



BAIRD

DIGEST

Private Wealth
Management

NEWS AND PERSPECTIVE FOR
GROWING AND PRESERVING YOUR WEALTH

WINTER 2020

**2020 Baird Market
Outlook: Where Do
We Go From Here?**

Letter From Mike Schroeder

At the end of 2019, Baird marked its 100th anniversary as a firm.

For us, it was an opportunity to reflect on a century of growth and success with pride. But it was also humbling, because we know none of it would have been possible without the trust and confidence of clients

like you. Together we've experienced some of the best and worst market and economic environments in U.S. history. And through it all, staying focused on what's best for you has never steered us wrong.

As we start the next century, we're honored to welcome former clients of Hilliard Lyons and their trusted financial advisors to Baird. This addition of expertise and experience not only brings us closer to more clients like you in more parts of the country, it enhances the breadth of services all Baird advisors can offer. In short we've never been better positioned to serve your needs.

We're very excited about what comes next and we hope you will be, too.



MIKE SCHROEDER
PRESIDENT
PRIVATE WEALTH MANAGEMENT

IN THIS ISSUE...

- 1 **MAKE SOCIALLY RESPONSIBLE INVESTING WORK FOR YOU**
- 3 **INVESTING WITH IMPACT**
- 4 **COVER STORY 2020 MARKET OUTLOOK: WHERE DO WE GO FROM HERE?**
- 6 **A HOUSE DIVIDED: GET READY TO SNOWBIRD**
- 8 **REVISITING YOUR FINANCIAL PLAN**

Want More?

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

Make Socially Responsible Investing Work for You

THE MANY WAYS TO CONSTRUCT A PORTFOLIO THAT REFLECTS YOUR VALUES

Many investors want a portfolio they can be proud of, putting their money into companies that are doing good in the world, or at least not doing harm.

That's where socially responsible investing, commonly known as SRI, comes in. The idea is to construct an investment strategy that aligns with your values and doesn't detract from the performance of your investments.

The thinking behind SRI has been around since the 1960s, when some investors began excluding stocks or even entire industries from their portfolios based on business activities such as tobacco production or involvement in the South African apartheid regime. ►




MAKE SOCIALLY RESPONSIBLE INVESTING WORK FOR YOU


Continued from page 1

This type of strategy is at one end of the SRI spectrum, where you specifically avoid vehicles that you believe are harmful, such as fossil fuel stocks. At the other end is impact investing, which focuses on actively producing societal change through targeted investments like low-income housing projects or sustainable infrastructure projects.


So SRI can be seen as a continuum from low to high investor involvement. Given that wide range of flexibility, there are several approaches commonly used in constructing socially responsible portfolios. Here are a few recommended solutions that Baird utilizes, from the least to the most active:

 **NEGATIVE/EXCLUSIONARY SCREENING** Screens out specific assets that are considered harmful.

 **POSITIVE/BEST-IN-CLASS SCREENING** Investors select companies and sectors that set positive examples of socially responsible business practices.

 **ESG INTEGRATION** Includes environmental, social and governance (ESG) factors into investment analysis, not just screening out negative impacts but directly investing in companies that have a positive societal impact.

 **SUSTAINABILITY-THEMED INVESTING** Investment strategies focused on companies developing solutions to such things as an over-reliance on fossil fuels, climate change and a lack of women in leadership.

 **IMPACT INVESTING** Targeted investments, typically in the private market, aimed at solving social or environmental problems. A subset of this is community investing, which involves directing capital to traditionally underserved individuals or communities.

There are mutual funds and exchange-traded funds that focus on SRI, incorporating many of these tactics. The varying levels of engagement mean you can structure your portfolio to accommodate SRI without sacrificing returns. Eliminating tobacco stocks is no different from, say, eliminating emerging-market equities from your portfolio; it still leaves plenty of investment options for you to choose from. **D**



Investing With Impact

THE BRAVE NEW WORLD OF BIO BONDS

Imagine if you could direct your investments to help cure the common cold, or to fund a breakthrough flu vaccine that saves thousands of lives.

With bio bonds, an exciting investment proposition currently wending through Congress, the possibility of generating portfolio returns from investing in promising medical research may be closer than you think.

INVESTING IN A CURE In May 2019, a bipartisan group of House members introduced the Faster Treatments and Cures for Eye Diseases Act (H.R. 2620), which seeks to dramatically increase research funding for conditions that cause blindness and impaired vision, including glaucoma and macular degeneration. Their proposal would create a unique financial instrument called eye

bonds that would fund promising, early-stage research that had not yet advanced to clinical trials. Institutional investors would purchase the bonds, and as the bonds mature, these investors would be repaid by the research's late-stage commercial value. The \$1 billion pilot program would also offer investors downside protection through a 50% federal guarantee.

A SIGN OF THINGS TO COME? If successful, eye bonds could lead to a new class of investments called bio bonds, which could bridge medical research's early-stage funding gap and raise crucial investments into other diseases and disabilities.

While H.R. 2620 has yet to be voted on – and in its current form would not be available to individual investors – its potential could reshape not only the future of medical research but how we think about goal-based investing. **D**

For more on the future of investing, check out Baird Vice Chairman John Taft's blog at john.taft.rwbaird.com.



2020 Baird Market Outlook: Where Do We Go From Here?



BRUCE BITTLES
CHIEF INVESTMENT STRATEGIST



WILLIAM DELWICHE, CMT, CFA
INVESTMENT STRATEGIST

 @WillieDelwiche

As difficult as the Great Recession was for most investors, if you participated in the post-recession rally over the past decade, you were likely rewarded with outsized returns.

The S&P 500, which traded below 700 points in March 2009, surpassed 3,000 points in October. The Dow Jones Industrial Average, which traded below 7,000 points at that time, now hovers near 28,000.

But as remarkable as this historic bull market has been, investing is all about looking ahead – and based on what the market is telling us, there's reason to think what's worked in the past might underperform going forward.

THE STOCK MARKET IS GETTING CROWDED Perhaps the biggest obstacle for investors going forward is how expensive stocks have become. You've probably heard the advice "buy low and sell high," where you buy a stock relatively inexpensively and profit from its appreciation over time. But after years of turning to U.S. stocks in times of uncertainty, investors have crowded the market, and the entry price for stocks has gone up – considerably. Instead of

“buying low and selling high,” today’s stock market investors risk “buying high and hopefully selling for a little higher.”

EXPECT VOLATILITY TO CONTINUE

To be sure, today’s bull market has withstood many periods of volatility, and the future promises more of the same. 2016’s Brexit referendum, for example, has yet to be resolved, and American businesses are now caught in a protracted trade war. Plus, given what promises to be a contentious presidential election, we’re expecting anything but a smooth ride going forward.

WHAT THIS MEANS FOR YOU While we expect there to be several pockets of the market that are less crowded, such as in small- and mid-caps and overseas, taking advantage of them requires being proactive and an open mind:

Revisit Your Financial Plans After 10 years of remarkable growth, it’s easy to get complacent – or, worse, to base tomorrow’s plans on today’s portfolio performance. Stress-test your financial plans and ensure they can accommodate an evolving investing environment.

Understand Your Biases For years, U.S. stocks have been a bastion of comparative strength amid a global recession – so much so that in times of uncertainty, it became second nature to turn to the biggest U.S. companies in the market. Know that going forward, there may be better opportunities to invest elsewhere.

The past 10 years have delivered stock market performance that’s been virtually unprecedented. This is a great opportunity to take stock of where you are and plan proactively for what’s next. **D**

Weight of the Evidence : **OUTLOOK BULLISH AMID UNCERTAINTIES**



BULLISH

FED POLICY

The Fed might be done cutting rates, but it is still providing liquidity to the market.



NEUTRAL

ECONOMIC FUNDAMENTALS

There is little evidence that weakness in manufacturing is spreading to the rest of the economy.



BEARISH

VALUATIONS

A 2019 stock rally in anticipation of a better earnings environment in 2020 had led to elevated valuations.



NEUTRAL

SENTIMENT

Sentiment surveys shows investor optimism, but fund flows indicate continued skepticism.



NEUTRAL

SEASONAL PATTERNS AND TRENDS

Presidential election uncertainty could keep volatility elevated.



BULLISH

BREADTH

2019 stock market gains buoyed by broad participation at home and abroad.

A House Divided: Get Ready to Snowbird

WEALTH MANAGEMENT IN
REAL LIFE



Wealth management is about real life, helping you address head-on the issues that can have major implications for your future. In this feature, we answer questions from our readers about their most pressing wealth management decisions.

WATCHING ANOTHER MIDWESTERN SNOWSTORM FALL ALL AROUND US, MY HUSBAND AND I ARE WONDERING IF WE SHOULD BECOME SNOWBIRDS – SPENDING OUR WINTERS IN A WARMER CLIMATE. WHAT FINANCIAL ASPECTS DO WE NEED TO CONSIDER BEFORE WE MAKE OUR MOVE?

Setting up a second home in a warmer climate certainly gives you a lot to deal with. If you think you might want to become a snowbird, here are a few things to keep in mind:



RENT BEFORE YOU BUY

Vacationing somewhere for a week or two can be a totally different experience from putting down roots for months at a time. Future snowbirds might want to rent for a month or so in their target location before deciding to buy.



PRIMARY RESIDENCE

Where you establish domicile is a key question. A married couple can avoid having to pay capital gains taxes on up to \$500,000 on the sale of a primary residence, but not a secondary one. You can't simply declare one home your primary residence – it's based on such things as where you vote

and where your driver's license is from. Different states have different rules, so you'll need to check up on both your summer and winter states.



TAXES

You may end up paying property taxes in both places, as well as possibly income taxes – those aren't necessarily confined to your primary state of residence. Establishing residency in Florida may not be enough to get you out of paying, say, Michigan state income taxes if your investment account statements are all still being sent to your Michigan address.

You might also want to check how each state deals with residency in relation to estate and inheritance taxes. If the new winter state is preferable, update your legal documents, like your will, health care proxy and power of attorney, to reflect your new domicile.



MEDICAL CARE

If you have Original Medicare, paying for your health care won't be complicated, since that will cover you in every state. For people with Medicare Advantage, networks come into play, and making sure you have adequate coverage in both locations could require the expertise of a qualified health insurance agent. If you have

private health insurance, find out if doctors in your secondary state are covered by your health care network.



UTILITIES

Many utilities are portable these days, such as phone and satellite TV service, but you'll still have to arrange for power and internet in both homes. Try to find an internet provider that will let you stop and start service. Also, make sure you're paying your bills online, so you're not dependent on forwarded mail keeping up with you.

As you can see, there are many factors here that affect your taxes, estate and other aspects of your financial life. Before you light out for warmer climes, see your Baird Financial Advisor to make sure all your bases are covered. **D**

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

Planning Calendar

JANUARY 1 – MARCH 31

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

FEBRUARY 18

Baird issues the first wave of 1099s for accounts holding individual equities, bonds or mutual funds whose final tax information has been provided.

MARCH 2

Baird issues the second wave of 1099s for accounts holding mutual funds, ETFs and REITs whose final tax information was provided after the previous update.

MARCH 16

Baird issues the final wave of 1099s for the remaining accounts holding mutual funds, as well as for any accounts holding REMICs or WHFITs.

APRIL 1

Deadline for those who turned 70½ in 2019 to take their required minimum distribution from their IRA.

APRIL 15

2019 tax returns are due — or, if needed, applications for an automatic six-month extension.

2020 first-quarter estimated tax payments are due.

Final 2019 contributions to IRAs and Coverdell accounts are due.

Revisiting Your Financial Plan

Having a financial strategy for building and protecting your wealth is a start, but no plan should ever be etched in stone.

Here are some personal milestones that should trigger a second look at your existing plans.



SUCCESS IN YOUR CAREER

Did you switch jobs or earn a big promotion?

While that's reason to celebrate, don't use that as a free pass to spend indiscriminately — your current plans have likely penciled in career progression as part of your wealth-building strategy.



A GROWING FAMILY Kids or grandkids can be a welcome complication

to any financial plan. Whether it's for day-to-day spending or for putting money aside for college, be sure your financial plans reflect the reality of a bigger family.



FINANCIAL OBSTACLES

While an unexpected job loss or a sudden health emergency can jeopardize the financial future you've planned, the sooner you can address it, the sooner you can mitigate its impact.



YOUR OWN HAPPINESS

Maybe you want to get married, start your own business or retire early. Incorporating these new priorities into your financial plans is the first step to making them a reality.

Events occurring outside of your personal life, like a wild market swing or new tax or estate laws, might also warrant a review of your plans. The key with any big change is to not act rashly. Talking through your options with your Baird Financial Advisor can help ensure that as your life evolves, your financial plans evolve with you. **D**



Now Is a Great Time To Work at Baird

While an aptitude for wealth management is helpful, if you have curiosity, a desire to make a difference and an openness to exploring how to best apply your strengths, the opportunities to thrive are endless.



To learn more and to hear firsthand from Baird's leaders, visit bairddigest.com/womenatbaird.

DIGEST

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