPIOX) are both rated five stars by Morningstar (both were launched Oct. 17, 2011).

In its annual report April 30, Grandeur Peak reported a 95% gain for GPGOX, since inception on Oct. 17, 2011 to April 30, 2015, compared to the Russell Global Small Cap Index's 57% return. The comparable numbers for the all-international GPIOX is 91% versus the index's 43%!

Gardiner and Walker opened two new mid-cap funds September 1 that I purchased for my wife and me. (We also own all four of the older GP funds, all closed to new investors). Grandeur Peak International Stalwarts (GISOX) and Global Stalwarts (GGSOX) are my two top picks for global and/or international investments. (A new GP Global Microcap fund, GPMCX, opened last month but it was only available to owners of other GP funds.)

We have invested $20 million for our clients in Grandeur Peak funds and both Steve and Dr. H. have more money invested with Grandeur Peak than any other mutual fund family. (Dr. H. and his wife Sue were vacationing near Salt Lake City two years ago. We visited Grandeur Peak's home office and had lunch with Blake Walker and other GP employees.)

Global Funds

Global Funds — YTD = 1% — 2014 = 3% — 3-year = 10% — 5-year = 8%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Artisan Global Small Cap** ARTWX **(SG)**	5%	-10%	(Fund began June 2013)			NA	NA	VH	$132	$1.50
(Team Managed) Despite lousy 2014 Dr. H. likes it; this team has superb 20-yr. record (also consider *ARTHX—same team)										
***Artisan Global Value** ARTGX **(LV)**	0%	5%	31%	19%	2%	13%	12%	AV	$1631	$1.30
(David Sampra) Buy this fund that just reopened Oct. 1; Sampra, formerly at Oakmark, has beaten S&P 500 since launch, 12/07										
Fidelity Global Equity Income FGILX	2%	6%	25%	NA	NA	12%	NA	LO	$64	$1.16
(Ramona Persaud) **(LB)** Newer Fidelity fund that is lower risk than other choices here (Apple #1 holding & it's 50% U.S.)										
Guinness Atkinson Global Innovators IWIRX	0%	13%	45%	20%	-7%	20%	14%	HI	$163	$1.26
(Team Managed) **(LB)** 70% U.S. & 38% tech explain its superb 1% rank for 3, 5, & 10 years (Gilead is its #1 holding)										
***Oakmark Global Select** OAKWX **(LB)**	5%	3%	34%	24%	-6%	16%	12%	HI	$2152	$1.13
(Nygren & Herro) We own $6 million for our clients given the two managers' 2-decade top-decile record at Oakmark										
<u>Vanguard Total World Stock</u> VT	0%	4%	23%	17%	-8%	10%	8%	HI	$4839	$0.17

Diversified International Funds

Diversified International Funds — YTD = 2% — 2014 = -5% — 3-year = 8% — 5-yr. = 7%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
Fidelity Intl. Sm. Cap Opport. FSCOX	9%	-1%	25%	24%	-10%	12%	10%	HI	$897	$1.30
(Jed Weiss) **(MG)** Research shows that mgrs. typically add more value picking intl. small-co. stocks (Fidelity's best intl. fund)										
***FMI International** FMIJX **(LB)**	5%	5%	25%	18%	-2%	13%	NA	LO	$2389	$1.00
(Team Managed) Lower risk than almost all international funds yet has top 3% record for 1 & 3 years (it has 54% in Europe)										
***Oberweis Intl. Opportunities** OBIOX **(MG)**	11%	-5%	55%	33%	-15%	19%	15%	VH	$618	$1.60
(Raf Scherschmidt) Very risky (-60% in 2008) but easily the best diversified international fund with a 15% avg. for 5 yrs.										
***Pear Tree Polaris Foreign Value SC** QUSOX	-1%	7%	25%	27%	-20%	12%	7%	AV	$586	$1.56
(Bernie Horn) **(SV)** Mgr. has 3-decade market-beating record; a rare international SC value fund that Dr. H. bought this week										
<u>Vanguard Total Intl. Stock</u> VXUS	-1%	-5%	15%	19%	NA	5%	NA	AV	$4869	$0.14

Diversified Emerging Markets Funds — YTD = -9% — 2014 = -3% — 3-year = -2% — 5-yr. = -3%

Fund Name (Manager) SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Driehaus EM Small Cap Growth** DRESX	-9%	6%	12%	29%	-14%	5%	4%	HI	$551	$1.71
(Team Managed) **(MG)** A terrific way to buy small companies in so out-of-favor emerging markets; it's top 3% for 3 yrs.										
Matthews Emerging Asia MEASX	-2%	17%	(Fund started April, 2013)			NA	NA	VH	$166	$1.58
(Harvey & Ishida) **(MG)** Holding up fairly well in 2015 after awesome 2014; <u>no</u> China, Japan, So. Korea, or Taiwan stocks										
***Matthews India** MINDX **(LG)**	4%	64%	-6%	32%	-36%	18%	6%	VH	$1607	$1.12
(Team Managed) An estimated 8 years behind China; new leader elected in 2014 is pro-capitalist (top 1% for 3 yrs.)										
***Seafarer Overseas Growth & Inc.** SFGIX	1%	-1%	5%	NA	NA	3%	NA	AV	$623	$1.30
(Andrew Foster) **(LB)** A great record at Matthews, top 6% for 3 yrs.; a <u>Mutual Fund Observer</u> pick for lower risk em. mkt.										
<u>Vanguard FTSE Emerg. Markets</u> VWO	-11%	0%	-5%	19%	-19%	-3%	-3%	HI	$37481	$0.15

Biotech and Health Care—Dr. H's Favorite Sector (despite its recent crash!)

During mid-September, sparked by a weak overall market, bad publicity about higher drug prices (one drug's price was raised 5,000%), and political backlash, biotech stocks dropped 20 percent in two weeks. From their July 15 high to their Sept. 28 low, biotech stocks plunged 27% on average.

House Democrats, Hillary Clinton and the New York Times all attacked drug "price gouging" and even The Wall Street Journal ran a negative article. Still, despite the big third-quarter sell-off (the average health-care/biotech fund fell 14.5%), almost all health care funds are down less year-to-date (Oct. 31) than the broader market (see below).

Even given the huge third-quarter sell off, health care and its high-risk biotech sub-sector are easily the clear market leaders over three and five years through Oct. 30. The average stock mutual fund is up 10.7% per year for the last 5 years (through Sept. 30) while the health/biotech average, at 21.5%, is twice as high.

I believe health-care stocks will continue to lead the market long-term given four fundamental factors:

1) The huge baby-boomer population, born from 1946-1964, will need more and more health care.
2) Given the increase in the number of Americans now having health care due to the Affordable Care Act (Obamacare), consumers will use more health care, given they are paying very little for it directly.
3) The scientific break-throughs are simply sensational. (Gilead Sciences now claims a 99% cure rate for hepatitis C.)
4) Many small health care companies, particularly biotechs, are being bought out at higher prices. [Dr. H. owns five very-high risk small-cap biotechs that may be future candidates for buy-outs—Agio Pharmaceuticals (AGIO), Collegium Pharmaceutical (COLL), Tracom Pharmaceuticals (TCON), Xencor, Inc. (XNCR), and Xoma Corporation (XOMA). The three large-cap, much-lower-risk, biotechs he owns, besides his favorite, Gilead Sciences, are Amgen (AMGN), Celgene (CELG), and Mylan (MYL).]

Rather than trying to pick out individual stocks most investors are probably better off buying mutual funds. I recommend five mutual funds listed below. I own all of them except the lower-risk Vanguard Health Care (VGHCX). For example it fell 9% last quarter compared to the very-high-risk Eventide Healthcare & Life Sciences fund (ETNHX) that tanked 22%, the worst performing health care fund. Yet since inception, Dec. 27, 2012 to Sept. 30, 2015 ETNHX has averaged 30% a year compared to its index average of 26%.

However, my favorite and largest holding health care fund is Edward Yoon's Fidelity Select Health Care Portfolio (FSPHX). Yoon, who Dr. H. met at a Fidelity conference in 2012, has managed the fund since 2008. He was down 14% last quarter with almost one-third of his fund devoted to biotech. Despite his weak third quarter his fund has averaged 26% for the last three years. (We own $11 million for our clients at Woodard & Company.)

Fund Name SYMBOL	YTD	2014	2013	2012	2011	3-year	5-year	V	A	EXR
***Eventide HC & Life Sciences** ETNHX	7%	29%	62%	NA	NA	NA	NA	VH	$319	$1.64
***Fidelity Select Biotechnology** FBIOX	7%	35%	66%	37%	18%	35%	32%	VH	$14438	$0.74
***Fidelity Select Health Care** FSPHX	2%	33%	56%	21%	8%	29%	25%	HI	$8723	$0.74
Vanguard Health Care VGHCX	10%	29%	43%	15%	11%	27%	21%	HI	$48250	$0.34
***iShares Nasdaq Biotech ETF** IBB	7%	34%	66%	32%	12%	35%	30%	VH	$7976	$0.48

Dr. Hungerford's Four Favorite Blue-Chip Stocks and Largest Holdings

Apple (AAPL)

Apple has been disappointing since it reached its all-time high of $134 April 28. At its recent Nov. 12 price of $115 it is down 14% from its April high, but it is still up 5% this year. Yet it now sells at a P/E ratio of 12, about 25% below the average market multiple. And that market multiple ignores its approximately $210 billion in cash and short-term securities.

Activist hedge-fund investor Carl Icahn claims "Apple is ridiculously undervalued". Long a favorite of growth investors it is now getting favorable reviews from value investors. A recent internet post listing 10 dividend stocks to buy included Apple even though its dividend is slightly less than 2%. (All the other nine recommendations had dividends of 3% or more.) Apple gets two-thirds of its revenue from iPhones – there continues to be skepticism about Apple's ability to improve them. However, overseas sales are terrific. For example iPhone Chinese sales were up 87%, year-over-year, last quarter!

Apparently Apple no longer has plans to manufacture cars by 2020. It begins delivering its long awaited Apple TV featuring Siri's voice-response system this month. Apple's smart watch and merchant-pay system have not been as popular as forecast. Apple is cheap, pays a competitive 1.8% dividend, and gets a 5-star rating from S&P and a 9 out of a maximum 10 rating from Thomson-Reuters.

Walt Disney Co. (DIS)

No other brand in the world does as well as Disney monetarizing its movies and other products. "Frozen Heats Up Disney Earnings" was the headline last winter when Disney reported stellar earnings for the fourth quarter as young girls had Frozen merchandise high on their Christmas gift lists. (The Frozen sequel is set for 2017.)

Sales of Star Wars merchandise are stellar two months before the new George Lucas produced "The Force Awakens" debuts Dec. 17. Last month, a movie ticket website, Fandango, crashed the first day that "The Force Awakens" tickets were available for purchase. I agree with forecasters who predict it will be the #1 grossing movie of all time!

The most recent Pixar movie "Inside Out" was a surprise hit—my granddaughter thought it was the best movie she had ever seen! The Captain Marvel movies are also winners. (Disney purchased Pixar in 2005, Marvel in 2009, and Lucas Films in 2012.)

Lower gasoline prices are producing record attendance at Disney's theme parks, which raised ticket prices last month. Disney has invested $2.2 billion and its Chinese partners have put up $3.3 billion to open a $5.5 billion park next year in Shanghai where there are 32 million people living in the urban area.

Disney's stock hit $122 in August but sold off after Disney reported less ESPN revenue than forecast. (Disney gets about $6.60 monthly from every ESPN subscriber. Disney also owns ABC.) The fear is that viewers will cut the cable cord (or Directv package) and as a result, Disney will see huge ESPN-revenue declines. Most "experts" don't see "cutting the cord" as an immediate threat.

Selling at 24x earnings ($116 a share) and paying only a 1.1% dividend, Disney is expensive but I believe well worth it. Unlike its competitors—Twentieth Century Fox, Time Warner, CBS, and Viacom—that are down an average of 20% this year (to Nov. 11), Disney is up 24% this year.

Facebook (FB)

Why would Dr. H. recommend a stock selling at 108x earnings and paying no dividend? The simple answer is that, while he has never bought anything based on an internet advertisement, tens of millions of his fellow Americans do so daily.

Two firms that dominate the on-line advertising market—Google (now Alphabet, with a revenue of $60.4 billion expected this year) and Facebook ($16.2 billion ad revenue forecast for 2015). Goldman Sachs issued a report in September that argued that “Facebook and Google are best positioned to consolidate share”. One internet post concisely expressed the reality that “ad buyers are more and more choosing the two names they know, leaving little money for anyone else.” A survey last month predicted that internet advertising will rise from 25% in 2013 to 35% in 2017 as a percentage of all global ad spending. (Facebook has one billion user sign-ups worldwide!)

Eighteen months ago Facebook acquired Oculus VR, easily the #1 virtual reality leader. The new Oculus Rift will be released early next year—the Virtual Reality “experts” believe that it will soon generate huge profits. Facebook also owns Instagram, a site favored by teenagers and young adults.

Facebook has been a top pick by several Fidelity fund managers and, at $108, it is up 40% so far this year to Nov. 12. Facebook is expensive because its revenues are increasing so rapidly – 37% in 2012, 55% the next year, 58% last year, and about 40% this year. (The problem is that I initially recommended this stock at $90 a share for the AAII website in September when I provided info for today’s presentation – it’s up 20% since then!)

Gilead Sciences (GILD)

Gilead Sciences, the #1 biotech stock, is certainly the lowest priced blue-chip growth stock, selling at only 9x earnings. At $104 on Nov. 12 it is down 14% from its $123 all-time high last June but still it has gained 14% this year. Yet it reported record revenues last month, earning $3.19 versus the $3.03 forecast. (A dividend this year that is now 1.7%.)

Projected earnings for 2016 should easily top $13 per share this year—compare that to 2013 when only two years ago Gilead’s yearly earnings were only $2.04 per share. No wonder Gilead has averaged a 40% annual five-year return. Recently, Gilead concluded a credit agreement to borrow $10 billion at 4% interest for 30 years; obviously it plans to acquire smaller biotech companies.

Why is the stock so cheap? The problem is that its cure for Hepatitis C, now 99% effective—costs almost $1,000 a pill, which adds up to about $88,000 for a typical 12-week treatment. Politicians, including Democrat Hillary Clinton, are targeting “greedy” drug companies for their high prices and even The Wall Street Journal ran a negative article about high drug prices last month. Yet the cost of Gilead’s Hepatitis C treatment is far less than a kidney transplant.

Gilead has the leading market share for continuing treatment for AIDS—its sufferers take the drugs for a lifetime unlike the Hepatitis C cure. Last Thursday GILD jumped almost $6 a share when it reported excellent stage 3 results from its newest HIV drug. Gilead also is developing promising cancer drugs and autoimmune disease cures.

The October 5 issue of Barron’s (pp. 32-33) argues that Gilead is a terrific buy. It quotes a mutual fund manager that claims “the best experience for investors is a growth stock that’s also a value stock, and that’s Gilead”. (I would argue that this is also true for Apple.)

No-Risk IRA Income for a Lifetime……Really!

(Dr. Hungerford's column in the Winston-Salem Journal, Sept. 27, 2015)

Would you like to make up to 25 percent of your IRA portfolio risk-free? Are you and/or your spouse in good health and expect to live into your late 80s or 90s? Do you not need your IRA required minimum distributions (RMDs) to maintain your life-style? Do you want to lower your taxes on your RMDs at age 70½ and older?

If you answered yes to the questions above you should definitely consider Uncle Sam's new qualified longevity annuity contract (QLAC). Government rules were issued 14 months ago and now almost all the major insurance companies are offering QLAC policies.

Here's how they work. You can commit up to 25 percent of your IRA, not to exceed $125,000. (To invest the $125,000 max your traditional IRA assets must be $500,000 or more.) You then transfer that money tax-free into a QLAC policy—a special deferred-income annuity. (Traditional deferred-income annuities are sometimes called longevity insurance.) You choose a future date, not past your 85th birthday, to receive guaranteed income for the rest of your life.

If you choose the maximum age of 85, for example, you avoid paying taxes on all those RMDs that you would have been forced to take for almost 15 years. At age 70½ the RMD is 3.65%, increasing to 6.76% at 85. (It doesn't exceed 10% until 93 and reaches 20% at 104. However, it is an outrageous 52.6% at age 115 or older.)

The obvious candidate for a QLAC is someone who expects to outlive the average lifespan -- the average 65 year-old female lives to age 85.5 while the average male at that age reaches 82.9. However there is a 50-50 chance one of the married 65 year-old spouses will reach 89 and 18% odds one will a survive until 95.

Let's use an example: my healthy 78-year-old wife Sue is a classic candidate for a QLAC. Her mother died at 99, father at 95 and she had grandparents and great grandparents who lived into their 90s. We plan to allow her IRA to grow, then buying a $100,000 QLAC from New York Life for her before she reaches 80 in 2017. Using the current New York Life maximum single-life projection payout -- likely to be higher as interest rates and dividends increase -- she would receive $20,460 a year for the rest of her life!

My two favorite life insurance companies are New York Life and Northwestern Mutual, two of the three leading companies offering deferred income annuities. Both get the highest possible ratings from the four major insurance rating agencies and both are non-stockholder owned mutual companies.

Simply put: when an insurance company's income exceed expenses, mutual (co-op) companies such as Northwestern and New York Life reward policy holders with higher dividends while shareholder-owned insurance companies' profits accrue to investors who own their shares. (I recommend NY Life's Sean Starling, 499-0969, or Northwestern's Jim Coviello, 725-0159.)

Suppose a 66-year-old man (full Social Security retirement age) retires with $400,000 in his 401(k), rolls it over to his IRA, and decides to put $100,000 (the maximum 25 percent) into a QLAC. He then typically has to make two crucial choices: (1) when does he want to start income and (2) does he want to max out his income with no guarantees?

We'll assume he's in great shape, won't need all his RMDs when reaches 70½, and his parent and grandparents have good longevity. He therefore chooses the maximum age 85 as a starting date. (He can always change his mind and start it earlier.) He must then decide whether he wants the maximum payout without guaranteeing any return of principle and, if married, should he opt for payments to his wife if he dies first. If he chooses the straight single-life option at NY Life, the current projected payout would be $55,243 annually or about $4,603 monthly.

However, he may decide he wants a money-back guarantee and/or having income paid to his wife for the rest of her life if he dies first. He can choose a single-life option with his heirs receiving the $100,000 if he dies before 85 or they would get any amount left if he did not receive the full $100,000 in pay outs. NY Life projects he would then receive only $35,208 yearly, or $2,934 a month.

Of course, if he wants his wife, who in this example is also age 66, to receive payments after he dies, the amounts drop a great deal. The joint life guaranteed $100,000 back option is $25,954 annually while the no-money-back joint life policy pays out $31,950 a year.

You can see payouts for various options at different companies at go2income.com/qlac. Female QLAC policies pay less than men's given that women live longer. (Also checkout the excellent QLAC article: "How to Keep the IRS Waiting," Kiplingler's Personal Finance, 10/2015, p. 31.) Unfortunately, Northwestern Mutual doesn't allow QLACs to be set up for anyone after age 75 while NY Life's starting date is age 80 or younger. (NY Life's minimum to start is $5,000 with minimum additions of $100 monthly.)

The tax-savings from not taking RMDs from IRA money placed in QLACs obviously ends when the payouts begin. However, remember that the larger income from QLAC payouts can be used to offset RMDs required from any other traditional IRA accounts. (Roth IRAs have no required RMDs and are not appropriate for QLACs but may be a good no-risk option for traditional deferred income insurance contracts.)

Certainly I believe stock market investments will handily beat insurance contract returns over the next decade or two or three. However, substituting a QLAC for the portion of your IRA normally invested in bonds is, I believe, a superb choice if longevity is prevalent in your ancestors. Given their no-risk status, lifetime income, and tax savings until income begins, there is no question that QLACs deserve serious consideration from healthy seniors who have traditional IRA accounts.

Select Recommended Websites (one recommended by Dr. H. and one by Steve)

Dr. Hungerford's favorite investment website by far is Mutual Fund Observer, a free monthly newsletter focusing on new and little-known mutual funds. It also lists manager changes each month. Written by David Snowball, a mutual fund afficiando and professor at a small Illinois College, it is insightful, sometimes sarcastic, and humorous. Go to **mutualfundobserver.com** and click on MFO update notification, then enter your last name and email address to get notification when his first-of-the-month newsletter is available.

Steve recommends **Morningstar.com**, a must for any investor. The site features statistics galore and ratings for just about every mutual fund available to U.S. investors. It also covers individual stocks and closed-end funds. It is very simple to use too.