



DIGEST

NEWS AND PERSPECTIVE FOR
GROWING AND PRESERVING YOUR WEALTH

WINTER 2016

Private Wealth
Management



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IMITATING EXPERIENCE

A client recently asked if their oldest child could join us for our discussion about their portfolio and plans. He came prepared with his pen and notebook. His toddler sister determined she needed to be a part of the meeting as well, insisting her high chair be brought to the table with a piece of paper and crayons. She sat attentively, scribbled as we spoke and copied her brother's every action.

She was learning through imitation, which is just one of many ways people learn. But what she actually took from the meeting I can't say.

We are born confident in our ability to imitate. But we don't always appreciate the nuanced complexity of a skilled trade or profession. How many times have you watched a plumber, an interior designer or even an investment advisor at work and thought, "That doesn't look so hard?"

But when attempting to imitate what we've seen, we often learn things aren't as simple or straightforward as they seem. When addressing such complexity, you need the experience of a skilled professional to help you avoid mistakes that could prove far more expensive than the cost of their services.

The financial markets have recently become more complicated, with often wild volatility following our first correction in four years and concerns about the Federal Reserve's plans for interest rates weighing heavily on investors' minds.

Fortunately, you don't have to do it yourself. Your Baird Financial Advisor can help you navigate near-term uncertainty while ensuring you don't lose sight of the long-term plans your investment portfolio was designed to support.



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WEATHERING UNCERTAINTY

2016 MARKET AND ECONOMIC OUTLOOK

Risk management is the phrase of the moment in the financial markets. It's often used, infrequently defined and rarely understood. Too often the concept is used to justify a course of action one might be disposed to take anyway. And sometimes it becomes a license to give into fear, as defined by whatever the latest, loudest financial news headline may be – all under a comforting veil of responsible rigor.

THEY'LL TELL YOU WHAT YOU WANT TO FEAR Finding anecdotal evidence that supports our fears is not managing risk, nor is it a disciplined approach to investing. Quite the contrary, a true and honest assessment of risk begins with understanding our own personal weaknesses and preconceived notions.

As we touched on in the Fall issue of *Digest*, successful investing requires filtering out the headlines and other noise designed to appeal to our fears and desires and focusing on the actual news. Usually outcomes are neither as dire nor as groundbreaking as such headlines assert. Often they amount to simple speculation on binary outcomes like the flip of a coin, which is more akin to gambling than investing.

TOO MUCH OF A GOOD THING Of course every coin does have a flip side and, while a little fact gathering and analysis can go a long way, too much can be almost as damaging as none at all. Human nature being what it is, we are often more comforted by complex approaches than relatively straightforward ones. We want to believe the smartest sounding theory, even if we don't fully understand it. ▶

WEATHERING UNCERTAINTY

Continued from page 1

The problem when human nature intersects with investing is often our overconfidence in our ability to predict the future by mentally modeling scenarios and accounting for what we believe to be all possible outcomes. Thus begins the slippery slope from assessing risks and influences to believing we have all the answers before the questions are truly known.

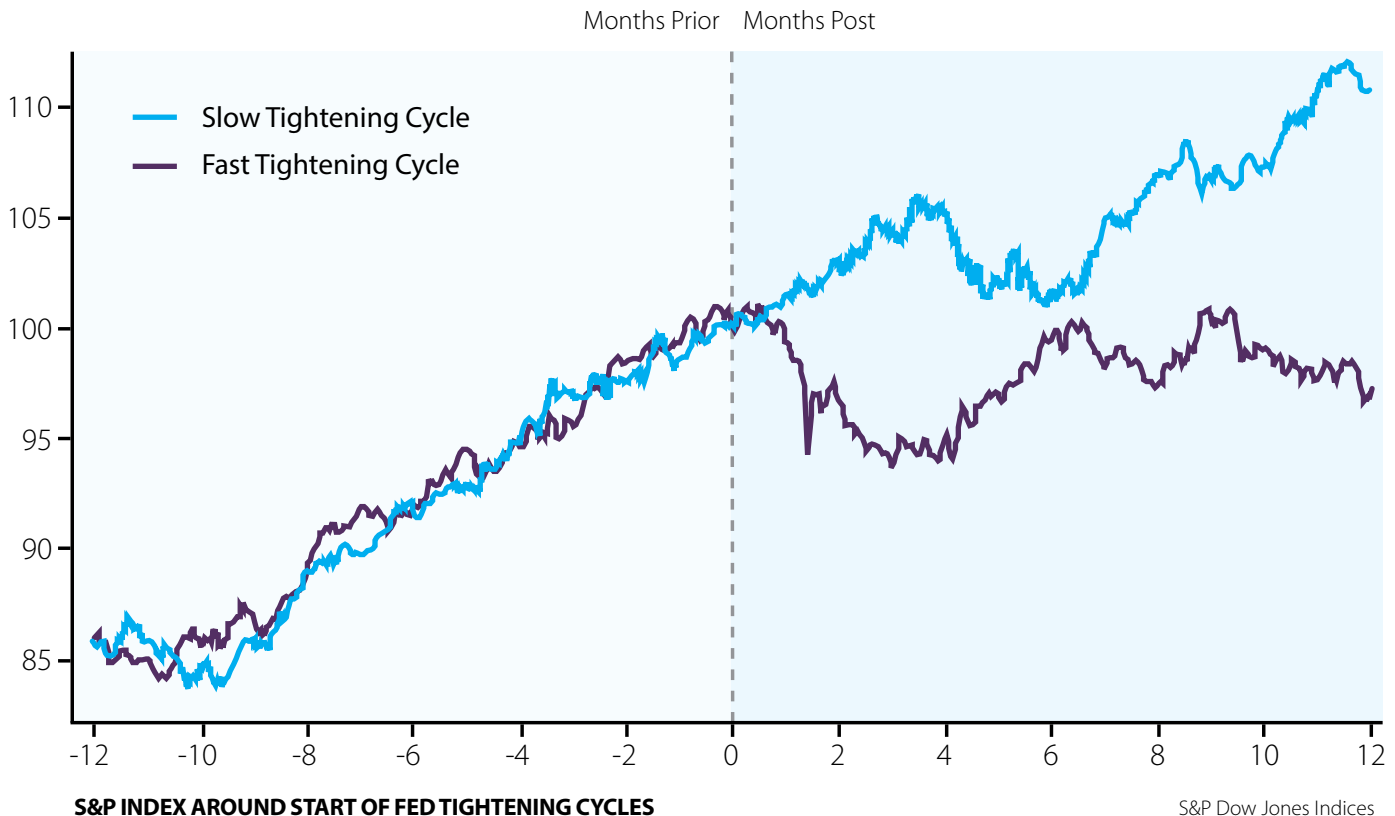
There is a reason most investment strategists spend as much, if not more time reviewing and manipulating historical data as they do keeping up with current developments and trends. Time typically provides much clearer perspective, and patterns are often easier to spot from a distance.

A LITTLE HUMILITY CAN GO A LONG WAY There's a quote often attributed to Socrates that says "The only true wisdom is in knowing you know nothing." We aren't suggesting we can all be as wise as Socrates, but we can learn something from him about humility. For today's investor, managing risk has to start with understanding that there are things you don't and can't possibly know right now. If it makes you more comfortable, you can keep in mind that the people who bring you the news of the day are often in the same boat.

With all of this in mind, let's take a look at some of what we do know the media will be talking about in 2016. ▶

WILL RISING RATES MEAN FALLING STOCKS?

History Shows the Market Can Do Well Under Gradual Interest Rate Increases



NEWS OR NOISE IN THE NEW YEAR

INTEREST RATES

THE NOISE suggests interest rate hikes are immediately bad for the economy and bad for stocks.

THE NEWS is that by beginning to normalize interest rates, the Fed is removing some of the emergency measures applied in the wake of a recession that ended five years ago. This is an expression of confidence in the U.S. economic recovery. And, if we take the Fed at their word, the pace of this tightening will be gradual. History shows stocks can hold up well in such an environment (see chart on previous page).

A GLOBAL ECONOMIC SLOWDOWN

THE NOISE here is that China's economy is crumbling, and weakness elsewhere in emerging markets will spell recession for the global economy.

THE NEWS is that emerging markets do have structural issues that need addressing, but economies in Europe and America are starting to show more promise. Despite slowing growth in China, its contribution to overall global growth was at least as large in 2015 as it was a decade earlier when its reported GDP was in double digits, thanks to the magic of compounding.

THE PRESIDENTIAL ELECTION

THE NOISE in this arena will continue to get louder over the course of the year. One party (flip a coin to decide which and you'll be right either way) claims it will provide prosperity and that the other will end society as we know it.

THE NEWS (if you believe what history has to tell us) is decidedly less dramatic. Stocks tend to rally in the first quarter of an election year, then get bogged down in uncertainty. As the outcome of the election becomes more evident, stocks tend to celebrate regardless of which party appears destined for the White House.

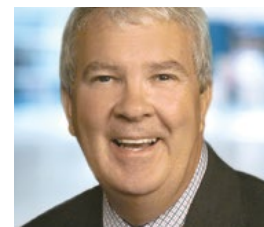
“The only true wisdom is in knowing you know nothing.”

—SOCRATES

ALL THINGS IN PERSPECTIVE Are the above things you should be keeping an eye on? Certainly. But setting aside (or at least tabling until the facts are in) what can't be known at present frees us to focus on what we do know. That's where our “weight of the evidence” approach comes into play. **D**

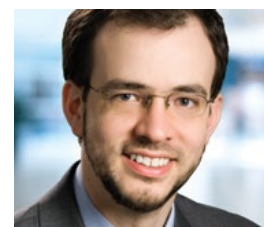
Continue to [The Weight of the Evidence](#) ►

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.



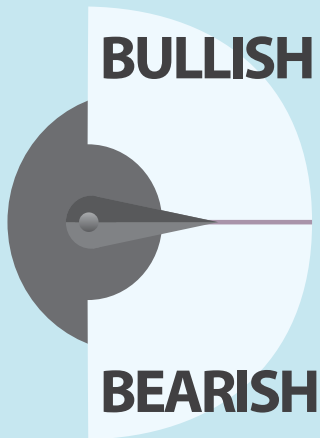
WILLIAM DELWICHE, CMT, CFA
INVESTMENT STRATEGIST

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



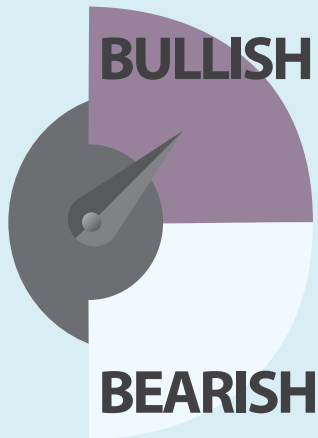
You can follow Willie's insights via Twitter @WillieDelwiche.

FED POLICY



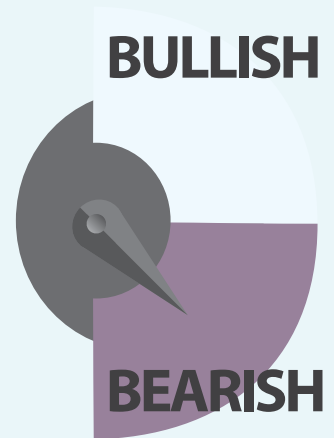
Federal Reserve trying to instill reasonable certainty to policy outlook

ECONOMIC FUNDAMENTALS



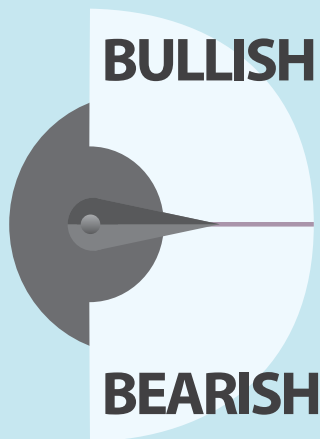
Wage gains show recovery broadening

VALUATIONS



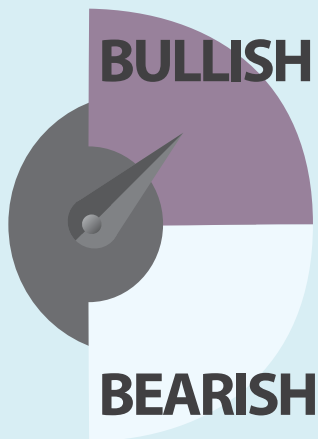
2015 headwind remains as we begin new year

SENTIMENT



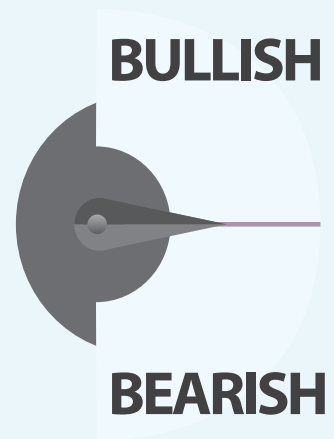
Exposure to stocks is high, but investors getting cautious in the near-term

SEASONAL PATTERNS AND TRENDS



Stocks begin 2016 with a tailwind, but volatility could build as year progresses

BREADTH




Popular averages have recovered more quickly than broad market

TALKING ABOUT YOUR GENERATION


RISK MANAGEMENT AT EVERY STAGE OF LIFE: THE BABY BOOMERS

Any strategy to building wealth incurs some measure of risk, no matter your age. This three-part series explores the financial risks particular to every stage of life and approaches on how to manage them. Part one of the series addresses financial concerns baby boomers may face as they enter and live out their golden years.

THINK ABOUT YOUR HEALTH

 The Department of Health and Human Services estimates that 70% of Americans 65 or older will require some form of long-term care – services that may be required for years and cost tens of thousands of dollars. Long-term care insurance, or a hybrid life/long-term care insurance policy, may be a suitable option to mitigating that expense. Generally the younger and healthier you are, the less expensive the premium.

RE-EXAMINE YOUR LIFE

 Using permanent policies such as whole-life, universal-life or variable-life as a living benefit for their cash value can provide additional retirement income. And depending on how these policies are structured, this income can potentially be received income tax-free.



BABY BOOMERS

Part One in a Three-Part Series



CONSIDER YOUR LEGACY How do you want to pass on your estate to your heirs and preferred charities?

There are many estate planning and insurance vehicles that can transfer assets with an eye toward tax efficiency.

Your Baird Financial Advisor can offer further guidance on ways baby boomers can mitigate the financial risks of retirement. In the Spring issue of *Digest*, we'll look at strategies to address the financial risks workers face mid-career. **D**

Your Life Doesn't Just Happen.
You Make It Happen.

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THE CHANGING LANDSCAPE OF SOCIAL SECURITY

FILE AND SUSPEND, RESTRICTED APPLICATIONS GOING AWAY



TIM STEFFEN
DIRECTOR OF
FINANCIAL PLANNING



You can
follow
Tim's

insights via Twitter
@TimSteffenCPA.

The recent federal budget agreement means two popular Social Security claiming strategies for spouses – file and suspend and restricted application – will soon be things of the past.

WHAT'S CHANGING Under file and suspend, an individual could file for benefits, enabling his or her spouse to claim benefits based on that filer's work history, but then suspend the payment of their own benefit, allowing it to continue growing until age 70.

If you haven't already filed and suspended, it will no longer be available after April 29, 2016. Because you must be at least age 66 to suspend benefits, those born after April 29, 1950, will be unable to provide a spousal benefit while deferring their own.

At full retirement age, spouses also had the option of filing a restricted application, allowing them to collect benefits based on their spouse's earnings record while deferring and growing their own.

The new rules require retirees to file for all benefits they are eligible for, meaning they can no longer take spousal benefits while deferring their own. This rule applies to anyone who has reached age 62 by January 1, 2016.

SOCIAL SECURITY PLANNING UNDER THESE NEW RULES Despite these changes, there are still planning strategies to consider. Anyone age 66 by April 29, 2016, should consider filing for and suspending his or her benefits. While there are exceptions, such as those who want to contribute to a Health Savings Account ►

FINANCIAL PLANNING CALENDAR

JANUARY 15

Fourth-quarter federal estimated tax payments for 2015 are due.

FEBRUARY 15

The first wave of 1099s will be issued by Baird for those accounts holding individual equities, bonds or mutual funds whose final tax information has been provided.

MARCH 1

The second wave of 1099s will be issued by Baird for accounts holding mutual funds whose final tax information was provided after the previous update.

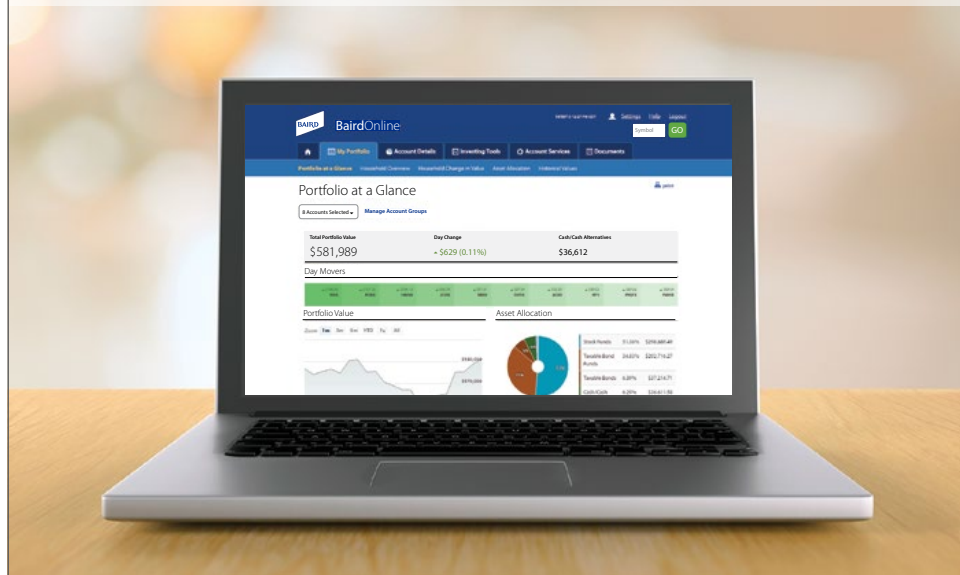
MARCH 15

The final wave of 1099s will be issued by Baird for the remaining accounts holding mutual funds, as well as for any accounts holding UITs, REMICs or WHMTs.

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or delay the start of Medicare, this strategy is appropriate for most retirees.

Also, you can only file a restricted application at age 66 – those grandfathered under the old rules will still have to wait up to four years before actually filing the restricted application.

After these changes, the key decision for retirees will be when to begin taking benefits – anywhere from age 62 to 70. Considerations include work status, income taxes and benefits for a surviving spouse. While the new rules may not necessarily affect those already taking benefits, surviving spouses or divorcées, others should discuss with their Baird Financial Advisor the impact on their retirement plan. **D**

APRIL 1

Deadline for those who turned age 70 ½ during 2015 to take a required minimum distribution from their retirement plans. Future distributions must be taken by December 31 of the year for which they apply.



APRIL 18

In honor of Emancipation Day, observed in the District of Columbia on April 15, individual income tax returns are due Monday, April 18. You may also file an application for an automatic extension of six months.

(In honor of Patriots' Day, observed in Massachusetts and Maine on April 18, tax returns for those residents are due April 19.)

First-quarter federal estimated tax payments for 2016 are due, regardless of state of residency.

APRIL 15

Contributions to IRAs, Roth IRAs and Coverdell Education Savings accounts for 2015 are due.

GROWTH FROM STRENGTH

2015 BAIRD BUSINESS UPDATE FROM BAIRD'S SENIOR LEADERS

A All of us at Baird were thrilled to learn we ranked No. 5 among FORTUNE's 100 Best Companies to Work For® in 2015, and that was just the start of a year of growth and success for the firm and our core businesses:

PRIVATE WEALTH MANAGEMENT posted strong revenues and continued to expand across the United States, growing our presence in the Pacific Northwest and opening new offices in Colorado, Kansas and Kentucky.

GLOBAL INVESTMENT BANKING recorded a very strong close to the year and made significant additions of talent to its Europe-based teams.

INSTITUTIONAL EQUITIES & RESEARCH continued to receive recognition for the quality of its research, sales and corporate access expertise, earning top marks in an annual survey by Greenwich Associates, a prominent industry consultant.

BAIRD CAPITAL made a number of new private equity investments and successfully exited a number of companies while continuing to collaborate with companies' management to grow portfolio value around the world.

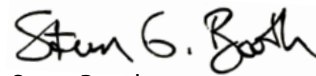
PUBLIC FINANCE posted strong revenues and expanded coverage in key U.S. markets while Fixed Income Sales & Trading welcomed an

investment-grade corporate bond team to its ranks, enabling the business to continue to grow despite difficult market conditions.

ASSET MANAGEMENT saw very strong results for 2015, surpassing 2014's record revenues through significant increases in assets under management for both Baird Advisors, our fixed income asset manager, and Baird Investment Management, our equity asset management division.

As we begin 2016, we're excited by new developments like our recent agreement to acquire Chautauqua Capital Management, which will expand the global and international equity asset management strategies we can offer both retail and institutional clients. We're also both excited to take on a new year in different roles, having smoothly completed the second phase of a very thoughtful and gradual transition of leadership responsibilities. Of course we will continue to collaborate and share perspectives with each other to benefit the firm and our clients in 2016 and beyond.

Thank you for your continued partnership.



Steve Booth
President & Chief Executive Officer



Paul Purcell
Chairman

“Of course we will continue to collaborate and share perspectives with each other to benefit the firm and our clients in 2016 and beyond.”



2013

2012

2011

2010

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Did you know?

BAIRD HAS REMAINED STRONG, PROFITABLE AND ABLE TO GROW TO MEET CLIENTS' NEEDS BECAUSE OF THE WAY WE RUN OUR FIRM.

In short, we run our business the same way we advise clients like you – with a keen awareness of what's at stake, and with the strength and flexibility to capitalize wisely on emerging opportunities.

Visit rwbaird.com/who-we-are/financial-strength/ to learn more.

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.

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.

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