BAIRD

DIGEST

NEWS AND PERSPECTIVE FOR
GROWING AND PRESERVING YOUR WEALTH

SPRING 2019

100 YEARS

Wealth Management in Real Life

Letter From Mike Schroeder

In April, Baird was honored to welcome the talented, caring professionals of Hilliard Lyons to our family of Financial Advisors.

This partnership grew from more than 20 years of mutual admiration and respect between two like-minded, culturally aligned firms with very similar histories.

As we proudly celebrate our 100th year of providing client-focused financial advice and service, Hilliard Lyons brings another 160 years of experience to our shared pool of expertise. And, importantly, the people at Hilliard Lyons share our values – honesty, integrity and commitment to giving back in the communities we serve.

We're proud that such remarkable people chose Baird as the right place for themselves and the clients who rely on them. We know being recognized for 16 consecutive years as one of *FORTUNE's* 100 Best Companies to Work For® made that decision easier – and will continue to help us attract top talent to serve our clients like you.

To learn more about the benefits of this partnership visit hilliardtobaird.com.

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**.

What Lies Beneath?

LOOKING FOR SIGNS OF STRENGTH TO SUPPORT RECENT MARKET PERFORMANCE

Stocks saw a historically strong start this year, a welcome change for investors from the historically weak close to 2018. Yet many of the questions that contributed to uncertainty-fueled volatility late last year remain on the table as we approach mid-2019.

WHAT'S THE FED'S NEXT MOVE? The Federal Reserve came into the year suggesting interest rates would likely continue to rise in 2019, but changed that position rather sharply at its March meeting. As of this writing, the Fed is talking about "patience" and, based on their latest dot plot, further rate hikes are not likely this year. Stocks initially welcomed a more patient approach while bond yields dropped and market-based expectations for rate cuts soared. However, the Fed also expressed concern over the health of the economy (on the next page).

While market expectations and stock market volatility should be monitored, we're hoping the Fed can look past such near-term noise and stay focused on underlying economic growth and inflation trends while setting policy. ▶

WHAT LIES BENEATH?

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BRUCE BITTLES
CHIEF INVESTMENT STRATEGIST

WILLIAM DELWICHE, CMT, CFA
INVESTMENT STRATEGIST

@WillieDelwiche

JUST HOW RESILIENT IS THE U.S. ECONOMY? U.S. economic expansion is moving into record territory in terms of how long the economy has been growing, but average quarterly growth in Gross Domestic Product (GDP) remains the weakest on record. There's little that indicates our long-simmering economic recovery is entering its late stages. However, we're keeping a close eye on business confidence. Compared to relatively strong U.S. economic growth in 2018, this year's trend appears more challenging. Some have read this as a warning sign. Our belief is that we are experiencing a pause that could ultimately refresh, and some pullback in confidence during this process would not be surprising.

We'll be keeping a close eye on economic optimism, especially if conditions deteriorate further at home and overseas. While too much investor optimism tends to signal excesses, economic optimism is an important fuel for growth.

WHAT IS THE MARKET TELLING US? The recent stock market environment feels very different from the volatility-driven drama of late 2018. And there are reasons to believe uncertainty-fueled selling might have simply played itself out during that timeframe. For one, we've seen a rally in the months since with exceptionally strong participation across a number of sectors and companies. This healthy sign led us to upgrade our view on market breadth from bearish to neutral earlier this year.

We'll continue to monitor market breadth to confirm that those promising indications from January were actually evidence of sustainable strength and not just a reflexive reaction to the fourth-quarter stock market weakness.

Weight of the Evidence : EVIDENCE NEUTRAL AS RALLY FACES TEST

FED POLICY
Market is looking for Fed to cut rates later this year which is at odds with Fed forecasts.
NEUTRAL

ECONOMIC FUNDAMENTALS
Expansion poised to set record for longevity, though average growth has been sub-par.
BULLISH

VALUATIONS
Excessive valuations have historically put a damper on stock market returns going forward.
BEARISH

SENTIMENT
Sentiment surveys show elevated but not excessive optimism.
NEUTRAL

SEASONAL PATTERNS AND TRENDS
Small-caps being out of rhythm with large-caps argue against historically bullish seasonal patterns.
NEUTRAL

BREADTH
Breadth trends have been slow to turn higher.
NEUTRAL

A Pulse on Planning

WHAT WE'VE GOT OUR EYE ON

By now, most taxpayers have put their 2018 tax returns behind them and are ready to move on to bigger and better things.

TIM STEFFEN
DIRECTOR OF ADVANCED PLANNING

@TimSteffenCPA

After more than a year debating the impact of the Tax Cuts & Jobs Act, it will be refreshing to discuss something other than tax reform for a while.

Yet that might be a little premature. Last fall's midterm election has given a voice to those who felt left out of the tax reform debate, and discussion has moved to potentially rolling back some of those tax changes. Terms like "wealth tax" and "Green New Deal" have found their way into the conversation, leading some to speculate significant tax changes could be on the horizon. And don't look now, but in just over a year we'll have another presidential election, and campaigning has already started.

THE ONLY CONSTANT IS CHANGE Lost in the shuffle of all the changes in 2018 was a large group of provisions that expired after 2017, including deductions for mortgage insurance and college tuition. There is talk coming out of Washington that those provisions could be retroactively extended – meaning 2018 tax returns could be affected. Our financial planners will be watching this closely and alert clients if and when new legislation advances through Congress.

A SECURE SOCIAL SECURITY? A year ago the Social Security Board of Trustees announced that the Social Security trust fund actually ran a deficit for 2017, meaning benefit payments exceeded tax revenue and earnings. That was the first time that happened since 1982, and it brought much-needed attention to the status of this important program. The fund appears to have recovered some in 2018, but maybe this is the year the future of Social Security gets the attention it deserves.

REVISIT YOUR PORTFOLIO The rough end of 2018 for the stock market affected investors everywhere. The early part of 2019 saw a rebound, but it appears we're headed back to a more "historically normal" level of volatility. Investors need to be prepared for the ups and downs of the market and refocus on considerations like asset allocation and financial goals. D

Planning Calendar

JUNE 17

Second-quarter estimated income tax payments are due.

JUNE 30

The Free Application for Federal Student Aid (FAFSA) for the 2018–2019 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

Preparing a projection of your 2019 tax liability at the year's midpoint can help you avoid any penalties for underpaying your tax liability – or any tax refund surprises next year.

JULY 31

Last day employers with calendar-year retirement plans can file Form 5500.

SEPTEMBER

Put any year-end tax plans in motion. Reach out to your Financial Advisor to discuss how you may be able to lower your tax bill for 2019.

SEPTEMBER 6

401(k) Day is the first Friday after Labor Day! Celebrate by reviewing your retirement savings plans.

SEPTEMBER 16

Third-quarter estimated income tax payments are due.

Wealth Management in Real Life

Wealth management is about real life, helping you address head-on the issues that have major implications for your and your family's future. In this new *Digest* feature, we're taking questions from our readers about their most pressing wealth management decisions.

HOW SHOULD USING THE STANDARD DEDUCTION ON MY TAX RETURN CHANGE MY APPROACH TO FINANCIAL PLANNING?

When changes as significant as the Tax Cuts & Jobs Act take effect, it can be a while before taxpayers understand their true impact. For many, that a-ha moment came when they filed their 2018 tax return and realized they are better off using the standard deduction rather than itemizing.

Statistics show that prior to the TCJA, 30% of taxpayers itemized their deductions, using expenses such as mortgage interest and charitable gifts to reduce the amount of income subject to tax. However, because of new limits on many deductions plus a big increase in the standard deduction, that number is expected to fall to roughly 10% – making those itemized expenses effectively worthless from a tax standpoint for the vast majority of taxpayers.

Given this shift, here are some tips on how you should view those expenses going forward and potentially maximize their future tax benefit.

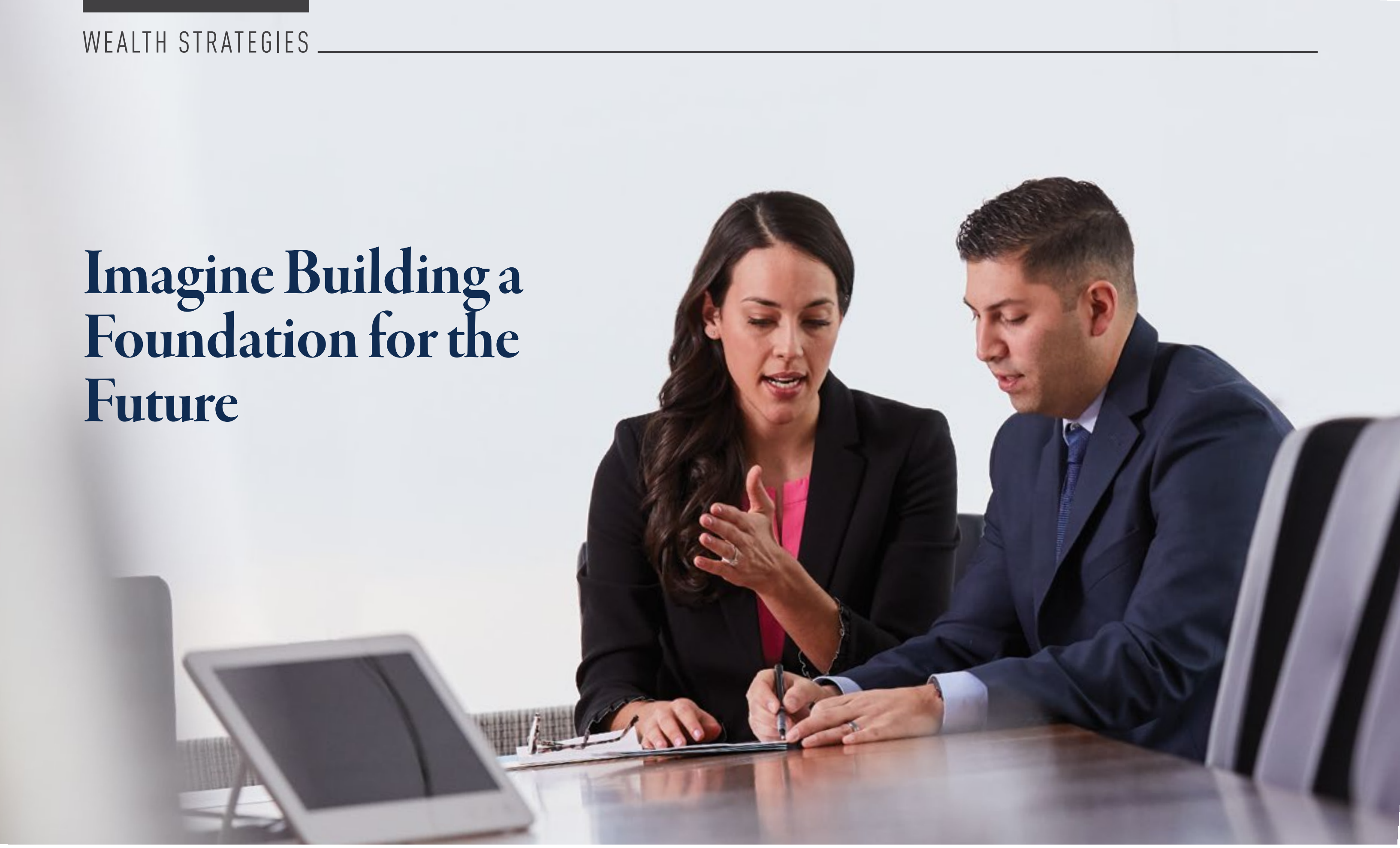
GIVE MORE EFFICIENTLY Perhaps the biggest opportunity for planning is around charitable giving. Instead of giving small amounts to charity each year, bunching your gifts – accelerating or deferring them to get as much into one tax year as possible – may be the best strategy, allowing you to alternate between itemizing and taking the standard deduction. Donor-advised funds can also help facilitate a bunching strategy.

For taxpayers over age 70½, a qualified charitable distribution from an IRA can be an attractive strategy. While gifts to charity directly from an IRA aren't tax deductible, the withdrawal itself isn't considered taxable income. The net result – a tax benefit for charitable gifts for those who don't itemize.

RE-EVALUATE YOUR DEBT While the rules for deducting interest on a mortgage or investment loan haven't changed, if you're no longer itemizing, the effective interest rate on that loan is higher. For example, take someone in the 24% marginal tax bracket who pays 5% on their mortgage. With the benefit of the tax deduction, their effective interest rate is really just 3.8%. If they no longer itemize, that reduction is lost and the loan becomes that much more expensive. Borrowers might consider paying off those loans – especially those with high interest rates – earlier than planned.

REVERSE AN OLD STRATEGY Pre-TCJA, a common strategy was to pay the investment fee for managing retirement assets from a taxable account, making that expense potentially tax-deductible. With those and other miscellaneous deductions temporarily eliminated, the tax benefit of that strategy is gone too. Instead, investors should go back to paying IRA fees from the retirement account – they'd pay the same expense but with IRA dollars that haven't been taxed. D

Do you have a question for our wealth management experts? Ask us at digest@rwbaird.com, and your question might appear in out next issue.



Imagine Building a Foundation for the Future

At Baird, we're committed to your financial success, both now and for generations to come.

That's why we've created the Financial Advisor Foundations program, a two-year educational platform that prepares next-generation Financial Advisors for successful wealth management careers at Baird.

This training program – which is unique in the wealth management industry – is designed to create tangible benefits for you, such as:

MULTIGENERATIONAL SERVICE When you're ready to gift or transfer your wealth to the next generation, we'll have a team at the ready who understands your family's values and is ready to help your heirs achieve their financial goals.

A BROADER RANGE OF VIEWPOINTS As the financial industry continues to evolve, it's important that we evolve with it. A more diverse mix of perspectives helps us provide comprehensive advice.

ADVICE AND SERVICE HOW YOU WANT IT Introducing a new generation of advisors who are fluent in new technologies and communications enables us to serve you more efficiently.

SUCCESSION PLANNING Should your Financial Advisor decide to retire, you have a successor advisor already in place, one who understands what you're trying to achieve, your unique wealth management plan and how to serve you best.

Keeping your interests first is always our top priority. With the Financial Advisor Foundations program, we're keeping that promise, both for this generation of clients and the next. D

Did You Know?

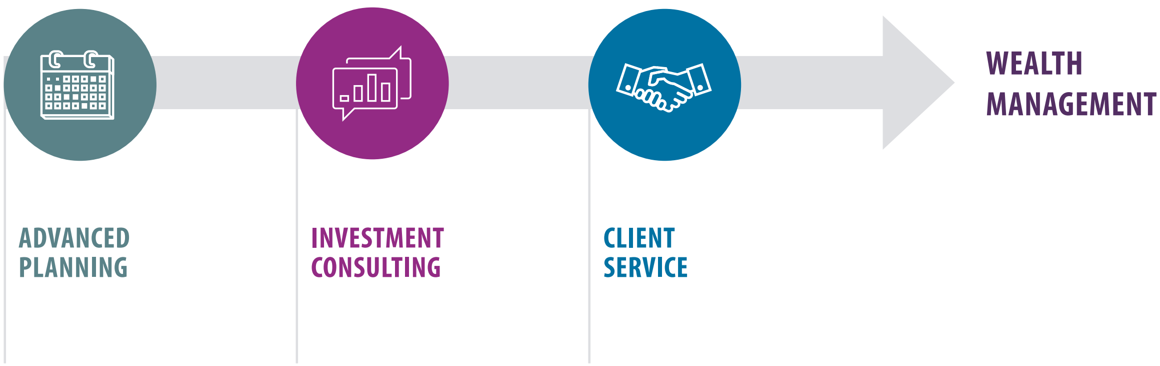
WEALTH MANAGEMENT IS ABOUT MORE THAN YOUR INVESTMENTS

As a Baird client, you already know that our advisors are always ready to help with advice on your investments and financial plans.

But our advice goes well beyond what's in your portfolio.

With the full support of our experts in the Wealth Solutions Group, your Financial Advisor can provide informed perspective on a full range of financial topics that may be on your mind, such as buying a house, applying for Medicare, supporting a favorite charity or even planning for long term care.

No matter where you are now and where you'd like to go, you can have peace of mind knowing your Baird Financial Advisor will always be there helping you make smart decisions for your future in all areas of your financial life.



Introducing Michael Antonelli

PROVIDING A NEW PERSPECTIVE ON WEALTH MANAGEMENT

"My goal is to break through that noise and help people understand why the market does what it does so they can better engage with their advisor."

As your wealth management partner, we feel it's important to provide you with a variety of informed financial perspectives. That's why we're so pleased to introduce you to Mike Antonelli, a Baird equity trader who recently joined the Private Wealth Management market strategy team.

A graduate from Purdue University with a degree in history, Mike earned his MBA at the University of Chicago before joining Baird's equity trading desk in March 2007. His offbeat observations on the market and the economy are featured in the popular Bull and Baird blog.

"The stock market is an enigma, wrapped in a mystery, cloaked in terms that would confuse a PhD in finance," Mike writes. "My goal is to cut through the noise and make learning about the market – and your behavior in it – fun and engaging."

You can discover more of Mike's perspective by following him on Twitter (@BullandBaird) plus in future issues of *Digest*.

When You've Been Putting Clients' Interests First for 100 Years, People Take Notice

Since our founding in 1919, we've focused on providing the best financial advice and service to clients while giving back to our local communities. These principles have helped fuel a century of success, enabling us to grow our capabilities and services to best meet your evolving needs.

Imagine a firm that always keeps your interests first. Imagine the power of you and Baird.

100 YEARS
IMAGINE WHERE
WE CAN GO TOGETHER.

DIGEST

Want More?

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