BAIRD

Private Wealth Management

DIGEST

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

FALL 2015

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PERSPECTIVE

CREATIVE DESTRUCTION

In the mid-20th century, many city streets in North America still had avenues lined with elm trees that created an almost cathedral-like canopy overhead. Dutch elm disease (actually from Asia) has since been erasing native elms across most of North America.

More recently, the emerald ash borer was introduced to the United States through Asian packing crates in suburban Detroit. With no natural predators or resistance in the native tree population, this aggressive insect has already destroyed ash trees all over the lower peninsula of Michigan and some fear the ash will go the way of the elm.

These were not the first diseases or pests to invade our forests, nor will they be the last. And though these incursions cause massive destruction to specific tree species, others tend to proliferate and fill the void. The forest is changed, but it still exists.

Our economy faces similar challenges and changes through a dynamic referred to as "creative destruction." New products and services can render established industries worthless. To established taxi services, Uber and Lyft probably look a lot like emerald ash borers. To Nokia, Blackberry and Motorola, Apple's iPhone probably feels like Dutch elm disease. Wealth is created and destroyed in this process, yet the economy – though changed – still exists.

Creative destruction offers investors opportunity and risk as new industries rise up and others give way. Your Baird Financial Advisor has the perspective and resources to help you map your investment strategy with an eye toward the future in our constantly changing world.

IN THIS ISSUE...

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Additional information is available at **bairddigest.com**, or contact a Baird Financial Advisor at **800-RW-BAIRD**.

COVER STORY

DON'T BELIEVE THE HYPE

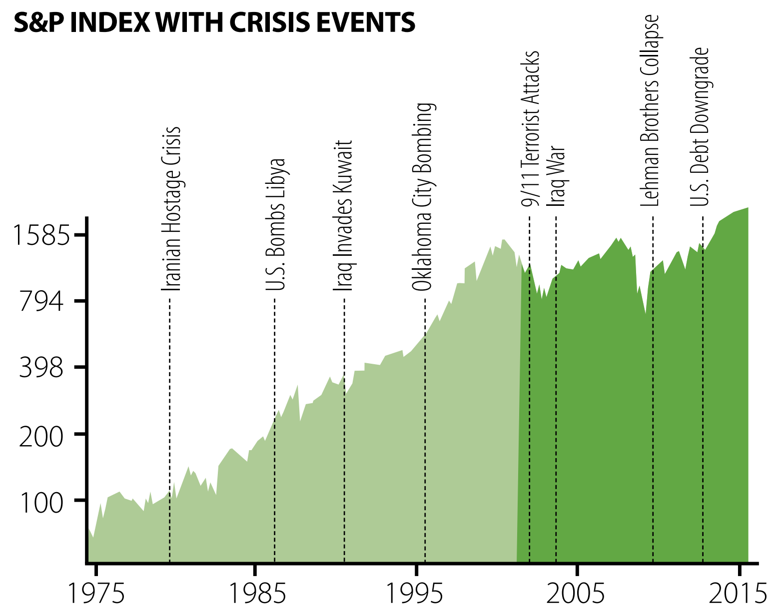
AN INVESTOR'S GUIDE TO FILTERING FINANCIAL NEWS

News headlines lately seem laden with opportunities for investors to make rash decisions. Whether it's troubling news out of Greece, China or the Middle East, investors who keep up with world financial news have plenty to digest. The important question isn't how to factor this ever-present barrage of bold type into your investment strategy, but whether doing so makes sense at all.

The chart at right suggests it doesn't.

Don't misinterpret our appreciation for the significance of these events. Many produced unknowable levels of human suffering and were deeply tragic. Our point is that interpreting these tragedies as leading indicators to inform investment decisions wasn't likely fruitful for those who may have tried. These highly publicized ▸

S&P INDEX WITH CRISIS EVENTS



Ned Davis Research, Inc.

Even headlines with systemic implications for the U.S. economy have led to only temporary disruptions in the market's general upward trend.

DON'T BELIEVE THE HYPE

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WILLIAM DELWICHE, CMT, CFA
INVESTMENT STRATEGIST

Be sure to visit bairddigest.com for more of Willie's thoughts on the economy and what investors need to know for the balance of 2015.

crises were mostly historical blips from a market perspective. There have certainly been exceptions, but even those make much more sense in the larger context provided by looking past the media hype that surrounded them at the time.

TIME PROVIDES PERSPECTIVE Notably missing from our chart are numerous events that seemed dramatic in real time but quickly faded from our collective memories as market forces overcame investor irrationality. Perhaps even more notable, there have been significant events that went unnoticed in real time because they didn't lend themselves to compelling headlines or because they seemed too complex for an average reader to readily grasp. And that's the big risk in the current 24-hour news cycle. To keep the "new" in "news," media outlets tend to play up events of unknown significance and rarely follow through on what the actual implications might have been.

A prime example of this attention span in action is the recent anniversary of the "flash crash." When that seemingly apocalyptic event unfolded in real time on TV, it interrupted a discussion on financial turmoil in Greece. Yet five years later, concerns raised by the flash crash feel all but forgotten while – as far as recent headlines have been concerned – Greece is still very much the word. How many Greece-fueled headlines drove wild market swings this summer, only to leave the issues in that part of the world largely unresolved and U.S. stock prices range-bound near all-time highs? But don't worry. The governments involved and the media will ensure Greece bubbles to the surface again at some point.

CONTEXT IS CRITICAL It's human nature to tell stories in an effort to simplify complex ideas. That's how many of humanity's most popular myths were born. Unfortunately, it is also human nature to see and hear what we want to, especially if it confirms what we already believe or (all too often) what we fear the most. We aren't suggesting global events aren't important to consider when it comes to investing. But scanning headlines with no other context is never going to be a useful method for determining economic trends. And even if you can spot those trends, the economy and the stock market are not joined at the hip and don't always move in tandem. Successful investing is ultimately about managing risk through an understanding of the often complex and indirect ways that these and other factors can influence each other over the long term.

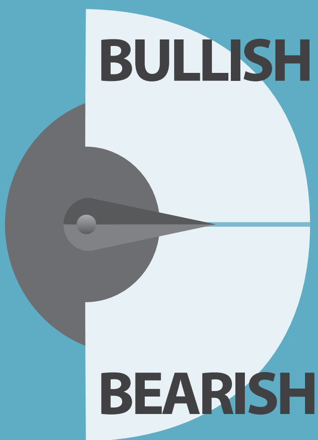
SERENITY NOW, DECISIONS LATER Investing wisely requires us to overcome our nature and resist our emotional inclinations (the very things headlines are often designed to prey on). Emotion is, in our view, the single biggest impediment to successful investing. And trying to forecast binary outcomes (like whether Greece ultimately stays in the Eurozone) is like calling heads or tails on the toss of a drachma.

There is a better way. Turn off the 24-hour news channels and avoid click-bait headlines. Take a breath and remind yourself why you're investing. This literal filtering out of noise offers a chance to discover meaningful political, economic and financial market developments that could influence your portfolio without the sense of urgency implied by an exclamation-pointed, all-caps proclamation. This state of serenity and objectivity is what we strive for in our "weight of the evidence" approach to economic and market analysis. It lets us accurately assess just how new the latest news really is and – most importantly – what it means in terms of risks and opportunities. D

THE WEIGHT OF THE EVIDENCE

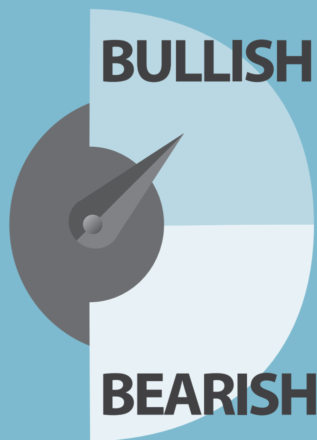
BREADTH BREAKDOWN ARGUES FOR CAUTION

FED POLICY



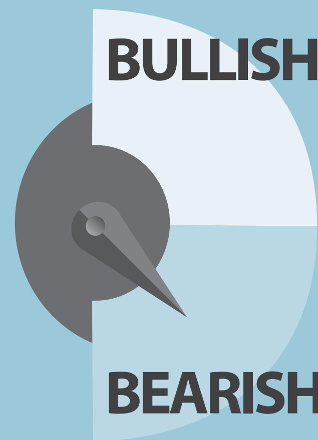
Uncertainty over rate-hike timing adding to stock market volatility

ECONOMIC FUNDAMENTALS



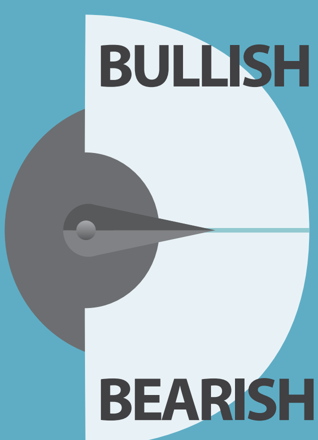
Global growth concerns rising, but U.S. economy looks sturdy

VALUATIONS



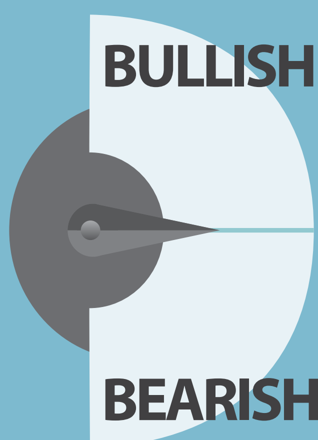
Excessive valuations may not cause sell-offs to emerge, but can be exacerbating influences.

SENTIMENT



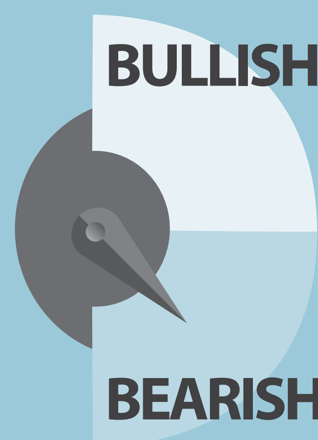
Despite some evidence of near-term caution, investors are fully invested in stocks.

SEASONAL PATTERNS AND TRENDS



Trends and momentum moving sideways, but seasonal tailwind re-emerges late in the year.

BREADTH



Fissures have cracked open as indexes lose broad market support

PLANNING YOUR LIFE TOGETHER

FINANCIAL TIPS FOR NEWLY MARRIED SAME-SEX COUPLES

SCOTT GRENIER
SENIOR ESTATE PLANNER

Scott Grenier is a Senior Estate Planner for Baird's Private Wealth Management group. In this role, he is responsible for providing clients and prospects with expertise in estate, tax and financial planning.

The Supreme Court's recent ruling on marriage equality has a multitude of financial planning implications for same-sex married couples, particularly in the 13 states that did not previously recognize same-sex marriages.

Now those who faced substantial challenges when planning for what would otherwise have been commonplace financial issues in the past have more rights, tools and strategies available to them.

In addition, same-sex married couples now have child custody rights, hospital visitation rights, adoption rights, and access to a spouse's birth and death certificates.

Before the marriage equality ruling, Baird Financial Advisors with the Accredited Domestic Partnership Advisor℠ designation helped many same-sex couples develop customized financial and estate plans to meet their objectives. Today, that same expertise can help you understand your new options as well as their implications. D

WHAT YOU SHOULD KNOW

TAX PLANNING

- Analyze prior federal and state income tax returns to determine if it's worth the time and potential costs to amend them. The change in your adjusted gross income may prevent you from making Roth IRA contributions or receiving certain tax deductions or credits for that year.
- Re-evaluate your current federal and state income tax plans to ensure your tax withholding is sufficient to mitigate potential penalties. This may require updating 2015 Form W-4 with your employer to decrease personal allowances or withhold an additional amount from each paycheck.
- Revisit Roth conversion strategies, financial aid for children going to college, HSA contributions and other employee benefit programs to determine the most efficient strategies for your goals.

ESTATE PLANNING

- Consider the potential impact of the spousal elective share on your estate plans. In certain states, this provides a surviving spouse with the right to receive a predetermined fraction of your estate in place of what you leave them in your will.
- Wealth transfers to a surviving spouse that occurred in prior years in states that have an estate or inheritance tax may be eligible for refunds. Current and future wealth transfers to surviving spouses in these states will not be subject to those taxes.
- Make sure certain asset titling and beneficiary designations within your updated estate plan documents are reflective of the current law.

TALKING ABOUT YOUR GENERATION

INTERGENERATIONAL COMMUNICATION'S ROLE IN SUCCESSFUL ESTATE PLANNING

When retirees consider their estate plans, their biggest focus tends to be passing on financial assets to children. Meanwhile, the children want to ensure their parents can maintain the lifestyle they desire. With such important priorities, both sides may be missing small but important details that, if left unattended, could complicate the ultimate administration of the estate.

Following are several key pieces of information parents should be sharing with their adult children. Storing this important information in a consolidated document, such as Baird's Personal Information Guide (available on request from your Baird Financial Advisor and on rwbaird.com), can make retrieving and updating this information much easier when it's eventually needed.

- Social Security, driver's license and passport numbers
- Names and phone numbers of healthcare professionals, including doctors, dentists, optometrists and others – even a pet's veterinarian can be useful
- Details on medications the parents may be taking, including where they're stored in the house
- Information on employer benefits, such as retirement plans, pension payments, deferred compensation plans and retiree healthcare coverage (there may be similar benefits if the parents spent time in the military)
- Policy numbers, key contacts and benefit information on all insurance policies, including life, health, disability or long term care, home, auto, personal property, or umbrella policies – you'll also want to confirm if these policies are still needed and that premiums are being paid
- Passwords, combinations or keys to any safe-deposit boxes, personal safes or storage units
- Logins and passwords for any online accounts, including:
  - Investment, checking or retirement accounts
  - Credit cards, loans or lines of credit
  - Email accounts
  - Social media such as Facebook, Twitter or LinkedIn
  - iTunes or other digital media sites
  - Internet, television, phone, home security or other utilities
- Requests regarding final arrangements, including funeral services and burial plots

This is just the easy-to-overlook stuff. Your Baird Financial Advisor can help you ensure that critical details and documents – including wills, trusts, tax returns, insurance policies and more – are up-to-date and accounted for. D

TIM STEFFEN
DIRECTOR OF
FINANCIAL PLANNING

You can follow Tim's insights via Twitter @TimSteffenCPA.

ARE BONDS AT A TIPPING POINT?

BAIRD'S SENIOR FIXED INCOME RESEARCH ANALYSTS WEIGH IN ON THE STATE OF THE BOND MARKET

Global politics, municipality challenges and a sea change in Fed policy could dramatically alter the course of the bond market. *Digest* interviewed Senior Baird Fixed Income Research Analysts Craig Elder and Dave Violette to evaluate how these events could impact investors.

DIGEST: HOW WOULD YOU DESCRIBE THE BOND MARKET'S BEHAVIOR THUS FAR IN 2015?

DAVE: Yields really haven't changed that much since the start of the year. The yields of bonds maturing in the near term have been held down by expectations of a modest rate increase, while longer yields have moved higher on expectations of more "normalized" inflation. This isn't to say there hasn't been volatility – we've had the weather issue, a port strike and the increased strength of the U.S. dollar, all of which drove real yields lower.

DIGEST: NOT TO MENTION THE WILL-THEY-OR-WON'T-THEY DRAMA SURROUNDING THE FEDERAL RESERVE RAISING INTEREST RATES.

DAVE: That's true, though the impact of Fed policy tends to be felt mainly on the short end of the curve – the yields of bonds nearing maturity. In reality, the Fed has had little impact on the moves we've seen so far. Nevertheless, the media fixates on the Fed – probably because it sells airtime and copy.

DIGEST: DO YOU EXPECT THE FED TO RAISE RATES IN 2015? SHOULD THEY?

CRAIG: I recently attended a fixed income conference and listened to a couple of speakers with differing opinions. The first said the economy's much too weak for the Fed to raise rates this year, while the second said the Fed should raise rates twice because economic activity is doing well and could withstand a higher Fed funds target rate. Everybody's got an opinion right now.

We think the Fed will raise the Fed funds target rate by a quarter point in the fall, possibly another quarter point at its December meeting. Fed Chair Janet Yellen has said the Fed's path to a rate increase will be gradual as they "normalize" interest rates, but if they wait until 2016 to begin rate increases, they could be forced to raise rates more quickly than they would like.

We know the zero-bound rates we have now are not appropriate for the current economic environment. You can't create more than 200,000 jobs per month without eventually having concerns about wage-driven inflation.

DIGEST: SOME U.S. CITIES ARE STRUGGLING WITH MEETING THEIR MUNICIPAL FINANCING OBLIGATIONS AND HAVE EVEN SEEN DOWNGRADES TO THEIR CREDIT RATINGS. SHOULD MUNI INVESTORS BE CONCERNED?

DAVE: I don't think so – I don't expect widespread defaults given the current conditions. Places like Detroit, Puerto Rico and Atlantic City have to address their local economic deterioration, but those problems are idiosyncratic relative to their regions.

Now, there are some general issues like pensions. That's a big issue for places like Chicago, the whole state of Illinois and New Jersey, and it's going to require politicians to make some difficult decisions. But I wouldn't say that's necessarily a sign of things to come.

DIGEST: MANY INVESTORS ASSUME RATES WILL GRADUALLY START TO RISE OVER TIME. WHAT ADVICE DO YOU HAVE FOR THOSE WHO WANT TO BE WELL-POSITIONED IN THAT KIND OF ENVIRONMENT?

DAVE: First, saying "rates are rising" is what I call bumper-sticker advice – you have to dig in a lot further to understand the dynamic. Which rates are going to rise? When? How fast? And how volatile is the rise going to be?

Instead of thinking about it in those terms, I suggest investors ignore the noise and predictions and think about why you have certain bonds in your portfolio. If you're risk-averse, staying shorter than normal might be wise. If you can take on a bit more volatility, extending your durations slightly may capture more incremental yield, though you then may have a more volatile type of portfolio.

CRAIG: The one thing I'd add: In fixed income, we face duration risk, we face credit risk and we face default risk. Bond investors can live with some duration risk and credit risk. What we can't live with is default risk. We believe investors should look at their portfolio and ask, "Am I comfortable with the risk I'm taking?"

Also, when you're looking at the fixed income asset classes in your portfolio, pay attention to your tax bracket. Many people start out buying taxable fixed income because they're in a lower tax bracket, but they forget that as they mature and their income rises, they move to higher tax brackets. They should review their accounts with their Financial Advisor to determine if their fixed income holdings are appropriate for their current tax bracket. D

CRAIG ELDER, (ABOVE LEFT) SENIOR FIXED INCOME RESEARCH ANALYST, OFFERS HIS TAKE ON THE FED AND OTHER ECONOMIC INDICATORS MOVING TODAY'S MARKET IN BAIRD'S "FIXED INCOME MARKET COMMENTARY."

DAVE VIOLETTE, CFA, (ABOVE RIGHT) SENIOR FIXED INCOME RESEARCH ANALYST, EXAMINES THE LATEST INDUSTRY DATA AND EVENTS INFLUENCING THE MUNICIPAL BOND MARKET IN BAIRD'S "MUNICIPAL BOND MARKET COMMENTARY."

FINANCIAL PLANNING CALENDAR

SEPTEMBER

Time for a retirement plan checkup? Even though 401(k) Day was earlier in the month, fall is a good time to look at your retirement assets, wherever they might be held. Work with your Financial Advisor to make sure your asset allocation is still consistent with your goals and, if necessary, rebalance your investments.

Questions about open enrollment? Most employers hold benefit enrollment sessions in the fall, and there are important decisions you will have to make with implications for your finances next year. Make sure you have the information and answers you need before you submit your selections, including how your needs may have changed over time (new dependents, changes in life insurance, new options offered by your employer, etc.). This is also a good time to review the beneficiary forms on your retirement accounts.

Put any year-end tax plans in motion. Reach out to your Financial Advisor and tax professional to start talking about steps you may be able to take to lower your tax bill for 2015.

SEPTEMBER 15

Deadline for third-quarter estimated tax payments. Review your tax situation to make sure you aren't under- or overestimating your tax liability for the year.

OCTOBER 15

Last day to recharacterize a 2014 Roth conversion back to a Traditional IRA. Recharacterizing your conversion will let you reclaim the taxes you paid on the higher amount, and you can convert back to a Roth at a later date.

Final deadline to file your 2014 income tax return. No additional extensions are available beyond this date.

Deadline for self-employed persons or small employers to establish a SIMPLE IRA for 2015.

Review your estate plan. If you have a living will (or healthcare directive) and power of attorney, make sure they still reflect your wishes and the current status of your family. If you don't have either of these documents, talk to your Baird Financial Advisor about why you should.

NOVEMBER

Make your charitable donations. November is Giving Month, after all, and direct donations of cash, material goods or investments can all make a difference in people's lives and your 2015 tax liability. You might also consider contributing to a child or grandchild's 529 education savings plan.

Did you know?

BAIRD GIVES BACK WEEK UNITES BAIRD ASSOCIATES, RELATIVES AND FRIENDS FOR A WEEK OF COLLABORATIVE VOLUNTEER OPPORTUNITIES.

During the 2015 Baird Gives Back Week, 1,375 Baird volunteers donated more than 4,840 hours to nearly 100 nonprofit organizations across the U.S., Europe and Asia.

This initiative is organized by our associates, many of whom take advantage of an extra paid day off to participate and carry on Baird's proud tradition of community involvement.

To learn more about Baird's commitment to giving back, visit **rwbaird.com**.

DIGEST

Robert W. Baird & Co. does not provide tax or legal services. The S&P 500 index is an unmanaged market capitalization-weighted index of 500 common stocks widely regarded to be representative of the U.S. market in general. Returns include reinvestment of dividends. The Dow Jones Industrial Average is a price-weighted average of 30 high-quality stocks selected for total market value and broad public ownership. A price-weighted benchmark results in the stocks with the highest prices contributing the most to the performance of the benchmark. The returns of this index do not include the reinvestment of dividend income. The NASDAQ index represents over 4,500 stocks traded over the counter. It represents many small company stocks but is heavily influenced by about 100 of the largest NASDAQ stocks. The index is value-weighted and does not include income. Indices are unmanaged and are not available for direct investment.

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Past performance is not a guarantee of future results.

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