



Private Wealth  
Management

# DIGEST

NEWS AND PERSPECTIVE FOR  
GROWING AND PRESERVING YOUR WEALTH

SUMMER 2021

## All Eyes on Inflation

THE BEST WAYS TO  
PROTECT YOURSELF



# Letter From Mike Schroeder

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Wealth Management is all about preparing yourself for the future, making plans today so that your tomorrow will be brighter.

As the legendary Warren Buffett likes to say, "Someone is sitting in the shade today because someone planted a tree a long time ago."

In a way, Baird's Private Wealth Management division is all about

planting trees. This spring, we also helped to build a stronger future for all of us by establishing the Baird Professorship in Finance, an endowed faculty position at the Wisconsin School of Business. Since 2015, we have been collaborating with WSB to develop a course of study that prepares undergraduate business students for a career in the field of Wealth Management.

This new position reaffirms Baird's commitment to developing the next generation of exceptional advisors. We see it as an investment in the education of future talent who will lead the Wealth Management industry for years to come.

It's just another way we're keeping our eyes on the future, for not just the next generation but the one after that. Let us know if we can help you plant a tree for your family.



MIKE SCHROEDER  
PRESIDENT  
PRIVATE WEALTH MANAGEMENT

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# The Return of Inflation

THE BEST WAYS TO PROTECT YOURSELF



The emergence of the economy from the pandemic has been very good news for most aspects of our financial lives – economic growth was strong in the first quarter, the unemployment rate has trended lower, and retail sales surged in March. But there is one concern looming over the horizon: inflation expectations.

As demand recovers and both foreign and domestic economies alike continue to ease their restrictions, an inflation increase – if not an inflation scare – seems to be arriving.

Recent data has indicated that inflation is starting to creep higher. In March, the U.S. Consumer Price Index exceeded the Fed's mandated 2% inflation target for the first time in more than a year, when year-over-year inflation reached 2.6%. Commodity prices across the board are up, which will tend to show up down the line in higher consumer prices.

Energy-related commodities were up about 30% in the first quarter of the year, which will ultimately mean consumers will be paying higher prices at the pump. Agriculture related commodities have also been trending higher, which may result in higher food costs for the consumer.

## WHAT HAPPENS NEXT

One of the key ways that government has historically dealt with inflation is for the Federal Reserve to begin raising interest rates. But remember, the Fed has a twin mandate of countering inflation and pursuing ►



## THE RETURN OF INFLATION

*Continued from page 1*

full employment, and the jobs numbers are still a good deal lower than they were in the pre-pandemic era. The Fed's view seems to be that the U.S. remains a long way from full employment, so it is committed to allowing inflation to run hotter than its traditional 2% goal in order to pursue full and inclusive employment.

Given this, and given that we expect these inflationary trends to continue for at least the remainder of the year, the back half of 2021

is likely to be a key period for countering inflation. With that in mind, it's helpful to take a look at some of the strategies you can use to help protect yourself against the effects of inflation.

### REVISIT YOUR RETIREMENT PLANS

Inflation means, of course, that the things you plan to spend your money on will cost more in the future. Expenditures that can be expected to eat up a sizable portion of your cashflow, such as health care, can be subject to tremendous inflationary pressures. At the same time, some of your investments, such as fixed-income instruments, suffer if inflation outpaces your expected return.



That makes this an ideal time to revisit your retirement strategy with your Baird Financial Advisor team. A robust, well-constructed retirement plan is designed to withstand changes like a bout of inflation but it never hurts to double-check and make sure your plan doesn't need any tweaks.

#### **REVIEW DEBT BALANCES**

Debt can be a double-edged sword when inflation is rising. On one hand, you are repaying existing debts with money that's worth less than the money you borrowed, so it's advantageous to be paying off debt now. But if you're planning to take out a new mortgage, those rates could be moving higher, and if you have a variable-rate credit card, expect to pay more for that as well.

There may still be time to make moves before rates rise significantly. It's a good opportunity to review what you owe and see if there are any chances to refinance or consolidate your debts into fixed-

rate loans. Your Baird Financial Advisor team can help with this.

#### **LOOK TO INVESTMENTS THAT CAN COUNTER INFLATION**

Traditionally, broad market stocks have been a hedge against rising inflation, but not a particularly strong one. Plain vanilla fixed-rate bonds won't help, given that their returns don't change in response to the wider economy.

But there are some asset classes that may provide a bit of a hedge:

**Financial Stocks** Rising inflation expectations tend to coincide with steepening rate curves and easing credit conditions, both of which support bank stock prices.

**Energy Stocks** Energy should have little correlation to interest rates that are driven by volatile, rising inflation. Energy stocks also tend to provide dividends, which serve as another hedge against inflation.

**Small Cap Stocks** Small cap stocks are the only asset class that has outperformed inflation every decade since the 1930s. They

have less exposure to foreign economies than large caps do, so they're less sensitive to trade wars.

#### **Short-Term Corporate Bonds**

Short duration investment-grade corporate bonds provide a positive real yield and minimal sensitivity to both rising inflation expectations and rising real yields.

**TIPS** Treasury Inflation-Protected Securities can provide the best protection against rising inflation expectations, as long as real rates don't rise.

None of these asset classes are a pure hedge against inflation, but you may want to consider combining them with other inflation-fighting strategies in order to safeguard your financial future. Talk to your Baird Financial Advisor team about how you can stay protected against inflation. **D**



# How Liquid Are You?

When people think about spending, we tend to focus on two things – what is being purchased and how much it costs. Sound wealth management asks that we consider a third question – how best to pay for it, especially when it's unexpected.

One of the biggest challenges to the proper management of wealth is accounting for opportunity cost – that once money is spent toward one goal, it becomes unavailable for another. The \$50,000 you spent on a new car can't also be used to remodel your kitchen or to cover a medical bill you weren't anticipating. To address opportunity cost, we compromise (let's install a laminate floor instead of wood) and prioritize (let's hold off on the new car until next year) as we try to make the smartest

financial decisions for both the present and the future.

We can also plan for opportunity costs proactively. Opening 529 education savings plans and buying life insurance policies are actions we take now to give us financial flexibility for potentially major expenses down the road. Another strategy for mitigating opportunity cost is increasing our liquidity.

## **WHAT IS LIQUIDITY?**

When we talk about financial liquidity, we typically refer to your ability to access cash



very quickly. It's often used to describe different types of savings or investment vehicles: \$20,000 saved in a bank account is likely far more accessible than, say, \$20,000 invested in real estate. In terms of personal spending, a high degree of liquidity can create opportunities that might otherwise be unavailable. Consider:



**You're looking to buy a new house in a hot market.**

You could make an offer that's contingent on the sale of your existing house – but what if you could make an all-cash offer, or access a bridge loan to pay for the new house now and then repay the loan when you sell your old house? That liquidity could be the advantage you need to secure the winning bid.



**You have a large tax or medical bill you weren't expecting.**

You could sell stock to cover it, but doing so could create an entirely new set of concerns, like the sale's impact on your taxes and broader portfolio. You'd also have to account for any transaction costs plus the possibility of selling in a down market.



**You're starting a business.**

You could take out a business loan to pay for start-up expenses, inventory and salary, but then you're paying financing charges as well. Access to funds when you need them could let you cover any short-term cash flow issues and potentially stay afloat during emergencies.

In each of these scenarios, the illiquid solutions create opportunity costs (such as tax increases or being out of the market) that increased liquidity avoids entirely.

**"The ideal use of liquidity is to maintain the ability to tap into cash, equity or credit when you need it – without compromising your ability to build and preserve wealth when you don't."**

## THE COSTS OF LIQUIDITY

That said, how you increase your liquidity matters. Taking money out of your 401(k) or IRA to have "at the ready" can create its own opportunity costs in the form of taxes and early withdrawal penalties, not to mention a smaller nest egg at retirement. You can become too liquid if you shortchange your savings in the pursuit of maximizing financial flexibility.

The ideal use of liquidity is to maintain the ability to tap into cash, equity or credit when you need it – without compromising your ability to build and preserve wealth when you don't. Your Baird Financial Advisor can help you determine your own liquidity needs and what liquidity solutions might be right for you. **D**

# Seeing the Big Picture

THE BENEFITS OF KEEPING ALL YOUR FINANCIAL PIECES IN VIEW



As our lives grow more complicated, it becomes harder and harder to get a grasp on your financial health. Your bank account is one place, while your securities are held in another, your mortgage in yet another, and so on.

With all your data in different places, it can be a challenge to keep everything coordinated as you try to achieve your financial goals. Disparate parts of your financial life are often intertwined with each other. Let's say you have the following pieces in motion:

- ☐ Your 401(k) is custodied by your company's plan administrator.
- ☐ You're also saving and investing towards your dream retirement which includes travel, philanthropy and funding the grandkids' education.
- ☐ You're also considering purchasing a vacation home.

It would be hard enough to coordinate all these moving pieces, but on top of that, your 401(k) is with one financial institution, your investment accounts with another one, and your mortgage is being held by a third.



To meet the financial goals, needs, wants and wishes you've set out for yourself, all these pieces need to be working in coordination with each other. That's a role that your Baird Financial Advisor generally fills, but new tools such as 360 Wealth have made it easier for you to keep an eye on the big picture yourself. The information on 360 Wealth not only supports your financial planning efforts but can help your Baird Advisor streamline your plans and wealth management discussions.

The chief concern that most individuals have with a single resource containing all their financial information is security. That's why it's always important to follow the most rigorous security protocols.

With 360 Wealth, for instance, your credentials are always encrypted from the time we receive them until we present them to the other financial institutions. All access and activity is controlled, logged, and monitored by a 24x7 Security Operations Center, which can detect any attempt to bypass our security program. The access is read-only, meaning that

your data can be read but no transactions or updates can be made through this service. For more on the security protections you can expect, see [boldemo.rwbaird.com/360FAQ.html](http://boldemo.rwbaird.com/360FAQ.html).

With that type of secure communication in place, 360 Wealth links both your Baird and your non-Baird accounts. With 360 Wealth, you can then view a comprehensive Net Worth Statement, track changes in your portfolio, and manage and view your current month budget, spending and cash flow.

Perhaps the most helpful part of this is that 360 Wealth helps and supports your Financial Advisor team as they provide the best advice to help reach your goals. For more on this, and on how 360 Wealth can help you keep all your accounts working together, or talk to your Baird Financial Advisor team. **D**

# Planning Calendar

## JUNE 30

Free Application for Federal Student Aid (FAFSA) forms must be submitted for the 2020–21 academic year. Individual state applications might be due before the federal deadline and do not replace filling out the FAFSA.

## 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 and tax professional to start talking about steps you may be able to take to lower your tax bill for 2021.

## SEPTEMBER 10

It's National 401(k) Day – and time for a retirement plan checkup! Celebrate by working with your Financial Advisor to make sure your asset allocation is still consistent with your goals and, if necessary, rebalance your investments.

## SEPTEMBER 15

Estimated third-quarter income tax payments are due.



# Efficient Strategies for Charitable Giving

WAYS TO SUPPORT ORGANIZATIONS STILL HURTING FROM THE PANDEMIC

In some ways, the coronavirus pandemic brought out the best in our society, as Americans increased their philanthropic gifts throughout the course of the year. Charitable giving increased 10.6% in 2020 from 2019, according to the Fundraising Effectiveness Project, with gifts of \$1,000 or more increasing by 10.4%.

But while we were generously supporting desperately needed organizations devoted to such things as feeding the poor and health care, many nonprofits in areas such as arts and education felt the pinch. As we return to normal in 2021, it's worth seeking out organizations that lost ground in 2020.

Fortunately, there are many different strategies available to help you make the most effective use of your generosity. Here are a few ways you can help make your gift most efficiently:

## **DIRECT CONTRIBUTIONS**

When you make a contribution directly to a 501(c)(3) public charity or private foundation, you can claim a charitable deduction on your income taxes. But keep in mind that the claimed deduction only becomes effective if you itemize deductions, and that the standard deduction has moved higher in recent years. The 2021 standard deduction stands at \$12,550 for single taxpayers and \$25,100 for married taxpayers filing jointly. So to fully take advantage of the deduction



potential, your contribution, combined with other itemized deductions like property taxes or mortgage interest, should exceed that level.

#### **DONOR ADVISED FUNDS**

Some high-net-worth individuals establish a private foundation for their charitable activities, but a donor-advised fund (DAF) can provide many of the same benefits, without the operating expense or administrative burden. Here's how it works: You make a contribution to a DAF established by one of several financial organizations, investing those assets in a variety of vehicles and receiving an immediate tax deduction. You then decide how much to send each of your chosen charities, or the fund can then recommend public charities to receive your grants.

#### **QCD FROM AN IRA**

If you have an IRA, the Qualified Charitable Distribution (QCD) rules allow you to make a distribution of up to \$100,000 directly to a qualified charity without treating it as taxable income. You must be at least age 70½ to take advantage of a QCD.

#### **APPRECIATED SECURITIES**

An alternative to a QCD is donating appreciated stock

to a charity. The greater the appreciation on the stock, the greater the tax benefit of donating it, as opposed to donating assets from other sources. As long as you've owned the security for more than one year, you can avoid capital gains tax on all the appreciation in value. If the gifted stock has been held less than a year, you can still get a deduction, but it will be the cost basis on the shares, which most likely is less than current market value.

#### **CHARITABLE TRUSTS**

There are two basic flavors of charitable trusts you can set up: a charitable remainder trust or a charitable lead trust. A charitable remainder trust pays out a specific amount over a period of years to your named beneficiary, with the remainder going to your designated charity. The charitable lead trust is the opposite, with the charity getting their payment first over a fixed period of years. After that, the remaining assets go to your named beneficiaries. These trusts also offer estate planning benefits, since they can move a significant amount of assets out of your taxable estate.

Keep in mind that you only get to claim a charitable deduction if you itemize deductions, and that the standard deduction has moved higher in recent years.

These are only a few of the strategies that you can use to spread your wealth throughout your community in responsible ways. If you'd like some help in exploring how you can more effectively help organizations that are still recovering from the pandemic, call your Baird Financial Advisory team. **D**

# Doing Well by Doing Good

At Baird, our commitment to the people we serve is what drives our business. In May 2019, Baird Capital's Venture Capital team led an investment in Cala Health, an early-stage, women-led healthcare company that recently developed a wrist-worn device that treats essential tremor, a rhythmic shaking of the hands affecting 8 million Americans. The device, called Cala Trio, was approved by the FDA in 2018 and provides hours of relief from these tremors, with minimal to no side effects.

For more on how Baird makes a difference, see [rwbaird.com/bairddifference](http://rwbaird.com/bairddifference)

Discover the *Baird Difference*

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