BAIRD

Private Wealth Management

DIGEST

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

SPRING 2017

DEMYSTIFYING UNCERTAINTY

WHY NOT KNOWING WHAT THE FUTURE HOLDS ISN'T ALWAYS BAD

PAGE 1

BASIC ESTATE PLANNING MISTAKES

PAGE 4

FIVE RETIREMENT GAME-CHANGERS

PAGE 6

TEACHING YOUR KIDS ABOUT MONEY

PAGE 7

LETTER FROM MIKE

MIKE SCHROEDER
PRESIDENT,
PRIVATE WEALTH
MANAGEMENT

Since our last issue, Baird was recognized once again among *Fortune's* 100 Best Companies to Work For®. We ranked No. 4 in 2017, our 14th consecutive year on the list, and we know being there has helped us to attract some of the best talent in our industry.

But that's not something we ever take for granted. We constantly ask ourselves how we can be better for our associates because we want to retain and develop that talent so we can be ever-better partners to you.

We know many of our employees are in this business because they care about people. And that extends beyond what we do for a living.

You can see it in action right now. As you receive this issue of *Digest*, Baird employees across the country are volunteering their time and talents to charitable and community-focused organizations as part of Baird Gives Back Week. This annual event provides organized opportunities for us to team up and work together to make life better for our friends, neighbors and the less fortunate in the communities where we live and work. Baird also provides every employee one paid day to give back in their own ways throughout the year.

I couldn't be prouder to be part of a culture like that, or to work with the people who serve you – people who are very good at what they do, do it for the right reasons and love doing it here. I hope you feel that in every interaction with us.

IN THIS ISSUE...

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DEMYSTIFYING UNCERTAINTY

WHY NOT KNOWING WHAT THE FUTURE HOLDS ISN'T ALWAYS BAD

If you've been paying attention to financial news lately, you've noticed a familiar term making the rounds. "Uncertainty" is a useful concept for commentators and prognosticators. By definition, it's ambiguous and can be made to fit almost any market scenario. Right now it's frequently seen and heard keeping company with "policy."

Policy uncertainty can mean different things. Historically it might have referred to unknowns associated with critical details of legislation working through Congress or, more broadly, to the timing and direction of monetary policy actions. More recently it also includes headline risks, hints of scandal and even unfavorable company-specific comments that flare and fade quickly across social media-driven news cycles.

Perhaps it's because we're psychologically wired to fear the unknown, but we tend to spend a lot of time trying to define the source of uncertainty without acknowledging that understanding won't make it go away. Uncertainty is always present in some form and, more importantly, that it isn't always a bad thing.

CONTEXT IS KEY Global policy uncertainty is elevated right now. There are looming and lingering questions about what governments and central banks might do next. Generally this doesn't make an optimal investment environment. However, as the world continues to recover from the global economic crisis of 2008, uncertainty seems to be keeping interest rates from rising too quickly – something that could dampen the recent upswing in the economy. ▶

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.

DEMYSTIFYING UNCERTAINTY

Continued from page 1

It's worth noting that signs of economic improvement were visible in the United States well before the current flavor of uncertainty settled in. We all watched as bond yields moved off last year's lows, and their modest drift higher seemed to reflect improving growth prospects. The Federal Reserve has been watching, too, and knows a sharp move higher in bond yields before the economy has gained sufficient momentum to absorb it could disrupt this trend. However, a continued and even slightly accelerated pace of monetary tightening could help the Fed preserve credibility and quiet concerns that they may have fallen behind the curve as inflation moves toward targeted levels.

Policy uncertainty is also something stocks have overcome in the past. That previously mentioned fear of the unknown often colors our anticipation and early reactions before gradually abating as things reveal themselves. This has kept investors relatively skittish, even as stocks have climbed to new all-time highs. Certainly optimism emerges as stocks rally and, when it becomes excessive, the market tends to punish it. However, throughout much of the current bull market, an underlying pessimism has generally helped to keep exuberance in check.

THE RETURN OF THE ANIMAL SPIRITS Amidst this uncertainty, we've seen a surge in economic optimism since late 2016 that has defied expectations. World War II-era British economist John Maynard Keynes referred to "animal spirits" as the drivers of positive actions that depend on spontaneous optimism rather than mathematical expectations. We believe you can see these spirits at play in the NFIB Small Business Optimism Index, which recently surged to its highest level since 2004. Broad measures of consumer confidence and more specific surveys of CEO and CFO confidence tell the same story. And although excessive optimism can be a headwind for stocks, it tends to be a tailwind for the economy. This dynamic may explain continued evidence of strength in the labor market despite well-advertised concerns that the economy could be entering a period of secular stagnation (persistently slow growth) going forward.

Given human nature, we think concerns about slow growth are more reflective of the environment we've known for the past decade than an apt prediction of what lies ahead. Forecasting tends to be a rear-view mirror exercise, extrapolating future probabilities from what we know of the past and present. That kind of perspective makes it easier to miss important junctures (and potential opportunities) in the road ahead. But two

A SELF-FULFILLING PROPHECY?
WHY CEO AND CFO OPTIMISM MATTER

The index referenced in this issue's outlook reflects the way companies feel about the economy.

Optimistic companies can be more likely to invest in things like:

New jobs and/or higher wages
New or expanded facilities
New technology and equipment
New product or service offerings

All of which can contribute to economic growth.

"knowns" we can't and shouldn't ignore are that economic conditions around the world have been improving and, despite continued uncertainty, the risk of global recession has been significantly reduced in recent months.

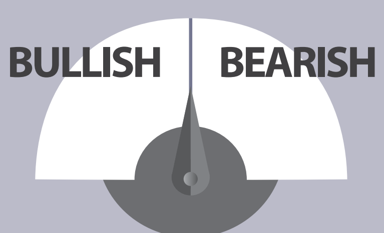
HOW REALITY COULD EXCEED EXPECTATIONS A sustained upswing in economic growth could help broaden and accelerate the recovery. Since 2014, stock prices have rallied by roughly 10%. Simultaneously, earnings have fallen by roughly 10%, further stretching already high valuations. The good news is that as the U.S. economy turned a corner in 2016, stock market earnings also improved – a trend that's expected to continue in 2017 and 2018. This could give even pricier stocks a chance to prove themselves and set new, higher expectations.

To be sure, volatility will always be a fact of the markets, and even periods of robust economic growth can see uncomfortable declines in stock prices. That's why we continue to monitor risks and opportunities using our weight of the evidence analysis. In the current environment, we see renewed confidence that economic growth could surpass forecasts and that beyond the uncertainty of today, expectations of a better tomorrow could become a self-fulfilling prophecy. D

THE WEIGHT OF THE EVIDENCE

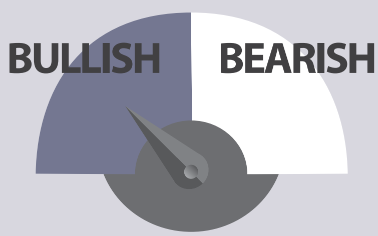
BULLISH AS STOCKS CONSOLIDATE

FED POLICY



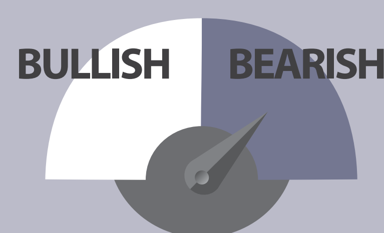
In discussing rate hikes and balance sheet reductions, Fed shows confidence in economy

ECONOMIC FUNDAMENTALS



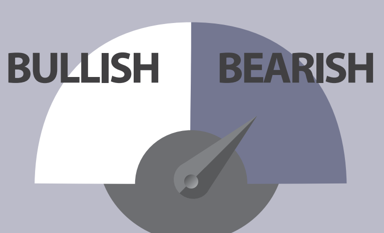
Globally synchronized economic upturn remains an under-reported story

STOCK PRICE VALUATIONS



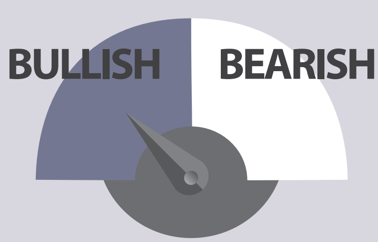
Stocks remain expensive, but earnings are heading in the right direction

INVESTOR SENTIMENT



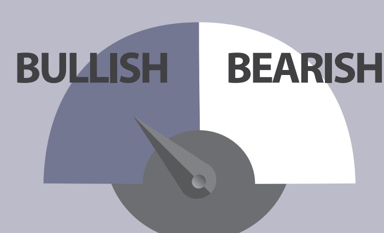
Optimism is being unwound, but sentiment still a headwind for stocks

SEASONAL PATTERNS AND TRENDS



Even with stocks consolidating, long-term trends bullish and seasonal patterns remain a tailwind

STOCK MARKET BREADTH



Heat of initial rally has cooled, but most areas of stock market remain in up-trends

11 BASIC ESTATE PLANNING MISTAKES

AVOIDING THESE COMMON SLIP-UPS COULD MAKE A BIG DIFFERENCE FOR THE PEOPLE YOU CARE ABOUT

The truth is, most people put off estate planning. Whether it's the time it takes to calculate myriad what-if scenarios or the discomfort of planning for a future we're not physically a part of, estate planning is a task people tend to do half-heartedly or even carelessly – sometimes with severe consequences to the people and causes closest to us. The following estate planning mistakes can be easily addressed and spare a lifetime of emotional and financial hardship.

PROGRESSING TOWARD A THOUGHTFUL, COMPREHENSIVE ESTATE PLAN

DOING NOTHING

The biggest estate planning mistake you can make is not making a plan at all. Without a legal document providing specific direction, the state will determine how your assets will be distributed, who will administer your estate and who should care for your minor children. A valid last will and testament can give you a say. If you want to avoid probate entirely, a revocable living trust is an option.

VAGUE OBJECTIVES
INCOMPLETE PLANNING
INADEQUATE DOCUMENTATION

While deciding to create an estate plan is a good first step, it won't get you very far if you don't set aside time to think carefully about your assets and who you want to have them. While instructions like "Leave everything to my kids" or "Give it all to charity" may generally reflect your wishes, their ambiguity can lead to problems after you're gone. Similarly, an informal list or a conversation, even in front of witnesses, will not likely survive a challenge in court.

Take the time to think through all the possibilities regarding you and your family, including your physical or mental incapacity or what should happen to your assets after the death of an heir. Even if you don't know *how* to achieve what you want with your assets, communicating your carefully thought-out and specific objectives to an attorney trained in estate planning can start you down the path of a comprehensive estate plan.

NAMING THE WRONG FIDUCIARIES
NAMING THE WRONG BENEFICIARIES
LEAVING THE DECISION-MAKING TO OTHERS
DIVIDING PROPERTY EQUALLY
IGNORING CERTAIN TYPES OF ASSETS

The most thoughtfully drawn estate plans can be weakened if you're not careful with their details – especially when it comes to the people involved. For example, do you have an alternate named if the person you've identified to administer your estate moves away or dies? If you specify a portion of your assets to go to your "children," would that include adopted or stepchildren (both present and future)?

The same level of attention should apply to your property as well. Leaving decisions on how to divide assets like real estate to your heirs is a sure way to promote resentment and infighting. And in many instances, dividing an asset equally may not be the same as dividing it fairly, especially if it's a family home or business not all the children are interested in.

And assets don't have to be large or even physical to cause problems among heirs: Families have fought over such assets as personal effects with sentimental value and digital assets like emails, family pictures and reward points.

NEGLECTING TO UPDATE YOUR PLANS
NOT COMMUNICATING WITH YOUR HEIRS

Estate plans are rarely "set-it-and-forget-it." Families can get bigger and smaller, and your feelings toward certain individuals and causes can change over time. As your personal circumstances change, so should your plan. And while the revelation of a will's content is often dramatized in the movies, in real life you want as few surprises as possible. Keeping your loved ones apprised of your wishes can reduce obstacles and make for a happier family.

WHAT YOU SHOULD DO NOW

Before making any estate plan, carefully consider all your assets and how you want them distributed. A plan that is clear, specific and up-to-date can maximize the value of what you leave your heirs and minimize confusion, resentment and heartache.

Rick Holman is a Senior Estate Planner for Baird Private Wealth Management.

5 RETIREMENT GAME-CHANGERS

HOW TO STAY ON TRACK WHEN UNFORESEEN CHALLENGES ARISE

TIM STEFFEN
DIRECTOR OF
FINANCIAL PLANNING

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

For more tips on how to manage retirement game-changers, check out our white paper in the Wealth Management page of rwbaird.com.

The years before retirement are used to build up savings and eliminate debt – but what happens when something interrupts your plans?

Here are some unexpected game-changers that can be made easier by having a financial framework in place.

GAME-CHANGER NO. 1

JOB LOSS

A late-in-life job change can be triggered by an employer restructuring, major illness or other family concerns, and can result in reduced savings and earlier-than-expected spending. To minimize the disruption, try to keep several months of living expenses set aside in a savings account, and be as realistic and flexible about your situation as possible.

GAME-CHANGER NO. 2

DEATH OF A SPOUSE

Beyond the emotional devastation, a spouse's death also has serious financial considerations. While life insurance can be used to fill that financial gap, purchasing insurance later in life is often cost-prohibitive. Delaying when you take Social Security benefits not only gives you a larger annual benefit, it also increases your spouse's survivor benefits.

GAME-CHANGER NO. 3

GETTING A DIVORCE

A late-in-life divorce generally cuts assets down the middle while nearly doubling expenses, and both spouses will likely need to reduce expenses to live within their means. Taking advantage of "catch-up" contributions on 401(k) and IRA accounts will allow those over 50 to save more. If you were married longer than 10 years, you might consider applying for 50% of your ex-spouse's Social Security benefit.

GAME-CHANGER NO. 4

INVESTING TOO CONSERVATIVELY

It's not uncommon for adults today to spend one-third of their lives in retirement, so there is a risk to playing it "too safe" with your investments. Most retirees still have a need for growth in their portfolio, and moving predominantly to cash and bonds can hinder that opportunity. Just make sure to manage your assets and expenses carefully to avoid having to sell in a down market.

GAME-CHANGER NO. 5

BEING TOO GENEROUS

Nearly 40% of millennials are still living with their parents – the most in 75 years. When helping your adult children, determine how much support you can provide and for how long, and be clear about what you can and cannot do.

The common thread to all of these scenarios is the importance of developing a plan that can mitigate the financial harm when unforeseen challenges arise. While you can't plan for all contingencies, have a plan in place that you feel good about – and be open to adjusting the plan when life throws you a curveball.

TEACHING KIDS TO BE FINANCIALLY FIT

HOW TO TEACH CHILDREN ABOUT MONEY

LAURA THUROW
DIRECTOR OF PWM RESEARCH, PRODUCTS & SERVICES

One of the most valuable lessons you can teach your children is how to make smart decisions about money.

To take advantage of teachable moments as they arise, though, you need to consider your own financial values and what your children will be able to understand. Here is some advice on financial guidance kids of varying ages can take to heart.

THE EARLY YEARS While most preteens will grasp what money does, they may not know where it comes from or how it accumulates. A piggy bank is a good place to start, where young children can see firsthand that the more you put in, the more it will grow. Now is also a good time to model smart financial behavior: If you demonstrate you're mindful about how you spend money, your children will more likely be thoughtful with their own spending later.

THE TEENAGE YEARS As children get older, they may be able to earn their own money through chores or neighborhood gigs like babysitting. This could be a great opportunity to encourage thoughtful decision-making by having them pay for their own non-necessities and matching any funds they deposit into savings or donate to charity. For older kids working their first "real" jobs, that first paycheck could be an ideal time to discuss taxes, budgeting, saving – even investing and IRAs.

THE COLLEGE YEARS College offers many teens their first taste of independence – and their first experience with the real-world consequences of their spending choices. At this stage, financial discipline becomes a must. Setting credit card limits can keep teenagers out of trouble while they learn to balance debt with other financial priorities – and build their credit.

AS YOUNG ADULTS Even as young adults, your children may rely on you for financial advice on taking out an auto loan or buying their first home. This could be a great opportunity to reinforce your lessons on budgeting and building a credit history. You might also teach them the advantages of saving for retirement early and applying for employer retirement benefits.

Of all the lessons you teach your children, being smart with money is among the most important. By taking the time now to discuss and model good financial behavior, you can help them become financially fit adults.

"Of all the lessons you teach your children, being smart with money is among the most important. By taking the time now to discuss and model good financial behavior, you can help them become financially fit adults."

FINANCIAL PLANNING CALENDAR

MAY

Owners of traditional and Roth IRAs will receive Form 5498, documenting the value of the account and any contributions, rollovers, conversions or recharacterizations for 2016.

MAY 17

Baird Wealth Strategies
Interviewing Skills Workshop

JUNE 15

Second-quarter estimated income tax payments are due.

JUNE 21

Baird Wealth Strategies
Planning for Long Term Care

JUNE 30

The Free Application for Federal Student Aid (FAFSA) must be submitted by midnight CST for the 2016–2017 school year. Individual state applications may be due before the federal deadline and do not replace filling out the FAFSA.

JULY 19

Baird Wealth Strategies
Interaction with Baird Technology

JULY 31

This is the last day employers with calendar-year retirement plans can file Form 5500.

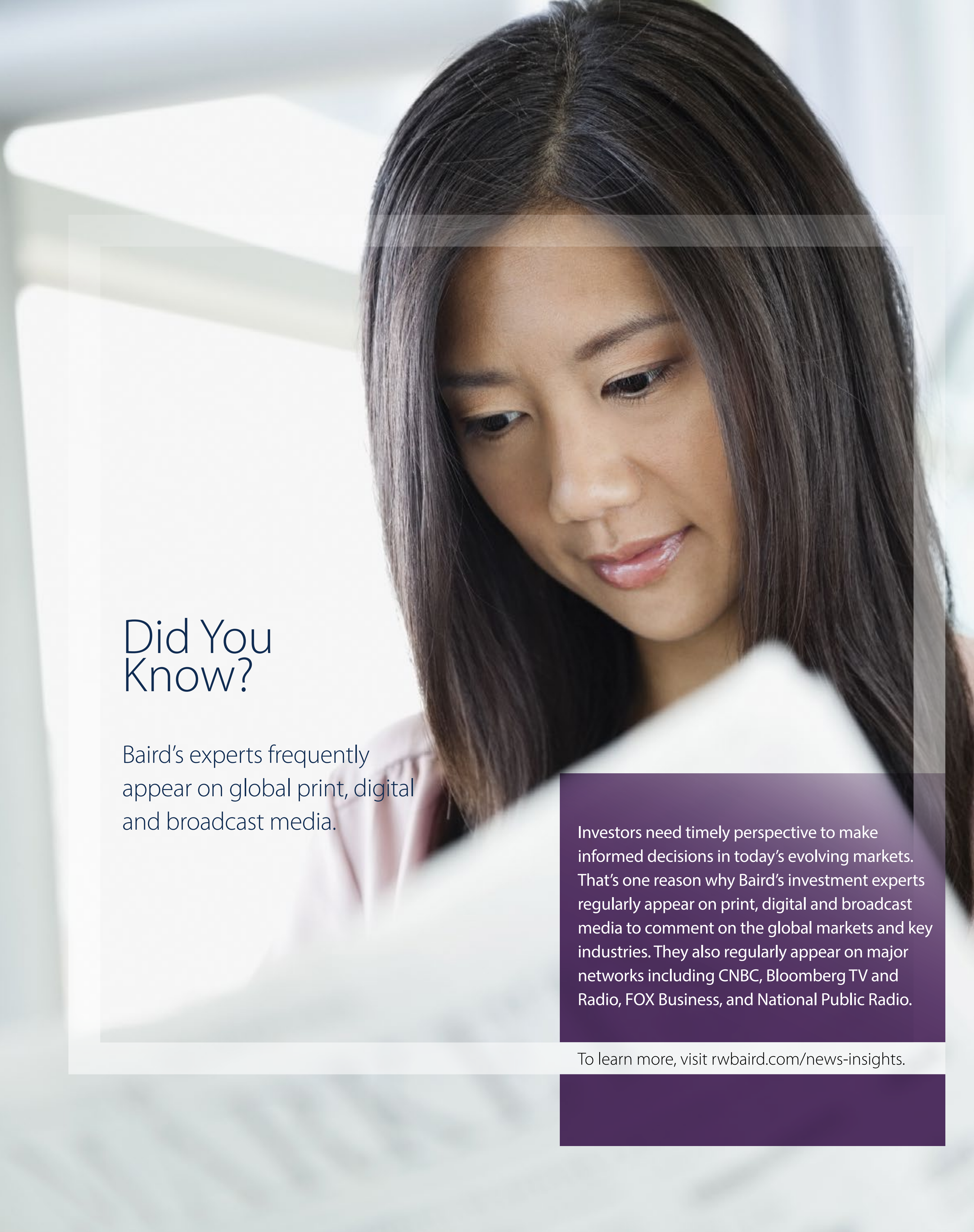
AUGUST 16

Baird Wealth Strategies
Financial Literacy for Young Adults

SEPTEMBER 15

Third-quarter estimated income tax payments are due.

Baird Wealth Strategies Webinar is our free wealth management education series providing you with real-time advice and insights from industry experts on timely wealth management topics. To learn more or to register for an upcoming event, visit rwbaird.com/wealthstrategies.



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Investors need timely perspective to make informed decisions in today's evolving markets. That's one reason why Baird's investment experts regularly appear on print, digital and broadcast media to comment on the global markets and key industries. They also regularly appear on major networks including CNBC, Bloomberg TV and Radio, FOX Business, and National Public Radio.

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DIGEST

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