BAIRD

Private Wealth Management

DIGEST

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

FALL 2017

Letter From Mike Schroeder

What comes to mind when you come across the term "wealth management?"

The first thing you think of is probably investing – and while that's a key component of wealth management, at Baird there's a lot more to it. When done right, wealth management can be a real partnership between you and your Financial Advisor, one built on identifying your unique vision for the future and making that vision a reality.

That's because when you begin to imagine what you want for yourself, your family and the people and causes closest to you, you realize that managing your wealth is about more than the buying and selling investments – it's about planning for retirement. Or funding a grandchild's education. Or starting a second career. Or dozens of other moments and milestones that make your life truly meaningful.

Your dreams and aspirations – for yourself and the people who rely on you – are our inspiration and our purpose. When you share your vision with us, you can trust that we'll put the full power of our expertise and capabilities to work toward making it a reality.

That's wealth management at Baird.

MIKE SCHROEDER
PRESIDENT
PRIVATE WEALTH MANAGEMENT

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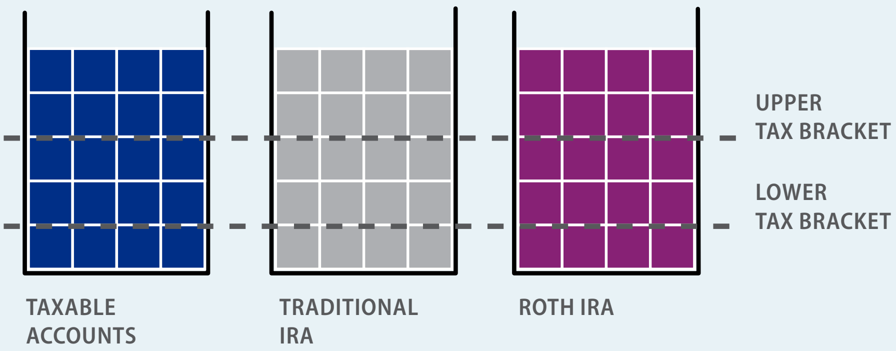
Falling Into Place

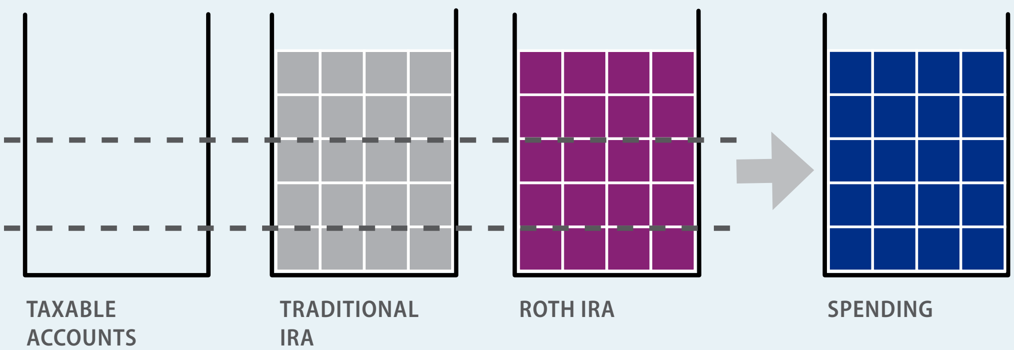
TAX STRATEGIES FOR SPENDING DOWN YOUR ACCOUNTS

Some annoyances in life seem impossible to avoid each year – mosquitos in the summer, holiday shopping in the fall and winter and tax filing in the spring. While it may be difficult to avoid some of these unpleasantries, there are strategies investors can employ to reduce the effect of portfolio withdrawals on taxes.

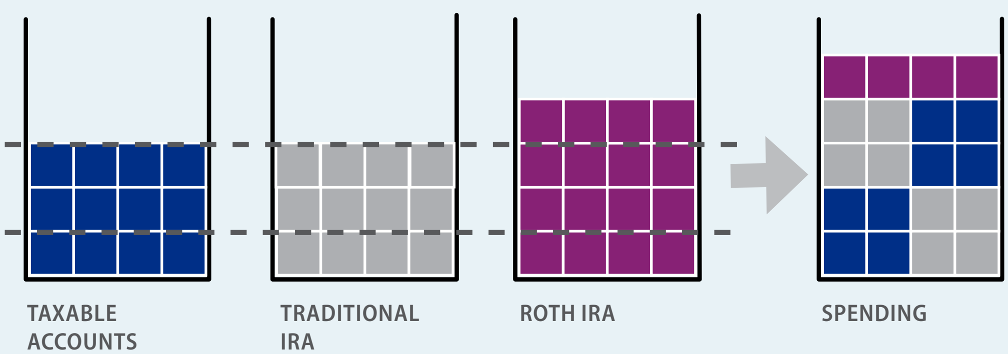
A common tax question posed by retirees is, "If I have a traditional IRA, a Roth IRA and multiple taxable accounts, how should I withdraw money to fund my retirement?" The reason this question plagues taxpayers so consistently is because ideally they would give it serious thought every year. While retirees could create a plan during the first year of retirement and never change it, as cash flow needs and sources of income change over time, so should their approach to withdrawing their funds.



The Johnsons' sources of income in retirement include taxable accounts as well as a traditional IRA and a Roth IRA.



Spending down their taxable accounts first is one option, though it may require them to pay more in taxes and limit their distribution options in the future.



By strategically withdrawing from each income bucket, the Johnsons can meet their spending needs, preserve all three types of accounts for future withdrawals and remain in the 15% tax bracket.

Take the hypothetical example of Mr. and Mrs. Johnson, both aged 60. Due to planned trips, healthcare costs and car purchases, they expect their after-tax income needs will vary widely in each of the upcoming five years. The Johnsons could follow the traditional rule of thumb and withdraw from their taxable accounts first until those accounts are used up, then proceed to exhaust the traditional IRA, followed by the Roth IRA. However, our research has shown that if these withdrawals are going to vary year by year, the Johnson's may be better off with a more flexible and strategic withdrawal plan that takes advantage of all their available accounts.

In the popular video game Tetris, the goal is to place falling pieces of varying shapes into gaps created on the board. Like with the game, investors following this strategy would be strategic about their decisions, basing their withdrawals on their tax bracket for that particular year. And if investors expect their spending needs or tax brackets to vary in each of the coming years, this strategy gives them the most flexibility in managing the tax cost of their withdrawals.

In our example, the Johnsons are in the 15% marginal income tax bracket based on their typical annual income, though the additional withdrawals they need to meet their spending goals could push them into a higher bracket. With this more tactical strategy, the Johnsons would make withdrawals from each of their accounts, making sure no one withdrawal pushes them beyond their 15% tax bracket ceiling and into the next higher bracket. In some cases, the additional tax burden could be kept low enough that the Johnsons are able to take advantage of a 0% long-term capital rate – a benefit available since 2008 but often overlooked by investors.

There are three advantages to this customized approach.

1 It allows for more growth in the portfolio compared to a strict withdrawal of solely taxable or tax-deferred dollars – the less money spent on taxes, the more money left to invest.

2 By not relying too heavily on any one account and spending it down, retirees like the Johnsons may still have all of their accounts intact and ready to be used again, allowing them to implement the same multi-withdrawal approach going forward.

3 Spreading out IRA withdrawals over time can reduce their overall tax burden. One reason this winding down of a tax-deferred account is beneficial is because the strategy helps manage the required minimum distributions, which begin the year the IRA owner turns 70½ years of age. Because the IRA has already been partially spent down in previous years, future RMDs will be reduced and may be more in line with the Johnsons' spending needs during those years.

It's worth making one final point regarding the Tetris-type method of spending down assets in retirement. This strategy is designed to provide the most flexibility given a retiree's changing cash flow needs, especially when the impact of tax law changes is considered. What may be an appropriate strategy under one set of assumptions could change dramatically under a different set. For example, if capital gains tax rates were to increase or if overall income tax rates were to fall significantly, then a change in the priority of spending down assets might be appropriate.

As with any financial strategy, the important thing is to maintain as much flexibility as possible and realize that plans need to change from time to time. This is where working with a team of experienced financial and tax specialists, who can identify when and how to best modify a plan, can provide a significant benefit.

Chris Dolan is a Financial Planner for Baird Private Wealth Management. D

Planning Calendar

OCTOBER 1

First date to file for financial aid for the 2018–2019 school year

OCTOBER 15 – DECEMBER 7

Annual election period for making changes to Medicare or Medicare Advantage coverage

OCTOBER 16

Final extended due date for filing 2016 income tax returns

Last day to recharacterize a Roth IRA conversion done in 2016

NOVEMBER 28

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 29)

DECEMBER 31

Deadline for taking required minimum distributions from retirement plans for 2016 (extended to April 1, 2018, if 2017 is your first year to take RMDs)

Most employer retirement plans, including profit-sharing plans, must be established, though contributions can often be made until the tax return due date

JANUARY 1 – MARCH 31

General enrollment period for Medicare for those who missed their initial enrollment period

Taking Control of Your Financial Future

Women in America have made great financial strides since the 1970s, when banks frequently required women to bring a man with them to cosign for a credit card. Today, women control $14 trillion, or 51%, of the wealth in the United States – and that number is expected to reach $22 trillion by 2020.[1]

Yet research suggests a majority of women would like to be more engaged with their finances and that a lack of knowledge and confidence surrounding financial planning and investing might be holding them back.[2,3]

The key to handling any situation life throws at you – financial or otherwise – is preparation. Baird Women Advisors, a network of female advisors at Baird, shared several ideas on how women can build their knowledge and confidence about money and investing:

TALK TO A FINANCIAL ADVISOR

Whether you have or are considering establishing a relationship with one, a financial advisor is a great place to start. "Trust me, most advisors are happy to teach you what they know, and to spend time answering your questions and sharing resources that can help you gain financial knowledge," BWA President Angela Krause-Lane said.

SIGN UP FOR A CLASS OR SEMINAR

Many advisors offer seminars and materials on educational topics that will help build your financial knowledge. Your local college or university, park and recreation program or senior center may be a good resource as well. This can be a nonthreatening way to learn about financial planning, especially if you bring along a friend.

LEARN FROM YOUR PARTNER OR CLOSE FRIEND

If your partner is savvier about money management and investing than you are, ask what their approach has been to making financial decisions. A family member or close friend you trust may be willing to share insights as well.

ADDRESS YOUR FEARS AND CONCERNS

Many people – men and women – have fears about money that can hinder their ability to make good financial decisions. Common concerns might include running out of money during retirement or not having a safety net if life throws you an unexpected financial challenge. You might find those concerns lose their power when you talk about them – and you might even turn them into action items.

MAKE A PLAN

If you feel you're in over your head, you're not alone – nearly two-thirds of women report feeling overwhelmed by the financial information and options available to them.[3] Stick with the basics of financial planning – set goals and create a solid financial plan that reflects what matters to you. Importantly, take time to review your portfolio on a regular basis with your financial advisor, working with them to understand when to adjust your investments and keeping your paperwork up to date.

However, you'll likely find the peace of mind that comes from understanding your finances and being intentional with your financial future well worth the effort. Your Baird Financial Advisor is with you every step of the way to help you plan and make good financial decisions. D

> "The key to handling any situation life throws at you – financial or otherwise – is preparation."

About Baird Women Advisors

Established in 2008, Baird Women Advisors is an organization comprising female financial advisors at Baird. By bringing these advisors together to network and share best practices, the group is committed to promoting the profession and making Baird the best place to work for women in wealth management.

[1]http://www.marketwired.com/press-release/bmo-report-despite-controlling-14-trillion-wealth-american-women-still-have-challenges-tsx-bmo-2006436.htm
[2]https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/women-fit-money-study.pdf
[3]https://www.allianzlife.com/about/news-and-events/news-releases/Women-Money-and-Power-Study

The Return of Normalcy?

U.S. MARKETS AND ECONOMY SHOW STRENGTH AGAINST UNCERTAIN BACKDROP

Going strictly by the news, very few would characterize what we've already seen of 2017 as a "normal" year.

From surprising overseas elections to domestic policy uncertainty and near-constant coverage of everything and anything related to the new administration, the macro backdrop received plenty of media attention. And if you were looking for the perfect social media hashtag, it would probably be "#uncertainty."

Policy uncertainty is often a headwind for economic growth, but it's served as a bullish influence on the stock market so far, offsetting sometimes excessively optimistic investor sentiment. And while political uncertainty doesn't seem to be going away anytime soon, a more normal investment environment may be emerging.

THE WEIGHT OF THE EVIDENCE

Concerns over the disappointing (relative to expectations) economic data we saw early in 2017 were overshadowed at the end of July when the government reported the economy's growth rate had more than doubled, from 1.2% to 2.6%. And although interest rates have increased twice this year, inflation is low. Stock valuations remain bearish, a notable risk in the current investment environment, but the broad range of stocks and sectors participating in the rally is encouraging. Other factors we watch when evaluating the Weight of the Evidence are neutral.

Looking ahead, we remain focused on three developing dynamics: continued tightening by the Fed, economic growth at home and abroad, and the overall breadth of stock participation in the now eight-year-old bull market.

THE WAY OF THE FED

According to their most recent projections, the Fed expects to increase rates by another

25 basis points in 2017 and continue a gradual path of policy normalization over the next two years. The deliberate pace of normalization so far has kept rates from becoming a headwind for stocks.

So far, the Fed has done a great job of telegraphing their intentions and guiding market expectations. If economic conditions continue to improve, we expect them to stay true to their announced plans.

SIGNS OF STRENGTH

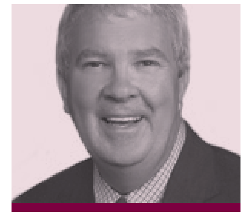
The significant second quarter bump in the growth rate wasn't the first or only sign of improving economic strength this year. The labor market and consumer confidence have been strong as well.

It's worth noting that disappointing economic growth has been a feature of this recovery for so long that growth forecasts have become less optimistic. The Fed's midyear forecasts assumed no significant acceleration this year or next. With such expectations, the opportunities for upside surprises like we saw in July become more significant.

ENCOURAGING UPTRENDS

The popular narrative that only a handful of stocks supported the rally early in 2017 never reflected reality. While the percentage of industry groups in uptrends waned, it never reached a troubling level, and the breadth of rally participation stayed generally strong. When the mega-cap Technology names that dominated the narrow-leadership theory seemed to stall, overall breadth actually improved and the percentage of industry groups in uptrends grew.

Broad participation isn't just a U.S. theme. Most global markets have been in rally mode in 2017. This is the mark of a strong bull market. For U.S. investors, the past few years have been a case where staying at home in terms of investments provided the best risk/return trade-off. The re-emergence of a more normal asset allocation environment in 2017 is a healthy development that we expect to continue. D



BRUCE BITTLES
CHIEF INVESTMENT STRATEGIST

WILLIAM DELWICHE, CMT, CFA
INVESTMENT STRATEGIST

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

Weight of the Evidence : NEUTRAL

FED POLICY — NEUTRAL
The Fed is set to begin reducing its balance sheet, but additional rate hikes may depend on an uptick in inflation.

ECONOMIC FUNDAMENTALS — BULLISH
A global rebound in economic growth is finding renewed strength.

VALUATIONS — BEARISH
Earnings expectations for the third quarter are drifting lower, though at a slower pace than in recent quarters.

SENTIMENT — BEARISH
While market optimism has pulled back from recent extremes, it remains elevated by most measures.

SEASONAL PATTERNS AND TRENDS — NEUTRAL
A lack of volatility in the first half of the year could mitigate typical seasonal weakness.

BREADTH — BULLISH
The percentage of stocks in uptrends has deteriorated at the margin, but overall there remains bullish support for the stock market.

Talking About Your Generation

SHOULD PARENTS AND GRANDPARENTS HELP PAY FOR COLLEGE?

SUSIE BAUER
529 / UIT MANAGER

According to a 2017 report by Sallie Mae, 9 out of 10 families expect their children will go to college – but only 4 of 10 families have a plan to pay for it.

Many parents and grandparents grapple with the question of whether and how to help pay for their student's college years. Investing in your child or grandchild's future is a complex, personal decision. Here's how you can tackle the question.

DON'T WAIT

Start the discussion as early as possible, even if your student is still very young. Be realistic about how much you are willing and able to contribute to their education. Do you want to fund 100%? Would you like your student to have a financial stake in the process? In addition, remember that while students can take out loans for college, there are no loans for retirement. Keep your future financial needs in mind.

DO YOUR HOMEWORK

Encourage your student to investigate career paths and schools early in high school. Investigate their top schools to get a sense of cost, financial aid, academics and graduation rates. The National Center for Education Statistics' College Navigator is a great resource for these questions. Don't forget to involve your student throughout the savings process, too. Paying for college is a major financial undertaking that includes many valuable lessons for kids. Take the opportunity to teach them about budgeting, disciplined saving and responsible spending.

SAVE SMART

While there are many college savings vehicles available, one of the most flexible options is a 529 plan. There are no income or age restrictions on who can open one, and anyone can contribute to the account. Many parents and grandparents choose to open one and designate their student as the beneficiary. 529s are tax- and financial aid-friendly, and withdrawals are not taxed as long as they are used to pay for qualified expenses like room and board, tuition payments and textbooks at eligible institutions. You can also change the account beneficiary – a big advantage if your student changes their mind about their plans or if you'd like to use any leftover money for another student in your life. D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DIGEST

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