BAIRD

Private Wealth Management

DIGEST

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

WINTER 2018

Letter From Mike Schroeder

When I joined Baird back in 1986, I was primarily a stockbroker – clients would call me up, and I would buy and sell shares on their behalf.

Over the years, as technology and our clients' needs have changed, so has the way we serve them – stockbrokers became Financial Advisors, providing recommendations on not only investments but on such goals as saving for retirement.

But the evolution of our industry hasn't stopped there.

For wealth management to be truly meaningful, it needs to be rooted in an understanding of how your life is unfolding, with one decision impacting the next. That's why we've invested in dedicated experts like the Wealth Solutions Group, who support your Financial Advisor with specialized expertise within financial planning, and in technologies that help us collaborate on your financial future while keeping your information private and secure.

Whether you're planning the sale of your business, building a successful retirement or (like me with my three daughters) teaching your children how to make smart decisions – wherever your choices lead you, you can be sure we'll be right alongside you, ready to help.

Michael J Schroeder

MIKE SCHROEDER
PRESIDENT
PRIVATE WEALTH MANAGEMENT

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Additional information is available at **bairddigest.com**, or contact a Baird Financial Advisor at **800-79-BAIRD**.

Ready for (Re)Launch?

WHAT TO KNOW ABOUT RE-ENTERING THE WORKFORCE

Building a career is hard work, and deciding to temporarily pause it for personal or family reasons can be a complex decision.

However, relaunching a career after a significant break can be even tougher. Many women face challenges – both professional and financial – when they attempt to re-enter the workforce, but they can be overcome with careful planning. Baird Women Advisors, a network of female Financial Advisors at Baird, shares a few things you should know if you're thinking about heading back to work:

DEFINE YOUR GOALS Think carefully about where you want to work and the type of work arrangement you want. Are you looking for a full-time position, or would you be open to a part-time or less-senior ▶

READY FOR (RE)LAUNCH

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role? Consider how many years you want to work, too. A longer career means more time to contribute to retirement accounts and may mean higher monthly Social Security benefits.

TAP INTO YOUR PERSONAL NETWORK Reconnect with old colleagues to catch up, talk about your industry and what the current job market is like. Talk to relatives and close friends to let them know about your search, too. You may get an introduction to someone who can help open doors for you.

CREATE A FINANCIAL ROADMAP Take the time to create a detailed financial plan that includes your goals and needs. This process will help you determine how much you need to earn and save to retire comfortably. Your Financial Advisor can provide you with extra advice and insight.

SAVE AGGRESSIVELY AND STICK TO A BUDGET Pay yourself first when you are again drawing a paycheck. Maximize contributions to your employer's retirement plans and take advantage of catch-up contributions if you're eligible. A new job also brings new expenses – lattes, dry cleaning and parking fees can add up fast. Track your expenses to stick to your budget.

SET BOUNDARIES It's important to prioritize your financial needs after rejoining the workforce. Be sure to contribute to your retirement accounts and pay any debt obligations before spending money on personal projects, travel or helping others with their expenses. D

About Baird Women Advisors

Established in 2008, Baird Women Advisors is an organization composed of 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.

Why Everyone Should Have an Estate Plan

The truth is, everyone already has an estate plan – either the one you make yourself or the one predetermined by your state of residency.

Creating and updating an estate plan doesn't have to be complicated. We can work with you so your estate plan is in line with your wishes for the people you care about most. Check out "Why Everyone Should Have an Estate Plan" at **vimeo.com/rwbaird** to see how.

TALKING ABOUT YOUR GENERATION

Smart Debt Management for Millennials

For many millennials, "debt" is truly a four-letter word, where an impulse buy can haunt your monthly bank statement for years.

Yet debt can be a great tool for buying a home, building your credit rating and freeing up cash – if it's handled properly. Here are five tips on wisely managing your debt.

1. CONSIDER THE TOTAL COST

You might think \$200 is reasonable for a pair of shoes, but if you're stretching the credit card payments over several years, the actual cost of those shoes could be \$300 or more. This applies to all kinds of debt: The interest that accrues on that \$200 pair of shoes also accrues on your \$2,000 auto loan, \$20,000 tuition and \$200,000 mortgage.

2. DON'T CARRY TOO MUCH

Stretching your income too thinly can be catastrophic if you have a financial emergency. Mortgage lenders recommend your monthly debt payments be no more than 40% of your monthly income.

3. BE STRATEGIC WHEN PAYING IT DOWN

Pay off loans with a high interest rate first, then chip away at nondeductible debt like auto loans and credit card balances. Making an extra monthly payment or rounding up payments to the nearest \$100 could make a big difference.

4. USE CREDIT CARDS WISELY

Credit cards often carry an interest rate of 12 to 18% – higher than almost every other kind of debt. Make sure you charge only what you can pay off by the end of the month. Automatic payments can help you avoid late fees – just make sure you have enough cash to keep from overdrawing your account.

5. IMPROVE YOUR CREDIT SCORE

A FICO® credit score of 740 or greater could qualify you for a lower interest rate. By contrast, a credit score dip to 650 could increase your interest rates by as much as 1% – for a 30-year mortgage on a \$300,000 house, that 1% would cost you \$65,000 or more.

It's often hard to avoid debt when you're first starting out, especially if you graduated with student loans. A Baird Financial Advisor can help you see your complete financial picture and make sure you're using your debt wisely. D

2018 Wealth Management Outlook

BAIRD'S INVESTMENT AND PLANNING EXPERTS SHARE THEIR PERSPECTIVES

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Wealth management is about more than your investments. That's why we're approaching our annual outlook a little differently this year. Below you'll find perspectives from our Investment Strategist, Willie Delwiche, and our Director of Advanced Planning, Tim Steffen, on what might move the market this year and what that could mean to your portfolio and plans.

WILL MARKET MOMENTUM CONTINUE IN 2018?

WILLIE: We don't need to list all the ways 2017 was extraordinary to understand why it might just have been unique. Two points might suffice: Between November 2016 and October 2017, the S&P 500 posted 12 consecutive monthly gains. During that same period, the maximum pullback (based on daily closing prices) was a historically small 2.8%. With this in mind, proactively considering risk tolerances in anticipation of a return to more normal volatility in 2018 would probably be the smartest way to celebrate last year's gains.

TIM: And depending on where you are in your life, volatility isn't necessarily a bad thing. It could create opportunities for more tactical investors with longer time horizons. But you may want to take this opportunity to refocus on the long-term goals you're investing toward, such as retirement or college funding. If short-term market swings would make you nervous about reaching those goals, it may be appropriate to revisit your asset allocation and move to a portfolio more aligned with your needs and time horizon.

WILL RISING RATES CAUSE PROBLEMS?

WILLIE: Monetary policy has been a tailwind for equity investors for nearly a decade as central bank balance-sheet expansion (known as quantitative easing) provided ample liquidity. Globally, this dynamic peaked in 2016 and began to edge lower in early 2017.

Since then, central banks around the world have become less friendly (though not entirely unfriendly) to the financial markets. The Federal Reserve continues to increase rates incrementally here at home and has begun to reduce its balance sheet. The Bank of England raised rates for the first time in a decade late in 2017, and the European Central Bank has slowed its pace of bond buying. Continuing to reduce liquidity while raising rates doesn't necessarily spell disaster for the market, but it seems likely a few hiccups could emerge along the way.

TIM: Continued rate increases could make borrowing more expensive in general. If you have adjustable-rate mortgages, you might want to consider locking in a rate sooner rather than later. If you carry balances on credit cards or lines of credit, you may want to focus on paying those off.

On the plus side, savings accounts may begin to pay more interest, making them a more attractive ▶

2018 WEALTH MANAGEMENT OUTLOOK

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"Although the market tends to be apolitical, it doesn't like uncertainty. And with all we've seen in the past year, it seems safe to assume this campaign season could bring at least a historically normal amount of volatility with it."

option than they have been in recent years. And while the value of current bond holdings would likely fall, new issues could be made available at more attractive rates.

WHAT ABOUT TAX REFORM AND THE MIDTERM ELECTIONS?

WILLIE: The first year of a new president's term is historically bullish for stocks. Midterm years are often more challenging. A new administration's drive to fulfill campaign promises yields to a new round of campaigning as some pundits (and voters) begin to cast the election as a referendum on the president and his party. If this sounds more like a recent news recap than a history lesson, you probably understand why we pay attention to this cycle. Although the market tends to be apolitical, it doesn't like uncertainty. And with all we've seen in the past year, it seems

Weight of the Evidence : BULLISH IN EARLY 2018

FED POLICY — NEUTRAL
Messaging and transparency will be crucial as the market gets to know the Federal Reserve's new regime.

ECONOMIC FUNDAMENTALS — BULLISH
The U.S. economy is working on what could be three consecutive quarters of 3+% GDP growth for the first time in a decade.

VALUATIONS — BEARISH
Earnings estimates for the current quarter are seeing the smallest downward revisions since Q2 2011.

SENTIMENT — BEARISH
Investor complacency and optimism could be challenged if volatility returns as expected in 2018.

SEASONAL PATTERNS AND TRENDS — BULLISH
Seasonal patterns favor the bulls heading into 2018 – so far, the cyclical rally is intact.

BREADTH — BULLISH
New sector leadership (financials) and a rising number of companies reaching new highs point to strong rally participation.

safe to assume this campaign season could bring at least a historically normal amount of volatility with it.

TIM: The fact that a tax reform package was finally passed could be critical to the legacy of President Trump's administration. The final provisions will have a significant impact on a variety of planning-related issues beyond income tax planning. It may mean changing the way you structure a small business, deduct charitable gifts and even what state you choose to live in, just to name a few.

Now that bill is final, it's likely that the early part of 2018 will be spent trying to understand the true ramifications of all the changes. Throughout the year, then, you should be talking to your Baird Financial Advisor about new strategies that make sense for your specific situation. D

For the latest insight from Tim Steffen on how the recent tax reform legislation could impact you, visit **rwbaird.com/taxreform**.

Planning Calendar

JANUARY 1 – MARCH 31

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

JANUARY 16

Fourth-quarter federal estimated tax payments for 2017 are due.

FEBRUARY 15

The first wave of 1099s will be issued by Baird for 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, ETFs and REITs 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 REMICs or WHMTs.

APRIL 1

Deadline for those who turned 70½ during 2017 to take their required minimum distribution from their retirement plans. Future distributions must be taken by December 31 of the year for which they apply. (This is a Sunday, so be sure to plan ahead.)

APRIL 17

With April 15 being a Sunday and Washington, D.C., recognizing Emancipation Day on April 16, tax returns are due on April 17. You may also file an application for an automatic six-month extension.

First-quarter federal estimated tax payments are due.

Contributions to IRAs, Roth IRAs and Coverdell Education Savings Accounts for 2017 are due.

Tax Relief After a Natural Disaster

UNIQUE TAX BENEFITS CAN HELP YOU GET BACK ON YOUR FEET

Much of the news cycle in the fall centered on the devastating hurricanes that affected the Southern United States and wildfires in California.

As is often the case, Congress and the IRS have granted those affected special allowances for meeting their various tax obligations. In addition, current tax law provides some unique benefits available to those affected by casualties of various kinds, natural disaster or otherwise.

DISASTERS, CASUALTY AND THEFTS

Under 2017 tax law, taxpayers affected by disasters, casualty or theft are able to take a tax deduction for the net loss they incur.

The tax deduction is equal to your cost basis in the property – in other words, what you paid for it, not what it's actually worth at the time of the loss. You then have to reduce that amount by any insurance or salvage value you might realize, along with a $100 per-event "deductible." Once you determine your actual loss for each event, the net deduction is the total of all losses, reduced by 10% adjusted gross income (AGI). And you must itemize your deductions – those taking the standard deduction don't benefit from the casualty deduction. While tricky to calculate, the casualty deduction can provide some needed relief to those affected.

IRS TERMINOLOGY

DISASTERS Disasters occurring in an area declared by the president to be eligible for federal disaster relief

CASUALTY Damage, destruction or loss of property resulting from a specific event that is sudden, unexpected or unusual

THEFTS Acts done with criminal intent and considered illegal in your state that result in the loss of money or property

SPECIAL HURRICANE AND WILDFIRE TAX RELIEF

In some cases, special relief is granted after a particular event. For Hurricanes Harvey, Irma and Maria and the California wildfires, the IRS granted those living in specific counties who hadn't already filed their 2016 tax returns a deferral until January 31, 2018. Congress also tweaked the law for those same taxpayers, allowing them to deduct their casualty loss without having to itemize their deductions or apply the 10% of AGI floor, though with a $500 floor rather than the usual $100.

The rules surrounding casualty relief can be hard to navigate – if you feel you qualify for relief, be sure to contact a professional tax preparer. D

For specific guidance on tax relief for victims of Hurricanes Harvey, Irma and Maria and the California wildfires, visit **irs.gov/newsroom/tax-relief-in-disaster-situations**.


Imagine
The Power of True Partnership
Being a true financial partner means providing the global insight and capabilities you need with the personal attention and service you deserve. It's why individuals and organizations have relied on us as their financial partner since 1919.
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DIGEST

Baird 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.

Want More?

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