DIGEST

Private Wealth Management

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

FALL 2020

A Retirement Guide for Right Now

BAIRD'S ADVISORS ANSWER CLIENT QUESTIONS ON HOW PLANS HAVE CHANGED

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Letter From Mike Schroeder

As we continue to move forward from the dislocations of the year, we at Baird have been focused on our relationships with you, and how we can help you meet the year's challenges.

We are very proud of the way our Financial Advisors have risen to the logistical concerns of providing personal, comprehensive service to our clients without missing a step.

We've been helped in this by the development of Baird's 360 Wealth, an app that lets you see your entire financial picture with one click. For more on this innovative tool, see page 3.

That's just one of the ways we've been improving service to our clients in these difficult times. We've also ramped up our technology offerings in other ways, as Baird's John Taft and Ryan Burwell explain in this issue. On top of that, we have been expanding our roster of professionals by hiring more tax planners and estate professionals to serve you.

Our overall focus is on strengthening the relationship between you and the team here at Baird, to help you move forward into a more confident future. All of us at Baird thank you for giving us that opportunity.

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**.

The Future Is Now

HOW TECHNOLOGY IS KEEPING WEALTH MANAGEMENT RELATIONSHIPS PERSONAL IN A COVID-19 WORLD

The financial impact of COVID-19 has been seismic. People have lost savings and income while facing greater uncertainty around their future health, making the need for trusted financial advice more urgent than ever. For Baird, finding the best ways to deliver that important, deeply personal advice in a socially distanced world has been a priority.

Baird Vice Chairman John Taft recently sat down with Ryan Burwell, Director of Baird's Private Wealth Management Technology Strategy, to talk about the vital role of technology in ensuring continuity of care for Baird's clients. ▶

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RYAN BURWELL
DIRECTOR OF PWM
TECHNOLOGY STRATEGY

JOHN TAFT
VICE CHAIRMAN

In *Finance for the Greater Good,* Baird Vice Chairman John Taft shares his thoughts on the financial services industry and our responsibility to our clients and the society we share. Learn more of his perspective at **johntaft.rwbaird.com.**

JOHN: RYAN, WHY IS TECHNOLOGY SO IMPORTANT TO THE WAY OUR FINANCIAL ADVISORS SERVE CLIENTS IN THE CURRENT ENVIRONMENT?

RYAN: Baird has always invested in the technology our Advisors need to do their jobs, but the pandemic tested our infrastructure and ability to adapt in ways no one could have foreseen. Offices had to operate with limited staff to keep associates safe and many of our Advisors very suddenly found themselves working remotely. We needed to make sure our systems could handle that, and that our Advisors had the connectivity they needed – both to their clients and to other members of their teams – to provide the same quality of advice in the same timely manner.

We also had different levels of comfort and familiarity with this kind of technology in the field, so ramping everyone up quickly became a priority. Some – particularly teams with next generation talent in the mix – had a running start but, overall, I'd say Baird experienced about five years' worth of digital transformation in two months.

JOHN: OUR CLIENTS HAD PLENTY OF OTHER THINGS TO WORRY ABOUT AT THAT TIME. WHAT DID BAIRD DO TO MAKE THIS CHANGE EASIER ON THEM?

RYAN: Communication was critical. Making sure our clients knew we were still here for them and focused on their needs was our Advisors' top priority. That was a message they were able to deliver in many ways. We provided emails about our response to the pandemic and social posts on very specific, timely topics – like the CARES act – all leading back to a page on our website featuring the latest market-related updates and other information our Advisors knew clients would want.

JOHN: WHAT ABOUT ACCESS TO CLIENT ACCOUNT INFORMATION?

RYAN: Even before COVID, we were focused on optimizing the digital experience for our clients through enhancements to BairdOnline. One example was the recent introduction of 360 Wealth, which can consolidate all of a client's financial account information – not just Baird investment accounts – to provide that bigger picture context that is so important to successful planning. Additionally, clients can exchange documents with their advisors and securely sign most documents electronically.

JOHN: SOME OF OUR CLIENTS HAVE TRULY UNIQUE CONCERNS – THINGS THAT THEY'D NORMALLY TALK TO THEIR ADVISOR ABOUT. HOW HAS TECHNOLOGY HELPED THEM DURING THE PANDEMIC?

RYAN: We've definitely seen an uptick in video conferencing to help maintain a personal connection, and we've made that technology more widely available to the field. In every email, social post, or technology touchpoint with our clients, we encourage them to call their Advisor with questions. It's a point of pride for Baird that our Advisors have always picked up the phone and had access to client information at their fingertips no matter what's going on in the world. Our technology allows them to continue to do that without issue. D

Did You Know?

Baird's 360 Wealth & Planning puts all your financial pieces into one place, ensuring that your assets and goals are aligned.

360 Wealth gives you a global view of your financial picture, helping you to make sure that your assets and goals are constantly working together. Fully integrated with our financial planning platform, 360 Wealth offers instant access to:

Your Comprehensive Net Worth

A Summary of Your Goals

Your Asset Allocation

Probability of Success

Ask your Financial Advisor how to access 360 Wealth.

A Retirement Guide for Right Now

WHAT CLIENTS ARE ASKING IN THE WAKE OF COVID-19

In the wake of the COVID-19 pandemic, Baird has been talking to our clients about their chief concerns.

Many of these issues revolve around retirement: What should I be worried about now? Do my plans need to be revisited, or changed? Here are some answers to the most common and universal of these questions:

MY HUSBAND AND I ARE BOTH RETIRED AND COLLECTING SOCIAL SECURITY. WHAT SHOULD WE BE DOING NOW? IT APPEARS WE ARE GOING TO LIVE A WHILE.

One key step is to revisit your asset allocation. As you know, your portfolio should be shifting into safer investment vehicles as you get older, but that's not the only consideration. Ask yourself, am I taking the appropriate amount of risk right now? Would I feel more comfortable with my portfolio if it were concentrated in less-risky vehicles? Or do I need to grow my portfolio more, and maybe think about moving back into equities?

One aspect of your personal finances that becomes more important in retirement is cashflow planning. If you have plans for an expensive vacation or a project like remodeling your kitchen, be forward-thinking about how and when it will be funded. The amount of liquidity you have changes as you move through retirement.

Despite the fact that you both appear to be in good health now, there's an uncomfortable but inevitable concern to deal with, preferably long before it becomes an issue. For every married couple, one of you will end up being the surviving spouse; have you planned for what happens when that day arrives, both personally and financially?

There are always new things to be thinking about, financial decisions that may have changed while you're in retirement. For instance: Do you have a strategy in place if you have a long-term-care need? If you haven't addressed these questions before, it may be time to ask yourself where you would go, and who would take care of you, if you're unable to care for yourself.

IF WE ARE ALREADY RETIRED, SHOULD WE BE REVISITING OUR PLANS BASED ON THE CURRENT SITUATION?

There's always room for improvement in your retirement plans. You can always find additional efficiencies in tax planning or new strategies in estate planning, and this is especially true when the law changes in substantive ways, like we recently saw with the CARES Act.

For instance, the new law waives the rules around Required Minimum Distributions from an IRA or 401(k). For people who don't have to live off these distributions, this creates valuable planning opportunities; you can let that money grow further before you withdraw it from your savings plan.

One possible move: If your taxable income is down right now, this can be an advantageous time for a Roth conversion. When you convert a traditional IRA to a Roth, you pay taxes on the assets at your current tax rate, so if you're in a lower bracket now, it may be an advantageous time. Then in retirement, you can withdraw those assets tax-free.

AS AN INVESTOR NEARING RETIREMENT, WHAT SHOULD I BE THINKING ABOUT OVER THE NEXT FIVE YEARS?

One way to approach this question is to think about your cash flow. Generally, you can break down your retirement spending goals into four areas:

- Essentials: Shelter, vehicles, basic health care
- Lifestyle: Travel, hobbies, toys
- Unplanned: Emergency medical care, family needs
- Legacy: Inheritance, charitable giving

What kind of cash flow will you need to fund those areas in retirement? If necessary, where would you be willing to make sacrifices?

Once you have a reasonable idea of what might be required to cover those expenditures, ask yourself if you will have sufficient assets to fund your needs. One rule of thumb: Try to maintain two years of your fixed expenses on hand, minus any immutable sources of income, like a pension or Social Security.

As you approach retirement age, there are also non-financial questions to answer. Will you be eligible for Medicare without having to pay extra premiums? What part of Medicare should you buy on your own? Your Baird Financial Advisor can help you answer these and other questions ▶

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to ensure that you can enjoy the retirement you deserve.

I HAD PLANNED TO START DRAWING ON AN ANNUITY SOON, AND WAITING UNTIL AGE 70 TO COLLECT SOCIAL SECURITY. SHOULD I THINK ABOUT CHANGING THAT PLAN?

It depends on the type of annuity you have. Annuities have all different kinds of tax benefits, payout schedules, funding mechanisms, etc. Compare what the annuity would provide you to what the benefit of a delayed Social Security payout would be. Remember, you can start taking a reduced Social Security benefit at age 62, but if you wait till age 70, it gives you the maximum annual payout.

The pandemic has changed the Social Security strategy for many would-be retirees. Here's a quick rule of thumb: If you find yourself having to sell assets that have declined in value in order to maintain your lifestyle, turning on Social Security now may be a good idea. If you have other assets you can live off of, it's better to wait as long as possible for the Social Security benefits to grow.

HOW DOES THIS RECENT DOWNTURN IN THE MARKET AFFECT SOMEONE LIKE ME, CLOSE TO RETIREMENT AGE? WOULD IT BE WISE FOR ME TO PUT OFF RETIREMENT FOR A WHILE?

A strong long-term plan lets you avoid having to revisit your decisions in times like these, when many people may be reacting emotionally rather than logically. Choosing your retirement date should be a five-year decision, rather than a five-month decision. A robust retirement plan should recognize that there will be disruptions and crises along the way, and have ways to deal with them.

To fully answer this question, you really need to know your current state of affairs: your income, your spending lifestyle, your risk tolerance. When you choose to retire depends on how you balance these other three factors.

Planning is a highly personalized process, and everyone's retirement journey is different. These guidelines can help you think about what is most important to you, whether you're in retirement now or approaching it rapidly, but your Baird Financial Advisor can help you take that next step and turn your goals into action. D

Planning Calendar

OCTOBER

It's open enrollment season! Most employers hold benefit enrollment sessions in the fall – make sure you have the information you need before you submit your selections, including how your needs may have changed since last year.

OCTOBER 1

First date to file the Free Application for Federal Student Aid (FAFSA) for the 2021–2022 school year.

Deadline for self-employed persons or small businesses to establish a SIMPLE IRA for 2020.

OCTOBER 15 – DECEMBER 7

Annual election period for making changes to Medicare or Medicare Advantage coverage for 2021.

OCTOBER 15

Deadline for those who filed for an extension on their 2019 tax returns, SEP contributions or IRA recharacterizations.

DECEMBER 1

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 31).

DECEMBER 31

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

Watching the Election Returns

STRATEGAS' ECONOMIC OUTLOOK

Whether we have the re-election of a president or the election of a new president coming up in November, either scenario could have a significant impact on the types of policies enacted into law or through regulation. As such, the financial markets will be watching the election closely.

Going back nearly 100 years, we have found that the S&P 500 not only monitors the election in the final three months of the election cycle but has even been a good predictor of presidential election results. If the S&P 500 declines in the three-month period prior to the November election, the incumbent party has generally lost, and if the S&P 500 has been up in that period, the incumbent party has generally won. This metric has correctly predicted every presidential election winner since 1984, and 87 percent of the winners since 1928.

We believe this metric works because financial markets dislike uncertainty, and if the market expects a new president, investors are uncertain about the policies of that new president. However, after the election, stocks have tended to trade up regardless of whether the incumbent party or the opposition party won. Six months after the election, the market has on average been up, regardless of which party won the election. However, the trend is stronger if the incumbent party won.

Still, elections can be difficult to predict, and we expect this presidential election to be closer than the polls may be suggesting. In addition, this year, control of the Senate could be a nail-biter. While Democrats are playing offense in a number of Senate races, if they do win control of the Senate, given current polling, they may only have a narrow one or two-seat majority, or it could be an evenly split Senate with the vice president serving as the tie-breaking vote. Which party controls the Senate, and by how much, will also be key to what types of policies can be enacted by the president, which means investors should be watching Senate control very closely.

Looking back at S&P 500 performance since 1933, stocks have been able to produce more than 13 percent average annual returns under various political configurations of the presidency and Congress. Specifically, the political configurations that have performed best have been:

1. A Democratic Senate, Republican House, and a Democratic president
2. A Republican Senate, Democratic House, and a Republican president
3. A Republican Congress with a Democratic president
4. Republican control of Congress and the presidency.

The average annual return with Democrats in control of Congress and the presidency is about nine percent. Note also that one of the possible political configurations that could arise from this year's election – a Democratic House, Democratic president, and a Republican Senate – is a rare occurrence, one that has not happened since the late 1800s.

Ultimately, elections matter more for sectors and individual companies. For instance, under President Trump, companies that were subject to a higher tax rate before passage of the Tax Cuts and Jobs Act benefited from Trump's lowering of the corporate tax rate to 21 percent. Under a Biden administration, those companies are at risk of a higher corporate rate, as Biden has called for raising the rate to 28 percent. However, Biden would need a Democratic-controlled Senate in order to do so. Similarly, fossil fuel companies would fare better under a Trump administration, with Trump pushing for policies that would be amenable to the industry, while renewable energy companies would fare better under a Biden administration.

Elections and the policy preferences of a president do not operate in isolation. National and international economic conditions influence what policies are enacted both in the United States and abroad, which can then impact stocks and sectors. An economic downturn in the U.S. or abroad, tightening financial conditions, and geopolitical conflict will also impact which sectors will outperform. While all eyes are on the elections this November, keep in mind that they are not the only factors worth watching. D