



Private Wealth
Management

DIGEST

NEWS AND PERSPECTIVE FOR
GROWING AND PRESERVING YOUR WEALTH

SUMMER 2022

Wrestling With Volatility



STRATEGAS OUTLOOK:
THE FUTURE OF INFLATION

PROTECTING YOUR ASSETS
IN VOLATILE TIMES

Letter From Leadership

Baird has continued growing our firm to expand not just our footprint, but the resources and services we have available for our clients.

To that end, we are very proud to announce the addition of Hefren-Tillotson (HT) to the Baird Private Wealth Management family. A western Pennsylvania institution since 1948, HT has become nationally recognized for its combination of comprehensive wealth management solutions and exceptional client service.

The cultural fit between our two businesses couldn't be greater. Like Baird, HT is a privately held firm with middle-American roots, comprised of nearly 100 Financial Advisors centered in the Pittsburgh area. HT's core values of integrity, teamwork and respect for the client mirror those of Baird. Their commitment to community is shown by the firm's outreach program, HT Cares.

And most critical of all is HT's devotion to excellence on behalf of its clients. "As a family-founded firm, we have always understood the importance of family, goals and ambitions in working with our clients," says HT Chairman and CEO Kim Tillotson Fleming. "We chose to join Baird because they share those principles with us."

The merger is expected to be final by the end of this year, with Kim joining Baird's Executive Committee as Vice Chair. We look forward to building upon our successes as a united, collaborative firm, with even stronger capacities to serve you.



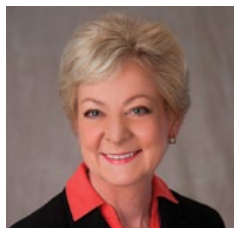
MIKE SCHROEDER
CHAIRMAN OF PRIVATE
WEALTH MANAGEMENT



ERIK DAHLBERG
PRESIDENT
PRIVATE WEALTH MANAGEMENT

“We chose to join Baird because they share our principles.”

-Kim Tillotson Fleming
Chairman and CEO of
Hefren-Tillotson



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Why Economic Volatility Isn't Going Away

STRATEGAS ECONOMIC OUTLOOK



When Covid-19 arrived on U.S. shores more than two years ago, we shuttered the economy almost completely in an attempt to limit transmission and keep hospitals from being overwhelmed.

To combat this freeze, government officials enacted unprecedented fiscal policy (including stimulus checks and enhanced unemployment insurance) and monetary policy (such as zero percent interest rates and bond purchases). And in many ways, these policies were successful. With the support of these programs, U.S. consumer spending recovered quickly and the Covid-19 recession was one of the shortest ever recorded. ►

WHY ECONOMIC VOLATILITY ISN'T GOING AWAY

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However, given today's overheated economy, some have begun to argue that the programs were too successful. Because of the pandemic limitations and income-replacement policies, spending on goods skyrocketed while spending on services cratered. This created a major backlog in global supply chains (which were already challenged by Covid-19 lockdowns) and drove up prices for goods substantially. Perhaps the best example of this is the approximately 60% increase in used car prices we have seen since the summer of 2020.

“Energy shocks are a brutal one-two punch: They drive up inflation in the near term, but can have devastating longer-term effects as well.”

Though this has been a challenging period, much of this could be explained away by pandemic-specific issues that we expect to revert back to normal as Covid-19 fades. The problem today is that after a year of these imbalances, inflation is starting to seep into other, “stickier” components (ones often set by contract, like rents and

wages). Inflation expectations are also rising, which can be a troubling, self-reinforcing mechanism – if you expect prices to rise in the future, you might stock up on something today, further contributing to inflationary pressure. Sticky inflation is a far more challenging problem to address.

Even further, the recent spike in commodity prices (particularly oil) is compounding the issue. Energy shocks are a brutal one-two punch: they drive up inflation in the near term, but can have devastating longer-term effects as well (i.e., if the shock is sustained, it will eventually destroy demand and drive up unemployment). Energy is also an input cost for food production, transportation, manufacturing, and more – as energy prices rise, other industries will likely be forced to raise prices too. As long as there are geopolitical disruptions abroad, commodity volatility seems likely to continue, especially given the constraints on traditional energy production.

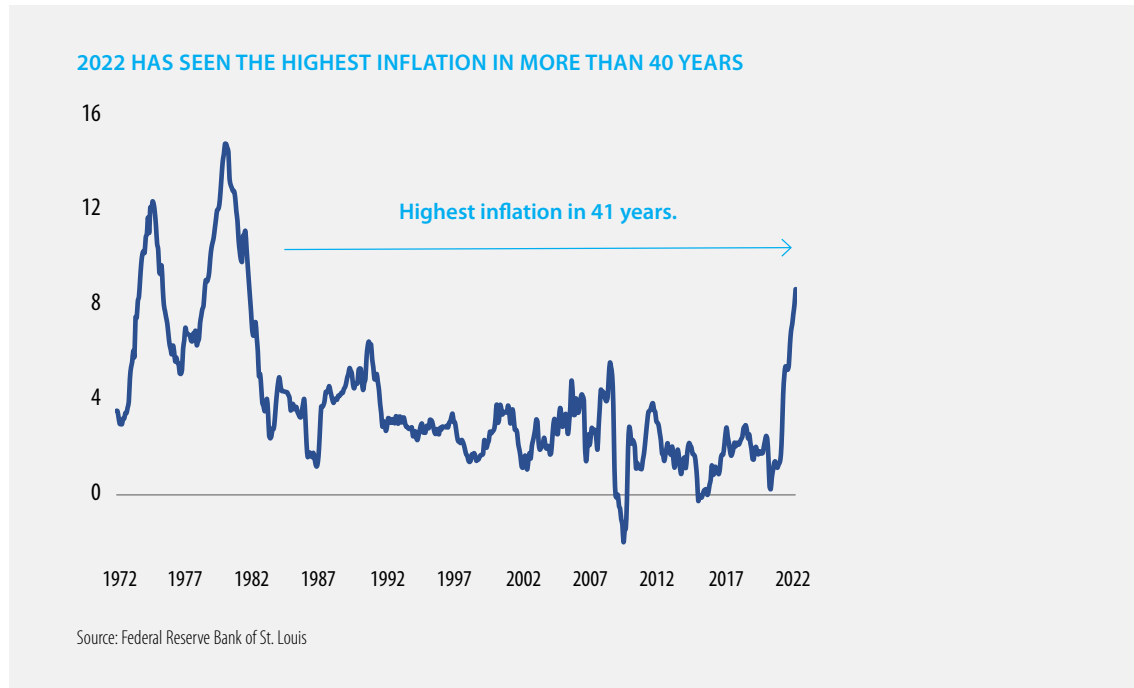
This all puts the Federal Reserve in a very difficult position, as they attempt to lower inflation without choking off the economic recovery and the strength of the

labor market. Their first goal is to get from emergency policy (0% for their benchmark Fed funds rate) to a more neutral setting of 2-3%, and they have already laid out steps to get there over the next year or two. They should also begin to let their balance sheet decline (which has grown to around \$9 trillion from around \$4 trillion pre-pandemic). Higher interest rates make borrowing more expensive, which could mean higher mortgage rates, higher auto loan rates, higher variable rates on credit cards, higher cost of capital for U.S. companies, and on and on. So there could be plenty of downside as the Fed intentionally tries to slow economic growth.

Taken together, there's little doubt the Fed has the tools to contain inflation – the question is just how aggressive they will have to get. And with domestic labor markets overheating, central banks cannot “wait and see” like they might have in other periods of global uncertainty. In the end, inflation should peak sometime in 2022, but getting back to the Fed's target level of 2.0% will remain a substantial challenge. ►

In addition to being a major economic issue, rising prices are also a political quagmire during what should be a contentious midterm election cycle. For the first time in many years, polling suggests that the U.S. population is more concerned with inflation than unemployment. Case in point: A recent AP/NORC poll showed 68% of respondents said that they are “extremely concerned/very concerned” about high gas prices impacting their family finances. This is notable because there is a strong inverse correlation between a president’s approval rating and the cost of gasoline, and sure enough, the president’s approval rating is the single biggest determinant of the midterm election outcome. The White House-Congress party combination has changed in seven of the last eight federal elections, and with energy prices elevated, it seems likely to become eight of nine this year.

Aside from the headline political volatility, midterm election years are historically much more volatile for the stock market as well. The average S&P 500 intra-year decline in midterm election years



is 19%, as compared to just 13% in the other three years of the presidential cycle. We believe this is because:

1. Presidents know they usually lose seats in midterm elections, and so they try to motivate their bases with populist policies that are often anti-growth; and
2. Investors begin to grapple with the uncertainty of a new political party taking over.

However, this volatility has also often led to great buying opportunities. Stocks have historically been up one year from the midterm market bottom by an

average of 32%, and in addition, the S&P 500 has not declined in the 12 months following a midterm since 1946.

Ultimately, higher interest rates and inflation remain near-term headwinds. During times of heightened volatility, it is worthwhile to zoom out and focus on longer-term opportunities, the strength of one’s financial plan, and the resilience of our markets in the face of past crises. Trust in your Baird Financial Advisor through these trying times; a brighter future awaits. **D**

Five Planning Moves for Volatile Times



Worried about how volatility will affect your financial plans? These five strategies can help protect your assets.

1. CONVERT TO A ROTH IRA

Many investors have seen their portfolios drop in value recently. If and when those values begin to rebound, one way to shelter the recovery from income tax is by converting from a Traditional IRA to a Roth IRA. When a Traditional IRA is converted to a Roth IRA, income tax is assessed on the value of the converted assets on the date of the transfer, which, in today's market, can potentially result in a lower taxable

transaction. If you're interested in an IRA conversion, note that dollar-cost averaging can also help protect your assets from volatility, so you might want to make this a cornerstone of your retirement strategy.

2. REFINANCE YOUR DEBT

With inflation increasing and the Federal Reserve already planning future rate hikes, interest rates may be due to follow. If you've been considering a refinance ►

of your mortgage, this might be a good time to lock in a lower rate before they start edging upward. But be mindful of the costs that can come along with it, such as appraisal and application fees, and try to balance your monthly savings against any upfront costs. This can be especially significant if you have plans to sell your home in the next few years, in which case refinancing may not be worth it.

3. MAKE USE OF TAX-LOSS HARVESTING

Tax-loss harvesting allows you to sell securities that have declined in value at a loss, but then use those losses to offset current and future capital gains. You can apply up to \$3,000 of these losses against your ordinary income and carry forward any unused capital losses to use in future years. If you own stocks that have lost value, it's important to keep an eye on how long you've held them, since short-term capital gains are taxed at your marginal tax rate while long-term capital gains are taxed at a 15% (or 20% for higher income-earners) tax rate. Be careful to avoid using

the short-term, and more valuable, loss against any income taxed at the lower 15% or 20% rate.

4. FUND YOUR HSA

One of the most beneficial tools to prepare you for future medical expenses is a health savings account, which holds pre-tax dollars that can be used on qualified medical expenses for yourself, your spouse, and/or other family members tax and penalty-free. Any funds that are not used by the end of the year can be rolled to the following year and continue to grow tax-free. To be eligible for an HSA, you must be enrolled in a high-deductible health plan with a minimum annual deductible before health care costs are covered. You also have a one-time opportunity to convert a portion of your traditional IRA to an HSA, limited to the annual contribution limit. Taking advantage of this strategy changes the funds from tax-deferred to tax-free, assuming the HSA funds are eventually used for qualified medical expenses.

5. GIVE TO YOUR HEIRS

If you have heirs who are feeling the economic pinch now and

could benefit from getting their inheritance early, this could be an excellent time to use a gifting strategy. Individuals have an exemption of \$12.06 million against gift, estate and generation-skipping taxes (per person; \$24.12 million for a married couple). This historically high exclusion is scheduled to decrease to about \$6 million on January 1, 2026, when the Tax Cuts and Jobs Act sunsets. This exemption can be used throughout your lifetime via gifts, or at death via bequests from your estate. Currently, the annual gift exemption is \$16,000 per year, per recipient (or \$32,000 annually per recipient for a married couple), so only gifts above the \$16,000 (or \$32,000) annual limit per recipient would reduce your lifetime gift and estate tax exclusion.

Several of these strategies require the guidance of tax and legal professionals and can be complicated to execute, so tread carefully with them. Your Baird Financial Advisor team can partner with your CPA and/or attorney to help you make sure you're on the right track to weather whatever volatility we may see. **D**

The Single Biggest Threat to Your Financial Plan

HEALTH EVENTS REQUIRING LONG-TERM CARE TEND TO BE PROBABLE, EXPENSIVE – AND UNACCOUNTED FOR.



When we think about our health as we age, we tend to do so optimistically – that any physical or mental decline will be soft, gradual and on our schedule.

Unfortunately, that attitude belies the reality: According to elder care experts, most seniors' slow decline in health is actually "inching toward a cliff – and when they fall off, they find themselves on another health cliff, and another, and another."¹

Beyond the physical and emotional toll this cascade of health events can cause for seniors and their families, there can also be severe financial

consequences you need to plan for. Here is what every adult needs to know about long-term care planning:

THE CHANCES OF YOU OR YOUR SPOUSE REQUIRING LONG-TERM CARE ARE HIGH

Most of the events you are insured against have a relatively low chance of coming to pass. The chances of getting into an auto accident are roughly 1 in 240, while those for experiencing ►

Planning Calendar

JUNE 15

Second-quarter estimated federal income tax payments are due.

JUNE 30

The Free Application for Federal Student Aid (FAFSA) must be submitted by midnight CDT. 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 2022 tax liability at the year's midpoint can help you avoid any underpayment penalties.

JULY 31

Deadline to file Form 5500 for employers with calendar-year retirement plans.

August's *Wealth Strategies* webinar: Trust Services

SEPTEMBER 1

Put any year-end tax plans in motion. Reach out to your Financial Advisor and tax professional on how you might lower your tax bill for 2022.

Repayment, interest and collections for federal student loans are scheduled to resume, barring another extension or other legislative action.

property damage due to fire are roughly 1 in 1,200.² By comparison, the odds of needing long-term care sometime in your lifetime are 1 in 2.² And those odds increase the older you get: By age 65, the probability of needing care jumps to 70%.³

LONG-TERM CARE CAN BE EXPENSIVE

According to Genworth Financial data,⁴ the national median cost of a private room in a nursing home was over \$100,000 in 2021, and assisted living cost roughly \$50,000. (Note that these are per-year costs: With an average nursing home stay of 2½ years,⁵ that would translate into a \$250,000 expense.) An aging U.S. population and a shortage of healthcare workers are only going to make these costs rise.

YOUR FUNDING OPTIONS MIGHT BE LIMITED

Unfortunately, traditional sources of healthcare for older adults offer little help for long-term care. Medicare covers skilled nursing care only, and only for a maximum of 100 days – it

does not pay for assistance with activities of daily living, which make up most long-term care services.⁶ Employer-sponsored or private health insurance tends to cover the same kinds of limited services as Medicare.

LONG-TERM CARE IS SOMETHING EVERYONE SHOULD PLAN FOR

While the likelihood and costs of long-term care might seem daunting, you're not without options. Long-term care insurance policies are designed to cover services like in-home and nursing home care. They can be standalone policies, hybrid life/LTC policies or attached to annuities.

Ultimately, the right long-term care solution for you will depend on a number of factors, including your age, assets, lifestyle, family health history and network of support. Your Baird Financial Advisor can help you review your options and craft a long-term care solution that's right for you and your family. **D**

¹<https://www.vox.com/the-goods/22639674/elder-care-family-costs-nursing-home-health-care>.

²Hayes, Robert D., Nancy G. Boyd, and Kenneth W. Hollman. "What Attorneys Should Know About Long-Term Care Insurance". *The Elder Law Journal*, Vol. 7, No. 1.

³<https://www.hhs.gov/aging/long-term-care/index.html>.

⁴<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>.

⁵<https://www.aaltci.org/long-term-care-insurance/learning-center/probability-long-term-care.php>.

⁶<https://acl.gov/ltc/costs-and-who-pays/who-pays-long-term-care>.

Scan the QR code to access our *Wealth Strategies* webinar series – expert insights on the financial issues that matter to you.



Coming This Summer: Baird's New Mobile App



To help you stay on top of your financial plans at all times, this summer Baird is rolling out the completely redesigned Baird Online Mobile app. With our new app, you will be able to:



LOG IN SECURELY AND EASILY with your fingerprint or facial recognition



MONITOR YOUR PORTFOLIO including changes in value and asset allocation



KNOW YOUR NET WORTH and see all your finances in one view with 360 Wealth



REVIEW AND TRANSMIT KEY DOCUMENTS including client statements, confirmations, tax forms and more with our secure portal



STAY IN THE KNOW with expert insights from award-winning Baird research



CONNECT WITH YOUR BAIRD TEAM with all of your advisor's contact information at the ready

With the Baird Online Mobile App, you'll have access to 360 Wealth, which provides a summary of all of your financial accounts – banking, investments, loans, insurance and more – to give you a true 360-degree view of your finances. You can also analyze your month-to-date spending and view your current month cash flow – all from your mobile phone. See 360 Wealth in action at boldemo.rwbaird.com.



Doing Well by Doing Good

As part of Baird's mission to offer our clients and associates the best lives they can achieve, Baird Private Wealth Management has stepped up as the Official Wealth Management Partner of the Professional Pickleball Association. This year, Baird will be the title sponsor of two pro pickleball tournaments, in Cincinnati and Dallas, along with 18 other tournament stops throughout the country. Our hope is that by supporting this growing sport we can encourage everyone to have some fun, get some exercise, and join in the pickleverse movement.



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