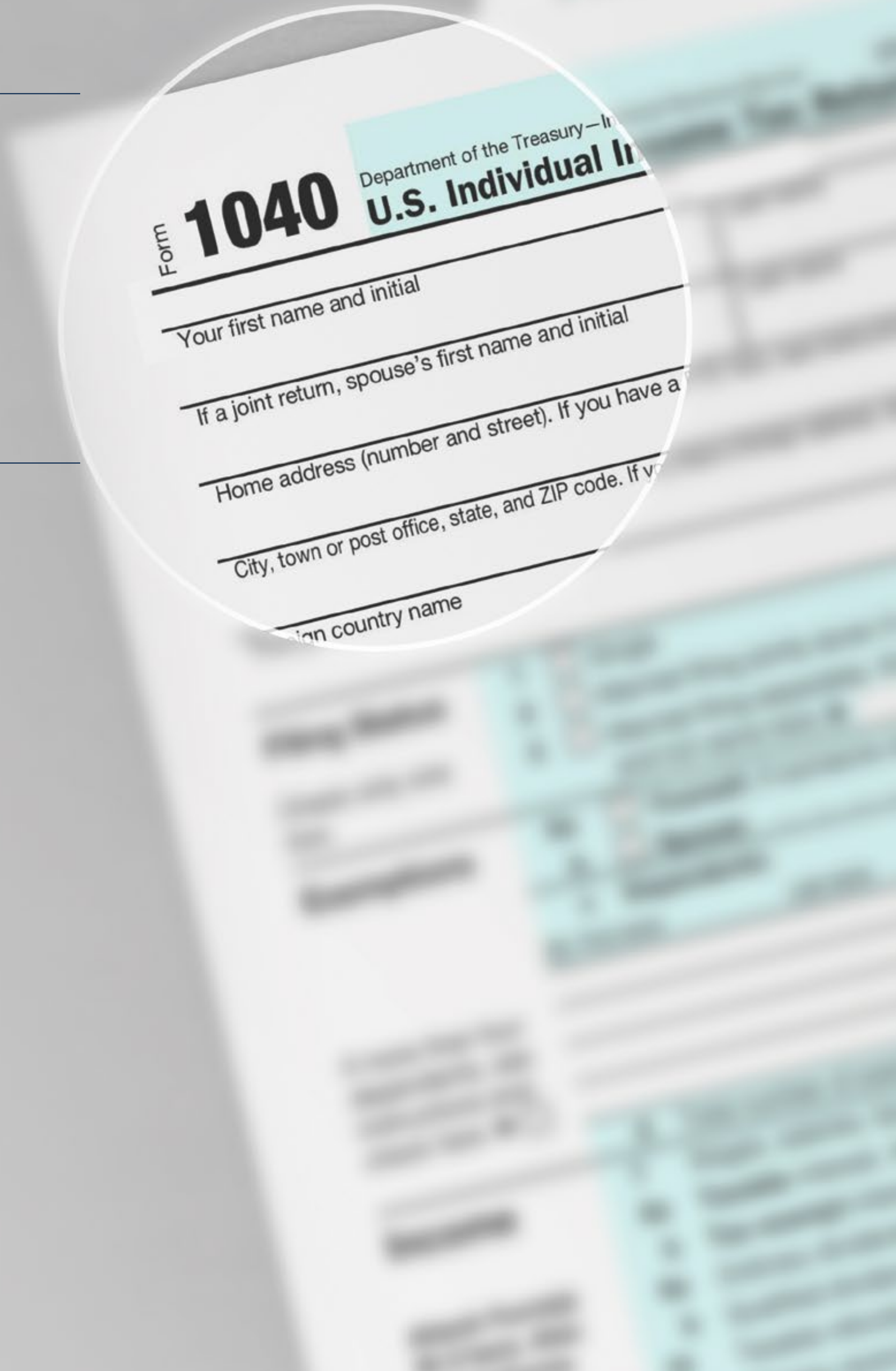
BAIRD

Private Wealth Management

DIGEST

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

SPRING 2018



Letter From Mike Schroeder

Giving back to the communities where we live and work is a part of the Baird culture – it's ingrained into our DNA.

An important part of that desire to give back can be seen in the foundations we serve, the money we raise and donate to nonprofits and the planning advice we give our clients – including an article on charitable giving in this very issue.

But being a part of the community means more than writing a check – it means working with your neighbors to make people's lives better. As you're receiving this issue of *Digest*, hundreds of Baird associates around the world are teaming up with nonprofit and community organizations to build children's gardens, sort donations at food pantries, clean up local rivers and spend time with at-risk seniors in community homes. Baird Gives Back Week is more than an annual May tradition at Baird – it's an opportunity to show the world that we care about the quality of people's lives and their future successes, and that care doesn't stop at the end of the workday.

Building strong communities and caring for our neighbors is a win for everyone. I couldn't be prouder to be part of a culture that not only recognizes that, but lives it.

Michael J Schroeder

MIKE SCHROEDER
PRESIDENT
PRIVATE WEALTH MANAGEMENT

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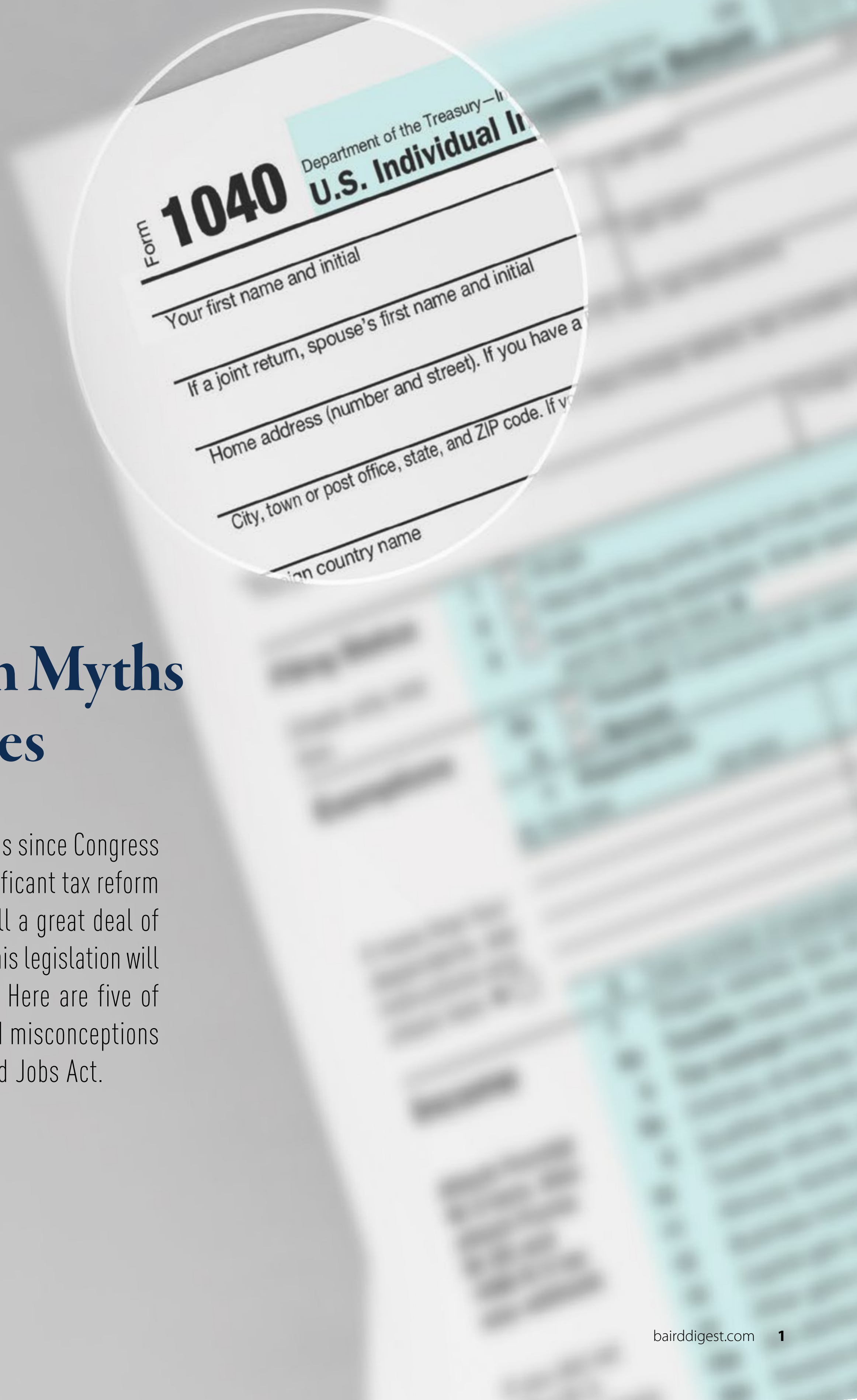
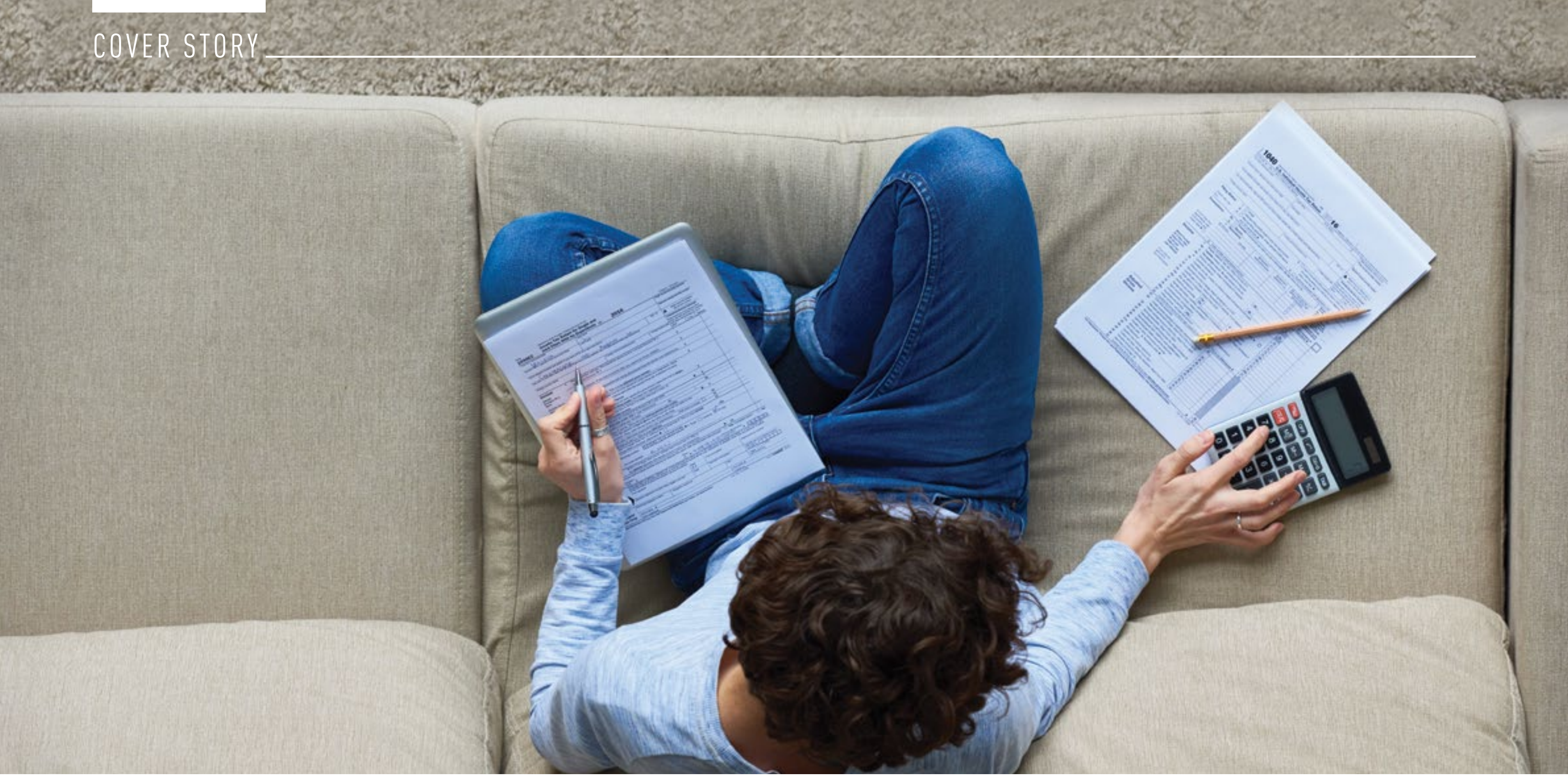
Want More?

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



Tax Reform Myths and Realities

While it's been several months since Congress passed one of the most significant tax reform bills in decades, there is still a great deal of misunderstanding over how this legislation will impact individual taxpayers. Here are five of the most common myths and misconceptions surrounding the Tax Cuts and Jobs Act.



TIM STEFFEN
DIRECTOR OF ADVANCED PLANNING

@TimSteffenCPA

"Tax rates for nearly all levels of income have been lowered for 2018, so the majority of taxpayers will end up paying less tax overall."

Myth No. 1: I no longer get a tax benefit for my kids.

It's true that the personal exemption has been repealed after 2017, which means there is no longer a $4,050 deduction available for each spouse and dependent. However, the newly expanded child tax credit will help offset that loss for many families. The tax credit for kids under age 17 has doubled to $2,000, plus there is a new $500 credit for any dependent who isn't a child under 17, so older kids or even your parents who are dependents can qualify for a new credit. Also, the income levels for eligibility have gone up dramatically, from $110,000 in 2017 to $400,000 in 2018 for couples, meaning many more families will benefit from this credit. In fact, for many, the new credits will more than offset the loss of the deduction.

Myth No. 2: I can no longer deduct my mortgage interest.

The new law changed the mortgage interest deduction so that only the interest on up to $750,000 of debt (on your primary and one other home) can be deducted. However, that applies only to loans acquired after December 14, 2017. Any loans in place prior to then are still subject to the $1 million debt limit, so if the interest on a loan was deductible in 2017 it will likely still be deductible in 2018. New loans, however, could be limited in their deductibility.

Myth No. 3: I can no longer deduct the interest on my home equity loan.

The new law eliminated the deduction for home equity loan interest, with no grandfathering of old loans. However, not all home equity loans generate home equity interest. The IRS says that as long as the equity loan proceeds were used to buy, build or substantially improve the home, the interest is considered *acquisition* interest and is still deductible under the old rules. If the home equity loan was used to buy a car, consolidate other debt or other purposes, then the interest is no longer deductible. This means that borrowers will need to carefully track the use of their home equity loan proceeds in order to maintain the tax deduction.

Myth No. 4: All the tax bill did was eliminate my tax deductions.

While it may seem that way, there was one big change that actually allows taxpayers to keep deductions they would have lost under the prior law. In 2017, couples with Adjusted Gross Income over $313,800 (and singles over $261,500) were subject to a phaseout of their deductions. As their income rose over that level, their total itemized deductions were reduced. Beginning with 2018, that phaseout no longer applies. Taxpayers who are most likely to be impacted by the deductions that were capped or lost in this bill (especially the state and local tax deduction) can take solace in knowing this phaseout is gone.

Myth No. 5: My taxable income is going up, so my tax bill will, too.

Due to the Tax Cuts and Jobs Act, it's fair to say that most taxpayers will see their taxable income go up in 2018. After all, the caps on some deductions and the elimination of others will likely mean more income will be subject to tax. However, the tax rates applied to nearly all levels of income have been lowered for 2018, so the majority of taxpayers will end up paying less tax overall. Certainly there will be some taxpayers paying more in 2018, particularly high-income residents of high-tax states or those who own multiple homes. However, one study by a prominent independent research center has estimated that 80% of taxpayers will pay less tax in 2018 than in 2017, while just 5% will pay more.

What You Should Do Now

For more information on how the tax reform bill will affect you, contact your Baird Financial Advisor or visit rwbaird.com/taxreform.

How Tax Reform Impacts Charitable Giving

As one of the few deductions to survive the 2017 Tax Cuts and Jobs Act, the charitable giving deduction warrants extra consideration by taxpayers inclined toward philanthropy.

Here are two ways you can leverage charitable giving to reduce your tax obligation:

1. BUNCHING With the standard deduction for married couples filing jointly jumping to $24,000, a standalone charitable gift below $24,000 will not create tax benefits. However, suppose Mr. and Mrs. Smith typically donate $15,000 a year to their favorite charity. Under the new law, if they decide to "bunch" their annual giving and donate $30,000 in one year, they would enjoy an additional $6,000 deduction. They could then take a break from giving the next year and take the standard $24,000 deduction. Plus, if the Smiths used donor-advised funds in their giving technique, the charity could still receive $15,000 each year, even with bunching.

2. QCD A Qualified Charitable Distribution (QCD) is an efficient way for IRA owners subject to required minimum distributions to give to charity. By sending the RMD amount directly to the charity through a QCD, they would both reduce their taxable income and eliminate the need to claim a deduction. The result is a tax form with less income reported and potentially lower Medicare income-based premiums, depending on what their income had been in the past.

For more information on donor-advised funds, QCDs and other tax-efficient gifting strategies, contact your Baird Financial Advisor.

Imagine

A Financial Partner Who Cares

You probably don't instinctively associate altruism with financial services companies. But everything Baird does in the communities we serve is because we care about the quality of people's lives and future success. And that's not something that stops at the end of the workday. Imagine the power of you and Baird.

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College Savings Strategies

WHAT PARENTS NEED TO KNOW ABOUT SAVING FOR COLLEGE

LAURA THUROW
DIRECTOR OF PWM WEALTH SOLUTIONS

If you want your child's future to include a college education, you've likely already started considering the costs of tuition and how much you'll want to help out. Here are some frequently asked questions parents have about saving for college.

HOW MUCH DOES A COLLEGE EDUCATION COST TODAY?

According to a 2016 College Board report, the average cost of a four-year public university education is $84,047, while a four-year private university education costs $189,811. By 2034, those costs are expected to soar to $143,085 and $323,139, respectively.

HOW IS NEED-BASED FINANCIAL AID DETERMINED?

Colleges award need-based grants entirely by their assessment of how much the student's family is able to pay. At private colleges, eligibility for this kind of aid becomes unlikely when the parents' income exceeds $180,000. At public colleges, need-based grants are often awarded based on greatest financial aid eligibility. Having multiple students in college at the same time is a big factor in the formula.

WILL MY SAVINGS HURT MY CHILD'S CHANCE FOR FINANCIAL AID?

It depends on the type of savings. While retirement assets won't count against you, your home equity might: Schools that rely on the FAFSA don't consider home equity when determining financial aid eligibility, but those that use the CSS Profile do. One-hundred percent of the equity in a rental property or second home will be counted.

WHAT IF I'M STILL SAVING FOR OTHER GOALS, LIKE RETIREMENT?

Take a moment to consider what's important to you. Is saving for a child's college education something you want to do? What schools are you envisioning? What's realistic for your financial situation? Your answers might inform how much you should help.

DO YOU HAVE ANY ADVICE FOR SAVING FOR COLLEGE?

First, look at temporary or seasonal expenses that your child might grow out of as he or she gets older, like child care, uniforms and equipment for sports teams. When these expenses stop, add those payments to your college savings. Commit part of any future salary increases to your college fund, and encourage those who might give other types of gifts to your child to instead make a check out to your college savings plan.

A 529 College Savings plan is another great tool for saving for college, especially if your employer offers a 529 payroll deduction or if you can enroll in free 529 rewards programs like uPromise. Your Baird Financial Advisor can help you create a savings plan that works for your budget. 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.

Planning Calendar

MAY

Owners of traditional and Roth IRAs will receive Form 5498, documenting the account's value and any contributions, rollovers, conversions or recharacterizations for 2017.

MAY 29

Celebrate 529 College Savings Day by reviewing your education savings plans.

JUNE 15

Second-quarter estimated income tax payments are due.

JUNE 30

The Free Application for Federal Student Aid for the 2017–2018 school year must be submitted by midnight CST. Individual state applications may be due before the federal deadline and do not replace filling out the FAFSA.

JULY 1

Evaluating your 2018 tax liability at the year's midpoint can ensure you're on pace to avoid underpayment penalties.

SEPTEMBER

Put any year-end tax plans in motion. Reach out to your Financial Advisor and tax professional to start talking about steps you may be able to take to lower your tax bill for 2018.

SEPTEMBER 17

Third-quarter estimated income tax payments are due.

Smoothing a Rocky Road

LOOKING BACK AT AN UNUSUAL 2017 PUTS TODAY'S VOLATILITY IN PERSPECTIVE

BRUCE BITTLES
CHIEF INVESTMENT STRATEGIST

WILLIAM DELWICHE, CMT, CFA
INVESTMENT STRATEGIST

@WillieDelwiche

There have been plenty of noisy storylines competing for our attention in the media so far this year.

One that's resonated with investors and the market has been the re-emergence of volatility – something that was unusually quiet in 2017.

In the first quarter of 2018, the S&P 500 logged more than 23 days of price moves greater than 1%. Since peaking in late January, the index averaged a 1% swing almost every other day through March. Compare that to all of 2017, which saw a total of just seven daily price swings of 1% or more. In fact, from November 2016 through January 2018, the largest multiday peak-to-trough decline for the S&P 500 was less than 3%. So far this year, the index has experienced multiple single-day drawdowns larger than that.

ADJUST YOUR REAR-VIEW FOR CLEARER PERSPECTIVE There's no question that the volatility of 2018 feels extreme relative to 2017. However, taken in the broader context of the past 20 years, things today look and feel much more normal. In the 18 years leading up to 2017, the S&P 500 experienced daily moves of at least 1% between 29 and 133 times per year, with the median year seeing 65 such moves. This year volatility may be off to a faster start, but not excessively so.

Looking ahead at the remainder of the year, there's really little reason to expect volatility will decrease anytime soon. Between uncertainty over the impact of interest rate hikes by the Fed, surging earnings expectations that leave little room for economic disappointments and a midterm election cycle that already is off to a surprising start – all things that would normally signal volatility ahead – it would be unusual not to see outsized swings in the stock market. However, given that prices seem to have gotten ahead of the fundamentals (thanks, in part, to the outlier year that was 2017), a period of consolidation may well be worth it even if the day-to-day bumps in the road make us uncomfortable.

In turbulent conditions, it can be hard to focus on the information that's important and ignore all the extraneous noise. A disciplined approach to risk management can help, and that is exactly what our Weight of the Evidence approach is designed to provide. D

Weight of the Evidence : OVERALL EVIDENCE STILL NEUTRAL

FED POLICY
Fed has mapped out rate normalization path for 2018.
NEUTRAL

ECONOMIC FUNDAMENTALS
Economic data has fallen short of expectations, but a positive growth trend remains intact.
BULLISH

VALUATIONS
1Q earnings reports have come in above expectations at a time when good news is already priced in.
BEARISH

SENTIMENT
Investors are broadly pessimistic about market performance.
BULLISH

SEASONAL PATTERNS AND TRENDS
Increasing headwinds heading into the midterm elections with control of Congress in doubt.
BEARISH

BREADTH
Longer-term breadth trends suggest continued caution remains warranted.
BULLISH

DIGEST

Want More?

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