



BAIRD

DIGEST

NEWS AND PERSPECTIVE FOR
GROWING AND PRESERVING YOUR WEALTH

FALL 2016

Private Wealth
Management

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WHAT'S NEW



It's hard to believe it's been nearly three years since we rolled out the reimagined *Digest*. Perhaps that's because, thanks to feedback and suggestions from readers like you, *Digest* has continued to evolve in the years since. Some of these recent enhancements include:

- The introduction of our "Talking About Your Generation" feature to address topics important to clients in all age brackets and highlight where their interests align
- More links to related video content from *Digest* online, plus the ability to follow Baird's thought leaders on social media
- The addition of our "Weight of the Evidence" graphics to our recurring outlook feature to provide at-a-glance appreciation for what's moving the markets

And there's more to come in 2017. To keep you apprised of those developments – and other items of interest relevant to your relationship with Baird, future issues of *Digest* will feature a short note from me. And to keep the dialogue open, I encourage you to share any thoughts you have about how we can make *Digest* even better for you by emailing us at digest@rwbaird.com.

See you next issue.

Mike Schroeder
President
Private Wealth Management

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DECISION 2016

SHOULD THE ELECTION INFLUENCE YOUR INVESTMENT STRATEGY?

Even the least confrontational of people can appreciate a good argument – the skill required to construct a persuasive narrative and the thrill that comes with the revelation of evidence that supports one’s views. Presidential elections appeal to this very human desire for validation on a large scale. They give “We, The People” a chance to consider candidates’ beliefs and priorities, eventually selecting, supporting and advocating for the one with whom we agree most and (as we’re very much seeing this time around) rallying against those with whom we agree least.

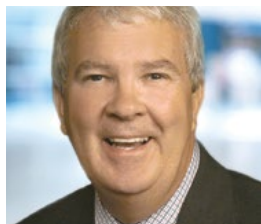
It’s easy and natural to get caught up in such a high-stakes contest, especially knowing that our votes will influence the outcome.

But it’s important not to let the often highly charged emotional state that can accompany election season unduly influence decisions you make about your investments.

WHEN DATA ATTACKS The economy and its perceived health is often a central focus of elections. This is also something we consider when evaluating the investment environment. But the media-enabled volume (referring to both the amount and decibel level) of campaign rhetoric on this topic can make it difficult to distinguish information that might provide clarity from cherry-picked data intended to support a candidate’s narrative.

This barrage of noise becomes even more problematic if we’ve already aligned ourselves ►

ABOUT BAIRD'S INVESTMENT AND MARKET EXPERTS



BRUCE BITTLES CHIEF INVESTMENT STRATEGIST

The author of Baird's market commentary and a frequent contributor of expert insight to national media outlets, Bruce has been Baird's Chief Investment Strategist since 2002.



WILLIAM DELWICHE, CMT, CFA INVESTMENT STRATEGIST

Before joining Baird in 1999, Willie worked briefly as a researcher at the Committee for Economic Development in Washington, D.C.



You can follow Willie's insights via Twitter

@WillieDelwiche.

DECISION 2016

Continued from page 1

with a candidate and are looking for additional reasons to believe. Human nature will lead us to click on the headlines that reaffirm our pre-existing views and pass by those that may challenge them. The resulting confirmation bias can make our hopes or fears virtually impervious to reality.

It's under these conditions that people can easily make poor or ill-timed investment decisions – when emotion and uncertainty can override objectivity and discipline.

WE'VE DONE THIS DANCE BEFORE If you look at the historical data, you can see the recurring effect of election season on investors' emotions, behavior and resulting market performance.

Going back as far as 1900, the equity markets have tended to see increased volatility in election years. If you think about it, this makes perfect sense. Markets

dislike uncertainty, and elections both create and feed on it.

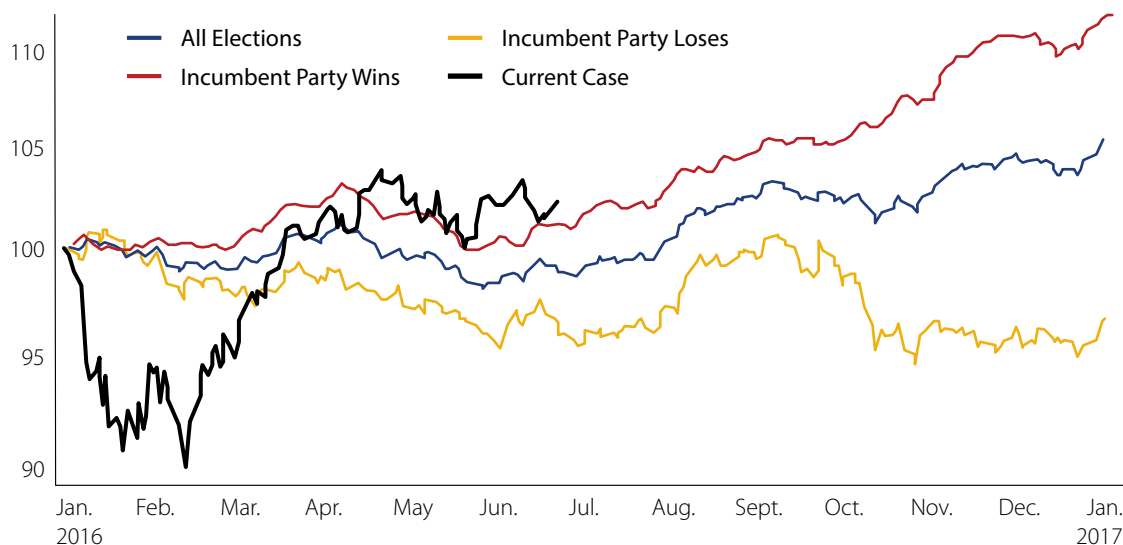
The general pattern is this: As uncertainty over candidate positions and reactions builds toward an almost inevitably obsessive focus on the actual outcome of the election, stock prices have historically become volatile and drifted lower into the fall. As clarity over the election outcome emerges, stocks have historically bottomed and rallied into year-end.

Our weight of the evidence approach specifically considers seasonal patterns and trends as they tend to repeat over time.

DOES IT MATTER WHO WINS? As the chart below shows, in past elections where an incumbent party has won, the fall pullback has been minimal and the rally into year-end has been more robust. When the incumbent party has lost, the pullback has generally been more significant and the rally has come with more

ELECTION YEARS ARE OFTEN VOLATILE...

...but the market usually ends the year on an upswing.



Plotted lines are average cycle patterns based on daily data from 1900 through 2012

DOW INDUSTRIALS – ELECTION-YEAR CYCLE

Source: Ned Davis Research.

choppiness. Stocks typically finished above their pre-election lows in either case.

So, regardless of what the candidates may be saying about the economy or the markets, until there is evidence that the election is tilting in one candidate's favor, there's risk of increased volatility. And once the election is behind us, the opportunity for a year-end rally increases. From this perspective, it really doesn't matter to the markets which candidate or party wins the election. It would just prefer clarity around the outcome sooner than later.

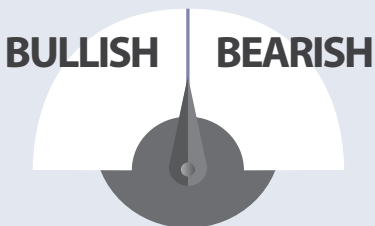
Of course we would never advise hanging your investor hat on any single indicator. Whatever the polls may say about the likely outcome of the election, we will continue to weigh that against the breadth of evidence that always informs our investment outlook.

In the meantime, we suggest you enjoy the presidential election if you are of that mind. Pay attention to the debates. Engage in the dialogue. But be very careful not to let the noise it generates influence your investment decisions. [D](#)

THE WEIGHT OF THE EVIDENCE

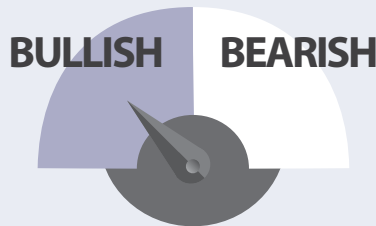
EXCESSIVE OPTIMISM TURNS EVIDENCE NEUTRAL

FED POLICY



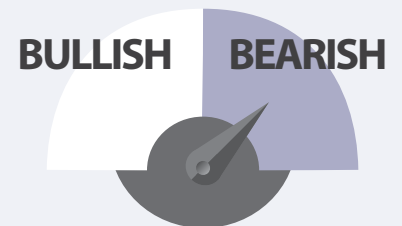
Chorus of calls for a better communications strategy from Fed growing louder

ECONOMIC FUNDAMENTALS



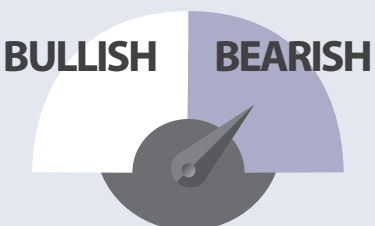
Inventories could move from first-half headwind to second-half tailwind, providing boost to overall GDP growth

STOCK PRICE VALUATIONS



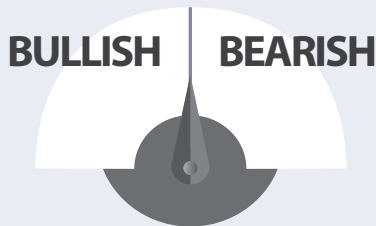
Pace of earnings declines has slowed, but need actual earnings growth to help relieve valuations

INVESTOR SENTIMENT



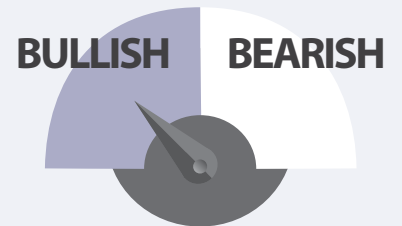
Rally to new highs has produced widespread optimism as bears have thrown in the towel

SEASONAL PATTERNS AND TRENDS



September is seasonally weak, but resolution to election uncertainty could be a tailwind for stocks

STOCK MARKET BREADTH



Breadth trends show night-and-day difference between this year and last

LIVING IN LIMBO? WHAT YOU SHOULD KNOW ABOUT LOW INTEREST RATES

When Britain voted to leave the European Union in June, it sent shockwaves throughout the global economy, causing U.S. interest rates to plummet to all-time lows. However, it's worth noting that these record lows aren't wholly unfamiliar territory. Interest rates have been declining steadily since the early 1980s, and they have remained below 5% since 2008, when the Federal Reserve tried to boost the country's post-Great Recession economy with a zero-interest-rate policy.

The Fed's rationale is that low interest rates should spur much-needed economic activity: Businesses can borrow more cheaply to fund capital improvements, local governments

can budget for infrastructure projects and consumers will require less money to service their debt, leaving them with more to spend. However, this policy has a downside: Many investors who rely on their savings or fixed income payments to fund their retirement have seen severely diminished returns.

With the U.S. economy showing slow though sometimes fitful signs of recovery, there's reason to believe the Fed will raise rates again – perhaps even this year. But that's far from guaranteed and even if there is a small increase this year, most experts assume rates will remain on the low side for some time.

So what does this mean for you? Here are some thoughts to keep in mind. ►

INTEREST RATES AND INFLATION



Source: Federal Reserve Board, BLS.



FOR CONSUMERS Most people feel the impact of low interest rates primarily in their personal debt – credit card balances, auto loans and mortgages. So the current low-interest-rate environment provides some potential opportunities:

- The price of debt is at near-record lows right now. If you're carrying credit card debt, consider shopping around for a better deal. If you have a mortgage, consider refinancing – or better still, pay it off sooner by shortening the duration while keeping the same monthly payment.
- If you're a business owner, low rates could make now the perfect time to take on debt as part of an expansion or capital improvement strategy.
- Compare the interest you're paying on debt to the interest you're earning on your investments. Investors who have seen their returns depressed by today's low-interest-rate environment may want to explore paying down debt as a means to improve their bottom line.



FOR INVESTORS Bonds can be hit particularly hard when interest rates are low, especially when the prospect of rising rates looms on the horizon. Here are some tips for making the best of a low-yield environment:

- Knowing why you hold bonds in your portfolio is critical. If your exposure to

bonds isn't generating the income you've budgeted for, other investments like preferred stock or dividend-paying blue chips can replace that income – but they carry their own risks and can increase the volatility of your portfolio. For most people, investing in bonds should be less about the size of the return and more about reducing overall portfolio volatility.

- Be sure to consider the total return on your portfolio – not only the income it's generating, but also any appreciation in equity. If your portfolio is increasing in value but not producing the income you need, drawing from the principal isn't necessarily a bad idea – and in some cases can even result in some tax savings.
- Be careful when determining the maturity of fixed income investments. If you go too short, you risk sacrificing the yield of longer-term investments. If you go too long, though, you lock in comparatively low long-term yields, which likely will cost you when rates eventually rise.

Being aware of the potential impact of low rates on your financial plans is important. So is having the right partner to help you put that information to good use. Your Baird Financial Advisor can help you develop a strategy for the current environment that takes your specific situation and specialized needs into account. **D**

Interest rates have been in decline since the early 1980s.

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WANT TO START A BUSINESS?

SIX WAYS ENTREPRENEURS CAN MITIGATE PERSONAL FINANCIAL RISK



TIM STEFFEN
DIRECTOR OF
FINANCIAL PLANNING

The TV show “Shark Tank” is popular because it speaks to a desire shared by many Americans: to achieve financial independence by starting their own business. This is particularly strong among millennials. A recent survey by Bentley University found 66% of millennial respondents wanted to start their own business, 37% would like to work for themselves and 25% would like to own their own company.

“Shark Tank” makes this seem easy, but many new businesses don’t pan out. According to the Small Business Administration (SBA), only half of business start-ups survive more than five years. Fortunately, it’s possible to reduce the personal financial risks of starting a business by making smart choices:



You can follow
Tim’s insights
via Twitter
[@TimSteffenCPA](#).

01 SEPARATE BUSINESS AND PERSONAL ASSETS Establishing a limited liability company (LLC) and a separate bank account can help reduce your personal liability and make tax compliance simpler.

02 LEAVE YOURSELF A CUSHION According to the SBA, the number one source of financing for new businesses is personal assets/savings. Set parameters around how much of your personal savings you’re willing to risk.

03 BE CAREFUL ABOUT USING RETIREMENT ACCOUNTS Some qualified retirement plans like 401(k)s allow participants to borrow from the account. But if you fail to repay the loan within the established time frame, it is treated as a distribution and taxed. You may also face a penalty for early withdrawal.

04 DON’T TAKE ON TOO MUCH PERSONAL DEBT Generally speaking, total monthly debt service payments (including housing and personal debt)

shouldn’t exceed 36% of your monthly gross income. And keep in mind that if you take out personal loans for your business and it fails, you may have to declare personal bankruptcy.

05 DON’T RELY ON COMPANY CREDIT CARDS It can be tempting to charge expenses to your business credit card, but most commercial cards charge high interest rates. Also, many lenders require a personal guarantee when someone applies for a business credit card. So even if you’ve kept your business and personal accounts separate, you may be personally responsible for the business credit card debt.

06 HAVE A FALLBACK PLAN If you are a licensed professional, be sure to maintain that license – even if it’s not relevant to your venture. And give careful consideration to continuing to work at least part-time while your business is getting started. Even if your new business does become a full-time pursuit, it’s a good idea to keep up your skills in case you ever wish to return to your old line of work. **D**

TALKING ABOUT YOUR GENERATION

RISK MANAGEMENT AT EVERY STAGE OF LIFE: MILLENNIALS

Any strategy to building wealth incurs some measure of risk, no matter your age. The final part of this three-part series explores the financial risks millennials face as they begin their careers.

DON'T UNDERESTIMATE THE RISKS For many people just starting out, risk management tends to be a low priority – they typically have little wealth to protect and are at an age when health risks tend to be low. However, “low risk” does not mean “no risk”: One catastrophic accident or illness could leave your loved ones on the hook for tens of thousands of dollars in medical bills, funeral expenses and outstanding debt such as certain private student loans. An inexpensive life insurance policy can dramatically lessen the financial consequences of such an event.

PROTECT AGAINST DISABILITY Life insurance isn't the only kind of insurance millennials should consider. Disability insurance can replace roughly 60% of your gross annual income should you become disabled and unable to work. Taking advantage of an employer's short-term (up to one year) and long-term (beyond one year) disability policies is a good place to start.

REVISIT AS YOU GET OLDER The decade between your early 20s and early 30s can have a profound impact on how your life unfolds. The decisions to begin a career, get married, create a family or buy a house can add meaning to your life but also put more at stake on your ability to provide an income.



MILLENNIALS

Part Three in a Three-Part Series

As your career and personal relationships develop, regularly review your life and disability policies and ensure they are keeping up with your constantly evolving needs.

While many millennials may feel they don't yet need to worry about risks to their wealth, one major life event – either positive or negative – can have an enormous impact on your personal and financial well-being. Your Baird Financial Advisor can provide guidance on how you can mitigate the financial risks that accompany this early stage of life.

To explore how to manage the risks in your peak earning years and when you're in or preparing for retirement, check out the Spring 2016 and Winter 2015 issues of *Digest* at bairddigest.com. **D**

NEWS YOU CAN USE

BAIRD WEALTH STRATEGIES OFFERS ADDITIONAL INSIGHTS FOR CLIENTS

Baird is committed to helping you make smart decisions with your money. That's why we started the Wealth Strategies program, a series of monthly interactive webinars designed to supplement the advice you receive from your Baird Financial Advisor by providing expert insight into financial topics that touch all of our lives.

Wealth Strategies webinars are free to Baird clients. You can dial in to chat with our expert presenter directly, or watch a video of the presentation later at your own convenience.

You'll find a calendar of upcoming Wealth Strategies topics in each issue of *Digest* going forward. To register for our next Wealth Strategies webinar or to view recordings of previous events, visit the "Wealth Management" page on rwbaird.com or reach out to your Financial Advisor.

WEALTH STRATEGIES CALENDAR

October 19 | 12:00 p.m. (CT)

Philanthropy: Charitable Giving for Us All

Featured Speaker: Scott Grenier, CFP®, CLU®, ChFC®

November 16 | 12:00 p.m. (CT)

Understanding Medicare Benefits

Featured Speaker: Brian Ellenbecker, CFP®, CPWA®, CIMA®

December 7 | 12:00 p.m. (CT)

Year-End Tax and Financial Planning Strategies

Featured Speaker: Tim Steffen, CPA/PFS, CFP®, CPWA®

FINANCIAL PLANNING CALENDAR

SEPTEMBER 15

Q3 federal estimated
2016 tax payments due

OCTOBER 17

Final extended due date for
2015 income tax returns

OCTOBER 1

First date to file for
financial aid for the 2017-18
school year – three months
earlier than for prior
school years

NOVEMBER 29

Last day to sell a security for a loss
and still be able to repurchase it by
year-end to avoid a wash sale

Last day to buy a security and
recognize a loss on the sale of a
substantially identical security by
the end of the year – sale must
occur on December 30

DECEMBER 31

All charitable gifts must
be complete to claim a
2016 tax deduction

All gifts to family members
and other individuals
must be complete to be
considered gifts in 2016

All deductible expenses
must be paid to claim a
2016 tax deduction

All capital transactions
(buying and selling of
investments) must be
complete to be considered
2016 transactions

Most retirement plans,
including profit-sharing
plans, must be established
– contributions can be
made until the due date
of your tax return



Did you know?

BAIRD'S EQUITY RESEARCH CONSISTENTLY EARNS TOP MARKS FROM THE INDUSTRY.

Since 2004, professional money managers have recognized Baird as one of their top sources of equity research in annual surveys by Greenwich Associates. In 2016, Baird ranked as the No. 1 overall "important small-/mid-cap research advisory firm." Additionally, 14 Baird research analysts were recognized for the quality of their recommendations and earnings estimates in the 2016 Thomson Reuters Analyst Awards – the firm's 15th consecutive appearance on this list.

To learn more about our equity research coverage and recognitions, visit rwbaird.com/equities-research/ranking-recognition.

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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.

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. Information in *Digest* has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy.

Past performance is not a guarantee of future results.

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